BENTON COUNTY ELECTRIC SYSTEM

FINANCIAL STATEMENTS AND

SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

BENTON COUNTY ELECTRIC SYSTEM
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INTRODUCTORY SECTION

BENTON COUNTY ELECTRIC SYSTEM
DIRECTORY
JUNE 30, 2010

BOARD MEMBERS

Shane King
Bruce Seaton
Hulon Douglas
Sam Rainwaters
William H. Long

MANAGEMENT TEAM

Raymond A. Barnes, General Manager
Gary D. Walker, Office Manager
Michael Fitchpatrick, Director of Operations

COUNSEL

John W. Whitworth
Camden, Tennessee

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION

ALEXANDER THOMPSON ARNOLD PLLC

Certified Public Accountants

www.atacpa.net

227 Oil Well Road
Jackson, TN 38305

Telephone:(731) 427-8571
Fax: (731) 424-5701

Members of

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
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Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants

Independent Auditor's Report

Board of Directors
Benton County Electric System
Camden, Tennessee

We have audited the accompanying financial statements of the Benton County Electric System (the System), an enterprise fund of Benton County, Tennessee, as of and for the years ended June 30, 2010 and 2009, as listed in the Table of Contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Benton County Electric System enterprise fund and are not intended to present fairly the financial position of Benton County, Tennessee, and the results of its operations and its cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2010, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress-employee retirement system on pages 4 through 8 and 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Dyersburg, TN
Fulton, KY
Henderson, TN
Jackson, TN
Martin, TN
McKenzie, TN
Milan, TN
Murray, KY
Paris, TN
Trenton, TN
Union City, TN

Board of Directors
Benton County Electric System
Camden, Tennessee

Out audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's financial statements as a whole. The introductory section and other supplementary information section are presented for purposes of additional analysis and are not a required part of the financial statements. The financial information listed as other supplementary information section in the Table of Contents, except that which has been marked "unaudited," is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and financial information listed as other supplementary information section in the Table of Contents that has been marked "unaudited" have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Alexander Thompson Arnold PLLC

Certified Public Accountants
Jackson, Tennessee
August 27, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Benton County Electric System (the System), we offer readers of the System's financial statements this narrative overview and analysis of the financial activities of the System for the fiscal years ended June 30, 2010 and 2009. All amounts, unless otherwise indicated, are expressed in actual dollars.

FINANCIAL HIGHLIGHTS

Management believes the System's financial condition is strong. The System is well within its debt covenants and the more stringent financial policies and guidelines set by the Board and management. The following are key financial highlights.

- Total assets at year-end were $21.67 million and exceeded liabilities in the amount of $13.89 million (i.e. net assets). Total assets increased by $969 thousand due primarily to increases in capital assets and an increase in a notes receivable - TVA Home Insulation Program.
- Net assets increased $930 thousand during the current year due to an operating profit. Unrestricted net assets increased by $193 thousand.
- During fiscal year 2010, the System delivered 200.09 million KWH compared to 195.62 million KWH during the fiscal year 2009. All sales areas were fairly stable for the year.
- Operating revenues were $19.97 million, a decrease from year 2009 in the amount of $1.49 million or 6.96%.
- Operating expenses were $18.93 million, a decrease from year 2009 in the amount of $1.91 million or 9.16%.
- The operating profit for the year was $1.04 million as compared to $626 thousand during the 2009 fiscal year.
- Ratios of operating income to total operating revenue were 5.22%, 2.92%, and 1.64%, for 2010, 2009, and 2008, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the System's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the System's strategic plan, budget, bond resolutions and other management tools were used for this analysis. The Financial Statements and Supplementary Information are made up of three sections: 1) the introductory section, 2) the financial section, and 3) the internal control and compliance section. The introductory section includes the System's directory. The financial section includes the MD&A, the independent auditor's report, the financial statements with accompanying notes, the required supplementary information, and the other supplementary information. The internal control and compliance section includes the report on internal control and compliance. These sections make up the financial report presented here.

REQUIRED FINANCIAL STATEMENTS

A Proprietary Fund is used to account for the operations of the System, which is financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements report information about the System, using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities.

The *Statement of Net Assets* presents the financial position of the System on a full accrual historical cost basis. The balance sheet includes all of the System's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the System's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the System, and assessing the liquidity and financial flexibility of the System.

REQUIRED FINANCIAL STATEMENTS (Cont.)

The *Statement of Revenues, Expenses, and Changes in Net Assets* presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the System's operations and can be used to determine whether the System has successfully recovered all of its costs. This statement also measures the System's profitability and credit worthiness.

The *Statement of Cash Flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises.

The *Notes to the Financial Statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the System's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. A *Supplementary Schedule* comparing the budget to actual expenses is also presented.

FINANCIAL ANALYSIS

One of the most important questions asked about the System's finances is "Is the System, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the System's activities in a way that will help answer this question. These two statements report the net assets of the System, and the changes in the net assets. Net assets are one way to measure the financial health or financial position of the System. Over time, increases or decreases in the System's net assets is an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

The System's total net assets increased by $930 thousand and $512 thousand for the fiscal years ended June 30, 2010 and 2009, respectively. The analysis below focuses on the System's net assets (Tables 1A and 1B) and changes in net assets (Tables 2A and 2B).

Table 1A
CONDENSED STATEMENT OF NET ASSETS

	June 30, 2010	June 30, 2009	Increase (Decrease) $	Increase (Decrease) %
Current and other assets	$ 4,770,204	$ 4,192,575	$ 577,629	13.78%
Capital assets	16,896,176	16,504,520	391,656	2.37%
Total assets	21,666,380	20,697,095	969,285	4.68%
Long-term liabilities	4,423,379	4,562,535	(139,156)	-3.05%
Other liabilities	3,355,751	3,177,269	178,482	5.62%
Total liabilities	7,779,130	7,739,804	39,326	0.51%
Net assets:				
Invested in capital assets, net of related debt	14,025,264	13,289,520	735,744	5.54%
Restricted for debt service	568,527	567,700	827	0.15%
Unrestricted	(706,541)	(899,929)	193,388	-21.49%
Total net assets	$ 13,887,250	$ 12,957,291	$ 929,959	7.18%

REQUIRED FINANCIAL ANALYSIS (Cont.)

Table 1B

CONDENSED STATEMENT OF NET ASSETS

	June 30, 2009	June 30, 2008	Increase (Decrease) $	Increase (Decrease) %
Current and other assets	$ 4,192,575	$ 4,159,121	$ 33,454	0.80%
Capital assets	16,504,520	16,372,482	132,038	0.81%
Total assets	20,697,095	20,250,445	165,492	0.82%
Long-term liabilities	4,562,535	4,692,618	(130,083)	-2.77%
Other liabilities	3,177,269	3,394,153	(216,884)	-6.39%
Total liabilities	7,739,804	8,086,771	(346,967)	-4.29%
Net assets:				
Invested in capital assets, net of related debt	13,289,520	12,887,482	402,038	3.12%
Restricted for debt service	567,700	558,377	9,323	1.67%
Unrestricted	(899,929)	(1,001,027)	101,098	-10.10%
Total net assets	$ 12,957,291	$ 12,444,832	$ 512,459	4.12%

The increase in capital assets over the three year period was not significant. The total liabilities decreased during the three year period, but also were not significant. Net assets over the three year period have increased by 11.59% due to gross profits each year.

