

**BENTON COUNTY ELECTRIC SYSTEM**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEARS ENDED**  
**JUNE 30, 2011 AND 2012**

**BENTON COUNTY ELECTRIC SYSTEM  
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## **INTRODUCTORY SECTION**

**BENTON COUNTY ELECTRIC SYSTEM  
DIRECTORY  
June 30, 2012**

**BOARD MEMBERS**

Shane King  
Sonny Hall  
Ward Plant  
William H. Long  
Hulon Douglas

**MANAGEMENT TEAM**

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

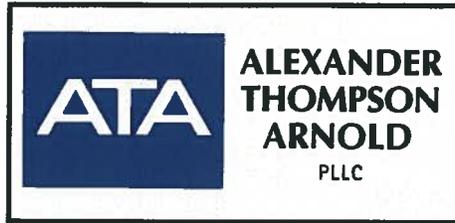
**COUNSEL**

John W. Whitworth  
Camden, Tennessee

**INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Alexander Thompson Arnold PLLC  
Jackson, Tennessee

## **FINANCIAL SECTION**



Certified Public Accountants

[www.atacpa.net](http://www.atacpa.net)

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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, 2012 and 2011, 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 do not purport to, and do not present fairly the financial position of Benton County, Tennessee as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the year then ended 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, 2012 and 2011, 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 1, 2012, 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.

Dyersburg, TN  
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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, other post employment benefits and schedule of funding progress-employee retirement system on pages 4 through 9, 27 and 28 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 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 them.

*Alexander Thompson Arnold PLLC*

Certified Public Accountants  
Jackson, Tennessee  
August 1, 2012

## **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, 2012 and 2011. 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 \$26.60 million and exceeded liabilities in the amount of \$15.95 million (i.e. net assets). Total assets increased by \$2.97 million due primarily to an increase in cash received from the issuance of a new bond, and the increase of capital assets.
- Net assets increased \$488 thousand during the current year due to an operating profit. Unrestricted net assets increased by \$2.10 million due to the System increasing their bonds.
- During fiscal year 2012, the System delivered 198.69 million KWH compared to 210.04 million KWH during the fiscal year 2011. Sales slightly decreased for the year due to an unusual mild winter.
- Operating revenues were \$22.28 million, a decrease from year 2011 in the amount of \$1.22 million or (5.19)%.
- Operating expenses were \$21.69 million, a decrease from year 2011 in the amount of \$137 thousand or (0.67)%.
- The operating profit for the year was \$595 thousand as compared to \$1.67 million during the 2011 fiscal year.
- Ratios of operating income to total operating revenue were 2.67%, 7.10%, and 5.22% for 2012, 2011, and 2010, 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.

## **REQUIRED FINANCIAL STATEMENTS (Cont.)**

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.

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 \$488 thousand and \$1.57 million for the fiscal years ended June 30, 2012 and 2011, respectively. The analysis below focuses on the System's net assets (Tables 1A and 1B) and changes in net assets (Tables 2A and 2B).

**REQUIRED FINANCIAL ANALYSIS (Cont.)**

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

	June 30, 2012	June 30, 2011	Increase (Decrease)	
			\$	%
Current and other assets	\$ 7,878,282	\$ 5,556,429	\$ 2,321,853	41.79%
Capital assets	18,724,655	18,077,122	647,533	3.58%
Total assets	<u>26,602,937</u>	<u>23,633,551</u>	<u>2,969,386</u>	<u>12.56%</u>
Long-term liabilities	6,438,667	4,215,184	2,223,483	52.75%
Other liabilities	4,213,788	3,956,335	257,453	6.51%
Total liabilities	<u>10,652,455</u>	<u>8,171,519</u>	<u>2,480,936</u>	<u>30.36%</u>
Net assets:				
Invested in capital assets, net of related debt	13,822,759	15,486,236	(1,663,477)	-10.74%
Restricted for debt service	601,477	546,792	54,685	10.00%
Unrestricted	1,526,246	(570,996)	2,097,242	-367.30%
Total net assets	<u>\$ 15,950,482</u>	<u>\$ 15,462,032</u>	<u>\$ 488,450</u>	<u>3.16%</u>

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

	June 30, 2011	June 30, 2010	Increase (Decrease)	
			\$	%
Current and other assets	\$ 5,556,429	\$ 4,770,204	\$ 786,225	16.48%
Capital assets	18,077,122	16,896,176	1,180,946	6.99%
Total assets	<u>23,633,551</u>	<u>21,666,380</u>	<u>1,967,171</u>	<u>9.08%</u>
Long-term liabilities	4,215,184	4,423,379	(208,195)	-4.71%
Other liabilities	3,956,335	3,355,751	600,584	17.90%
Total liabilities	<u>8,171,519</u>	<u>7,779,130</u>	<u>392,389</u>	<u>5.04%</u>
Net assets:				
Invested in capital assets, net of related debt	15,486,236	14,025,264	1,460,972	10.42%
Restricted for debt service	546,792	568,527	(21,735)	-3.82%
Unrestricted	(570,996)	(706,541)	135,545	-19.18%
Total net assets	<u>\$ 15,462,032</u>	<u>\$ 13,887,250</u>	<u>\$ 1,574,782</u>	<u>11.34%</u>

The 21.64% increase in assets and 35.40% increase in liabilities over the three year period was due to an increase of the System's bonds payable which caused the System's cash to increase. Net assets over the three year period have increased by 14.50% 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.

