

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

**FOR THE YEARS ENDED
MAY 31, 2015**

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
TABLE OF CONTENTS**

Introductory Section

Directory..... 1

Financial Section

Independent Auditor’s Report 2
Management’s Discussion and Analysis..... 5
Financial Statements:
 Statement of Net Position 10
 Statement of Revenues, Expenses and Changes in Net Position 11
 Statement of Cash Flows 12
 Notes to Financial Statements 14
Required Supplementary Information
 Schedule of Changes in Net Pension Liability (Asset) and Related Ratios Based on
 Participation in the Public Employee Pension Plan of TCRS 25
 Schedule of Contributions Based on Participation in the Public Employee
 Pension Plan of TCRS 26

Supplementary Information Section

Schedule of Operating Revenues and Expenses 27
Schedule of Long-Term Debt..... 29
Gas Rates in Force and Number of Customers..... 30

Internal Control and Compliance Section

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* 31
Schedule of Findings and Responses 33
Schedule of Prior Findings and Responses 34

INTRODUCTORY SECTION

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
DIRECTORY
May 31, 2015**

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

Members of:

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



Certified Public Accountants
Offices in Tennessee & Kentucky

227 Oil Well Rd.
Jackson, TN 38305

Phone 731.427.8571
Fax 731.424.5701
www.atacpa.net

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 year ended May 31, 2015, 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2015, and respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, schedule of changes in net pension liability (asset) and related ratios based on participation in the public employee pension plan of TCRS, and schedule of contributions based on participation in the public employee pension plan of TCRS on pages 5 through 9 and 25 through 26 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 supplementary information section are presented for purposes of additional analysis and are not a required part of the financial statements.

The 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 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 February 22, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its

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

compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Jackson, Tennessee
February 22, 2016

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

May 31, 2015

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, 2015 and 2014. All amounts, unless otherwise indicated, are expressed in actual dollars. Due to the implementation of Government Accounting Standards Board (GASB) Statements No. 68 and 71, the May 31, 2014 information presented in this Management’s Discussion and Analysis are not comparable to the May 31, 2015 information. Future MD&A’s will provide comparable information.

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 and deferred outflows of resources at year-end were \$16.58 million and \$94 thousand, respectively, and exceeded liabilities and deferred inflows of resources in the amount of \$15.85 million (i.e. net position). Total assets increased by \$831 thousand due primarily to a significant increase in cash and cash equivalents.
- Net position increased by \$923 thousand during the current year due to an increase in operating income for the year.
- Operating revenues were \$6.43 million, a decrease from the year 2014 in the amount of \$213 thousand or 3.21%.
- Operating expenses were \$5.61 million, a decrease from the year 2014 in the amount of \$337 thousand or 5.67%.
- Operating income for the year was \$819 thousand as compared to operating income of \$695 thousand in the prior year.
- Ratios of operating income to total operating revenue were 12.74 and 10.47, for 2015 and 2014.

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) 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 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, 2015

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, 2015 and 2014, 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, 2015**

CONDENSED STATEMENTS OF NET POSITION (TABLE 1A)

	May 31, 2015	May 31, 2014	Increase (Decrease)	
			\$	%
Current and other assets	\$ 8,509,667	\$ 7,858,399	\$ 651,268	8.29%
Capital assets	8,068,886	7,889,453	179,433	2.27%
Total assets	16,578,553	15,747,852	830,701	5.28%
Deferred outflows of resources	93,926	-	93,926	100.00%
Long-term liabilities	239,911	243,390	(3,479)	-1.43%
Other liabilities	480,066	573,339	(93,273)	-16.27%
Total liabilities	719,977	816,729	(96,752)	-11.85%
Deferred inflows of resources	98,572	-	98,572	100.00%
Net Investment in capital assets	7,825,496	7,642,701	182,795	2.39%
Unrestricted	8,028,434	7,288,422	740,012	10.15%
Total net position	\$ 15,853,930	\$ 14,931,123	\$ 922,807	6.18%

