

**WEAKLEY COUNTY
MUNICIPAL ELECTRIC SYSTEM**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2012 AND 2011

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
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INTRODUCTORY SECTION

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
DIRECTORY**
June 30, 2012

Board of Directors

Terry Oliver, Chairman
Johnny Vincent, Vice-chairman
James Westbrook, Jr., Treasurer
Jerry Brigance, Secretary
Ronald D. Arnold
Larry McCartney
Andy N. Page
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, 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 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 do not purport to, and do not, present fairly the financial position of Weakley County, Tennessee, as of June 30, 2012, and the changes in its financial position, or, where applicable, 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 financial position of Weakley County Municipal Electric System as of June 30, 2012 and 2011, and changes in financial position and cash flows thereof 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 18, 2012, 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 22 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 18, 2012

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, 2012. 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 \$46,390,218 and exceeded liabilities of \$11,656,922 in the amount of \$34,733,296 (i.e. net assets). Total assets increased by .57% during the year while total liabilities decreased 3.35%.
- Net assets increased \$664,824 during the current year.
- Operating revenues decreased \$2,845,344 due to decreased retail rates.
- Operating expenses increased \$188,049 primarily due to increases in overhead cost and less new construction work.
- Total expenses were \$43,754,616 a decrease from fiscal year 2011 by \$2,961,597.
- The net income for FY 2012 was \$664,824 as compared to FY 2011 of \$553,592.
- Interest income remained consistent from \$94,499 to \$91,916 with interest rates remaining the same.
- Interest expense decreased from \$91,967 to \$78,098 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 includes: 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. The report also includes an introductory section that contains a directory of the board of directors and key personnel.

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 \$664,824 and \$553,592 for the fiscal years ended June 30, 2012 and 2011, 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, 2012	June 30, 2011	Increase (Decrease)	
Current and other assets	\$ 13,247,024	\$ 12,574,188	\$ 672,836	5.35%
Capital assets	33,143,194	33,554,666	(411,472)	-1.23%
Total assets	<u>46,390,218</u>	<u>46,128,854</u>	<u>261,364</u>	0.57%
Long-term liabilities	1,904,208	2,389,324	(485,116)	-20.30%
Other liabilities	9,752,714	9,671,058	81,656	0.84%
Total liabilities	<u>11,656,922</u>	<u>12,060,382</u>	<u>(403,460)</u>	-3.35%
Invested in capital assets	31,701,486	31,720,342	(18,856)	-0.06%
Unrestricted	3,031,810	2,348,130	683,680	29.12%
Total net assets	<u>\$ 34,733,296</u>	<u>\$ 34,068,472</u>	<u>\$ 664,824</u>	1.95%

Table 1B
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%

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, 2012	June 30, 2011	Increase (Decrease)	
Operating revenues	\$ 43,343,239	\$ 46,188,583	\$ (2,845,344)	-6.16%
Non-operating revenues	1,076,201	1,081,222	(5,021)	-0.46%
Total Revenues	<u>44,419,440</u>	<u>47,269,805</u>	<u>(2,850,365)</u>	-6.03%
Power cost	35,964,772	39,257,427	(3,292,655)	-8.39%
Operations expense	3,825,475	3,637,426	188,049	5.17%
Maintenance expense	1,290,458	1,181,472	108,986	9.22%
Depreciation expense	1,699,247	1,657,463	41,784	2.52%
Taxes and tax equivalents	859,939	850,759	9,180	1.08%
Interest and amortization	114,725	131,666	(16,941)	-12.87%
Total expenses	<u>43,754,616</u>	<u>46,716,213</u>	<u>(2,961,597)</u>	-6.34%
Change in net assets	664,824	553,592	111,232	20.09%
Beginning net assets	34,068,472	33,514,880	553,592	1.65%
Ending net assets	<u>\$ 34,733,296</u>	<u>\$ 34,068,472</u>	<u>\$ 664,824</u>	1.95%

Table 2B
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%

Operating revenues showed a 6.16% decrease from 2011 to 2012 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 decreased by \$5,021 from 2011 to 2012 with most of the decrease attributed to forfeited discounts. Operations expense increased \$188,049 from 2011 to 2012 due to increases in overhead cost and less new construction work. Maintenance expense increased from 2011 to 2012 by \$108,986 or 9.22%. Maintenance expense increased from 2010 to 2011 by \$116,558 or 10.95%. The majority of the increase came from increases in overhead cost and less new construction work.

