BENTON COUNTY ELECTRIC SYSTEM

FINANCIAL STATEMENTS AND

SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEARS ENDED

JUNE 30, 2012 AND 2013

BENTON COUNTY ELECTRIC SYSTEM
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INTRODUCTORY SECTION

BENTON COUNTY ELECTRIC SYSTEM
DIRECTORY
June 30, 2013

BOARD MEMBERS

Shane King
Sonny Hall
Ward Plant
William H. Long
Bradley Blackburn

MANAGEMENT TEAM

Raymond A. Barnes, General Manager
Glenda Carter, 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

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Independent Auditor's Report

Board of Directors
Benton County Electric System
Camden, Tennessee

Report on the Financial Statements

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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Benton County Electric System enterprise fund and do not purport to, and do not, present fairly the financial position of Benton County, Tennessee, as of June 30, 2013 and 2012, the changes in its financial position or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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 5 through 10, 28 and 29 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The introductory section and other supplementary information section as listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The other supplementary information section as listed in the Table of Contents, except that which is marked unaudited, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information section as listed in the Table of Contents, except that which has been marked unaudited, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and the information marked unaudited in the other supplementary information section, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2013 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* in considering the System's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Certified Public Accountants
Jackson, Tennessee
August 1, 2013

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, 2013 and 2012. 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 $26.68 million and exceeded liabilities in the amount of $16.31 million (i.e. net position). Total assets increased by $80 thousand due primarily to an increase in of capital assets.
- Net position increased $357 thousand during the current year due to an operating profit. Unrestricted net assets decreased by $2.16 million due to the System increasing their bonds in the previous year in order to purchase a new AMI/AMR system.
- During fiscal year 2013, the System delivered 202.76 million KWH compared to 198.69 million KWH during the fiscal year 2012.
- Operating revenues were $22.88 million, an increase from year 2012 in the amount of $599 thousand or 2.69%.
- Operating expenses were $21.86 million, an increase from year 2012 in the amount of $188 thousand or 0.86%.
- The operating profit for the year was $1.01 million as compared to $595 thousand during the 2012 fiscal year.
- Ratios of operating income to total operating revenue were 4.39%, 2.67%, and 7.10% for 2013, 2012, and 2011, 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 four sections: 1) the introductory section, 2) the financial section, 3) the other supplementary information section, and 4) 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, and the required supplementary information. The other supplementary information section includes selected financial and operational information The internal control and compliance section includes the report on internal control and compliance. These sections make up the financial report presented here.

REQUIRED FINANCIAL STATEMENTS

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

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

The *Statement of Net Position* presents the financial position of the System on a full accrual historical cost basis. The statement includes all of the System's assets, liabilities and deferred inflows/outflows of resources with the differences reported as net position, 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 Position* presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position 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 Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the System's activities in a way that will help answer this question. These two statements report the net position of the System, and the changes in the net position. Net position is one way to measure the financial health or financial position of the System. Over time, increases or decreases in the System's net position 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 position increased by $357 thousand and $488 thousand for the fiscal years ended June 30, 2013 and 2012, respectively. The analysis below focuses on the System's net position (Tables 1A and 1B) and changes in net position (Tables 2A and 2B).

REQUIRED FINANCIAL ANALYSIS (Cont.)

Table 1A
CONDENSED STATEMENT OF NET POSITION

	June 30, 2013	June 30, 2012	Increase (Decrease) $	%
Current and other assets	$ 5,798,847	$ 7,878,282	$ (2,079,435)	-26.39%
Capital assets	20,883,806	18,724,655	2,159,151	11.53%
Total assets	26,682,653	26,602,937	79,716	0.30%
Long-term liabilities	6,243,459	6,438,667	(195,208)	-3.03%
Other liabilities	4,131,793	4,213,788	(81,995)	-1.95%
Total liabilities	10,375,252	10,652,455	(277,203)	-2.60%
Net position:				
Net investment in capital assets	16,313,634	13,822,759	2,490,875	18.02%
Restricted for debt service	629,195	601,477	27,718	4.61%
Unrestricted	(635,428)	1,526,246	(2,161,674)	-141.63%
Total net position	$ 16,307,401	$ 15,950,482	$ 356,919	2.24%

Table 1B
CONDENSED STATEMENT OF NET POSITION

	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	26,602,937	23,633,551	2,969,386	12.56%
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	10,652,455	8,171,519	2,480,936	30.36%
Net position:				
Net investment in capital assets	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 position	$ 15,950,482	$ 15,462,032	$ 488,450	3.16%

The 12.90% increase in assets and 26.96% increase in liabilities over the three year period were due to an increase of the System's bonds payable which caused the System's cash to increase in fiscal year 2012. In fiscal year 2013, they spent the cash from the bonds on an AMI/AMR system upgrade which is in capital assets. Net position over the three year period has increased by 5.46% due to gross profits each year.

