

**PES ENERGIZE  
CITY OF PULASKI, TENNESSEE  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEARS ENDED  
JUNE 30, 2011 AND 2010**

**PES ENERGIZE**  
**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
For the Fiscal Years Ended June 30, 2011 and 2010

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## **INTRODUCTORY SECTION**

**PES ENERGIZE  
DIRECTORY**  
June 30, 2011

**BOARD MEMBERS**

Jerry Bryant – Chairman  
Marcus Houston – Vice-Chairman  
Shannon Downs  
Pat Ford  
Scott Newton

**MANAGEMENT TEAM**

Wes Kelley – President / Chief Executive Officer  
Tammie Bub – Vice President of Finance  
Eddie Jackson – Vice President for Electric Operations  
Daryl Williamson – Vice President for Customer Support  
Jim Woodard – Vice President for Broadband Operations

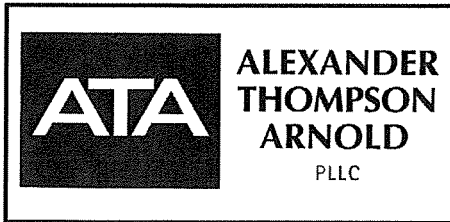
**COUNSEL**

Andrew Hoover  
Pulaski, Tennessee

**INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Alexander Thompson Arnold PLLC  
Jackson, Tennessee

## **FINANCIAL SECTION**



Certified Public Accountants

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**Independent Auditor's Report**

Board of Directors  
PES Energize  
Pulaski, Tennessee

We have audited the accompanying financial statements of the business-type activities of the PES Energize (the System), enterprise funds of the City of Pulaski, Tennessee, as of and for the years ended June 30, 2011 and 2010, which collectively comprise the System's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements referred to above present only the PES Energize and do not purport to, and do not present fairly the financial position of the City of Pulaski, Tennessee as of June 30, 2011 and 2010, and the results of its operations and its cash flows of its proprietary fund types for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the System as of June 30, 2011 and 2010, and the changes in financial position and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2011, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit

Dyersburg, TN  
Henderson, TN  
Jackson, TN  
Martin, TN  
McKenzie, TN

Milan, TN  
Murray, KY  
Paris, TN  
Trenton, TN  
Union City, TN

Board of Directors  
PES Energize  
City of Pulaski, Tennessee

performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principals generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 and page 24 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's financial statements as a whole. The introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements. The other supplementary information, except those schedules marked unaudited, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and other supplementary information marked unaudited, have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Alexander Thompson Arnold PLLC*

Certified Public Accountants  
Jackson, Tennessee  
October 20, 2011

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the PES Energize enterprise funds of the City of Pulaski, Tennessee (the System), we offer readers of the System's financial statements this narrative overview and analysis of the financial activities of the System for the fiscal year ended June 30, 2011. All amounts, unless otherwise indicated, are expressed in actual dollars.

### **FINANCIAL HIGHLIGHTS**

Management believes the System's financial condition is strong. The System is well within its debt covenants and the more stringent financial policies and guidelines set by the Board and management. The following are key financial highlights.

- Total assets at year-end were \$64.79 million and exceeded liabilities in the amount of \$37.58 million (i.e. net assets).
- Net assets increased \$2.05 million during the current year due to an operating profit. Unrestricted net assets increased by \$1.24 million due primarily to the system's decrease in long-term liabilities.
- During fiscal year 2011, the System delivered 449 million kWh compared to 423 million kWh during the fiscal year 2010.
- Operating revenues were \$46.69 million, an increase over year 2010 in the amount of \$5.59 million or 13.61%.
- Total expenses were \$43.66 million, an increase over year 2010 in the amount of \$5.04 million or 13.06%.

### **OVERVIEW OF THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the System's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the System's strategic plan, budget, bond resolutions and other management tools were used for this analysis. The Financial Statements and Supplementary Information is made up of four sections: 1) the introductory section, 2) the financial section, 3) the other supplementary information section, and 4) the internal control and compliance section. The introductory section includes the System's directory. The financial section includes the MD&A, the independent auditor's report, the financial statements with accompanying notes, and the required supplementary information. The other supplementary information section includes selected financial and operational information. The internal control and compliance section includes the report on internal control and compliance. These sections make up the financial report presented here.

### **REQUIRED FINANCIAL STATEMENTS**

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

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

The *Statement of Net Assets* presents the financial position of the System on a full accrual historical cost basis. The statement of net assets includes all of the System's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the System's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the System, and assessing the liquidity and financial flexibility of the System.

The *Statement of Revenues, Expenses, and Changes in Net Assets* presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the System's operations and can be used to determine whether the System has successfully recovered all of its costs. This statement also measures the System's profitability and credit worthiness.

The *Statement of Cash Flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises.

The *Notes to the Financial Statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the System's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

## **FINANCIAL ANALYSIS**

One of the most important questions asked about the System's finances is "Is the System, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the System's activities in a way that will help answer this question. These two statements report the net assets of the System and the changes in the net assets. Net assets are one way to measure the financial health or financial position of the System. Over time, increases or decreases in the System's net assets is an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

The System's total net assets increased by \$2.05 million for the fiscal year ended June 30, 2011. The analysis below focuses on the System's net assets (Table 1) and changes in net assets (Table 2) during the year.

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

	June 30, 2011	June 30, 2010	Increase (Decrease)	
			Amount	Percent
Current and other assets	\$ 12,006,445	\$ 9,720,798	\$ 2,285,647	23.51%
Capital assets	<u>52,784,426</u>	<u>53,468,255</u>	<u>(683,829)</u>	-1.28%
Total assets	<u>64,790,871</u>	<u>63,189,053</u>	<u>1,601,818</u>	2.53%
Long-term liabilities	18,311,805	19,818,016	(1,506,211)	-7.60%
Other liabilities	<u>8,902,944</u>	<u>7,844,818</u>	<u>1,058,126</u>	13.49%
Total liabilities	<u>27,214,749</u>	<u>27,662,834</u>	<u>(448,085)</u>	-1.62%
Net assets:				
Invested in capital assets, net of related debt	34,047,314	33,408,491	638,823	1.91%
Restricted for debt service	529,370	358,952	170,418	47.48%
Unrestricted	<u>2,999,438</u>	<u>1,758,776</u>	<u>1,240,662</u>	70.54%
Total net assets	\$ 37,576,122	\$ 35,526,219	\$ 2,049,903	5.77%

The decrease in capital assets over the period was due to the fact that disposals and depreciation were greater than the amount of additions. The decrease in long-term liabilities was primarily due to the System making timely note and bond payments.

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

	June 30, 2010	June 30, 2009	Increase (Decrease)	
			Amount	Percent
Current and other assets	\$ 9,720,798	\$ 8,157,450	\$ 1,563,348	19.16%
Capital assets	<u>53,468,255</u>	<u>52,871,942</u>	<u>596,313</u>	1.13%
Total assets	<u>63,189,053</u>	<u>61,029,392</u>	<u>2,159,661</u>	3.54%
Long-term liabilities	19,818,016	19,144,885	673,131	3.52%
Other liabilities	<u>7,844,818</u>	<u>7,920,208</u>	<u>(75,390)</u>	-0.95%
Total liabilities	<u>27,662,834</u>	<u>27,065,093</u>	<u>597,741</u>	2.21%
Net assets:				
Invested in capital assets, net of related debt	33,408,491	33,723,177	(314,686)	-0.93%
Restricted for debt service	358,952	879,751	(520,799)	-59.20%
Unrestricted	<u>1,758,776</u>	<u>(638,629)</u>	<u>2,397,405</u>	-375.40%
Total net assets	\$ 35,526,219	\$ 33,964,299	\$ 1,561,920	4.60%

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

Table 2A

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

	June 30, 2011	June 30, 2010	Increase (Decrease)	
			Amount	Percent
Operating revenues	\$ 46,688,747	\$ 41,095,866	\$ 5,592,881	13.61%
Non-operating revenues	20,030	16,290	3,740	22.96%
Total revenues	<u>46,708,777</u>	<u>41,112,156</u>	<u>5,596,621</u>	13.61%
Cost of sales and service	33,593,689	29,077,598	4,516,091	15.53%
Operations and maintenance expense	6,586,810	6,443,066	143,744	2.23%
Depreciation expense	2,656,040	2,269,017	387,023	17.06%
Non-operating expenses	829,076	833,032	(3,956)	-0.47%
Total expenses	<u>43,665,615</u>	<u>38,622,713</u>	<u>5,042,902</u>	13.06%
Transfer	<u>(993,259)</u>	<u>(927,523)</u>	<u>(65,736)</u>	7.09%
Change in net assets	2,049,903	1,561,920	487,983	31.24%
Beginning net assets	<u>35,526,219</u>	<u>33,964,299</u>	<u>1,561,920</u>	4.60%
Ending net assets	<u>\$ 37,576,122</u>	<u>\$ 35,526,219</u>	<u>\$ 2,049,903</u>	5.77%

