

**WEAKLEY COUNTY  
MUNICIPAL ELECTRIC SYSTEM**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**JUNE 30, 2011 AND 2010**

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM  
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## **INTRODUCTORY SECTION**

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM  
DIRECTORY**  
June 30, 2011

**Board of Directors**

Terry Oliver  
Johnny Vincent  
Jerry Brigance  
Ronald D. Arnold  
Larry McCartney  
Andy N. Page  
James Westbrook, Jr.  
David Woolf

**Key Personnel**

Faron Collins – General Manager  
Thomas Brewer – Accounting Manager

**Independent Certified Public Accountants**

Alexander Thompson Arnold PLLC

## **FINANCIAL SECTION**



Certified Public Accountants

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## Independent Auditor's Report

Board of Directors  
Weakley County Municipal Electric System  
Martin, Tennessee

We have audited the accompanying financial statements of the Weakley County Municipal Electric System, an enterprise fund of Weakley County, Tennessee, as of and for the years ended June 30, 2011 and 2010, 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 audits 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 Weakley County Municipal Electric System enterprise fund and are not intended to present fairly the financial position of Weakley 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 financial position of Weakley County Municipal Electric System as of June 30, 2011 and 2010, and the results of operations and its 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 September 22, 2011, on our consideration of the Weakley County Municipal Electric 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 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 on pages 4 through 9 and the schedule of funding progress on page 21 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Weakley County Municipal Electric 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 schedules of operation expense, maintenance expense, expenditures of federal awards, debt service requirements by individual issue and utility rates in force are 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 section and the summary of comparative information 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 them.

*Alexander Thompson Arnold PLLC*

Union City, Tennessee  
September 22, 2011

## Management's Discussion and Analysis

As management of the Weakley County Municipal Electric System (the System), we offer the readers of the System's financial statements this narrative overview and analysis of the financial activities of the System for the fiscal year ended June 30, 2011. All amounts, unless otherwise indicated, are expressed in actual dollars.

### Financial Highlights

Management believes the System's financial condition is strong. The following are key financial highlights.

- Total assets at year-end were \$46,128,854 and exceeded liabilities of \$12,060,382 in the amount of \$34,068,472 (i.e. net assets). Total assets increased by 8.19% during the year while total liabilities increased 32.23%.
- Net assets increased \$553,592 during the current year.
- Operating revenues increased \$5,412,461 due to increased retail rates and extreme weather conditions.
- Operating expenses increased \$2,700 which shows consistency from 2010 to 2011.
- Total expenses were \$46,716,213 an increase from fiscal year 2010 by \$6,238,432 primarily due to increase in power cost.
- The net income for FY 2011 was \$553,592 as compared to FY 2010 of \$1,317,910.
- Interest income remained consistent from \$94,191 to \$94,499 with interest rates remaining the same.
- Interest expense decreased from \$100,630 to \$90,842 due to decreased long-term debt for new facility.
- The System had twelve monthly rate adjustments. Monthly fuel cost adjustments are received from TVA. These adjustments were a pass-thru rate adjustment.

### Overview of the Annual Financial Report

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, and other management tools were used for this analysis. The Annual Financial Report is made up of three sections: 1) the financial section, 2) the other supplementary information section, and 3) the internal control and compliance section. The financial section includes the MD&A, the independent auditor's report, and the financial statements with accompanying notes. The other supplementary information section includes selected financial and operational 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 statement of net assets 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.

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.

## **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 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 are 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 \$553,592 and \$1,317,910 for the fiscal years ended June 30, 2011 and 2010, respectively. The analysis below focuses on the System's net assets (Table 1) and changes in net assets (Table 2) during the year.

Table 1A  
**CONDENSED STATEMENT OF NET ASSETS**

	June 30, 2011	June 30, 2010	Increase (Decrease)	
Current and other assets	\$ 12,574,188	\$ 9,147,227	\$ 3,426,961	37.46%
Capital assets	33,554,666	33,488,461	66,205	0.20%
Total assets	<u>46,128,854</u>	<u>42,635,688</u>	<u>3,493,166</u>	8.19%
Long-term liabilities	2,389,324	2,852,472	(463,148)	-16.24%
Other liabilities	9,671,058	6,268,336	3,402,722	54.28%
Total liabilities	<u>12,060,382</u>	<u>9,120,808</u>	<u>2,939,574</u>	32.23%
Invested in capital assets	31,720,342	31,283,489	436,853	1.40%
Unrestricted	2,348,130	2,231,391	116,739	5.23%
Total net assets	<u>\$ 34,068,472</u>	<u>\$ 33,514,880</u>	<u>\$ 553,592</u>	1.65%

Table 1B  
**CONDENSED STATEMENT OF NET ASSETS**

	June 30, 2010	June 30, 2009	Increase (Decrease)	
Current and other assets	\$ 9,147,227	\$ 8,732,980	\$ 414,247	4.74%
Capital assets	33,488,461	32,752,726	735,735	2.25%
Total assets	<u>42,635,688</u>	<u>41,485,706</u>	<u>1,149,982</u>	2.77%
Long-term liabilities	2,852,472	3,229,056	(376,584)	-11.66%
Other liabilities	6,268,336	6,059,680	208,656	3.44%
Total liabilities	<u>9,120,808</u>	<u>9,288,736</u>	<u>(167,928)</u>	-1.81%
Invested in capital assets	31,283,489	30,263,670	1,019,819	3.37%
Unrestricted	2,231,391	1,933,300	298,091	15.42%
Total net assets	<u>\$ 33,514,880</u>	<u>\$ 32,196,970</u>	<u>\$ 1,317,910</u>	4.09%