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

REQUIRED FINANCIAL ANALYSIS (Cont.)

Table 2A

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	June 30, 2013	June 30, 2012	Increase (Decrease) $	%
Operating revenues	$ 22,882,043	$ 22,283,094	$ 598,949	2.69%
Non-operating revenues	11,046	18,412	(7,366)	-40.01%
Total revenues	22,893,089	22,301,506	591,583	2.65%
Cost of sales and service	16,183,165	16,017,068	166,097	1.04%
Operations expense	1,087,610	1,046,480	41,130	3.93%
General and administrative expense	1,741,597	1,764,199	(22,602)	-1.28%
Maintenance expense	1,097,578	1,152,695	(55,117)	-4.78%
Depreciation expense	1,057,445	1,011,658	45,787	4.53%
Taxes and tax equivalents	708,977	695,785	13,192	1.90%
Non-operating expenses	123,255	125,171	(1,916)	-1.53%
Total expenses	21,999,627	21,813,056	186,571	0.86%
Income before extraordinary item	893,462	-	893,462	100.00%
Extraordinary item	536,543	-	536,543	100.00%
Change in net position	356,919	488,450	(131,531)	-26.93%
Beginning net position	15,950,482	15,462,032	488,450	3.16%
Ending net position	$ 16,307,401	$ 15,950,482	$ 356,919	2.24%

Table 2B

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	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	22,301,506	23,529,518	(1,228,012)	-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	21,813,056	21,954,736	(141,680)	-0.65%
Change in net position	488,450	1,574,782	(1,086,332)	-68.98%
Beginning net position	15,462,032	13,887,250	1,574,782	11.34%
Ending net position	$ 15,950,482	$ 15,462,032	$ 488,450	3.16%

REQUIRED FINANCIAL ANALYSIS (Cont.)

Operating revenues showed a 5.19% decrease from 2011 to 2012 and a 2.69% increase from 2012 to 2013. In 2012, the System sales decreased due to an unusual mild winter. Non-operating revenues have had a net decrease of 58.65% over the three year period, due primarily to fluctuating interest rates on certificates of deposits and savings accounts. Expenses remained consistent from 2011 to 2013. Ending net position increased 5.46% over the three year period due to the above mentioned facts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2013, the system had $20.88 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 $2.81 million or 15.53% 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, 2013 and 2012. 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, 2013	June 30, 2012	$	%
Transmission plant	$ 73,091	$ 76,082	$ (2,991)	-3.93%
Distribution plant	17,629,899	15,135,981	2,493,918	16.48%
General plant	3,024,726	3,019,901	4,825	0.16%
Construction in progress	156,090	492,691	(336,601)	-68.32%
Total capital assets	$ 20,883,806	$ 18,724,655	$ 2,159,151	11.53%

In 2013, the System installed an AMI/AMR metering system and also had two system upgrades. Both of these contributed to an increase in distribution plant and reduced construction in progress. The total capital assets increase was due to closing the construction work orders associated with these improvements and allocating the totals to plant additions.

Table 3B

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	$ 18,724,655	$ 18,077,122	$ 647,533	3.58%

CAPITAL ASSETS AND DEBT ADMINISTRATION (Cont.)