Table 2B

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

	June 30, 2010	June 30, 2009	Increase (Decrease)	
			Amount	Percent
Operating revenues	\$ 41,095,866	\$ 44,233,618	\$ (3,137,752)	-7.09%
Non-operating revenues	16,290	101,184	(84,894)	-83.90%
Total revenues	<u>41,112,156</u>	<u>44,334,802</u>	<u>(3,222,646)</u>	-7.27%
Cost of sales and service	29,077,598	32,387,851	(3,310,253)	-10.22%
Operations and maintenance expense	6,443,066	6,887,734	(444,668)	-6.46%
Depreciation expense	2,269,017	2,235,666	33,351	1.49%
Non-operating expenses	833,032	876,746	(43,714)	-4.99%
Total expenses	<u>38,622,713</u>	<u>42,387,997</u>	<u>(3,765,284)</u>	-8.88%
Transfer	<u>(927,523)</u>	<u>(898,608)</u>	<u>(28,915)</u>	3.22%
Change in net assets	1,561,920	1,048,197	513,723	49.01%
Beginning net assets	<u>33,964,299</u>	<u>32,916,102</u>	<u>1,048,197</u>	3.18%
Ending net assets	<u>\$ 35,526,219</u>	<u>\$ 33,964,299</u>	<u>\$ 1,561,920</u>	4.60%

The increase in operating revenues and cost of sales are related to the fact that costs related to energy purchases went up during the year which caused the System to increase rates charged to customers due primarily to TVA fuel cost adjustments and an increase in the cost of power. Total expenses also

increased 13.06% from 2010 to 2011 due primarily to an increase in the cost of sales and service. Ending net assets showed a 5.77% increase as a result of an operating profit for the year.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal year 2011, the System had \$52.78 million (net of accumulated depreciation) invested in a broad range of system capital assets. This investment includes land, equipment, buildings, vehicles and various other System infrastructure. Based on the uses of the aforementioned assets, they are classified for financial purposes as distribution plant, other plant, and general plant. This change represents an overall decrease (net of increases and decreases) of \$684 thousand or 1.28% below the fiscal year 2010.

The following tables summarize the System's capital assets, net of accumulated depreciation, and changes therein, for the year ended June 30, 2011 and 2010. These changes are presented in detail in Note 3D to the financial statements.

Table 3A  
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	June 30, 2011	June 30, 2010	Increase (Decrease)	
			Amount	Percent
Distribution plant	\$ 35,259,274	\$ 35,733,946	\$ (474,672)	-1.33%
General plant	14,559,634	14,685,190	(125,556)	-0.85%
Broadband	2,056,222	2,123,184	(66,962)	-3.15%
Work in process	909,296	925,935	(16,639)	-1.80%
Total capital assets	<u>\$ 52,784,426</u>	<u>\$ 53,468,255</u>	<u>\$ (683,829)</u>	-1.28%

Table 3B  
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	June 30, 2010	June 30, 2009	Increase (Decrease)	
			Amount	Percent
Distribution plant	\$ 35,733,946	\$ 34,323,428	\$ 1,410,518	4.11%
General plant	14,685,190	9,707,753	4,977,437	51.27%
Broadband	2,123,184	6,715,827	(4,592,643)	-68.39%
Work in process	925,935	2,124,934	(1,198,999)	-56.43%
Total capital assets	<u>\$ 53,468,255</u>	<u>\$ 52,871,942</u>	<u>\$ 596,313</u>	1.13%

The major portion of the disposals took place in the general plant and distribution plant and consisted mostly of transportation equipment and overhead conductors. The System plans on using existing financial resources to keep upgrading existing systems and adding new systems where it sees fit.

### Debt Administration

At the end of fiscal year 2011, PES had total outstanding long-term debt of \$15.2 million in the electric division and \$3.8 million in the broadband division. The \$15.2 million in the electric system is composed of Electric Revenue Bonds and Revenue and Tax Bonds. The broadband division debt is composed of Revenue and Tax Bonds. Principal payments are due in the upcoming fiscal year in the amount of \$785 thousand and interest payments totaling approximately \$769 thousand are also due.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The PES service territory continues to wrestle with the impacts of a struggling economy. Energy sales remain under pre-recession levels; however, modest improvements in both FY10 and FY11 have brought kWh totals to within nearly 3% of FY08's total. Industrial and large commercial sales in FY11 remained nearly 7% below FY08's pre-recession levels, while residential energy consumption increased by a modest 2.4%. Over the same period, PES's total customer count decreased by just over 1%.

Looking forward, local industries continue to show signs of modest improvement, but the residential housing market remains somewhat depressed. Weather has had a dramatic impact on residential usage over the last two years, but PES management expects FY12's kWh consumption to closely mirror FY11.

It is worth noting that in April of 2011, the Tennessee Valley Authority made significant changes to its wholesale demand and energy rate structure. Due to this rate change, revenue less power cost projections in the FY12 budget is a best-effort estimate.

Based on the information above, and taking into account expected increases in operating and capital expenses related to system improvements, the FY12 electric budget calls for a modest improvement in net assets, but below FY11's performance.

The broadband system continues to grow, though at a slower pace as it reaches market maturity. Revenues continue to increase year over year, and a modest improvement in revenue less cost-of-goods-sold is expected in FY12. For the first time in its history, the broadband division posted a positive change in net assets in FY11. PES management expects revenues to continue to exceed expenses in FY12.

## **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the System 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 Vice President of Finance of PES Energize, 128 South First Street, Pulaski, TN 38478.

**PES ENERGIZE**  
**CITY OF PULASKI, TENNESSEE**  
**STATEMENTS OF NET ASSETS**  
June 30, 2011 and 2010

<b>ASSETS</b>	Electric Division		Broadband Division		Total
	2011	2010	2011	2010	2011
<b>Current assets:</b>					
Cash on hand	\$ 1,800	\$ 1,800	\$ 600	\$ 600	\$ 2,400
Cash and cash equivalents - general	5,098,728	2,958,895	91,503	40,597	5,190,231
Accounts receivable - trade (net of allowance for uncollectibles electric \$109,937 and \$142,344 and broadband \$24,186 and \$26,324 for 2011 and 2010, respectively)	2,916,714	2,874,747	178,272	154,965	3,094,986
Accounts receivable - CSA	22,313	22,313	-	-	22,313
Accounts receivable - other	205,569	319,954	7,500	14,790	213,069
Accounts receivable - interest	2,406	4,005	-	-	2,406
Materials and supplies	660,513	683,782	107,098	104,053	767,611
Due from city	14,732	14,759	-	-	14,732
Due from (to) other division	7,264	9,566	(7,264)	(9,566)	-
Prepayments and other current assets	197,389	222,252	11,228	11,228	208,617
Total current assets	9,127,428	7,112,073	388,937	316,667	9,516,365
<b>Noncurrent assets:</b>					
Restricted:					
Cash and cash equivalents	1,062,346	787,371	228,992	251,546	1,291,338
Investments	736,617	726,805	-	-	736,617
	1,798,963	1,514,176	228,992	251,546	2,027,955
Other assets:					
Unamortized debt expense	197,385	217,554	40,508	43,790	237,893
Accounts receivable TVA - Home Insulation Program	98,700	139,099	-	-	98,700
Other deferred charges	125,532	125,893	-	-	125,532
	421,617	482,546	40,508	43,790	462,125
Capital assets:					
Distribution plant	53,336,696	52,603,516	-	-	53,336,696
General plant	19,281,669	18,960,390	2,838,778	2,643,809	22,120,447
Construction in progress	614,669	645,730	294,627	280,205	909,296
Less: accumulated depreciation	22,799,457	21,144,770	782,556	520,625	23,582,013
Total capital assets (net of accumulated depreciation)	50,433,577	51,064,866	2,350,849	2,403,389	52,784,426
Total noncurrent assets	52,654,157	53,061,588	2,620,349	2,698,725	55,274,506
<b>Total assets</b>	<b>\$61,781,585</b>	<b>\$60,173,661</b>	<b>\$ 3,009,286</b>	<b>\$ 3,015,392</b>	<b>\$64,790,871</b>