Capital Assets and Debt Administration

At the end of fiscal year 2012, the System had \$33,143,194 (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 decrease (net of increases and decreases) of \$411,472 or 1.23% for fiscal year 2012 compared to fiscal year 2011 and an increase of \$66,205 or .20% for fiscal year 2011 above fiscal year 2010.

The following tables summarize the System's capital assets, net of accumulated depreciation, and changes therein, for the fiscal years ended June 30, 2012 and 2011, respectively.

Table 3A
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	June 30, 2012	June 30, 2011	Increase (Decrease)	
Transmission plant	\$ 1,773,246	\$ 1,738,145	\$ 35,101	2.02%
Distribution plant	21,172,456	21,561,879	(389,423)	-1.81%
General plant	9,408,136	9,265,909	142,227	1.53%
Construction in progress	579,758	740,407	(160,649)	-21.70%
Unamortized acq. adj.	209,598	248,326	(38,728)	-15.60%
Capital assets, net of acc deprec	<u>\$ 33,143,194</u>	<u>\$ 33,554,666</u>	<u>\$ (411,472)</u>	-1.23%

Table 3B
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%

The System continues to upgrade various substations. The reduction in new construction work accounts for the reduction in distribution plant because accumulated depreciation continues while plant additions have slowed. The reduction in new construction work also accounts for the reduction in construction in progress.

Debt Administration

The System has long-term debt of \$1,441,708 in fiscal year 2012. Monthly payments made during fiscal year 2012 reduced the principal by \$392,616. The debt was obtained from First State Bank for construction of our new facility.

Economic Factors and Next Year's Budget and Rates

The System's electric supplier, TVA, increased 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 2013 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, 11181 Tennessee 22, Martin, TN 38237.

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

June 30, 2012 and 2011

	2012	2011
ASSETS		
Current assets:		
Cash and working funds	\$ 7,554,230	\$ 6,399,152
Accounts receivable - consumers, net	2,636,913	2,791,475
Accounts receivable - other	56,493	54,962
Rents receivable	112,148	109,764
Materials and supplies	421,041	475,802
Prepayments	59,950	59,679
Total current assets	10,840,775	9,890,834
Non-current assets:		
Renewal and replacement funds	587	587
Revolving loan fund	136,178	90,927
Prepaid purchased power - TVA	76,125	206,625
Conservation loans receivable	1,498,151	1,552,507
Note receivable - grant funds	225,000	270,000
Note receivable - USDA intermediary loan	470,208	562,708
Capital assets		
Electric plant in service - at cost	60,281,642	59,522,157
Work in progress	579,758	740,407
Electric plant acquisition adjustment	209,598	248,326
Less: accumulated depreciation	(27,927,804)	(26,956,224)
Net capital assets	33,143,194	33,554,666
Total non-current assets	35,549,443	36,238,020
Total assets	46,390,218	46,128,854
LIABILITIES		
Current liabilities:		
Accounts payable	6,511,726	6,452,326
Customer deposits	1,100,497	994,092
Accrued salaries and leave	556,087	563,013
Other current and accrued liabilities	34,622	31,814
Current portion of long-term note payable	156,047	274,176
Total current liabilities	8,358,979	8,315,421
Non-current liabilities:		
Note payable, net of current portion	1,285,661	1,560,148
USDA loan payable	462,500	555,000
Conservation loans payable	1,523,784	1,572,861
Interest payable - conservation loans	8,207	8,661
Deferred interest income	17,791	48,291
Total non-current liabilities	3,297,943	3,744,961
Total liabilities	11,656,922	12,060,382
NET ASSETS		
Invested in capital assets, net of related debt	31,701,486	31,720,342
Unrestricted	3,031,810	2,348,130
Total net assets	\$ 34,733,296	\$ 34,068,472

