

**WEAKLEY COUNTY
MUNICIPAL ELECTRIC SYSTEM**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2015

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
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INTRODUCTORY SECTION

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
DIRECTORY**
June 30, 2015

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

Members of:

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants



Certified Public Accountants
Offices in Tennessee & Kentucky

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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 year ended June 30, 2015, 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 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 financial position of Weakley County Municipal Electric System as of June 30, 2015, and the 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 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, 2015, the changes in its financial position or, where applicable, its cash flows for the year 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2015 the Electric System adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. 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 8 and the schedules relating to pensions on pages 29 through 32 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 28, 2015, 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 28, 2015

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, 2015. 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 \$45,346,437 and exceeded liabilities of \$13,287,415 in the amount of \$32,059,022 (i.e. net position). Total assets decreased by -0.59% during the year while total liabilities increased by 29.02%. This year's financials include deferred outflows of resources of \$501,303 and deferred inflows of resources of \$910,500. The deferred items were created from GASB 68 (Accounting and Financial Reporting for Pensions) reporting requirements.
- Change in net position decreased \$3,573,580 during the current year. GASB 68 required a restatement for adoption of new pension standards resulting in a decrease of beginning net position of \$3,864,532.
- Operating revenues decreased \$946,983 primarily due to changes in weather conditions.
- Operating expenses decreased \$346,962 due to increased construction work.
- Total expenses were \$45,848,563 which is a decrease from fiscal year 2014 by \$770,505.
- The net income for FY 2015 was \$290,952 as compared to FY 2014 of \$393,146.
- Interest income increased from \$45,451 to \$47,461 due to an increase in cash reserves.
- Interest expense increased from \$4,008 to \$5,984 due to deposit activity.
- A prior period adjustment of \$350,980 was made in FY 2012 to reflect underbilling of power cost by TVA at one of our substations. A balance of \$77,996 remains as a non-current liability.
- A prior period adjustment of \$3,864,532 was made to reflect restatement for adoption of new pension standards per GASB 68. This also created two required supplementary information schedules that were not previously required. Also related to the new pension standards are deferred inflows of \$910,500 and deferred outflows of \$501,303.
- 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) 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, and 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 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 \$290,952 for the fiscal year. The analysis below focuses on the System's net position (Table 1) and changes in net position (Table 2) during the year.

Table 1
CONDENSED STATEMENT OF NET POSITION

	June 30, 2015	June 30, 2014	Increase (Decrease)	
Current and other assets	\$ 13,439,622	\$ 13,019,031	\$ 420,591	3.23%
Capital assets	31,906,815	32,595,210	(688,395)	-2.11%
Total assets	<u>\$ 45,346,437</u>	<u>\$ 45,614,241</u>	<u>\$ (267,804)</u>	-0.59%
Deferred Outflows of Resources				
Deferred Pension Expense	<u>\$ 501,303</u>	<u>\$ -</u>	<u>\$ 501,303</u>	100.00%
Long-term liabilities				
Long-term liabilities	\$ 185,000	\$ 277,500	\$ (92,500)	-33.33%
Other liabilities	12,693,218	9,704,139	2,989,079	30.80%
Total liabilities	<u>\$ 12,878,218</u>	<u>\$ 9,981,639</u>	<u>\$ 2,896,579</u>	29.02%
Deferred Inflows of Resources				
Deferred Inflows Related to Pensions	<u>\$ 910,500</u>	<u>\$ -</u>	<u>\$ 910,500</u>	100.00%
Investment in capital assets	\$ 31,906,815	\$ 32,595,210	\$ (688,395)	-2.11%
Restricted	249,815	-	249,815	100.00%
Unrestricted	(97,608)	3,037,392	(3,135,000)	-103.21%
Total net position	<u>\$ 32,059,022</u>	<u>\$ 35,632,602</u>	<u>\$ (3,573,580)</u>	-10.03%

The decrease in capital assets resulted from a reduction of work in progress, normal retirements and depreciation. The decrease in long-term liabilities is from monthly payments to USDA. The increase in other liabilities resulted from GASB 68 required posting of pension liability. The overall decrease in total net position resulted from GASB 68 requirements. The actual cash flows from operations continue to be adequate to support the capital projects undertaken by the System. Changes in the System's net position

