

**WEAKLEY COUNTY
MUNICIPAL ELECTRIC SYSTEM**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2013 AND 2012

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
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INTRODUCTORY SECTION

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
DIRECTORY**
June 30, 2013

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

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Independent Auditor's Report

Board of Directors
Weakley County Municipal Electric System
Martin, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Weakley County Municipal Electric System, an enterprise fund of Weakley County, Tennessee, as of and for the years ended June 30, 2013 and 2012, and the related notes to the 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 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 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 financial position of Weakley County Municipal Electric System as of June 30, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

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, 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.

As discussed in Note 3C to the financial statements, the System reported a prior period adjustment to correct beginning net position. During the current year, TVA notified the System that errors had been made in billing the System in prior years for power at one of its substations. Beginning net position was decreased by \$350,980 to correct these errors. 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 on pages 5 through 10 and the schedule of funding progress on page 23 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 Weakley County Municipal Electric System's basic financial statements. The introductory section and supplementary and other information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of operation expense, maintenance expense, expenditures of federal awards, 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 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 schedules of operation expense, maintenance expense, expenditures of federal awards, and utility rates in force are 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2013, on our consideration of 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* in considering Weakley County Municipal Electric System's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Union City, Tennessee
September 26, 2013

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, 2013. 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 \$45,147,134 and exceeded liabilities of \$9,907,678 in the amount of \$35,239,456 (i.e. net position). Total assets decreased by 2.68% during the year while total liabilities decreased 17.49%.
- Net position increased \$857,140 during the current year.
- Operating revenues increased \$710,448 due to increased retail sales.
- Operating expenses increased \$98,627 primarily due to increases in overhead cost and less new construction work.
- Total expenses were \$44,271,587 an increase from fiscal year 2012 by \$516,971.
- The net income for FY 2013 was \$857,140 as compared to FY 2012 of \$664,824.
- Interest income decreased from \$91,916 to \$68,101 due to decrease in interest rates.
- Interest expense decreased from \$78,098 to \$18,893 due to payoff of long-term debt for new facility.
- A prior period adjustment of \$350,980 was made to reflect underbilling of power cost by TVA at one of our substations.
- The System had twelve monthly rate adjustments. Monthly fuel cost adjustments are received from TVA. These adjustments were a pass-thru rate adjustment.

Overview of the Annual Financial Report

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

Required Financial Statements

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

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

The *Statement of Net Position* presents the financial position of the System on a full accrual historical cost basis. The statement of net position 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 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.

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 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 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 position increased by \$857,140 and \$664,824 for the fiscal years ended June 30, 2013 and 2012, respectively. The analysis below focuses on the System's net position (Table 1) and changes in net position (Table 2) during the year.

Table 1A
CONDENSED STATEMENT OF NET POSITION

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Increase (Decrease)</u>	
Current and other assets	\$ 12,607,545	\$ 13,247,024	\$ (639,479)	-4.83%
Capital assets	<u>32,539,589</u>	<u>33,143,194</u>	<u>(603,605)</u>	-1.82%
Total assets	<u>45,147,134</u>	<u>46,390,218</u>	<u>(1,243,084)</u>	-2.68%
Long-term liabilities	370,000	1,904,208	(1,534,208)	-80.57%
Other liabilities	<u>9,537,678</u>	<u>10,103,694</u>	<u>(566,016)</u>	-5.60%
Total liabilities	<u>9,907,678</u>	<u>12,007,902</u>	<u>(2,100,224)</u>	-17.49%
Invested in capital assets	32,539,589	31,701,486	838,103	2.64%
Unrestricted	<u>2,699,867</u>	<u>2,680,830</u>	<u>19,037</u>	0.71%
Total net position	<u>\$ 35,239,456</u>	<u>\$ 34,382,316</u>	<u>\$ 857,140</u>	2.49%