Debt Administration

The System has outstanding Revenue Bonds of $4.55 million as of June 30, 2013. Principal payments are due in the upcoming fiscal year in the amount of $315 thousand with interest payments totaling approximately $108 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 2013, the System enacted an increase in rates in January, 2013, that was reflected in an increase in the customer charge of their electric bills. The rate increase was implemented because of the Local Rate Adjustment as approved from TVA in the amount of $582,615. The fiscal year 2014 budget was approved unanimously at the July 2013 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 POSITION
June 30,

	2013	2012
Assets		
Current assets:		
Cash on hand	$ 3,000	$ 3,000
Cash and cash equivalents on deposit	706,779	2,599,308
Investments	600,000	600,000
Accounts receivable (net of allowance for uncollectibles)	1,547,144	1,643,976
Materials and supplies	273,353	281,801
Prepayments and other current assets	1,356,156	1,524,562
Total current assets	4,486,432	6,652,647
Noncurrent assets:		
Restricted cash, cash equivalents, and investments:		
Cash and cash equivalents on deposit	193,136	166,055
Investments	445,353	445,353
Total restricted assets	638,489	611,408
Other assets:		
Notes receivable - TVA Home Insulation Program	548,885	480,458
Unamortized bond issue costs	125,041	133,769
Total other assets	673,926	614,227
Capital assets:		
Transmission plant	402,959	402,959
Distribution plant	29,568,927	27,210,481
General plant	4,469,925	4,386,599
Construction in progress	156,090	492,691
Less: Accumulated depreciation	(13,714,095)	(13,768,075)
Total capital assets (net of accumulated depreciation)	20,883,806	18,724,655
Total noncurrent assets	22,196,221	19,950,290
Total assets	**$ 26,682,653**	**$ 26,602,937**

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

BENTON COUNTY ELECTRIC SYSTEM
STATEMENTS OF NET POSITION
June 30,

		2013		2012
Liabilities				
Current liabilities:				
Accounts payable	$	2,858,771	$	3,047,945
Accrued payroll		18,852		18,980
Other accrued expense		8,970		18,140
Accrued OPEB liability		115,564		87,825
Compensated absences		371,502		370,542
Consumers' deposits		748,840		660,425
Total current liabilities		4,122,499		4,203,857
Current liabilities payable from restricted assets:				
Accrued interest		9,294		9,931
Current maturities of long-term debt		315,000		330,000
Total current liabilities payable from restricted assets		324,294		339,931
Noncurrent liabilities:				
Advances from Home Insulation Program		558,783		490,692
Compensated absences		1,114,504		1,046,079
Debt premium		25,172		26,896
Bonds payable (less current maturities)		4,230,000		4,545,000
Total noncurrent liabilities		5,928,459		6,108,667
Total liabilities		**10,375,252**		**10,652,455**
Net Position				
Net investment in capital assets		16,313,634		13,822,759
Restricted for debt service		629,195		601,477
Unrestricted		(635,428)		1,526,246
Total net position	**$**	**16,307,401**	**$**	**15,950,482**

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

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

	2013	2012
Operating revenues:		
Charges for sales and services	$ 22,335,448	$ 21,832,531
Other electric revenue	546,595	450,563
Total operating revenues	22,882,043	22,283,094
Operating expenses:		
Cost of sales and services	16,183,165	16,017,068
Operations expense	1,087,610	1,046,480
General and administrative expense	1,741,597	1,764,199
Maintenance expense	1,097,578	1,152,695
Provision for depreciation	1,057,445	1,011,658
Taxes and tax equivalents	708,977	695,785
Total operating expenses	21,876,372	21,687,885
Operating income (loss)	1,005,671	595,209
Nonoperating revenues (expenses):		
Interest income	11,046	18,412
Interest expense	(116,251)	(111,661)
Amortization of debt expense	(7,004)	(13,510)
Total nonoperating revenues (expenses)	(112,209)	(106,759)
Income before extraordinary item	893,462	488,450
Extraordinary item	(536,543)	-
Change in net position	**356,919**	**488,450**
Total net position - beginning	15,950,482	15,462,032
Total net position - ending	$ 16,307,401	$ 15,950,482

