

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008

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INTRODUCTORY SECTION

**PES ENERGIZE
CITY OF PULASKI, TENNESSEE
DIRECTORY
JUNE 30, 2009**

BOARD MEMBERS

Jerry Bryant
Leigh Ann Holt
Marcus Houston
Larry Polly
Dan Speer

MANAGEMENT TEAM

Ronald L. Holcomb, President/Chief Executive Officer
Tammie Bub, Vice President/Chief Financial Officer
Wes Kelley, Executive Vice President/Chief Marketing Officer
Eddie Jackson, Vice President/Chief Operating Officer

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
City of 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, 2009 and 2008, 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 audit 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 are not intended to present fairly the financial position of the City of Pulaski, Tennessee as of June 30, 2009 and 2008, and the results of its operations and its cash flows of its proprietary fund types 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 respective financial position of the business-type activities of the System as of June 30, 2009 and 2008, and the respective 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 November 1, 2009, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 4 through 8 and the schedule of funding progress – employee retirement system on page 24 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which

Dyersburg, TN
Fulton, KY
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

consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System’s basic financial statements. The accompanying introductory section and financial information listed as other supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental information, except for that which has been marked as “unaudited”, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole. The introductory section and statistical data have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

Alexander Thompson Arnold PLLC

Certified Public Accountants
Jackson, Tennessee
November 1, 2009

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, 2009. 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 \$63.11 million and exceeded liabilities in the amount of \$36.04 million (i.e. net assets).
- Net assets increased \$1.08 million during the current year due to an operating profit. Unrestricted net assets decreased by \$82 thousand due primarily to the system's increase in long-term liabilities.
- During fiscal year 2009, the System delivered 416 million kWh compared to 462 million kWh during the fiscal year 2008.
- Operating revenues were \$44.27 million, an increase from year 2008 in the amount of \$3.9 million or 9.8%.
- Operating expenses were \$41.51 million, an increase from year 2008 in the amount of \$4.2 million or 11.3%.

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.

REQUIRED FINANCIAL STATEMENTS (Cont.)

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 \$1.08 million for the fiscal year ended June 30, 2009. 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, 2009	June 30, 2008	Increase (Decrease)	
			Amount	Percent
Current and other assets	\$ 10,233,228	\$ 12,872,195	\$ (2,638,967)	-20.50%
Capital assets	52,871,942	50,389,797	2,482,145	4.93%
Total assets	<u>63,105,170</u>	<u>63,261,992</u>	<u>(156,822)</u>	-0.25%
Long-term liabilities	19,229,885	19,761,219	(531,334)	-2.69%
Other liabilities	7,835,208	8,545,209	(710,001)	-8.31%
Total liabilities	<u>27,065,093</u>	<u>28,306,428</u>	<u>(1,241,335)</u>	-4.39%
Net assets:				
Invested in capital assets, net of related debt	33,723,177	30,822,460	2,900,717	9.41%
Restricted for debt service	879,751	2,698,987	(1,819,236)	-67.40%
Unrestricted	1,437,149	1,434,117	3,032	0.21%
Total net assets	<u>\$ 36,040,077</u>	<u>\$ 34,955,564</u>	<u>\$ 1,084,513</u>	3.10%

The increase in capital assets over the period was due primarily to the continued improvements being made to the Telecom System. The decrease in long-term liabilities was primarily due to the normal servicing of long-term debt.

FINANCIAL ANALYSIS (Cont.)

Table 1B
CONDENSED STATEMENT OF NET ASSETS

	June 30, 2008	June 30, 2007	Increase (Decrease)	
			Amount	Percent
Current and other assets	\$ 12,872,195	\$ 14,267,521	\$ (1,395,326)	-9.78%
Capital assets	50,389,797	47,438,789	2,951,008	6.22%
Total assets	<u>63,261,992</u>	<u>61,706,310</u>	<u>1,555,682</u>	2.52%
Long-term liabilities	19,761,219	20,303,741	(542,522)	-2.67%
Other liabilities	8,545,209	7,917,084	628,125	7.93%
Total liabilities	<u>28,306,428</u>	<u>28,220,825</u>	<u>85,603</u>	0.30%
Net assets:				
Invested in capital assets, net of related debt	30,822,460	30,484,773	337,687	1.11%
Restricted for capital projects	-	31,924	(31,924)	-100.00%
Restricted for debt service	3,148,987	5,306,659	(2,157,672)	-40.66%
Unrestricted	1,434,117	(2,337,871)	3,771,988	-161.34%
Total net assets	<u>\$ 35,405,564</u>	<u>\$ 33,485,485</u>	<u>\$ 1,920,079</u>	5.73%

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, 2009	June 30, 2008	Increase (Decrease)	
			Amount	Percent
Operating revenues	\$ 44,269,934	\$ 40,346,502	\$ 3,923,432	9.72%
Non-operating revenues	101,184	193,375	(92,191)	-47.67%
Total revenues	<u>44,371,118</u>	<u>40,539,877</u>	<u>3,831,241</u>	9.45%
Cost of sales and service	32,387,851	28,783,362	3,604,489	12.52%
Operations and maintenance expense	6,887,734	6,589,808	297,926	4.52%
Depreciation expense	2,235,666	1,908,598	327,068	17.14%
Non-operating expenses	876,746	855,482	21,264	2.49%
Total expenses	<u>42,387,997</u>	<u>38,137,250</u>	<u>4,250,747</u>	11.15%
Transfer	(898,608)	(863,831)	(34,777)	4.03%
Change in net assets	1,084,513	1,538,796	(454,283)	-29.52%
Beginning net assets	34,955,564	33,416,768	1,538,796	4.60%
Ending net assets	<u>\$ 36,040,077</u>	<u>\$ 34,955,564</u>	<u>\$ 1,084,513</u>	3.10%

FINANCIAL ANALYSIS (Cont.)

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

	June 30, 2008	June 30, 2007	Increase (Decrease)	
			Amount	Percent
Operating revenues	\$ 40,346,502	\$ 36,635,964	\$ 3,710,538	10.13%
Non-operating revenues	193,375	495,935	(302,560)	-61.01%
Total revenues	<u>40,539,877</u>	<u>37,131,899</u>	<u>3,407,978</u>	9.18%
Cost of sales and service	28,783,362	26,883,990	1,899,372	7.07%
Operations and maintenance expense	6,589,808	5,573,088	1,016,720	18.24%
Depreciation expense	1,908,598	1,565,525	343,073	21.91%
Non-operating expenses	855,482	672,917	182,565	27.13%
Total expenses	<u>38,137,250</u>	<u>34,695,520</u>	<u>3,441,730</u>	9.92%
Transfer	<u>(863,831)</u>	<u>(805,933)</u>	<u>(57,898)</u>	7.18%
Change in net assets	1,538,796	1,630,446	(91,650)	-5.62%
Beginning net assets	<u>33,416,768</u>	<u>31,786,322</u>	<u>1,630,446</u>	5.13%
Ending net assets	<u>\$ 34,955,564</u>	<u>\$ 33,416,768</u>	<u>\$ 1,538,796</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 go up on rates charged to customers due primarily to TVA fuel cost adjustments. The decrease in non-operating revenues was due primarily to declining interest rates on certificates of deposits and short term investments. Total expenses also increased 9.92% from 2008 to 2009 due to an increase in the cost of operations. Ending net assets showed a 4.6% increase as a result of an operating profit for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION**Capital Assets**

At the end of fiscal year 2009, the System had \$52.87 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 investment represents an overall increase (net of increases and decreases) of \$2.48 million or 4.93% over the fiscal year 2008.