The increase in capital assets was funded exclusively by operations and the use of unrestricted fund balance. The decrease in long-term liabilities is from the monthly payments on our building loan for our new facility. The overall increase in total net assets for the period indicates that cash flows from operations continue to be adequate to support the capital projects undertaken by the System. 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, 2011	June 30, 2010	Increase (Decrease)	
Operating revenues	\$ 46,188,583	\$ 40,776,122	\$ 5,412,461	13.27%
Non-operating revenues	1,081,222	1,019,569	61,653	6.05%
Total Revenues	<u>47,269,805</u>	<u>41,795,691</u>	<u>5,474,114</u>	13.10%
Power cost	39,257,427	33,351,608	5,905,819	17.71%
Operations expense	3,637,426	3,634,726	2,700	0.07%
Maintenance expense	1,181,472	1,064,914	116,558	10.95%
Depreciation expense	1,657,463	1,436,202	221,261	15.41%
Taxes and tax equivalents	850,759	850,974	(215)	-0.03%
Interest and amortization	131,666	139,357	(7,691)	-5.52%
Total expenses	<u>46,716,213</u>	<u>40,477,781</u>	<u>6,238,432</u>	15.41%
Change in net assets	553,592	1,317,910	(764,318)	-57.99%
Beginning net assets	33,514,880	32,196,970	1,317,910	4.09%
Ending net assets	<u>\$ 34,068,472</u>	<u>\$ 33,514,880</u>	<u>\$ 553,592</u>	1.65%

Table 2B  
**CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	June 30, 2010	June 30, 2009	Increase (Decrease)	
Operating revenues	\$ 40,776,122	\$ 44,268,691	\$ (3,492,569)	-7.89%
Non-operating revenues	1,019,569	954,938	64,631	6.77%
Total Revenues	<u>41,795,691</u>	<u>45,223,629</u>	<u>(3,427,938)</u>	-7.58%
Power cost	33,351,608	37,057,246	(3,705,638)	-10.00%
Operations expense	3,634,726	3,548,311	86,415	2.44%
Maintenance expense	1,064,914	1,082,835	(17,921)	-1.66%
Depreciation expense	1,436,202	1,403,553	32,649	2.33%
Taxes and tax equivalents	850,974	764,865	86,109	11.26%
Interest and amortization	139,357	92,992	46,365	49.86%
Total expenses	<u>40,477,781</u>	<u>43,949,802</u>	<u>(3,472,021)</u>	-7.90%
Change in net assets	1,317,910	1,273,827	44,083	3.46%
Beginning net assets	32,196,970	30,923,143	1,273,827	4.12%
Ending net assets	<u>\$ 33,514,880</u>	<u>\$ 32,196,970</u>	<u>\$ 1,317,910</u>	4.09%

Operating revenues showed a 7.89% decrease from 2009 to 2010 and showed an increase of 13.27% from 2010 to 2011. This is not unusual in the industry since sales are directly related to weather patterns with one year being warmer or cooler than average and the resulting sales being higher or lower than normal. Non-operating revenues increased by \$61,653 from 2010 to 2011 with most of the increase attributed to rent of electric property. Operations expense increased \$2,700 from 2010 to 2011. The majority of the increase in operations expense from 2009 to 2010 was due to increases in outside services (professional fees), insurance and other overhead cost. Maintenance expense increased from 2010 to 2011 by \$116,558 or 10.95%. Maintenance expense decreased from 2009 to 2010 by \$17,921 or 1.66%.

## Capital Assets and Debt Administration

At the end of fiscal year 2011, the System had \$33,554,666 (net of accumulated depreciation) invested in a broad range of utility capital assets. This investment includes land, buildings, transmission and distribution systems and their related equipment, and various other types of equipment and vehicles. 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 \$66,205 or .20% for fiscal year 2011 above fiscal year 2010 and an increase of \$735,735 or 2.25% for fiscal year 2010 above fiscal year 2009.

The following tables summarize the System's capital assets, net of accumulated depreciation, and changes therein, for the fiscal years ended June 30, 2011 and 2010, respectively.

Table 3A  
**CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION**

	June 30, 2011	June 30, 2010	Increase (Decrease)	
Transmission plant	\$ 1,738,145	\$ 1,765,051	\$ (26,906)	-1.52%
Distribution plant	21,561,879	21,741,247	(179,368)	-0.83%
General plant	9,265,909	9,014,597	251,312	2.79%
Construction in progress	740,407	680,512	59,895	8.80%
Unamortized acq. adj.	248,326	287,054	(38,728)	-13.49%
Capital assets, net of acc deprec	<u>\$ 33,554,666</u>	<u>\$ 33,488,461</u>	<u>\$ 66,205</u>	0.20%

Table 3B  
**CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION**

	June 30, 2010	June 30, 2009	Increase (Decrease)	
Transmission plant	\$ 1,765,051	\$ 1,841,614	\$ (76,563)	-4.16%
Distribution plant	21,741,247	21,643,108	98,139	0.45%
General plant	9,014,597	1,352,849	7,661,748	566.34%
Construction in progress	680,512	7,589,373	(6,908,861)	-91.03%
Unamortized acq. adj.	287,054	325,782	(38,728)	-11.89%
Capital assets, net of acc deprec	<u>\$ 33,488,461</u>	<u>\$ 32,752,726</u>	<u>\$ 735,735</u>	2.25%

The System continues to upgrade various substations. The System has incurred upgrades to its communication equipment. This accounts for the increase in general plant fiscal year 2011.