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, 2012 and 2011

	2012	Percent	2011	Percent
Operating revenues				
Sales of electric energy				
Residential and rural	\$ 24,171,364	54.59	\$ 26,744,341	56.77
Small commercial	4,378,554	9.89	4,354,881	9.24
Large commercial	13,618,636	30.76	13,881,332	29.46
Street and outdoor lighting	1,132,826	2.56	1,145,648	2.43
Total sales of electric energy	<u>43,301,380</u>	<u>97.80</u>	<u>46,126,202</u>	<u>97.90</u>
Other electric revenues				
Consumer forfeited discounts	293,388	0.66	332,390	0.71
Rent from electric property	531,483	1.20	504,215	1.07
Service charge - meter sets	86,937	0.20	84,003	0.18
Miscellaneous	62,476	0.14	66,115	0.14
Total other electric revenues	<u>974,284</u>	<u>2.20</u>	<u>986,723</u>	<u>2.10</u>
Total operating revenues	<u>44,275,664</u>	<u>100.00</u>	<u>47,112,925</u>	<u>100.00</u>
Operating expenses				
Purchased power	35,962,672	81.22	39,259,527	83.33
Operation expense	3,783,613	8.55	3,575,044	7.59
Maintenance expense	1,290,459	2.91	1,181,470	2.51
Depreciation and amortization	1,737,975	3.93	1,696,191	3.60
Tax equivalent	88,669	0.20	88,608	0.19
Payroll taxes	86,271	0.19	82,781	0.17
Total operating expenses	<u>42,949,659</u>	<u>97.00</u>	<u>45,883,621</u>	<u>97.39</u>
Operating income	<u>1,326,005</u>	<u>3.00</u>	<u>1,229,304</u>	<u>2.61</u>
Non-operating revenues (expenses)				
Income from investments	91,916	0.21	94,499	0.20
Gain on sale of capital assets	10,000	0.02	-	-
Miscellaneous non-operating income	-	-	1,125	-
Interest on long-term debt	(73,950)	(0.17)	(91,967)	(0.20)
Other interest expense	(4,148)	(0.01)	-	-
Total non-operating revenues (expenses)	<u>23,818</u>	<u>0.05</u>	<u>3,657</u>	<u>-</u>
Transfers				
Transfer to General Fund	(684,999)	(1.55)	(679,369)	(1.44)
Change in net assets	<u>664,824</u>	<u>1.50</u>	<u>553,592</u>	<u>1.17</u>
Net assets, beginning of year	<u>34,068,472</u>		<u>33,514,880</u>	
Net assets, end of year	<u>\$ 34,733,296</u>		<u>\$ 34,068,472</u>	

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, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Cash received from customers	\$ 44,426,311	\$ 46,969,740
Cash payments to suppliers for goods and services	(37,726,679)	(37,699,165)
Cash payments to employees for services	(2,954,291)	(2,935,876)
Net cash received (advanced) on conservation loans receivable	54,356	(108,585)
Net cash proceeds from (payments on) conservation loans payable	(49,531)	107,088
Cash received from customer deposits, net of refunds	106,405	88,065
Net cash provided by operating activities	3,856,571	6,421,267
Cash flows from non-capital financing activities		
Transfer to General Fund	(684,999)	(679,369)
Payments on USDA loan payable	(92,500)	(92,500)
Interest paid on customer deposits	(4,148)	-
Miscellaneous non-operating income	-	1,125
Net cash used by non-capital financing activities	(781,647)	(770,744)
Cash flows from capital and related financing activities		
Additions to plant	(1,518,684)	(1,770,405)
Proceeds from sale of capital assets	15,000	-
Removal cost	(133,761)	(189,966)
Interest paid on long-term debt	(73,950)	(91,967)
Principal paid on long-term debt	(392,616)	(370,648)
Net cash used by capital and related financing activities	(2,104,011)	(2,422,986)
Cash flows from investing activities		
Interest received	91,916	94,499
Payments received on notes receivable	137,500	137,500
Net cash provided by investing activities	229,416	231,999
Net increase in cash and cash equivalents	1,200,329	3,459,536
Cash and cash equivalents - beginning	6,490,666	3,031,130
Cash and cash equivalents - ending	\$ 7,690,995	\$ 6,490,666
Cash and cash equivalents are presented in the balance sheet as follows:		
Cash and working funds	\$ 7,554,230	\$ 6,399,152
Revolving loan fund	136,178	90,927
Renewal and replacement funds	587	587
	\$ 7,690,995	\$ 6,490,666