The following tables summarize the System's capital assets, net of accumulated depreciation, and changes therein, for the year ended June 30, 2009. These changes are presented in detail in Note 3D to the financial statements.

Table 3A
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	June 30, 2009	June 30, 2008	Increase (Decrease)	
			Amount	Percent
Distribution plant	\$ 34,323,395	\$ 33,201,395	\$ 1,122,000	3.38%
General plant	9,707,752	9,912,877	(205,125)	-2.07%
Telecom	6,715,827	6,275,156	440,671	7.02%
Work in process	2,124,934	1,000,369	1,124,565	112.42%
Total capital assets	<u>\$ 52,871,908</u>	<u>\$ 50,389,797</u>	<u>\$ 2,482,111</u>	4.93%

CAPITAL ASSETS AND DEBT ADMINISTRATION (Cont.)**Capital Assets (cont.)**

Table 3B
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	June 30, 2008	June 30, 2007	Increase (Decrease)	
			Amount	Percent
Distribution plant	\$ 33,201,395	\$ 31,575,356	\$ 1,626,039	5.15%
General plant	9,912,877	2,810,188	7,102,689	252.75%
Telecom	6,275,156	97,252	6,177,904	6352.47%
Work in process	1,000,369	12,955,993	(11,955,624)	-92.28%
Total capital assets	<u>\$ 50,389,797</u>	<u>\$ 47,438,789</u>	<u>\$ 2,951,008</u>	6.22%

The major portion of the additions took place in the other plant which consists primarily of work in process. Many of the additions resulted from the building renovation for the electric division as well as the telecom buildout. 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 2009, PES had total outstanding long-term debt of \$10.95 million in the electric division and \$ 8.5 million in the telecom division. The \$10.95 million in the electric system is composed of Electric Revenue Bonds. The telecom division debt is composed of Revenue and Tax Bonds. Principal payments are due in the upcoming fiscal year in the amount of \$535 thousand and interest payments totaling approximately \$788 thousand are also due.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The PES service area has been affected by the recent economic recession. Between FY08 and FY09, kWh consumption dropped by 10%, with most of that decline coming from a decrease in commercial and industrial usage. The troubled economy will likely continue to impact PES's energy sales during fiscal year 2010.

After serving as PES's President/CEO for seven years, Ronald Holcomb resigned in August of 2009. The PES Power Board appointed Wes Kelley as the new President/CEO. Mr. Kelley had been serving as PES's executive vice president and chief marketing officer for four years prior to this promotion. Shortly after assuming his new duties, Mr. Kelley challenged PES staff to reduce operational costs and focus on continuing to build the organization's financial strength.

In early 2010, PES will initiate a comprehensive cost-of-service study to review the cost to serve and revenues generated from each class of customer. The results of this cost-of-service study will influence the preparation of the fiscal year 2011 budget. The need for this cost-of-service study is precipitated by the Tennessee Valley Authority's decision to alter its wholesale power rate in October of 2010.

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 Chief Financial Officer of PES Energize, 128 South First Street, Pulaski, TN 38478.

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2009 AND 2008

ASSETS	Electric Division		Telecom Division		Total
	2009	2008	2009	2008	2009
Current assets:					
Cash on hand	\$ 1,800	\$ 1,650	\$ 600	\$ 600	\$ 2,400
Cash and cash equivalents - general	1,352,337	1,612,571	42,769	50,782	1,395,106
Investments	466,808	743,355	-	-	466,808
Accounts receivable - trade (net of allowance for uncollectibles electric \$97,631 and \$105,166 and telecom \$92,875 and \$0 for 2009 and 2008, respectively)	2,020,633	2,341,192	130,033	120,540	2,150,666
Accrued unbilled utility revenue	2,075,779	2,039,462	-	-	2,075,779
Accounts receivable - CSA	22,313	22,313	-	-	22,313
Accounts receivable - other	121,841	78,912	-	-	121,841
Accounts receivable - interest	16,956	49,420	-	-	16,956
Note receivable - current	-	-	-	-	-
Materials and supplies	666,211	630,248	259,801	320,048	926,012
Due from city	14,667	14,562	-	-	14,667
Due from (to) other division	187,155	30,979	(172,365)	(30,979)	14,790
Prepayments and other current assets	218,359	243,416	11,212	-	229,571
Total current assets	7,164,859	7,808,080	272,050	460,991	7,436,909
Noncurrent assets:					
Restricted:					
Cash and cash equivalents	908,048	1,067,424	408,835	901,847	1,316,883
Investments	822,851	1,887,107	-	-	822,851
	1,730,899	2,954,531	408,835	901,847	2,139,734
Other assets:					
Unamortized debt expense	182,195	206,496	114,040	121,167	296,235
Accounts receivable TVA - Home Insulation Program	218,884	286,278	-	-	218,884
Other deferred charges	141,466	132,805	-	-	141,466
	542,545	625,579	114,040	121,167	656,585
Capital assets:					
Distribution plant	50,078,322	47,905,214	-	-	50,078,322
General plant	12,964,338	12,899,106	7,536,836	6,531,454	20,501,174
Construction in progress	1,809,685	843,086	315,249	157,283	2,124,934
Less: accumulated depreciation	19,011,479	17,690,048	821,009	256,298	19,832,488
Total capital assets (net of accumulated depreciation)	45,840,866	43,957,358	7,031,076	6,432,439	52,871,942
Total noncurrent assets	48,114,310	47,537,468	7,553,951	7,455,453	55,668,261
Total assets	\$ 55,279,169	\$ 55,345,548	\$ 7,826,001	\$ 7,916,444	\$ 63,105,170

(Continued)

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
STATEMENTS OF NET ASSETS (Cont.)
AS OF JUNE 30, 2009 AND 2008

LIABILITIES	<u>Electric Division</u>		<u>Telecom Division</u>		<u>Total</u>
	2009	2008	2009	2008	2009
Current liabilities:					
Accounts payable	\$ 4,857,788	\$ 5,211,779	\$ 117,847	\$ 103,228	\$ 4,975,635
Due to city	594,628	947,009	-	-	594,628
Accrued leave	756,487	699,131	-	-	756,487
Other accrued expense	327,839	415,799	5,636	10,872	333,475
Total current liabilities	<u>6,536,742</u>	<u>7,273,718</u>	<u>123,483</u>	<u>114,100</u>	<u>6,660,225</u>
Current liabilities payable from restricted assets:					
Customers' deposits	648,695	660,670	5,100	(50)	653,795
Accrued interest	43,581	19,384	27,607	27,387	71,188
Current maturities of long-term debt - bonds	435,000	450,000	100,000	-	535,000
Total current liabilities payable from restricted assets	<u>1,127,276</u>	<u>1,130,054</u>	<u>132,707</u>	<u>27,337</u>	<u>1,259,983</u>
Noncurrent liabilities:					
Bonds payable (less current maturities)	10,510,000	10,945,000	8,400,000	8,500,000	18,910,000
Advances from TVA - Home Insulation Program	234,885	316,219	-	-	234,885
Total noncurrent liabilities	<u>10,744,885</u>	<u>11,261,219</u>	<u>8,400,000</u>	<u>8,500,000</u>	<u>19,144,885</u>
Total liabilities	<u>18,408,903</u>	<u>19,664,991</u>	<u>8,656,190</u>	<u>8,641,437</u>	<u>27,065,093</u>
NET ASSETS					
Invested in capital assets, net of related debt	35,078,061	32,768,854	(1,354,884)	(1,946,394)	33,723,177
Restricted for debt service	603,623	1,824,477	276,128	874,510	879,751
Unrestricted	1,188,582	1,087,226	248,567	346,891	1,437,149
Total net assets	<u>\$ 36,870,266</u>	<u>\$ 35,680,557</u>	<u>\$ (830,189)</u>	<u>\$ (724,993)</u>	<u>\$ 36,040,077</u>