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

**PES ENERGIZE**  
**CITY OF PULASKI, TENNESSEE**  
**STATEMENTS OF NET ASSETS**  
June 30, 2011 and 2010

<b>LIABILITIES</b>	Electric Division		Broadband Division		Total
	2011	2010	2011	2010	2011
<b>Current liabilities:</b>					
Accounts payable	\$ 5,629,615	\$ 4,612,177	\$ 90,740	\$ 84,378	\$ 5,720,355
Due to city	621,948	636,378	-	-	621,948
Accrued leave	677,143	651,551	-	-	677,143
Other accrued expense	381,122	475,308	3,791	30,422	384,913
<b>Total current liabilities</b>	<b>7,309,828</b>	<b>6,375,414</b>	<b>94,531</b>	<b>114,800</b>	<b>7,404,359</b>
<b>Current liabilities payable from restricted assets:</b>					
Customers' deposits	644,279	618,473	4,400	4,550	648,679
Accrued interest	52,325	55,273	12,581	11,308	64,906
Current maturities of:					
Notes payable	-	681,108	-	-	-
Bonds payable	646,820	572,880	138,180	92,120	785,000
<b>Total current liabilities payable from restricted assets</b>	<b>1,343,424</b>	<b>1,927,734</b>	<b>155,161</b>	<b>107,978</b>	<b>1,498,585</b>
<b>Noncurrent liabilities:</b>					
Bonds payable (less current maturities)	14,546,324	15,193,144	3,643,676	3,781,856	18,190,000
Advances from TVA - Home Insulation Program	121,805	161,908	-	-	121,805
<b>Total noncurrent liabilities</b>	<b>14,668,129</b>	<b>15,355,052</b>	<b>3,643,676</b>	<b>3,781,856</b>	<b>18,311,805</b>
<b>Total liabilities</b>	<b>23,321,381</b>	<b>23,658,200</b>	<b>3,893,368</b>	<b>4,004,634</b>	<b>27,214,749</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	35,437,818	35,516,396	(1,390,499)	(1,426,797)	34,047,319
Restricted for debt service	455,539	(413,558)	73,831	143,568	529,370
Unrestricted	2,566,847	1,412,623	432,586	293,987	2,999,433
<b>Total net assets</b>	<b>\$ 38,460,204</b>	<b>\$ 36,515,461</b>	<b>\$ (884,082)</b>	<b>\$ (989,242)</b>	<b>\$ 37,576,122</b>

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

**PES ENERGIZE**  
**CITY OF PULASKI, TENNESSEE**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
For the Years Ended June 30, 2011 and 2010

	Electric Division		Broadband Division		Total
	2011	2010	2011	2010	2011
<b>Operating revenues:</b>					
Charges for sales and service	\$ 43,136,529	\$ 37,781,866	\$ 2,377,084	\$ 1,983,884	\$ 45,513,613
Other operating revenue	1,047,909	1,180,332	127,225	149,784	1,175,134
<b>Total operating revenues</b>	<u>44,184,438</u>	<u>38,962,198</u>	<u>2,504,309</u>	<u>2,133,668</u>	<u>46,688,747</u>
<b>Operating expenses:</b>					
Cost of sales and services	33,101,481	28,628,766	492,208	448,832	33,593,689
Distribution expenses	567,027	716,732	1,059,269	1,065,061	1,626,296
Customer accounts expenses	391,419	443,793	56,393	52,287	447,812
Customer service and information expenses	402,437	309,433	152,085	148,127	554,522
Administrative and general expenses	1,964,466	1,914,221	222,159	217,841	2,186,625
Maintenance expenses	1,771,190	1,573,797	365	1,774	1,771,555
Provision for depreciation expense	2,394,107	2,051,786	261,933	217,231	2,656,040
<b>Total operating expenses</b>	<u>40,592,127</u>	<u>35,638,528</u>	<u>2,244,412</u>	<u>2,151,153</u>	<u>42,836,539</u>
Operating income (loss)	<u>3,592,311</u>	<u>3,323,670</u>	<u>259,897</u>	<u>(17,485)</u>	<u>3,852,208</u>
<b>Nonoperating revenues (expenses):</b>					
Interest and other income	19,413	14,671	617	1,619	20,030
Amortization expense	(20,169)	(23,554)	(3,103)	(7,494)	(23,272)
Interest and other expense	(653,553)	(666,291)	(152,251)	(135,693)	(805,804)
<b>Total nonoperating revenues (expenses)</b>	<u>(654,309)</u>	<u>(675,174)</u>	<u>(154,737)</u>	<u>(141,568)</u>	<u>(809,046)</u>
Income (loss) before transfers	<u>2,938,002</u>	<u>2,648,496</u>	<u>105,160</u>	<u>(159,053)</u>	<u>3,043,162</u>
<b>Transfers</b>					
Transfers out - in lieu of tax payments to city	(993,259)	(927,523)	-	-	(993,259)
<b>Change in net assets</b>	<u>1,944,743</u>	<u>1,720,973</u>	<u>105,160</u>	<u>(159,053)</u>	<u>2,049,903</u>
<b>Total net assets - beginning</b>	<u>36,515,461</u>	<u>36,870,266</u>	<u>(989,242)</u>	<u>(830,189)</u>	<u>35,526,219</u>
Prior period adjustment	-	(2,075,778)	-	-	-
<b>Total net assets - beginning (restated)</b>	<u>36,515,461</u>	<u>34,794,488</u>	<u>(989,242)</u>	<u>(830,189)</u>	<u>35,526,219</u>
<b>Total net assets - ending</b>	<u>\$ 38,460,204</u>	<u>\$ 36,515,461</u>	<u>\$ (884,082)</u>	<u>\$ (989,242)</u>	<u>\$ 37,576,122</u>

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

**PES ENERGIZE**  
**CITY OF PULASKI, TENNESSEE**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended June 30, 2011 and 2010

	Electric Division		Broadband Division		Total
	2011	2010	2011	2010	2011
<b>Cash flows from operating activities:</b>					
Cash received from consumers	\$ 44,256,856	\$ 37,706,565	\$ 2,504,309	\$ 2,133,668	\$ 46,761,165
Cash paid to suppliers	(35,337,790)	(31,409,234)	(1,597,682)	(1,453,227)	(36,935,472)
Cash paid to employees	(2,856,152)	(3,134,148)	(426,251)	(473,411)	(3,282,403)
Customer deposits received	162,253	146,665	1,050	(550)	163,303
Customer deposits refunded	(136,447)	(176,886)	(1,200)	-	(137,647)
Amounts received from (paid to) other funds	(12,101)	219,247	-	-	(12,101)
Net cash provided (used) by operating activities	6,076,619	3,352,209	480,226	206,480	6,556,845
<b>Cash flows from capital and related financing activities:</b>					
Principal paid on debt	(1,253,988)	(435,000)	(92,120)	(4,626,024)	(1,346,108)
Purchase of property, plant and equipment	(1,629,154)	(7,110,858)	(209,393)	4,410,456	(1,838,547)
Plant removal cost	(213,510)	(190,526)	-	-	(213,510)
Materials salvaged from retirements	79,846	25,598	-	-	79,846
Interest paid on bonds, notes and leases	(656,501)	(654,599)	(150,978)	(151,992)	(807,479)
Net cash provided (used) by capital and related financing activities	(3,673,307)	(8,365,385)	(452,491)	(367,560)	(4,125,798)
<b>Cash flows from investing activities:</b>					
Proceeds from long-term debt	-	5,901,773	-	-	-
Purchase of investments	(736,617)	(959,835)	-	-	(736,617)
Sale of investments	726,805	1,522,689	-	-	726,805
Interest and unrealized change in investments	21,012	27,622	617	1,619	21,629
Conservation loans (made) paid	296	6,808	-	-	296
Net cash provided (used) by investing activities	11,496	6,499,057	617	1,619	12,113
<b>Net increase (decrease) in cash and cash equivalents</b>	2,414,808	1,485,881	28,352	(159,461)	2,443,160
<b>Cash and cash equivalents - beginning</b>	3,748,066	2,262,185	292,743	452,204	4,040,809
<b>Cash and cash equivalents - ending</b>	\$ 6,162,874	\$ 3,748,066	\$ 321,095	\$ 292,743	\$ 6,483,969
<b>Cash and cash equivalents</b>					
Unrestricted cash on hand	\$ 1,800	\$ 1,800	\$ 600	\$ 600	\$ 2,400
Unrestricted cash and cash equivalents on deposit	5,098,728	2,958,895	91,503	40,597	5,190,231
Restricted cash and cash equivalents on deposit	1,062,346	787,371	228,992	251,546	1,291,338
<b>Total cash and cash equivalents</b>	\$ 6,162,874	\$ 3,748,066	\$ 321,095	\$ 292,743	\$ 6,483,969