## REQUIRED FINANCIAL ANALYSIS (Cont.)

Table 2A

### CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	June 30, 2012	June 30, 2011	Increase (Decrease)	
			\$	%
Operating revenues	\$ 22,283,094	\$ 23,502,805	\$ (1,219,711)	-5.19%
Non-operating revenues	18,412	26,713	(8,301)	-31.07%
Total revenues	<u>22,301,506</u>	<u>23,529,518</u>	<u>(1,228,012)</u>	-5.22%
Cost of sales and service	16,017,068	16,579,351	(562,283)	-3.39%
Operations expense	1,046,480	1,011,336	35,144	3.48%
General and administrative expense	1,764,199	1,626,721	137,478	8.45%
Maintenance expense	1,152,695	1,015,066	137,629	13.56%
Depreciation expense	1,011,658	959,637	52,021	5.42%
Taxes and tax equivalents	695,785	642,561	53,224	8.28%
Non-operating expenses	125,171	120,064	5,107	4.25%
Total expenses	<u>21,813,056</u>	<u>21,954,736</u>	<u>(141,680)</u>	-0.65%
Change in net assets	488,450	1,574,782	(1,086,332)	-68.98%
Beginning net assets	15,462,032	13,887,250	1,574,782	11.34%
Ending net assets	<u>\$ 15,950,482</u>	<u>\$ 15,462,032</u>	<u>\$ 488,450</u>	3.16%

Table 2B

### CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	June 30, 2011	June 30, 2010	Increase (Decrease)	
			\$	%
Operating revenues	\$ 23,502,805	\$ 19,970,415	\$ 3,532,390	17.69%
Non-operating revenues	26,713	21,338	5,375	25.19%
Total revenues	<u>23,529,518</u>	<u>19,991,753</u>	<u>3,537,765</u>	17.70%
Cost of sales and service	16,579,351	13,947,884	2,631,467	18.87%
Operations expense	1,011,336	1,000,001	11,335	1.13%
General and administrative expense	1,626,721	1,443,715	183,006	12.68%
Maintenance expense	1,015,066	1,004,159	10,907	1.09%
Depreciation expense	959,637	931,789	27,848	2.99%
Taxes and tax equivalents	642,561	601,324	41,237	6.86%
Non-operating expenses	120,064	132,922	(12,858)	-9.67%
Total expenses	<u>21,954,736</u>	<u>19,061,794</u>	<u>2,892,942</u>	15.18%
Change in net assets	1,574,782	929,959	644,823	69.34%
Beginning net assets	13,887,250	12,957,291	929,959	7.18%
Ending net assets	<u>\$ 15,462,032</u>	<u>\$ 13,887,250</u>	<u>\$ 1,574,782</u>	11.34%

## REQUIRED FINANCIAL ANALYSIS (Cont.)

Operating revenues showed a 17.70% increase from 2010 to 2011 and a 5.22% decrease from 2011 to 2012. In 2012, the System sales decreased due to an unusual mild winter. Non-operating revenues have had a net decrease of 13.71% over the three year period, due primarily to fluctuating interest rates on certificates of deposits and savings accounts. Expenses have increased by 15.18% from 2010 to 2011 but remained consistent from 2011 to 2012. Ending net assets increased 14.78% over the three year period due to the above mentioned facts.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal year 2012, the system had \$18.72 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 \$1.83 million or 10.82% over the last three years.

The following tables summarize the System's capital assets, net of accumulated depreciation, and changes therein, for the years ended June 30, 2012 and 2011. These changes are presented in detail in Note 3D to the financial statements.

Table 3A

### CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

			Increase (Decrease)	
	June 30, 2012	June 30, 2011	\$	%
Transmission plant	\$ 76,082	\$ 88,511	\$ (12,429)	-14.04%
Distribution plant	15,135,981	14,627,537	508,444	3.48%
General plant	3,019,901	2,299,036	720,865	31.36%
Construction in progress	492,691	1,062,038	(569,347)	-53.61%
Total capital assets	<u>\$ 18,724,655</u>	<u>\$ 18,077,122</u>	<u>\$ 647,533</u>	<u>3.58%</u>

In April 2011, the System had two major storms that caused a substantial amount of damaged which accounts for the majority of the additions. The repairs were accounted for in Construction in Progress in fiscal year 2011 until the work orders were closed in fiscal 2012. The remaining increases were due to substation system upgrades as well as the purchase of various equipment.

Table 3B

### CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

			Increase (Decrease)	
	June 30, 2011	June 30, 2010	\$	%
Transmission plant	\$ 88,511	\$ 101,264	\$ (12,753)	-12.59%
Distribution plant	14,627,537	14,021,120	606,417	4.33%
General plant	2,299,036	2,217,003	82,033	3.70%
Construction in progress	1,062,038	556,789	505,249	90.74%
Total capital assets	<u>\$ 18,077,122</u>	<u>\$ 16,896,176</u>	<u>\$ 1,180,946</u>	<u>6.99%</u>

## **CAPITAL ASSETS AND DEBT ADMINISTRATION (Cont.)**

### **Debt Administration**

The System has outstanding Revenue Bonds of \$4.88 million as of June 30, 2012. Principal payments are due in the upcoming fiscal year in the amount of \$330 thousand with interest payments totaling approximately \$115 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 2013 budget was approved unanimously at the July 2012 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,

	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Current assets:		
Cash on hand	\$ 3,000	\$ 3,000
Cash and cash equivalents on deposit	2,599,308	543,337
Investments	600,000	600,000
Accounts receivable (net of allowance for uncollectibles)	1,643,976	1,618,561
Materials and supplies	281,801	254,022
Prepayments and other current assets	1,524,562	1,423,776
Total current assets	6,652,647	4,442,696
Noncurrent assets:		
Restricted cash, cash equivalents, and investments:		
Cash and cash equivalents on deposit	166,055	153,917
Investments	445,353	400,659
Total restricted assets	611,408	554,576
Other assets:		
Notes receivable - TVA Home Insulation Program	480,458	464,328
Unamortized bond issue costs	133,769	94,829
Total other assets	614,227	559,157
Capital assets:		
Transmission plant	402,959	402,959
Distribution plant	27,210,481	26,179,658
General plant	4,386,599	3,630,323
Construction in progress	492,691	1,062,038
Less: Accumulated depreciation	(13,768,075)	(13,197,856)
Total capital assets (net of accumulated depreciation)	18,724,655	18,077,122
Total noncurrent assets	19,950,290	19,190,855
<b>Total assets</b>	<b>\$ 26,602,937</b>	<b>\$ 23,633,551</b>