Table 2
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	June 30, 2015	June 30, 2014	Increase (Decrease)	
Operating revenues	\$ 44,964,933	\$ 45,911,916	\$ (946,983)	-2.06%
Non-operating revenues	1,174,582	1,100,298	74,284	6.75%
Total Revenues	<u>46,139,515</u>	<u>47,012,214</u>	<u>(872,699)</u>	-1.86%
Power cost	37,900,038	38,450,135	(550,097)	-1.43%
Operations expense	3,721,353	4,068,315	(346,962)	-8.53%
Maintenance expense	1,364,856	1,322,073	42,783	3.24%
Depreciation expense	1,931,344	1,855,109	76,235	4.11%
Taxes and tax equivalents	886,260	880,700	5,560	0.63%
Interest and amortization	44,712	42,736	1,976	4.62%
Total expenses	<u>45,848,563</u>	<u>46,619,068</u>	<u>(770,505)</u>	-1.65%
Change in net position	<u>290,952</u>	<u>393,146</u>	<u>(102,194)</u>	-25.99%
Beginning net position	35,632,602	35,239,456	393,146	1.12%
Restatement for adoption of new pension standards	<u>(3,864,532)</u>	<u>0</u>	<u>(3,864,532)</u>	-100.00%
Restated Beginning Net Position	<u>31,768,070</u>	<u>35,239,456</u>	<u>(3,471,386)</u>	-9.85%
Ending net position	<u>\$ 32,059,022</u>	<u>\$ 35,632,602</u>	<u>\$ (3,573,580)</u>	-10.03%

can be determined by reviewing the condensed *Statement of Revenues, Expenses, and Changes in Net Position* for the year (Table 2).

Capital Assets and Debt Administration

At the end of fiscal year 2015, the System had \$31,906,815 (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.

The following table summarizes the System’s capital assets, net of accumulated depreciation, and changes therein, for the fiscal years ended June 30, 2015 and 2014.

Table 3
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	June 30, 2015	June 30, 2014	Increase (Decrease)	
Transmission plant	\$ 1,413,151	\$ 1,591,122	\$ (177,971)	-11.19%
Distribution plant	21,341,831	21,505,268	(163,437)	-0.76%
General plant	8,828,591	8,946,421	(117,830)	-1.32%
Construction in progress	229,828	420,257	(190,429)	-45.31%
Unamortized acq. adj.	93,414	132,142	(38,728)	-29.31%
Capital assets, net of accum depr	<u>\$ 31,906,815</u>	<u>\$ 32,595,210</u>	<u>\$ (688,395)</u>	-2.11%

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 2016 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
STATEMENT OF NET POSITION**

June 30, 2015

ASSETS

Current assets:

Cash and working funds	\$ 8,184,968
Accounts receivable - consumers, net	2,581,588
Accounts receivable - other	305,907
Rents receivable	125,800
Materials and supplies	481,395
Prepayments	63,559
Current portion of notes receivable	<u>68,750</u>
Total current assets	<u>11,811,967</u>

Non-current assets:

Renewal and replacement funds	589
Revolving loan fund - restricted	249,815
Conservation loans receivable	1,082,977
Note receivable - grant funds, net of current portion	90,000
Note receivable - USDA intermediary loan, net of current portion	204,274
Capital assets	
Electric plant in service - at cost	62,673,087
Work in progress	229,828
Electric plant acquisition adjustment	93,414
Less: accumulated depreciation	<u>(31,089,514)</u>
Net capital assets	<u>31,906,815</u>
Total non-current assets	<u>33,534,470</u>

Total assets **45,346,437**

DEFERRED OUTFLOWS OF RESOURCES

Deferred pension expense	<u>501,303</u>
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The accompanying notes are an integral part of these financial statements.

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

June 30, 2015

LIABILITIES

Current liabilities:

Accounts payable	6,524,012
Customer deposits	1,263,575
Accrued salaries and leave	588,620
Other current and accrued liabilities	23,889
Current portion of long-term payables	170,496
Total current liabilities	<u>8,570,592</u>

Non-current liabilities:

Deferred pension liability	3,091,759
USDA loan payable	185,000
TVA payable - underbilling	77,996
Less current portion	<u>(170,496)</u>
Total non-current liabilities	<u>3,184,259</u>

Other liabilities:

Conservation loans payable	1,117,750
Interest payable - conservation loans	5,617
Total other liabilities	<u>1,123,367</u>

Total liabilities **12,878,218**

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	<u>910,500</u>
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NET POSITION

Investment in capital assets	31,906,815
Restricted	249,815
Unrestricted	<u>(97,608)</u>
Total net position	<u>\$ 32,059,022</u>