### Debt Administration

The System has long-term debt of \$1,834,324 as of fiscal year 2011 from the construction of a new office facility. Monthly payments made during fiscal year 2011 reduced the principal by \$370,647. The debt was obtained from First State Bank.

### Economic Factors and Next Year's Budget and Rates

The System's electric supplier, TVA, adjusted rates on a monthly basis for their fuel cost adjustment. The System passed the monthly rate adjustments to our customers. The Board of Directors approved the System's fiscal year 2012 budget at its meeting in June.

The System continues to enjoy a stable industrial, commercial and residential customer base.

### **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 Manager of Accounting at Weakley County Municipal Electric System.

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM  
STATEMENTS OF NET ASSETS**

June 30, 2011 and 2010

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Current assets:		
Cash and working funds	\$ 6,399,152	\$ 2,979,779
Accounts receivable - consumers, net	2,791,475	2,556,089
Accounts receivable - other	54,962	148,835
Rents receivable	109,764	108,092
Transportation clearing	-	330
Materials and supplies	475,802	483,376
Prepayments	59,679	68,120
Total current assets	<b>9,890,834</b>	<b>6,344,621</b>
Non-current assets:		
Renewal and replacement funds	587	5,577
Revolving loan fund	90,927	45,774
Prepaid purchased power - TVA	206,625	337,125
Conservation loans receivable	1,552,507	1,443,922
Note receivable - grant funds	270,000	315,000
Note receivable - USDA intermediary loan	562,708	655,208
Capital assets		
Electric plant in service - at cost	59,522,157	58,439,424
Work in progress	740,407	680,512
Electric plant acquisition adjustment	248,326	287,054
Less: accumulated depreciation	(26,956,224)	(25,918,529)
Net capital assets	<b>33,554,666</b>	<b>33,488,461</b>
Total non-current assets	<b>36,238,020</b>	<b>36,291,067</b>
<b>Total assets</b>	<b>46,128,854</b>	<b>42,635,688</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	6,452,326	3,262,148
Customer deposits	994,092	906,027
Accrued salaries and leave	563,013	519,607
Other current and accrued liabilities	31,814	27,329
Current portion of long-term note payable	274,176	370,020
Total current liabilities	<b>8,315,421</b>	<b>5,085,131</b>
Non-current liabilities:		
Note payable, net of current portion	1,560,148	1,834,952
USDA loan payable	555,000	647,500
Conservation loans payable	1,572,861	1,466,007
Interest payable - conservation loans	8,661	8,427
Deferred interest income	48,291	78,791
Total non-current liabilities	<b>3,744,961</b>	<b>4,035,677</b>
<b>Total liabilities</b>	<b>12,060,382</b>	<b>9,120,808</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	31,720,342	31,283,489
Unrestricted	2,348,130	2,231,391
<b>Total net assets</b>	<b>\$ 34,068,472</b>	<b>\$ 33,514,880</b>

*The accompanying notes are an integral part of these financial statements.*

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

For the Years Ended June 30, 2011 and 2010

	<b>2011</b>	<b>Percent</b>	<b>2010</b>	<b>Percent</b>
Operating revenues				
Sales of electric energy				
Residential and rural	\$ 26,744,341	56.77	\$ 23,285,901	55.90
Small commercial	4,354,881	9.24	3,996,346	9.59
Large commercial	13,881,332	29.46	12,399,044	29.76
Street and outdoor lighting	1,145,648	2.43	1,052,087	2.53
Total sales of electric energy	46,126,202	97.90	40,733,378	97.78
Other electric revenues				
Consumer forfeited discounts	332,390	0.71	288,111	0.69
Rent from electric property	504,215	1.07	464,573	1.12
Service charge - meter sets	84,003	0.18	89,156	0.21
Miscellaneous	66,115	0.14	83,543	0.20
Total other electric revenues	986,723	2.10	925,383	2.22
<b>Total operating revenues</b>	<b>47,112,925</b>	<b>100.00</b>	<b>41,658,761</b>	<b>100.00</b>
Operating expenses				
Purchased power	39,259,527	83.33	33,351,608	80.06
Operation expense	3,575,044	7.59	3,591,984	8.62
Maintenance expense	1,181,470	2.51	1,064,914	2.56
Depreciation and amortization	1,696,191	3.60	1,474,931	3.54
Tax equivalent	88,608	0.19	111,832	0.27
Payroll taxes	82,781	0.18	75,135	0.18
Total operating expenses	45,883,621	97.40	39,670,404	95.23
<b>Operating income</b>	<b>1,229,304</b>	<b>2.60</b>	<b>1,988,357</b>	<b>4.77</b>
Non-operating revenues (expenses)				
Income from investments	94,499	0.20	94,191	0.23
Miscellaneous non-operating income	1,125	-	1,246	-
Interest on long-term debt	(91,967)	(0.20)	(101,876)	(0.24)
Total non-operating revenues (expenses)	3,657	-	(6,439)	(0.01)
Transfers				
Transfer to General Fund	(679,369)	(1.44)	(664,007)	(1.59)
<b>Change in net assets</b>	<b>553,592</b>	<b>1.16</b>	<b>1,317,911</b>	<b>3.17</b>
Net assets, beginning of year	33,514,880		32,196,969	
<b>Net assets, end of year</b>	<b>\$ 34,068,472</b>		<b>\$ 33,514,880</b>	