Table 1B
CONDENSED STATEMENT OF NET POSITION

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Increase (Decrease)</u>	
Current and other assets	\$ 13,247,024	\$ 12,574,188	\$ 672,836	5.35%
Capital assets	<u>33,143,194</u>	<u>33,554,666</u>	<u>(411,472)</u>	-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	<u>10,103,694</u>	<u>9,671,058</u>	<u>432,636</u>	4.47%
Total liabilities	<u>12,007,902</u>	<u>12,060,382</u>	<u>(52,480)</u>	-0.44%
Invested in capital assets	31,701,486	31,720,342	(18,856)	-0.06%
Unrestricted	<u>2,680,830</u>	<u>2,348,130</u>	<u>332,700</u>	14.17%
Total net position	<u>\$ 34,382,316</u>	<u>\$ 34,068,472</u>	<u>\$ 313,844</u>	0.92%

The decrease in capital assets is from the sale of office buildings. The decrease in long-term liabilities is from the payoff of our building loan for our new facility. The overall increase in total net position 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 position can be determined by reviewing the following condensed *Statement of Revenues, Expenses, and Changes in Net Position* for the years.

Table 2A

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	June 30, 2013	June 30, 2012	Increase (Decrease)	
Operating revenues	\$ 44,053,687	\$ 43,343,239	\$ 710,448	1.64%
Non-operating revenues	1,075,040	1,076,201	(1,161)	-0.11%
Total Revenues	<u>45,128,727</u>	<u>44,419,440</u>	<u>709,287</u>	1.60%
Power cost	36,407,633	35,964,772	442,861	1.23%
Operations expense	3,924,102	3,825,475	98,627	2.58%
Maintenance expense	1,275,403	1,290,458	(15,055)	-1.17%
Depreciation expense	1,721,278	1,699,247	22,031	1.30%
Taxes and tax equivalents	885,550	859,939	25,611	2.98%
Interest and amortization	57,621	114,725	(57,104)	-49.77%
Total expenses	<u>44,271,587</u>	<u>43,754,616</u>	<u>516,971</u>	1.18%
Change in net position	857,140	664,824	192,316	28.93%
Beginning net position	34,382,316	34,068,472	313,844	0.92%
Prior Period Adjustment	-	(350,980)	350,980	100.00%
Ending net position	<u>\$ 35,239,456</u>	<u>\$ 34,382,316</u>	<u>\$ 857,140</u>	2.49%

Operating revenues showed a 1.64% increase from 2012 to 2013 and showed a decrease of 6.16% from 2011 to 2012. 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 \$1,161 from 2012 to 2013 with most of the decrease attributed to interest income. Operations expense increased \$98,627 from 2012 to 2013 due to increases in overhead cost and less new construction work. Maintenance expense decreased from 2012 to 2013 by \$15,055 or 1.17%.

Table 2B

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	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 position	664,824	553,592	111,232	20.09%
Beginning net position	34,068,472	33,514,880	553,592	1.65%
Prior Period Adjustment	(350,980)	-	(350,980)	-100.00%
Ending net position	<u>\$ 34,382,316</u>	<u>\$ 34,068,472</u>	<u>\$ 313,844</u>	0.92%

Maintenance expense increased from 2011 to 2012 by \$108,986 or 9.22%. The majority of the increase from 2011 to 2012 came from increases in overhead cost and less new construction work. The decrease from 2012 to 2013 shows a consistency of maintenance expense.

Capital Assets and Debt Administration

At the end of fiscal year 2013, the System had \$32,539,589 (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 \$603,605 or 1.82% for fiscal year 2013 above fiscal year 2012 and a decrease of \$411,472 or 1.23% for fiscal year 2012 above fiscal year 2011.

The following tables summarize the System's capital assets, net of accumulated depreciation, and changes therein, for the fiscal years ended June 30, 2013 and 2012, respectively.