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, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Operating income	\$ 1,326,005	\$ 1,229,304
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	1,888,529	1,819,082
Amortization of prepaid purchased power	130,500	130,500
Change in:		
Accounts receivable	153,031	(141,513)
Rents receivable	(2,384)	(1,672)
Material and supplies	225,149	82,658
Transportation clearing	97	330
Prepayments	(271)	8,441
Conservation loans receivable	54,356	(108,585)
Accounts payable	59,400	3,190,178
Customer deposits	106,405	88,065
Accrued salaries and leave	(6,926)	43,406
Other current and accrued liabilities	2,711	4,485
Conservation loans payable	(49,531)	107,088
Deferred credits	(30,500)	(30,500)
 Net cash provided by operating activities	 \$ 3,856,571	 \$ 6,421,267

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

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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, 2012 and 2011

C. Assets, Liabilities, and Net Assets

Cash and cash equivalents

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, 2012 and 2011, was \$41,859 and \$62,380, 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 current year, there were 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, 2012, consisted of \$1,699,247 charged to depreciation expense and \$150,554 cleared through other accounts, for a total of \$1,849,801. 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. 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, 2012 and 2011, 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, 2012 and 2011, was \$22,820 and \$21,837, 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, 2012 and 2011

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

The System's policies limit investments to those instruments allowed by applicable state laws. State statutes 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.

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned to it. 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. 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, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, was \$684,999 and \$679,369 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, 2012 and 2011

D. Capital Assets

Capital asset activity for the years ended June 30, 2012 and 2011, was as follows:

Description	Balance at July 1, 2011	Additions	Disposals and Other	Balance at June 30, 2012
Capital assets, not being depreciated				
Transmission plant	\$ 100,307	\$ -	\$ -	\$ 100,307
Distribution plant	111,975	-	-	111,975
General plant	306,631	-	(5,000)	301,631
Construction work in progress	<u>740,407</u>	<u>-</u>	<u>(160,649)</u>	<u>579,758</u>
Total capital assets not being depreciated	<u>1,259,320</u>	<u>-</u>	<u>(165,649)</u>	<u>1,093,671</u>
Capital assets, being depreciated				
Transmission plant	4,837,954	81,598	(40,601)	4,878,951
Distribution plant	41,631,228	931,161	(422,043)	42,140,346
General plant	12,534,062	666,574	(452,204)	12,748,432
Electric plant acquisition adjustment	<u>248,326</u>	<u>-</u>	<u>(38,728)</u>	<u>209,598</u>
Total capital assets being depreciated	<u>59,251,570</u>	<u>1,679,333</u>	<u>(953,576)</u>	<u>59,977,327</u>
Less accumulated depreciation				
Transmission plant	3,200,115	47,867	(41,970)	3,206,012
Distribution plant	20,181,327	1,352,656	(454,114)	21,079,869
General plant	<u>3,574,782</u>	<u>449,278</u>	<u>(382,137)</u>	<u>3,641,923</u>
Total accumulated depreciation	<u>26,956,224</u>	<u>1,849,801</u>	<u>(878,221)</u>	<u>27,927,804</u>
Total capital assets being depreciated, net	<u>32,295,346</u>	<u>(170,468)</u>	<u>(75,355)</u>	<u>32,049,523</u>
Total capital assets, net	<u>\$ 33,554,666</u>	<u>\$ (170,468)</u>	<u>\$ (241,004)</u>	<u>\$ 33,143,194</u>