The increase in cash was due primarily to an increase in operating income without a large amount of capital needs in 2015. The overall increase in net position for 2015 was due to net income of \$858 thousand and a restatement of the beginning net position of \$65 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, 2015

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

	<u>May 31, 2015</u>	<u>May 31, 2014</u>	<u>Increase (Decrease)</u>	
			<u>\$</u>	<u>%</u>
Operating Revenues	\$ 6,426,495	\$ 6,639,952	\$ (213,457)	-3.21%
Non-operating revenues	47,400	36,321	11,079	30.50%
Total revenues	<u>6,473,895</u>	<u>6,676,273</u>	<u>(202,378)</u>	<u>-3.03%</u>
Cost of sales and service	3,566,009	3,962,887	(396,878)	-10.01%
Transportation, distribution, shop and maintenance expense	595,753	555,120	40,633	7.32%
General and administrative expense	992,584	988,443	4,141	0.42%
Depreciation expense	452,052	437,143	14,909	3.41%
Taxes and tax equivalents	1,130	865	265	30.64%
Non-operating expenses	8,636	8,750	(114)	100.00%
Total expenses	<u>5,616,164</u>	<u>5,953,208</u>	<u>(337,044)</u>	<u>-5.66%</u>
Change in net position	857,731	723,065	134,666	18.62%
Beginning net position	14,931,123	14,208,058	723,065	5.09%
Restatement - GASB 68 implementation	65,076	-	65,076	100.00%
Beginning net position - restated	<u>14,996,199</u>	<u>14,208,058</u>	<u>788,141</u>	<u>5.55%</u>
Ending net position	<u>\$ 15,853,930</u>	<u>\$ 14,931,123</u>	<u>\$ 922,807</u>	<u>6.18%</u>

Operating revenues showed a 3.21% decrease from 2014 to 2015. This change was 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. Net position showed an increase of 11.58% over the 2 year period due to the above mentioned facts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2015, the District had \$8.07 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, 2015 and 2014. 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

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

May 31, 2015

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>May 31, 2015</u>	<u>May 31, 2014</u>	<u>Increase (Decrease)</u>	
			<u>\$</u>	<u>%</u>
Land	\$ 96,043	\$ 96,043	\$ -	0.00%
Buildings and Improvements	212,103	247,824	(35,721)	-14.41%
Equipment	283,676	232,694	50,982	21.91%
Transmission and distribution systems	7,477,064	7,312,892	164,172	2.24%
Total capital assets	<u>\$ 8,068,886</u>	<u>\$ 7,889,453</u>	<u>\$ 179,433</u>	<u>2.27%</u>

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The Management of the District, in response to prior years’ weather anomalies, 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
STATEMENT OF NET POSITION
 May 31, 2015

	2015
Assets	
Current assets:	
Cash on hand	\$ 1,673
Cash and cash equivalents on deposit	6,970,704
Certificates of deposit	1,074,649
Accounts receivable (net of allowance for uncollectibles)	29,227
Interest receivable	917
Gas inventory	162,159
Materials and supplies inventory	100,078
Prepayments and other current assets	55,271
Total current assets	8,394,678
Noncurrent assets:	
Net pension asset	114,989
Capital assets, not being depreciated	
Land	96,043
Capital assets, net of accumulated depreciation	
Buildings and improvements	212,103
Equipment	283,676
Transmission and distribution system	7,477,064
Total capital assets (net of accumulated depreciation)	8,068,886
Total assets	16,578,553
Deferred outflows of resources	
Deferred outflows - pensions	93,926
Total deferred outflows of resources	93,926
Liabilities	
Current liabilities:	
Accounts payable	115,612
USDA loan - current	3,479
Consumers' deposits	360,975
Total current liabilities	480,066
Noncurrent liabilities:	
USDA loan	239,911
Total liabilities	719,977
Deferred inflows of resources	
Deferred inflows - pensions	98,572
Net position	
Net investment in capital assets	7,825,496
Unrestricted	8,028,434
Total net position	\$ 15,853,930