Table 3A
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	June 30, 2013	June 30, 2012	Increase (Decrease)	
Transmission plant	\$ 1,731,687	\$ 1,773,246	\$ (41,559)	-2.34%
Distribution plant	21,042,383	21,172,456	(130,073)	-0.61%
General plant	9,028,004	9,408,136	(380,132)	-4.04%
Construction in progress	566,645	579,758	(13,113)	-2.26%
Unamortized acq. adj.	170,870	209,598	(38,728)	-18.48%
Capital assets, net of acc deprec	<u>\$ 32,539,589</u>	<u>\$ 33,143,194</u>	<u>\$ (603,605)</u>	-1.82%

Table 3B
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%

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 general plant accounts for the sale of office buildings which are no longer used due to the construction of the new facility. The reduction in new construction work also accounts for the reduction in construction in progress.

Debt Administration

The System has retired its long-term debt in fiscal year 2013. Monthly payments made during fiscal year 2013 reduced the principal by \$1,441,708. 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 2014 budget at its meeting in June.

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

Contacting the Authority's Financial Management

This financial report is designed to provide a general overview of the System's finances for all those with an interest in the System's finances and to demonstrate the System's accountability for the money it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the Manager of Accounting at Weakley County Municipal Electric System.

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

June 30, 2013 and 2012

	2013	2012
ASSETS		
Current assets:		
Cash and working funds	\$ 6,880,474	\$ 7,554,230
Accounts receivable - consumers, net	2,717,679	2,636,913
Accounts receivable - other	255,009	56,493
Rents receivable	112,706	112,148
Materials and supplies	488,062	421,041
Prepayments	69,619	59,950
Total current assets	10,523,549	10,840,775
Non-current assets:		
Renewal and replacement funds	588	587
Revolving loan fund	181,487	136,178
Prepaid purchased power - TVA	-	76,125
Conservation loans receivable	1,344,213	1,498,151
Note receivable - grant funds	180,000	225,000
Note receivable - USDA intermediary loan	377,708	470,208
Capital assets		
Electric plant in service - at cost	60,460,756	60,281,642
Work in progress	566,645	579,758
Electric plant acquisition adjustment	170,870	209,598
Less: accumulated depreciation	(28,658,682)	(27,927,804)
Net capital assets	32,539,589	33,143,194
Total non-current assets	34,623,585	35,549,443
 Total assets	 45,147,134	 46,390,218
 LIABILITIES		
Current liabilities:		
Accounts payable	6,097,617	6,511,726
Customer deposits	1,173,316	1,104,527
Accrued salaries and leave	534,075	556,087
Other current and accrued liabilities	41,275	30,592
Current portion of long-term payables	116,993	156,047
Total current liabilities	7,963,276	8,358,979
Non-current liabilities:		
Note payable, net of current portion	-	1,285,661
USDA loan payable	370,000	462,500
Conservation loans payable	1,372,249	1,523,784
TVA payable - underbilling	194,989	350,980
Interest payable - conservation loans	7,164	8,207
Deferred interest income	-	17,791
Total non-current liabilities	1,944,402	3,648,923
 Total liabilities	 9,907,678	 12,007,902
 NET POSITION		
Net investment in capital assets	32,539,589	31,701,486
Unrestricted	2,699,867	2,680,830
Total net position	\$ 35,239,456	\$ 34,382,316