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

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

For the Year Ended June 30, 2015

	<u>Amount</u>	<u>Percent</u>
Operating revenues		
Sales of electric energy		
Residential and rural	\$ 24,920,904	54.13
Small commercial	4,769,102	10.36
Large commercial	14,110,984	30.65
Street and outdoor lighting	<u>1,110,993</u>	<u>2.41</u>
Total sales of electric energy	<u>44,911,983</u>	<u>97.55</u>
Other electric revenues		
Consumer forfeited discounts	292,976	0.64
Rent from electric property	681,272	1.48
Service charge - meter sets	93,769	0.20
Miscellaneous	<u>58,962</u>	<u>0.14</u>
Total other electric revenues	<u>1,126,979</u>	<u>2.46</u>
Total operating revenues	<u>46,038,962</u>	<u>100.01</u>
Operating expenses		
Purchased power	37,899,896	82.32
Operation expense	3,668,404	7.97
Maintenance expense	1,364,856	2.96
Depreciation and amortization	1,970,072	4.28
Tax equivalent	93,372	0.20
Payroll taxes	<u>86,676</u>	<u>0.19</u>
Total operating expenses	<u>45,083,276</u>	<u>97.92</u>
Operating income	<u>955,686</u>	<u>2.09</u>
Non-operating revenues (expenses)		
Income from investments	47,461	0.10
Other interest expense	<u>(5,984)</u>	<u>(0.01)</u>
Total non-operating revenues (expenses)	<u>41,477</u>	<u>0.09</u>
Transfers		
Transfer to General Fund	<u>(706,211)</u>	<u>(1.53)</u>
Change in net position	<u>290,952</u>	<u>0.65</u>
Net position, beginning of year	35,632,602	
Restatement for adoption of new pension standards	<u>(3,864,532)</u>	
Net position, beginning of year - as restated	<u>31,768,070</u>	
Net position, end of year	<u>\$ 32,059,022</u>	

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

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2015

Cash flows from operating activities

Cash received from customers	\$ 46,127,379
Cash payments to suppliers for goods and services	(39,745,921)
Cash payments to employees for services	(3,127,095)
Net cash received (advanced) on conservation loans receivable	174,395
Net cash proceeds from (payments on) conservation loans payable	(154,651)
Cash received from customer deposits, net of refunds	<u>69,741</u>
Net cash provided by operating activities	<u>3,343,848</u>

Cash flows from non-capital financing activities

Transfer to General Fund	(706,211)
Payments on USDA loan payable	(92,500)
Interest paid on customer deposits	(5,984)
Payments to TVA on underbilling	<u>(116,993)</u>
Net cash used by non-capital financing activities	<u>(921,688)</u>

Cash flows from capital and related financing activities

Additions to plant	(1,510,350)
Removal cost	<u>(175,187)</u>
Net cash used by capital and related financing activities	<u>(1,685,537)</u>

Cash flows from investing activities

Interest received	47,461
Payments received on notes receivable	<u>68,747</u>
Net cash provided by investing activities	<u>116,208</u>

Net increase in cash and cash equivalents **852,831**

Cash and cash equivalents - beginning 7,582,541

Cash and cash equivalents - ending \$ 8,435,372

Cash and cash equivalents are presented in the balance sheet as follows:

Cash and working funds	\$ 8,184,968
Revolving loan fund	249,815
Renewal and replacement funds	<u>589</u>
	<u>\$ 8,435,372</u>

Noncash capital and related financing activities

Salvage value of retired plant returned to inventory	<u>\$ 97,436</u>
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The accompanying notes are an integral part of these financial statements.

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2015

Cash flows from operating activities

Operating income	\$	955,686
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization		2,276,496
Deferred outflows of resources		(501,303)
Deferred inflows of resources		910,500
Change in:		
Accounts receivable		99,969
Rents receivable		(11,552)
Material and supplies		205,373
Prepayments		(7,256)
Conservation loans receivable		174,395
Accounts payable		65,935
Customer deposits		69,741
Accrued salaries and leave		35,954
Other current and accrued liabilities		(2,666)
Accrued pension liability		(772,773)
Conservation loans payable		(154,651)
		(154,651)
Net cash provided by operating activities	\$	3,343,848

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

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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.

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-

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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, which was \$52,950 for the year ended June 30, 2015.

Inventory – 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, 2015, consisted of \$1,931,344 charged to depreciation expense and \$306,424 cleared through other accounts, for a total of \$2,237,768. 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 year ended June 30, 2015, was \$38,728.

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 year ended June 30, 2015, was \$20,656.