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

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	Electric Division		Telecom Division		Total
	2009	2008	2009	2008	2009
Operating revenues:					
Charges for sales and service	\$ 41,310,072	\$ 38,035,237	\$ 1,554,555	\$ 1,082,480	\$ 42,864,627
Other operating revenue	764,594	756,807	640,713	471,978	1,405,307
Total operating revenues	42,074,666	38,792,044	2,195,268	1,554,458	44,269,934
Operating expenses:					
Cost of sales and services	32,057,990	28,498,883	329,861	284,479	32,387,851
Distribution expenses	1,124,834	1,088,202	542,080	416,989	1,666,914
Customer accounts expenses	607,972	561,558	58,166	50,307	666,138
Customer service and information expenses	319,028	278,883	186,391	170,727	505,419
Administrative and general expenses	2,582,406	2,253,647	301,571	331,769	2,883,977
Maintenance expenses	1,153,325	1,432,128	11,961	5,598	1,165,286
Provision for depreciation expense	1,691,403	1,673,901	544,263	234,697	2,235,666
Total operating expenses	39,536,958	35,787,202	1,974,293	1,494,566	41,511,251
Operating income (loss)	2,537,708	3,004,842	220,975	59,892	2,758,683
Nonoperating revenues (expenses):					
Interest and other income	89,112	131,842	12,072	61,533	101,184
Amortization expense	(24,300)	(24,310)	(6,738)	(6,738)	(31,038)
Interest and other expense	(514,203)	(493,149)	(331,505)	(331,285)	(845,708)
Total nonoperating revenues (expenses)	(449,391)	(385,617)	(326,171)	(276,490)	(775,562)
Income (loss) before transfers	2,088,317	2,619,225	(105,196)	(216,598)	1,983,121
Transfers					
Transfers out - in lieu of tax payments to city	(898,608)	(863,831)	-	-	(898,608)
Change in net assets	1,189,709	1,755,394	(105,196)	(216,598)	1,084,513
Total net assets - beginning	35,680,557	33,925,163	(724,993)	(508,395)	34,955,564
Total net assets - ending	\$ 36,870,266	\$ 35,680,557	\$ (830,189)	\$ (724,993)	\$ 36,040,077

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

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	Electric Division		Telecom Division		Total
	2009	2008	2009	2008	2009
Cash flows from operating activities:					
Cash received from consumers	\$ 42,352,296	\$ 38,843,269	\$ 2,195,268	\$ 1,554,458	\$ 44,547,564
Cash paid to suppliers	(36,050,494)	(31,606,189)	(765,819)	(1,896,649)	(36,816,313)
Cash paid to employees	(3,134,148)	(2,931,357)	(473,411)	(442,779)	(3,607,559)
Customer deposits received	116,590	238,148	5,050	(150)	121,640
Customer deposits refunded	(128,565)	(148,566)	-	-	(128,565)
Amounts received from (paid to) other funds	(508,662)	625,368	-	-	(508,662)
Net cash provided (used) by operating activities	<u>2,647,017</u>	<u>5,020,673</u>	<u>961,088</u>	<u>(785,120)</u>	<u>3,608,105</u>
Cash flows from capital and related financing activities:					
Principal paid on debt	(450,000)	(450,000)	-	-	(450,000)
Purchase of property, plant and equipment	(3,463,011)	(3,639,690)	(1,142,900)	(1,101,768)	(4,605,911)
Plant removal cost	(192,643)	(175,957)	-	-	(192,643)
Materials salvaged from retirements	80,743	57,809	-	-	80,743
Interest paid on bonds, notes and leases	(490,006)	(498,496)	(331,285)	(331,285)	(821,291)
Net cash provided (used) by capital and related financing activities	<u>(4,514,917)</u>	<u>(4,706,334)</u>	<u>(1,474,185)</u>	<u>(1,433,053)</u>	<u>(5,989,102)</u>
Cash flows from investing activities:					
Purchase of investments	(2,427,335)	(1,887,107)	-	-	(2,427,335)
Sale of investments	3,768,139	1,823,291	-	-	3,768,139
Interest and unrealized change in investments	121,576	118,662	12,072	61,533	133,648
Conservation loans (made) paid	(13,940)	(832)	-	-	(13,940)
Net cash provided (used) by investing activities	<u>1,448,440</u>	<u>54,014</u>	<u>12,072</u>	<u>61,533</u>	<u>1,460,512</u>
Net increase (decrease) in cash and cash equivalents	<u>(419,460)</u>	<u>368,353</u>	<u>(501,025)</u>	<u>(2,156,640)</u>	<u>(920,485)</u>
Cash and cash equivalents - beginning of year	<u>2,681,645</u>	<u>2,313,292</u>	<u>953,229</u>	<u>3,109,869</u>	<u>3,634,874</u>
Cash and cash equivalents - end of year	<u>\$ 2,262,185</u>	<u>\$ 2,681,645</u>	<u>\$ 452,204</u>	<u>\$ 953,229</u>	<u>\$ 2,714,389</u>
Cash and cash equivalents					
Unrestricted cash on hand	\$ 1,800	\$ 1,650	\$ 600	\$ 600	\$ 2,400
Unrestricted cash and cash equivalents on deposit	1,352,337	1,612,571	42,769	50,782	1,395,106
Restricted cash and cash equivalents on deposit	<u>908,048</u>	<u>1,067,424</u>	<u>408,835</u>	<u>901,847</u>	<u>1,316,883</u>
Total cash and cash equivalents	<u>\$ 2,262,185</u>	<u>\$ 2,681,645</u>	<u>\$ 452,204</u>	<u>\$ 953,229</u>	<u>\$ 2,714,389</u>

(Continued)

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
STATEMENTS OF CASH FLOWS (Cont.)
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	Electric Division		Telecom Division		Total
	2009	2008	2009	2008	2009
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 2,537,708	\$ 3,004,842	\$ 220,975	\$ 59,892	\$ 2,758,683
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	1,691,403	1,673,901	544,652	235,087	2,236,055
Transfers	(898,608)	(863,831)	-	-	(898,608)
Changes in assets and liabilities:					
Accounts receivable	277,630	51,225	(9,493)	(118,485)	268,137
Accrued unbilled utility revenue	(36,317)	(266,418)	-	-	(36,317)
Materials and supplies	(35,963)	15,280	60,247	(132,717)	24,284
Due (to) from city	(352,486)	(3,470)	-	-	(352,486)
Due from/to other division	(156,176)	628,838	141,386	(628,838)	(14,790)
Prepayments and other current assets	25,057	(46,588)	(11,212)	-	13,845
Other deferred charges	(8,661)	(10,273)	-	-	(8,661)
Accounts payable and accrued expenses	(441,951)	712,080	9,383	(199,909)	(432,568)
Accrued leave	57,356	35,505	-	-	57,356
Customer deposits	(11,975)	89,582	5,150	(150)	(6,825)
Net cash provided (used) by operating activities:	\$ 2,647,017	\$ 5,020,673	\$ 961,088	\$ (785,120)	\$ 3,608,105

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

**PES ENERGIZE
CITY OF PULASKI, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

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.