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

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

For the Years Ended June 30, 2013 and 2012

	2013	Percent	2012	Percent
Operating revenues				
Sales of electric energy				
Residential and rural	\$ 24,985,380	55.52	\$ 24,171,364	54.59
Small commercial	4,568,581	10.15	4,378,554	9.89
Large commercial	13,316,477	29.59	13,618,636	30.76
Street and outdoor lighting	1,122,575	2.49	1,132,826	2.56
Total sales of electric energy	43,993,013	97.75	43,301,380	97.80
Other electric revenues				
Consumer forfeited discounts	306,638	0.68	293,388	0.66
Rent from electric property	555,139	1.23	531,483	1.20
Service charge - meter sets	83,544	0.19	86,937	0.20
Miscellaneous	61,618	0.15	62,476	0.14
Total other electric revenues	1,006,939	2.25	974,284	2.20
Total operating revenues	44,999,952	100.00	44,275,664	100.00
Operating expenses				
Purchased power	36,407,634	80.91	35,962,672	81.22
Operation expense	3,863,426	8.59	3,783,613	8.55
Maintenance expense	1,275,404	2.83	1,290,459	2.91
Depreciation and amortization	1,760,006	3.91	1,737,975	3.93
Tax equivalent	92,076	0.20	88,669	0.20
Payroll taxes	84,325	0.19	86,271	0.19
Total operating expenses	43,482,871	96.63	42,949,659	97.00
Operating income	1,517,081	3.37	1,326,005	3.00
Non-operating revenues (expenses)				
Income from investments	68,101	0.15	91,916	0.21
Gain on sale of capital assets	-	-	10,000	0.02
Interest on long-term debt	(15,104)	(0.03)	(73,950)	(0.17)
Other interest expense	(3,789)	(0.01)	(4,148)	(0.01)
Total non-operating revenues (expenses)	49,208	0.11	23,818	0.05
Transfers				
Transfer to General Fund	(709,149)	(1.58)	(684,999)	(1.55)
Change in net position	857,140	1.90	664,824	1.50
Net position, beginning - as previously reported	34,382,316		34,068,472	
Prior period adjustment	-		(350,980)	
Net position, beginning of year - restated	34,382,316		33,717,492	
Net position, end of year	\$ 35,239,456		\$ 34,382,316	

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, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Cash received from customers	\$ 44,720,112	\$ 44,426,311
Cash payments to suppliers for goods and services	(38,367,770)	(37,726,679)
Cash payments to employees for services	(2,954,291)	(2,954,291)
Net cash received (advanced) on conservation loans receivable	153,938	54,356
Net cash proceeds from (payments on) conservation loans payable	(152,578)	(49,531)
Cash received from customer deposits, net of refunds	68,789	106,405
Net cash provided by operating activities	3,468,200	3,856,571
Cash flows from non-capital financing activities		
Transfer to General Fund	(709,149)	(684,999)
Payments on USDA loan payable	(92,500)	(92,500)
Interest paid on customer deposits	(3,789)	(4,148)
Payments to TVA on underbilling	(38,998)	-
Net cash used by non-capital financing activities	(844,436)	(781,647)
Cash flows from capital and related financing activities		
Additions to plant	(1,811,898)	(1,518,684)
Proceeds from sale of capital assets	-	15,000
Removal cost	(189,101)	(133,761)
Interest paid on long-term debt	(15,104)	(73,950)
Principal paid on long-term debt	(1,441,708)	(392,616)
Net cash used by capital and related financing activities	(3,457,811)	(2,104,011)
Cash flows from investing activities		
Interest received	68,101	91,916
Payments received on notes receivable	137,500	137,500
Net cash provided by investing activities	205,601	229,416
Net increase (decrease) in cash and cash equivalents	(628,446)	1,200,329
Cash and cash equivalents - beginning	7,690,995	6,490,666
Cash and cash equivalents - ending	\$ 7,062,549	\$ 7,690,995
 Cash and cash equivalents are presented in the balance sheet as follows:		
Cash and working funds	\$ 6,880,474	\$ 7,554,230
Revolving loan fund	181,487	136,178
Renewal and replacement funds	588	587
	\$ 7,062,549	\$ 7,690,995

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, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Operating income	\$ 1,517,081	\$ 1,326,005
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	1,954,701	1,888,529
Amortization of prepaid purchased power	76,125	130,500
Change in:		
Accounts receivable	(279,282)	153,031
Rents receivable	(558)	(2,384)
Material and supplies	582,882	225,149
Transportation clearing	-	97
Prepayments	(9,669)	(271)
Conservation loans receivable	153,938	54,356
Accounts payable	(414,109)	59,400
Customer deposits	68,789	106,405
Accrued salaries and leave	(22,012)	(6,926)
Other current and accrued liabilities	10,683	2,711
Conservation loans payable	(152,578)	(49,531)
Deferred credits	(17,791)	(30,500)
 Net cash provided by operating activities	 \$ 3,468,200	 \$ 3,856,571

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

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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. Proprietary fund types are reported using the *economic resources* measurement focus. The aim of this measurement focus is to report all inflows, outflows, and balances affecting or reflecting the entity's net position.