Changes in the System's net assets can be determined by reviewing the following condensed Statement of Revenues, Expenses and Changes in Net Assets for the years.

Table 2A

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	June 30, 2010	June 30, 2009	Increase (Decrease) $	Increase (Decrease) %
Operating revenues	$ 19,970,415	$ 21,463,523	$ (1,493,108)	-6.96%
Non-operating revenues	21,338	24,389	(3,051)	-12.51%
Total revenues	19,991,753	21,487,912	(1,496,159)	-6.96%
Cost of sales and service	13,947,884	15,633,081	(1,685,197)	-10.78%
Operations expense	1,000,001	1,033,087	(33,086)	-3.20%
General and administrative expense	1,443,715	1,433,377	10,338	0.72%
Maintenance expense	1,004,159	1,213,317	(209,158)	-17.24%
Depreciation expense	931,789	916,711	15,078	1.64%
Taxes and tax equivalents	601,324	607,878	(6,554)	-1.08%
Non-operating expenses	132,922	138,002	(5,080)	-3.68%
Total expenses	19,061,794	20,975,453	(1,913,659)	-9.12%
Change in net assets	929,959	512,459	417,500	81.47%
Beginning net assets	12,957,291	12,444,832	512,459	4.12%
Ending net assets	$ 13,887,250	$ 12,957,291	$ 929,959	7.18%

REQUIRED FINANCIAL ANALYSIS (Cont.)

Table 2B

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	June 30, 2009	June 30, 2008	Increase (Decrease) $	Increase (Decrease) %
Operating revenues	$ 21,463,523	$ 19,273,265	$ 2,190,258	11.36%
Non-operating revenues	24,389	72,460	(48,071)	-66.34%
Total revenues	21,487,912	19,345,725	2,142,187	11.07%
Cost of sales and service	15,633,081	13,917,156	1,715,925	12.33%
Operations expense	1,033,087	985,043	48,044	4.88%
General and administrative expense	1,433,377	1,367,880	65,497	4.79%
Maintenance expense	1,213,317	1,193,272	20,045	1.68%
Depreciation expense	916,711	890,151	26,560	2.98%
Taxes and tax equivalents	607,878	603,032	4,846	0.80%
Non-operating expenses	138,002	145,686	(7,684)	-5.27%
Total expenses	20,975,453	19,102,220	1,873,233	9.81%
Change in net assets	512,459	243,505	268,954	110.45%
Beginning net assets	12,444,832	12,201,327	243,505	2.00%
Ending net assets	$ 12,957,291	$ 12,444,832	$ 512,459	4.12%

Operating revenues showed an 11.36% increase from 2008 to 2009 and an 6.96% decrease from 2009 to 2010. There have been several plant closings in the county, which has caused total sales to drop over the past several years. However, utility rates increased substantially during that time frame and other areas have had an increase in sales, which has helped counteract the drop in industrial sales. Non-operating revenues have decreased 70.55% over the three year period, due primarily to decreasing interest rates on certificates of deposits and savings accounts the entity has cashed in certificates of deposit reducing the principal that interest is earned on. Expenses have remained consistent over the three year period. Ending net assets increased 11.59% over the three year period due to the above mentioned facts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2010, the system had $16.90 million (net of accumulated depreciation) invested in a broad range of utility capital assets. This investment includes land, land rights, distribution and transmission systems and their related equipment, and various types of equipment. Based on the uses of the aforementioned assets, they are classified for financial purposes as transmission plant, distribution plant, and general plant. This investment represents an overall increase (net of increases and decreases) of $392 thousand or 2.37% over last year.

The following tables summarize the System's capital assets, net of accumulated depreciation, and changes therein, for the years ended June 30, 2010 and 2009. These changes are presented in detail in Note 3D to the financial statements.

CAPITAL ASSETS AND DEBT ADMINISTRATION (Cont.)

Capital Assets (Cont.)

Table 3A

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	June 30, 2010	June 30, 2009	Increase (Decrease) $	Increase (Decrease) %
Transmission plant	$ 101,264	$ 114,017	$ (12,753)	-11.19%
Distribution plant	14,021,120	14,011,004	10,116	0.07%
General plant	2,217,003	2,097,926	119,077	5.68%
Construction in progress	556,789	281,573	275,216	97.74%
Total capital assets	$ 16,896,176	$ 16,504,520	$ 391,656	2.37%

The major portion of the additions between 2009 and 2010 took place for the substation replacement. Due to an unexpected occurrence in 2005, a substation had to be replaced during the 2005 and 2006 fiscal years. The unexpected timing of this meant that the System had to issue revenue bonds in 2005 to cover the cost of this construction. The System plans on using existing financial resources in the future to keep upgrading existing systems and adding new systems. There was not a substantial increase in the fiscal year 2010.

Table 3B

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	June 30, 2009	June 30, 2008	Increase (Decrease) $	Increase (Decrease) %
Transmission plant	$ 114,017	$ 126,770	$ (12,753)	-10.06%
Distribution plant	14,011,004	14,092,341	(81,337)	-0.58%
General plant	2,097,926	1,962,965	134,961	6.88%
Construction in progress	281,573	190,406	91,167	47.88%
Total capital assets	$ 16,504,520	$ 16,372,482	$ 132,038	0.81%

Debt Administration

The System has outstanding Revenue Bonds of $2.93 million as of June 30, 2010. Principal payments are due in the upcoming fiscal year in the amount of $290 thousand with interest payments totaling approximately $106 thousand also due. Details relating to the outstanding debt can be found in Note 3E. The System is well within its debt covenants and foresees no problems in the future relating to outstanding debt. The System also has no current plans to issue new debt or refund outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

During the fiscal year 2010, the System contracted a consultant in order to perform a cost of service study on rates. The Board decided on a restructuring of rates going forward. The System has not decided on any additional rate increases at this time. The fiscal year 2011 budget was approved unanimously at the July 2010 Board meeting. Any new industry that comes to the area will increase the System's power sales and should help the overall financial condition of the System.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the System's finances for all those with an interest in the System's finances and to demonstrate the System's accountability for the money it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the Office Manager of Benton County Electric System, P.O. Box 429, Camden, TN 38320.