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.

**PES ENERGIZE
CITY OF PULASKI, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2009 AND 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

C. Assets, Liabilities, and Net Assets (cont.)

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	16 - 50 years

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 Telecom project.
- Unrestricted – all other net assets that do not meet the description of the above categories.

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Cont.)
 JUNE 30, 2009 AND 2008

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

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

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial Credit Risk

The System's policies limit deposits and investments to those instruments allowed by applicable state laws and described below. State 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, 2009, 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, 2009</u>	<u>June 30, 2008</u>
Billed services for utility customers	\$ 2,341,172	\$ 2,566,898
Unbilled utility revenue	2,075,779	2,039,462
Receivable from CSA	22,313	22,313
Other receivables for utility services	121,841	78,912
Interest receivable	16,956	49,420
Allowance for doubtful accounts	<u>(190,506)</u>	<u>(105,166)</u>
Total	<u>\$ 4,387,555</u>	<u>\$ 4,651,839</u>

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2009 AND 2008

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Cont.)

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:

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
The restricted assets consist of the following:		
Cash and cash equivalents - Sinking funds	\$ 196,998	\$ 180,899
Cash and cash equivalents - Construction fund	<u>1,942,737</u>	<u>3,675,479</u>
	<u>\$ 2,139,735</u>	<u>\$ 3,856,378</u>
The total of these funds is represented by:		
Certificates of deposit and bank accounts	<u>\$ 2,139,735</u>	<u>\$ 3,856,378</u>

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, 2008	Additions	Disposals	Balance at June 30, 2009
Capital assets, not being depreciated:				
Distribution plant	\$ 178,765	\$ -	\$ -	\$ 178,765
General plant	190,597	-	-	190,597
Construction in progress	<u>843,086</u>	<u>966,599</u>	-	<u>1,809,685</u>
Total capital assets, not being depreciated	<u>1,212,448</u>	<u>966,599</u>	-	<u>2,179,047</u>
Capital assets, being depreciated:				
Distribution plant	47,726,449	2,551,772	378,664	49,899,557
General plant	<u>12,708,509</u>	<u>270,121</u>	<u>204,889</u>	<u>12,773,741</u>
Total capital assets, being depreciated	<u>60,434,958</u>	<u>2,821,893</u>	<u>583,553</u>	<u>62,673,298</u>
Less accumulated depreciation for:				
Distribution plant	14,703,819	1,599,472	548,398	15,754,893
General plant	<u>2,986,229</u>	<u>417,412</u>	<u>147,055</u>	<u>3,256,586</u>
Total accumulated depreciation	<u>17,690,048</u>	<u>2,016,884</u>	<u>695,453</u>	<u>19,011,479</u>
Total capital assets, being depreciated, net	<u>42,744,910</u>	<u>805,009</u>	<u>(111,900)</u>	<u>43,661,819</u>
Total capital assets, net	<u>\$ 43,957,358</u>	<u>\$ 1,771,608</u>	<u>\$ (111,900)</u>	<u>\$ 45,840,866</u>

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2009 AND 2008

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Cont.)

D. System Plant in Service (cont.)

Telecom System:

Discription	Balance at June 30, 2008	Additions	Disposals	Balance at June 30, 2009
Capital assets, not being depreciated:				
Construction in progress	\$ 157,283	\$ 157,966	\$ -	\$ 315,249
Capital assets, being depreciated:				
General plant	\$ 6,531,454	\$ 1,005,382	\$ -	\$ 7,536,836
Less: accumulated depreciation for:				
General plant	256,298	564,711	-	821,009
Total capital assets, being depreciated, net	6,275,156	440,671	-	6,715,827
Total capital assets, net	\$ 6,432,439	\$ 598,637	\$ -	\$ 7,031,076

Depreciation expense amounted to \$1,736,161 in the electric division and \$544,263 in the telecom division for the fiscal year ended June 30, 2009 and \$1,673,901 in the electric division and \$234,697 in the telecom division for the fiscal year ended June 30, 2008.

E. Interfund Receivables and Payables

The composition of interfund balances is as follows:

	Due from:			
	Electric	Telecom	City Hall	Total
Due to:				
Electric	\$ -	\$ 187,155	\$ 14,667	\$ 201,822
City Hall	594,628	-	-	594,628
	\$ 594,628	\$ 187,155	\$ 14,667	\$ 796,450

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
CITY OF PULASKI, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2009 AND 2008

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Cont.)

F. Long-term Debt

A summary of changes in the long-term debt for the year ended June 30, 2009 is as follows:

	Balance July 1, 2008	Additions	Payments	Balance July 30, 2009	Current Portion
Revenue Bonds - Series 2001	\$ 1,200,000	\$ -	\$ (180,000)	\$ 1,020,000	\$ 190,000
Refunding Revenue Bonds - 2001	395,000	-	(270,000)	125,000	125,000
Revenue and Tax Bonds - 2005	8,500,000	-	-	8,500,000	100,000
Revenue and Tax Refunding Bonds - 2001	9,800,000	-	-	9,800,000	120,000
Total	<u>\$ 19,895,000</u>	<u>\$ -</u>	<u>\$ (450,000)</u>	<u>\$ 19,445,000</u>	<u>\$ 535,000</u>

Long-term debt consisted of the following at June 30, 2009:

Electric System revenue and tax bonds - Series 2001, due through November 2013, with an interest rate of 2.5 to 4.4%	\$ 1,020,000
Electric System revenue and tax refunding bonds and notes - Series 2001, due through February 2010, with an interest rate of 3 to 4%	125,000
Telecom System revenue and tax bonds - Series 2005, due through June 1, 2025, with an interest rate of 3.5 to 4.15%	8,500,000
Electric System revenue refunding and improvement bonds - Series 2006, due through June 1, 2031, with an interest rate of 4 to 4.45%	<u>9,800,000</u>
	<u>\$ 19,445,000</u>

A summary of future debt service amounts are as follows:

Fiscal Year	Principal	Interest	Total
2010	\$ 535,000	\$ 787,508	\$ 1,322,508
2011	665,000	766,506	1,431,506
2012	785,000	740,504	1,525,504
2013	900,000	710,088	1,610,088
2014	1,020,000	675,185	1,695,185
2015 - 2019	4,730,000	2,831,405	7,561,405
2020 - 2024	5,780,000	1,814,020	7,594,020
2025 - 2029	3,680,000	717,965	4,397,965
2030 - 2031	1,350,000	90,450	1,440,450
Total	<u>\$ 19,445,000</u>	<u>\$ 9,133,631</u>	<u>\$ 28,578,631</u>

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2009 AND 2008

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Cont.)

G. Net Assets

Net assets represent the difference between assets and liabilities. The restricted net assets as of June 30, 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Invested in capital assets, net of related debt		
Net property, plant and equipment in service	\$52,871,942	\$50,389,797
Unamortized bond issue costs	296,235	327,663
Less: Debt disclosed in Note 3F	<u>(19,445,000)</u>	<u>(19,895,000)</u>
	<u>33,723,177</u>	<u>30,822,460</u>
Restricted for debt service		
Restricted cash and cash equivalents	2,139,734	3,856,378
Less: Current liabilities payable from restricted assets	<u>(1,259,983)</u>	<u>(1,157,391)</u>
	<u>879,751</u>	<u>2,698,987</u>
Unrestricted	<u>1,437,149</u>	<u>1,434,117</u>
Total net assets	<u>\$36,040,077</u>	<u>\$34,955,564</u>

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.

