

**PES ENERGIZE
CITY OF PULASKI, TENNESSEE**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2014 AND 2013**

PES ENERGIZE
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Fiscal Years Ended June 30, 2014 and 2013

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INTRODUCTORY SECTION

**PES ENERGIZE
DIRECTORY**
June 30, 2014

BOARD MEMBERS

Marcus Houston – Chairman
Scott Newton – Vice Chairman
Pat Ford
Neal Bass
J.B. Smith, III

MANAGEMENT TEAM

Michael D. Meek –Chief Executive Officer
Tammie Bub – Vice President for Finance
A. Richard Kelley – Operations Manager
Jim Woodard – Vice President for Broadband Operations

COUNSEL

Andrew Hoover
Pulaski, Tennessee

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
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Kentucky Society of Certified Public Accountants



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Independent Auditor's Report

Board of Directors
PES Energize
Pulaski, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the PES Energize (the System), enterprise fund of the City of Pulaski, Tennessee as of and for the years ended June 30, 2014, and 2013, and the related notes to the financial statements, which collectively comprise the System's 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 System'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 entity'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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PES Energize, enterprise fund of City of Pulaski, Tennessee, as of June 30, 2014 and 2013, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the PES Energize enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Pulaski, Tennessee, as of June 30, 2014 and 2013, the changes in its financial position or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10 and the schedule of funding progress-employee retirement systems on page 28 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 response 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 System's financial statements. The introductory section and supplementary and other information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary and other information section, except that which is marked unaudited 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 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 supplementary and

other information section, except that which is marked unaudited, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and supplementary and other information section, which has been marked unaudited, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2014 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 System's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Jackson, Tennessee
December 12, 2014

MANAGEMENT’S DISCUSSION AND ANALYSIS

As management of the PES Energize enterprise funds of the City of Pulaski, Tennessee (the System), we offer readers of the System’s financial statements this narrative overview and analysis of the financial activities of the System for the fiscal year ended June 30, 2014. All amounts, unless otherwise indicated, are expressed in actual dollars.

FINANCIAL HIGHLIGHTS

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

- Total assets at year-end were \$70.49 million and exceeded liabilities in the amount of \$43.09 million (i.e. net position).
- Net position increased \$2.82 million during the current year due to an operating profit. Unrestricted net position increased by \$890 thousand due to an increase in energy usage during fiscal year 2014
- During fiscal year 2014, the System delivered 444 million kWh compared to 425 million kWh during the fiscal year 2013.
- Operating revenues were \$48.97 million, an increase from 2013 in the amount of \$3.11 million or 6.77%.
- Total expenses were \$45.13 million, an increase from 2013 in the amount of \$2.02 million or 4.69%.

OVERVIEW OF THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

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

REQUIRED FINANCIAL STATEMENTS

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

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

The *Statement of Net Position* presents the financial position of the System on a full accrual historical cost basis. The statement of net position includes all of the System's assets, liabilities and deferred inflows/outflows of resources with the difference reported as net position. It also provides the basis for computing rate of return, evaluating the capital structure of the System, and assessing the liquidity and financial flexibility of the System.

The *Statement of Revenues, Expenses, and Changes in Net 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 System's operations and can be used to determine whether the System has successfully recovered all of its costs. This statement also measures the System's profitability and credit worthiness.

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

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

FINANCIAL ANALYSIS

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

The System's total net position increased by \$2.82 million for the fiscal year ended June 30, 2014. The analysis below focuses on the System's net position (Table 1) and changes in net position (Table 2) during the year.