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Weakley County Municipal Electric System's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the Electric System's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

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In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*, and Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. Statement 67, effective for fiscal years beginning after June 15, 2013, revised existing standards of financial reporting by state and local government pension plans and was adopted by the pension plan itself. Statement 68 affects the governments that participate as employers in these plans and was effective for fiscal years beginning after June 15, 2014. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. Statement 68 details the recognition and disclosure requirements for employers with defined benefit pension plans and for employers whose employees are provided with defined contribution pensions. The objective of Statement 68 is to improve accounting and financial reporting by state and local governments for pensions. The adoption of Statement 68 resulted in a restatement of beginning net position to record the calculated liability to the pension plan as of July 1, 2014. This restatement decreased net position by \$3,864,532 and increased net pension liability by this same amount.

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.

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, 2015, all bank deposits were fully collateralized or insured.

B. 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 payment for the year ended June 30, 2015, was \$706,211. This amount was included in operating expenses in the System's books of accounts.

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C. Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

Description	Balance at July 1, 2014	Additions	Disposals and Other	Balance at June 30, 2015
Capital assets, not being depreciated				
Transmission plant	\$ 100,307	\$ -	\$ -	\$ 100,307
Distribution plant	112,776	-	-	112,776
General plant	208,726	-	-	208,726
Construction work in progress	420,257	-	(190,429)	229,828
Total	<u>842,066</u>	<u>-</u>	<u>(190,429)</u>	<u>651,637</u>
Capital assets, being depreciated				
Transmission plant	4,892,325	-	(325)	4,892,000
Distribution plant	43,985,936	1,153,328	(479,817)	44,659,447
General plant	12,317,809	547,452	(165,430)	12,699,831
Electric plant acquisition adjustment	132,142	-	(38,728)	93,414
Total capital assets being depreciated	<u>61,328,212</u>	<u>1,700,780</u>	<u>(684,300)</u>	<u>62,344,692</u>
Less accumulated depreciation				
Transmission plant	3,401,509	177,990	(343)	3,579,156
Distribution plant	22,593,447	1,431,102	(594,154)	23,430,395
General plant	3,580,112	628,676	(128,825)	4,079,963
Total accumulated depreciation	<u>29,575,068</u>	<u>2,237,768</u>	<u>(723,322)</u>	<u>31,089,514</u>
Total being depreciated, net	<u>31,753,144</u>	<u>(536,988)</u>	<u>39,022</u>	<u>31,255,178</u>
Total capital assets, net	<u>\$ 32,595,210</u>	<u>\$ (536,988)</u>	<u>\$ (151,407)</u>	<u>\$ 31,906,815</u>

D. USDA Intermediary Loans

The System has two notes receivable from The Industrial Development Board of Weakley County related to USDA grant and loan funds for which Weakley County Municipal Electric System (WCMES) acted as an intermediary. The System had a note payable to USDA at zero percent interest and a note receivable from the Industrial Board for the same amount, both requiring monthly payments of \$7,708. In prior years, these receipts and disbursements offset each other, with no effect on the System's financial position. However, in June 2014, a modification agreement between the System and the Industrial Board was executed, retroactive to April 1, 2014, that reduced the amount of the monthly payments to be made by the Industrial Board to WCMES to \$3,854 per month. This will result in WCMES advancing the difference between the payments received from the Industrial Board and the payments the System makes to USDA, which will remain at the current amount of \$7,708 per month.

The second note receivable is for repayment of funds advanced to the Industrial Board from WCMES through its participation in the Rural Economic Development Loan and Grant (REDLG) Program. This note was also modified and now calls for six annual payments of \$22,500 each. The original note required annual payments of \$45,000 ending in 2017.

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
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The notes receivable have been reported in non-current assets in the accompanying statements of net position. The amounts due within one year are \$46,250 on the intermediary loan and \$22,500 on the grant funds advanced, for a total current portion of \$68,750 as of June 30, 2015.

The loan payable to USDA is reported in non-current liabilities, with the current portion of \$92,500 included in current liabilities. Payments due on this loan are \$92,500 per year for the years ending June 30, 2016 and 2017.

E. TVA Payable - Underbilling

An error was discovered during 2013 in the amount the System was being billed for power at one of its substations. TVA 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 for the next year of \$77,996 will pay off the amount owed in full.