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,

		2013		2012
Cash flows from operating activities:				
Receipts from customers and users	$	22,978,875	$	22,257,679
Payments to suppliers		(19,010,005)		(18,751,764)
Payments to employees and for employee benefits		(1,244,339)		(1,235,877)
Payments for in-lieu of tax payments		(708,977)		(695,785)
Customer deposits received		198,365		165,290
Customer deposits refunded		109,950		(91,200)
Net cash provided (used) by operating activities		2,323,869		1,648,343
Cash flows from non-capital and related financing activities:				
Advances from TVA		68,091		21,437
Net cash provided (used) by non-capital and related financing activitie		68,091		21,437
Cash flows from capital and related financing activities:				
Construction and acquisition of plant		(3,653,166)		(1,587,234)
Plant removal cost		(150,715)		(109,735)
Materials salvaged from retirements		50,742		37,778
Issuance of bonds		-		3,975,000
Principal paid on bonds		(330,000)		(1,740,000)
Issuance costs net of premium discount		-		(25,554)
Interest paid on bonds		(116,888)		(109,514)
Net cash provided (used) by capital and related financing activities		(4,200,027)		440,741
Cash flows from investing activities:				
Purchase of investment		-		(1,045,353)
Proceeds from sale of investments		-		1,000,659
Issuance of note receivable		(68,427)		(16,130)
Interest earned		11,046		18,412
Net cash provided (used) by investing activities		(57,381)		(42,412)
Net increase (decrease) in cash and cash equivalents		(1,865,448)		2,068,109
Cash and cash equivalents - beginning of year		2,768,363		700,254
Cash and cash equivalents - end of year	**$**	**902,915**	**$**	**2,768,363**
Cash and cash equivalents:				
Unrestricted cash on hand	$	3,000	$	3,000
Unrestricted cash and cash equivalents on deposit		706,779		2,599,308
Restricted cash and cash equivalents on deposit		193,136		166,055
Total cash and cash equivalents	**$**	**902,915**	**$**	**2,768,363**

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,

		2013		2012
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	$	1,005,671	$	595,209
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense		1,057,445		1,011,658
(Increase) decrease in accounts receivable		96,832		(25,415)
(Increase) decrease in materials and supplies		8,448		(27,779)
(Increase) decrease in prepayments and other current assets		168,406		(100,786)
Increase (decrease) in accounts payable and accrued expenses		(101,348)		121,366
Increase (decrease) in customer deposits		88,415		74,090
Net cash provided (used) by operating activities	$	2,323,869	$	1,648,343

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The System's financial statements are reported using the economic resources measurement focus and 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 accounting principles generally accepted in the United States of America as defined by the *Governmental Accounting Standards Board* (GASB).

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 Position

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, 2013 and 2012.

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 statement of net position 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
Transmisssion plant	28 - 33 years
Distribution plant	16 - 40 years

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

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

Deferred Outflows/Inflows of Resources
During the year ended June 30, 2013, the System adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of the statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The System currently has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The System does not have any items that qualify for reporting in this category as of June 30, 2013.

Net Position Flow Assumption
Sometimes the System will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the System policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Net Position
Equity is classified as net position and displayed in the following three components:

- Net Investment in Capital Assets – 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.

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent amounts and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from the estimates that were used.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

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

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial Credit Risk
The System's policies limit deposits and investments to those instruments allowed by applicable state laws and described below. State statute requires that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the System's agent in the System's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the System to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities and the state pooled investment fund. 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, 2013, 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,	
	2013	2012
Billed services for utility customers	$ 1,555,744	$ 1,653,281
Allowance for doubtful accounts	(8,600)	(9,305)
Total	$ 1,547,144	$ 1,643,976

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.

	June 30,	
	2013	2012
The restricted assets consist of the following:		
2005 and 2012 Electric Plant Revenue Bond Funds		
Interest and sinking fund	$ 193,136	$ 166,055
Reserve fund	445,353	445,353
The total of these funds is represented by:		
Certificates of deposit and bank accounts	$ 638,489	$ 611,408

D. Capital Assets

Capital asset activity during the years presented was as follows:

Description	Balance at June 30, 2012	Additions	Disposals	Balance at June 30, 2013
Capital assets, not being depreciated				
Transmission plant	$ 29,495	$ -	$ -	$ 29,495
Distribution plant	49,503	-	-	49,503
General plant	99,330	10,512	-	109,842
Construction in progress	492,691	(336,601)	-	156,090
Total capital assets, not being depreciated	$ 671,019	$ (326,089)	$ -	$ 344,930
Capital assets, being depreciated				
Transmission plant	$ 373,464	$ -	$ -	$ 373,464
Distribution plant	27,160,978	3,828,752	1,470,306	29,519,424
General plant	4,287,269	150,503	77,689	4,360,083
Total capital assets being depreciated	31,821,711	3,979,255	1,547,995	34,252,971
Less accumulated deprecation for:				
Transmission plant	326,877	2,991	-	329,868
Distribution plant	12,074,500	921,879	1,057,351	11,939,028
General plant	1,366,698	147,712	69,211	1,445,199
Total accumulated depreciation	13,768,075	1,072,582	1,126,562	13,714,095
Total capital assets, being depreciated, net	18,053,636	2,906,673	421,433	20,538,876
Total capital assets, net	$ 18,724,655	$ 2,580,584	$ 421,433	$ 20,883,806