*The accompanying notes are an integral part of these financial statements.*

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM  
STATEMENTS OF CASH FLOWS**

For the Years Ended June 30, 2011 and 2010

	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 47,057,805	\$ 41,388,547
Cash payments to suppliers for goods and services	(37,699,165)	(34,902,959)
Cash payments to employees for services	(2,935,876)	(2,801,663)
Net cash advanced on conservation loans receivable	(108,585)	(55,601)
Net cash proceeds from conservation loans payable	107,088	53,207
Net cash provided by operating activities	6,421,267	3,681,531
<b>Cash flows from non-capital financing activities</b>		
Transfer to General Fund	(679,369)	(664,007)
Payments on USDA loan payable	(92,500)	(92,500)
Miscellaneous non-operating income	1,125	1,246
Net cash used by non-capital financing activities	(770,744)	(755,261)
<b>Cash flows from capital and related financing activities</b>		
Additions to plant	(1,770,405)	(2,315,316)
Proceeds from sale of land and building	-	50,000
Removal cost	(189,966)	(155,628)
Interest paid on long-term debt	(91,967)	(101,876)
Principal paid on long-term debt	(370,648)	(284,084)
Net cash used by capital and related financing activities	(2,422,986)	(2,806,904)
<b>Cash flows from investing activities</b>		
Interest received	94,499	94,191
Payments received on notes receivable	137,500	129,792
Net cash provided by investing activities	231,999	223,983
<b>Net increase in cash and cash equivalents</b>	<b>3,459,536</b>	<b>343,349</b>
Cash and cash equivalents - beginning	3,031,130	2,687,781
Cash and cash equivalents - ending	\$ 6,490,666	\$ 3,031,130
Cash and cash equivalents are presented in the balance sheet as follows:		
Cash and working funds	\$ 6,399,152	\$ 2,979,779
Revolving loan fund	90,927	45,774
Renewal and replacement funds	587	5,577
	\$ 6,490,666	\$ 3,031,130

*The accompanying notes are an integral part of these financial statements.*

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM  
STATEMENTS OF CASH FLOWS**

For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities</b>		
Operating income	\$ 1,229,304	\$ 1,988,357
<i>Adjustments to reconcile net operating income to net cash provided by operating activities:</i>		
Depreciation and amortization	1,819,082	1,590,222
Amortization of prepaid purchased power	130,500	130,500
Change in:		
Accounts receivable	(141,513)	(283,009)
Rents receivable	(1,672)	(2,626)
Material and supplies	82,658	104,471
Transportation clearing	330	(330)
Prepayments	8,441	892
Conservation loans receivable	(108,585)	(55,601)
Accounts payable	3,190,178	271,608
Customer deposits	88,065	15,421
Accrued salaries and leave	43,406	10,852
Other current and accrued liabilities	4,485	(111,933)
Conservation loans payable	107,088	53,207
Deferred credits	<u>(30,500)</u>	<u>(30,500)</u>
 Net cash provided by operating activities	 <u>\$ 6,421,267</u>	 <u>\$ 3,681,531</u>

*The accompanying notes are an integral part of these financial statements.*

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

These financial statements include only the financial activities of Weakley County Municipal Electric 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 purpose of this part. The title of such property shall be taken in the name of the municipality" (county). Therefore, Weakley County Electric System does not possess sufficient corporate powers that distinguish it as a legally separate entity and is considered a proprietary fund of Weakley 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. GASB Statement No. 20 gives governments the option of applying all Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, to its proprietary funds, unless they conflict with or contradict GASB pronouncements. The County has elected not to implement FASB statements and interpretations issued thereafter, unless they are adopted by GASB.

The books of account are kept in accordance with the provisions of the power contract between the Weakley County Municipal Electric System and the Tennessee Valley Authority (TVA) and meet the requirements of the Federal Power System chart of accounts.

The System recognizes income based on cycle billings. This results in recognizing as income the energy usage through each respective cycle each month, which may not coincide with the last day of the fiscal year. Non-recognition of unbilled income from energy sales as a result of cycle billing is a common industry practice.

The cost of purchased power is accrued based on the final meter reading of the fiscal year. This may result in unrecognized expense for the period between the final billing and the end of the fiscal year. This practice is consistent with TVA guidelines and does not differ significantly from generally accepted accounting principles.