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

**BENTON COUNTY ELECTRIC SYSTEM**  
**STATEMENTS OF NET ASSETS**  
June 30,

	<b>2012</b>	<b>2011</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 3,047,945	\$ 2,959,089
Accrued payroll	18,980	19,516
Other accrued expense	18,140	18,365
Accrued OPEB liability	87,825	68,991
Compensated absences	370,542	296,255
Consumers' deposits	660,425	586,335
Total current liabilities	4,203,857	3,948,551
Current liabilities payable from restricted assets:		
Accrued interest	9,931	7,784
Current maturities of long-term debt	330,000	300,000
Total current liabilities payable from restricted assets	339,931	307,784
Noncurrent liabilities:		
Advances from Home Insulation Program	490,692	469,255
Compensated absences	1,046,079	1,105,929
Debt premium	26,896	-
Bonds payable (less current maturities)	4,545,000	2,340,000
Total noncurrent liabilities	6,108,667	3,915,184
<b>Total liabilities</b>	<b>10,652,455</b>	<b>8,171,519</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	13,822,759	15,486,236
Restricted for debt service	601,477	546,792
Unrestricted	1,526,246	(570,996)
<b>Total net assets</b>	<b>\$ 15,950,482</b>	<b>\$ 15,462,032</b>

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

**BENTON COUNTY ELECTRIC SYSTEM**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
For the Years Ended June 30,

	<u>2012</u>	<u>2011</u>
<b>Operating revenues:</b>		
Charges for sales and services	\$ 21,832,531	\$ 23,060,832
Other electric revenue	450,563	441,973
Total operating revenues	<u>22,283,094</u>	<u>23,502,805</u>
<b>Operating expenses:</b>		
Cost of sales and services	16,017,068	16,579,351
Operations expense	1,046,480	1,011,336
General and administrative expense	1,764,199	1,626,721
Maintenance expense	1,152,695	1,015,066
Provision for depreciation	1,011,658	959,637
Taxes and tax equivalents	695,785	642,561
Total operating expenses	<u>21,687,885</u>	<u>21,834,672</u>
Operating income (loss)	<u>595,209</u>	<u>1,668,133</u>
<b>Nonoperating revenues (expenses):</b>		
Interest income	18,412	26,713
Interest expense	(111,661)	(103,300)
Amortization of debt expense	(13,510)	(16,764)
Total nonoperating revenues (expenses)	<u>(106,759)</u>	<u>(93,351)</u>
<b>Change in net assets</b>	<b>488,450</b>	<b>1,574,782</b>
Total net assets - beginning	<u>15,462,032</u>	<u>13,887,250</u>
Total net assets - ending	<u>\$ 15,950,482</u>	<u>\$ 15,462,032</u>

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

**BENTON COUNTY ELECTRIC SYSTEM**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended June 30,

	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities:</b>		
Receipts from customers and users	\$ 22,257,679	\$ 23,314,289
Payments to suppliers	(18,751,764)	(18,722,939)
Payments to employees and for employee benefits	(1,235,877)	(1,096,744)
Payments for in-lieu of tax payments	(695,785)	(642,561)
Customer deposits received	165,290	125,298
Customer deposits refunded	(91,200)	(144,635)
Net cash provided (used) by operating activities	<u>1,648,343</u>	<u>2,832,708</u>
<b>Cash flows from non-capital and related financing activities:</b>		
Advances from TVA	<u>21,437</u>	<u>29,081</u>
Net cash provided (used) by non-capital and related financing activities	<u>21,437</u>	<u>29,081</u>
<b>Cash flows from capital and related financing activities:</b>		
Construction and acquisition of plant	(1,587,234)	(1,930,512)
Plant removal cost	(109,735)	(249,984)
Materials salvaged from retirements	37,778	39,911
Issuance of bonds	3,975,000	-
Principal paid on bonds	(1,740,000)	(290,000)
Issuance costs net of premium discount	(25,554)	-
Interest paid on bonds	(109,514)	(106,139)
Net cash provided (used) by capital and related financing activities	<u>440,741</u>	<u>(2,536,724)</u>
<b>Cash flows from investing activities:</b>		
Purchase of investment	(1,045,353)	(1,000,659)
Proceeds from sale of investments	1,000,659	1,000,659
Issuance of note receivable	(16,130)	(28,869)
Interest earned	<u>18,412</u>	<u>26,713</u>
Net cash provided (used) by investing activities	<u>(42,412)</u>	<u>(2,156)</u>
Net increase (decrease) in cash and cash equivalents	2,068,109	322,909
Cash and cash equivalents - beginning of year	<u>700,254</u>	<u>377,345</u>
<b>Cash and cash equivalents - end of year</b>	<b><u>\$ 2,768,363</u></b>	<b><u>\$ 700,254</u></b>
<b>Cash and cash equivalents:</b>		
Unrestricted cash on hand	\$ 3,000	\$ 3,000
Unrestricted cash and cash equivalents on deposit	2,599,308	543,337
Restricted cash and cash equivalents on deposit	<u>166,055</u>	<u>153,917</u>
<b>Total cash and cash equivalents</b>	<b><u>\$ 2,768,363</u></b>	<b><u>\$ 700,254</u></b>

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

**BENTON COUNTY ELECTRIC SYSTEM**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended June 30,

	<b>2012</b>	<b>2011</b>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ 595,209	\$ 1,668,133
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	1,011,658	959,637
(Increase) decrease in accounts receivable	(25,415)	(188,516)
(Increase) decrease in materials and supplies	(27,779)	(15,616)
(Increase) decrease in prepayments and other current assets	(100,786)	(247,077)
Increase (decrease) in accounts payable and accrued expenses	121,366	636,810
Increase (decrease) in customer deposits	74,090	19,337
<b>Net cash provided (used) by operating activities</b>	<b>\$ 1,648,343</b>	<b>\$ 2,832,708</b>

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

**BENTON COUNTY ELECTRIC SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012 and 2011

**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 possess 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, 2012 and 2011.