Depreciation expense amounted to $1,072,582 (including $15,137 of transportation expense clearing) for the fiscal year ended June 30, 2013 and $1,028,629 (including $16,971 of transportation expense clearing) for the fiscal year ended June 30, 2012.

Description	Balance at June 30, 2011	Additions	Disposals	Balance at June 30, 2012
Capital assets, not being depreciated				
Transmission plant	$ 29,495	$ -	$ -	$ 29,495
Distribution plant	49,503	-	-	49,503
General plant	99,330	-	-	99,330
Construction in progress	1,062,038	(569,347)	-	492,691
Total capital assets, not being depreciated	$ 1,240,366	$ (569,347)	$ -	$ 671,019
Capital assets, being depreciated				
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
Less accumulated deprecation for:				
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

E. Long-term Debt

Long-term debt is made up of the following:

	June 30, 2013	June 30, 2012
Revenue Bonds:		
Electric System Revenue Bonds, Series 2005, interest at 3.9% due serially through 2025	$ 845,000	$ 900,000
Electric System Revenue Refunding and Improvement Bonds, Series 2012, interest at 2.0% to 2.5% due serially through 2028	3,700,000	3,975,000
Total Revenue Bonds	4,545,000	4,875,000
Total current portion of Revenue Bonds	$ 315,000	$ 330,000
Total long-term portion of Revenue Bonds	$ 4,230,000	$ 4,545,000

	June 30,	
	2012	2011
Revenue Bonds:		
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	4,875,000	2,640,000
Total current portion of Revenue Bonds	$ 330,000	$ 300,000
Total long-term portion of Revenue Bonds	$ 4,545,000	$ 2,340,000

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, 2028. 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.

The following is a summary of long-term debt transactions for the years ended June 30, 2013 and 2012.

	Balance at June 30, 2012	Additions	Retirements	Balance at June 30, 2013	Due Within One Year
Revenue bonds payable	$ 4,875,000	$ -	$ 330,000	$ 4,545,000	$ 315,000
Compensated absences	$ 1,416,539	$ 201,346	$ 131,879	$ 1,486,006	$ 371,502
Bond premiums	$ 26,896	$ -	$ 1,724	$ 25,172	$ -

	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	$ 139,835	$ 125,480	$ 1,416,539	$ 370,542
Bond premiums discount	$ 49,114	$ -	$ 49,114	$ -	$ -
Bond premiums	$ -	$ 27,470	$ 574	$ 26,896	$ -

The scheduled annual requirements for long-term debt at June 30, 2013, including interest of $828,556 are as follows:

Year Ending June 30,	Principal	Interest	Total
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	275,000	77,302	352,302
2019-2023	1,495,000	279,325	1,774,325
2024-2029	1,460,000	86,295	1,546,295
	$ 4,545,000	$ 828,556	$ 5,373,556

F. Net Position

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

	June 30	
	2013	2012
Net investment in capital assets		
Net property, plant and equipment in service	$20,883,806	$18,724,655
Unamortized bond premium (discount)	(25,172)	(26,896)
Less: Debt as disclosed in Note 3E	(4,545,000)	(4,875,000)
	16,313,634	13,822,759
Restricted for debt service:		
Restricted investments	638,489	611,408
Less: Current liabilities payable from restricted assets	(9,294)	(9,931)
	629,195	601,477
Unrestricted	(635,428)	1,526,246
Total net postion	$16,307,401	$15,950,482

NOTE 4 - OTHER INFORMATION

A. Pension Costs

The following pension information is for the year ended June 30, 2013, with exception of Annual Pension Costs which is presented with June 30, 2012 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 $1,338,838 with employer contributions of $91,072 (6.80% of covered wages) and employee contributions of $66,965. Additional disclosures pertaining to the System's employees may be obtained by referring to the Benton County Comprehensive Annual Financial Report..