Table 1A

CONDENSED STATEMENT OF NET POSITION

	June 30, 2014	June 30, 2013	Increase (Decrease)	
			Amount	Percent
Current and other assets	\$ 16,474,624	\$ 11,891,682	\$ 4,582,942	38.54%
Capital assets	54,012,715	53,294,382	718,333	1.35%
Total assets	<u>70,487,339</u>	<u>65,186,064</u>	<u>5,301,275</u>	8.13%
Long-term liabilities	17,055,280	15,853,572	1,201,708	7.58%
Other liabilities	10,342,336	9,059,053	1,283,283	14.17%
Total liabilities	<u>27,397,616</u>	<u>24,912,625</u>	<u>2,484,991</u>	9.97%
Net position:				
Net investment in capital assets	36,022,715	36,469,905	(447,190)	-1.23%
Restricted for debt service	3,150,875	777,894	2,372,981	305.05%
Unrestricted	3,916,133	3,025,640	890,493	29.43%
Total net position	<u>\$ 43,089,723</u>	<u>\$ 40,273,439</u>	<u>\$ 2,816,284</u>	6.99%

Table 1B

CONDENSED STATEMENT OF NET POSITION

	June 30, 2013	June 30, 2012	Increase (Decrease)	
			Amount	Percent
Current and other assets	\$ 11,891,682	\$ 11,819,536	\$ 72,146	0.61%
Capital assets	53,294,382	53,436,705	(142,323)	-0.27%
Total assets	<u>65,186,064</u>	<u>65,256,241</u>	<u>(70,177)</u>	-0.11%
Long-term liabilities	15,853,572	16,907,740	(1,054,168)	-6.23%
Other liabilities	9,059,053	9,822,865	(763,812)	-7.78%
Total liabilities	<u>24,912,625</u>	<u>26,730,605</u>	<u>(1,817,980)</u>	-6.80%
Net position:				
Net investment in capital assets	36,469,905	34,974,823	1,495,082	4.27%
Restricted for debt service	777,894	212,441	565,453	266.17%
Unrestricted	3,025,640	3,338,372	(312,732)	-9.37%
Total net position	<u>\$ 40,273,439</u>	<u>\$ 38,525,636</u>	<u>\$ 1,747,803</u>	4.54%

The increase in capital assets over the period was due to the fact that additions were more than disposals and depreciation. The increase in long-term liabilities was primarily due to the Electric System Revenue Bonds – Series 2013.

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

Table 2A

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	June 30, 2014	June 30, 2013	Increase (Decrease)	
			Amount	Percent
Operating revenues	\$ 48,951,913	\$ 45,846,227	\$ 3,105,686	6.77%
Non-operating revenues	22,771	23,513	(742)	-3.16%
Total revenues	<u>48,974,684</u>	<u>45,869,740</u>	<u>3,104,944</u>	6.77%
Cost of sales and service	34,878,970	33,052,167	1,826,803	5.53%
Operations and maintenance expense	6,227,801	6,142,175	85,626	1.39%
Depreciation expense	3,272,809	3,162,063	110,746	3.50%
Non-operating expenses	746,877	747,925	(1,048)	-0.14%
Total expenses	<u>45,126,457</u>	<u>43,104,330</u>	<u>2,022,127</u>	4.69%
Transfer	<u>(1,031,943)</u>	<u>(1,017,607)</u>	<u>(14,336)</u>	1.41%
Change in net position	2,816,284	1,747,803	1,068,481	61.13%
Beginning net position	40,273,439	38,525,636	1,747,803	4.54%
Ending net position	<u>\$ 43,089,723</u>	<u>\$ 40,273,439</u>	<u>\$ 2,816,284</u>	6.99%

Table 2B

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	June 30, 2013	June 30, 2012	Increase (Decrease)	
			Amount	Percent
Operating revenues	\$ 45,846,227	\$ 45,051,442	\$ 794,785	1.76%
Non-operating revenues	23,513	30,014	(6,501)	-21.66%
Total revenues	<u>45,869,740</u>	<u>45,081,456</u>	<u>788,284</u>	1.75%
Cost of sales and service	33,052,167	33,079,175	(27,008)	-0.08%
Operations and maintenance expense	6,142,175	6,295,029	(152,854)	-2.43%
Depreciation expense	3,162,063	2,978,571	183,492	6.16%
Non-operating expenses	747,925	778,244	(30,319)	-3.90%
Total expenses	<u>43,104,330</u>	<u>43,131,019</u>	<u>(26,689)</u>	-0.06%
Transfer	<u>(1,017,607)</u>	<u>(1,000,923)</u>	<u>(16,684)</u>	1.67%
Change in net position	1,747,803	949,514	798,289	84.07%
Beginning net position	38,525,636	37,576,122	949,514	2.53%
Ending net position	<u>\$ 40,273,439</u>	<u>\$ 38,525,636</u>	<u>\$ 1,747,803</u>	4.54%

