

HUMPHREYS COUNTY UTILITY DISTRICT
AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION
JUNE 30, 2024

HUMPHREYS COUNTY UTILITY DISTRICT
JUNE 30, 2024

Table of Contents

	<u>Page</u>
Financial Statements:	
Independent Auditor's Report	3
Management's Discussion and Analysis (Unaudited)	6
Statement of Net Position	11
Statement of Revenues, Expenses and Change in Net Position	12
Statement of Cash Flows	13
Notes to Financial Statements	14
Required Supplementary Information:	
Schedule of Changes in the Utility's Total OPEB Liability and Related Ratios	22
Other Financial Information:	
Directory of Officials (Unaudited)	23
Schedule of Operation Expenses	24
Schedule of Maintenance Expenses	25
Schedule of Statistical Data and Rates (Unaudited)	26
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 <i>Government Auditing Standards</i>	27
Schedule of Prior Year Findings	29



INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Humphreys County Utility District
Waverly, Tennessee

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Humphreys County Utility District (the Utility) as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Utility as of June 30, 2024, and the 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Humphreys County Utility District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Humphreys County Utility District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Humphreys County Utility District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Humphreys County Utility District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Changes in the Utility's Total OPEB Liability and Related Ratios, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utility's basic financial statements. The other financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Operation Expenses and Schedule of Maintenance Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Operation Expenses and Schedule of Maintenance Expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Directory of Officials and the Schedule of Statistical Data and Rates but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2024, on our consideration of the Utility'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Utility's 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 Utility's internal control over financial reporting and compliance.

One Source Accounting & Tax

Clarksville, Tennessee
August 29, 2024

HUMPHREYS COUNTY UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2024

BACKGROUND

The Humphreys County Utility District (HCUD) was created in 1955 for the purpose of providing Humphreys County and Dickson County with a reliable supply of natural gas for both residential and industrial use. HCUD currently provides natural gas service to approximately 6,400 customers through two gate stations. The HCUD service area includes Humphreys County and portions of Dickson, Perry and Hickman Counties, including the cities of New Johnsonville, Waverly and McEwen.

HCUD is a member agency of the Tennessee Gas Association, American Public Gas Association and Tennessee Association of Utility Districts. HCUD's entire gas supply is transported from the Gulf of Mexico and Northeast Shale to Humphreys County via the Tennessee Gas Pipeline, which is owned and operated by the Kinder-Morgan Corporation. Natural gas is conveyed by HCUD through 400+ miles of pipelines and regulator stations to local cities and unincorporated areas for delivery to consumers. HCUD is regulated federally by PHMSA and locally by the Tennessee Public Utility Commission.

REPORTING REQUIREMENTS

Our discussion and analysis of HCUD's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2024. Please read it in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- HCUD's net position was \$22.81 million for the fiscal year 2024.
- During the year, HCUD operating revenues were \$9.07 million with operating expenses of \$8.61 million.
- HCUD's non-operating revenues increased for fiscal year 2024. This was primarily due to the maturing of certificates of deposit at a higher interest rate than in previous years.
- The fiscal year 2024 saw temperatures that were reflective of a normal to warmer Tennessee winter with approximately 2 weeks of colder than normal temperatures. These temperatures related to average natural gas sales for residential and commercial heating purposes compared to fiscal year 2023.
- Total operational costs decreased as of June 30, 2024 when compared to previous years. The operational maintenance costs were lower for the 2024 fiscal year due to the completion of flood related and TDOT projects during fiscal year 2023. Management continues to operate the utility as lean as possible without compromising the quality of HCUD's employees or the quality of service provided to our customers. Costs for operation and maintenance were \$3.27 million for fiscal year 2024.