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.

C. Assets, Liabilities, and Net Position

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.

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
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. 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, 2013 and 2012, was \$60,674 and \$41,859, respectively.

Inventories – Materials and Supplies

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

Prepayments

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The proportionate amount of expense is recognized in each of the benefitting periods.

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, 2013, consisted of \$1,721,278 charged to depreciation expense and \$194,695 cleared through other accounts, for a total of \$1,915,973. 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. 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, 2013 and 2012, 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, 2013 and 2012, was \$22,349 and \$22,820, 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.

Impact of recently issued accounting pronouncements

In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

reporting guidance that is included in non-governmental pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement is effective for periods beginning after December 15, 2011. The adoption of GASB 62 had no impact on the System's financial statements.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows and inflows of resources, which are distinct from assets and liabilities, and also renames as net position, rather than net assets, the residual of all other elements presented in a statement of financial position. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. As of June 30, 2013, the System had no deferred outflows or deferred inflows of resources.

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's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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, and the state pooled investment fund.

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, 2013 and 2012, all bank deposits were fully collateralized or insured.

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

B. Prepaid Purchased Power

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 entitled them to a 2.5 cent per kwh program discount on a specified quantity for a specified term. The System's agreement was for a period of 10 years ending in 2013, and amounts were amortized over the 10 year period. For the years ended June 30, 2013 and 2012, the System received credits of \$76,125 and \$130,500 respectively 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, 2013 and 2012, was \$709,149 and \$684,999 respectively. This amount was included in operating expenses in the System's books of account.

D. Capital Assets

Capital asset activity for the years ended June 30, 2013 and 2012, was as follows:

Description	Balance at July 1, 2012	Additions	Disposals and Other	Balance at June 30, 2013
Capital assets, not being depreciated				
Transmission plant	\$ 100,307	\$ -	\$ -	\$ 100,307
Distribution plant	111,975	600	-	112,575
General plant	301,631	-	-	301,631
Construction work in progress	579,758	-	(13,113)	566,645
Total	<u>1,093,671</u>	<u>600</u>	<u>(13,113)</u>	<u>1,081,158</u>
Capital assets, being depreciated				
Transmission plant	4,878,951	910	(1,240)	4,878,621
Distribution plant	42,140,346	1,148,334	(493,466)	42,795,214
General plant	12,748,432	675,167	(1,151,191)	12,272,408
Electric plant acquisition adjustment	209,598	-	(38,728)	170,870
Total capital assets being depreciated	<u>59,977,327</u>	<u>1,824,411</u>	<u>(1,684,625)</u>	<u>60,117,113</u>
Less accumulated depreciation				
Transmission plant	3,206,012	48,483	(7,254)	3,247,241
Distribution plant	21,079,869	1,368,479	(582,939)	21,865,409
General plant	3,641,923	499,011	(594,902)	3,546,032
Total accumulated depreciation	<u>27,927,804</u>	<u>1,915,973</u>	<u>(1,185,095)</u>	<u>28,658,682</u>
Total being depreciated, net	<u>32,049,523</u>	<u>(91,562)</u>	<u>(499,530)</u>	<u>31,458,431</u>
Total capital assets, net	<u>\$ 33,143,194</u>	<u>\$ (90,962)</u>	<u>\$ (512,643)</u>	<u>\$ 32,539,589</u>