Ending net position showed a 6.99% increase as a result of an operating profit for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2014, the System had \$54.01 million (net of accumulated depreciation) invested in a broad range of system capital assets. This investment includes land, equipment, buildings, vehicles and various other System infrastructure. Based on the uses of the aforementioned assets, they are classified for financial purposes as distribution plant, other plant, and general plant. This change represents an overall increase (net of increases and decreases) of \$718 thousand or 1.35% above the fiscal year 2013.

The following tables summarize the System's capital assets, net of accumulated depreciation, and changes therein, for the year ended June 30, 2014 and 2013. These changes are presented in detail in Note 3D to the financial statements.

Table 3A
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	June 30, 2014	June 30, 2013	Increase (Decrease)	
			Amount	Percent
Distribution plant	\$ 35,963,157	\$ 36,108,403	\$ (145,246)	-0.40%
General plant	14,371,429	14,426,867	(55,438)	-0.38%
Broadband	1,714,409	1,864,431	(150,022)	-8.05%
Work in process	1,963,720	894,681	1,069,039	119.49%
Total capital assets	<u>\$ 54,012,715</u>	<u>\$ 53,294,382</u>	<u>\$ 718,333</u>	1.35%

Table 3B
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	June 30, 2013	June 30, 2012	Increase (Decrease)	
			Amount	Percent
Distribution plant	\$ 36,108,403	\$ 35,656,915	\$ 451,488	1.27%
General plant	14,426,867	14,605,233	(178,366)	-1.22%
Broadband	1,864,431	2,034,283	(169,852)	-8.35%
Work in process	894,681	1,140,274	(245,593)	-21.54%
Total capital assets	<u>\$ 53,294,382</u>	<u>\$ 53,436,705</u>	<u>\$ (142,323)</u>	-0.27%

The major portion of the additions took place in the distribution. The System plans on using existing financial resources to keep upgrading existing systems and adding new systems where it sees fit.

Debt Administration

At the end of fiscal year 2014, PES had total outstanding long-term debt of \$14.8 million in the electric division and \$3.2 million in the broadband division. The \$14.8 million in the electric system is composed of Electric Revenue Bonds and Revenue and Tax Bonds. The broadband division debt is composed of Revenue and Tax Bonds. Principal payments are due in the upcoming fiscal year in the amount of \$975 thousand and interest payments totaling approximately \$721 thousand are also due.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

PES's energy usage increased by 4.4% in FY 14. The PES service territory experienced a significant colder winter than in the recent past resulting in increased energy sales of 6.5%. Residential energy usage increased the most at 4.6%.

In light of the unusual weather event this past winter, the electric revenue budget reflects a slight decline. Budgeted operating and maintenance expenses and capital spending continue to escalate in efforts to keep the system fully functional for continued reliable service. As costs continue to climb, PES staff is actively seeking ways in which PES can operate more efficiently and effectively in order to reduce costs.

Entering into its eighth year of business, the Broadband system continued to improve its performance. The Broadband system experienced a moderate increase in sales growth and solid reinvested earnings. However, with significant increases in programming costs, the Broadband budget for FY15 reflects a rate increase in both video and data.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the System finances for all those with an interest in the System's finances and to demonstrate the System's accountability for the money it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the Vice President of Finance of PES Energize, 128 South First Street, Pulaski, TN 38478.

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
STATEMENTS OF NET POSITION
June 30, 2014 and 2013