FINANCIAL HIGHLIGHTS (CONT'D)

- Unaccounted for gas was 0.83% for the 2024 fiscal year, a very acceptable percentage rate (acceptable for industry standards is $\leq 3.0\%$). HCUD has a meter change out program for residential and commercial meters and calibration schedules for its industrial meters to attempt to diminish the volume of unaccounted for gas lost through controllable means. HCUD has also integrated gas property analysis to more accurately measure gas volumes at our industrial sites. In addition to the new measurement programs put in place, the Public Awareness Program and the efforts of the Tennessee One Call System have educated the public about potential damage to underground natural gas pipelines in our area.

DESCRIPTION OF BASIC FINANCIAL STATEMENTS

The financial statements of HCUD report information about HCUD using generally accepted accounting principles. These statements offer financial information about its activities. The Statement of Net Position includes all of HCUD's assets, deferred outflows of resources, liabilities and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and the obligations (liabilities). All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of HCUD's operations over the past year and can be used to determine if HCUD recovered all its costs through the funding provided. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about HCUD's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

DESCRIPTION OF BASIC FINANCIAL STATEMENTS

The following condensed financial information provides an overview of HCUD's financial activities for the year ended June 30, 2024.

STATEMENT OF NET POSITION

	<u>2024</u>
Cash and cash equivalents	\$ 637,600
Certificates of deposit	11,691,700
Accounts receivable	416,300
Inventory - materials and supplies	397,000
Inventory - storage gas	138,100
Other current assets	<u>270,200</u>
Total current assets	13,550,900
Utility plant, net	10,069,100
Deferred outflows of resources	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 23,620,000</u>
Current liabilities	\$ 519,100
Other liabilities	<u>198,600</u>
Total liabilities	717,700
Deferred inflows of resources	93,800
Investment in capital assets	10,069,100
Unrestricted net position	<u>12,739,400</u>
Total net position	<u>22,808,500</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 23,620,000</u>

Net position - Net investment in capital assets was \$10.07 million for the year ending June 30, 2024. Unrestricted net position was \$12.74 million this fiscal year. Unrestricted net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets".

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	<u>2024</u>
Total operating revenues	\$ 9,067,300
Total operating expenses	(8,614,600)
Other income	<u>443,700</u>
Change in net position	896,400
Net position, beginning of year	<u>21,912,100</u>
Net position, end of year	<u>\$ 22,808,500</u>

Revenues - HCUD generates its primary revenue through the sale of natural gas. For the year ended June 30, 2024, natural gas sales were \$8.19 million, or 90.34 percent, of operating revenues. Revenues from natural gas sales decreased due to a reduction in the natural gas wellhead pricing. Natural gas volumes sold were in line with an average Tennessee winter.

The sole source of HCUD's non-operating revenues was interest earned on its investments. For the year ending June 30, 2024 interest earned was \$443,700.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At June 30, 2024, HCUD had \$29.16 million invested in its natural gas distribution facilities, and other capital assets (see table below).

	<u>2024</u>
Distribution & transmission plant	\$ 23,134,600
General plant	<u>6,028,900</u>
	29,163,500
Total accumulated depreciation	<u>(19,094,400)</u>
Net capital assets	<u>\$ 10,069,100</u>

CAPITAL ASSET AND DEBT ADMINISTRATION (CONT'D)

As noted earlier, HCUD maintains and repairs over 400+ miles of pipelines, ranging in size from ¾ inches to 8 inches in diameter, right-of-ways, roads, mechanical equipment, buildings and grounds, including gate stations and odorizers. A preventative maintenance program, which consists of performing inspections and maintenance tasks, is performed on a regularly scheduled basis. In addition, HCUD has a Cathodic Protection Program that is designed to protect and ensure structural integrity, perform pipeline condition assessments, and extend the service life of existing pipelines. This program includes external inspection schedules and corrosion monitoring on the pipelines.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- Unemployment remained steady in Humphreys County with 3.50% in June 2023 and 3.50% in June 2024.
- Home sales and new construction has declined in the district's service area, with the majority of new construction occurring in Dickson County and southeastern Humphreys County.
- A new 118 home development is planned for McEwen, Tennessee. Construction is scheduled to start in 2025 and the project will be constructed in 4 phases. Natural gas will be a part of the project.
- Nashville Wire in McEwen, Tennessee is adding a new facility to their complex and construction began mid-summer 2024. The new facility will be using natural gas for heat only. The project is expected to add 110 jobs to the area.
- Next year's capital budget will incorporate state mandated highway relocation projects, state bridge relocation projects, vehicle/equipment replacement and new gate station.