Central Service Plan (CSA)

The System participates in a multi-employer pension plan sponsored by Central Service Association (the Plan). Substantially all employees are covered by this trusteed, contributory pension plan. The System funds both the employee and employer portion of the pension plan. Contributions to the plan were $330,786. The System's payroll for employees covered by the plan for the year ended June 30, 2013 was $1,011,686 and the total payroll for the year was $2,459,935.

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

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

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

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

Annual Pension Costs: For the year ended June 30, 2012, the System's annual pension cost of $330,786 for the Plan was equal to the System's actual contributions. The required contribution was determined as part of the October 1, 2012 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
9/30/2012	$ 303,879	108.85%	$ 26,907
9/30/2011	303,879	103.67%	11,157
9/30/2010	289,409	107.90%	22,876

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

B. Power Contract

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

C. Risk Management

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2013, 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	$ 46,964
Interest on Net OPEB Obligation	3,952
Adjustment to Annual Required Contribution	(5,080)
Annual OPEB Cost (Expense)	45,836
Contributions Made	(18,097)
Increase in Net Obligation	$ 27,739
Net OPEB Obligation (BOY)	$ 87,825
Net OPEB Obligation (EOY)	$ 115,564

The System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012-2013 is a follows:

Fiscal Year Ended	Annual OPEB Cost	OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	$ 45,836	39.5%	$115,564
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

Funded Status and Funding Progress: As of July 1, 2012, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was $477,829 and the actuarial value of assets was $0 resulting in an unfunded actuarial accrued liability (UAAL) of $477,829. The covered payroll (annual payroll of active employees covered by the plan) was $2,183,460 and the ratio of the UAAL to the covered payroll was 21.9%.

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, 2012 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, 2012 was 26 years.

E. Extraordinary Item

In 2013, the System retired all old meters in the amount of $953,493 which exceeded the balance in the associated accumulated depreciation account by $536,543. This resulted in the extraordinary loss that is reflected on, the statement of revenues, expenses and changes in net position on page 12.

REQUIRED SUPPLEMENTARY INFORMATION

BENTON COUNTY ELECTRIC SYSTEM
SCHEDULE OF FUNDING PROGRESS - EMPLOYEE RETIREMENT SYSTEM
June 30, 2013

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)
10/1/2012	$ 3,599,794	$ 6,226,022	$ (2,626,228)	57.82%	$ 1,011,686	259.59%
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, 2012. 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, 2013

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)
7/1/2012	$ -	$ 477,829	$ (477,829)	0.00%	$ 2,183,460	21.88%
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.

See independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION SECTION

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

	2013		2012	
	Actual	Percent	Actual	Percent
Operating revenues:				
Charges for sales and services:				
Residential sales	$ 12,980,704	56.73	$ 12,524,165	56.20
Small lighting and power sales	2,411,290	10.54	2,367,069	10.62
Large lighting and power sales	6,340,763	27.71	6,344,912	28.47
General power credit	(54,088)	(0.24)	(54,599)	(0.25)
Street and athletic lighting sales	226,743	0.99	226,552	1.02
Outdoor lighting	467,610	2.04	461,396	2.07
Uncollectible accounts	(37,574)	(0.16)	(36,964)	(0.17)
Total charges for sales and services	22,335,448	97.62	21,832,531	97.98
Other revenues				
Forfeited discounts	160,211	0.70	151,378	0.68
Miscellaneous service revenue	103,233	0.45	70,114	0.31
Rent from electric property	213,752	0.93	175,258	0.79
Other electric revenue	69,399	0.30	53,813	0.24
Total other revenues	546,595	2.38	450,563	2.02
Total operating revenues	**$ 22,882,043**	**100.00**	**$ 22,283,094**	**100.00**
Operating expenses:				
Cost of sales and services:				
Purchased power	$ 16,183,165	70.72	$ 16,017,068	71.88
Operations expenses:				
Distribution expenses:				
Station expense	53,968	0.24	21,958	0.10
Overhead line expense	164,212	0.72	159,309	0.71
Street lighting and signal system	5,298	0.02	4,792	0.02
Meter expense	98,109	0.43	59,278	0.27
Customer installations expense	-	-	41	-
Security lighting	12,535	0.05	12,240	0.05
Miscellaneous	195,202	0.85	209,953	0.94
Rents	14,608	0.06	13,355	0.06
Total distribution expenses	543,932	2.37	480,926	2.15
Customer accounts expenses:				
Meter reading expense	121,492	0.53	119,577	0.54
Customer records and collection	413,559	1.81	434,012	1.95
Total customer accounts expenses	$ 535,051	2.34	$ 553,589	2.49