F. Changes in Long-Term Liabilities

Changes in long-term liabilities during the year ended June 30, 2015, are as follows:

	Beginning Balance	Proceeds	Payments	Ending Balance	Due within one year
USDA note payable	\$ 277,500	\$ -	\$ 92,500	\$ 185,000	\$ 92,500
TVA underbilling	194,989	-	116,993	77,996	77,996
Pension liability	3,864,532	-	772,773	3,091,759	n/a
	<u>\$4,337,021</u>	<u>\$ -</u>	<u>\$ 982,266</u>	<u>\$ 3,354,755</u>	<u>\$ 170,496</u>

G. Restricted Net Position

Weakley County Municipal Electric System received grant monies from Rural Development in a prior year to be used solely for the establishment and operation of a Revolving Loan Fund to finance approved rural economic development projects. The System advanced these monies to the Industrial Development Board of Weakley County, who is currently repaying these advances with annual payments (see Note 2D). The repayments are being deposited into a restricted account as they are received. The grant agreement contains affirmative covenants requiring that the contribution deposited in the fund by WCMES, along with repayments of original loans and any interest earnings, will remain part of the fund and be used to finance approved projects. As a result, the full amount of the Revolving Loan Fund has been reported as restricted net position.

NOTE 3 – OTHER INFORMATION

A. Pension – Legacy Plan

General Information about the Pension Plan

Plan description. Employees of Weakley County Municipal Electric System are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
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legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37, establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Employees covered by benefit terms. At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	30
Inactive employees entitled to but not yet receiving benefits	2
Active employees	47
	79

This plan was closed to new entrants as of June 30, 2013. All new employees beginning July 1, 2013, will be covered by the new Hybrid Plan (see Note 3B).

Contributions. Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. Weakley County Municipal Electric System makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for Weakley County Municipal Electric System were \$495,799 based on a rate of 18.8 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Weakley County Municipal Electric System's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

Weakley County Municipal Electric System's net pension liability (asset) was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability as of June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent

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Investment rate of return 7.5 percent, net of pension plan investment expenses,
including inflation

Mortality rates were based on actual experience from the June 30, 2012, actuarial experience study adjusted for some of the expected future improvement in life expectancy. The actuarial assumptions used in the June 30, 2014, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method, in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent, based on a blending of the three factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from Weakley County Municipal Electric System will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
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Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
	(a)	(b)	(a) – (b)
Balance at 6/30/13	<u>\$ 12,113,513</u>	<u>\$ 7,735,846</u>	<u>\$ 4,377,667</u>
Changes for the year:			
Service cost	169,698	-	169,698
Interest	896,430	-	896,430
Differences between expected and actual experience	(418,395)	-	(418,395)
Contributions-employer	-	509,006	(509,006)
Contributions-employees	-	135,374	(135,374)
Net investment income	-	1,281,195	(1,281,195)
Benefit payments, including refunds of employee contributions	(661,624)	(661,624)	-
Administrative expense	-	(2,157)	2,157
Net changes	<u>(13,891)</u>	<u>1,261,794</u>	<u>(1,275,685)</u>
Balance at 6/30/14	<u>\$ 12,099,622</u>	<u>\$ 8,997,640</u>	<u>\$ 3,101,982</u>

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of Weakley County Municipal Electric System calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Weakley County Municipal Electric System's net pension liability (asset)	<u>\$ 4,530,173</u>	<u>\$ 3,101,982</u>	<u>\$ 1,896,197</u>

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
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Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension expense. For the year ended June 30, 2015, Weakley County Municipal Electric System recognized pension expense of \$143,370.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2015, Weakley County Municipal Electric System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 348,662
Net difference between projected and actual earnings on pension plan investments	-	561,387
Contributions subsequent to the measurement date of June 30, 2014	495,799	<i>(not applicable)</i>
Total	\$ 495,799	\$ 910,049

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2014" will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30, 2016	\$(210,080)
2017	(210,080)
2018	(210,080)
2019	(210,080)
2020	(69,733)

In the table shown above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Payable to the Pension Plan

At June 30, 2015, Weakley County Municipal Electric System reported a payable of \$47,921 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

B. Pension – Current Plan

General Information about the Pension Plan

Plan description. Employees of Weakley County Municipal Electric System are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
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pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37, establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90, in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Early retirement at a reduced benefit is permitted at age 60 or pursuant to the rule of 80, in which the member's age and service credit total 80. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Employees covered by benefit terms. At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	0
Active employees	6
	6

Contributions. Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. Weakley County Municipal Electric System makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for Weakley County Municipal Electric System were \$5,505 based on a rate of 2 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Weakley County Municipal Electric System's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

Weakley County Municipal Electric System's net pension liability (asset) was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Actuarial assumptions. The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation

Mortality rates were based on actual experience from the June 30, 2012, actuarial experience study adjusted for some of the expected future improvement in life expectancy. The actuarial assumptions used in the June 30, 2014, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method, in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent, based on a blending of the three factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from Weakley County Municipal Electric System will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
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statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
	(a)	(b)	(a) – (b)
Balance at 6/30/13	\$ -	\$ 1,552	\$ 1,552
Changes for the year:			
Service cost	1,061	-	1,061
Interest	80	-	80
Differences between expected and actual experience	(20)	-	(20)
Contributions-employer	-	2,577	(2,577)
Contributions-employees	-	6,443	(6,443)
Net investment income	-	988	(988)
Benefit payments, including refunds of employee contributions	-	-	-
Administrative expense	-	(216)	216
Net changes	<u>1,121</u>	<u>9,792</u>	<u>(8,671)</u>
Balance at 6/30/14	<u>\$ 1,121</u>	<u>\$ 11,344</u>	<u>\$ (10,223)</u>

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of Weakley County Municipal Electric System calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
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	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Weakley County Municipal Electric System's net pension liability (asset)	\$ (9,659)	\$ (10,223)	\$ (10,613)

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension income. For the year ended June 30, 2015, Weakley County Municipal Electric System recognized pension income of \$5,643.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2015, Weakley County Municipal Electric System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 18
Net difference between projected and actual earnings on pension plan investments	-	433
Contributions subsequent to the measurement date of June 30, 2014	5,504	<i>(not applicable)</i>
Total	\$ 5,504	\$ 451

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2014" will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30, 2016	\$(110)
2017	(110)
2018	(110)
2019	(110)
2020	(2)
Thereafter	(9)

In the table shown above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Payable to the Pension Plan

At June 30, 2015, *Weakley County Municipal Electric System* reported a payable of \$1,858 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

C. Risk Management

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

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION**
For the Year Ended June 30, 2015

**Schedule of Changes in Weakley County Municipal Electric System's
Net Pension Liability (Asset) and Related Ratios Based on
Participation in the Public Employee Pension Plan of TCRS – Legacy Plan**
Fiscal Year Ending June 30,

	2014
Total pension liability	
Service cost	\$ 169,698
Interest	896,430
Changes in benefit terms	-
Differences between actual and expected experience	(418,395)
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(661,624)
Net change in total pension liability	(13,891)
Total pension liability - beginning	12,113,513
Total pension liability - ending (a)	12,099,622
 Plan fiduciary net position	
Contributions - employer	509,006
Contributions - employee	135,374
Net investment income	1,281,195
Benefit payments, including refunds of employee contributions	(661,624)
Administrative expense	(2,157)
Net change in plan fiduciary net position	1,261,794
Plan fiduciary net position-beginning	7,735,846
Plan fiduciary net position-ending (b)	8,997,640
 Net pension liability (asset) - ending (a – b)	\$ 3,101,982
 Plan fiduciary net position as a percentage of total pension liability	74.36%
 Covered-employee payroll	\$ 2,707,481
 Net pension liability (asset) as a percentage of covered-employee payroll	114.57%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available.

See independent auditor's report

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION**
For the Year Ended June 30, 2015

**Schedule of Changes in Weakley County Municipal Electric System's
Contributions Based on Participation in the
Public Employee Pension Plan of TCRS – Legacy Plan**
Fiscal Years Ending June 30,

	2014	2015
Actuarially determined contributions	\$ 509,006	\$ 495,799
Contributions in relation to the actuarially determined contribution	509,006	495,799
Contribution deficiency (excess)	\$ -	\$ -
 Covered employee payroll	 \$ 2,707,481	 \$ 2,688,713
Contributions as a percentage of covered employee payroll	18.80%	18.80%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Notes to Schedule

Valuation date: Actuarially determined contribution rates for 2015 were calculated based on the July 1, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	14 years
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.5 percent

See independent auditor's report

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION**
For the Year Ended June 30, 2015

**Schedule of Changes in Weakley County Municipal Electric System's
Net Pension Liability (Asset) and Related Ratios Based on
Participation in the Public Employee Pension Plan of TCRS – Hybrid Plan**
Fiscal Year Ending June 30,