BENTON COUNTY ELECTRIC SYSTEM
STATEMENTS OF NET ASSETS

	JUNE 30, 2010	JUNE 30, 2009
ASSETS		
Current assets:		
Cash on hand	$ 3,000	$ 3,000
Cash and cash equivalents on deposit	195,854	87,099
Investments	600,000	-
Accounts receivable (net of allowance for uncollectibles)	1,430,045	1,142,079
Materials and supplies	238,406	226,443
Prepayments and other current assets	1,176,699	1,680,433
Total current assets	3,644,004	3,139,054
Noncurrent assets:		
Restricted cash, cash equivalents, and investments:		
Cash and cash equivalents on deposit	178,491	176,261
Investments	400,659	400,659
Total restricted assets	579,150	576,920
Other assets:		
Notes receivable - TVA Home Insulation Program	435,459	348,245
Unamortized bond issue costs	111,591	128,356
Total other assets	547,050	476,601
Capital assets:		
Transmission plant	402,959	402,959
Distribution plant	25,231,001	24,665,460
General plant	3,496,999	3,337,541
Construction in progress	556,789	281,573
Less: Accumulated depreciation	(12,791,572)	(12,183,013)
Total capital assets (net of accumulated depreciation)	16,896,176	16,504,520
Total noncurrent assets	18,022,376	17,558,041
Total assets	$ 21,666,380	$ 20,697,095

The notes to the financial statements are an integral part of this statement.

BENTON COUNTY ELECTRIC SYSTEM
STATEMENTS OF NET ASSETS (Cont.)

	JUNE 30,	
	2010	2009
LIABILITIES		
Current liabilities:		
Accounts payable	$ 2,442,606	$ 2,291,805
Accrued payroll	18,846	19,445
Other accrued expense	16,006	38,558
Accrued OPEB liability	35,929	2,000
Compensated absences	264,743	264,743
Consumers' deposits	566,998	551,498
Total current liabilities	3,345,128	3,168,049
Current liabilities payable from restricted assets:		
Accrued interest	10,623	9,220
Current maturities of long-term debt	290,000	285,000
Total current liabilities payable from restricted assets	300,623	294,220
Noncurrent liabilities:		
Advances from Home Insulation Program	440,174	354,444
Compensated absences	1,053,205	993,091
Bonds payable (less current maturities)	2,640,000	2,930,000
Total noncurrent liabilities	4,133,379	4,277,535
Total liabilities	7,779,130	7,739,804
NET ASSETS		
Invested in capital assets, net of related debt	14,025,264	13,289,520
Restricted for debt service	568,527	567,700
Unrestricted	(706,541)	(899,929)
Total net assets	$ 13,887,250	$ 12,957,291

BENTON COUNTY ELECTRIC SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	FOR THE YEARS ENDED JUNE 30,	
	2010	2009
Operating revenues:		
Charges for sales and services	$ 19,568,136	$ 21,003,716
Other electric revenue	402,279	459,807
Total operating revenues	19,970,415	21,463,523
Operating expenses:		
Cost of sales and services	13,947,884	15,633,081
Operations expense	1,000,001	1,033,087
General and administrative expense	1,443,715	1,433,377
Maintenance expense	1,004,159	1,213,317
Provision for depreciation	931,789	916,711
Taxes and tax equivalents	601,324	607,878
Total operating expenses	18,928,872	20,837,451
Operating income (loss)	1,041,543	626,072
Nonoperating revenues (expenses):		
Interest income	21,338	24,389
Interest expense	(116,158)	(121,238)
Amortization of debt expense	(16,764)	(16,764)
Total nonoperating revenues (expenses)	(111,584)	(113,613)
Change in net assets	929,959	512,459
Total net assets - beginning	12,957,291	12,444,832
Total net assets - ending	$ 13,887,250	$ 12,957,291

The notes to the financial statements are an integral part of this statement.

BENTON COUNTY ELECTRIC SYSTEM
STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED JUNE 30,	
	2010	2009
Cash flows from operating activities:		
Receipts from customers and users	$ 19,682,449	$ 21,684,003
Payments to suppliers	(15,665,209)	(18,485,603)
Payments to employees and for employee benefits	(1,017,086)	(1,091,422)
Payments for in-lieu of tax payments	(601,324)	(607,878)
Customer deposits received	100,305	91,800
Customer deposits refunded	(84,805)	(94,766)
Net cash provided (used) by operating activities	2,414,330	1,496,134
Cash flows from non-capital and related financing activities:		
Advances from TVA	85,730	69,496
Net cash provided (used) by non-capital and related financing activities	85,730	69,496
Cash flows from capital and related financing activities:		
Construction and acquisition of plant	(1,301,708)	(985,470)
Plant removal cost	(53,550)	(80,536)
Materials salvaged from retirements	31,814	17,256
Principal paid on bonds	(285,000)	(270,000)
Interest paid on bonds	(114,755)	(122,534)
Net cash provided (used) by capital and related financing activities	(1,723,199)	(1,441,284)
Cash flows from investing activities:		
Purchase of investment	(1,000,659)	(400,659)
Proceeds from sale of investments	400,659	400,659
Issuance of note receivable	(87,214)	(68,422)
Interest earned	21,338	24,389
Net cash provided (used) by investing activities	(665,876)	(44,033)
Net increase (decrease) in cash and cash equivalents	110,985	80,313
Cash and cash equivalents - Beginning of year	266,360	186,047
Cash and cash equivalents - End of year	$ 377,345	$ 266,360
Cash and cash equivalents:		
Unrestricted cash on hand	$ 3,000	$ 3,000
Unrestricted cash and cash equivalents on deposit	195,854	87,099
Restricted cash and cash equivalents on deposit	178,491	176,261
Total cash and cash equivalents	$ 377,345	$ 266,360

The notes to the financial statements are an integral part of this statement.

BENTON COUNTY ELECTRIC SYSTEM
STATEMENTS OF CASH FLOWS (Cont.)

	FOR THE YEARS ENDED JUNE 30,	
	2010	2009
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income (loss)	$ 1,041,543	$ 626,072
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	931,789	916,711
(Increase) decrease in accounts receivable	(287,966)	220,480
(Increase) decrease in materials and supplies	(11,963)	7,076
(Increase) decrease in prepayments and other current assets	503,734	(129,038)
Increase (decrease) in accounts payable and accrued expenses	221,693	(142,201)
Increase (decrease) in customer deposits	15,500	(2,966)
Net cash provided (used) by operating activities	$ 2,414,330	$ 1,496,134

BENTON COUNTY ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

These are proprietary fund financial statements and include only the financial activities of Benton County Electric System (The System). The TCA code section 7-52-117(c) states "Subject to the provisions of section 7-52-132, the superintendent, with the approval of the supervisory body, may acquire and dispose of all property, real and personal, necessary to effectuate the purposes of this part. The title of such property shall be taken in the name of the municipality" (county). Therefore, Benton County Electric System does not posses sufficient corporate powers that distinguish it as a legally separate entity, and is considered a proprietary fund of Benton County, Tennessee.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The System's financial statements are presented on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounting policies of the System conform to applicable generally accepted accounting principles as defined in the pronouncements of the *Governmental Accounting Standards Board* (GASB), *Financial Accounting Standards Board* (FASB) *Statements and Interpretations*, *Accounting Principle Board* (APB) *Opinions*, and *Accounting Research Bulletins* (ARBs), issued on or before November 30, 1989. As allowed by GASB, the System has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the System are charges for sales to customers for sales and service. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Assets, Liabilities, and Net Assets

Deposits and Investments
The System's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the System to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements and the state's investment pool.