Proprietary funds distinguish operating revenues and expenses 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 to customers for sales and service. Operating expenses for the System include the cost of purchased power, operation expenses, maintenance expenses, amortization of plant acquisition adjustment, property tax equivalent, payroll taxes, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**C. Assets, Liabilities, and Net Assets**

**Deposits and investments**

Cash and cash equivalents on the statements of cash flows include cash on hand, demand deposits at financial institutions, and funds held in the State of Tennessee Local Government Investment Pool. The funds held in the State of Tennessee Local Government Investment Pool mature every 30 days.

**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. The System uses the direct write-off method for uncollectible accounts, rather than an estimated allowance for uncollectible accounts. This method, though not recognized by generally accepted accounting principles, does not distort the presentation by a material amount.

Operating revenues are reported net of bad debt expense. Bad debt expense for the years ended June 30, 2011 and 2010, was \$62,380 and \$42,744, respectively.

**Inventories**

The System uses a perpetual inventory system and has actual physical counts annually. Inventories are stated at cost, using an average costing method.

**Capital assets**

Capital assets include property, plant and equipment, work in progress and an electric plant acquisition adjustment. Such assets are stated substantially at original cost. The System capitalizes interest costs as part of the cost of construction when the construction period covers more than twelve months. For the year under examination, there was no interest costs capitalized. The System provides for depreciation on a straight-line basis at rates recommended by the Tennessee Valley Authority. These rates purport to depreciate the property over its estimated useful life. Depreciation for the year ended June 30, 2011, consisted of \$1,657,463 charged to depreciation expense and \$122,891 cleared through other accounts, for a total of \$1,780,354. Depreciation for the year ended June 30, 2010, consisted of \$1,436,203 charged to depreciation expense and \$115,291 cleared through other accounts, for a total of \$1,551,494. The electric plant acquisition adjustment represents the cost of acquiring existing plant from neighboring systems over the book value of the plant purchased. This amount is amortized over a 10-year period as prescribed by state statutes. Amortization for the years ended June 30, 2011 and 2010, was \$38,728 per year.

**Leases**

The System leases attachment space on joint use poles to and from telephone companies and various cable television companies. These leases are accounted for as operating leases. Rent expense for the years ended June 30, 2011 and 2010, was \$21,837 and \$20,905, respectively.

**Compensated absences**

Employees are entitled to paid vacation and sick days depending on length of service and other factors. An accrual for compensated absences has been made which includes accumulated vacation leave and one-half of accumulated sick leave.

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**Net assets**

Equity is classified as net assets and displayed in the following 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 payables that are attributable to the acquisition, construction, or improvement of those assets
- Unrestricted – all other net assets that do not meet the description of the above categories

**Comparative data**

Comparative data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations.

**NOTE 2 – DETAILED NOTES ON ACCOUNTS**

**A. Deposits and Investments**

Custodial Credit Risk – The System's policies limit investments to those instruments allowed by applicable state laws as described in Note 1. State statutes require 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 of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2011 and 2010, all bank deposits were fully collateralized or insured.

**B. Prepayments**

The System elected to participate in a Discounted Energy Units (DEU) Program offered by TVA. This program allowed the Company to purchase DEUs in \$1 million increments, which entitles them to a 2.5 cent per kwh program discount on a specified quantity for a specified term. The System's agreement is for a period of 10 years, and amounts will be amortized over the 10 year period. For the years ended June 30, 2011 and 2010, the System received credits of \$130,500 per year for prepaid purchased power.

**C. Interfund Activity**

A transfer is made each year from the Weakley County Municipal Electric System to the General Fund of Weakley County for an in-lieu-of-tax payment. The transfer amount for the years ended June 30, 2011 and 2010, was \$679,369 and \$664,007 respectively. This amount was included in operating expenses in the System's books of account.

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**D. Capital Assets**

Capital asset activity for the current year was as follows:

Description	Balance at July 1, 2010	Additions	Disposals and Other	Balance at June 30, 2011
Capital assets, not being depreciated				
Transmission plant	\$ 100,307	\$ -	\$ -	\$ 100,307
Distribution plant	111,975	-	-	111,975
General plant	306,131	500	-	306,631
Construction work in progress	680,512	59,895	-	740,407
Total capital assets not being depreciated	<u>1,198,925</u>	<u>60,395</u>	<u>-</u>	<u>1,259,320</u>
Capital assets, being depreciated				
Transmission plant	4,836,710	15,349	(14,105)	4,837,954
Distribution plant	40,914,395	1,045,156	(328,323)	41,631,228
General plant	12,169,906	649,505	(285,349)	12,534,062
Electric plant acquisition adjustment	287,054	-	(38,728)	248,326
Total capital assets being depreciated	<u>58,208,065</u>	<u>1,710,010</u>	<u>(666,505)</u>	<u>59,251,570</u>
Less accumulated depreciation				
Transmission plant	3,171,965	47,301	(19,151)	3,200,115
Distribution plant	19,285,126	1,334,565	(438,364)	20,181,327
General plant	3,461,438	398,488	(285,144)	3,574,782
Total accumulated depreciation	<u>25,918,529</u>	<u>1,780,354</u>	<u>(742,659)</u>	<u>26,956,224</u>
Total capital assets being depreciated, net	<u>32,289,536</u>	<u>(70,344)</u>	<u>76,154</u>	<u>32,295,346</u>
Total capital assets, net	<u>\$ 33,488,461</u>	<u>\$ (9,949)</u>	<u>\$ 76,154</u>	<u>\$ 33,554,666</u>