Assets	<u>Electric Division</u>		<u>Broadband Division</u>		<u>Total</u>
	2014	2013	2014	2013	2014
Current assets					
Cash on hand	\$ 1,800	\$ 1,800	\$ 600	\$ 600	\$ 2,400
Cash and cash equivalents - general	7,443,740	5,133,389	668,366	391,392	8,112,106
Accounts receivable - trade (net of allowance for uncollectibles electric \$129,146 and \$137,756 and broadband \$27,030 and \$22,171 for 2014 and 2013, respectively)	2,602,584	2,607,906	199,027	205,433	2,801,611
Accounts receivable - CSA	23,755	23,755	-	-	23,755
Accounts receivable - other	200,561	194,364	15,558	15,558	216,119
Accounts receivable - interest	2,037	1,559	-	-	2,037
Materials and supplies	680,695	719,460	47,841	50,576	728,536
Due from City	15,506	15,467	-	-	15,506
Due from (to) other division	(12,552)	(27,661)	12,552	27,661	-
Prepayments and other current assets	227,698	212,747	-	-	227,698
Total current assets	<u>11,185,824</u>	<u>8,882,786</u>	<u>943,944</u>	<u>691,220</u>	<u>12,129,768</u>
Noncurrent assets					
Restricted:					
Cash and cash equivalents	2,961,821	567,902	229,788	229,582	3,191,609
Investments	752,208	748,466	-	-	752,208
	<u>3,714,029</u>	<u>1,316,368</u>	<u>229,788</u>	<u>229,582</u>	<u>3,943,817</u>
Other assets					
Unamortized debt expense	201,487	174,058	30,659	33,942	232,146
Accounts receivable TVA - Home Insulation Program	15,613	31,222	-	-	15,613
Note receivable - IDB	-	377,311	-	-	-
Other future charges	153,280	155,193	-	-	153,280
	<u>370,380</u>	<u>737,784</u>	<u>30,659</u>	<u>33,942</u>	<u>401,039</u>
Capital assets, not being depreciated					
Distribution plant	178,766	178,766	-	-	178,766
General plant	190,597	190,597	-	-	190,597
Construction in progress	1,770,268	715,698	193,452	178,983	1,963,720
Total capital assets, not being depreciated	<u>2,139,631</u>	<u>1,085,061</u>	<u>193,452</u>	<u>178,983</u>	<u>2,333,083</u>
Capital assets, net of accumulated depreciation					
Distribution plant	35,784,391	35,929,637	-	-	35,784,391
General plant	14,180,832	14,236,270	1,714,409	1,864,431	15,895,241
Total capital assets (net of accumulated depreciation)	<u>52,104,854</u>	<u>51,250,968</u>	<u>1,907,861</u>	<u>2,043,414</u>	<u>54,012,715</u>
Total noncurrent assets	<u>56,189,263</u>	<u>53,305,120</u>	<u>2,168,308</u>	<u>2,306,938</u>	<u>58,357,571</u>
Total assets	<u>\$ 67,375,087</u>	<u>\$ 62,187,906</u>	<u>\$ 3,112,252</u>	<u>\$ 2,998,158</u>	<u>\$ 70,487,339</u>

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

**PES ENERGIZE
CITY OF PULASKI, TENNESSEE
STATEMENTS OF NET POSITION**

June 30, 2014 and 2013

Liabilities	Electric Division		Broadband Division		Total
	2014	2013	2014	2013	2014
Current liabilities					
Accounts payable	\$ 6,582,981	\$ 5,303,501	\$ 142,818	\$ 89,732	\$ 6,725,799
Due to City	624,113	654,465	-	-	624,113
Accrued leave	725,278	702,329	-	-	725,278
Other accrued expense	399,565	431,153	99,639	82,221	499,204
Total current liabilities	<u>8,331,937</u>	<u>7,091,448</u>	<u>242,457</u>	<u>171,953</u>	<u>8,574,394</u>
Current liabilities payable from restricted assets					
Customers' deposits	726,683	704,844	6,162	5,737	732,845
Accrued interest	49,492	46,103	10,605	11,372	60,097
Current maturities of:					
Notes payable	-	7,596	-	-	-
Bonds payable	<u>735,488</u>	<u>789,700</u>	<u>239,512</u>	<u>230,300</u>	<u>975,000</u>
Total current liabilities payable from restricted assets	<u>1,511,663</u>	<u>1,548,243</u>	<u>256,279</u>	<u>247,409</u>	<u>1,767,942</u>
Noncurrent liabilities					
Bonds payable (less current maturities)	14,025,376	12,310,864	2,989,624	3,229,136	17,015,000
Notes payable (less current maturities)	-	256,881	-	-	-
Advances from TVA - Home Insulation Program	<u>40,280</u>	<u>56,691</u>	<u>-</u>	<u>-</u>	<u>40,280</u>
Total noncurrent liabilities	<u>14,065,656</u>	<u>12,624,436</u>	<u>2,989,624</u>	<u>3,229,136</u>	<u>17,055,280</u>
Total liabilities	<u>23,909,256</u>	<u>21,264,127</u>	<u>3,488,360</u>	<u>3,648,498</u>	<u>27,397,616</u>
Net Position					
Net investment in capital assets	37,343,990	37,885,927	(1,321,275)	(1,416,022)	36,022,715
Restricted for debt service	2,937,854	565,421	213,021	212,473	3,150,875
Unrestricted	<u>3,183,987</u>	<u>2,472,431</u>	<u>732,146</u>	<u>553,209</u>	<u>3,916,133</u>
Total net position	<u>\$ 43,465,831</u>	<u>\$ 40,923,779</u>	<u>\$ (376,108)</u>	<u>\$ (650,340)</u>	<u>\$ 43,089,723</u>