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2009 AND 2008

NOTE 4 - OTHER INFORMATION (Cont.)

Annual Pension Cost: For the year ended June 30, 2009, the System's annual pension cost of \$424,290 for the Plan was equal to the System's required and actual contributions. The required contribution was determined as part of the July 1, 2008 calculation.

Annual Pension and Net Pension Obligation Under GASB 27				
	2006	2007	2008	2009
Beginning NPO	\$ (24,800)	\$ (26,536)	\$ (122,261)	\$ (218,855)
Contribution - funding method	427,925	414,821	412,652	427,749
Amortization of NPO	(2,639)	(2,888)	(3,161)	(3,459)
Annual Required Contribution (ARC)	425,286	411,933	409,491	424,290
Interest on NPO	(1,736)	(1,858)	(8,558)	(15,320)
Total Annual Pension Cost	426,189	412,963	404,094	412,429
Employer contribution	427,925	508,688	500,688	193,574
Change in NPO due to principal repayment	903	1,030	(5,397)	(11,861)
Change in NPO due to contribution	(2,639)	(96,755)	(91,197)	230,716
Ending NPO	\$ (26,536)	\$ (122,261)	\$ (218,855)	\$ -

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.

C. Restatement of Prior Year Financial Statements

A restatement of the prior year financial statements was necessary to adjust pole rental receivable and allowances for doubtful accounts to their actual balances from prior periods. Pole rental receivable was adjusted in the amount of \$30,920 in the electric department. Allowance for doubtful accounts was adjusted in the amount of \$37,797 in the telecommunications division to reflect bad debts from the prior year that were accounted for in the allowance.

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

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Cont.)
 JUNE 30, 2009 AND 2008

D. OPEB DISCLOSURE (cont.)

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	\$	78,162
Interest on Net OPEB Obligation		-
Adjustment to Annual Required Contribution		-
Annual OPEB Cost (Expense)		78,162
Contributions and Subsidy		(41,134)
Increase in Net Obligation		37,028
Net OPEB Obligation (BOY)		-
Net OPEB (Asset) Obligation (EOY)	\$	37,028

The System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008-2009 is as follows:

Fiscal Year Ended	Annual OPEB Cost	OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$ 78,162	52.63%	\$ (37,027)

Funded Status and Funding Progress - As of July 1, 2008, 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 \$2,758,098, and the ratio of the UAAL to the covered payroll was 27.15%.

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.

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2009 AND 2008

D. OPEB DISCLOSURE (cont.)

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, 2009 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, 2009 was 29 years.

REQUIRED SUPPLEMENTARY INFORMATION

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
SCHEDULE OF FUNDING PROGRESS - EMPLOYEE RETIREMENT SYSTEM
AS OF JUNE 30, 2009

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)
7/1/2008	\$ 8,617,668	\$ 9,505,363	\$ 887,695	90.66%	\$ 2,847,944	31.17%
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.

OTHER SUPPLEMENTARY INFORMATION SECTION

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
SCHEDULES OF OPERATING REVENUES AND EXPENSES - ELECTRIC DIVISION
FOR THE YEAR ENDED JUNE 30, 2009 AND 2008

	2009		2008	
	Amount	Percent	Amount	Percent
Operating revenues:				
Charges for sales and services:				
Residential sales	\$ 18,402,774	43.74	\$ 16,310,216	42.05
Small lighting and power sales	3,551,390	8.44	3,201,546	8.25
Large lighting and power sales	14,648,847	34.82	14,201,626	36.61
VPI customer	3,932,948	9.35	3,404,740	8.78
Street and athletic lighting sales	398,839	0.95	348,605	0.90
Outdoor lighting sales	334,537	0.80	297,574	0.77
Other sales	40,737	0.10	270,930	0.70
Total charges for sales and services	<u>41,310,072</u>	<u>98.18</u>	<u>38,035,237</u>	<u>98.05</u>
Other revenues:				
Forfeited discounts	235,341	0.56	196,511	0.51
Service charge revenue	136,058	0.32	200,272	0.52
Miscellaneous service revenue	7,663	0.02	10,220	0.03
Credit card service revenue	1,685	0.00	9,142	0.02
Rent from property	379,807	0.90	339,602	0.88
Other electric revenue	4,040	0.01	1,060	0.00
Total other revenues	<u>764,594</u>	<u>1.82</u>	<u>756,807</u>	<u>1.95</u>
Total operating revenue	<u><u>\$ 42,074,666</u></u>	<u><u>100.00</u></u>	<u><u>\$ 38,792,044</u></u>	<u><u>100.00</u></u>
Operating expenses:				
Cost of sales and services:				
Purchased power	\$ 32,057,990	81.08	28,498,883	79.63
Distribution expenses:				
Station expense	27,144	0.07	44,548	0.12
Supervision and engineering	112,048	0.28	100,948	0.28
Overhead line expense	376,379	0.95	404,744	1.13
Underground line expense	7,218	0.02	16,035	0.04
Substation expense	37,205	0.09	61,336	0.17
Street lighting and signal system	17,962	0.05	14,706	0.04
Meter expense	209,931	0.53	136,799	0.38
Installation expense	141,547	0.36	118,939	0.33
Rents	18,905	0.05	18,535	0.05
Miscellaneous	176,495	0.45	171,612	0.48
Total distribution expenses	<u>\$ 1,124,834</u>	<u>2.85</u>	<u>\$ 1,088,202</u>	<u>3.04</u>

See independent auditor's report.

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
SCHEDULES OF OPERATING REVENUES AND EXPENSES - ELECTRIC DIVISION (Cont.)
FOR THE YEAR ENDED JUNE 30, 2009 AND 2008

	2009		2008	
	Amount	Percent	Amount	Percent
Operating expenses (cont.):				
Customer accounts expenses:				
Customer records and collection expense	\$ 607,972	1.54	\$ 561,558	1.57
Customer service and information expenses:				
Supervision customer service	67,140	0.17	59,441	0.17
Customer assistance expense	148,084	0.37	134,253	0.38
Customer complaints - investigation	-	-	148	-
Customer install - surge protector	-	-	-	-
Information and advertising expense	19,169	0.05	22,643	0.06
Demonstrating and selling	19,525	0.05	17,480	0.05
Sales	53,340	0.13	43,358	0.12
Miscellaneous	11,770	0.03	1,560	-
Total customer service and information expenses	<u>319,028</u>	<u>0.81</u>	<u>278,883</u>	<u>0.23</u>
Administrative expenses:				
Salaries	801,042	2.03	751,205	2.10
Board members pay	8,185	0.02	14,034	0.04
Safety coordinator	99,792	0.25	89,005	0.25
Office supplies and expense	421,044	1.06	396,574	1.11
Outside services employed	248,376	0.63	155,716	0.44
Insurance	188,789	0.48	189,190	0.53
Duplicate charge credit	(128,590)	(0.33)	(99,404)	(0.28)
Employee pension and benefits	2,856	0.01	(5,090)	(0.01)
Employee educational expense	16,576	0.04	8,673	0.02
Property taxes	269,789	0.68	259,719	0.73
Rents	553,710	1.40	404,893	1.13
Penalties	-	-	842	-
Donations	50,542	0.13	39,939	0.11
Miscellaneous	50,295	0.13	48,351	0.14
Total administrative expenses	<u>\$ 2,582,406</u>	<u>6.53</u>	<u>\$ 2,253,647</u>	<u>6.31</u>

See independent auditor's report.