CONTACTING HCUD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, investors and creditors with a general overview of HCUD's finances and to show HCUD's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact HCUD's office at 1311 Highway 70 West, Waverly, TN 37185.

HUMPHREYS COUNTY UTILITY DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2024

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS

Cash and Cash Equivalents	\$ 637,600
Certificates of Deposit	11,691,700
Accounts Receivable	416,300
Interest Receivable	107,000
Inventory - Materials and Supplies	397,000
Inventory - Storage Gas	138,100
Prepayments	163,200
Total Current Assets	13,550,900

UTILITY PLANT

Gas Plant in Service	29,163,500
Less: Accumulated Depreciation	19,094,400
Net Gas Plant	10,069,100

DEFERRED OUTFLOWS OF RESOURCES

	-
Total Assets and Deferred Outflows of Resources	\$ 23,620,000

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

CURRENT LIABILITIES

Accounts Payable	\$ 335,700
Current Portion of Accrued Sick and Annual Leave	183,400
Total Current Liabilities	519,100

OTHER LIABILITIES

Customer Deposits	155,500
Long-Term Portion of Accrued Sick and Annual Leave	19,800
Other Postemployment Benefits	23,300
Total Other Liabilities	198,600

Total Liabilities	717,700
-------------------	---------

DEFERRED INFLOWS OF RESOURCES

	93,800
--	--------

NET POSITION

Investment in Capital Assets	10,069,100
Unrestricted	12,739,400
Total Net Position	22,808,500

Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 23,620,000
---	---------------

See accompanying notes and independent auditor's report.

HUMPHREYS COUNTY UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
YEAR ENDED JUNE 30, 2024

<u>OPERATING REVENUES</u>	
Gas Sales, net of Bad Debts of \$3,000	\$ 8,191,500
Merchandising and Contracting	693,300
Miscellaneous Revenue	182,500
Total Operating Revenues	9,067,300
 <u>OPERATING EXPENSES</u>	
Purchased Gas	4,514,900
Operation	2,677,900
Maintenance	596,200
Depreciation	825,600
Total Operating Expenses	8,614,600
<u>OPERATING INCOME</u>	452,700
 <u>OTHER INCOME</u>	
Interest Income	443,700
Total Other Income	443,700
<u>CHANGE IN NET POSITION</u>	896,400
<u>NET POSITION - BEGINNING</u>	21,912,100
<u>NET POSITION - ENDING</u>	\$ 22,808,500

See accompanying notes and independent auditor's report.

HUMPHREYS COUNTY UTILITY DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2024

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Cash Received from Customers	\$ 8,811,000
Cash Paid to Suppliers	(5,834,400)
Cash Paid to Employees	(1,470,800)
Other Receipts	182,500
Net Cash Provided by Operating Activities	<u>1,688,300</u>
 <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Additions to Plant	(895,700)
Net Cash Used in Capital and Related Financing Activities	<u>(895,700)</u>
 <u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Interest Received	380,400
Purchases of Certificates of Deposit	(4,392,200)
Proceeds from Maturities of Certificates of Deposit	1,026,600
Net Cash Used in Investing Activities	<u>(2,985,200)</u>
<u>NET DECREASE IN CASH AND CASH EQUIVALENTS</u>	(2,192,600)
<u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	<u>2,830,200</u>
<u>CASH AND CASH EQUIVALENTS - ENDING</u>	<u><u>\$ 637,600</u></u>
 <u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	
Operating Income	\$ 452,700
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	878,400
Changes in:	
Accounts Receivable	(73,800)
Inventory - Materials and Supplies	(30,000)
Inventory - Storage Gas	465,800
Prepayments	(28,600)
Accounts Payable	39,800
Other Postemployment Benefits	(200)
Accrued Sick and Annual Leave	(25,300)
Customer Deposits	9,500
Net Cash Provided By Operating Activities	<u><u>\$ 1,688,300</u></u>

See accompanying notes and independent auditor's report.