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

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended June 30, 2014 and 2013

	Electric Division		Broadband Division		Total
	2014	2013	2014	2013	2014
Operating revenues					
Charges for sales and service	\$ 44,660,768	\$ 41,875,703	\$ 3,014,275	\$ 2,769,039	\$ 47,675,043
Other operating revenue	1,133,523	1,079,172	143,347	122,313	1,276,870
Total operating revenues	45,794,291	42,954,875	3,157,622	2,891,352	48,951,913
Operating expenses					
Cost of sales and services	33,219,577	31,525,793	1,659,393	1,526,374	34,878,970
Distribution expenses	543,347	539,686	225,188	213,833	768,535
Customer accounts expenses	413,853	406,691	73,417	66,138	487,270
Customer service and information expenses	293,106	378,800	215,543	210,704	508,649
Administrative and general expenses	2,029,369	1,980,495	250,790	254,093	2,280,159
Maintenance expenses	2,183,188	2,090,893	-	842	2,183,188
Provision for depreciation expense	2,952,163	2,854,396	320,646	307,667	3,272,809
Total operating expenses	41,634,603	39,776,754	2,744,977	2,579,651	44,379,580
Operating income (loss)	4,159,688	3,178,121	412,645	311,701	4,572,333
Nonoperating revenues (expenses)					
Interest and other income	22,380	22,983	391	530	22,771
Amortization expense	(12,573)	(14,488)	(3,103)	(3,103)	(15,676)
Interest and other expense	(595,500)	(587,954)	(135,701)	(142,380)	(731,201)
Total nonoperating revenues (expenses)	(585,693)	(579,459)	(138,413)	(144,953)	(724,106)
Income (loss) before transfers	3,573,995	2,598,662	274,232	166,748	3,848,227
Transfers					
Transfers out - in lieu of tax payments to City	(1,031,943)	(1,017,607)	-	-	(1,031,943)
Change in net position	2,542,052	1,581,055	274,232	166,748	2,816,284
Total net position - beginning	40,923,779	39,342,724	(650,340)	(817,088)	40,273,439
Total net position - ending	\$ 43,465,831	\$ 40,923,779	\$ (376,108)	\$ (650,340)	\$ 43,089,723