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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	740,407	-	(160,649)	579,758
Total	<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	248,326	-	(38,728)	209,598
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	3,574,782	449,278	(382,137)	3,641,923
Total accumulated depreciation	<u>26,956,224</u>	<u>1,849,801</u>	<u>(878,221)</u>	<u>27,927,804</u>
Total 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>

E. Note Payable

The System had an unsecured note payable to First State Bank to assist in financing the cost of capital assets. A line of credit was established for \$2,000,000 with a fixed interest rate. The note was being repaid through monthly payments of principal and interest. At June 30, 2012, the balance outstanding was \$1,441,708 with an interest rate of 4.45%. The note was paid in full during the current fiscal year.

Changes in long-term debt during the years ended June 30, 2013 and 2012, are as follows:

YE 6/30/13	Beginning Balance	Proceeds	Payments	Ending Balance	Due within one year
Note No. 82112076	<u>\$1,441,708</u>	<u>\$ -</u>	<u>\$1,441,708</u>	<u>\$ -</u>	n/a
YE 6/30/12					
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>

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

F. TVA Payable - Underbilling

An error was discovered during the current year in the amount the System was being billed for power at one of its substations. TVA has set up a three-year schedule for the System to pay the amount owed in monthly installments of \$9,749. Scheduled payments under the agreement are as follows:

Year Ending	
June 30, 2014	\$ 116,993
June 30, 2015	116,993
June 30, 2016	77,996
Total	<u>\$ 311,982</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 is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012, (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.

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

Annual Pension Cost

For the year ending June 30, 2012, (the most recent year available) Weakley County Municipal Electric System's annual pension cost of \$512,070 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, 2011, which established contribution rates effective July 1, 2012.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/12	\$512,070	100.00%	\$0
6/30/11	\$518,658	100.00%	\$0
6/30/10	\$485,085	100.00%	\$0

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date available, the plan was 62.17% funded. The actuarial accrued liability for benefits was \$11.57 million, and the actuarial value of assets was \$7.19 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$4.38 million. The covered payroll (annual payroll of active employees covered by the plan) was \$2.72 million, and the ratio of the UAAL to the covered payroll was 160.92%.

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.

(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
7/01/11	\$7,191	\$11,566	\$4,375	62.17%	\$2,719	160.92%
7/01/09	\$5,840	\$10,596	\$4,756	55.11%	\$2,546	186.82%
7/01/07	\$5,311	\$7,151	\$1,840	74.27%	\$2,611	70.47%

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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.

C. Prior Period Adjustment

An error was discovered during the current year in the amount the System was being billed for power at one of its substations. The portion of the underbilling that applied to prior years was reported as a prior period adjustment. This resulted in a decrease in beginning net position of \$350,980, which is the amount prior years' net income (change in net position) was overstated as a result of purchased power expense being understated.

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 June 30, 2013**

(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
7/01/11	\$7,191	\$11,566	\$4,375	62.17%	\$2,719	160.92%
7/01/09	\$5,840	\$10,596	\$4,756	55.11%	\$2,546	186.82%
7/01/07	\$5,311	\$7,151	\$1,840	74.27%	\$2,611	70.47%

