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July 28, 2014

To the Board of Commissioners
Paris-Henry County Public Utility District

We have audited the financial statements of the business-type activities of Paris-Henry County Public Utility District for the year ended May 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 26, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Paris-Henry County Public Utility District are described in Note 1 to the financial statements. During the year ended, the District adopted and applied GASB 65 ***Items Previously Reported as Assets and Liabilities***. We noted no transactions entered into by Paris-Henry County Public Utility District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the allowance for uncollectable accounts receivable is based on collection history in relation to current economic conditions. We evaluated the key factors and assumptions used to develop the allowance for uncollectable accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 28, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Paris-Henry County Public Utility District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Paris-Henry County Public Utility District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis and the Schedules of Funding Progress, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Other Supplementary Information Section, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of Board of Commissioners and management of Paris-Henry County Public Utility District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Alexander D. Arnold" followed by a stylized set of initials.

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED
MAY 31, 2014 AND 2013**

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
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INTRODUCTORY SECTION

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
DIRECTORY
May 31, 2014**

BOARD MEMBERS

Terry Pierce
Dr. Tom Wood
Steve Greer

MANAGEMENT TEAM

Tae Eaton, General Manager
Shannon L. French, Office Manager
Mark Bullion, Environmental Health and Safety Supervisor
Brian Ray French, Construction Supervisor

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION

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Independent Auditor's Report

Board of Commissioners
Paris – Henry County Public Utility District
Paris, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Paris-Henry County Public Utility District (the District), as of and for the years ended May 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Board of Commissioners
Paris – Henry County Public Utility District
Paris, Tennessee

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of May 31, 2014 and 2013, and respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedule of funding progress-employee retirement system on pages 5 through 10 and 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it or provide no assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2014 on our consideration of the District'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

Board of Commissioners
Paris – Henry County Public Utility District
Paris, Tennessee

financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Jackson, Tennessee
July 28, 2014

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS**

May 31, 2014 and 2013

As management of the Paris – Henry County Public Utility District (the District), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended May 31, 2014 and 2013. All amounts, unless otherwise indicated, are expressed in actual dollars.

FINANCIAL HIGHLIGHTS

Management believes the District’s financial condition is strong. The District 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 \$15.75 million and exceeded liabilities in the amount of \$14.93 million (i.e. net position). Total assets increased by \$541 thousand due primarily to a significant increase in cash and cash equivalents.
- Net position increased by \$723 thousand during the current year due to an increase in operating income for the year.
- Operating revenues were \$6.64 million, an increase from the year 2013 in the amount of \$1.41 million or 27.00%.
- Operating expenses were \$5.94 million, an increase from the year 2013 in the amount of \$1.22 million or 25.86%.
- Operating income for the year was \$695 thousand as compared to operating income of \$505 thousand in the prior year.
- Ratios of operating income to total operating revenue were 10.47, 9.66, and -1.04, for 2014, 2013, and 2012.

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 District’s financial condition and performance. Summary financial statement data, key financial and operational indicators used in the District’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) other supplementary information section, and 4) the internal control and compliance section. The introductory section includes the District’s directory. The financial section includes the independent auditor’s report, MD&A, financial statements with accompanying notes, and 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 District, 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.

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT MANAGEMENT’S DISCUSSION AND ANALYSIS

May 31, 2014 and 2013

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

The *Statements of Net Position* presents the financial position of the District on a full accrual historical cost basis. The statement includes all of the District’s assets, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. It provides information about the nature and amounts of investments in resources (assets) and the obligations to the District’s creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the District’s operations and can be used to determine whether the District has successfully recovered all of its costs. This statement also measures the District’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 District’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 District’s finances is “Is the District, as a whole, better off or worse off as a result of the year’s activities?” The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District’s activities in a way that will help answer this question. These two statements report the net position of the District, and the changes in the net position. Net position is one way to measure the financial health or financial position of the District. Over time, increases or decreases in the District’s net position is an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

The District’s total net position increased for the fiscal year ended May 31, 2014 and 2013, respectively. The analysis below focuses on the District’s net position (Table 1) and changes in net position (Table 2) during the year.

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS**

May 31, 2014 and 2013

CONDENSED STATEMENTS OF NET POSITION (TABLE 1A)

| | May 31, 2014 | May 31, 2013 | Increase (Decrease) | |
|----------------------------------|----------------------|----------------------|---------------------|--------------|
| | | | \$ | % |
| Current and other assets | \$ 7,858,399 | \$ 7,402,037 | \$ 456,362 | 6.17% |
| Capital assets | 7,889,453 | 7,805,262 | 84,191 | 1.08% |
| Total assets | 15,747,852 | 15,207,299 | 540,553 | 3.55% |
| Long-term liabilities | 243,390 | 246,752 | (3,362) | 100.00% |
| Other liabilities | 573,339 | 752,489 | (179,150) | -23.81% |
| Total liabilities | 816,729 | 999,241 | (182,512) | -18.27% |
| Net Investment in capital assets | 7,642,701 | 7,555,262 | 87,439 | 1.16% |
| Unrestricted | 7,288,422 | 6,652,796 | 635,626 | 9.55% |
| Total net position | \$ 14,931,123 | \$ 14,208,058 | \$ 723,065 | 5.09% |

CONDENSED STATEMENTS OF NET POSITION (TABLE 1B)

| | May 31, 2013 | May 31, 2012 | Increase (Decrease) | |
|----------------------------------|----------------------|----------------------|---------------------|--------------|
| | | | \$ | % |
| Current and other assets | \$ 7,402,037 | \$ 7,270,240 | \$ 131,797 | 1.81% |
| Capital assets | 7,805,262 | 7,324,759 | 480,503 | 6.56% |
| Total assets | 15,207,299 | 14,594,999 | 612,300 | 4.20% |
| Long-term liabilities | 246,752 | - | 246,752 | 100.00% |
| Other liabilities | 752,489 | 936,062 | (183,573) | -19.61% |
| Total liabilities | 999,241 | 936,062 | 63,179 | 6.75% |
| Net Investment in capital assets | 7,555,262 | 7,324,759 | 230,503 | 3.15% |
| Unrestricted | 6,652,796 | 6,334,178 | 318,618 | 5.03% |
| Total net position | \$ 14,208,058 | \$ 13,658,937 | \$ 549,121 | 4.02% |

The increase in cash was due primarily to an increase in operating income without a large amount of capital needs in 2014. The overall increase in net position for 2014 was due to net income of \$723 thousand.