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

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2014 and 2013

	Electric Division		Broadband Division		Total
	2014	2013	2014	2013	2014
Cash flows from operating activities					
Cash received from consumers	\$ 45,793,416	\$ 42,740,105	\$ 3,157,622	\$ 2,891,351	\$ 48,951,038
Cash paid to suppliers	(35,073,515)	(34,926,269)	(2,675,186)	(2,620,300)	(37,748,701)
Cash paid to employees	(2,312,357)	(2,297,999)	345,609	343,463	(1,966,748)
Customer deposits received	158,364	167,850	1,550	1,562	159,914
Customer deposits refunded	(136,525)	(130,815)	(1,125)	(750)	(137,650)
Amounts received from (paid to) other funds	(45,500)	52,950	-	-	(45,500)
Net cash provided (used) by operating activities	<u>8,383,883</u>	<u>5,605,822</u>	<u>828,470</u>	<u>615,326</u>	<u>9,212,353</u>
Cash flows from non-capital and related financing activities					
Transfers	(1,031,943)	(1,017,607)	-	-	(1,031,943)
Net cash provided (used) by capital and related financing activities	<u>(1,031,943)</u>	<u>(1,017,607)</u>	<u>-</u>	<u>-</u>	<u>(1,031,943)</u>
Proceeds from long-term debt	2,500,000	-	-	-	2,500,000
Principal paid on debt	(1,144,177)	(1,453,165)	(230,300)	(184,240)	(1,374,477)
Purchase of property, plant and equipment	(3,701,435)	(2,728,947)	(184,913)	(129,639)	(3,886,348)
Plant removal cost	(142,690)	(218,143)	-	-	(142,690)
Materials salvaged from retirements	38,074	57,169	-	-	38,074
Interest paid on bonds, notes and leases	(592,111)	(591,037)	(136,468)	(142,918)	(728,579)
Net cash provided (used) by capital and related financing activities	<u>(3,042,339)</u>	<u>(4,934,123)</u>	<u>(551,681)</u>	<u>(456,797)</u>	<u>(3,594,020)</u>
Cash flows from investing activities					
Purchase of investments	(752,208)	(748,466)	-	-	(752,208)
Sale of investments	748,466	742,510	-	-	748,466
Interest and unrealized change in investments	21,902	29,792	391	530	22,293
IDB loans (made) paid	377,311	13,827	-	-	377,311
Conservation loans (made) paid	(802)	(1,794)	-	-	(802)
Net cash provided (used) by investing activities	<u>394,669</u>	<u>35,869</u>	<u>391</u>	<u>530</u>	<u>395,060</u>
Net increase (decrease) in cash and cash equivalents	4,704,270	(310,039)	277,180	159,059	4,981,450
Cash and cash equivalents - beginning	<u>5,703,091</u>	<u>6,013,130</u>	<u>621,574</u>	<u>462,515</u>	<u>6,324,665</u>
Cash and cash equivalents - ending	<u>\$ 10,407,361</u>	<u>\$ 5,703,091</u>	<u>\$ 898,754</u>	<u>\$ 621,574</u>	<u>\$ 11,306,115</u>
Cash and cash equivalents					
Unrestricted cash on hand	\$ 1,800	\$ 1,800	\$ 600	\$ 600	\$ 2,400
Unrestricted cash and cash equivalents on deposit	7,443,740	5,133,389	668,366	391,392	8,112,106
Restricted cash and cash equivalents on deposit	<u>2,961,821</u>	<u>567,902</u>	<u>229,788</u>	<u>229,582</u>	<u>3,191,609</u>
Total cash and cash equivalents	<u>\$ 10,407,361</u>	<u>\$ 5,703,091</u>	<u>\$ 898,754</u>	<u>\$ 621,574</u>	<u>\$ 11,306,115</u>

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

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
STATEMENTS OF CASH FLOWS (Cont.)
For the Years Ended June 30, 2014 and 2013

	Electric Division		Broadband Division		Total
	2014	2013	2014	2013	2014
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ 4,159,688	\$ 3,178,121	\$ 412,645	\$ 311,701	\$ 4,572,333
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	2,952,163	2,854,396	320,646	307,667	3,272,809
Changes in assets and liabilities:					
Accounts receivable	(875)	(214,771)	6,406	(32,656)	5,531
Materials and supplies	38,765	(37,050)	2,735	9,700	41,500
Due (to) from City	(30,391)	57,533	-	-	(30,391)
Due from/to other division	(15,109)	(4,583)	15,109	4,583	-
Prepayments and other current assets	(14,951)	11,691	-	(723)	(14,951)
Other future charges	1,913	(16,266)	-	-	1,913
Accounts payable and accrued expenses	1,247,892	(260,296)	70,504	14,242	1,318,396
Accrued leave	22,949	52	-	-	22,949
Customer deposits	21,839	36,995	425	812	22,264
Net cash provided (used) by operating activities:	\$ 8,383,883	\$ 5,605,822	\$ 828,470	\$ 615,326	\$ 9,212,353

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

**PES ENERGIZE
PULASKI, TENNESSEE
NOTES TO FINANCIAL STATEMENTS**
June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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 resource 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 System's financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounting policies of the System conform to applicable accounting principles generally accepted in the United States of America as defined by the *Governmental Accounting Standards Board (GASB)*.