See independent auditor's report

SUPPLEMENTARY AND OTHER INFORMATION SECTION

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

For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>Percent</u>	<u>2012</u>	<u>Percent</u>
Transmission expense				
Overhead wire expense	\$ 855	-	\$ 7,456	0.02
Station expense	<u>33,120</u>	<u>0.07</u>	<u>37,292</u>	<u>0.08</u>
Total	<u>33,975</u>	<u>0.07</u>	<u>44,748</u>	<u>0.10</u>
Distribution expense				
Supervision and engineering	124,011	0.28	176,992	0.40
Station expense	34,133	0.08	34,251	0.08
Overhead line expense	768,596	1.71	674,883	1.52
Underground line expense	42,595	0.09	40,652	0.09
Street lighting and signal systems	6,847	0.02	11,718	0.03
Removing and resetting meters	219,359	0.49	225,340	0.51
Services on customers' premises	53,882	0.12	53,340	0.12
Miscellaneous distribution expense	26,497	0.06	37,984	0.09
Rents	<u>22,349</u>	<u>0.05</u>	<u>22,820</u>	<u>0.05</u>
Total	<u>1,298,269</u>	<u>2.90</u>	<u>1,277,980</u>	<u>2.89</u>
Customer accounts expense				
Supervision and accounting	19,760	0.04	18,702	0.04
Meter reading	261,765	0.58	258,929	0.58
Records and collection	<u>730,755</u>	<u>1.62</u>	<u>713,926</u>	<u>1.61</u>
Total	<u>1,012,280</u>	<u>2.24</u>	<u>991,557</u>	<u>2.23</u>
Customer service and sales expense				
Supervision	13,174	0.03	12,468	0.03
Customer assistance	37,078	0.08	35,246	0.08
Demonstration and selling	37,508	0.08	41,285	0.09
Advertising expenses	49,089	0.11	48,731	0.11
Industrial development expense	<u>14,459</u>	<u>0.03</u>	<u>22,245</u>	<u>0.05</u>
Total	<u>151,308</u>	<u>0.33</u>	<u>159,975</u>	<u>0.36</u>
Administrative and general expense				
Salaries	305,251	0.68	284,496	0.64
Office supplies and expense	120,116	0.27	114,152	0.26
Outside services	19,952	0.04	31,589	0.07
Insurance	48,506	0.11	49,819	0.11
Injuries and damages	191,636	0.43	153,966	0.35
Employee pension and benefits	599,637	1.33	595,836	1.35
Dues	40,547	0.09	40,991	0.09
Miscellaneous	<u>41,949</u>	<u>0.10</u>	<u>38,504</u>	<u>0.10</u>
Total	<u>1,367,594</u>	<u>3.05</u>	<u>1,309,353</u>	<u>2.97</u>
Total operation expense	<u>\$ 3,863,426</u>	<u>8.59</u>	<u>\$ 3,783,613</u>	<u>8.55</u>

See independent auditor's report

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
SCHEDULES OF MAINTENANCE EXPENSE
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>Percent</u>	<u>2012</u>	<u>Percent</u>
Transmission maintenance				
Station equipment	\$ 27,263	0.06	\$ 9,299	0.02
Overhead lines	<u>9,984</u>	<u>0.02</u>	<u>28,796</u>	<u>0.07</u>
Total	<u>37,247</u>	<u>0.08</u>	<u>38,095</u>	<u>0.09</u>
Distribution maintenance				
Station equipment	30,636	0.07	77,791	0.18
Overhead lines	955,386	2.12	862,228	1.95
Underground lines	11,446	0.03	26,053	0.06
Line transformers and devices	40,653	0.09	61,783	0.14
Street lights and signal systems	11,683	0.03	16,801	0.04
Meters	32,750	0.07	40,533	0.09
Security lights	36,935	0.08	33,839	0.08
Miscellaneous distribution maintenance	<u>26,202</u>	<u>0.06</u>	<u>38,974</u>	<u>0.06</u>
Total	<u>1,145,691</u>	<u>2.55</u>	<u>1,158,002</u>	<u>2.60</u>
Administrative and general maintenance				
Structures and improvements	68,081	0.15	73,454	0.17
Communications equipment	19,230	0.04	17,508	0.04
Fiber optic	<u>5,155</u>	<u>0.01</u>	<u>3,400</u>	<u>0.01</u>
Total	<u>92,466</u>	<u>0.20</u>	<u>94,362</u>	<u>0.22</u>
Total maintenance expense	<u>\$1,275,404</u>	<u>2.83</u>	<u>\$1,290,459</u>	<u>2.91</u>