See independent auditor's report

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

	2013 Actual	2013 Percent	2012 Actual	2012 Percent
Operating expenses (cont.):				
Operations expenses (cont.):				
Sales expenses:				
Demonstration and selling expense	$ 8,627	0.04	$ 11,965	0.05
Total sales expenses	8,627	0.04	11,965	0.05
Total operations expenses	1,087,610	4.75	1,046,480	4.69
General and administrative expenses:				
Salaries	419,451	1.83	442,202	1.98
Office supplies and expense	86,284	0.38	83,487	0.37
Outside services employed	136,581	0.60	145,054	0.65
Property Insurance	44,254	0.19	43,540	0.20
Injuries and damages	195,764	0.86	226,983	1.02
Employee pension and benefits	824,888	3.60	793,675	3.56
General advertising	6,678	0.03	6,238	0.03
Miscellaneous	27,697	0.12	23,020	0.10
Total general and administrative expenses	1,741,597	7.61	1,764,199	7.91
Maintenance expenses:				
Distribution expenses:				
Station equipment	17,122	0.07	13,438	0.06
Overhead lines	909,675	3.98	960,971	4.31
Underground lines	8,485	0.04	1,234	0.01
Line transformers	41,832	0.18	44,043	0.20
Street lights and signal system	12,080	0.05	11,481	0.05
Meters	57,470	0.25	54,800	0.25
Security lighting	30,198	0.13	45,552	0.20
Total distribution expenses	1,076,862	4.70	1,131,519	5.08
General plant and equipment	20,716	0.09	21,176	0.10
Total maintenance expenses	1,097,578	4.79	1,152,695	5.18
Depreciation	1,057,445	4.62	1,011,658	4.54
Taxes and tax equivalent	708,977	3.10	695,785	3.12
Total operating expenses	**$ 21,876,372**	**95.59**	**$ 21,687,885**	**97.32**

See independent auditor's report

BENTON COUNTY ELECTRIC SYSTEM
SCHEDULE OF LONG-TERM DEBT
June 30, 2013

	Electric Plant Revenue Bonds				Total Requirements		
Year Ended	Series 2005		Series 2012				
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Total
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
	$ 845,000	$ 212,842	$ 3,700,000	$ 615,714	$ 4,545,000	$ 828,556	$ 5,373,556

See independent auditor's report

BENTON COUNTY ELECTRIC SYSTEM
ELECTRIC RATES IN FORCE
June 30, 2013

Residential rate schedule		
Customer charge - per delivery point per month	$	20.53
Energy charge - cents per kWh		
First 1,000 kWh per month		10.847¢
Excess over 1,000 kWh per month		8.346¢
General power schedule		
GSA1		
Customer charge - per delivery point per month	$	27.66
Energy charge - cents per kWh		
First 900 kWh per month		13.304¢
Additional kWh per month		9.186¢
GSA2		
Customer charge per delivery point per month	$	335.70
Demand charges - per kW per month over 51 kW	$	12.92
Energy charge - cents per kWh		
First 15,000 kWh per month		6.339¢
Additional kWh per month		6.288¢
GSA3		
Customer charge per delivery point per month	$	1,106.52
Demand charges - per kW per month		
First 1,000 kW	$	15.02
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		6.246¢
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		4.951¢
Offpeak first 425 hours		4.737¢
Offpeak 425-620 hours		2.871¢
Offpeak over 620 Hours		1.286¢

See independent auditor's report

BENTON COUNTY ELECTRIC SYSTEM
ELECTRIC RATES IN FORCE
June 30, 2013

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		9.323¢
Offpeak first 425 hours		5.954¢
Offpeak 425-620 hours		4.086¢
Offpeak over 620 Hours		2.501¢
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		9.170¢
Offpeak first 425 hours		5.696¢
Offpeak 425-620 hours		3.829¢
Offpeak over 620 Hours		2.244¢
Outdoor lighting rate		
LS		
Energy charge - cents per kWh		7.667¢