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

**PES ENERGIZE**  
**CITY OF PULASKI, TENNESSEE**  
**STATEMENTS OF CASH FLOWS (Cont.)**  
For the Years Ended June 30, 2011 and 2010

	<u>Electric Division</u>		<u>Broadband Division</u>		<u>Total</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>					
Operating income (loss)	\$ 3,592,311	\$ 3,323,670	\$ 259,897	\$ (17,485)	\$ 3,852,208
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	2,373,938	2,028,232	262,112	279,987	2,636,050
Transfers	(993,259)	(927,523)	-	-	(993,259)
Changes in assets and liabilities:					
Accounts receivable	72,418	(1,052,227)	(16,017)	(24,932)	56,401
Materials and supplies	23,269	(17,571)	(3,045)	155,748	20,224
Due (to) from city	(14,403)	41,658	-	-	(14,403)
Due from/to other division	2,302	177,589	(2,302)	(177,589)	-
Prepayments and other current assets	45,032	(3,893)	-	(16)	45,032
Other deferred charges	361	15,573	-	-	361
Accounts payable and accrued expenses	923,252	(98,142)	(20,269)	(8,683)	902,983
Accrued leave	25,592	(104,936)	-	-	25,592
Customer deposits	25,806	(30,222)	(150)	(550)	25,656
<b>Net cash provided (used) by operating activities:</b>	<u>\$ 6,076,619</u>	<u>\$ 3,352,208</u>	<u>\$ 480,226</u>	<u>\$ 206,480</u>	<u>\$ 6,556,845</u>

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

**PES ENERGIZE  
PULASKI, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Electric System is administered by the City of Pulaski, Tennessee, as a separate department governed by the Pulaski Electric Board. The five members of the Electric Power Board are appointed by the City Board of Mayor and Aldermen. The accompanying financial statements present only the Electric Fund and do not include other funds of the City of Pulaski, Tennessee. Accordingly, they are not intended to present fairly the financial position nor results of operations of the City of Pulaski, Tennessee, in conformity with accounting principles generally accepted in the United States of America.

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units and criteria set forth in Government Accounting Standards Board (GASB) Statement No. 14.

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

The System's financial statements are presented on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounting policies of the System conform to applicable generally accepted accounting principles as defined in the pronouncements of the *Governmental Accounting Standards Board (GASB)*, *Financial Accounting Standards Board (FASB) Statements and Interpretations*, *Accounting Principle Board (APB) Opinions*, and *Accounting Research Bulletins (ARBs)* issued on or before November 30, 1989. As allowed by GASB, the System has elected not to apply *FASB Statements and Interpretations* issued after November 30, 1989.

Business-type funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the business-type fund's principal ongoing operations. The principal operating revenues of the System are charges for sales to customers for sales and service. Operating expenses for the business-type funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted resources as they are needed.

**C. Assets, Liabilities, and Net Assets**

***Deposits and Investments***

The System's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**PES ENERGIZE  
PULASKI, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

State statutes authorize the System to invest in certificates of deposit, obligations of the U.S. Treasury, agencies, instrumentalities and obligations guaranteed as to principal and interest by the United States or any of its agencies, repurchase agreements, and the Tennessee local government investment pool.

***Accounts Receivable***

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Trade receivables result from unpaid billings for service to customers and from unpaid billings related to work performed for or materials sold to certain entities. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible customer accounts recorded by the System is based on past history of uncollectible accounts and management's analysis of current accounts.

***Inventories and Prepaid Items***

Inventory consists primarily of materials and supplies and is valued at the lower of average cost or market, using the first-in/first-out (FIFO) method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

***Restricted Assets***

Certain proceeds of the bond issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The System elects to use restricted assets before unrestricted assets when the situation arises where either can be used.

***Capital Assets***

Capital assets, which include property, plant, equipment, and construction in progress, are defined by the System as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the System are depreciated using the straight line method over the following useful lives:

General plant	5 - 50 years
Distribution plant	6 - 50 years

**PES ENERGIZE  
PULASKI, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

***Long-term Obligations***

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

***Net Assets***

Equity is classified as net assets and displayed in the following three components:

- Invested in capital assets, net of related debt - consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or notes payable that are attributable to the acquisition, construction, or improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.
- Restricted for debt service – consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates, less any related liabilities.
- Restricted for debt funded capital projects – consists of the excess of bond proceeds and construction in progress over the outstanding debt related to the Broadband project.
- Unrestricted – all other net assets that do not meet the description of the above categories.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary Information**

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

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

**PES ENERGIZE  
PULASKI, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**NOTE 3 - DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

***Custodial Credit Risk***

The System's policies limit deposits and investments to those instruments allowed by applicable state laws and described below. State 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. State statutes also authorize the System to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2011, all of the System's deposits were fully collateralized.

**B. Receivables**

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

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Billed services for utility customers	\$ 3,249,109	\$ 3,198,380
Receivable from CSA	22,313	22,313
Other receivables for utility services	103,333	334,744
Interest receivable	2,406	4,005
Allowance for doubtful accounts	<u>(134,123)</u>	<u>(168,668)</u>
Total	<u>\$ 3,243,038</u>	<u>\$ 3,390,774</u>

Not included in the Receivables mentioned above is \$37,548 of estimated Grants Receivable. The System maintains their Grants Receivable as an open work order in Construction in Progress.

The estimated amount of \$37,548 is related to Federal Emergency Management Agency reimbursement that is expected, but no grant contract was in place as of June 30, 2011.

**PES ENERGIZE  
PULASKI, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**C. Restricted Assets**

All deposits required by bond covenants have been made. Restricted assets as of the fiscal year end were made up of the following:

	June 30, 2011	June 30, 2010
The restricted assets consist of the following:		
Cash and cash equivalents - Sinking funds	\$ 615,287	\$ 151,295
Cash and cash equivalents - Construction fund	1,412,668	1,614,427
	\$ 2,027,955	\$ 1,765,722
The total of these funds is represented by:		
Certificates of deposit and bank accounts	\$ 2,027,955	\$ 1,765,722

**D. System Plant in Service**

Changes to System plant in service during the year are summarized as follows:

**Electric System:**

Description	Balance at June 30, 2010	Additions	Disposals	Balance at June 30, 2011
Capital assets, not being depreciated:				
Distribution plant	\$ 178,765	\$ -	\$ -	\$ 178,765
General plant	190,597	-	-	190,597
Construction in progress	645,730	12,486	43,547	614,669
Total capital assets, not being depreciated	1,015,092	12,486	43,547	984,031
Capital assets, being depreciated:				
Distribution plant	52,424,751	1,183,370	450,190	53,157,931
General plant	18,769,793	806,330	485,051	19,091,072
Total capital assets, being depreciated	71,194,544	1,989,700	935,241	72,249,003
Less accumulated depreciation for:				
Distribution plant	16,869,570	1,749,183	541,331	18,077,422
General plant	4,275,200	870,241	423,406	4,722,035
Total accumulated depreciation	21,144,770	2,619,424	964,737	22,799,457
Total capital assets, being depreciated, net	50,049,774	(629,724)	(29,496)	49,449,546
Total capital assets, net	\$ 51,064,866	\$ (617,238)	\$ 14,051	\$ 50,433,577

**PES ENERGIZE  
PULASKI, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2011**

**Broadband System:**

Discription	Balance at June 30, 2010	Additions	Disposals	Balance at June 30, 2011
Capital assets, not being depreciated:				
Construction in progress	\$ 280,205	\$ 14,422	\$ -	\$ 294,627
Capital assets, being depreciated:				
General plant	\$ 2,643,809	\$ 194,969	\$ -	\$ 2,838,778
Less: accumulated depreciation for:				
General plant	520,625	261,931	-	782,556
Total capital assets, being depreciated, net	2,123,184	(66,962)	-	2,056,222
Total capital assets, net	<u>\$ 2,403,389</u>	<u>\$ (52,540)</u>	<u>\$ -</u>	<u>\$ 2,350,849</u>

Depreciation expense amounted to \$2,394,107 in the electric division and \$261,933 in the Broadband division for the fiscal year ended June 30, 2011 and \$2,051,786 in the electric division and \$217,231 in the broadband division for the fiscal year ended June 30, 2010.