Investments were made up entirely of certificates of deposits with a maturity of three months or more for the fiscal years ended June 30, 2010 and 2009.

Accounts Receivable
Trade receivables result from unpaid billings for electric service to customers and from unpaid billings related to work performed for or materials sold to certain entities. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible customer accounts recorded by the System is based on past history of uncollectible accounts and management's analysis of current accounts.

BENTON COUNTY ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

C. Assets, Liabilities, and Net Assets (Cont.)

Inventories and Prepaid Items
All inventories are valued at the lower of average cost or market, using the first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Restricted Assets
Certain proceeds of the bond issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The System elects to use restricted assets before unrestricted assets when the situation arises where either can be used.

Capital Assets
Capital assets, which include property, plant, equipment, and construction in progress, are defined by the System as assets with an initial, individual cost of more than $500 (amount not rounded) and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the System is depreciated using the straight line method over the following useful lives:

General plant	5 - 40 years
Transmisssion plant	28 - 33 years
Distribution plant	16 - 40 years

Compensated Absences
It is the System's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay has been accrued and is reflected as a long-term liability on the financial statements. All sick leave has been accrued at 75% of the total value and is reflected as a long-term liability on the financial statements.

In March 1997, the System approved a policy that would permit employees, at their discretion, to give sick leave to another employee involved in a catastrophic illness where such an employee had exhausted all available sick leave and vacation. The leave would be paid at the rate the employee receiving leave is currently earning. The Board feels that the 75% approximation of sick leave accrued is enough to cover any expenditures for leave under this policy.

Long-term Obligations
Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

BENTON COUNTY ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

C. Assets, Liabilities, and Net Assets (Cont.)

Net Assets
Equity is classified as net assets and displayed in the following three components:

- Invested in Capital Assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.
- Restricted for Debt Service – Consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities.
- Unrestricted – All other net assets that do not meet the description of the above categories.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The System adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with generally accepted accounting principles. The current operating budget details the System's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend cash basis capital contribution fees, special assessments, grants, borrowings, and certain revenues for capital projects.

All unexpended appropriations in the operating budget remaining at the end of the fiscal year lapse. Management submits a proposed budget to the Board prior to the July meeting and the budget is then adopted at that meeting for the next fiscal year. During the year, management is authorized to transfer budgeted amounts between line items.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial Credit Risk
The System's policies limit deposits and investments to those instruments allowed by applicable state laws and described below. State statute requires that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the System's agent in the System's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the System to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2010, none of the System's deposits were exposed to custodial credit risk.

BENTON COUNTY ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010 AND 2009

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Cont.)

B. Receivables

Receivables as of the fiscal year ends were made up of the following:

	June 30, 2010	June 30, 2009
Billed services for utility customers	$ 1,400,791	$ 1,150,646
Other receivables for utility services	38,627	-
Allowance for doubtful accounts	(9,373)	(8,567)
Total	$ 1,430,045	$ 1,142,079

C. Restricted Assets

All deposits required by the 2000 and 2004 Electric Plant Revenue Bonds have been made. Transactions in funds, other than the 2000 and 2004 Electric Plant Revenue Bond Funds are at the discretion of the Board of Directors and there are no applicable legal requirements or restrictions on these funds.

	June 30, 2010	June 30, 2009
The restricted assets consist of the follwing:		
2000 & 2004 Electric Plant Revenue Bond Funds		
Interest and sinking fund	$ 178,491	$ 176,261
Reserve fund	400,659	400,659
	$ 579,150	$ 576,920
The total of these funds is represented by:		
Certificates of deposit and bank accounts	$ 579,150	$ 576,920

D. Capital Assets

Capital asset activity during the years presented was as follows:

Description	Balance at June 30, 2009	Additions	Disposals	Balance at June 30, 2010
Capital assets, not being depreciated				
Transmission plant	$ 29,495	$ -	$ -	$ 29,495
Distribution plant	49,503	-	-	49,503
General plant	99,330	-	-	99,330
Construction in progress	281,573	275,216	-	556,789
Total capital assets, not being depreciated	$ 459,901	$ 275,216	$ -	$ 735,117

BENTON COUNTY ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010 AND 2009

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Cont.)

D. Capital Assets (Cont.)

Description	Balance at June 30, 2009	Additions	Disposals	Balance at June 30, 2010
Capital assets, being depreciated				
Transmission plant	$ 373,464	$ -	$ -	$ 373,464
Distribution plant	24,615,957	801,134	235,593	25,181,498
General plant	3,238,211	225,358	65,900	3,397,669
Total capital assets being depreciated	28,227,632	1,026,492	301,493	28,952,631
Less accumulated deprecation for:				
Transmission plant	288,942	12,753	-	301,695
Distribution plant	10,654,456	836,478	281,053	11,209,881
General plant	1,239,615	97,681	57,300	1,279,996
Total accumulated depreciation	12,183,013	946,912	338,353	12,791,572
Total capital assets, being depreciated, net	16,044,619	79,580	(36,860)	16,161,059
Total capital assets, net	$16,504,520	$ 354,796	$ (36,860)	$16,896,176

Depreciation expense amounted to $931,789 for the fiscal year ended June 30, 2010 and $916,711 for the fiscal year ended June 30, 2009.

Description	Balance at June 30, 2008	Additions	Disposals	Balance at June 30, 2009
Capital assets, not being depreciated				
Transmission plant	$ 29,495	$ -	$ -	$ 29,495
Distribution plant	49,503	-	-	49,503
General plant	99,330	-	-	99,330
Construction in progress	190,406	91,167	-	281,573
Total capital assets, not being depreciated	$ 368,734	$ 91,167	$ -	$ 459,901

BENTON COUNTY ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010 AND 2009

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Cont.)