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
SCHEDULES OF OPERATING REVENUES AND EXPENSES - ELECTRIC DIVISION (Cont.)
FOR THE YEAR ENDED JUNE 30, 2009 AND 2008

	2009		2008	
	Amount	Percent	Amount	Percent
Operating expenses (cont.):				
Maintenance expenses:				
Substation expense	\$ 40,432	0.10	\$ 29,526	0.08
Overhead lines	821,842	2.08	986,080	2.76
Tree replacement	223	0.00	669	0.00
Line transformers	844	0.00	31,600	0.09
Street lights and signal system	11,129	0.03	19,637	0.05
Meters	82,294	0.21	122,233	0.34
Outdoor lighting	29,997	0.08	41,167	0.12
Maintenance - general	166,564	0.42	201,216	0.56
Total maintenance expenses	<u>1,153,325</u>	<u>2.92</u>	<u>1,432,128</u>	<u>4.00</u>
Provision for depreciation	<u>1,691,403</u>	<u>4.28</u>	<u>1,673,901</u>	<u>4.68</u>
Total operating expenses	<u><u>\$ 39,536,958</u></u>	<u><u>100.00</u></u>	<u><u>\$ 35,787,202</u></u>	<u><u>100.00</u></u>

See independent auditor's report.

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
SCHEDULES OF OPERATING REVENUES AND EXPENSES - TELECOM DIVISION
FOR THE YEAR ENDED JUNE 30, 2009 AND 2008

	2009		2008	
	Amount	Percent	Amount	Percent
Operating revenues:				
Charges for sales and services:				
Video	\$ 647,861	29.51	\$ 503,608	32.40
Pay per view	5,409	0.25	6,849	0.44
STB channel	40,968	1.87	25,446	1.64
Data	421,638	19.21	270,031	17.37
Other data services	113,137	5.15	17,700	1.14
Collection and data storage	27,282	1.24	7,185	0.46
Telephone	352,039	16.04	248,786	16.00
Other sales	(53,779)	(2.45)	2,875	0.18
Total charges for sales and services	<u>1,554,555</u>	<u>70.81</u>	<u>1,082,480</u>	<u>69.64</u>
Other revenues:				
Service charge revenue	26,722	1.22	22,589	1.45
Rent from property	553,710	25.22	404,893	26.05
Miscellaneous	38,247	1.74	28,612	0.00
Late payment fee	22,034	1.00	15,884	1.02
Total other revenues	<u>640,713</u>	<u>29.19</u>	<u>471,978</u>	<u>28.52</u>
Total operating revenue	<u><u>\$ 2,195,268</u></u>	<u><u>100.00</u></u>	<u><u>\$ 1,554,458</u></u>	<u><u>98.16</u></u>
Operating expenses:				
Cost of sales and services:				
Internet cogs	\$ 128,748	6.52	\$ 102,320	6.85
Telephone cogs	201,113	10.19	182,159	12.19
Total cost of sales and services	<u>329,861</u>	<u>16.71</u>	<u>284,479</u>	<u>12.19</u>
Distribution expenses:				
Supervision and engineering	-	-	563	0.04
Sub-station expense	19,323	0.98	9,349	0.63
Street lighting and signal system	(307)	(0.02)	195	0.01
Meter expense	564	0.03	-	-
Installation expense	1,435	0.07	-	-
Programming fee	488,936	24.77	382,197	25.57
Miscellaneous	32,129	1.63	24,685	1.65
Total distribution expenses	<u>542,080</u>	<u>27.46</u>	<u>\$ 416,989</u>	<u>27.90</u>
Customer accounts expenses:				
Customer records and collection expense	\$ 58,166	2.95	\$ 50,307	3.37

See independent auditor's report.

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
SCHEDULES OF OPERATING REVENUES AND EXPENSES - TELECOM DIVISION (Cont.)
FOR THE YEAR ENDED JUNE 30, 2009 AND 2008

	2009		2008	
	Amount	Percent	Amount	Percent
Operating expenses (cont.):				
Customer service and information expenses:				
Supervision customer service	\$ 4,385	0.22	\$ 4,102	0.27
Customer assistance expense	101,580	5.15	66,211	4.43
Information and advertising expense	25,639	1.30	49,483	3.31
Sales	54,787	2.78	51,912	3.47
Demonstrating	-	-	(981)	0.00
Miscellaneous	-	-	-	-
Total customer service and information expenses	<u>186,391</u>	<u>9.44</u>	<u>170,727</u>	<u>11.49</u>
Administrative and general expenses:				
Salaries	82,305	4.17	185,701	12.43
Office supplies and expense	51,803	2.62	31,558	2.11
Outside services employed	63,696	3.23	12,848	0.86
Insurance	12,087	0.61	8,484	0.57
Employee pension and benefits	(5,759)	(0.29)	13,310	0.89
Rents	90,146	4.57	65,596	4.39
Income deductions	-	-	18	0.00
Miscellaneous	7,293	0.37	14,254	0.95
Total administrative and general expenses	<u>301,571</u>	<u>15.27</u>	<u>331,769</u>	<u>22.20</u>
Maintenance expenses:				
Substation expense	-	-	840	0.06
Overhead lines	8,645	0.44	4,672	0.31
Line transformers	-	-	86	0.01
Street lights and signal system	-	-	-	-
General maintenance	162	0.01	-	-
Distribution	3,154	0.16	-	-
Total maintenance expenses	<u>11,961</u>	<u>0.61</u>	<u>5,598</u>	<u>0.37</u>
Provision for depreciation	<u>544,263</u>	<u>27.57</u>	<u>234,697</u>	<u>15.70</u>
Total operating expenses	<u>\$ 1,974,293</u>	<u>100.00</u>	<u>\$ 1,494,566</u>	<u>100.00</u>

See independent auditor's report.

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
SCHEDULE OF ELECTRIC PLANT IN SERVICE
CHANGES DURING THE YEAR ENDED JUNE 30, 2009