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

PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended May 31, 2015

	2015
Operating revenues:	
Charges for sales and services	\$ 6,219,475
Other revenues	207,020
Total operating revenues	6,426,495
Operating expenses:	
Cost of sales and services	3,566,009
Transportation, distribution, shop, and maintenance expenses	595,753
General and administrative expenses	992,584
Provision for depreciation	452,052
Taxes and tax equivalents	1,130
Total operating expenses	5,607,528
Operating income (loss)	818,967
Nonoperating revenues (expenses):	
Interest and dividend income	39,719
Interest expense	(8,636)
Gain on sale of assets	7,681
Total nonoperating revenues (expenses)	38,764
Change in net position	857,731
Net position - beginning	14,931,123
Restatement - GASB Statement no.68 implementation	65,076
Net position - beginning - restated	14,996,199
Net position - ending	\$ 15,853,930

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

PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended May 31, 2015

	2015
Cash flows from operating activities:	
Cash received from consumers	\$ 6,464,705
Cash paid to suppliers of goods and services	(4,130,271)
Cash paid to employees for services	(1,100,769)
Customer deposits received	68,754
Customer deposits refunded	(48,510)
Taxes paid including payments in lieu of taxes	(1,130)
Net cash provided (used) by operating activities	1,252,779
Cash flows from capital and related financing activities:	
Construction and acquisition of plant	(631,485)
Principal paid on long-term debt	(3,362)
Interest paid on long-term debt	(8,636)
Sale of assets	7,681
Net cash provided (used) by capital and related financing activities	(635,802)
Cash flows from investing activities:	
Purchase of investment	(1,074,649)
Proceeds from sale of investments	1,065,420
Interest collected	36,860
Net cash provided (used) by investing activities	27,631
Net increase (decrease) in cash and cash equivalents	644,608
Cash and cash equivalents - beginning of year	6,327,769
Cash and cash equivalents - end of year	\$ 6,972,377
Cash and cash equivalents:	
Unrestricted cash on hand	\$ 1,673
Unrestricted cash and cash equivalents on deposit	6,970,704
Total cash and cash equivalents	\$ 6,972,377

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

PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended May 31, 2015

	2015
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 818,967
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	452,052
Current year pension contributions	
(Increase) decrease in accounts receivable	38,210
(Increase) decrease in inventories	79,130
(Increase) decrease in prepayments and other assets	218
(Increase) decrease in pension contributions subsequent to measurement date	(42,408)
Increase (decrease) in accounts payable	(113,634)
Increase (decrease) in customer deposits	20,244
	<u>20,244</u>
Net cash provided (used) by operating activities	\$ 1,252,779

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, 2015

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.

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

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

May 31, 2015

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

Pensions

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

Deferred Outflows/Inflows of Resources

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 has pension-related items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial element, deferred inflows of resources, represents acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Items that qualify for reporting in this category as of May 31, 2015 are pension-related items.

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

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

May 31, 2015

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

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 first had to 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. The implementation of GASB 68 resulted in the presentation of a net pension asset, deferred outflows of resources, and deferred inflows of resources on the statement of net position that previously had not been reported.

In January 2013, the GASB issued Statement 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement also provides guidance on how to determine the gain or loss on a disposal of government operations. This Statement applies to all state and local governmental entities. The requirements of this Statement should be applied prospectively and are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. This statement has not had any impact on the District's financial statements.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement establishes accounting and financial reporting standards for situations where a state or local government, as a guarantor, agrees to indemnify a third-party obligation holder under specified conditions. The issuer of the guaranteed obligation can be a legally separate entity or individual, including a blended or discretely presented component unit. Guidance is provided for situations where a state or local government extends or receives a nonexchange financial guarantee. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2013. This statement has not had any impact on the District's financial statements.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

May 31, 2015

for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The implementation of this statement resulted in deferred outflows being reported on the statement of net position.

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.