D. Capital Assets (Cont.)

Description	Balance at June 30, 2008	Additions	Disposals	Balance at June 30, 2009
Capital assets, being depreciated				
Transmission plant	$ 373,464	$ -	$ -	$ 373,464
Distribution plant	24,192,328	666,670	243,041	24,615,957
General plant	3,010,578	227,633	-	3,238,211
Total capital assets being depreciated	27,576,370	894,303	243,041	28,227,632
Less accumulated deprecation for:				
Transmission plant	276,189	12,753	-	288,942
Distribution plant	10,149,490	822,675	317,709	10,654,456
General plant	1,146,943	92,672	-	1,239,615
Total accumulated depreciation	11,572,622	928,100	317,709	12,183,013
Total capital assets, being depreciated, net	16,003,748	(33,797)	(74,668)	16,044,619
Total capital assets, net	$16,372,482	$ 57,370	$ (74,668)	$16,504,520

E. Long-term Debt

Long-term debt is made up of the following:

	June 30, 2010	June 30, 2009
Revenue Bonds:		
Electric Plant Revenue Bonds, Series 2000, interest at 4.2% to 5.25% due serially through 2020	$ 675,000	$ 720,000
Electric Plant Revenue Refunding Bonds, Series 2004, interest at 1.1% to 3.3% due serially through 2016	1,255,000	1,445,000
Electric System Revenue Bonds, Series 2005, interest at 3.9% due serially through 2025	1,000,000	1,050,000
Total Revenue Bonds	2,930,000	3,215,000
Total current portion of Revenue Bonds	$ 290,000	$ 285,000
Total long-term portion of Revenue Bonds	$ 2,640,000	$ 2,930,000

BENTON COUNTY ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010 AND 2009

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Cont.)

E. Long-term Debt (Cont.)

	June 30, 2009	June 30, 2008
Revenue Bonds:		
Electric Plant Revenue Bonds, Series 2000, interest at 4.2% to 5.25% due serially through 2020	$ 720,000	$ 760,000
Electric Plant Revenue Refunding Bonds, Series 2004, interest at 1.1% to 3.3% due serially through 2016	1,445,000	1,630,000
Electric System Revenue Bonds, Series 2005, interest at 3.9% due serially through 2025	1,050,000	1,095,000
Total Revenue Bonds	3,215,000	3,485,000
Total current portion of Revenue Bonds	$ 285,000	$ 270,000
Total long-term portion of Revenue Bonds	$ 2,930,000	$ 3,215,000

During 2005, Benton County issued $1,225,000 Electric System Revenue Bonds, Series 2005, for the purpose of replacing a substation in Camden, Tennessee. The bonds bear interest at rates from 3.90% and mature serially in varying amounts from $40,000 in fiscal year 2006 to $85,000 in fiscal year 2025. The bonds are secured by a pledge of revenues by the System. Expenses incurred in the issuance of the bonds are being amortized by equal charges to operations over the life of the bonds.

On April 1, 2004, Benton County Electric System issued at par $2,275,000 of electric system revenue refunding bonds, series 2004, for the purpose of refunding $2,205,000 of then outstanding series 1995 and 1998 bonds. The 2004 bonds bear an interest rate varying between 1.1% and 3.3% and will be repaid in variable amounts, with the final payment due December 1, 2015. The refunded 1995 and 1998 bonds carried an interest rate varying between 3.9% and 5.3% and also were due in variable amounts, with the final payment due January 1, 2016.

Unamortized debt issuance costs and premium discounts of $91,047 on the series 1995 and 1998 bonds were rolled into the new debt when the refunding was completed. These costs, along with an additional $13,650 in premium discounts and $53,859 in debt issuance costs on the series 2004 bonds, are now being amortized over the new debt issuance.

During 2000, Benton County issued $1,000,000 Electric System Revenue Bonds, Series 2000, for the purpose of constructing a warehouse in Camden, Tennessee. The bonds bear interest at rates from 4.2% to 5.25% and mature serially in varying amounts from $30,000 in fiscal year 2002 to $80,000 in fiscal year 2020. The bonds are secured by a pledge of revenues by the System. Expenses incurred in the issuance of the bonds are being amortized by equal charges to operations over the life of the bonds.

The following is a summary of long-term debt transactions for the years ended June 30, 2010 and 2009.

	Balance at June 30, 2009	Additions	Retirements	Balance at June 30, 2010	Due Within One Year
Revenue bonds payable	$ 3,215,000	$ -	$ 285,000	$ 2,930,000	$ 290,000
Compensated absences	$ 1,257,834	$ 324,857	$ 264,743	$ 1,317,948	$ 264,743
Bond premiums	$ 69,062	$ -	$ 9,974	$ 59,088	$ 9,974

BENTON COUNTY ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010 AND 2009

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Cont.)

E. Long-term Debt (Cont.)

	Balance at June 30, 2008	Additions	Retirements	Balance at June 30, 2009	Due Within One Year
Revenue bonds payable	$ 3,485,000	$ -	$ 270,000	$ 3,215,000	$ 285,000
Compensated absences	$ 1,192,670	$ 329,907	$ 264,743	$ 1,257,834	$ 264,743
Bond premiums	$ 79,036	$ -	$ 9,974	$ 69,062	$ 9,974

The scheduled annual requirements for long-term debt at June 30, 2009, including interest of $653,580 are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	$ 290,000	$ 106,138	$ 396,138
2012	300,000	96,796	396,796
2013	310,000	86,652	396,652
2014	320,000	75,672	395,672
2015	335,000	63,888	398,888
2016-2020	895,000	182,164	1,077,164
2021-2025	480,000	42,270	522,270
	$ 2,930,000	$ 653,580	$ 3,583,580

F. Net Assets

Net assets represent the difference between assets and liabilities. The restricted net assets amounts were as follows:

	June 30	
	2010	2009
Invested in capital assets, net of related liabilities		
Net property, plant and equipment in service	$ 16,896,176	$ 16,504,520
Unamortized bond premium	59,088	128,356
Less: Debt as disclosed in Note 3E	(2,930,000)	(3,215,000)
	14,025,264	13,417,876
Restricted for debt service:		
Restricted investments	579,150	576,920
Less: Current liabilities payable from restricted assets	(10,623)	(9,220)
	568,527	567,700
Unrestricted	(706,541)	(1,028,285)
Total net assets	$ 13,887,250	$ 12,957,291

BENTON COUNTY ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010 AND 2009

NOTE 4 - OTHER INFORMATION

A. Pension Costs

The following pension information is for the year ended June 30, 2010, with exception of Annual Pension Costs which is presented with June 30, 2009 information. It is the most current information available.

Tennessee Consolidated Retirement System

All employees hired after November 22, 1988 are included with the employees of Benton County and are covered under the Tennessee Consolidated Retirement System, a multi-employer plan. The System's payroll for these employees totaled $1,165,708 with employer contributions of $58,386 (5% of covered wages) and employee contributions of $75,551. Additional disclosures pertaining to the System's employees may be obtained by referring to the Benton County Comprehensive Annual Financial Report.

Central Service Plan (CSA)

The System participates in a multi-employer pension plan sponsored by Central Service Association (the Plan). Substantially all employees are covered by this trusteed, contributory pension plan. The System funds both the employee and employer portion of the pension plan. Contributions to the plan were $278,386. The System's payroll for employees covered by the plan for the year ended June 30, 2010 was $1,110,147 and the total payroll for the year was $2,273,088.