**BENTON COUNTY ELECTRIC SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012 and 2011

**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.

**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 are depreciated using the straight line method over the following useful lives:

General plant	5 - 40 years
Transmission 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.

**BENTON COUNTY ELECTRIC SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012 and 2011

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 expenditure 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.

**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.

**BENTON COUNTY ELECTRIC SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012 and 2011

**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, 2012, none of the System's deposits were exposed to custodial credit risk.

**B. Receivables**

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

	June 30,	
	2012	2011
Billed services for utility customers	\$ 1,653,281	\$ 1,624,250
Other receivables for utility services	-	4,329
Allowance for doubtful accounts	(9,305)	(10,018)
<b>Total</b>	<b>\$ 1,643,976</b>	<b>\$ 1,618,561</b>

**C. Restricted Assets**

All deposits required by the 2005 and 2012 Electric Plant Revenue Bonds have been made. Transactions in funds, other than the 2005 and 2012 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.

**BENTON COUNTY ELECTRIC SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012 and 2011

	June 30,	
	2012	2011
The restricted assets consist of the following:		
2000 & 2004 Electric Plant Revenue Bond Funds		
Interest and sinking fund	\$ -	\$ 153,917
Reserve fund	-	400,659
2005 & 2012 Electric Plant Revenue Bond Funds		
Interest and sinking fund	166,055	-
Reserve fund	445,353	-
The total of these funds is represented by:		
Certificates of deposit and bank accounts	\$ 611,408	\$ 554,576

**D. Capital Assets**

Capital asset activity during the years presented was as follows:

Description	Balance at June 30, 2011	Additions	Disposals	Balance at June 30, 2012
<b>Capital assets, not being depreciated</b>				
Transmission plant	\$ 29,495	\$ -	\$ -	\$ 29,495
Distribution plant	49,503	-	-	49,503
General plant	99,330	-	-	99,330
Construction in progress	1,062,038	(569,347)	-	492,691
Total capital assets, not being depreciated	\$ 1,240,366	\$ (569,347)	\$ -	\$ 671,019
<b>Capital assets, being depreciated</b>				
Transmission plant	\$ 373,464	\$ -	\$ -	\$ 373,464
Distribution plant	26,130,155	1,293,071	262,248	27,160,978
General plant	3,530,993	863,511	107,235	4,287,269
Total capital assets being depreciated	30,034,612	2,156,582	369,483	31,821,711
<b>Less accumulated depreciation for:</b>				
Transmission plant	314,448	12,429	-	326,877
Distribution plant	11,552,120	885,557	363,177	12,074,500
General plant	1,331,288	130,643	95,233	1,366,698
Total accumulated depreciation	13,197,856	1,028,629	458,410	13,768,075
Total capital assets, being depreciated, net	16,836,756	1,127,953	(88,927)	18,053,636
Total capital assets, net	\$ 18,077,122	\$ 558,606	\$ (88,927)	\$ 18,724,655

Depreciation expense amounted to \$1,028,629 (including \$16,971 of transportation expense clearing) for the fiscal year ended June 30, 2012 and \$974,495 (including \$14,858 of transportation expense clearing) for the fiscal year ended June 30, 2011.

**BENTON COUNTY ELECTRIC SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012 and 2011

Description	Balance at June 30, 2010	Additions	Disposals	Balance at June 30, 2011
<b>Capital assets, not being depreciated</b>				
Transmission plant	\$ 29,495	\$ -	\$ -	\$ 29,495
Distribution plant	49,503	-	-	49,503
General plant	99,330	-	-	99,330
Construction in progress	556,789	505,249	-	1,062,038
Total capital assets, not being depreciated	<u>\$ 735,117</u>	<u>\$ 505,249</u>	<u>\$ -</u>	<u>\$ 1,240,366</u>
<b>Capital assets, being depreciated</b>				
Transmission plant	\$ 373,464	\$ -	\$ -	\$ 373,464
Distribution plant	25,181,498	1,217,736	269,079	26,130,155
General plant	3,397,669	207,527	74,203	3,530,993
Total capital assets being depreciated	<u>28,952,631</u>	<u>1,425,263</u>	<u>343,282</u>	<u>30,034,612</u>
<b>Less accumulated depreciation for:</b>				
Transmission plant	301,695	12,753	-	314,448
Distribution plant	11,209,881	859,419	517,180	11,552,120
General plant	1,279,996	102,323	51,031	1,331,288
Total accumulated depreciation	<u>12,791,572</u>	<u>974,495</u>	<u>568,211</u>	<u>13,197,856</u>
Total capital assets, being depreciated, net	<u>16,161,059</u>	<u>450,768</u>	<u>(224,929)</u>	<u>16,836,756</u>
Total capital assets, net	<u>\$ 16,896,176</u>	<u>\$ 956,017</u>	<u>\$ (224,929)</u>	<u>\$ 18,077,122</u>

**E. Long-term Debt**

Long-term debt is made up of the following:

	June 30,	
	2012	2011
<b>Revenue Bonds:</b>		
Electric Plant Revenue Bonds, Series 2000, interest at 4.2% to 5.25% due serially through 2020	\$ -	\$ 630,000
Electric Plant Revenue Refunding Bonds, Series 2004, interest at 1.1% to 3.3% due serially through 2016	-	1,060,000
Electric System Revenue Bonds, Series 2005, interest at 3.9% due serially through 2025	900,000	950,000
Electric System Revenue Refunding and Improvement Bonds, Series 2012, interest at 2.0% to 2.5% due serially through 2028	3,975,000	-
Total Revenue Bonds	<u>4,875,000</u>	<u>2,640,000</u>
Total current portion of Revenue Bonds	<u>\$ 330,000</u>	<u>\$ 300,000</u>
Total long-term portion of Revenue Bonds	<u>\$ 4,545,000</u>	<u>\$ 2,340,000</u>