**E. Interfund Receivables and Payables**

The composition of interfund balances at June 30, 2011 is as follows:

	Due from:			
	Electric	Broadband	City Hall	Total
Due to:				
Electric	\$ (7,264)	\$ 7,264	\$ 14,732	\$ 14,732
City Hall	621,948	-	-	621,948
	<u>\$ 614,684</u>	<u>\$ 7,264</u>	<u>\$ 14,732</u>	<u>\$ 636,680</u>

Amounts due to the city are for gas, water, and garbage billings made on behalf of the City of Pulaski. Amounts are typically repaid within sixty days.

**PES ENERGIZE  
PULASKI, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS  
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**F. Long-term Debt**

A summary of changes in the long-term debt for the year ended June 30, 2011 is as follows:

	Balance July 1, 2010	Additions	Payments	Balance July 30, 2011	Current Portion
Revenue Bonds - Series 2001	\$ 830,000	\$ -	\$ (195,000)	\$ 635,000	\$ 205,000
Revenue and Tax Bonds - 2005 - Electric	4,526,024	-	(107,880)	4,418,144	161,820
Revenue and Tax Bonds - 2005 - Broadband	3,873,976	-	(92,120)	3,781,856	138,180
Revenue and Tax Refunding Bonds - 2001	9,680,000	-	(270,000)	9,410,000	280,000
Subordinate Revenue Bonds - Series 2010	730,000	-	-	730,000	-
Note Payable - BancorpSouth	181,108	-	(181,108)	-	-
Note Payable - NCSC	500,000	-	(500,000)	-	-
Total	<u>\$ 20,321,108</u>	<u>\$ -</u>	<u>\$ (1,346,108)</u>	<u>\$ 18,975,000</u>	<u>\$ 785,000</u>

Long-term debt consisted of the following at June 30, 2011:

Electric System revenue and tax bonds - Series 2001, due through November 2013, with an interest rate of 2.5 to 4.4%	\$ 635,000
Electric System revenue and tax bonds - Series 2005, due through June 1, 2025, with an interest rate of 3.5 to 4.15%	4,418,144
Broadband System revenue and tax bonds - Series 2005, due through June 1, 2025, with an interest rate of 3.5 to 4.15%	3,781,856
Electric System revenue refunding and improvement bonds - Series 2006, due through June 1, 2031, with an interest rate of 4 to 4.45%	9,410,000
Electric System subordinate revenue bonds - Series 2010, interest only, with principal due in full February 1, 2013, with a fixed initial rate of 3.87% for the first year and a variable rate to maturity based on the current certificate of deposit rate plus 2.70%	<u>730,000</u>
	<u>\$ 18,975,000</u>

**PES ENERGIZE  
PULASKI, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**F. Long-term Debt**

A summary of future debt service amounts are as follows:

Fiscal Year	Principal	Interest	Total
2012	\$ 785,000	\$ 768,755	\$ 1,553,755
2013	1,630,000	731,276	2,361,276
2014	1,020,000	675,185	1,695,185
2015	880,000	638,345	1,518,345
2016	910,000	603,145	1,513,145
2017 - 2021	5,120,000	2,446,175	7,566,175
2022 - 2026	5,470,000	1,330,790	6,800,790
2027 - 2031	3,160,000	429,385	3,589,385
Total	<u>\$ 18,975,000</u>	<u>\$ 7,623,056</u>	<u>\$ 26,598,056</u>

**G. Net Assets**

Net assets represent the difference between assets and liabilities. The restricted net assets as of June 30, 2011 and 2010 were as follows:

	2011	2010
Invested in capital assets, net of related debt		
Net property, plant and equipment in service	\$ 52,784,426	\$ 53,468,255
Unamortized bond issue costs	237,893	261,344
Less: Debt disclosed in Note 3F	<u>(18,975,000)</u>	<u>(20,321,108)</u>
	<u>34,047,319</u>	<u>33,408,491</u>
Restricted for debt service		
Restricted cash and cash equivalents	2,027,955	1,765,722
Less: Current liabilities payable from restricted assets	<u>(1,498,585)</u>	<u>(2,035,712)</u>
	<u>529,370</u>	<u>(269,990)</u>
Unrestricted	<u>2,999,433</u>	<u>3,631,148</u>
Total net assets	\$ 37,576,122	\$ 36,769,649

**PES ENERGIZE  
PULASKI, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**NOTE 4 - OTHER INFORMATION**

**A. Defined Benefit Plan**

Plan Description: The Plan is a single-employer defined benefit pension plan that covers all full-time employees (following three months of service) and Board Members immediately. The Plan provides retirement, termination, disability, and death benefits to plan members and beneficiaries. Cost-of-living adjustments (COLA) to Plan members and beneficiaries, excluding Board Members in receipt of monthly benefits, are provided annually at the rate of 3% of the original benefit amount.

All the benefits and provisions of the Plan are at the discretion of the Board consistent with the laws of Tennessee and the United States federal government. The Plan issues a publicly available financial report that includes financial and required supplementary information for the Plan. That report may be obtained by writing to PES Energize, Attention: Superintendent; P.O. Box 368, Pulaski, Tennessee 38478-0369 or by calling 931-363-2522.

Annual Pension Cost: For the year ended June 30, 2011, the System's annual pension cost of \$565,449 for the Plan was equal to the System's required and actual contributions. The required contribution was determined as part of the July 1, 2011 calculation.

Annual Pension and Net Pension Obligation Under GASB 27

	2007	2008	2009	2010	2011
Beginning NPO	\$ (26,536)	\$ (122,261)	\$ (218,855)	\$ (541,114)	\$ (727,852)
Contribution - funding method	414,821	412,652	427,749	363,828	616,399
Amortization of NPO	(2,888)	(3,161)	(31,394)	(84,691)	(64,209)
Annual Required Contribution (ARC)	411,933	409,491	396,355	279,137	552,190
Interest on NPO	(1,858)	(8,558)	(15,320)	(37,878)	(50,950)
Total Annual Pension Cost	412,963	404,094	412,429	325,950	565,449
Employer contribution	508,688	500,688	734,688	512,688	(162,403)
Change in NPO due to principal repayment	1,030	(5,397)	16,074	46,813	13,259
Change in NPO due to contribution	(96,755)	(91,197)	(338,333)	(233,551)	714,593
Ending NPO	<u>\$ (122,261)</u>	<u>\$ (218,855)</u>	<u>\$ (541,114)</u>	<u>\$ (727,852)</u>	<u>\$ -</u>

**B. Power Contract**

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

**PES ENERGIZE  
PULASKI, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**C. Transfer of Assets**

During fiscal year 2010, the System transferred \$4,585,060 of Broadband infrastructure and long-term debt to the Electric division. This transfer was done with Board and TVA approval to comply with the new allocation model necessary for the Smart Grid applications.

**D. OPEB Disclosure**

**Plan Description** – PES Energize sponsors a single-employer post-retirement plan. The plan provides a portion of medical benefits to eligible retirees until Medicare eligible.

**Funding Policy** - The System intends to continue its policy of funding OPEB liabilities on a pay-go basis and to not pre-fund any unfunded annual required contribution as determined under GASB-45.

**Annual OPEB Cost and Net OPEB Obligation** - The System's annual other post-retirement benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the System's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the System's net OPEB Obligation.

**Components of Net OPEB Obligation**

Annual required contribution	\$ 86,166
Amortization of OPEB Obligation	1,834
Annual OPEB Cost (expense)	88,000
Interest on Net OPEB Obligation	1,111
Amortization of OPEB Obligation	(1,834)
Contributions and subsidy	(45,727)
Change in obligation	41,550
Net OPEB Obligation (BOY)	37,027
Net OPEB (Asset) Obligation (EOY)	\$ 78,577

The System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2011 and 2010 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 88,723	\$ 45,727	51.54%	\$ (78,577)
June 30, 2009	78,162	41,134	52.63%	(37,027)

**PES ENERGIZE**  
**PULASKI, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2011 AND 2010

**Funded Status and Funding Progress** - As of July 1, 2009, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$749,052 and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$749,052. The covered payroll (annual payroll of active employees covered by the plan) was \$3,074,259 and the ratio of the UAAL to the covered payroll was 24.37%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions** - Projections of benefits for financial reporting purposes are based on substantive plan (the plan as understood by the employer and the plan members) and includes the type of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan assets at the valuation date, and an annual healthcare cost trend rate of 7% initially, reduced each year by .25% until a rate of 3% is reached. The actuarial value of assets was determined using a standard balanced portfolio expectation for retirement plan asset returns. The UAAL is being amortized as a level percentage of payrolls on an open basis. The remaining amortization period at June 30, 2010 was 28 years.