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

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

May 31, 2015

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, 2015, 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, 2015
Billed services for utility customers	105,447
Other accounts receivable	11,704
Allowance for doubtful accounts	(87,924)
Total	\$ 29,227

C. Net Position

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

	May 31, 2015
Capital assets	8,068,886
Less: debt as disclosed in Note 3E	(243,390)
Net investment in capital assets	7,825,496
Unrestricted	8,035,019
Total net position	\$ 15,860,515

D. Capital Assets

Capital asset activity during the years were as follows:

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
 May 31, 2015

<u>Description</u>	<u>Balance at May 31, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at May 31, 2015</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	1,321,211	130,328	42,509	1,409,030
Transmission and distribution system	<u>13,416,323</u>	<u>501,157</u>	<u>-</u>	<u>13,917,480</u>
Total capital assets being depreciated	<u>15,253,137</u>	<u>631,485</u>	<u>42,509</u>	<u>15,842,113</u>
Less accumulated depreciation for:				
Buildings and improvements	267,779	35,721	-	303,500
Equipment	1,088,517	79,346	42,509	1,125,354
Transmission and distribution system	<u>6,103,431</u>	<u>336,985</u>	<u>-</u>	<u>6,440,416</u>
Total accumulated depreciation	<u>7,459,727</u>	<u>452,052</u>	<u>42,509</u>	<u>7,869,270</u>
Total capital assets, being depreciated, net	<u>7,793,410</u>	<u>179,433</u>	<u>-</u>	<u>7,972,843</u>
Total capital assets, net	<u>\$ 7,889,453</u>	<u>\$ 179,433</u>	<u>\$ -</u>	<u>\$ 8,068,886</u>

Depreciation expense amounted to \$452,052 for the fiscal year ended May 31, 2015.

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, 2015 is \$243,390.

The following is a summary of long-term debt transactions for the year ended May 31, 2015.

	<u>Balance 5/31/2014</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 5/31/2015</u>	<u>Due Within One Year</u>
USDA Loan	<u>\$ 246,752</u>	<u>\$ -</u>	<u>\$ 3,362</u>	<u>\$ 243,390</u>	<u>\$ 3,479</u>

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
 May 31, 2015

The scheduled annual requirements for long-term debt at May 31, 2015, including interest of \$188,446 are as follows:

Year Ending	Principal	Interest	Total
<u>May 31,</u>			
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	3,992	8,006	11,998
2021-2025	22,156	37,834	59,990
2026-2030	26,311	33,679	59,990
2031-2035	31,246	28,744	59,990
2036-2040	37,108	22,882	59,990
2041-2045	44,072	15,918	59,990
2046-2050	52,341	7,649	59,990
2051	11,500	406	11,906
	<u>\$243,390</u>	<u>\$ 188,446</u>	<u>\$431,836</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 provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The TCRS was created by state statute under *Tennessee Code Annotated* Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits Provided

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

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

May 31, 2015

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	1
Active employees	14
	17

Contributions

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. Paris Henry County Utility District makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for Paris Henry County Utility District were \$48,993 based on a rate of 7.03 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Paris Henry County Utility District's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Asset

Paris Henry County Utility District's net pension asset was measured as of June 30, 2014, and the total pension liability used to calculate net pension asset was determined by an actuarial valuation as of that date.

Actuarial assumptions

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

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

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

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

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

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
 May 31, 2015

market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

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

Discount rate

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

Changes in the Net Pension Asset

	Total Pension Liability	Increase (Decrease) Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
Balance at 6/30/13	1,351,128	1,330,461	20,667
Changes for the year:			
Service cost	47,389	-	47,389
Interest	102,524	-	102,524
Differences between expected and actual experience	56,202	-	56,202
Contributions-employer	-	85,743	(85,743)
Contributions-employees	-	31,593	(31,593)
Net investment income	-	225,013	(225,013)
Benefit payments, including refunds of employee contributions	(63,063)	(63,063)	-
Administrative expense	-	(578)	578
Net changes	<u>143,052</u>	<u>278,708</u>	<u>(135,656)</u>
Balance at 6/30/14	1,494,180	1,609,169	(114,989)

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
 May 31, 2015

Sensitivity of the net pension liability (asset) to changes in the discount rate

The following presents the net pension liability (asset) of Paris Henry County Utility District calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Paris Henry County Utility District's net pension liability (asset)	\$ 131,110	\$ (114,989)	\$ (316,411)

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

Pension income

For the year ended June 30, 2015, Paris Henry County Utility District recognized pension income of \$2,859.