**BENTON COUNTY ELECTRIC SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012 and 2011**

	June 30,	
	2011	2010
<b>Revenue Bonds:</b>		
Electric Plant Revenue Bonds, Series 2000, interest at 4.2% to 5.25% due serially through 2020	\$ 630,000	\$ 675,000
Electric Plant Revenue Refunding Bonds, Series 2004, interest at 1.1% to 3.3% due serially through 2016	1,060,000	1,255,000
Electric System Revenue Bonds, Series 2005, interest at 3.9% due serially through 2025	950,000	1,000,000
<b>Total Revenue Bonds</b>	<b>2,640,000</b>	<b>2,930,000</b>
<b>Total current portion of Revenue Bonds</b>	<b>\$ 300,000</b>	<b>\$ 290,000</b>
<b>Total long-term portion of Revenue Bonds</b>	<b>\$2,340,000</b>	<b>\$2,640,000</b>

On February 14, 2012, Benton County Electric System issued at par \$3,975,000 of electric system revenue refunding bonds, series 2012, for the purpose of refunding \$1,690,000 of then outstanding series 2000 and 2004 bonds. The 2012 bonds bear an interest rate varying between 2.0% and 2.5% and will be repaid in variable amounts, with the final payment due December 1, 2027. The refunded 2000 and 2004 bonds carried an interest rate varying between 1.1% and 5.25% and also were due in variable amounts, with the final payment due December 1, 2021.

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. This bond was replaced by series 2012 bond.

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. This bond was replaced by series 2012 bond.

**BENTON COUNTY ELECTRIC SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012 and 2011

The following is a summary of long-term debt transactions for the years ended June 30, 2012 and 2011.

	Balance at June 30, 2011	Additions	Retirements	Balance at June 30, 2012	Due Within One Year
Revenue bonds payable	\$ 2,640,000	\$ 3,975,000	\$ 1,740,000	\$ 4,875,000	\$ 330,000
Compensated absences	\$ 1,402,184	\$ 139,917	\$ 125,480	\$ 1,416,621	\$ 370,542
Bond premium discount	\$ 49,114	\$ -	\$ 49,114	\$ -	\$ -
Bond premium	\$ -	\$ 27,470	\$ 574	\$ 26,896	\$ -

	Balance at June 30, 2010	Additions	Retirements	Balance at June 30, 2011	Due Within One Year
Revenue bonds payable	\$ 2,930,000	\$ -	\$ 290,000	\$ 2,640,000	\$ 300,000
Compensated absences	\$ 1,317,948	\$ 348,979	\$ 264,743	\$ 1,402,184	\$ 296,255
Bond premium discount	\$ 59,088	\$ -	\$ 9,974	\$ 49,114	\$ 9,974

The scheduled annual requirements for long-term debt at June 30, 2012, including interest of \$943,908 are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 330,000	\$ 115,353	\$ 445,353
2014	315,000	107,857	422,857
2015	325,000	100,365	425,365
2016	330,000	92,675	422,675
2017	345,000	84,737	429,737
2018-2022	1,455,000	315,712	1,770,712
2023-2027	1,500,000	123,772	1,623,772
2028	275,000	3,438	278,438
	<u>\$ 4,875,000</u>	<u>\$ 943,909</u>	<u>\$ 5,818,909</u>

**F. Net Assets**

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

**BENTON COUNTY ELECTRIC SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012 and 2011

	June 30	
	2012	2011
Invested in capital assets, net of related liabilities		
Net property, plant and equipment in service	\$18,724,655	\$18,077,122
Unamortized bond premium (discount)	(26,896)	49,114
Less: Debt as disclosed in Note 3E	(4,875,000)	(2,640,000)
	13,822,759	15,486,236
Restricted for debt service:		
Restricted investments	611,408	554,576
Less: Current liabilities payable from restricted assets	(9,931)	(7,784)
	601,477	546,792
Unrestricted	1,515,989	(570,996)
Total net assets	\$15,940,225	\$15,462,032

**NOTE 4 - OTHER INFORMATION**

**A. Pension Costs**

The following pension information is for the year ended June 30, 2012, with exception of Annual Pension Costs which is presented with June 30, 2011 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 \$1,217,317 with employer contributions of \$83,873 (6.89% of covered wages) and employee contributions of \$60,866. 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 trustee, contributory pension plan. The System funds both the employee and employer portion of the pension plan. Contributions to the plan were \$315,036. The System's payroll for employees covered by the plan for the year ended June 30, 2012 was \$1,181,119 and the total payroll for the year was \$2,484,398.

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.

**BENTON COUNTY ELECTRIC SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012 and 2011**

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, 2011, the System's annual pension cost of \$315,036 for the Plan was equal to the System's actual contributions. The required contribution was determined as part of the October 1, 2011 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.

Three-Year Trend Information

Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Annual Pension Obligation
9/30/2011	\$ 303,879	103.67%	\$ 11,157
9/30/2010	289,409	107.90%	22,876
9/30/2009	289,409	96.19%	(11,023)

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.

**BENTON COUNTY ELECTRIC SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012 and 2011**

**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, 2012, 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 its 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

Components of Net OPEB Obligation:

Annual Required Contribution	\$ 45,904
Interest on Net OPEB Obligation	3,105
Adjustment to Annual Required Contribution	<u>(3,940)</u>
Annual OPEB Cost (Expense)	45,069
Contributions Made	<u>(26,235)</u>
Increase in Net Obligation	\$ 18,834
Net OPEB Obligation (BOY)	\$ 68,991
Net OPEB Obligation (EOY)	\$ 87,825

**BENTON COUNTY ELECTRIC SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012 and 2011**

The System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011-2012 is as follows:

Fiscal Year Ended	Annual OPEB Cost	OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 45,069	58.2%	\$ 87,825
6/30/2011	55,751	40.7%	68,991
6/30/2010	54,743	57.4%	35,928
6/30/2009	53,701	76.5%	12,634

**Funded Status and Funding Progress:** As of July 1, 2011, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$464,547 and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$464,547. The covered payroll (annual payroll of active employees covered by the plan) was \$2,241,936 and the ratio of the UAAL to the covered payroll was 20.72%.