	Electric Plant in Service				Depr. Rate	Accumulated Provision for Depreciation			
	Balance 7/1/08	Additions	Retirements	Balance 6/30/09		Balance 7/1/08	Additions	Retirements	Balance 6/30/09
Distribution plant									
Land and land rights	\$ 178,765	\$ -	\$ -	\$ 178,765		\$ -	\$ -	\$ -	\$ -
Station equipment	14,361,075	725,254	-	15,086,329	4	7,385,191	578,676	-	7,963,867
Poles, towers and fixtures	13,462,112	650,320	145,377	13,967,055	3	1,959,646	412,044	262,404	2,109,286
Overhead conductors and devices	7,750,123	517,590	66,113	8,201,600	2.5	2,146,809	197,370	86,348	2,257,831
Line transformers	6,377,603	402,375	75,529	6,704,449	2	1,652,955	133,487	75,529	1,710,913
Services	2,946,099	160,732	4,186	3,102,645	2.5	836,302	75,426	19,041	892,687
Meters and metering equipment	1,002,664	19,594	63,136	959,122	2.5	(8,239)	97,813	63,136	26,438
Customer security lighting	923,643	55,528	20,758	958,413	6	365,894	56,440	37,474	384,860
Street lighting and signal system	903,130	20,379	3,565	919,944	4	365,261	48,216	4,466	409,011
Total distribution plant	47,905,214	2,551,772	378,664	50,078,322		14,703,819	1,599,472	548,398	15,754,893
General plant									
Land and land rights	190,597	-	-	190,597		250	-	-	250
Structures and improvements	7,436,853	(4,412)	-	7,432,441	2	233,630	20,761	-	254,391
Office furniture and equipment	466,944	69,470	-	536,414	8	48,219	19,638	-	67,857
Transportation equipment	3,018,615	77,679	204,889	2,891,405	12-33	1,972,828	280,724	147,055	2,106,497
Tools, shop and garage equipment	573,066	2,500	-	575,566	12	236,388	-	-	236,388
Laboratory equipment	80,091	8,172	-	88,263	4	13,733	2,793	-	16,526
Communications equipment	186,463	9,348	-	195,811	10	133,229	13,375	-	146,604
Medical equipment	19,226	-	-	19,226	12	8,811	2,073	-	10,884
Miscellaneous equipment	927,251	107,364	-	1,034,615	16	339,141	78,048	-	417,189
Total general plant	12,899,106	270,121	204,889	12,964,338		2,986,229	417,412	147,055	3,256,586
Total electric plant in service	60,804,320	2,821,893	583,553	63,042,660		17,690,048	2,016,884	695,453	19,011,479
Construction work in progress	843,086	966,599	-	1,809,685		-	-	-	-
Total electric plant	\$ 61,647,406	\$ 3,788,492	\$ 583,553	\$ 64,852,345		\$ 17,690,048	\$ 2,016,884	\$ 695,453	\$ 19,011,479

Charged to operations	\$ 1,691,403
Charged to transportation	325,481
	<u>\$ 2,016,884</u>
Original cost of units retired	\$ 583,553
Removal cost (\$192,643) over salvage value (\$80,743)	<u>111,900</u>
	<u>\$ 695,453</u>

See independent auditor's report.

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
SCHEDULE OF TELECOM PLANT IN SERVICE
CHANGES DURING THE YEAR ENDED JUNE 30, 2009

	Telecom Plant in Service				Accumulated Provision for Depreciation			
	Balance 7/1/08	Additions	Retirements	Balance 6/30/09	Balance 7/1/08	Additions	Retirements	Balance 6/30/09
General plant								
Transmission equipment	\$ 778,351	\$ 13,631	\$ -	\$ 791,982	\$ 22,423	\$ 38,727	\$ -	\$ 61,150
Headend electronics	1,654,969	243,085	-	1,898,054	93,275	176,339	-	269,614
Headend assemblies	325,742	-	-	325,742	9,420	16,146	-	25,566
Telecom buildings	26,741	-	-	26,741	-	623	-	623
Wire/cable/fiber	998,601	98,944	-	1,097,545	13,147	26,461	-	39,608
Cust premise - outside	1,567,457	512,883	-	2,080,340	53,733	184,825	-	238,558
Cust premise - inside	821,941	120,443	-	942,384	31,935	81,264	-	113,199
Software	170,732	-	-	170,732	9,517	16,318	-	25,835
Transportation equipment	136,856	-	-	136,856	21,601	20,451	-	42,052
Communication equipment	-	11,233	-	11,233	-	561	-	561
Miscellaneous equipment	6,818	5,163	-	11,981	199	1,199	-	1,398
Other tangible equipment	43,246	-	-	43,246	1,048	1,797	-	2,845
Total general plant	<u>6,531,454</u>	<u>1,005,382</u>	<u>-</u>	<u>7,536,836</u>	<u>256,298</u>	<u>564,711</u>	<u>-</u>	<u>821,009</u>
Construction work in progress	<u>157,283</u>	<u>157,966</u>	<u>-</u>	<u>315,249</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total telecom plant	<u>\$ 6,688,737</u>	<u>\$ 1,163,348</u>	<u>\$ -</u>	<u>\$ 7,852,085</u>	<u>\$ 256,298</u>	<u>\$ 564,711</u>	<u>\$ -</u>	<u>\$ 821,009</u>
						Charged to transportation		\$ 20,059
						Charged to operations		544,652
								<u>\$ 564,711</u>

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
SCHEDULE OF ELECTRIC RATES IN FORCE
 JUNE 30, 2009

Residential rate schedule RS

Customer charge - per delivery point per month	\$	14.10
Energy charge - cents per kWh		-
First 800 kWh		0.09438
Additional		0.08586

Commercial Rate:

Demand from 0 to 50 KW - Schedule GSA1

Customer charge - per delivery point per month	\$	25.50
Each kWh - cents per kWh		0.09830

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		14.75
Energy charge - cents per kWh		
First 15,000 kWh per month		0.09778
Additional kWh per month		0.05346

Industrial Rate:

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

Customer charge per delivery point per month	\$	500.00
Demand charges - per kW per month		
First 1,000 kW		0.18560
Excess over 1,000 kW		0.13880
Energy charge - cents per kWh		0.05284

Demand from 5,000 to 15,000 kW - Schedule GSB

Customer charge per delivery point per month	\$	1,500.00
Demand charges - per kW per month		0.14210
Energy charge - cents per kWh for up to 620 hours		0.04625
Per kWh for all additional kWh per month		0.03928

Demand from 15,000 to 25,000 kW - Schedule GSC

Customer charge per delivery point per month	\$	1,500.00
Demand charges - per kW per month		0.13700
Energy charge - cents per kWh for up to 620 hours		0.04625
Per kWh for all additional kWh per month		0.03928

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
SCHEDULE OF ELECTRIC RATES IN FORCE (Cont.)
 JUNE 30, 2009

Industrial Rate (cont.):

Demand for Street Outdoor Lighting - Schedule OL

Per kWh for all additional kWh per month	\$	0.06397
150W HPS Security		8.27
175W MPI Security		7.19
250W HPS Security		11.59
400W MH Security		16.34
400W MVI Security		13.98
400W HPS Security		16.34
1000W MVI Security		31.16
1000W HPS Security		33.87
1000W MH Security		37.32

Number of Electric Customers:	2009	2008
Residential	11,618	11,673
Commercial	2,192	2,229
Industrial	203	222
Street and athletic	54	55
Outdoor lighting	79	54
Total	14,146	14,233
Line Loss	4.11%	4.85%

See independent auditor's report.