**E. Notes Payable**

Two notes were executed with First State Bank to assist in financing the cost of capital assets. Two draw-down lines of credit were established for \$2,000,000 each. The draw-down feature expired after six months, and during this period, monthly interest-only payments were due. The amounts outstanding are being repaid through monthly payments of principal and interest. Both notes are unsecured and have a fixed interest rate. Details of the two notes are as follows:

Loan No.	Loan Date	Maturity Date	Interest Rate	Monthly Payment	6/30/11 Balance	6/30/10 Balance
82112076	11/17/2008	11/17/2020	4.45%	\$18,607	\$1,709,131	\$1,852,445
92112453	04/28/2009	04/24/2012	3.30%	\$19,635	125,193	352,527
					<u>\$1,834,324</u>	<u>\$2,204,972</u>

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

Amounts due on notes payable for the next five years and to maturity are shown below.

Year Ending	Principal	Interest
June 30, 2012	\$ 274,176	\$ 75,573
June 30, 2013	156,047	67,242
June 30, 2014	163,235	60,055
June 30, 2015	170,755	52,535
June 30, 2016	178,501	44,789
June 30, 2017 – 2021	891,610	93,610
Total	<u>\$1,834,324</u>	<u>\$393,804</u>

Changes in long-term debt during the year ended June 30, 2011, are summarized as follows:

	Balance 7/01/10	Proceeds	Payments	Balance 6/30/11	Due within one year
Note No. 82112076	\$1,852,445	\$ -	\$ 143,314	\$1,709,131	\$ 148,983
Note No. 92112453	352,527	-	227,334	125,193	125,193
Total	<u>\$2,204,972</u>	<u>\$ -</u>	<u>\$ 370,648</u>	<u>\$1,834,324</u>	<u>\$ 274,176</u>

**NOTE 3 – OTHER INFORMATION**

**A. Pension Plan**

Employees of Weakley County Municipal Electric System are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statutes found in Title 8, Chapter 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Weakley County Municipal Electric System participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

**Funding Policy**

Weakley County Municipal Electric System requires employees to contribute 5.0 percent of earnable compensation.

Weakley County Municipal Electric System is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2010, (the most recent year available) was 18.86% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Weakley County Municipal Electric System is established and may be amended by the TCRS Board of Trustees.

**Annual Pension Cost**

For the year ending June 30, 2010, (the most recent year available) Weakley County Municipal Electric System's annual pension cost of \$485,085 to TCRS was equal to the System's required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% per year compounded annually, (b) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), and (c) projected 3.5% annual increase in the Social Security wage base. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. The System's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 14 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

**Trend Information**

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/10	\$485,085	100.00%	\$0
6/30/09	\$502,885	100.00%	\$0
6/30/08	\$525,393	100.00%	\$0

**Funded Status and Funding Progress**

As of July 1, 2009, the most recent actuarial valuation date available, the plan was 55.11% funded. The actuarial accrued liability for benefits was \$10.6 million, and the actuarial value of assets was \$5.84 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$4.76 million. The covered payroll (annual payroll of active employees covered by the plan) was \$2.55 million, and the ratio of the UAAL to the covered payroll was 186.82%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

*(Dollar amounts in thousands)*

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)- Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAAL as a Percentage of Covered Payroll
7/01/09	\$5,840	\$10,596	\$4,756	55.11%	\$2,546	186.82%
7/01/07	\$5,311	\$8,297	\$2,986	64.01%	\$2,611	114.36%

**B. Risk Management**

It is the policy of the System to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, worker's compensation, employee health and accident and employee and officer liability and dishonesty. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS  
 June 30, 2011**

*(Dollar amounts in thousands)*

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)- Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/01/09	\$5,840	\$10,596	\$4,756	55.11%	\$2,546	186.82%
7/01/07	\$5,311	\$8,297	\$2,986	64.01%	\$2,611	114.36%

The Governmental Accounting Standards Board requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the entry age actuarial cost method went into effect during the year of the 2007 actuarial valuation. The third valuation that is required to be presented will be added when it becomes available.

*See independent auditor's report*

## **OTHER SUPPLEMENTARY INFORMATION SECTION**

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM  
SCHEDULES OF OPERATION EXPENSE**