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

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS**

May 31, 2014 and 2013

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (TABLE 2A)

| | May 31, 2014 | May 31, 2013 | Increase (Decrease) | |
|--|----------------------|----------------------|---------------------|---------------|
| | | | \$ | % |
| Operating Revenues | \$ 6,639,952 | \$ 5,228,114 | \$ 1,411,838 | 27.00% |
| Non-operating revenues | 36,321 | 44,094 | (7,773) | -17.63% |
| Total revenues | <u>6,676,273</u> | <u>5,272,208</u> | <u>1,404,065</u> | <u>26.63%</u> |
| Cost of sales and service | 3,962,887 | 2,733,270 | 1,229,617 | 44.99% |
| Transportation, distribution, shop and maintenance expense | 551,763 | 576,279 | (24,516) | -4.25% |
| General and administrative expense | 991,800 | 987,731 | 4,069 | 0.41% |
| Depreciation expense | 437,143 | 424,919 | 12,224 | 2.88% |
| Taxes and tax equivalents | 865 | 888 | (23) | -2.59% |
| Non-operating expenses | 8,750 | - | 8,750 | 100.00% |
| Total expenses | <u>5,953,208</u> | <u>4,723,087</u> | <u>1,230,121</u> | <u>26.04%</u> |
| Change in net position | 723,065 | 549,121 | 173,944 | 31.68% |
| Beginning net position | 14,208,058 | 13,658,937 | 549,121 | 4.02% |
| Ending net position | <u>\$ 14,931,123</u> | <u>\$ 14,208,058</u> | <u>\$ 723,065</u> | <u>5.09%</u> |

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (TABLE 2B)

| | May 31, 2013 | May 31, 2012 | Increase (Decrease) | |
|--|----------------------|----------------------|---------------------|------------------|
| | | | \$ | % |
| Operating Revenues | \$ 5,228,114 | \$ 4,744,839 | \$ 483,275 | 10.19% |
| Non-operating revenues | 44,094 | 40,338 | 3,756 | 9.31% |
| Total revenues | <u>5,272,208</u> | <u>4,785,177</u> | <u>487,031</u> | <u>10.18%</u> |
| Cost of sales and service | 2,733,270 | 2,765,957 | (32,687) | -1.18% |
| Transportation, distribution, shop and maintenance expense | 576,279 | 651,764 | (75,485) | -11.58% |
| General and administrative expense | 987,731 | 970,539 | 17,192 | 1.77% |
| Depreciation expense | 424,919 | 405,065 | 19,854 | 4.90% |
| Taxes and tax equivalents | 888 | 1,006 | (118) | -11.73% |
| Total expenses | <u>4,723,087</u> | <u>4,794,331</u> | <u>(71,244)</u> | <u>-1.49%</u> |
| Change in net position | 549,121 | (9,154) | 558,275 | -6098.70% |
| Beginning net position | 13,658,937 | 13,668,091 | (9,154) | -0.07% |
| Ending net position | <u>\$ 14,208,058</u> | <u>\$ 13,658,937</u> | <u>\$ 549,121</u> | <u>4.02%</u> |

Operating revenues showed a 27.00% increase from 2013 to 2014 and a 10.19% increase for 2012 to 2013. These changes have been due to the fluctuations in the gas prices and the difference in the winters over the past several years. This has caused fluctuations in the billings, but there have also been an equivalent fluctuation in the cost of gas to offset the changes. Non-operating revenues have decreased 9.96% over the 3 year period, due primarily to decreasing interest rates on bank accounts and certificates of deposit. General and administrative expenses have increased

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS**

May 31, 2014 and 2013

during the three year period due primarily to increased costs of operation. Net position showed an increase of 9.31% over the 3 year period due to the above mentioned facts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2014, the District had \$7.89 million (net of accumulated depreciation) invested in a broad range of utility capital assets. This investment includes land, land rights, buildings and improvements, distribution and transmission systems, and various types of equipment. Based on the uses of the aforementioned assets, they are classified for financial purposes as land, buildings and improvements, equipment, and transmission and distribution systems.

The following tables summarize the District’s capital assets, net of accumulated depreciation, and changes therein, for the years ended May 31, 2014 and 2013. These changes are presented in detail in Note 3D to the financial statements.

The major portion of the additions over the past three years, took place in the transmission and distribution systems. Many of the additions to the distribution plant result from the rehabilitation of deteriorating lines, so the impact on operating and maintenance costs should be favorable, but the impact on revenues will be slight. The District is also steadily expanding their service area which requires a significant investment in capital assets.