	2014
Total pension liability	
Service cost	\$ 1,061
Interest	80
Changes in benefit terms	-
Differences between actual and expected experience	(20)
Change of assumptions	-
Benefit payments, including refunds of employee contributions	-
Net change in total pension liability	1,121
Total pension liability - beginning	-
Total pension liability - ending (a)	1,121
 Plan fiduciary net position	
Contributions - employer	2,577
Contributions - employee	6,443
Net investment income	988
Benefit payments, including refunds of employee contributions	-
Administrative expense	(216)
Net change in plan fiduciary net position	9,792
Plan fiduciary net position-beginning	1,552
Plan fiduciary net position-ending (b)	11,344
 Net pension liability (asset) - ending (a – b)	\$ (10,223)
 Plan fiduciary net position as a percentage of total pension liability	1011.95%
 Covered-employee payroll	\$ 128,853
 Net pension liability (asset) as a percentage of covered-employee payroll	7.93%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available.

See independent auditor's report

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION**
For the Year Ended June 30, 2015

**Schedule of Changes in Weakley County Municipal Electric System's
Contributions Based on Participation in the
Public Employee Pension Plan of TCRS- Hybrid Plan**
Fiscal Years Ending June 30,

	2014	2015
Actuarially determined contributions	\$ 2,577	\$ 5,504
Contributions in relation to the actuarially determined contribution	2,577	5,504
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 128,853	\$ 264,854
Contributions as a percentage of covered employee payroll	2.00%	2.00%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Notes to Schedule

Valuation date: Actuarially determined contribution rates for 2015 were calculated based on the July 1, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	0 years
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.5 percent

See independent auditor's report

SUPPLEMENTARY AND OTHER INFORMATION SECTION

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
SCHEDULE OF OPERATION EXPENSE
For the Year Ended June 30, 2015

	<u>Amount</u>	<u>Percent</u>
Transmission expense		
Overhead wire expense	\$ 2,087	-
Station expense	<u>29,416</u>	<u>0.06</u>
Total	<u>31,503</u>	<u>0.06</u>
Distribution expense		
Supervision and engineering	163,956	0.36
Station expense	37,452	0.08
Overhead line expense	845,687	1.84
Underground line expense	39,925	0.09
Street lighting and signal systems	5,099	0.01
Removing and resetting meters	227,649	0.49
Services on customers' premises	61,057	0.13
Miscellaneous distribution expense	19,075	0.04
Rents	<u>20,656</u>	<u>0.04</u>
Total	<u>1,420,556</u>	<u>3.08</u>
Customer accounts expense		
Supervision and accounting	21,989	0.05
Meter reading	272,918	0.59
Records and collection	<u>715,239</u>	<u>1.55</u>
Total	<u>1,010,146</u>	<u>2.19</u>
Customer service and sales expense		
Supervision	14,660	0.03
Customer assistance	38,008	0.08
Demonstration and selling	36,500	0.08
Advertising expenses	47,370	0.10
Industrial development expense	<u>22,245</u>	<u>0.05</u>
Total	<u>158,783</u>	<u>0.34</u>
Administrative and general expense		
Salaries	330,395	0.72
Office supplies and expense	138,341	0.30
Outside services	10,762	0.02
Insurance	54,049	0.12
Injuries and damages	165,720	0.36
Employee pension and benefits	272,175	0.59
Dues	42,835	0.09
Miscellaneous	<u>33,139</u>	<u>0.10</u>
Total	<u>1,047,416</u>	<u>2.30</u>
Total operation expense	<u>\$ 3,668,404</u>	<u>7.97</u>

See independent auditor's report

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
SCHEDULE OF MAINTENANCE EXPENSE
For the Year Ended June 30, 2015

	<u>Amount</u>	<u>Percent</u>
Transmission maintenance		
Station equipment	\$ 2,019	-
Overhead lines	<u>25,486</u>	<u>0.06</u>
Total	<u>27,505</u>	<u>0.06</u>
 Distribution maintenance		
Station equipment	34,538	0.08
Overhead lines	957,248	2.08
Underground lines	10,928	0.02
Line transformers and devices	72,428	0.16
Street lights and signal systems	9,166	0.02
Meters	53,940	0.12
Security lights	46,802	0.10
Miscellaneous distribution maintenance	<u>54,342</u>	<u>0.11</u>
Total	<u>1,239,392</u>	<u>2.69</u>
 Administrative and general maintenance		
Structures and improvements	64,265	0.14
Communications equipment	18,027	0.04
Fiber optic	<u>15,667</u>	<u>0.03</u>
Total	<u>97,959</u>	<u>0.21</u>
 Total maintenance expense	 <u>\$1,364,856</u>	 <u>2.96</u>