#### **D. PRIOR PERIOD ADJUSTMENT AND RESTATEMENT OF PRIOR YEAR AMOUNTS**

PES Energize made the decision during the year to eliminate the recording of unbilled revenue. This change required us to restate the prior year financial statements. We also had to record a prior period adjustment at the beginning of the prior year. This change resulted in a \$203,406 increase in revenue at June 30, 2010. Additionally, accrued unbilled utility revenue was adjusted by \$1,872,372 to eliminate this balance. Lastly, a prior period adjustment to beginning net assets during the 2009 fiscal year in the amount of \$2,075,778 was necessary.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**PES ENERGIZE**  
**CITY OF PULASKI, TENNESSEE**  
**SCHEDULE OF FUNDING PROGRESS - EMPLOYEE RETIREMENT SYSTEM**  
For the Year Ended June 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2010	\$ 8,318,423	\$ 10,515,694	\$ 2,197,271	79.10%	\$ 2,931,712	74.95%
7/1/2009	8,663,721	9,669,292	1,005,571	89.60%	3,074,259	32.71%
7/1/2008	8,617,668	9,505,363	887,695	90.66%	2,758,098	32.19%
7/1/2007	8,506,210	9,001,871	495,661	94.49%	2,784,346	17.80%
7/1/2006	7,711,835	8,677,963	966,128	88.87%	2,531,559	38.16%
7/1/2005	7,418,598	8,487,101	1,068,503	87.41%	2,388,187	44.74%
7/1/2004	7,571,669	6,876,041	(695,628)	110.12%	2,419,313	-28.75%

The above schedule is designed to show the extent to which a pension plan has been successful over time in setting aside assets sufficient to cover its actuarial accrued liability.

An interest rate assumption of 7% has been used in each of the above valuations.

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

*See independent auditor's report.*

## **OTHER SUPPLEMENTARY INFORMATION SECTION**

**PES ENERGIZE**  
**CITY OF PULASKI, TENNESSEE**  
**SCHEDULES OF OPERATING REVENUES AND EXPENSES - ELECTRIC DIVISION**  
For the Years Ended June 30, 2011 and 2010

	<u>2011</u>		<u>2010</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
<b>Operating revenues:</b>				
Charges for sales and services:				
Residential sales	\$ 19,914,513	45.07	\$ 17,165,929	44.06
Small lighting and power sales	3,680,033	8.33	3,347,714	8.59
Large lighting and power sales	14,795,607	33.49	12,752,350	32.73
Industrial sales	3,961,359	8.97	3,805,623	9.77
Street and athletic lighting sales	421,484	0.95	393,676	1.01
Outdoor lighting sales	330,655	0.75	303,374	0.78
Other sales	32,878	0.07	13,200	0.03
Total charges for sales and services	<u>43,136,529</u>	<u>97.63</u>	<u>37,781,866</u>	<u>96.97</u>
Other revenues:				
Forfeited discounts	289,439	0.66	237,965	0.61
Service charge revenue	131,235	0.30	149,090	0.38
Miscellaneous service revenue	4,980	0.01	5,980	0.02
Rent from property	585,700	1.33	786,237	2.02
Other electric revenue	36,555	0.08	1,060	0.00
Total other revenues	<u>1,047,909</u>	<u>2.37</u>	<u>1,180,332</u>	<u>3.03</u>
<b>Total operating revenue</b>	<u><b>\$ 44,184,438</b></u>	<u><b>100.00</b></u>	<u><b>\$ 38,962,198</b></u>	<u><b>100.00</b></u>
<b>Operating expenses:</b>				
Cost of sales and services:				
Purchased power	\$ 33,101,481	81.55	28,628,766	80.33
Distribution expenses:				
Station expense	1,766	0.00	18,491	0.05
Supervision and engineering	93,870	0.23	99,028	0.28
Overhead line expense	43,603	0.11	99,010	0.28
Underground line expense	1,889	0.00	1,825	0.01
Substation expense	31,527	0.08	24,280	0.07
Street lighting and signal system	17,462	0.04	13,638	0.04
Meter expense	143,391	0.35	159,471	0.45
Installation expense	93,310	0.23	124,709	0.35
Rents	23,474	0.06	23,037	0.06
Miscellaneous	116,735	0.29	153,243	0.43
Total distribution expenses	<u>\$ 567,027</u>	<u>1.40</u>	<u>\$ 716,732</u>	<u>2.01</u>

*See independent auditor's report.*

**PES ENERGIZE**  
**CITY OF PULASKI, TENNESSEE**  
**SCHEDULES OF OPERATING REVENUES AND EXPENSES - ELECTRIC DIVISION**  
For the Years Ended June 30, 2011 and 2010

	2011		2010	
	Amount	Percent	Amount	Percent
<b>Operating expenses (cont.):</b>				
Customer accounts expenses:				
Customer records and collection expense	\$ 391,419	0.96	\$ 443,793	1.25
Customer service and information expenses:				
Supervision customer service	63,865	0.16	61,952	0.17
Customer assistance expense	151,429	0.37	127,648	0.36
Information and advertising expense	20,643	0.05	19,838	0.06
Demonstrating and selling	12,525	0.03	12,525	0.04
Sales	93,019	0.23	78,640	0.22
Miscellaneous	60,956	0.15	8,830	0.02
Total customer service and information expenses	<u>402,437</u>	<u>0.99</u>	<u>309,433</u>	<u>0.87</u>
Administrative expenses:				
Salaries	786,792	1.94	710,775	1.99
Board members pay	9,160	0.02	7,679	0.02
Safety coordinator	126,104	0.31	72,212	0.20
Office supplies and expense	364,835	0.90	378,746	1.06
Outside services employed	183,648	0.45	269,832	0.76
Insurance	200,833	0.49	204,328	0.57
Duplicate charge credit	(125,168)	(0.31)	(111,712)	(0.31)
Employee educational expense	23,695	0.06	38,864	0.11
Property taxes	307,395	0.76	278,584	0.78
Donations	22,607	0.06	19,334	0.05
Miscellaneous	64,565	0.16	45,579	0.13
Total administrative expenses	<u>\$ 1,964,466</u>	<u>4.84</u>	<u>\$ 1,914,221</u>	<u>5.36</u>

See independent auditor's report.

**PES ENERGIZE**  
**CITY OF PULASKI, TENNESSEE**  
**SCHEDULES OF OPERATING REVENUES AND EXPENSES - ELECTRIC DIVISION**  
For the Years Ended June 30, 2011 and 2010

	2011		2010	
	Amount	Percent	Amount	Percent
<b>Operating expenses (cont.):</b>				
Maintenance expenses:				
Substation expense	\$ 59,788	0.15	\$ 15,545	0.04
Overhead lines	1,384,044	3.41	1,242,115	3.49
Underground Lines	323	0.00	903	0.00
Tree replacement	-	-	326	0.00
Line transformers	28,238	0.07	20,115	0.06
Street lights and signal system	7,183	0.02	6,658	0.02
Meters	103,018	0.25	93,603	0.26
Outdoor lighting	35,322	0.09	39,986	0.11
Maintenance - general	153,274	0.38	154,546	0.43
Total maintenance expenses	<u>1,771,190</u>	<u>4.36</u>	<u>1,573,797</u>	<u>4.42</u>
Provision for depreciation	<u>2,394,107</u>	<u>5.90</u>	<u>2,051,786</u>	<u>5.76</u>
<b>Total operating expenses</b>	<u>\$ 40,592,127</u>	<u>100.00</u>	<u>\$ 35,638,528</u>	<u>100.00</u>

*See independent auditor's report.*

**PES ENERGIZE**  
**CITY OF PULASKI, TENNESSEE**  
**SCHEDULES OF OPERATING REVENUES AND EXPENSES - BROADBAND DIVISION**  
For the Years Ended June 30, 2011 and 2010