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION (TABLE 3A)

| | | | <u>Increase (Decrease)</u> | |
|---------------------------------------|----------------------------|----------------------------|----------------------------|--------------|
| | <u>May 31, 2014</u> | <u>May 31, 2013</u> | <u>\$</u> | <u>%</u> |
| Land | \$ 96,043 | \$ 96,043 | \$ - | 0.00% |
| Buildings and Improvements | 247,824 | 285,088 | (37,264) | -13.07% |
| Equipment | 232,694 | 245,508 | (12,814) | -5.22% |
| Transmission and distribution systems | 7,312,892 | 7,178,623 | 134,269 | 1.87% |
| Total capital assets | <u>\$ 7,889,453</u> | <u>\$ 7,805,262</u> | <u>\$ 84,191</u> | 1.08% |

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION (TABLE 3B)

| | | | <u>Increase (Decrease)</u> | |
|---------------------------------------|----------------------------|----------------------------|----------------------------|--------------|
| | <u>May 31, 2013</u> | <u>May 31, 2012</u> | <u>\$</u> | <u>%</u> |
| Land | \$ 96,043 | \$ 96,043 | \$ - | 0.00% |
| Buildings and Improvements | 285,088 | 322,956 | (37,868) | -11.73% |
| Equipment | 245,508 | 180,047 | 65,461 | 36.36% |
| Transmission and distribution systems | 7,178,623 | 6,658,590 | 520,033 | 7.81% |
| Work in process | - | 67,123 | (67,123) | 100.00% |
| Total capital assets | <u>\$ 7,805,262</u> | <u>\$ 7,324,759</u> | <u>\$ 480,503</u> | 6.56% |

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS**

May 31, 2014 and 2013

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The Management of the District, in response to the historically cold and long winter of 2013/2014, monitors the rate schedule for the possibility of climate changes. The District will continue to invest in upgrading its transmission and distribution lines.

CONTACTING THE AUTHORITY’S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District’s finances for all those with an interest in the District’s finances and to demonstrate the District’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 General Manager of the Paris – Henry County Public Utility District, P.O. Box 309, Paris, TN 38242.

PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
STATEMENTS OF NET POSITION
 May 31, 2014 and 2013

| | 2014 | 2013 |
|---|----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash on hand | \$ 1,811 | \$ 2,655 |
| Cash and cash equivalents on deposit | 6,325,958 | 5,848,151 |
| Certificates of deposit | 1,065,420 | 1,055,906 |
| Accounts receivable (net of allowance for uncollectibles) | 67,437 | 157,763 |
| Interest receivable | 917 | 917 |
| Gas inventory | 240,315 | 172,166 |
| Materials and supplies inventory | 101,052 | 119,782 |
| Prepayments and other current assets | 55,489 | 44,697 |
| Total current assets | 7,858,399 | 7,402,037 |
| Noncurrent assets: | | |
| Capital assets, not being depreciated | | |
| Land | 96,043 | 96,043 |
| Capital assets, net of accumulated depreciation | | |
| Buildings and improvements | 247,824 | 285,088 |
| Equipment | 232,694 | 245,508 |
| Transmission and distribution system | 7,312,892 | 7,178,623 |
| Total capital assets (net of accumulated depreciation) | 7,889,453 | 7,805,262 |
| Total assets | 15,747,852 | 15,207,299 |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable | 229,246 | 211,478 |
| Budget customer credits | - | 219,962 |
| USDA loan - current | 3,362 | 3,248 |
| Consumers' deposits | 340,731 | 317,801 |
| Total current liabilities | 573,339 | 752,489 |
| Noncurrent liabilities: | | |
| USDA loan | 243,390 | 246,752 |
| Total liabilities | 816,729 | 999,241 |
| Net position | | |
| Net investment in capital assets | 7,642,701 | 7,555,262 |
| Unrestricted | 7,288,422 | 6,652,796 |
| Total net position | \$ 14,931,123 | \$ 14,208,058 |

The notes to the financial statements are an integral part of this statement.

PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended May 31, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|--|----------------------|----------------------|
| Operating revenues: | | |
| Charges for sales and services | \$ 6,508,960 | \$ 5,112,075 |
| Other revenues | <u>130,992</u> | <u>116,039</u> |
| Total operating revenues | <u>6,639,952</u> | <u>5,228,114</u> |
| Operating expenses: | | |
| Cost of sales and services | 3,962,887 | 2,733,270 |
| Transportation, distribution, shop, and maintenance expenses | 555,120 | 576,279 |
| General and administrative expenses | 988,443 | 987,731 |
| Provision for depreciation | 437,143 | 424,919 |
| Taxes and tax equivalents | <u>865</u> | <u>888</u> |
| Total operating expenses | <u>5,944,458</u> | <u>4,723,087</u> |
| Operating income (loss) | <u>695,494</u> | <u>505,027</u> |
| Nonoperating revenues (expenses): | | |
| Interest and dividend income | 31,353 | 28,517 |
| Interest expense | (8,750) | - |
| Gain on sale of assets | <u>4,968</u> | <u>15,577</u> |
| Total nonoperating revenues (expenses) | <u>27,571</u> | <u>44,094</u> |
| Change in net position | 723,065 | 549,121 |
| Net position - beginning | <u>14,208,058</u> | <u>13,658,937</u> |
| Net position - ending | <u>\$ 14,931,123</u> | <u>\$ 14,208,058</u> |

The notes to the financial statements are an integral part of this statement.

PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2014 and 2013

| | 2014 | 2013 |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Cash received from consumers | \$ 6,510,316 | \$ 4,901,183 |
| Cash paid to suppliers of goods and services | (4,418,755) | (2,703,148) |
| Cash paid to employees for services | (1,130,138) | (1,128,864) |
| Customer deposits received | 63,653 | 61,937 |
| Customer deposits refunded | (40,723) | (43,066) |
| Taxes paid including payments in lieu of taxes | (865) | (888) |
| Net cash provided (used) by operating activities | 983,488 | 1,087,154 |
| Cash flows from capital and related financing activities: | | |
| Construction and acquisition of plant | (542,149) | (905,422) |
| Proceeds from new debt | - | 250,000 |
| Principal paid on long-term debt | (3,248) | - |
| Interest paid on long-term debt | (8,750) | - |
| Sale of assets | 25,783 | 15,577 |
| Net cash provided (used) by capital and related financing activities | (528,364) | (639,845) |
| Cash flows from investing activities: | | |
| Purchase of investment | (1,065,420) | (1,055,906) |
| Proceeds from sale of investments | 1,055,906 | 1,046,528 |
| Interest collected | 31,353 | 28,517 |
| Net cash provided (used) by investing activities | 21,839 | 19,139 |
| | | |
| Net increase (decrease) in cash and cash equivalents | 476,963 | 466,448 |
| Cash and cash equivalents - beginning of year | 5,850,806 | 5,384,358 |
| Cash and cash equivalents - end of year | \$ 6,327,769 | \$ 5,850,806 |
| Cash and cash equivalents: | | |
| Unrestricted cash on hand | \$ 1,811 | \$ 2,655 |
| Unrestricted cash and cash equivalents on deposit | 6,325,958 | 5,848,151 |
| Total cash and cash equivalents | \$ 6,327,769 | \$ 5,850,806 |

The notes to the financial statements are an integral part of this statement.

**PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
STATEMENTS OF CASH FLOWS**

For the Years Ended May 31, 2014 and 2013

| | 2014 | 2013 |
|---|-------------------|---------------------|
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | |
| Operating income (loss) | \$ 695,494 | \$ 505,027 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation expense | 437,143 | 424,919 |
| (Increase) decrease in accounts receivable | 90,326 | (31,883) |
| (Increase) decrease in inventories | (49,419) | 371,956 |
| (Increase) decrease in prepayments and other assets | (10,792) | 3,956 |
| Increase (decrease) in accounts payable | 17,768 | 89,356 |
| Increase (decrease) in prepaid accounts | (219,962) | (295,048) |
| Increase (decrease) in customer deposits | 22,930 | 18,871 |
| | \$ 983,488 | \$ 1,087,154 |
| Net cash provided (used) by operating activities | \$ 983,488 | \$ 1,087,154 |

The notes to the financial statements are an integral part of this statement.

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS**

May 31, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

These are proprietary fund financial statements and include only the financial activities of Paris – Henry County Public Utility District. The District was created under the authority of Title 7, Chapter 82, *Tennessee Code Annotated*, the Utility District Law of 1937 for the purpose of providing natural gas service to Paris, Tennessee, portions of Henry County, and Hazel, Kentucky.

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

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

The District's financial statements are reported using the economic resources measurement focus and the 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 the liability is incurred regardless of the timing of the related cash flows. The accounting policies of the District conform to generally accepted accounting principles as defined by Governmental Accounting Standards Board (GASB).

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges for sales to customers for sales and service. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Assets, Liabilities, Deferred Outflows/Inflows, and Net Position

Deposits and Investments

The District'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 District to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements and the state's investment pool.

Accounts Receivable

Trade receivables result from unpaid billings for gas service to customers. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible customer accounts recorded by the District is based on past history of uncollectible accounts and management's analysis of current accounts. The District also allows customers to participate in budget billing which often results in the customer's account having a credit balance, which is shown in the liability section of the financial statements.

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS**

May 31, 2014 and 2013

Inventories and Prepaid Items

Gas inventory consists of purchased natural gas that is stored in the ANR pipeline system and is valued at the lower of average cost or market. Materials and supplies inventory 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.

Capital Assets

Capital assets, which include property, plant, equipment, and construction in progress, are defined by the District as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of three 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 District is depreciated using the straight line method over the following useful lives:

| | |
|-------------------------------------|--------------|
| Building and improvements | 7 - 47 years |
| Equipment | 3 - 10 years |
| Transmission and distribution plant | 7 - 47 years |

Deferred Outflows/Inflows of Resources

During the year ended May 31, 2013, the District adopted the provisions of GASB Statement No.63, ***Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position***. The objective of the statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

During the year ended May 31, 2014, the District adopted the provisions of GASB Statement No. 65, ***Items Previously Reported as Assets and Liabilities***. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District currently has no items that qualify for reporting in this category.

Net Position Flow Assumption

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

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS**

May 31, 2014 and 2013

Impact of Recently Issued Accounting Pronouncements

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*, and Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. Statement 67, effective for fiscal years beginning after June 15, 2013, revises existing standards of financial reporting by state and local government pension plans and will be adopted by the pension plan itself. Statement 68 will affect the governments that participate as employers in these plans and is effective for fiscal years beginning after June 15, 2014. For governments to adopt Statement 68, the underlying pension plans must first adopt Statement 67. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. Statement 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. The objective of Statement 68 is to improve accounting and financial reporting by state and local governments for pensions. These pension standards include significant changes to how governmental employers will report liabilities related to pension obligations. Management is currently evaluating the impact that the adoption of Statement 68 will have on the District's financial statements.

Net Position

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

- Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation and related debt
- Unrestricted – All other net position amounts that do not meet the description of the above categories.

Use of Estimates

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

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The District 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 District'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 budgeted amounts remaining at the end of the fiscal year in the operating budget lapse.

Management submits a proposed budget to the District's Board prior to the May Board meeting. A budget is then adopted at the May meeting for the next fiscal year. During the year, management is authorized to transfer budgeted amounts between line items.

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS**

May 31, 2014 and 2013

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial Credit Risk

The District's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. 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, by the Tennessee Bank Collateral Pool, by collateral held by the District's agent in the District's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the District to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities and the state pooled investment fund. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of May 31, 2014 and 2013, it was noted that all bank deposits were fully collateralized or insured.