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 are 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, 2011 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, 2011 was 27 years.

**REQUIRED SUPPLEMENTARY INFORMATION**

**BENTON COUNTY ELECTRIC SYSTEM**  
**SCHEDULE OF FUNDING PROGRESS - EMPLOYEE RETIREMENT SYSTEM**  
 June 30, 2012

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)
10/1/2011	\$ 3,571,515	\$ 6,231,628	\$ (2,660,113)	57.31%	\$ 1,181,119	225.22%
10/1/2010	3,329,109	6,047,523	(2,718,414)	55.05%	1,096,760	247.86%
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, 2011. 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.

**BENTON COUNTY ELECTRIC SYSTEM**  
**SCHEDULE OF FUNDING PROGRESS - OTHER POST EMPLOYMENT BENEFITS**  
 June 30, 2012

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)
7/1/2011	\$ -	\$ 464,547	\$ (464,547)	0.00%	\$ 2,241,936	20.72%
7/1/2010	-	587,375	(587,375)	0.00%	2,444,848	24.03%
7/1/2009	-	547,783	(547,783)	0.00%	2,273,088	24.10%
7/1/2008	-	540,601	(540,601)	0.00%	2,153,962	25.10%

The above information is for the year ended June 30, 2011. It is the most current information available.

The information above is presented for all years that information is available.

**OTHER SUPPLEMENTARY INFORMATION SECTION**

**BENTON COUNTY ELECTRIC SYSTEM**  
**SCHEDULES OF OPERATING REVENUES AND EXPENSES**  
**ELECTRIC DEPARTMENT**  
For the Years Ended June 30,

	<u>2012</u>		<u>2011</u>	
	Actual	Percent	Actual	Percent
<b>Operating revenues:</b>				
Charges for sales and services:				
Residential sales	\$12,524,165	56.20	\$14,235,559	60.57
Small lighting and power sales	2,367,069	10.62	2,419,931	10.30
Large lighting and power sales	6,344,912	28.47	5,847,659	24.88
General power credit	(54,599)	(0.25)	(29,156)	(0.12)
Street and athletic lighting sales	226,552	1.02	210,757	0.90
Outdoor lighting	461,396	2.07	442,216	1.88
Uncollectible accounts	(36,964)	(0.17)	(66,134)	(0.28)
<b>Total charges for sales and services</b>	<u>21,832,531</u>	<u>97.97</u>	<u>23,060,832</u>	<u>98.13</u>
Other revenues				
Forfeited discounts	151,378	0.68	165,690	0.70
Miscellaneous service revenue	70,114	0.31	66,600	0.28
Rent from electric property	175,258	0.79	155,287	0.66
Other electric revenue	53,813	0.24	54,396	0.23
<b>Total other revenues</b>	<u>450,563</u>	<u>2.02</u>	<u>441,973</u>	<u>1.87</u>
<b>Total operating revenues</b>	<u><b>\$22,283,094</b></u>	<u><b>99.99</b></u>	<u><b>\$23,502,805</b></u>	<u><b>100.00</b></u>
<b>Operating expenses:</b>				
Cost of sales and services:				
Purchased power	\$16,017,068	71.88	\$16,579,351	70.54
Operations expenses:				
Distribution expenses:				
Station expense	21,958	0.10	17,729	0.08
Overhead line expense	159,309	0.71	174,140	0.74
Street lighting and signal system	4,792	0.02	3,267	0.01
Meter expense	59,278	0.27	68,150	0.29
Customer installations expense	41	-	-	-
Security lighting	12,240	0.05	15,805	0.07
Miscellaneous	209,953	0.94	152,470	0.65
Rents	13,355	0.06	3,932	0.02
<b>Total distribution expenses</b>	<u>480,926</u>	<u>2.15</u>	<u>435,493</u>	<u>1.86</u>
Customer accounts expenses:				
Meter reading expense	119,577	0.54	126,688	0.54
Customer records and collection	434,012	1.95	440,651	1.87
<b>Total customer accounts expenses</b>	<u>\$ 553,589</u>	<u>2.49</u>	<u>\$ 567,339</u>	<u>2.41</u>

*See independent auditor's report*

**BENTON COUNTY ELECTRIC SYSTEM**  
**SCHEDULES OF OPERATING REVENUES AND EXPENSES**  
**ELECTRIC DEPARTMENT**  
For the Years Ended June 30,

	<u>2012</u>		<u>2011</u>	
	Actual	Percent	Actual	Percent
<b>Operating expenses (cont.):</b>				
Operations expenses (cont.):				
Sales expenses:				
Demonstration and selling expense	\$ 11,965	0.05	\$ 8,504	0.04
Sales expense	-	-	-	-
Total sales expenses	<u>11,965</u>	<u>0.05</u>	<u>8,504</u>	<u>0.04</u>
Total operations expenses	<u>1,046,480</u>	<u>4.69</u>	<u>1,011,336</u>	<u>4.31</u>
General and administrative expenses:				
Salaries	442,202	1.98	340,640	1.45
Office supplies and expense	83,487	0.37	74,585	0.32
Outside services employed	145,054	0.65	203,888	0.87
Property Insurance	43,540	0.20	48,820	0.21
Injuries and damages	226,983	1.02	172,314	0.73
Employee pension and benefits	793,675	3.56	756,104	3.22
General advertising	6,238	0.03	4,233	0.02
Miscellaneous	23,020	0.10	26,137	0.11
Total general and administrative expenses	<u>1,764,199</u>	<u>7.91</u>	<u>1,626,721</u>	<u>6.93</u>
Maintenance expenses:				
Distribution expenses:				
Station equipment	13,438	0.06	10,320	0.04
Overhead lines	960,971	4.31	851,234	3.62
Underground lines	1,234	0.01	2,723	0.01
Line transformers	44,043	0.20	29,599	0.13
Street lights and signal system	11,481	0.05	12,974	0.06
Meters	54,800	0.25	49,610	0.21
Security lighting	45,552	0.20	41,956	0.18
Total distribution expenses	<u>1,131,519</u>	<u>5.08</u>	<u>998,416</u>	<u>4.25</u>
General plant and equipment	<u>21,176</u>	<u>0.10</u>	<u>16,650</u>	<u>0.07</u>
Total maintenance expenses	<u>1,152,695</u>	<u>5.18</u>	<u>1,015,066</u>	<u>4.32</u>
Depreciation	<u>1,011,658</u>	<u>4.54</u>	<u>959,637</u>	<u>4.08</u>
Taxes and tax equivalent	<u>695,785</u>	<u>3.12</u>	<u>642,561</u>	<u>2.73</u>
<b>Total operating expenses</b>	<b><u>\$21,687,885</u></b>	<b><u>97.32</u></b>	<b><u>\$21,834,672</u></b>	<b><u>92.91</u></b>