HUMPHREYS COUNTY UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Reporting Entity

The Humphreys County Utility District (the Utility) was created pursuant to the provisions of Chapter 248 of the Public Acts of Tennessee, 1937, to provide natural gas to Humphreys County. The Utility's operations alone constitute the reporting entity since it has no oversight responsibility for any other agencies and no component units.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates in the near term and those variations could have a material effect on the financial statements.

Concentrations of Credit Risk

Financial instruments that potentially subject the Utility to significant concentrations of credit risk consist principally of cash and cash equivalents, certificates of deposit, and accounts receivable. Custodial credit risk for the Utility's deposits is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. As required by state statutes, the Utility's policy is to require that financial institutions holding its deposits be members of the Tennessee Collateral Pool or pledge collateral in excess of federal depository insurance. The collateral is required to be held by the Utility or its agent in the Utility's name. With respect to accounts receivable, credit risk is dispersed across a large number of customers who are geographically concentrated in the Utility's service area. The Utility obtains a security deposit or third-party guarantee where appropriate.

Basis of Accounting

The Utility's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Bad debts are charged to the related revenue account using the direct write-off method, which is not materially different from the allowance for bad debt method. It is the Utility's policy to first apply unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

Cash and Cash Equivalents

The Utility considers all highly liquid debt instruments purchased with maturities of 90 days or less to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Inventories

Merchandise inventories are stated at the lower of cost or market determined by the moving average method. Gas inventory is stated at cost using the first-in, first-out method.

Operating Revenues and Expenses

Operating revenues and expenses of the Utility are those that result from providing services and producing and delivering goods and/or services. It also includes all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities. Revenues and expenses that do not meet these criteria are classified as nonoperating revenues and expenses.

Gas Plant, Maintenance and Depreciation

Gas plant is stated at the original cost of construction which includes the cost of contracted services, direct labor, materials and overhead items. Contributions from others toward the construction of gas plant are credited to the applicable plant accounts.

When property which represents a retirement unit is replaced or removed, the cost of such property as determined from the continuing property records is credited to gas plant and such cost, together with cost of removal less salvage, is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expense and other accounts.

The gas plant is depreciated by classification on a straight-line basis using rates which estimate the useful life of each classification. All assets with an individual cost of more than \$2,500 and an estimated useful life in excess of three years are capitalized. The provision for depreciation of \$878,400 consists of \$825,600 charged directly to operations and \$52,800 charged to transportation expense-clearing.

Accumulated Unpaid Sick and Annual Leave

The Utility pays employees unused annual leave at December 31 each year. Upon termination of employment, employees will be paid for unused vacation time that has been earned through the last day of employment.

Sick leave is paid on the basis of straight time and is not used as a basis for overtime pay. An employee will be paid all unused sick leave upon termination of employment or retirement. Sick leave benefits can accumulate up to sixty days as of December 31 of each year. All days accumulated in excess of sixty days will be paid to the employee.

Date of Management's Review

Subsequent events have been evaluated through August 29, 2024, which is the date the financial statements were available to be issued.

2. Investments and Other Deposits

Investments and other deposits are restricted by state law to deposits with financial institutions and certain obligations guaranteed by the United States Government. Investments are stated at cost or amortized cost, which approximates fair value. The following is a schedule of the Utility's certificates of deposit.

	<u>Carrying Amount</u>	<u>Fair Value</u>
Certificates of Deposit	\$ 11,691,682	<u>\$ 11,691,682</u>
Less: Cash Equivalents	<u>-</u>	
	<u>\$ 11,691,682</u>	

All deposits with financial institutions must be collateralized in an amount equal to 105% of the market value of uninsured deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the organization. The Utility does not have a policy for interest rate risk or other credit risk other than pledging securities for amounts in excess of FDIC coverage. At June 30, 2024, cash and other deposits included bank balances of \$12,495,800 all of which was insured by the FDIC or the State of Tennessee Collateral Pool.