B. Receivables

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

| | May 31, | |
|---------------------------------------|-----------|------------|
| | 2014 | 2013 |
| Billed services for utility customers | 138,755 | 208,701 |
| Other accounts receivable | 11,835 | 10,984 |
| Allowance for doubtful accounts | (83,153) | (61,922) |
| Total | \$ 67,437 | \$ 157,763 |

C. Net Position

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

| | May 31, | |
|------------------------------------|---------------|---------------|
| | 2014 | 2013 |
| Capital assets | 7,889,453 | 7,805,262 |
| Less: debt as disclosed in Note 3E | (246,752) | (250,000) |
| Net investment in capital assets | 7,642,701 | 7,555,262 |
| Unrestricted | 7,288,422 | 6,652,796 |
| Total net position | \$ 14,931,123 | \$ 14,208,058 |

D. Capital Assets

Capital asset activity during the years were as follows:

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS**

May 31, 2014 and 2013

| <u>Description</u> | <u>Balance at May 31, 2013</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance at May 31, 2014</u> |
|--|------------------------------------|--------------------------|-------------------------|------------------------------------|
| Capital assets, not being depreciated | | | | |
| Land | \$ 96,043 | \$ - | \$ - | \$ 96,043 |
| Total capital assets not being depreciated | <u>96,043</u> | <u>-</u> | <u>-</u> | <u>96,043</u> |
| Capital assets, being depreciated | | | | |
| Buildings and improvements | 515,603 | - | - | 515,603 |
| Equipment | 1,264,912 | 86,036 | 29,737 | 1,321,211 |
| Transmission and distribution system | <u>12,960,210</u> | <u>456,113</u> | <u>-</u> | <u>13,416,323</u> |
| Total capital assets being depreciated | <u>14,740,725</u> | <u>542,149</u> | <u>29,737</u> | <u>15,253,137</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 230,515 | 37,264 | - | 267,779 |
| Equipment | 1,019,404 | 78,035 | 8,922 | 1,088,517 |
| Transmission and distribution system | <u>5,781,587</u> | <u>321,844</u> | <u>-</u> | <u>6,103,431</u> |
| Total accumulated depreciation | <u>7,031,506</u> | <u>437,143</u> | <u>8,922</u> | <u>7,459,727</u> |
| Total capital assets, being depreciated, net | <u>7,709,219</u> | <u>105,006</u> | <u>20,815</u> | <u>7,793,410</u> |
| Total capital assets, net | <u>\$ 7,805,262</u> | <u>\$ 105,006</u> | <u>\$ 20,815</u> | <u>\$ 7,889,453</u> |

Depreciation expense amounted to \$437,143 for the fiscal year ended May 31, 2014 and \$424,919 for the fiscal year ended May 31, 2013.

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS**

May 31, 2014 and 2013

| Description | Balance at May 31, 2012 | Additions | Disposals | Reclass | Balance at May 31, 2013 |
|--|----------------------------|--------------------------|--------------------|--------------------|----------------------------|
| Capital assets, not being depreciated | | | | | |
| Land | \$ 96,043 | \$ - | \$ - | \$ - | \$ 96,043 |
| Work in process | 67,123 | - | - | (67,123) | - |
| Total capital assets not being depreciated | <u>163,166</u> | <u>-</u> | <u>-</u> | <u>(67,123)</u> | <u>96,043</u> |
| Capital assets, being depreciated | | | | | |
| Buildings and improvements | 515,603 | - | - | - | 515,603 |
| Equipment | 1,174,230 | 149,387 | 58,705 | - | 1,264,912 |
| Transmission and distribution system | 12,137,052 | 756,035 | - | 67,123 | 12,960,210 |
| Total capital assets being depreciated | <u>13,826,885</u> | <u>905,422</u> | <u>58,705</u> | <u>67,123</u> | <u>14,740,725</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | 192,647 | 37,868 | - | - | 230,515 |
| Equipment | 994,183 | 83,926 | 58,705 | - | 1,019,404 |
| Transmission and distribution system | 5,478,462 | 303,125 | - | - | 5,781,587 |
| Total accumulated depreciation | <u>6,665,292</u> | <u>424,919</u> | <u>58,705</u> | <u>-</u> | <u>7,031,506</u> |
| Total capital assets, being depreciated, net | <u>7,161,593</u> | <u>480,503</u> | <u>-</u> | <u>67,123</u> | <u>7,709,219</u> |
| Total capital assets, net | <u>\$ 7,324,759</u> | <u>\$ 480,503</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 7,805,262</u> |

E. Long-term Debt

At year-end, the District's long-term liabilities consisted of one loan. It is a Community Facilities Loan through USDA's Rural Development. This loan is payable annually at an interest rate of 3.5%, with the annual payment being \$11,998. The balance of the loan at May 31, 2014 and 2013 is \$246,752 and \$250,000.

The following is a summary of long-term debt transactions for the year ended May 31, 2014.

| | Balance 5/31/2013 | Issued | Retired | Balance 5/31/2014 | Due Within One Year |
|-----------|----------------------|-------------|-----------------|----------------------|------------------------|
| USDA Loan | <u>\$ 250,000</u> | <u>\$ -</u> | <u>\$ 3,248</u> | <u>\$ 246,752</u> | <u>\$ 3,362</u> |

The scheduled annual requirements for long-term debt at May 31, 2014, including interest of \$197,082 are as follows:

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS**

May 31, 2014 and 2013

| Year Ending | <u>May 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|------------------|-------------------|-------------------|--------------|
| 2015 | \$ 3,362 | \$ 8,636 | \$ 11,998 | |
| 2016 | 3,479 | 8,519 | 11,998 | |
| 2017 | 3,601 | 8,397 | 11,998 | |
| 2018 | 3,727 | 8,271 | 11,998 | |
| 2019 | 3,857 | 8,141 | 11,998 | |
| 2020-2024 | 21,407 | 38,583 | 59,990 | |
| 2025-2029 | 25,422 | 34,568 | 59,990 | |
| 2030-2034 | 30,190 | 29,800 | 59,990 | |
| 2035-2039 | 35,853 | 24,137 | 59,990 | |
| 2040-2044 | 42,582 | 17,408 | 59,990 | |
| 2045-2049 | 50,572 | 9,418 | 59,990 | |
| 2050-2051 | 22,700 | 1,204 | 23,904 | |
| | <u>\$246,752</u> | <u>\$ 197,082</u> | <u>\$ 443,834</u> | |