*See independent auditor's report*

**BENTON COUNTY ELECTRIC SYSTEM**  
**SCHEDULE OF LONG-TERM DEBT**  
June 30, 2012

Year Ended June 30,	Electric Plant Revenue Bonds				Total Requirements		
	Series 2005		Series 2012		Principal	Interest	Total
2013	\$ 55,000	\$ 34,028	\$ 275,000	\$ 81,325	\$ 330,000	\$ 115,353	\$ 445,353
2014	55,000	31,882	260,000	75,975	315,000	107,857	422,857
2015	60,000	29,640	265,000	70,725	325,000	100,365	425,365
2016	60,000	27,300	270,000	65,375	330,000	92,675	422,675
2017	65,000	24,862	280,000	59,875	345,000	84,737	429,737
2018	65,000	22,327	210,000	54,975	275,000	77,302	352,302
2019	70,000	19,695	215,000	50,725	285,000	70,420	355,420
2020	70,000	16,965	220,000	46,375	290,000	63,340	353,340
2021	75,000	14,138	225,000	41,925	300,000	56,063	356,063
2022	75,000	11,212	230,000	37,375	305,000	48,587	353,587
2023	80,000	8,190	235,000	32,725	315,000	40,915	355,915
2024	85,000	4,973	245,000	27,619	330,000	32,592	362,592
2025	85,000	1,658	250,000	22,050	335,000	23,708	358,708
2026	-	-	255,000	16,369	255,000	16,369	271,369
2027	-	-	265,000	10,188	265,000	10,188	275,188
2028	-	-	275,000	3,438	275,000	3,438	278,438
	<u>\$ 900,000</u>	<u>\$ 246,870</u>	<u>\$ 3,975,000</u>	<u>\$ 697,039</u>	<u>\$ 4,875,000</u>	<u>\$ 943,909</u>	<u>\$ 5,818,909</u>

*See independent auditor's report*

**BENTON COUNTY ELECTRIC SYSTEM**  
**ELECTRIC RATES IN FORCE**  
June 30, 2012

**Residential rate schedule**

Customer charge - per delivery point per month	\$	18.40
Energy charge - cents per kWh		
First 1,000 kWh per month		10.755¢
Excess over 1,000 kWh per month		8.495¢

**General power schedule**

**GSA1**

Customer charge - per delivery point per month	\$	25.00
Energy charge - cents per kWh		
First 900 kWh per month		13.055¢
Additional kWh per month		9.333¢

**GSA2**

Customer charge per delivery point per month	\$	303.38
Demand charges - per kW per month over 51 kW	\$	12.48
Energy charge - cents per kWh		
First 15,000 kWh per month		6.486¢
Additional kWh per month		6.432¢

**GSA3**

Customer charge per delivery point per month	\$	1,000.00
Demand charges - per kW per month		
First 1,000 kW	\$	14.33
Excess over 1,000 kW	\$	7.81
Excess over 1,000 kW of billing demand per month at \$7.81 per kW, plus an additional \$7.81 per kW per month for each, if any, amount by which the customer's demand exceeds the higher of 1,000 kW or its contract demand.		
Energy charge - cents per kWh		6.390¢

**GSB**

Customer charge per delivery point per month	\$	2,000.00
Demand charges - per kW per month		
Onpeak	\$	16.45
Excess Offpeak	\$	4.00
Excess over contract	\$	16.45
Per kWh for all additional kWh per month		
Onpeak		9.825¢
Offpeak first 425 hours		6.357¢
Offpeak 425-620 hours		4.491¢
Offpeak over 620 Hours		2.906¢

*See independent auditor's report*

**BENTON COUNTY ELECTRIC SYSTEM**  
**ELECTRIC RATES IN FORCE**  
June 30, 2012

**General power schedule (Cont.)**

GSC

Customer charge per delivery point per month	\$ 1,500.00
Demand charges - per kW per month	
Onpeak	\$ 15.94
Excess Offpeak	\$ 3.49
Excess over contract	\$ 15.94
Per kWh for all additional kWh per month	
Onpeak	9.465¢
Offpeak first 425 hours	6.096¢
Offpeak 425-620 hours	4.228¢
Offpeak over 620 Hours	2.643¢

GSD

Customer charge per delivery point per month	\$ 1,500.00
Demand charges - per kW per month	
Onpeak	\$ 15.83
Excess Offpeak	\$ 3.38
Excess over contract	\$ 15.83
Per kWh for all additional kWh per month	
Onpeak	9.312¢
Offpeak first 425 hours	5.838¢
Offpeak 425-620 hours	3.971¢
Offpeak over 620 Hours	2.386¢