Deferred outflows of resources and deferred inflows of resources

For the year ended June 30, 2015, Paris Henry County Utility District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 51,518	\$ -
Net difference between projected and actual earnings on pension plan investments	-	98,572
Contributions subsequent to the measurement date of June 30, 2014	42,408	-
	<u>\$ 93,926</u>	<u>\$ 98,572</u>

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

Year Ended June 30:		
2016	\$	(19,959)
2017		(19,959)
2018		(19,959)
2019		(19,959)
2020		4,684
Thereafter		28,104

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

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

May 31, 2015

Principal Retirement Plan

Plan Description

As of March 1, 2014, the most recent actuarial valuation date, only one employee remained a member of the District's contributory, defined benefit plan, a single employer plan. All new employees were required to join TCRS.

This plan was closed and all assets were distributed during the year ended May 31, 2015. No further contributions will be required.

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, 2015 and 2014, 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 February 22, 2016, the date in which the financial statements were available to be issued.

D. Restatement of Beginning Net Position – GASB 68 Implementation

As of July, 1, 2014 a restatement of beginning net position was made for net pension liability and the net difference between projected and actual earnings on pension plan investments due to the District implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The implementation of GASB Statement No. 68 resulted in the System restating net position by \$65,076 with a measurement date of June 30, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios Based on
Participation in the Public Employee Pension Plan of TCRS
Last Fiscal Year Ending June 30

	2014
Total pension liability	
Service cost	\$ 47,389
Interest	102,524
Changes in benefit terms	-
Differences between actual & expected experience	56,202
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(63,063)
Net change in total pension liability	143,052
Total pension liability - beginning	1,351,128
Total pension liability - ending (a)	1,494,180
Plan fiduciary net position	
Contributions - employer	\$ 85,743
Contributions - employee	31,593
Net investment income	225,013
Benefit payments, including refunds of employee contributions	(63,063)
Administrative expense	(578)
Net change in plan fiduciary net position	278,708
Plan fiduciary net position - beginning	1,330,461
Plan fiduciary net position - ending (b)	1,609,169
Net Pension Liability (Asset) - ending (a) - (b)	(114,989)
Plan fiduciary net position as a percentage of total pension liability	107.70%
Covered-employee payroll	\$ 631,860
Net pension liability (asset) as a percentage of covered-employee payroll	18.20%

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

PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
Schedule of Contributions Based on Participation in the Public Employee
Pension Plan of TCRS
Last Fiscal Year Ending June 30

	2014	2015
Actuarially determined contribution	\$ 85,743	\$ 48,993
Contributions in relation to the actuarially determined contribution	<u>85,743</u>	<u>48,993</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 631,860	\$ 651,769
Contributions as a percentage of covered-employee payroll	13.57%	7.52%

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

Notes to Schedule:

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	1 year
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.5 percent

See independent auditor's report.

SUPPLEMENTARY INFORMATION SECTION

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

For the Years Ended May 31, 2015

	<u>2015</u>	
	<u>Actual</u>	<u>Percent</u>
Operating revenues		
Charges for sales and services:		
Residential sales	\$ 2,963,379	46.11
Commercial sales	1,724,243	26.83
Industrial sales	<u>1,531,853</u>	<u>23.84</u>
Total charges for sales and services	<u>6,219,475</u>	<u>96.78</u>
Other revenues		
Penalties	55,416	0.86
Connection fees	18,325	0.29
Turn on charges	13,100	0.20
Installation charges	119,729	1.86
Other revenues	<u>450</u>	<u>0.01</u>
Total other revenues	<u>207,020</u>	<u>3.22</u>
Total operating revenues	<u>\$ 6,426,495</u>	<u>100.00</u>
Operating expenses		
Cost of sales and services:		
Purchased gas	<u>\$ 3,566,009</u>	<u>55.49</u>
Transportation, distribution, shop, and maintenance expenses		
Salaries	366,140	5.70
Payroll taxes	26,851	0.42
Workmen's compensation	25,274	0.39
Employee education and training	11,665	0.18
Advertising	377	0.01
Postage & freight	2,708	0.04
Utility services	21,705	0.34
Repairs and maintenance	86,117	1.34
Professional services	14,657	0.23
Operating supplies	8,350	0.13
Clothing and uniforms	5,748	0.09
Insurance	14,430	0.22
Travel	4,781	0.07
Tools	<u>6,950</u>	<u>0.11</u>
Total transportation, distribution, shop, and maintenance expenses	<u>\$ 595,753</u>	<u>9.27</u>

See independent auditor's report.