	<u>2011</u>		<u>2010</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
<b>Operating revenues:</b>				
Charges for sales and services:				
Video	\$ 946,916	37.81	\$ 787,479	36.91
Pay per view	9,882	0.39	12,105	0.57
STB channel	61,684	2.46	60,276	2.82
Data	664,386	26.53	559,837	26.24
Other data services	130,058	5.19	122,283	5.73
Collection and data storage	36,370	1.45	33,408	1.57
Telephone	562,503	22.46	464,364	21.76
Other sales	<u>(34,715)</u>	<u>(1.39)</u>	<u>(55,868)</u>	<u>(2.62)</u>
Total charges for sales and services	<u>2,377,084</u>	<u>94.92</u>	<u>1,983,884</u>	<u>92.98</u>
Other revenues:				
Service charge revenue	89,088	3.56	78,919	3.70
Miscellaneous	4,250	0.17	41,027	1.92
Late payment fee	<u>33,887</u>	<u>1.35</u>	<u>29,838</u>	<u>1.40</u>
Total other revenues	<u>127,225</u>	<u>5.08</u>	<u>149,784</u>	<u>7.02</u>
<b>Total operating revenue</b>	<u>\$ 2,504,309</u>	<u>100.00</u>	<u>\$ 2,133,668</u>	<u>100.00</u>
<b>Operating expenses:</b>				
Cost of sales and services:				
Internet cogs	\$ 168,451	7.51	\$ 179,078	8.32
Telephone cogs	<u>323,757</u>	<u>14.43</u>	<u>269,754</u>	<u>12.54</u>
Total cost of sales and services	<u>492,208</u>	<u>21.93</u>	<u>448,832</u>	<u>20.86</u>
Distribution expenses:				
Sub-station expense	182,509	8.13	368,129	17.11
Installation expense	-	-	3,920	0.18
Programming fee	832,818	37.11	691,877	32.16
Miscellaneous	<u>43,942</u>	<u>1.96</u>	<u>1,135</u>	<u>0.05</u>
Total distribution expenses	<u>1,059,269</u>	<u>47.20</u>	<u>\$ 1,065,061</u>	<u>49.51</u>
Customer accounts expenses:				
Customer records and collection expense	<u>\$ 56,393</u>	<u>2.51</u>	<u>\$ 52,287</u>	<u>2.43</u>

*See independent auditor's report.*

**PES ENERGIZE**  
**CITY OF PULASKI, TENNESSEE**  
**SCHEDULES OF OPERATING REVENUES AND EXPENSES - BROADBAND DIVISION**  
For the Years Ended June 30, 2011 and 2010

	2011		2010	
	Amount	Percent	Amount	Percent
<b>Operating expenses (cont.):</b>				
Customer service and information expenses:				
Supervision customer service	\$ 5,972	0.27	\$ 6,342	0.29
Customer assistance expense	119,585	5.33	119,798	5.57
Information and advertising expense	22,117	0.99	11,078	0.51
Sales	4,411	0.20	10,909	0.51
Total customer service and information expenses	<u>152,085</u>	<u>6.78</u>	<u>148,127</u>	<u>6.89</u>
Administrative and general expenses:				
Salaries	75,121	3.35	67,590	3.14
Office supplies and expense	30,022	1.34	14,674	0.68
Outside services employed	48,457	2.16	72,496	3.37
Insurance	14,983	0.67	14,332	0.67
Employee pension and benefits	241	0.01	4,379	0.20
Rents	39,018	1.74	39,017	1.81
Miscellaneous	14,317	0.64	5,353	0.25
Total administrative and general expenses	<u>222,159</u>	<u>9.90</u>	<u>217,841</u>	<u>10.13</u>
Maintenance expenses:				
Substation expense	-	-	189	0.01
Distribution	365	0.02	1,585	0.07
Total maintenance expenses	<u>365</u>	<u>0.02</u>	<u>1,774</u>	<u>0.08</u>
Provision for depreciation	<u>261,933</u>	<u>11.67</u>	<u>217,231</u>	<u>10.10</u>
<b>Total operating expenses</b>	<u>\$ 2,244,412</u>	<u>100.00</u>	<u>\$ 2,151,153</u>	<u>100.00</u>

See independent auditor's report.





**PES ENERGIZE**  
**CITY OF PULASKI, TENNESSEE**  
**SCHEDULE OF ELECTRIC RATES IN FORCE**  
For the Year Ended June 30, 2011

**Residential rate schedule RS**

Customer charge - per delivery point per month	\$ 19.21
Energy charge - cents per kWh	-
First 800 kWh	0.09402
Additional	0.09402

**Commercial Rate:**

Demand from 0 to 50 KW - Schedule GSA1

Customer charge - per delivery point per month	\$ 30.50
Each kWh - cents per kWh	0.09960

Demand from 5 to 1,000 kW - Schedule GSA2

Customer charge per delivery point per month	\$ 125.00
Demand charges - per kW per month over 51 kW	14.07
Energy charge - cents per kWh	
First 15,000 kWh per month	0.10152
Additional kWh per month	0.06051

**Industrial Rate:**

Demand from 1,001 to 5,000 kW - Schedule GSA3

Customer charge per delivery point per month	\$ 500.00
Demand charges - per kW per month	
First 1,000 kW	0.17310
Excess over 1,000 kW	0.10630
Energy charge - cents per kWh	0.06276

American Mag

Customer charge per delivery point per month	\$ 1,500.00
Energy charge - cents per kWh for up to 620 hours	0.04170
Per kWh for all additional kWh per month	0.04170
Demand charges - per kW per month	0.18220

Demand for Street Outdoor Lighting - Schedule OL

Per kWh per month	\$ 0.06502
150W HPS Security	8.34
175W MPI Security	7.26
250W HPS Security	11.70
400W MH Security	16.51
400W MVI Security	14.14
400W HPS Security	16.51
1000W MVI Security	31.56
1000W HPS Security	34.27
1000W MH Security	37.72

*See independent auditor's report.*

**PES ENERGIZE**  
**CITY OF PULASKI, TENNESSEE**  
**SCHEDULE OF ELECTRIC RATES IN FORCE**  
For the Years Ended June 30, 2011 and 2010

**Number of Electric Customers:**

	<u>2011</u>	<u>2010</u>
Residential	11,564	11,596
Commercial	2,175	2,139
Industrial	214	214
Street and athletic	55	55
Outdoor lighting	<u>78</u>	<u>78</u>
Total	<u>14,086</u>	<u>14,082</u>
Line Loss	4.30%	5.29%

*See independent auditor's report.*

**PES ENERGIZE**  
**CITY OF PULASKI, TENNESSEE**  
**SCHEDULE OF LONG-TERM DEBT**  
For the Year Ended June 30, 2011

Year Ended June 30,	Electric Revenue and Tax Bonds		Electric Revenue and Tax Bonds - Electric		Electric Revenue and Tax Bonds - Broadband	
	Series 2001		Series 2005		Series 2005	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 205,000	\$ 22,859	\$ 161,820	\$ 173,031	\$ 138,180	\$ 147,754
2013	210,000	14,143	215,760	167,368	184,240	142,917
2014	220,000	4,840	269,700	159,816	230,300	136,469
2015	-	-	280,488	149,028	239,512	127,257
2016	-	-	291,276	137,809	248,724	117,676
2017	-	-	302,064	127,177	257,936	108,598
2018	-	-	312,852	115,850	267,148	98,925
2019	-	-	323,640	100,725	276,360	86,010
2020	-	-	339,822	91,501	290,178	78,134
2021	-	-	356,004	78,248	303,996	66,817
2022	-	-	366,792	64,008	313,208	54,657
2023	-	-	382,974	49,336	327,026	42,129
2024	-	-	399,156	33,826	340,844	28,884
2025	-	-	415,796	17,460	364,204	14,910
2026	-	-	-	-	-	-
2027	-	-	-	-	-	-
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
2030	-	-	-	-	-	-
2031	-	-	-	-	-	-
	<u>\$ 635,000</u>	<u>\$ 41,842</u>	<u>\$4,418,144</u>	<u>\$1,465,183</u>	<u>\$3,781,856</u>	<u>\$1,251,137</u>

*See independent auditor's report.*

**PES ENERGIZE  
CITY OF PULASKI, TENNESSEE  
SCHEDULE OF LONG-TERM DEBT  
June 30, 2011**

Year Ended June 30,	Electric Revenue and Tax Refunding Bonds and Notes		Electric Subordinate Revenue Bonds		Total		
	Series 2006		Series 2010		Principal	Interest	Debt Service
2012	\$ 280,000	\$ 396,860	\$ -	\$ 28,251	\$ 785,000	\$ 768,755	\$ 1,553,755
2013	290,000	385,660	730,000	21,188	1,630,000	731,276	2,361,276
2014	300,000	374,060	-	-	1,020,000	675,185	1,695,185
2015	360,000	362,060	-	-	880,000	638,345	1,518,345
2016	370,000	347,660	-	-	910,000	603,145	1,513,145
2017	380,000	331,010	-	-	940,000	566,785	1,506,785
2018	400,000	315,810	-	-	980,000	530,585	1,510,585
2019	420,000	299,810	-	-	1,020,000	486,545	1,506,545
2020	440,000	282,800	-	-	1,070,000	452,435	1,522,435
2021	450,000	264,760	-	-	1,110,000	409,825	1,519,825
2022	470,000	246,310	-	-	1,150,000	364,975	1,514,975
2023	500,000	226,805	-	-	1,210,000	318,270	1,528,270
2024	500,000	205,805	-	-	1,240,000	268,515	1,508,515
2025	540,000	184,805	-	-	1,320,000	217,175	1,537,175
2026	550,000	161,855	-	-	550,000	161,855	711,855
2027	580,000	138,205	-	-	580,000	138,205	718,205
2028	600,000	113,265	-	-	600,000	113,265	713,265
2029	630,000	87,465	-	-	630,000	87,465	717,465
2030	660,000	59,745	-	-	660,000	59,745	719,745
2031	690,000	30,705	-	-	690,000	30,705	720,705
	<u>\$ 9,410,000</u>	<u>\$ 4,815,455</u>	<u>\$ 730,000</u>	<u>\$ 49,439</u>	<u>\$ 18,975,000</u>	<u>\$ 7,623,056</u>	<u>\$ 26,598,056</u>