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	<u>680,512</u>	<u>59,895</u>	<u>-</u>	<u>740,407</u>
Total capital assets not being depreciated	<u>1,198,925</u>	<u>60,395</u>	<u>-</u>	<u>1,259,320</u>

continued on next page

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

Description	Balance at July 1, 2010	Additions	Disposals and Other	Balance at June 30, 2011
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	6/30/12 Balance	6/30/11 Balance
82112076	11/17/2008	11/17/2020	4.45%	\$18,607	\$1,441,708	\$1,709,131
92112453	04/28/2009	04/24/2012	3.30%	\$19,635	-	125,193
					<u>\$1,441,708</u>	<u>\$1,834,324</u>

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

Year Ending	Principal	Interest
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	186,842	36,447
June 30, 2018 – 2021	586,328	57,164
Total	<u>\$1,441,708</u>	<u>\$318,232</u>

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

Changes in long-term debt during the years ended June 30, 2012 and 2011, are summarized as follows:

	Balance 7/01/11	Proceeds	Payments	Balance 6/30/12	Due within one year
Note No. 82112076	\$1,709,131	\$ -	\$ 267,423	\$1,441,708	\$ 156,047
Note No. 92112453	125,193	-	125,193	-	-
Total	<u>\$1,834,324</u>	<u>\$ -</u>	<u>\$ 392,616</u>	<u>\$1,441,708</u>	<u>\$ 156,047</u>

	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, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Funding Policy

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

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

Weakley County Municipal Electric System is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2011, (the most recent year available) was 18.81% 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, 2011, (the most recent year available) Weakley County Municipal Electric System's annual pension cost of \$518,658 to TCRS was equal to the System's required and actual contributions. The required contribution was determined as part of the July 1, 2009 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 3.0% annual rate of inflation, (c) 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 (d) 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 ten-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, 2009 was 20 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
6/30/11	\$518,658	100.00%	\$0
6/30/10	\$485,085	100.00%	\$0
6/30/09	\$502,885	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 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.

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 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%

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, 2012**

(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; therefore, only the two most recent valuations available are presented.

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OTHER SUPPLEMENTARY INFORMATION SECTION

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

For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>Percent</u>	<u>2011</u>	<u>Percent</u>
Transmission expense				
Overhead wire expense	\$ 7,456	0.02	\$ 4,001	0.01
Station expense	<u>37,292</u>	<u>0.08</u>	<u>24,729</u>	<u>0.05</u>
Total	<u>44,748</u>	<u>0.10</u>	<u>28,730</u>	<u>0.06</u>
Distribution expense				
Supervision and engineering	176,992	0.40	129,939	0.28
Station expense	34,251	0.08	33,475	0.07
Overhead line expense	674,883	1.52	684,267	1.45
Underground line expense	40,652	0.09	42,648	0.09
Street lighting and signal systems	11,718	0.03	7,685	0.02
Removing and resetting meters	225,340	0.51	169,654	0.36
Services on customers' premises	53,340	0.12	52,763	0.11
Miscellaneous distribution expense	37,984	0.09	11,907	0.03
Rents	<u>22,820</u>	<u>0.05</u>	<u>21,837</u>	<u>0.05</u>
Total	<u>1,277,980</u>	<u>2.89</u>	<u>1,154,175</u>	<u>2.46</u>
Customer accounts expense				
Supervision and accounting	18,702	0.04	18,259	0.04
Meter reading	258,929	0.58	218,857	0.46
Records and collection	<u>713,926</u>	<u>1.61</u>	<u>679,598</u>	<u>1.44</u>
Total	<u>991,557</u>	<u>2.23</u>	<u>916,714</u>	<u>1.94</u>
Customer service and sales expense				
Supervision	12,468	0.03	12,183	0.03
Customer assistance	35,246	0.08	35,155	0.07
Miscellaneous sales expense	<u>112,261</u>	<u>0.25</u>	<u>107,771</u>	<u>0.23</u>
Total	<u>159,975</u>	<u>0.36</u>	<u>155,109</u>	<u>0.33</u>
Administrative and general expense				
Salaries	284,496	0.64	287,930	0.61
Office supplies and expense	114,152	0.26	111,948	0.24
Outside services	31,589	0.07	47,680	0.10
Insurance	49,819	0.11	51,076	0.11
Injuries and damages	153,966	0.35	162,965	0.35
Employee pension and benefits	595,836	1.35	592,100	1.26
Duplicate miscellaneous credits	-	-	(3,097)	(0.01)
Dues	40,991	0.09	39,403	0.08
Miscellaneous	<u>38,504</u>	<u>0.10</u>	<u>30,311</u>	<u>0.06</u>
Total	<u>1,309,353</u>	<u>2.97</u>	<u>1,320,316</u>	<u>2.80</u>
Total operation expense	<u>\$ 3,783,613</u>	<u>8.55</u>	<u>\$ 3,575,044</u>	<u>7.59</u>