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

<u>Grantor Agency/ Pass-through Entity/ Program Name</u>	<u>CFDA #</u>	<u>Grant Number</u>	<u>Balance July 1, 2012</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance June 30, 2013</u>
Department of Homeland Security/ Federal Emergency Management Agency/ Public Assistance Grants	97.036	FEMA-1979-DR-TN	\$ (37,941)	\$ -	\$ -	\$ (37,941)
		FEMA-1974-DR-TN	<u>(57,497)</u>	<u>-</u>	<u>-</u>	<u>(57,497)</u>
			<u>\$ (95,438)</u>	<u>\$ -</u>	<u>\$ -</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
SUMMARY OF COMPARATIVE INFORMATION - UNAUDITED**

	FOR THE YEARS ENDED JUNE 30,		
	2013	2012	2011
Revenue			
Residential	\$ 25,046,054	\$ 24,213,223	\$ 26,806,721
Small commercial	4,568,581	4,378,554	4,354,881
Large commercial	13,316,477	13,618,636	13,881,332
Street and athletic lighting	346,281	352,879	362,596
Outdoor lighting	776,294	779,947	783,052
Other electric revenue	1,006,939	974,284	986,723
Interest and other income	68,101	91,916	94,499
	<u>45,128,727</u>	<u>44,409,439</u>	<u>47,269,804</u>
Expense			
Electric power costs	36,407,634	35,962,672	39,259,527
Other operating expenses	5,199,504	5,115,931	4,818,894
Depreciation and amortization	1,760,006	1,737,975	1,696,191
Taxes and tax equivalent	885,550	859,939	850,758
Interest and other expense	18,893	68,098	90,842
	<u>44,271,587</u>	<u>43,744,615</u>	<u>46,716,212</u>
Change in net position	<u>\$ 857,140</u>	<u>\$ 664,824</u>	<u>\$ 553,592</u>
Capital assets			
Plant in service (at original cost)	<u>\$ 60,460,756</u>	<u>\$ 60,281,642</u>	<u>\$ 59,522,157</u>
Power in use - KWH			
Residential	265,151,893	255,342,990	290,839,593
Small commercial	39,076,644	37,410,190	38,181,917
Large commercial	142,551,547	146,391,080	152,387,484
Street and athletic lighting	4,115,147	4,048,013	4,177,914
Outdoor lighting	6,374,154	6,461,605	6,603,170
Total	<u>457,269,385</u>	<u>449,653,878</u>	<u>492,190,078</u>
Number of customers			
Residential	16,085	16,105	16,267
Small commercial	3,964	3,903	3,746
Large commercial	284	281	286
Street and athletic lighting	81	82	84
Outdoor lighting	93	87	97
	<u>20,507</u>	<u>20,458</u>	<u>20,480</u>
Line Loss	<u>4.95%</u>	<u>5.18%</u>	<u>5.84%</u>

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**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
SCHEDULE OF UTILITY RATES IN FORCE
June 30, 2013**

Residential Rates

Customer Charge - per month less \$1.60 Hydro allocation credit	\$10.59
Energy Charges - per kwh per month	
First 800 kwh	\$0.09098
Additional kwh	\$0.09017

General Power Rates

GSA Part 1

Customer Charge - per delivery point per month	\$15.74
Energy Charge - per kwh per month	\$0.10057

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	\$0.10176
Additional kwh	\$0.06285

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	\$0.06609

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	\$0.04972

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	\$0.04737
Off Peak – next 195 HUD	\$0.02871
Off Peak – over 620 HUD	\$0.01286

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

Outdoor Lighting Rates

Customer Charge	\$13.15
Energy Charge - per kwh per month	\$0.06770

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INTERNAL CONTROL AND COMPLIANCE SECTION

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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
Weakley County Municipal Electric System
Martin, 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 Weakley County Municipal Electric System, an enterprise fund of Weakley 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 September 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Weakley County Municipal Electric 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
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 from 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

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government 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

Union City, Tennessee
September 26, 2013