*See independent auditor's report.*

**PES ENERGIZE  
CITY OF PULASKI, TENNESSEE  
SCHEDULE OF HISTORICAL INFORMATION - UNAUDITED**

	Electric Division				
	2011	2010	2009	2008	2007
<b>Revenue</b>					
Residential	\$ 19,914,513	\$ 17,165,929	\$ 18,402,774	\$ 16,310,216	\$ 15,656,839
Small lighting and power sales	3,680,033	3,347,714	3,551,390	3,201,546	3,130,076
Large lighting and power sales	14,795,607	12,752,350	14,648,847	14,201,626	13,064,862
Industrial sales	3,961,359	3,805,623	3,932,948	3,404,740	3,390,998
Street, athletic and outdoor lighting sa	752,139	697,050	733,376	646,179	614,359
Other sales	32,878	13,200	40,737	270,930	(63,406)
Interest and other revenue	1,067,322	1,195,003	853,706	888,649	969,637
	<u>44,203,851</u>	<u>38,976,869</u>	<u>42,163,778</u>	<u>38,923,886</u>	<u>36,763,365</u>
<b>Expense</b>					
Cost of sales and services	33,101,481	28,628,766	32,057,990	28,498,883	26,872,345
Distribution expenses	567,027	716,732	1,124,834	1,088,202	912,291
Customer accounts expenses	391,419	443,793	607,972	561,558	563,301
Customer service and information exp	402,437	309,433	319,028	278,883	415,933
Administrative and general expenses	1,964,466	1,914,221	2,582,406	2,253,647	1,719,569
Maintenance expenses	1,771,190	1,573,797	1,153,325	1,432,128	1,460,578
Provision for depreciation expense	2,394,107	2,051,786	1,691,403	1,673,901	1,559,055
Amortization expense	20,169	23,554	24,300	24,310	17,015
Interest and other expense	653,553	666,291	514,203	493,149	486,999
Transfers out - in lieu of tax payments	993,259	927,523	898,608	863,831	805,933
	<u>42,259,108</u>	<u>37,255,896</u>	<u>40,974,069</u>	<u>37,168,492</u>	<u>34,813,019</u>
<b>Net income (loss)</b>	<u>\$ 1,944,743</u>	<u>\$ 1,720,973</u>	<u>\$ 1,189,709</u>	<u>\$ 1,755,394</u>	<u>\$ 1,950,346</u>
<b>Financial</b>					
Plant in service (at original cost)	<u>\$ 73,233,034</u>	<u>\$ 72,209,636</u>	<u>\$ 64,852,345</u>	<u>\$ 61,647,406</u>	<u>\$ 58,815,255</u>
<b>Power in use - KWH</b>					
Residential	187,523,527	184,100,375	177,928,822	183,127,777	181,074,773
Commercial	29,041,706	28,827,311	28,580,489	29,164,619	29,535,418
Industrial	226,409,421	204,072,167	203,034,914	243,097,018	238,637,781
Other customers	6,017,938	6,025,721	6,082,118	6,123,750	6,145,201
Total	<u>448,992,592</u>	<u>423,025,574</u>	<u>415,626,343</u>	<u>461,513,164</u>	<u>455,393,173</u>
<b>Peak KW demand</b>	<u>104,241</u>	<u>100,145</u>	<u>100,130</u>	<u>100,037</u>	<u>97,440</u>
<b>Number of customers</b>					
Residential	11,564	11,596	11,618	11,673	11,650
Commercial	2,175	2,139	2,192	2,229	2,215
Industrial	214	214	203	222	217
Street and athletic	55	55	54	55	57
Outdoor lighting	78	78	79	54	58
	<u>14,086</u>	<u>14,082</u>	<u>14,146</u>	<u>14,233</u>	<u>14,197</u>
<b>Line Loss</b>	<u>4.30%</u>	<u>5.29%</u>	<u>4.11%</u>	<u>4.85%</u>	<u>5.39%</u>

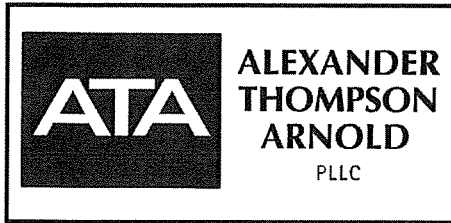
See independent auditor's report.

**PES ENERGIZE  
CITY OF PULASKI, TENNESSEE  
SCHEUDULE OF HISTORICAL INFORMATION - UNAUDITED**

	Broadband Division				
	2011	2010	2009	2008	2007
<b>Revenue</b>					
Video	\$ 946,916	\$ 787,479	\$ 647,861	\$ 503,608	\$ 39,831
Pay per view	9,882	12,105	5,409	6,849	253
STB Channel	61,684	60,276	40,968	25,446	1,398
Data and related services	794,444	682,120	534,775	287,731	21,520
Collection and data storage	36,370	33,408	27,282	7,185	-
Telephone	562,503	464,364	352,039	248,786	12,660
Other sales	(34,715)	(55,868)	(53,779)	2,875	404
Interest and other revenue	127,842	151,403	652,785	533,511	292,468
	<u>2,504,926</u>	<u>2,135,287</u>	<u>2,207,340</u>	<u>1,615,991</u>	<u>368,534</u>
<b>Expense</b>					
Cost of sales and services	492,208	448,832	329,861	284,479	11,645
Distribution expenses	1,059,269	1,065,061	542,080	416,989	38,196
Customer accounts expenses	56,393	52,287	58,166	50,307	9,856
Customer service and information exp	152,085	148,127	186,391	170,727	147,665
Administrative and general expenses	222,159	217,841	301,571	331,769	304,839
Maintenance expenses	365	1,774	11,961	5,598	860
Provision for depreciation expense	261,933	217,231	544,263	234,697	6,470
Amortization expense	3,103	7,494	6,738	6,738	14,255
Interest and other expense	152,251	135,693	331,505	331,285	154,648
	<u>2,399,766</u>	<u>2,294,340</u>	<u>2,312,536</u>	<u>1,832,589</u>	<u>688,434</u>
<b>Net income (loss)</b>	<u>\$ 105,160</u>	<u>\$ (159,053)</u>	<u>\$ (105,196)</u>	<u>\$ (216,598)</u>	<u>\$ (319,900)</u>
<b>Financial</b>					
Plant in service (at original cost)	<u>\$ 3,133,405</u>	<u>\$ 2,924,014</u>	<u>\$ 7,852,085</u>	<u>\$ 6,688,737</u>	<u>\$ 5,571,838</u>

*See independent auditor's report.*

## **INTERNAL CONTROL AND COMPLIANCE SECTION**



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**Report on Internal Control over Financial  
Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards***

Board of Directors  
PES Energize  
City of Pulaski, Tennessee

We have audited the financial statements of PES Energize (the System), an enterprise fund of City of Pulaski, Tennessee, as of and for the year ended June 30, 2011 and 2010, which collectively comprise the System's basic financial statements, and have issued our report thereon dated October 20, 2011. Our report disclosed that the financial statements include only the financial activities of the PES Energize enterprise fund and are not intended to present fairly the financial position of the City of Pulaski, Tennessee, and the results of its operations and cash flows of its proprietary fund types in conformity with accounting principals generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

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

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

Board of Directors  
PES Energize  
Pulaski, Tennessee

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management and State of Tennessee, Comptroller of the Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Alexander Thompson Arnold PLLC

Certified Public Accountants  
Jackson, Tennessee  
October 20, 2011

**PES ENERGIZE  
CITY OF PULASKI, TENNESSEE  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2011 AND 2010**

**PRIOR YEAR FINDINGS:**

All prior year findings have been corrected.

**CURRENT YEAR FINDINGS:**

**Significant Deficiencies**

No current year findings noted.