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

For the Years Ended May 31, 2015

	2015	
	Actual	Percent
General and administrative expenses:		
Salaries	\$ 372,092	5.79
Payroll taxes	28,868	0.45
Health insurance	217,806	3.39
Retirement	89,012	1.39
Workmen's compensation	5,773	0.09
Employee education and training	1,902	0.03
Postage & freight	36,153	0.56
Advertising and public relations	24,388	0.38
Credit card fees	25,348	0.39
Printing and publications	12,502	0.19
Memberships	31,122	0.48
Utility services	18,376	0.29
Professional services	39,107	0.61
Repairs and maintenance	17,440	0.27
Travel - board of commissioners	998	0.02
Travel - members of management	11,354	0.18
Travel - other employees	694	0.01
Office supplies	16,123	0.25
Clothing and uniforms	1,659	0.03
Insurance	38,880	0.60
Land rental	2,404	0.04
Miscellaneous	583	0.01
Total general and administrative expenses	992,584	15.45
Depreciation and amortization	452,052	7.03
Taxes and tax equivalent	1,130	0.02
Total operating expenses	\$ 5,607,528	87.26

See independent auditor's report.

PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
SCHEDULE OF LONG-TERM DEBT
 May 31, 2015

Year Ended May 31,	USDA Loan	
	Principal	Interest
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
	<u>\$ 243,390</u>	<u>\$ 188,446</u>

See independent auditor's report.

PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
GAS RATES IN FORCE AND NUMBER OF CUSTOMERS
 May 31, 2015

	<u>Tennessee</u>	<u>Kentucky</u>
Residential rates:		
Customer charge - per delivery point per month	4.50	4.50
Charge - per 1000 cf	5.45	5.50
Commercial rates:		
Customer charge - per delivery point per month	6.00	6.00
Charge - per 1000 cf	5.45	5.50
Industrial rates:		
Customer charge - per delivery point per month	6.00	6.00
Charge - per 1000 cf	4.95	4.95
Total customers	<u>2015</u>	<u>2014</u>
Residential	5,641	5,516
Commercial	959	950
Industrial	17	16
	<u>6,617</u>	<u>6,482</u>

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

Members of:

American Institute of Certified Public Accountants
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227 Oil Well Rd.
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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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 22, 2016.

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. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2015-001 that we consider to be a significant deficiency.

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
February 22, 2016

PARIS-HENRY COUNTY PUBLIC UTILITY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
May 31, 2015 and 2014

FINANCIAL STATEMENT FINDINGS

2015-001 Segregation of Duties related to Meter Reading (Significant Deficiency)

Condition: Paris-Henry County Public Utility District does not have a complete separation of duties over their meter reading process. This resulted in the fraudulent reading of an employee's gas usage in the amount of \$915. Once the amount was determined, the employee repaid the District.

Criteria: Proper segregation of duties involves separating the functions of reading the meter, determining the reading's appropriateness, and re-checking the reading.

Effect: When meter-reading functions are not adequately segregated, the risk of errors, irregularities, or fraud occurring and not being detected in a timely manner increases.

Recommendation: Controls should be used to ensure some oversight of the meter-reading procedures for all areas of the internal control system.

Response: The District has put procedures in place to separate the meter-reading functions so that significant errors or fraud do not occur in the future.

**PARIS-HENRY COUNTY PUBLIC UTILITY DISTRICT
SCHEDULE OF PRIOR FINDINGS AND RESPONSES**
May 31, 2015 and 2014

Financial Statement Findings

There were no prior findings reported.