3. Gas Plant

A summary of changes in Gas Plant follows:

	Balance July 1, 2023	Additions	Deletions	Balance June 30, 2024
<u>Transmission Plant</u>				
Land and Land Rights	\$ 9,100	\$ -	\$ -	\$ 9,100
Mains	3,320,700	-	-	3,320,700
Measuring and Regulating Station Equipment	55,000	-	-	55,000
	<u>3,384,800</u>	<u>-</u>	<u>-</u>	<u>3,384,800</u>
<u>Distribution Plant</u>				
Mains	10,492,500	191,700	-	10,684,200
Measuring and Regulating Station Equipment	143,500	-	-	143,500
Services	7,645,400	365,400	-	8,010,800
Meters	911,300	-	-	911,300
	<u>19,192,700</u>	<u>557,100</u>	<u>-</u>	<u>19,749,800</u>
<u>General Plant</u>				
Land and Land Rights	469,100		-	469,100
Structures and Improvements	3,406,500		-	3,406,500
Furniture and Equipment	91,200	-	-	91,200
Transportation Equipment	761,100	22,200	47,400	735,900
Tools and Work Equipment	777,400	316,400	3,000	1,090,800
Communication Equipment	235,400	-	-	235,400
	<u>5,740,700</u>	<u>338,600</u>	<u>50,400</u>	<u>6,028,900</u>
 Total Gas Plant	 28,318,200	 895,700	 50,400	 29,163,500
Accumulated Depreciation	<u>18,266,400</u>	<u>878,400</u>	<u>50,400</u>	<u>19,094,400</u>
Net Gas Plant	<u>\$ 10,051,800</u>	<u>\$ 17,300</u>	<u>\$ -</u>	<u>\$ 10,069,100</u>

Land and land rights included in the above totals are not depreciated.

4. Other Liabilities

Changes in other liabilities (including current portions) for the year ended June 30, 2024 were as follows:

	Balance			Balance	Estimated Amount Due Year Ending
	July 1, 2023	Additions	Deletions	June 30, 2024	June 30, 2025
Customer Deposits	\$ 146,000	\$ 28,100	\$ 18,600	\$ 155,500	\$ -
Accrued Sick and Annual Leave	228,500	158,100	183,400	203,200	183,400
Total	<u>\$ 374,500</u>	<u>\$ 186,200</u>	<u>\$ 202,000</u>	<u>\$ 358,700</u>	<u>\$ 183,400</u>

5. Major Customers

For the year ended June 30, 2024, the Utility sold a substantial portion of its product to one commercial customer. Sales to this customer amounted to \$2,103,400 (26%) of total gas sales. At June 30, 2024, the amount due from this customer that was included in trade accounts receivable was \$179,900.

6. Major Suppliers

Effective May 1, 2005, the Utility entered into a Natural Gas Supply and Management Services Agreement with ConocoPhillips Company. This agreement requires the Utility to purchase specified quantities of natural gas at an index price, as defined, plus or minus a premium or discount ranging from +\$0.015 to -\$0.045 per one million British thermal units ("BTUs"). This agreement remained in effect through April 30, 2010, and thereafter on a year-to-year basis unless either party provides written notice of termination. For the year ended June 30, 2024, the Utility purchased 74% of its natural gas from this vendor.

Effective August 1, 2018, the Utility entered into a Natural Gas Supply Agreement with the Tennessee Energy Acquisition Corporation. This agreement requires the Utility to purchase specified quantities of natural gas at an index price beginning April 1, 2019, and continuing through September 30, 2049, as defined, less a minimum discount of \$0.20 per one million BTUs. The Utility's performance under this agreement is backed by a financial guaranty insurance policy with a non-related commercial insurance company. For the year ended June 30, 2024, the Utility purchased 26% of its natural gas from this vendor.