NOTE 4 - OTHER INFORMATION

A. Employee Retirement Systems and Pension Plans

Tennessee Consolidated Retirement System

Plan Description

Employees of Paris-Henry County Utility District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service, and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Paris-Henry County Utility District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS**

May 31, 2014 and 2013

Funding Policy

The Utility District requires employees to contribute 5.0 percent of earnable compensation.

The Utility District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2013 was 13.57% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Paris-Henry County Utility District is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2013, the Paris-Henry County Utility District's annual pension cost of \$84,079 to TCRS was equal to the Utility District's required and actual contributions. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The District's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 2 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

| Fiscal Year | Trend Information | | |
|-------------|------------------------------|----------------------------------|---------------------------|
| | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
| 6/30/2013 | \$ 84,079 | 100.00% | \$ - |
| 6/30/2012 | \$ 111,367 | 100.00% | \$ - |
| 6/30/2011 | \$ 106,724 | 100.00% | \$ - |

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 89.23% funded. The actuarial accrued liability for benefits was \$1.16 million, and the actuarial value of assets was \$1.03 million, resulting in an unfunded accrued liability (UAAL) of \$0.12 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.61 million, and ratio of the UAAL to the covered payroll was 20.44%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS**

May 31, 2014 and 2013

(Dollar amounts in thousands)

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (AAL) -Entry Age (b) | Unfunded AAL (UAAL) (b) - (a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|---|---|--|--------------------------|-----------------------------|---|
| July 01, 2011 | \$1,032 | \$1,156 | \$125 | 89.23% | \$609 | 20.44% |
| July 01, 2009 | \$0 | \$0 | \$0 | 0.00% | \$0 | 0.00% |
| July 01, 2007 | \$0 | \$0 | \$0 | 0.00% | \$0 | 0.00% |

Principal Retirement Plan

Plan Description

As of March 1, 2013, the most recent actuarial valuation date, only one employee remains a member of the District's contributory, defined benefit plan, a single employer plan. All new employees are required to join TCRS.

Employees under the age of 21 were eligible for the plan after attainment of age 21 and a period of service of 6 months. Normal retirement age is age 65 for all employees. Benefit is 60% of the employee's average compensation times the accrued benefit adjustment and short service percentage. The normal form of annuity provides for the payment of the annual benefit on a monthly basis for ten years and life (optional forms may be elected prior to retirement).

Benefits are available at a properly elected early retirement date which is within the 10-year period prior to the normal retirement date. Benefits accrued and vested to the early retirement date would be reduced by 6 2/3% for each year up to five and 3 1/3% for each year between five and ten that early retirement date precedes normal retirement date.

There is no maximum age for late retirement benefits. Benefits would be the greater of accrued benefit on normal retirement date actuarially increased to late retirement date or accrued benefit on late retirement date.

If an active employee should die prior to his/her normal retirement date, the value of his/her vested interest would be applied to provide a life annuity for his or her spouse (or if not married, a single sum cash payment to the beneficiary) payable monthly, deferred to participant's earliest retirement date if later than the date of death. The amount paid to the surviving spouse would be equal to the amount that would have been paid had the participant terminated employment on the date of death and survived to his/her earliest retirement age, retired with a qualified joint and 50% survivor annuity in effect, then died the next day. The spouse may elect a single sum cash settlement in lieu of the survivor annuity. The amount of the single sum death benefit would be the present value of the vested accrued benefit, but not less than the required contribution amount.

If an employee should terminate, he or she would be entitled to benefits equal to the sum of the amount of retirement annuity which could be provided on normal retirement date by the participant's contribution amount and the vesting percentage times the excess of the accrued benefit as of the date of termination over the annuity. The vesting percentage would be 25% after five years of vesting service plus 5% per year for each year between five and ten plus 10% per year for each

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS**

May 31, 2014 and 2013

year after ten years, up to 100%. The amount would be payable monthly for ten years and life with income deferred until normal retirement date.

Funding Policy: District employees are required to contribute 5% of their monthly earnings on a monthly basis.

Annual Pension Cost and Net Pension Obligation: The District's annual pension cost and net pension obligation to the Plan as of the most recent actuarial valuation date were as follows:

Carry forward of Net Pension Obligation:

| | |
|---|---------------------------|
| Annual required contribution for 2012 plan year | \$ 37,733 |
| Interest on net pension obligation | (1,108) |
| Adjustment to annual required contribution | <u>(4,383)</u> |
| Annual pension cost for 2012 plan year | 41,008 |
| Contributions made | <u>37,733</u> |
| Increase (Decrease) in net pension obligation | 3,275 |
| 2012 beginning of year net pension obligation | <u>(26,063)</u> |
| 2012 end of year net pension obligation | <u><u>\$ (22,788)</u></u> |

Annual Pension Cost for 2013 Plan Year:

| | |
|--|-------------------------|
| Normal cost with interest | \$ 44,733 |
| Amortization with interest | - |
| Annual required contribution | <u>44,733</u> |
| Interest on net pension obligation | (968) |
| Adjustment to annual required contribution | <u>(4,383)</u> |
| Annual pension cost | <u><u>\$ 48,148</u></u> |

The annual required contribution as of the most recent actuarial valuation date was determined as part of the February 28, 2013 actuarial report using the Aggregate Cost Funding method.

B. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended May 31, 2014 and 2013, the District purchased commercial insurance for all of the above risks. There have been no settled claims exceeding the commercial coverage in any of the past three years and there have been no significant reduction in the amount of coverage provided.

C. Subsequent Events

Management has evaluated subsequent events through July 28, 2014, the date in which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
SCHEDULES OF FUNDING PROGRESS - EMPLOYEE RETIREMENT SYSTEM
 May 31, 2014

Tennessee Consolidated Retirement System - Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Plan 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) |
|--------------------------|------------------------------------|---------------------------------------|-------------------------------|--------------------|---------------------|---|
| July 1, 2011 | \$1,032,000 | \$1,156,000 | \$124,000 | 89.23% | \$609,000 | 20.44% |
| July 1, 2009 | \$0 | \$0 | \$0 | 0.00% | \$0 | 0.00% |
| July 1, 2007 | \$0 | \$0 | \$0 | 0.00% | \$0 | 0.00% |

Principal Retirement System - Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Plan 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) |
|--------------------------|------------------------------------|---------------------------------------|-------------------------------|--------------------|---------------------|---|
| March 1, 2013 | \$ 131,323 | \$ 225,406 | 94,083 | 58.00% | \$ 37,055 | 254.00% |
| March 1, 2012 | 270,951 | 337,318 | 66,367 | 80.00% | 36,153 | 184.00% |
| March 1, 2011 | 225,605 | 353,946 | 128,341 | 64.00% | 77,039 | 167.00% |
| March 1, 2010 | 190,127 | 283,200 | 93,073 | 67.00% | 69,862 | 133.00% |
| March 1, 2009 | 157,157 | 246,214 | 89,057 | 64.00% | 69,904 | 127.00% |
| March 1, 2008 | 633,405 | 936,834 | 303,429 | 68.00% | 503,871 | 60.00% |
| March 1, 2007 | 539,964 | 813,907 | 273,943 | 66.00% | 473,937 | 58.00% |

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

See independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION SECTION

PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
SCHEDULES OF OPERATING REVENUES AND EXPENSES
For the Years Ended May 31, 2014 and 2013

| | <u>2014</u> | | <u>2013</u> | |
|---|---------------------|----------------|---------------------|----------------|
| | <u>Actual</u> | <u>Percent</u> | <u>Actual</u> | <u>Percent</u> |
| Operating revenues | | | | |
| Charges for sales and services: | | | | |
| Residential sales | \$ 3,130,898 | 47.15 | \$ 2,432,982 | 46.54 |
| Commercial sales | 1,835,962 | 27.65 | 1,349,654 | 25.82 |
| Industrial sales | 1,542,100 | 23.22 | 1,329,439 | 25.43 |
| Total charges for sales and services | <u>6,508,960</u> | <u>98.03</u> | <u>5,112,075</u> | <u>97.78</u> |
| Other revenues | | | | |
| Penalties | 59,910 | 0.90 | 45,617 | 0.87 |
| Connection fees | 16,125 | 0.24 | 17,175 | 0.33 |
| Turn on charges | 12,575 | 0.19 | 11,325 | 0.22 |
| Installation charges | 42,052 | 0.63 | 41,331 | 0.79 |
| Other revenues | 330 | 0.00 | 591 | 0.01 |
| Total other revenues | <u>130,992</u> | <u>1.97</u> | <u>116,039</u> | <u>2.22</u> |
| Total operating revenues | <u>\$ 6,639,952</u> | <u>100.00</u> | <u>\$ 5,228,114</u> | <u>100.00</u> |
| Operating expenses | | | | |
| Cost of sales and services: | | | | |
| Purchased gas | \$ 3,962,887 | 59.68 | \$ 2,733,270 | 52.28 |
| Transportation, distribution, shop, and maintenance expenses | | | | |
| Salaries | 361,758 | 5.45 | 365,705 | 6.99 |
| Payroll taxes | 27,246 | 0.41 | 27,885 | 0.53 |
| Workmen's compensation | 20,338 | 0.31 | 11,049 | 0.21 |
| Employee education and training | 2,476 | 0.04 | 3,860 | 0.07 |
| Advertising | 60 | - | 52 | - |
| Postage & freight | 1,474 | 0.02 | 1,345 | 0.03 |
| Utility services | 16,614 | 0.25 | 15,633 | 0.30 |
| Repairs and maintenance | 88,053 | 1.33 | 112,737 | 2.16 |
| Professional services | 6,695 | 0.10 | 99 | - |
| Auto license | 295 | - | - | - |
| Operating supplies | 5,842 | 0.09 | 18,512 | 0.35 |
| Clothing and uniforms | 5,774 | 0.09 | 3,771 | 0.07 |
| Insurance | 13,136 | 0.20 | 11,644 | 0.22 |
| Travel | 3,453 | 0.05 | - | - |
| Tools | 1,906 | 0.03 | 3,987 | 0.08 |
| Total transportation, distribution, shop, and maintenance expenses | <u>\$ 555,120</u> | <u>8.37</u> | <u>\$ 576,279</u> | <u>11.01</u> |

See independent auditor's report.

**PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
SCHEDULES OF OPERATING REVENUES AND EXPENSES**

For the Years Ended May 31, 2014 and 2013

| | <u>2014</u> | | <u>2013</u> | |
|---|----------------------------|---------------------|----------------------------|---------------------|
| | <u>Actual</u> | <u>Percent</u> | <u>Actual</u> | <u>Percent</u> |
| General and administrative expenses: | | | | |
| Salaries | \$ 367,045 | 5.53 | \$ 385,017 | 7.36 |
| Payroll taxes | 28,035 | 0.42 | 59,718 | 0.90 |
| Health insurance | 215,400 | 3.24 | 165,894 | 2.50 |
| Retirement | 130,654 | 1.97 | 124,645 | 1.88 |
| Workmen's compensation | 5,669 | 0.09 | 2,176 | 0.03 |
| Employee education and training | 1,450 | 0.02 | 1,679 | 0.03 |
| Postage & freight | 33,964 | 0.51 | 33,207 | 0.50 |
| Advertising and public relations | 19,474 | 0.29 | 24,112 | 0.36 |
| Credit card fees | 19,197 | 0.29 | 13,340 | 0.20 |
| Printing and publications | 9,449 | 0.14 | 9,989 | 0.15 |
| Memberships | 23,506 | 0.35 | 37,604 | 0.57 |
| Utility services | 20,560 | 0.31 | 19,330 | 0.29 |
| Professional services | 29,285 | 0.44 | 23,903 | 0.36 |
| Repairs and maintenance | 24,064 | 0.36 | 20,690 | 0.31 |
| Travel - board of commissioners | 1,178 | 0.02 | 5,653 | 0.09 |
| Travel - members of management | 10,635 | 0.16 | 11,370 | 0.17 |
| Travel - other employees | 1,047 | 0.02 | 2,798 | 0.04 |
| Office supplies | 9,879 | 0.15 | 11,461 | 0.17 |
| Clothing and uniforms | 1,863 | 0.03 | 1,988 | 0.03 |
| Insurance | 35,056 | 0.53 | 31,617 | 0.48 |
| Land rental | 764 | 0.01 | 1,254 | 0.02 |
| Miscellaneous | 269 | - | 286 | 0.01 |
| Total general and administrative expenses | <u>988,443</u> | <u>14.88</u> | <u>987,731</u> | <u>16.45</u> |
| Depreciation and amortization | <u>437,143</u> | <u>6.58</u> | <u>424,919</u> | <u>8.13</u> |
| Taxes and tax equivalent | <u>865</u> | <u>0.01</u> | <u>888</u> | <u>0.02</u> |
| Total operating expenses | <u>\$ 5,944,458</u> | <u>89.52</u> | <u>\$ 4,723,087</u> | <u>87.89</u> |

See independent auditor's report.

**PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
SCHEDULE OF LONG-TERM DEBT**

May 31, 2014

| Year Ended May 31, | USDA Loan | |
|-----------------------|------------|------------|
| | Principal | Interest |
| 2015 | \$ 3,362 | \$ 8,636 |
| 2016 | 3,479 | 8,519 |
| 2017 | 3,601 | 8,397 |
| 2018 | 3,727 | 8,271 |
| 2019 | 3,857 | 8,141 |
| 2020 | 3,992 | 8,006 |
| 2021 | 4,132 | 7,866 |
| 2022 | 4,276 | 7,722 |
| 2023 | 4,426 | 7,572 |
| 2024 | 4,581 | 7,417 |
| 2025 | 4,741 | 7,257 |
| 2026 | 4,907 | 7,091 |
| 2027 | 5,078 | 6,920 |
| 2028 | 5,256 | 6,742 |
| 2029 | 5,440 | 6,558 |
| 2030 | 5,630 | 6,368 |
| 2031 | 5,827 | 6,171 |
| 2032 | 6,031 | 5,967 |
| 2033 | 6,242 | 5,756 |
| 2034 | 6,460 | 5,538 |
| 2035 | 6,686 | 5,312 |
| 2036 | 6,920 | 5,078 |
| 2037 | 7,162 | 4,836 |
| 2038 | 7,413 | 4,585 |
| 2039 | 7,672 | 4,326 |
| 2040 | 7,941 | 4,057 |
| 2041 | 8,219 | 3,779 |
| 2042 | 8,506 | 3,492 |
| 2043 | 8,804 | 3,194 |
| 2044 | 9,112 | 2,886 |
| 2045 | 9,431 | 2,567 |
| 2046 | 9,761 | 2,237 |
| 2047 | 10,102 | 1,896 |
| 2048 | 10,456 | 1,542 |
| 2049 | 10,822 | 1,176 |
| 2050 | 11,200 | 798 |
| 2051 | 11,500 | 406 |
| | \$ 246,752 | \$ 197,082 |

See independent auditor's report.

**PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
GAS RATES IN FORCE AND NUMBER OF CUSTOMERS**

May 31, 2014

| | <u>Tennessee</u> | <u>Kentucky</u> |
|--|------------------|-----------------|
| Residential rates: | | |
| Customer charge - per delivery point per month | 4.50 | 4.50 |
| Charge - per 1000 cf | 8.11 | 8.16 |
| Commercial rates: | | |
| Customer charge - per delivery point per month | 6.00 | 6.00 |
| Charge - per 1000 cf | 8.11 | 8.16 |
| Industrial rates: | | |
| Customer charge - per delivery point per month | 6.00 | 6.00 |
| Charge - per 1000 cf | 7.61 | 7.61 |
| | | |
| Total customers | <u>2014</u> | <u>2013</u> |
| Residential | 5,516 | 5,421 |
| Commercial | 950 | 943 |
| Industrial | 16 | 15 |
| | <u>6,482</u> | <u>6,379</u> |

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

Members of:

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



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**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Commissioners
Paris – Henry County Public Utility District
Paris, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Paris-Henry County Public Utility District (the District) as of and for the year ended May 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 28, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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*.

Board of Commissioners
Paris – Henry County Public Utility District
Paris, Tennessee

Purpose of this Report

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



Jackson, Tennessee

July 28, 2014

PARIS-HENRY COUNTY PUBLIC UTILITY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
May 31, 2014 and 2013

FINANCIAL STATEMENT FINDINGS

No current year findings reported.

DISPOSITION OF PRIOR YEAR FINDINGS

No prior year findings reported.