See independent auditor's report

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
SCHEDULES OF MAINTENANCE EXPENSE
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>Percent</u>	<u>2011</u>	<u>Percent</u>
Transmission maintenance				
Station equipment	\$ 9,299	0.02	\$ 3,494	0.01
Overhead lines	<u>28,796</u>	<u>0.07</u>	<u>23,446</u>	<u>0.05</u>
Total	<u>38,095</u>	<u>0.09</u>	<u>26,940</u>	<u>0.06</u>
Distribution maintenance				
Station equipment	77,791	0.18	27,414	0.06
Overhead lines	862,228	1.95	826,358	1.75
Underground lines	26,053	0.06	13,300	0.03
Line transformers and devices	61,783	0.14	103,266	0.22
Street lights and signal systems	16,801	0.04	11,746	0.02
Meters	40,533	0.09	32,107	0.07
Security lights	33,839	0.08	33,599	0.07
Miscellaneous distribution maintenance	<u>38,974</u>	<u>0.06</u>	<u>14,315</u>	<u>0.04</u>
Total	<u>1,158,002</u>	<u>2.60</u>	<u>1,062,105</u>	<u>2.26</u>
Administrative and general maintenance				
Structures and improvements	73,454	0.17	80,804	0.17
Communications equipment	17,508	0.04	9,636	0.02
Fiber optic	<u>3,400</u>	<u>0.01</u>	<u>1,985</u>	<u>-</u>
Total	<u>94,362</u>	<u>0.22</u>	<u>92,425</u>	<u>0.19</u>
Total maintenance expense	<u>\$1,290,459</u>	<u>2.91</u>	<u>\$1,181,470</u>	<u>2.51</u>

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

<u>Grantor Agency/ Pass-through Entity/ Program Name</u>	<u>CFDA #</u>	<u>Grant Number</u>	<u>Balance July 1, 2011</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Adjustments</u>	<u>Balance June 30, 2012</u>
Federal Emergency Management Agency Public Assistance Grants	97.036	FEMA-1821-DR-TN	\$ (127,475)	\$ 132,636	\$ -	\$ (5,161)	\$ -
		FEMA-1979-DR-TN	-	113,822	151,763	-	(37,941)
		FEMA-1974-DR-TN	-	172,491	229,988	-	(57,497)
			<u>\$ (127,475)</u>	<u>\$ 418,949</u>	<u>\$ 381,751</u>	<u>\$ (5,161)</u>	<u>\$ (95,438) *</u>

* 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.