See independent auditor's report

BENTON COUNTY ELECTRIC SYSTEM
STATISTICAL INFORMATION - UNAUDITED
For the Years Ended June 30,

	2013	2012	2011	2010	2009	2008
Revenue						
Residential	$ 12,980,704	$ 12,524,165	$ 14,235,559	$ 11,776,854	$ 12,625,418	$ 11,220,538
Commercial	2,411,290	2,367,069	2,419,931	2,177,160	2,262,243	2,050,074
Industrial	6,286,675	6,290,313	5,818,503	5,060,674	5,534,820	5,109,342
Street and outdoor lighting	694,353	687,948	652,973	587,463	646,185	575,302
Other operating	509,021	413,599	375,839	368,264	394,857	318,009
Interest and other revenue	11,046	18,412	26,713	21,338	24,389	72,460
	$ 22,893,089	$ 22,301,506	$ 23,529,518	$ 19,991,753	$ 21,487,912	$ 19,345,725
Expense						
Electric power costs	$ 16,183,165	$ 16,017,068	$ 16,579,351	$ 13,947,884	$ 15,633,081	$ 13,917,156
Other operating expenses	3,926,785	3,963,374	3,653,123	3,447,875	3,679,781	3,546,195
Provision for depreciation	1,057,445	1,011,658	959,637	931,789	916,711	890,151
Taxes and tax equivalent	708,977	695,785	642,561	601,324	607,878	603,032
Extraordinary item	536,543	-	-	-	-	-
Interest and other expense	123,255	125,171	120,064	132,922	138,002	145,686
	22,536,170	21,813,056	21,954,736	19,061,794	20,975,453	19,102,220
Net Income (Loss)	$ 356,919	$ 488,450	$ 1,574,782	$ 929,959	$ 512,459	$ 243,505
Financial						
Plant in service (at original cost)	$ 34,597,901	$ 32,492,730	$ 31,274,978	$ 29,687,748	$ 28,687,533	$ 27,945,104
Bonds outstanding	$ 4,545,000	$ 4,875,000	$ 2,640,000	$ 2,930,000	$ 3,215,000	$ 3,485,000
Power in use - KWH						
Residential	114,667,003	110,759,761	124,013,826	119,705,719	116,740,273	126,522,738
Commercial	18,431,849	18,084,188	18,603,090	18,433,757	17,938,568	19,325,997
Industrial	64,019,395	64,216,342	61,756,490	56,230,753	55,199,877	58,944,435
Other Customers	5,639,032	5,634,610	5,665,535	5,722,240	5,745,613	5,776,364
Total	202,757,279	198,694,901	210,038,941	200,092,469	195,624,331	210,569,534
Number of customers						
Residential	8,577	8,517	8,547	8,557	8,573	8,584
Small commercial	1,580	1,574	1,557	1,591	1,554	1,583
Large commercial	107	104	116	113	112	114
Street and athletic	17	19	21	21	21	21
Outdoor lighting - Code 78	69	78	83	85	52	55
	10,350	10,292	10,324	10,367	10,312	10,357
Line loss	5.47%	7.01%	4.98%	6.23%	7.15%	5.95%

BENTON COUNTY ELECTRIC SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

	CFDA Number	Agency or Pass-through Number	(Receivable) Unearned 6/30/2012	Receipts	Expenses/ Amount Earned	(Receivable) Unearned 6/30/2013
U.S. Department of Homeland Security -						
Federal Emergency Management Agency						
Passed through the State of Tennessee						
Emergency Management Agency						
Public Assistance Grants	97.036	34101-0000008766	$ (13,814)	$ 13,814	$ -	$ -
Public Assistance Grants	97.036	34101-0000009037	(257,522)	192,523	-	(64,999)
			$ (290,860)	$ 225,861	$ -	$ (64,999)

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

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

See independent auditor's report

INTERNAL CONTROL AND COMPLIANCE SECTION

Members of:
American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
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Independent Auditor's 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, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated August 1, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.*

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing* Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alexander Thompson Arnold PLLC

Certified Public Accountants
Jackson, Tennessee
August 1, 2013

BENTON COUNTY ELECTRIC SYSTEM
SCHEDULE OF FINDINGS AND RECOMENDATIONS
June 30, 2013 and 2012

FINANCIAL STATEMENT FINDINGS

None noted for 2013 or 2012