**Outdoor lighting rate**

LS

Energy charge - cents per kWh	7.704¢
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**BENTON COUNTY ELECTRIC SYSTEM  
STATISTICAL INFORMATION - UNAUDITED  
For the Years Ended June 30,**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Revenue</b>						
Residential	\$ 12,524,165	\$ 14,235,559	\$ 11,776,854	\$ 12,625,418	\$ 11,220,538	\$ 10,397,985
Commercial	2,367,069	2,419,931	2,177,160	2,262,243	2,050,074	1,913,765
Industrial	6,290,313	5,818,503	5,060,674	5,534,820	5,109,342	4,600,629
Street and outdoor lighting	687,948	652,973	587,463	646,185	575,302	550,505
Other operating	413,599	375,839	368,264	394,857	318,009	338,873
Interest and other revenue	18,412	26,713	21,338	24,389	72,460	118,634
	<u>\$ 22,301,506</u>	<u>\$ 23,529,518</u>	<u>\$ 19,991,753</u>	<u>\$ 21,487,912</u>	<u>\$ 19,345,725</u>	<u>\$ 17,920,391</u>
<b>Expense</b>						
Electric power costs	\$ 16,017,068	\$ 16,579,351	\$ 13,947,884	\$ 15,633,081	\$ 13,917,156	\$ 12,719,331
Other operating expenses	3,963,374	3,653,123	3,447,875	3,679,781	3,546,195	3,520,984
Provision for depreciation	1,011,658	959,637	931,789	916,711	890,151	834,964
Taxes and tax equivalent	695,785	642,561	601,324	607,878	603,032	582,434
Interest and other expense	125,171	120,064	132,922	138,002	145,686	151,938
	<u>21,813,056</u>	<u>21,954,736</u>	<u>19,061,794</u>	<u>20,975,453</u>	<u>19,102,220</u>	<u>17,809,651</u>
<b>Net Income (Loss)</b>	<u>\$ 488,450</u>	<u>\$ 1,574,782</u>	<u>\$ 929,959</u>	<u>\$ 512,459</u>	<u>\$ 243,505</u>	<u>\$ 110,740</u>
<b>Financial</b>						
Plant in service (at original cost)	<u>\$ 32,492,730</u>	<u>\$ 31,274,978</u>	<u>\$ 29,687,748</u>	<u>\$ 28,687,533</u>	<u>\$ 27,945,104</u>	<u>\$ 26,938,214</u>
Bonds outstanding	<u>\$ 4,875,000</u>	<u>\$ 2,640,000</u>	<u>\$ 2,930,000</u>	<u>\$ 3,215,000</u>	<u>\$ 3,485,000</u>	<u>\$ 3,755,000</u>
<b>Power in use - KWH</b>						
Residential	110,759,761	124,013,826	119,705,719	116,740,273	126,522,738	121,358,976
Commercial	18,084,188	18,603,090	18,433,757	17,938,568	19,325,997	18,709,208
Industrial	64,216,342	61,756,490	56,230,753	55,199,877	58,944,435	56,157,259
Other Customers	5,634,610	5,665,535	5,722,240	5,745,613	5,776,364	5,760,558
<b>Total</b>	<u>198,694,901</u>	<u>210,038,941</u>	<u>200,092,469</u>	<u>195,624,331</u>	<u>210,569,534</u>	<u>201,986,001</u>
<b>Number of customers</b>						
Residential	8,517	8,547	8,557	8,573	8,584	8,596
Small commercial	1,574	1,557	1,591	1,554	1,583	1,569
Large commercial	104	116	113	112	114	105
Street and athletic	19	21	21	21	21	20
Outdoor lighting - Code 78	78	83	85	52	55	52
	<u>10,292</u>	<u>10,324</u>	<u>10,367</u>	<u>10,312</u>	<u>10,357</u>	<u>10,342</u>
<b>Line loss</b>	<u>7.01%</u>	<u>4.98%</u>	<u>6.23%</u>	<u>7.15%</u>	<u>5.95%</u>	<u>6.64%</u>

See independent auditor's report

**BENTON COUNTY ELECTRIC SYSTEM**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2012

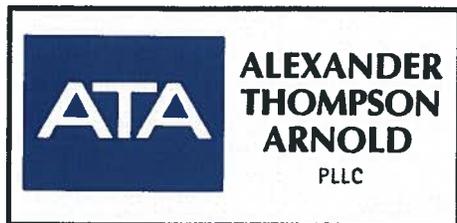
	<u>CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>(Receivable) Unearned 6/30/11</u>	<u>Receipts</u>	<u>Expenses/ Amount Earned</u>	<u>(Receivable) Unearned 6/30/2012</u>
<b>U.S. Department of Homeland Security -</b>						
Federal Emergency Management Agency						
Passed through the State of Tennessee						
Emergency Management Agency						
Public Assistance Grants	97.036	34101-0000001501	\$ (13,249)	\$ 13,249	\$ -	\$ -
Public Assistance Grants	97.036	34101-0000005756	(6,275)	6,275	-	-
Public Assistance Grants	97.036	34101-0000008766	-	41,441	55,255	(13,814)
Public Assistance Grants	97.036	34101-0000009037	-	2,473	259,995	(257,522)
			<u>\$ (19,524)</u>	<u>\$ 63,438</u>	<u>\$ 315,250</u>	<u>\$ (271,336)</u>

The above is reported under the modified accrual basis of accounting whereby revenues are recorded when measurable 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**



Certified Public Accountants

[www.atacpa.net](http://www.atacpa.net)

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AICPA Employee Benefit Plan Audit Quality Center  
Tennessee Society of Certified Public Accountants  
Kentucky Society of Certified Public Accountants

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 year ended June 30, 2012, and have issued our report thereon dated August 1, 2012. 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**

Management of the System is responsible for establishing and maintaining effective internal controls 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.

Dyersburg, TN  
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

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*.

This report is intended solely for the information and use of the Board of Directors, management, regulatory agencies 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 1, 2012

**BENTON COUNTY ELECTRIC SYSTEM**  
**SCHEDULE OF FINDINGS AND RECOMENDATIONS**  
June 30, 2012 and 2011

**FINANCIAL STATEMENT FINDINGS**

None noted for 2012 or 2011