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WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
SCHEDULE OF DEBT SERVICE REQUIREMENTS
BY INDIVIDUAL ISSUE
June 30, 2012

<u>Year Ending June 30,</u>	<u>Note #82112076</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
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	186,427	9,442	195,869
	<u>\$ 1,441,708</u>	<u>\$ 317,191</u>	<u>\$ 1,758,899</u>

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

	FOR THE YEARS ENDED JUNE 30,		
	2012	2011	2010
Revenue			
Residential	\$ 24,213,223	\$ 26,806,721	\$ 23,328,645
Small commercial	4,378,554	4,354,881	3,996,346
Large commercial	13,618,636	13,881,332	12,399,044
Street and athletic lighting	352,879	362,596	328,030
Outdoor lighting	779,947	783,052	724,057
Other electric revenue	974,284	986,723	925,383
Interest and other income	91,916	94,499	94,191
	<u>44,409,439</u>	<u>47,269,804</u>	<u>41,795,696</u>
Expense			
Electric power costs	35,962,672	39,259,527	33,351,608
Other operating expenses	5,115,931	4,818,894	4,699,642
Depreciation and amortization	1,737,975	1,696,191	1,474,931
Taxes and tax equivalent	859,939	850,758	850,974
Interest and other expense	68,098	90,842	100,630
	<u>43,744,615</u>	<u>46,716,212</u>	<u>40,477,785</u>
Change in net assets	<u>\$ 664,824</u>	<u>\$ 553,592</u>	<u>\$ 1,317,911</u>
Capital assets			
Plant in service (at original cost)	<u>\$ 60,281,642</u>	<u>\$ 59,522,157</u>	<u>\$ 58,439,424</u>
Power in use - KWH			
Residential	255,342,990	290,839,593	279,351,206
Small commercial	37,410,190	38,181,917	38,080,963
Large commercial	146,391,080	152,387,484	149,462,341
Street and athletic lighting	4,048,013	4,177,914	4,191,936
Outdoor lighting	6,461,605	6,603,170	6,594,365
Total	<u>449,653,878</u>	<u>492,190,078</u>	<u>477,680,811</u>
Number of customers			
Residential	16,105	16,267	16,344
Small commercial	3,903	3,746	3,580
Large commercial	281	286	280
Street and athletic lighting	82	84	85
Outdoor lighting	87	97	98
	<u>20,458</u>	<u>20,480</u>	<u>20,387</u>
Line Loss	<u>5.18%</u>	<u>5.84%</u>	<u>4.84%</u>

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**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
SCHEDULE OF UTILITY RATES IN FORCE
June 30, 2012**

Residential Rates

Customer Charge - per month less \$1.60 Hydro allocation credit	\$10.59
Energy Charges - per kwh per month	
First 800 kwh	\$0.08900
Additional kwh	\$0.08819

General Power Rates

GSA Part 1	
Customer Charge - per delivery point per month	\$15.74
Energy Charge - per kwh per month	\$0.09861
GSA Part 2	
Customer Charge - per delivery point per month	\$81.34
Demand Charge - per kw per month	
First 50 kw	-
Additional kw	\$11.69
Energy Charge - per kwh per month	
First 15,000 kwh	\$0.09980
Additional kwh	\$0.06093
GSA Part 3	
Customer Charge - per delivery point per month	\$204.68
Demand Charge - per kw per month	
First 1,000 kw	\$10.72
Additional kw	\$10.54
Energy Charge - per kwh per month	\$0.06417
UTM Rates	
Customer Charge - per delivery point per month	\$1,500.00
Administrative Charge	\$350.00
Demand Charge - per kw per month	\$21.02
Energy Charge - per kwh per month	\$0.04983
Clay Co. Rates	
Customer Charge - per delivery point per month	\$1,500.00
Administrative Charge	\$350.00
Demand Charge - per kw per month	
On Peak	\$15.84
Off Peak	\$3.39
Energy Charge - per kwh per month	
On Peak	\$0.08177
Off Peak – first 425 HUD	\$0.04748
Off Peak – next 195 HUD	\$0.02882
Off Peak – over 620 HUD	\$0.01297

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

Outdoor Lighting Rates

Customer Charge	\$13.15
Energy Charge - per kwh per month	\$0.06572

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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, 2012, as listed in the table of contents and have issued our report thereon dated September 18, 2012. Our report disclosed that the financial statements present only the Weakley County Municipal Electric System enterprise fund and do not purport to, and do not, present fairly the financial position of Weakley County, Tennessee, as of June 30, 2012, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. 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 Weakley County Municipal Electric System is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

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

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

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 18, 2012