7. Pension Plan

The Utility has established the Humphreys County Utility District Money Purchase Pension Plan, a defined contribution pension plan, for all employees who have attained 6 months service and 20 1/2 years of age. The plan is administered by the Utility, with the general manager as designated assistant, along with an advisory committee to serve as trustee. Benefit terms, including contribution requirements, for the Plan are established and may be amended by the Board. The Utility is required to contribute 11% of compensation up to \$200,000 to individual accounts for each participating employee.

The total pension contributions required and made by the Utility for the year ended June 30, 2024 was \$149,400. Those contributions represented 11.0% of the covered payroll for each year. There were no employee contributions to the pension plan in 2024. The covered payroll under the plan was \$1,357,900 and the total payroll was \$1,496,300 for the year ended June 30, 2024.

Employees are immediately vested in their own contributions and earnings on those contributions. Employees become immediately vested in the Utility contributions and earnings on Utility contributions.

There were no nonvested contributions or forfeitures for 2024. The Utility had no liability to the plan at June 30, 2024.

The Plan is accounted for and reported under the requirements of GASB Statement No. 73 because no assets are accumulated in a trust that meets all of the following criteria:

- Contributions from the employer and any nonemployer contributing entities, and earnings thereon, must be irrevocable.
- Plan assets must be dedicated to providing pensions to Plan members in accordance with the benefit terms.
- Plan assets must be legally protected from the creditors of the employer, nonemployer contributing entities, and the Plan administrator.

8. Deferred Compensation Plan

The Utility offers its employees the Humphreys County Utility District Retirement Matching Plan, a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is administered by the Utility, with the manager and assistant general managers designated as trustees. Benefit terms, including contribution requirements, for the Plan are established and may be amended by the Board. The plan, available to employees who have attained 6 months service and 20 1/2 years of age, permits them to defer a portion of their current salary (up to 100%) until future years.

Employee contributions to the 457(b) plan for the year ended June 30, 2024 were \$74,600. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency. The Utility matches 50% of employee contributions to the 457(b) plan up to 4% of compensation. The employer contributions to the plan were \$21,800 for the year ended June 30, 2024.

Employees are immediately vested in their own contributions and earnings on those contributions. Employees become immediately vested in the Utility contributions and earnings on Utility contributions. There were no nonvested contributions or forfeitures for 2024.

9. Postemployment Benefits Other Than Pensions (OPEB)

General Information about the OPEB Plan

Plan Description. The Utility's defined benefit OPEB plan provides OPEB for all permanent full-time employees of the Utility. The plan is a single-employer defined benefit plan administered by the Utility. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Benefits Provided. The Utility provides medical insurance coverage for retirees until they reach age 65. Retirement can begin at age 62. The District provides a maximum benefit equal to the cost of the monthly premium of a full-time employee, which during fiscal year ended June 30, 2024, was \$509.31 per month plus \$175 per month per retiree for the HRA; the retiree covers the excess over this amount. The cost is funded and expensed as the coverage is provided.

Employees covered by benefit terms. At June 30, 2024, the following employees were covered by the benefit terms:

Active employees	21
Retirees	<u>1</u>
	<u><u>22</u></u>

Total OPEB Liability

The Utility’s total OPEB liability of \$23,300 was measured as of June 30, 2024, and was determined by an actuarial valuation as June 30, 2024.

Actuarial assumptions and other inputs. The total OPEB liability was determined by an actuarial valuation on June 30, 2024, the measurement date. The following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Entry Age Normal Cost Method
Salary Increases	3.50 percent
Inflation Rate	2.50 percent
Discount Rate	4.21 percent
Healthcare Cost Trend Rates	4.50 percent
Mortality	RP-2014 Total Table with Projection MP-2021

The actuarial assumptions used in the June 30, 2024 valuation were based on the results of an actuarial experience study for the period July 1, 2023 to June 30, 2024.