Plan Description: The following description of the Plan is provided for the Central Service Association Employee Retirement Plan in total. Plan net assets and accumulated plan benefit information relative to the System's portion of the multi-employee plan are not determinable.

The Plan is a multi-employer defined benefit plan with employees eligible to participate on the date of employment. The employer contributes amounts sufficient to meet the actuarially determined funding requirements of the Plan in order to provide for anticipated benefits. The employer has a right to discontinue contributions at any time and terminate the Plan. In the event of termination of the Plan, the net assets of the Plan are to be used to purchase annuities for the participants in a specified manner.

However, the Pension Benefit Guaranty Corporation guarantees the payments of all non-forfeitable basic benefits, subject to certain limitations prescribed by the Employee Retirement Income Security Act of 1974 (ERISA).

Funding Policy: The contributions of the employer are made in amounts sufficient to fund the Plan's current service costs on a current basis and to fund the initial past service costs plus interest thereon over 20 years. The Plan has met the ERISA minimum funding requirements.

Annual Pension Costs: For the year ended June 30, 2009, the System's annual pension cost of $278,386 for the Plan was equal to the System's actual contributions. The required contribution was determined as part of the October 1, 2009 actuarial valuation using the Frozen Entry Age Actuarial Cost Method. The actuarial assumptions included (a) 7% investment rate of return (net of administrative expenses), (b) projected salary increases of 5%, including cost of living adjustments. The actuarial value of Plan assets was determined using the following: The pension account is maintained in accordance with the Group Annuity contract between the Plan Sponsor and Massachusetts Mutual. Assets are assigned to the General Investment Account for the Insurance Company where investments are comprised mainly of bonds and mortgages. For valuation purposes, the unadjusted value of the Pension Account assigned by the Insurance Company is used.

For assets held in separate investment accounts the Actuarial Value of Assets is equal to the average market value of assets, with phase-in, as defined in 1.412 (c) (2)-1(b)(7) of the regulations under Section 412 of the Internal Revenue Code. The averaging period is 5 years. The average market value is adjusted to be no greater than 120% and no less than 80% of the market value of assets.

BENTON COUNTY ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010 AND 2009

NOTE 4 - OTHER INFORMATION (Cont.)

Three-Year Trend Information

Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Annual Pension Obligation
9/30/2009	$ 289,409	96.19%	$ (11,023)
9/30/2008	285,850	81.16%	(53,850)
9/30/2007	185,425	121.93%	40,666

The information above is presented for all years that information is available. The information shown above for Year ending 9/30/05 and prior includes all entities covered by CSA. Separate information for the System became available for the year ended 9/30/06 and is subsequently reported separately.

B. Power Contract

The System has a power contract with the Tennessee Valley Authority (TVA) whereby the electric system purchases all its electric power from TVA and is subject to certain restrictions and conditions as provided for in the power contract. Such restrictions include, but are not limited to, prohibitions against furnishings, advancing, lending, pledging or otherwise diverting System funds, revenues or property to other operations of the county and the purchase or payment of, or providing security for indebtedness on other obligations applicable to such other operations.

C. Risk Management

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2010, the System purchased commercial insurance for all of the above risks. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in the amount of coverage provided.

D. Other Post Employment Benefits

Plan Description: Benton County Electric System sponsors a single-employer post-retirement The plan provides medical, prescription and death benefits to eligible retirees and their spouses.

Funding Policy: The System intends to continue ifs policy of funding OPEB liabilities on a pay-go basis and to not pre-fund any unfunded annual required contribution as determined under GASB-45.

Annual OPEB Cost and Net OPEB Obligation: The System's annual other post-retirement benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the System's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the System's net OPEB Obligation

BENTON COUNTY ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010 AND 2009

NOTE 4 - OTHER INFORMATION (Cont.)

D. OPEB Disclosure (Cont.)

Components of Net OPEB Obligation:

Annual Required Contribution	$ 54,844
Interest on Net OPEB Obligation	569
Adjustment to Annual Required Contribution	(670)
Annual OPEB Cost (Expense)	54,743
Contributions Made	(31,448)
Increase in Net Obligation	$ 23,295
Net OPEB Obligation (BOY)	$ 12,634
Net OPEB Obligation (EOY)	$ 35,929

The System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009-2010 is a follows:

Fiscal Year Ended	Annual OPEB Cost	OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	$ 54,743	57.4%	$ 35,929

Funded Status and Funding Progress: As of July 1, 2009, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was $547,783 and the actuarial value of assets was $0 resulting in an unfunded actuarial accrued liability (UAAL) of $547,783.
The covered payroll (annual payroll of active employees covered by the plan) was $2,273,088 and the ratio of the UAAL to the covered payroll was 24.10%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions out the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates arc made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on substantive plan (the plan as understood by the employer and the plan members) and includes the type of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2009 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan assets at the valuation date, and an annual healthcare cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 5% after three years. The actuarial value of assets was determined using a standard balanced portfolio expectation for retirement plan asset returns. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at July 1, 2009 was 29 years.

REQUIRED SUPPLEMENTARY INFORMATION

BENTON COUNTY ELECTRIC SYSTEM
SCHEDULE OF FUNDING PROGRESS - EMPLOYEE RETIREMENT SYSTEM
JUNE 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
10/1/2009	$ 3,033,910	$ 6,140,530	$ (3,106,620)	49.41%	$ 1,110,147	279.84%
10/1/2008	2,976,321	5,979,495	(3,003,174)	49.78%	1,074,508	279.49%
10/1/2007	3,299,651	5,285,036	(1,985,385)	62.43%	1,057,647	187.72%
10/1/2006	3,119,990	5,438,864	(2,318,874)	57.36%	1,202,152	192.89%
10/1/2005	2,707,772	4,784,729	(2,076,957)	56.59%	1,261,292	164.67%
10/1/2004	128,792,031	164,970,407	(36,178,376)	78.07%	50,169,707	72.11%
10/1/2003	126,663,900	162,270,751	(35,606,851)	78.06%	48,092,197	74.04%
10/1/2002	121,381,698	154,937,094	(33,555,396)	78.34%	46,636,151	71.95%
10/1/2001	112,821,635	135,026,250	(22,204,615)	83.56%	46,057,435	48.21%
10/1/2000	108,706,247	126,992,240	(18,285,993)	85.60%	44,205,646	41.37%
10/1/1999	109,298,884	117,603,780	(8,304,896)	92.94%	41,193,060	20.16%
10/1/1998	97,857,406	105,685,510	(7,828,104)	92.59%	37,457,962	20.90%

The above pension information is for the year ended June 30, 2010. It is the most current information available for the CSA pension plan.

The information above is presented for all years that information is available. Information shown above included all entities covered by the CSA plan from 1998-2005. Separate information for the System was not available for those years. For the actuarial report dated 10/1/09, the information for the System was available and show seperately. Information in the future should also be shown seperately for the Sytem.