For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>Percent</u>	<u>2010</u>	<u>Percent</u>
Transmission expense				
Overhead wire expense	\$ 4,001	0.01	\$ 1,841	-
Station expense	<u>24,729</u>	<u>0.05</u>	<u>23,559</u>	<u>0.06</u>
Total	<u>28,730</u>	<u>0.06</u>	<u>25,400</u>	<u>0.06</u>
Distribution expense				
Supervision and engineering	129,939	0.28	140,044	0.34
Station expense	33,475	0.07	33,614	0.08
Overhead line expense	684,267	1.45	584,231	1.40
Underground line expense	42,648	0.09	62,247	0.15
Street lighting and signal systems	7,685	0.02	16,935	0.04
Removing and resetting meters	169,654	0.36	239,499	0.57
Services on customers' premises	52,763	0.11	52,972	0.13
Miscellaneous distribution expense	11,907	0.03	11,082	0.03
Rents	<u>21,837</u>	<u>0.05</u>	<u>20,905</u>	<u>0.05</u>
Total	<u>1,154,175</u>	<u>2.46</u>	<u>1,161,529</u>	<u>2.79</u>
Customer accounts expense				
Supervision and accounting	18,259	0.04	17,301	0.04
Meter reading	218,857	0.46	221,889	0.53
Records and collection	<u>679,598</u>	<u>1.44</u>	<u>665,150</u>	<u>1.60</u>
Total	<u>916,714</u>	<u>1.94</u>	<u>904,340</u>	<u>2.17</u>
Customer service and sales expense				
Supervision	12,183	0.03	11,543	0.03
Customer assistance	35,155	0.07	33,550	0.08
Miscellaneous sales expense	<u>107,771</u>	<u>0.23</u>	<u>114,286</u>	<u>0.27</u>
Total	<u>155,109</u>	<u>0.33</u>	<u>159,379</u>	<u>0.38</u>
Administrative and general expense				
Salaries	287,930	0.61	287,323	0.69
Office supplies and expense	111,948	0.24	132,471	0.32
Outside services	47,680	0.10	86,587	0.21
Insurance	51,076	0.11	50,974	0.12
Injuries and damages	162,965	0.35	160,797	0.39
Employee pension and benefits	592,100	1.26	569,760	1.37
Duplicate miscellaneous credits	(3,097)	(0.01)	(16,158)	(0.04)
Dues	39,403	0.08	38,956	0.09
Miscellaneous	<u>30,311</u>	<u>0.06</u>	<u>30,626</u>	<u>0.07</u>
Total	<u>1,320,316</u>	<u>2.80</u>	<u>1,341,336</u>	<u>3.22</u>
<b>Total operation expense</b>	<b><u>\$ 3,575,044</u></b>	<b><u>7.59</u></b>	<b><u>\$ 3,591,984</u></b>	<b><u>8.62</u></b>

*See independent auditor's report*

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM**  
**SCHEDULES OF MAINTENANCE EXPENSE**  
For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>Percent</u>	<u>2010</u>	<u>Percent</u>
Transmission maintenance				
Station equipment	\$ 3,494	0.01	\$ 3,001	0.01
Overhead lines	<u>23,446</u>	<u>0.05</u>	<u>30,841</u>	<u>0.07</u>
Total	<u>26,940</u>	<u>0.06</u>	<u>33,842</u>	<u>0.08</u>
Distribution maintenance				
Station equipment	27,414	0.06	25,073	0.06
Overhead lines	826,358	1.75	759,382	1.82
Underground lines	13,300	0.03	8,292	0.02
Line transformers and devices	103,266	0.22	41,605	0.10
Street lights and signal systems	11,746	0.02	20,566	0.05
Meters	32,107	0.07	39,538	0.09
Security lights	33,599	0.07	33,049	0.08
Miscellaneous distribution maintenance	<u>14,315</u>	<u>0.04</u>	<u>10,810</u>	<u>0.04</u>
Total	<u>1,062,105</u>	<u>2.26</u>	<u>938,315</u>	<u>2.26</u>
Administrative and general maintenance				
Structures and improvements	80,804	0.17	73,478	0.18
Communications equipment	9,636	0.02	18,530	0.04
Fiber optic	<u>1,985</u>	<u>-</u>	<u>749</u>	<u>-</u>
Total	<u>92,425</u>	<u>0.19</u>	<u>92,757</u>	<u>0.22</u>
<b>Total maintenance expense</b>	<b><u>\$1,181,470</u></b>	<b><u>2.51</u></b>	<b><u>\$1,064,914</u></b>	<b><u>2.56</u></b>

*See independent auditor's report*

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2011

<u>Grantor Agency/ Pass-through Entity/ Program Name</u>	<u>CFDA #</u>	<u>Grant Number</u>	<u>Balance July 1, 2010</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Adjustments</u>	<u>Balance June 30, 2011</u>
Federal Emergency Management Agency Public Assistance Grant	97.036	FEMA-DR-1821-TN	\$ (127,475)	\$ -	\$ -	\$ -	\$ (127,475) *

\* included in construction in process as a result of TVA/RUS accounting procedures requiring this to be accounted for as a reduction in plant costs.

**NOTE 1:** The accompanying schedule is prepared on the accrual basis of accounting.

**NOTE 2:** Expenditures of \$445,297 related to FEMA Public Assistance Grants are recorded in the financial statements; however, since no contracts were in place as of June 30, 2011, they have not been reflected in the Schedule of Expenditures of Federal Awards above.