Changes in the OPEB Liability

	Total OPEB Liability
Balance at 6/30/23	\$ 18,100
Changes for the year:	
Service Cost	1,700
Interest	700
Differences Between Expected and Actual Experience	6,500
Changes in Assumptions	(1,100)
Benefit Payments	(2,600)
Net Investment Income	-
Administrative Expense	-
Net Changes	<u>5,200</u>
Balance at 6/30/24	<u><u>\$ 23,300</u></u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following presents the total OPEB liability of the Utility, as well as what the Utility’s OPEB liability would be if it were calculated using a discount rate 1-percentage-point lower (3.21 percent) and 1-percentage-point higher (5.21 percent) than the current discount rate:

	<u>1% Decrease</u> 3.21%	<u>Current Rate</u> 4.21%	<u>1% Increase</u> 5.21%
Total OPEB Liability	26,100	\$ 23,300	20,900

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following presents the total OPEB liability of the Utility, as well as what the Utility’s OPEB liability would be if it were calculated using healthcare trend rates 1-percentage-point lower (3.50 percent) and 1-percentage-point higher (5.50 percent) than the current healthcare trend rates:

	<u>1% Decrease</u> 3.50%	<u>Current Rate</u> 4.50%	<u>1% Increase</u> 5.50%
Total OPEB Liability	20,400	\$ 23,300	26,900

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2024, the Utility recognized OPEB expense of \$5,500. At June 30, 2024, the Utility reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows</u> <u>of Resources</u>	<u>Deferred Inflows</u> <u>of Resources</u>
Differences between expected and actual experience	\$ -	\$ 91,500
Changes in assumptions		2,300
Total	<u>\$ -</u>	<u>\$ 93,800</u>

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

Year Ended June 30:	
2025	\$ 9,688
2026	9,688
2027	2,466
2028	1,028
2029	97
Thereafter	70,833
	<u>\$ 93,800</u>

10. Contingencies

The Federal Energy Regulatory Commission (FERC) regulates the rates charged to the Utility for the transportation and storage of natural gas. FERC has retroactively adjusted charges in the past and may do so in the future. No estimate of any future adjustments can be made. However, the Utility has been able to pass through to its customers past adjustments approved by FERC. Management believes any future rate adjustments will be recovered through amounts charged to affected customers.

11. Risk Management

The Utility is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During the year ended June 30, 2024, the District purchased commercial insurance for all of the above risks. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in the amount of coverage provided.

HUMPHREYS COUNTY UTILITY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CHANGES IN THE UTILITY'S TOTAL OPEB
LIABILITY AND RELATED RATIOS
LAST 10 FISCAL YEARS

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability							
Service Cost	\$ 1,700	\$ 2,700	\$ 2,700	\$ 5,600	\$ 5,600	\$ 5,400	\$ 5,400
Interest	700	800	800	2,700	2,700	3,400	3,500
Changes of Benefit Terms				-	-	-	-
Differences Between Expected and Actual Experience	6,500	(10,400)	(9,200)	(8,600)	(54,900)	(800)	(15,000)
Changes of Assumptions	(1,100)	-	(2,700)	-	-	-	-
Benefit Payments	(2,600)	-	-	-	(5,200)	(5,200)	(21,800)
Net Changes in Total OPEB Liability	<u>5,200</u>	<u>(6,900)</u>	<u>(8,400)</u>	<u>(300)</u>	<u>(51,800)</u>	<u>2,800</u>	<u>(27,900)</u>
Total OPEB Liability - Beginning	<u>18,100</u>	<u>25,000</u>	<u>33,400</u>	<u>33,700</u>	<u>85,500</u>	<u>82,700</u>	<u>110,600</u>
Total OPEB Liability - Ending	<u><u>\$ 23,300</u></u>	<u><u>\$ 18,100</u></u>	<u><u>\$ 25,000</u></u>	<u><u>\$ 33,400</u></u>	<u><u>\$ 33,700</u></u>	<u><u>\$ 85,500</u></u>	<u><u>\$ 82,700</u></u>
 Covered - Employee Payroll	 \$ 1,228,700	 \$ 1,191,300	 \$ 1,114,100	 \$ 1,048,500	 \$ 1,242,100	 \$ 1,180,900	 \$ 1,261,300
 Total OPEB Liability as a Percentage of Covered - Employee Payroll	 1.90%	 1.52%	 2.24%	 3.19%	 2.71%	 7.24%	 6.56%