The above schedule is designed to show the extent to which a pension plan has been successful over time in setting aside assets sufficient to cover its actuarial accrued liability.

See the County's audited financial statements for further detail relating to the Tennessee Consolidated Retirement Plan.

OTHER SUPPLEMENTARY INFORMATION SECTION

BENTON COUNTY ELECTRIC SYSTEM
SCHEDULES OF OPERATING REVENUES AND EXPENSES

ELECTRIC DEPARTMENT

	FOR THE YEARS ENDED JUNE 30,			
	2010		2009	
	Actual	Percent	Actual	Percent
Operating revenues:				
Charges for sales and services:				
Residential sales	$ 11,776,854	58.97	$ 12,625,418	58.82
Small lighting and power sales	2,177,160	10.90	2,262,243	10.54
Large lighting and power sales	5,117,280	25.62	5,566,775	25.94
General power credit	(56,606)	(0.28)	(31,955)	(0.15)
Street and athletic lighting sales	194,554	0.97	204,626	0.95
Outdoor lighting	392,909	1.97	441,559	2.06
Uncollectible accounts	(34,015)	(0.17)	(64,950)	(0.30)
Total charges for sales and services	19,568,136	97.98	21,003,716	97.86
Other revenues				
Forfeited discounts	135,352	0.68	145,544	0.68
Miscellaneous service revenue	67,020	0.34	71,690	0.33
Rent from electric property	148,445	0.74	152,837	0.71
Other electric revenue	51,462	0.26	89,736	0.42
Total other revenues	402,279	2.02	459,807	2.14
Total operating revenues	$ 19,970,415	100.00	$ 21,463,523	100.00
Operating expenses:				
Cost of sales and services:				
Purchased power	$ 13,947,884	69.84	$ 15,633,081	72.84
Operations expenses:				
Distribution expenses:				
Station expense	21,339	0.11	18,333	0.09
Overhead line expense	179,719	0.90	178,874	0.83
Street lighting and signal system	1,959	0.01	5,432	0.03
Meter expense	65,104	0.33	82,973	0.39
Customer installations expense	-	-	2	-
Security lighting	11,192	0.06	11,525	0.05
Miscellaneous	150,362	0.75	131,078	0.61
Rents	11,374	0.06	11,440	0.05
Total distribution expenses	441,049	2.22	439,657	2.05
Customer accounts expenses:				
Meter reading expense	113,856	0.57	120,783	0.56
Customer records and collection	436,094	2.18	453,307	2.11
Total customer accounts expenses	$ 549,950	2.75	$ 574,090	2.67

See independent auditor's report.

BENTON COUNTY ELECTRIC SYSTEM
SCHEDULES OF OPERATING REVENUES AND EXPENSES (Cont.)

ELECTRIC DEPARTMENT

	FOR THE YEARS ENDED JUNE 30,			
	2010		2009	
	Actual	Percent	Actual	Percent
Operating expenses (cont.):				
Operations expenses (cont.):				
Sales expenses:				
Demonstration and selling expense	$ 9,002	0.05	$ 7,047	0.03
Sales expense	-	-	12,293	0.06
Total sales expenses	9,002	0.05	19,340	0.09
Total operations expenses	1,000,001	5.02	1,033,087	4.81
Administrative expenses:				
Salaries	333,208	1.67	341,073	1.59
Office supplies and expense	77,181	0.39	78,976	0.37
Outside services employed	136,819	0.69	58,336	0.27
Property Insurance	46,506	0.23	31,310	0.15
Injuries and damages	131,121	0.66	137,221	0.64
Employee pension and benefits	683,878	3.42	750,349	3.50
General advertising	4,155	0.02	4,358	0.02
Miscellaneous	30,847	0.15	31,754	0.15
Total administrative expenses	1,443,715	7.23	1,433,377	6.69
Maintenance expenses:				
Distribution expenses:				
Station equipment	16,476	0.08	5,156	0.02
Overhead lines	853,265	4.27	1,106,755	5.16
Underground lines	463	-	3,265	0.02
Line transformers	17,268	0.09	37,928	0.18
Street lights and signal system	15,675	0.08	2,699	0.01
Meters	38,987	0.20	7,598	0.04
Security lighting	41,418	0.21	33,707	0.16
Total distribution expenses	983,552	4.93	1,197,108	5.59
General plant and equipment	20,607	0.10	16,209	0.08
Total maintenance expenses	1,004,159	5.03	1,213,317	5.67
Depreciation and amortization	931,789	4.67	916,711	4.27
Taxes and tax equivalent	601,324	3.01	607,878	2.83
Total operating expenses	$ 18,928,872	94.80	$ 20,837,451	97.11

BENTON COUNTY ELECTRIC SYSTEM
SCHEDULE OF LONG-TERM DEBT
JUNE 30, 2010

Year Ended	Electric Plant Revenue Bonds						Total Requirements		
	Series 2000		Series 2004		Series 2005				
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2011	45,000	33,561	195,000	34,552	50,000	38,025	290,000	106,138	396,138
2012	50,000	31,256	200,000	29,465	50,000	36,075	300,000	96,796	396,796
2013	50,000	28,781	205,000	23,843	55,000	34,028	310,000	86,652	396,652
2014	55,000	26,122	210,000	17,668	55,000	31,882	320,000	75,672	395,672
2015	55,000	23,303	220,000	10,945	60,000	29,640	335,000	63,888	398,888
2016	60,000	20,356	225,000	3,712	60,000	27,300	345,000	51,368	396,368
2017	65,000	17,153	-	-	65,000	24,862	130,000	42,015	172,015
2018	70,000	13,650	-	-	65,000	22,327	135,000	35,977	170,977
2019	70,000	9,975	-	-	70,000	19,695	140,000	29,670	169,670
2020	75,000	6,169	-	-	70,000	16,965	145,000	23,134	168,134
2021	80,000	2,100	-	-	75,000	14,138	155,000	16,238	171,238
2022	-	-	-	-	75,000	11,212	75,000	11,212	86,212
2023	-	-	-	-	80,000	8,190	80,000	8,190	88,190
2024	-	-	-	-	85,000	4,973	85,000	4,973	89,973
2025	-	-	-	-	85,000	1,657	85,000	1,657	86,657
	$ 675,000	$ 212,426	$ 1,255,000	$ 120,185	$ 1,000,000	$ 320,969	$ 2,930,000	$ 653,580	$ 3,583,580

See independent auditors' report.