*See independent auditor's report*

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM  
SCHEDULE OF DEBT SERVICE REQUIREMENTS  
BY INDIVIDUAL ISSUE  
June 30, 2011**

<u>Year Ending June 30,</u>	<u>Note #82112076</u>		<u>Note #92112453</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2012	\$ 148,983	\$ 74,307	\$ 125,193	\$ 1,266	\$ 349,749
2013	156,048	67,242	-	-	223,290
2014	163,235	60,055	-	-	223,290
2015	170,755	52,535	-	-	223,290
2016	178,500	44,790	-	-	223,290
2017	186,843	36,447	-	-	223,290
2018	195,448	27,842	-	-	223,290
2019	204,452	18,838	-	-	223,290
2020	213,848	9,442	-	-	223,290
2021	91,019	1,044	-	-	92,063
	<u>\$ 1,709,131</u>	<u>\$ 392,542</u>	<u>\$ 125,193</u>	<u>\$ 1,266</u>	<u>\$ 2,228,132</u>

*See independent auditor's report*

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM  
SUMMARY OF COMPARATIVE INFORMATION - UNAUDITED**

	<b>FOR THE YEARS ENDED JUNE 30,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Revenue</b>			
Residential	\$ 26,681,961	\$ 23,243,157	\$ 25,308,581
Small commercial	4,354,881	3,996,346	4,161,466
Large commercial	13,881,332	12,399,044	13,474,992
Street and athletic lighting	362,596	328,030	374,101
Outdoor lighting	783,052	724,057	802,039
Other electric revenue	986,723	925,383	821,938
Interest and other income	94,499	94,191	133,001
	47,145,044	41,710,208	45,076,118
<b>Expense</b>			
Electric power costs	39,259,527	33,351,608	37,057,247
Other operating expenses	4,694,134	4,614,154	4,483,634
Depreciation and amortization	1,696,191	1,474,931	1,442,281
Taxes and tax equivalent	850,758	850,974	764,865
Interest and other expense	90,842	100,630	54,265
	46,591,452	40,392,297	43,802,292
Change in net assets	\$ 553,592	\$ 1,317,911	\$ 1,273,826
<b>Capital assets</b>			
Plant in service (at original cost)	\$ 59,522,157	\$ 58,439,424	\$ 49,915,768
<b>Power in use - KWH</b>			
Residential	290,839,593	279,351,206	272,800,322
Small commercial	38,181,917	38,080,963	36,756,273
Large commercial	152,387,484	149,462,341	148,087,636
Street and athletic lighting	4,177,914	4,191,936	4,213,513
Outdoor lighting	6,603,170	6,594,365	6,735,885
Total	492,190,078	477,680,811	468,593,629
<b>Number of customers</b>			
Residential	16,267	16,344	16,509
Small commercial	3,746	3,580	3,486
Large commercial	286	280	277
Street and athletic lighting	84	85	87
Outdoor lighting	97	98	96
	20,480	20,387	20,455
<b>Line Loss</b>	<b>5.84%</b>	<b>4.84%</b>	<b>5.44%</b>

*See independent auditor's report*

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM  
SCHEDULE OF UTILITY RATES IN FORCE  
June 30, 2011**

**Residential Rates**

Customer Charge - per month less \$1.71 Hydro allocation credit	\$10.59
Energy Charges - per kwh per month	
First 800 kwh	\$0.08727
Additional kwh	\$0.08646

**General Power Rates**

<b>GSA Part 1</b>	
Customer Charge - per delivery point per month	\$15.74
Energy Charge - per kwh per month	\$0.09677
<b>GSA Part 2</b>	
Customer Charge - per delivery point per month	\$81.34
Demand Charge - per kw per month	
First 50 kw	-
Additional kw	\$11.39
Energy Charge - per kwh per month	
First 15,000 kwh	\$0.09796
Additional kwh	\$0.06001
<b>GSA Part 3</b>	
Customer Charge - per delivery point per month	\$204.68
Demand Charge - per kw per month	
First 1,000 kw	\$10.42
Additional kw	\$10.24
Energy Charge - per kwh per month	\$0.06318
<b>UTM Rates</b>	
Customer Charge - per delivery point per month	\$1,500.00
Administrative Charge	\$350.00
Demand Charge - per kw per month	\$20.42
Energy Charge - per kwh per month	\$0.04913
<b>Clay Co. Rates</b>	
Customer Charge - per delivery point per month	\$1,500.00
Administrative Charge	\$350.00
Demand Charge - per kw per month	
On Peak	\$15.39
Off Peak	\$3.31
Energy Charge - per kwh per month	
On Peak	\$0.08011
Off Peak – first 425 HUD	\$0.04685
Off Peak – next 195 HUD	\$0.02874
Off Peak – over 620 HUD	\$0.01337

GSB, GSC, GSD – no customers currently on these rate classifications

**Outdoor Lighting Rates**

Customer Charge	\$13.15
Energy Charge - per kwh per month	\$0.06495

*See independent auditor's report*

## **INTERNAL CONTROL AND COMPLIANCE SECTION**



Certified Public Accountants

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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  
Weakley County Municipal Electric System  
Martin, Tennessee

We have audited the financial statements of the Weakley County Municipal Electric System, an enterprise fund of Weakley County, Tennessee, as of and for the year ended June 30, 2011, as listed in the table of contents and have issued our report thereon dated September 22, 2011. 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 Weakley County Municipal Electric 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.

Board of Directors  
Weakley County Municipal Electric System

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Weakley County Municipal Electric 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*.

This report is intended solely for the information and use of the board of directors, management, regulatory agencies and the State of Tennessee Comptroller's Office and is not intended to be and should not be used by anyone other than these specified parties.

*Alexander Thompson Arnold PLLC*

Union City, Tennessee  
September 22, 2011