This schedule will present 10 years as information is available

Notes to Schedule:

Benefit Changes : None

Changes in Actuarial Assumptions and Methods: None

HUMPRHEYS COUNTY UTILITY DISTRICT
DIRECTORY OF OFFICIALS (UNAUDITED)
JUNE 30, 2024

Robert Hooper, Jr.

President

Gary Vaughn

Secretary

Davis S. Porch, III

Board Member

David Wisler, General Manager

HUMPHREYS COUNTY UTILITY DISTRICT
 SCHEDULE OF OPERATION EXPENSES
 YEAR ENDED JUNE 30, 2024

TRANSMISSION

Supervision and Engineering	\$ 36,700
-----------------------------	-----------

DISTRIBUTION

Supervision and Engineering	36,700
Industrial Measuring and Regulating Station Equipment	
Services on Customer Premises	169,100
Total Distribution	205,800

CUSTOMER ACCOUNTING AND COLLECTING

Customer Contracts, Orders, Meter Reading and Collecting	139,600
Customer Accounting and Billing	88,500
Total Customer Accounting and Collecting	228,100

SALES PROMOTION

Supervision	111,500
Advertising	40,800
Merchandising and Contract Work - Cost of Sales	697,700
Total Sales Promotion	850,000

ADMINISTRATIVE AND GENERAL

General Office Salaries	74,800
General Office Supplies and Expense	196,000
Special Services	52,200
Special Services - Legal	69,500
Insurance and Retirement	516,000
Vacation, Standby, Sick Pay and Bonuses	378,600
Travel and Training Expense	46,800
Commissioners Expense	23,400
Total Administrative and General	1,357,300

Total Operation Expenses	\$ 2,677,900
--------------------------	--------------

HUMPHREYS COUNTY UTILITY DISTRICT
 SCHEDULE OF MAINTENANCE EXPENSES
 YEAR ENDED JUNE 30, 2024

TRANSMISSION

Transmission Lines	\$ 72,200
--------------------	-----------

DISTRIBUTION

Supervision and Engineering	36,700
Distribution Lines	134,300
Measuring and Regulating Station Equipment	115,200
Meters	12,800
Total Distribution	299,000

ADMINISTRATIVE AND GENERAL

General Property	11,300
Office Equipment	34,000
Communication Equipment	12,300
Office Building	41,200
Miscellaneous Property	126,200
Total Administrative and General	225,000

Total Maintenance Expenses	\$ 596,200
----------------------------	------------

HUMPHREYS COUNTY UTILITY DISTRICT
SCHEDULE OF STATISTICAL DATA AND RATES (UNAUDITED)
JUNE 30, 2024

SCHEDULE OF TYPE AND NUMBER OF UTILITY CUSTOMERS BEING SERVICED

<u>Type of Customers</u>	<u>Number of Customers</u> <u>June 30, 2024</u>
Residential	5,800
Commercial	601
Industrial	7
Total	<u>6,408</u>

GAS RATES IN FORCE

Effective June 1, 2024

Residential and Commercial - Rate is \$0.7584 per therm with a \$12.00 minimum charge for residential and a \$15,00 minimum charge for commercial. Rates are re-evaluated and can be changed monthly.

Industrial - Billed on a cost-plus basis in accordance with individual contracts with customers.



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
Humphreys County Utility District
Waverly, 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 business-type activities of Humphreys County Utility District (the Utility) as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Utility’s basic financial statements and have issued our report thereon dated August 29, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Utility’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility’s internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

One Source Accounting & Tax

Clarksville, Tennessee
August 29, 2024

HUMPHREYS COUNTY UTILITY DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

There were no prior year findings reported.