BENTON COUNTY ELECTRIC SYSTEM
ELECTRIC RATES IN FORCE
JUNE 30, 2010

Residential rate schedule		
Customer charge - per delivery point per month	$	17.09
Energy charge - cents per kWh		
First 1,000 kWh per month		9.158¢
Excess over 1,000 kWh per month		8.998¢
General power schedule		
GSA1		
Customer charge - per delivery point per month	$	24.22
Energy charge - cents per kWh		9.898¢
GSA2		
Customer charge per delivery point per month	$	152.72
Demand charges - per kW per month over 51 kW	$	15.38
Energy charge - cents per kWh		
First 15,000 kWh per month		9.898¢
Additional kWh per month		5.611¢
GSA3		
Customer charge per delivery point per month	$	337.04
Demand charges - per kW per month		
First 1,000 kW	$	14.36
Excess over 1,000 kW	$	16.67
Excess over 1,000 kW of billing demand per month at 16.67 per kW, plus an additional $16.67 per kW per month for each, if any, amount by which the customer's demand exceeds the higher of 2,500 kW or its contract demand.		
Energy charge - cents per kWh		5.611¢
GSB		
Customer charge per delivery point per month	$	1,500.00
Demand charges - per kW per month	$	15.40
plus an additional $15.40 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds its contract demand		
Energy charge - cents per kWh for up to 620 hours use of metered demand per month		4.336¢
Per kWh for all additional kWh per month		3.576¢

See independent auditor's report.

BENTON COUNTY ELECTRIC SYSTEM
ELECTRIC RATES IN FORCE (Cont.)
JUNE 30, 2010

General power schedule (Cont.)		
GSC		
Customer charge per delivery point per month	$	1,500.00
Demand charges - per kW per month	$	14.89
plus an additional $14.89 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds its contract demand.		
Energy charge - cents per kWh for up to 620 hours use of metered demand per month		4.336¢
Per kWh for all additional kWh per month		3.576¢
GSD		
Customer charge per delivery point per month	$	1,500.00
Demand charges - per kW per month	$	18.24
plus an additional $18.24 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds its contract demand.		
Energy charge - cents per kWh		3.518¢
Outdoor lighting rate		
LS		
Customer charge per delivery point per month	$	2.50
Energy charge - cents per kWh		6.1360¢

See independent auditor's report.

BENTON COUNTY ELECTRIC SYSTEM
STATISTICAL INFORMATION - UNAUDITED

	FOR THE YEARS ENDED JUNE 30,					
	2010	2009	2008	2007	2006	2005
Revenue						
Residential	$11,776,854	$12,625,418	$11,220,538	$10,397,985	$ 9,868,623	$ 8,618,833
Commercial	2,177,160	2,262,243	2,050,074	1,913,765	1,833,927	1,874,389
Industrial	5,060,674	5,534,820	5,109,342	4,600,629	4,600,629	3,572,530
Street and outdoor lighting	587,463	646,185	575,302	550,505	550,505	512,717
Other operating	368,264	394,857	318,009	338,873	338,873	271,012
Interest and other revenue	21,338	24,389	72,460	118,634	118,634	37,169
	$19,991,753	$21,487,912	$19,345,725	$17,920,391	$17,311,191	$14,886,650
Expense						
Electric power costs	$13,947,884	$15,633,081	$13,917,156	$12,719,331	$12,719,331	$10,205,930
Other operating expenses	3,447,875	3,679,781	3,546,195	3,520,984	3,520,984	3,065,566
Provision for depreciation	931,789	916,711	890,151	834,964	834,964	811,196
Taxes and tax equivalent	601,324	607,878	603,032	582,434	582,434	540,524
Interest and other expense	132,922	138,002	145,686	151,938	151,938	123,154
	19,061,794	20,975,453	19,102,220	17,809,651	17,809,651	14,746,370
Net Income (Loss)	$ 929,959	$ 512,459	$ 243,505	$ 110,740	$ (498,460)	$ 140,280
Financial						
Plant in service (at original cost)	$29,687,748	$28,687,533	$27,945,104	$26,938,214	$26,348,881	$25,373,627
Bonds outstanding	$ 2,930,000	$ 3,215,000	$ 3,485,000	$ 3,755,000	$ 4,020,000	$ 4,275,000
Power in use - KWH						
Residential	119,705,719	116,740,273	126,522,738	121,358,976	122,086,314	113,592,182
Commercial	18,433,757	17,938,568	19,325,997	18,709,208	19,012,403	18,433,567
Industrial	56,230,753	55,199,877	58,944,435	56,157,259	58,762,167	56,931,920
Other Customers	5,722,240	5,745,613	5,776,364	5,760,558	5,742,221	5,619,491
Total	200,092,469	195,624,331	210,569,534	201,986,001	205,603,105	194,577,160
Number of customers						
Residential	8,557	8,573	8,584	8,596	8,572	8,613
Small commercial	1,591	1,554	1,583	1,569	1,573	1,580
Large commercial	113	112	114	105	111	109
Street and athletic	21	21	21	20	20	20
Outdoor lighting - Code 78	85	52	55	52	56	57
	10,367	10,312	10,357	10,342	10,332	10,379
Line loss	6.23%	7.15%	5.95%	6.64%	5.34%	5.02%

See independent auditor's report.

BENTON COUNTY ELECTRIC SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

	CFDA Number	Agency or Pass-through Number	(Receivable) Unearned 6/30/09	Receipts	Expenses/ Amount Earnec	(Receivable) Unearned 6/30/2010
U.S. Department of Homeland Security -						
Federal Emergency Management Agency						
Passed through the State of Tennessee						
Emergency Management Agency						
Public Assistance Grants	97.036	Z-08-212816	$ (24,211)	$ 24,211	$ -	$ -
Public Assistance Grants	97.036	DA-022009	(52,277)	39,207	-	(13,070)
			(76,488)	63,418	-	(13,070)

The above is reported under the modified accrual basis of accounting whereby revenues are recorded when measureable and expenses are recorded when the liability is incurred.

Due to the regulatory basis of accounting of Tennessee Valley Authority, the above grant is not recorded as revenues and expenses. It is recorded through plant.

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

ALEXANDER THOMPSON ARNOLD PLLC

Certified Public Accountants

www.atacpa.net

227 Oil Well Road
Jackson, TN 38305

Telephone:(731) 427-8571
Fax: (731) 424-5701

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Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

Board of Directors
Benton County Electric System
Camden, Tennessee

We have audited the financial statements of the Benton County Electric System (the System), an enterprise fund of Benton County, Tennessee, as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated August 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Dyersburg, TN
Fulton, KY
Henderson, TN
Jackson, TN
Martin, TN
McKenzie, TN
Milan, TN
Murray, KY
Paris, TN
Trenton, TN
Union City, TN

Board of Directors
Benton County Electric System
Camden, Tennessee

This report is intended solely for the information and use of the Board of Directors, management and State of Tennessee, Comptroller of the Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Alexander Thompson Arnold PLLC

Certified Public Accountants
Jackson, Tennessee
August 27, 2010

BENTON COUNTY ELECTRIC SYSTEM
SCHEDULE OF FINDINGS AND RECOMENDATIONS
JUNE 30, 2010 AND 2009

FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

None noted for 2009 or 2010