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
SCHEDULE OF LONG-TERM DEBT
 JUNE 30, 2009

Year Ended June 30,	Electric Revenue and Tax Refunding Bonds and Notes		Electric Revenue and Tax Bonds		Telecom Revenue and Tax Bonds		Electric Revenue and Tax Refunding Bonds and Notes		Total		
	Series 2001		Series 2001		Series 2005		Series 2006				
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Debt Service
2010	\$ 125,000	\$ 5,000	\$ 190,000	\$ 38,763	\$ 100,000	\$ 331,285	\$ 120,000	\$ 412,460	\$ 535,000	\$ 787,508	\$ 1,322,508
2011	-	-	195,000	31,061	200,000	327,785	270,000	407,660	665,000	766,506	1,431,506
2012	-	-	205,000	22,859	300,000	320,785	280,000	396,860	785,000	740,504	1,525,504
2013	-	-	210,000	14,143	400,000	310,285	290,000	385,660	900,000	710,088	1,610,088
2014	-	-	220,000	4,840	500,000	296,285	300,000	374,060	1,020,000	675,185	1,695,185
2015	-	-	-	-	520,000	276,285	360,000	362,060	880,000	638,345	1,518,345
2016	-	-	-	-	540,000	255,485	370,000	347,660	910,000	603,145	1,513,145
2017	-	-	-	-	560,000	235,775	380,000	331,010	940,000	566,785	1,506,785
2018	-	-	-	-	580,000	214,775	400,000	315,810	980,000	530,585	1,510,585
2019	-	-	-	-	600,000	192,735	420,000	299,810	1,020,000	492,545	1,512,545
2020	-	-	-	-	630,000	169,635	440,000	282,800	1,070,000	452,435	1,522,435
2021	-	-	-	-	660,000	145,065	450,000	264,760	1,110,000	409,825	1,519,825
2022	-	-	-	-	680,000	118,665	470,000	246,310	1,150,000	364,975	1,514,975
2023	-	-	-	-	710,000	91,465	500,000	226,805	1,210,000	318,270	1,528,270
2024	-	-	-	-	740,000	62,710	500,000	205,805	1,240,000	268,515	1,508,515
2025	-	-	-	-	780,000	32,370	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>\$ 125,000</u>	<u>\$ 5,000</u>	<u>\$ 1,020,000</u>	<u>\$ 111,666</u>	<u>\$ 8,500,000</u>	<u>\$ 3,381,390</u>	<u>\$ 9,800,000</u>	<u>\$ 5,635,575</u>	<u>\$ 19,445,000</u>	<u>\$ 9,133,631</u>	<u>\$ 28,578,631</u>

See independent auditor's report.

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

35

	Electric Division		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenue			
Residential	\$ 18,402,774	\$ 16,310,216	\$ 15,656,839
Small lighting and power sales	3,551,390	3,201,546	3,130,076
Large lighting and power sales	14,648,847	14,201,626	13,064,862
VPI customer	3,932,948	3,404,740	3,390,998
Street, athletic and outdoor lighting sales	733,376	646,179	614,359
Other sales	40,737	270,930	(63,406)
Interest and other revenue	853,706	888,649	969,637
	<u>42,163,778</u>	<u>38,923,886</u>	<u>36,763,365</u>
Expense			
Cost of sales and services	32,057,990	28,498,883	26,872,345
Distribution expenses	1,124,834	1,088,202	912,291
Customer accounts expenses	607,972	561,558	563,301
Customer service and information expenses	319,028	278,883	415,933
Administrative and general expenses	2,582,406	2,253,647	1,719,569
Maintenance expenses	1,153,325	1,432,128	1,460,578
Provision for depreciation expense	1,691,403	1,673,901	1,559,055
Amortization expense	24,300	24,310	17,015
Interest and other expense	514,203	493,149	486,999
Transfers out - in lieu of tax payments to city	898,608	863,831	805,933
	<u>40,974,069</u>	<u>37,168,492</u>	<u>34,813,019</u>
Net income (loss)	<u>\$ 1,189,709</u>	<u>\$ 1,755,394</u>	<u>\$ 1,950,346</u>
Financial			
Plant in service (at original cost)	<u>\$ 64,852,345</u>	<u>\$ 61,647,406</u>	<u>\$ 58,815,255</u>
Power in use - KWH			
Residential	177,928,822	183,127,777	181,074,773
Commercial	28,580,489	29,164,619	29,535,418
Industrial	203,034,914	243,097,018	238,637,781
Other customers	6,082,118	6,123,750	6,145,201
Total	<u>415,626,343</u>	<u>461,513,164</u>	<u>455,393,173</u>
Peak KW demand	<u>56,995</u>	<u>60,979</u>	<u>49,319</u>
Number of customers			
Residential	11,618	11,673	11,650
Commercial	2,192	2,229	2,215
Industrial	203	222	217
Street and athletic	54	55	57
Outdoor lighting	79	54	58
	<u>14,146</u>	<u>14,233</u>	<u>14,197</u>
Line Loss	<u>4.11%</u>	<u>4.85%</u>	<u>5.39%</u>

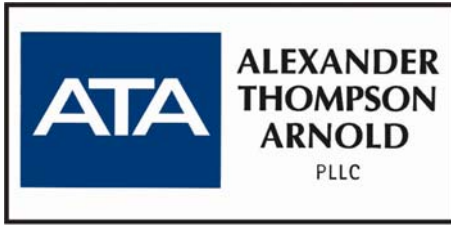
See independent auditor's report.

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

	Telecom Division		
	2009	2008	2007
Revenue			
Video	\$ 647,861	\$ 503,608	\$ 39,831
Pay per view	5,409	6,849	253
STB Channel	40,968	25,446	1,398
Data and related services	534,775	287,731	21,520
Collection and data storage	27,282	7,185	-
Telephone	352,039	248,786	12,660
Other sales	(53,779)	2,875	404
Interest and other revenue	652,785	533,511	292,468
	2,207,340	1,615,991	368,534
Expense			
Cost of sales and services	329,861	284,479	11,645
Distribution expenses	542,080	416,989	38,196
Customer accounts expenses	58,166	50,307	9,856
Customer service and information expenses	186,391	170,727	147,665
Administrative and general expenses	301,571	331,769	304,839
Maintenance expenses	11,961	5,598	860
Provision for depreciation expense	544,263	234,697	6,470
Amortization expense	6,738	6,738	14,255
Interest and other expense	331,505	331,285	154,648
	2,312,536	1,832,589	688,434
Net income (loss)	\$ (105,196)	\$ (216,598)	\$ (319,900)
Financial			
Plant in service (at original cost)	\$ 7,852,085	\$ 6,688,737	\$ 5,571,838

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION



Certified Public Accountants

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

Board of Directors
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, 2009, which collectively comprise the System's basic financial statements, and have issued our report thereon dated November 1, 2009. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we did identify a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the system's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the system's financial statements that is more than inconsequential will not be prevented or detected by the system's internal control. We consider the deficiency (09-01) described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the system's internal control.

Dyersburg, TN
Fulton, KY
Henderson, TN
Jackson, TN
Martin, TN

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

Board of Directors
PES Energize
Pulaski, Tennessee

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

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*.

PES Energize's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the System's response, and accordingly, we express no opinion on it.

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
November 1, 2009

**PES ENERGIZE
CITY OF PULASKI, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2009 AND 2008**

PRIOR YEAR FINDINGS:

There were no prior year findings.

CURRENT YEAR FINDINGS:

Significant Deficiencies

09-01 – Failure to Follow Purchasing Policy

Condition: It was noted during our audit that the System failed to follow proper purchasing policies for certain transactions. We noted that bids were not taken for additional work on a previously bid project. Additionally, this additional work did not have board approval prior to work commencing.

Effect: Failure to properly follow purchasing policies is a violation of Tennessee Code Annotated 7-52-117(d) Electric Plant Law which states that the superintendent is authorized to make purchases in an amount as fixed by the board, up to \$50,000, without first obtaining the approval of the board and advertising for bids.

Recommendation: We recommend that the System review its purchasing policy and State of Tennessee regulations to ensure they are being properly followed in regards to purchasing.

Response: In October of 2009, the Board approved a new purchasing policy that clearly identifies the mechanism for executing purchases. This policy makes it clear that work over \$50,000 must be bid and approved by the Board. This policy also provides enough detail to aid in training our staff on the proper execution of this requirement. Furthermore, management has taken this matter very seriously, and is committed to making certain internal communication problems do not lead to another oversight like this.