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

	FOR THE YEARS ENDED JUNE 30,		
	2015	2014	2013
Revenue			
Residential	\$ 24,973,854	\$ 26,040,785	\$ 25,046,054
Small commercial	4,769,102	4,790,751	4,568,581
Large commercial	14,110,984	13,962,455	13,316,477
Street and athletic lighting	336,249	340,068	346,281
Outdoor lighting	774,745	777,857	776,294
Other electric revenue	1,126,979	1,054,847	1,006,939
Interest and other income	47,461	45,451	68,101
	<u>46,139,374</u>	<u>47,012,214</u>	<u>45,128,727</u>
Expense			
Electric power costs	37,899,896	38,450,132	36,407,634
Other operating expenses	5,086,210	5,390,390	5,199,504
Depreciation and amortization	1,970,072	1,893,837	1,760,006
Taxes and tax equivalent	886,260	880,700	885,550
Interest and other expense	5,984	4,008	18,893
	<u>45,848,422</u>	<u>46,619,067</u>	<u>44,271,587</u>
Change in net position	<u>\$ 290,952</u>	<u>\$ 393,147</u>	<u>\$ 857,140</u>
Capital assets			
Plant in service (at original cost)	<u>\$ 62,673,087</u>	<u>\$ 60,460,756</u>	<u>\$ 60,460,756</u>
Power in use - KWH			
Residential	262,455,624	275,589,678	265,151,893
Small commercial	40,361,464	41,085,946	39,076,644
Large commercial	153,666,409	150,786,500	142,551,547
Street and athletic lighting	3,887,369	3,922,879	4,115,147
Outdoor lighting	6,281,637	6,347,702	6,374,154
Total	<u>466,652,503</u>	<u>477,732,705</u>	<u>457,269,385</u>
Number of customers			
Residential	15,878	15,841	16,085
Small commercial	4,100	4,006	3,964
Large commercial	277	280	284
Street and athletic lighting	84	83	81
Outdoor lighting	95	89	93
	<u>20,434</u>	<u>20,299</u>	<u>20,507</u>
Line Loss	<u>5.95%</u>	<u>5.21%</u>	<u>4.95%</u>

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**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
For the Year Ended June 30, 2015

<u>Grantor Agency/ Pass-through Entity/ Program Name</u>	<u>CFDA #</u>	<u>Grant Number</u>	<u>Expenditures</u>
Department of Homeland Security/ Federal Emergency Management Agency/ Public Assistance Grants	97.036	FEMA-4189-DR-TN	<u>\$ 30,157</u>

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

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
SCHEDULE OF UTILITY RATES IN FORCE
June 30, 2015**

Residential Rates

Customer Charge - \$10.59 per month less \$1.60 Hydro allocation credit	\$8.99
Energy Charges - per kwh per month	
First 800 kwh	\$0.09163
Additional kwh	\$0.09082

General Power Rates

GSA Part 1

Customer Charge - per delivery point per month	\$15.74
Energy Charge - per kwh per month	\$0.10148

GSA Part 2

Customer Charge - per delivery point per month	\$81.34
Demand Charge - per kw per month	
First 50 kw	-
Additional kw	\$12.22
Energy Charge - per kwh per month	
First 15,000 kwh	\$0.10267
Additional kwh	\$0.06214

GSA Part 3

Customer Charge - per delivery point per month	\$204.68
Demand Charge - per kw per month	
First 1,000 kw	\$11.25
Additional kw	\$11.07
Energy Charge - per kwh per month	\$0.06551

GSB

Customer Charge - per delivery point per month	\$1,500.00
Demand Charge - per kw per month	\$22.09
Energy Charge - per kwh per month	\$0.04855
Wholesale FCA	\$0.02112

Facilities Rental

<46 kV delivery	
First 10,000 kW	\$0.93000
Additional kW	\$0.73000
46-161 kV delivery	\$0.36000

TDMSA

Customer Charge - per delivery point per month	\$1,500.00
Administrative Charge	\$350.00
Demand Charge - per kw per month	
On Peak	\$16.63
Off Peak	\$3.53
Excess over contract	\$16.63
Energy Charge - per kwh per month	
On Peak	\$0.08218
Off Peak – first 425 HUD	\$0.04606
Off Peak – next 195 HUD	\$0.02641
Off Peak – over 620 HUD	\$0.00973

Outdoor Lighting Rate

Energy Charge - per kwh per month	\$0.06665
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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, 2015, 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 28, 2015.

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.

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 engagement to perform an audit 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 28, 2015

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended June 30, 2015

There were no prior year findings reported.