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

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Assets, Liabilities, and Net Position

Deposits and Investments

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

**PES ENERGIZE
PULASKI, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

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

Accounts Receivable

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

Inventories and Prepaid Items

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

Restricted Assets

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

Capital Assets

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

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

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

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

**PES ENERGIZE
PULASKI, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

Long-term Obligations

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are amortized over the term of the related debt.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial 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(s) and so will not be recognized as an outflow of resources (expense) until then. The System presently has no 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 statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The System presently has no items that qualify for reporting in this category.

Net Position

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

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

Sometimes the System 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 proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the System'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 2011, the GASB issued Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASB 63 provides guidance for reporting deferred outflows and inflows of resources, which are distinct from assets and liabilities, and also renames as net position, rather than net assets, the residual of all other elements presented in a statement of financial position. The provisions of this statement are effective for

**PES ENERGIZE
PULASKI, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

financial statements for periods beginning after December 15, 2011. As of June 30, 2014, the System had no deferred inflows or outflows of resources to report.

In March of 2012, the GASB issued statement no. 65 – Items Previously Reported as Assets and Liabilities. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. The System will continue to report bond issuance cost as an asset and amortize those over the life of bonds instead of expensing those costs in the current year in accordance with certain provisions included in GASB 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This regulatory option as part of GASB 65 is available due to the above mentioned cost being used for rate setting by the System.

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*, and Statement 68, *Accounting for Financial Reporting for Pensions – and amendment of GASB Statement No. 27*. For governments to adopt Statement 68, the underlying pension plans must first adopt Statement 67. Statement 67 revises existing standards of financial reporting by state and local government pension plans and is effective for fiscal years beginning after June 15, 2013. Statement 68 improves accounting and financial reporting by state and local governments for pensions and is effective for fiscal years beginning after June 15, 2014. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangements – 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. These pension standards include significant changes to how governmental employers will report liabilities related to pension obligations. Management is currently evaluating the impact of the adoption of this statement on the System's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

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

**PES ENERGIZE
PULASKI, TENNESSEE
NOTES TO FINANCIAL STATEMENTS**
June 30, 2014 and 2013

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial Credit Risk

The System's policies limit deposits and investments to those instruments allowed by applicable state laws and described below. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the System's agent in the System's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the System to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities and the state pooled investment fund. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2014, all of the System's deposits were fully collateralized.

B. Receivables

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

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Billed services for utility customers	\$ 2,957,787	\$ 2,973,266
Receivable from CSA	23,755	23,755
Other receivables for utility services	216,119	209,922
Interest receivable	2,037	1,559
Allowance for doubtful accounts	<u>(156,176)</u>	<u>(159,927)</u>
Total	<u>\$ 3,043,522</u>	<u>\$ 3,048,575</u>

C. Restricted Assets

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

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
The restricted assets consist of the following:		
Cash and cash equivalents - Sinking funds	\$ 190,336	\$ 166,252
Cash and cash equivalents - Construction fund	3,001,273	631,232
Investments - Construction fund	<u>752,208</u>	<u>748,466</u>
	<u>\$ 3,943,817</u>	<u>\$ 1,545,950</u>
The total of these funds is represented by:		
Certificates of deposit and bank accounts	<u>\$ 3,943,817</u>	<u>\$ 1,545,950</u>

**PES ENERGIZE
PULASKI, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

D. System Plant in Service

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

Electric System:

Description	Balance at June 30, 2013	Additions	Disposals	Balance at June 30, 2014
Capital assets, not being depreciated:				
Distribution plant	\$ 178,766	\$ -	\$ -	\$ 178,766
General plant	190,597	-	-	190,597
Construction in progress	715,698	1,054,570	-	1,770,268
Total capital assets, not being depreciated	<u>1,085,061</u>	<u>1,054,570</u>	<u>-</u>	<u>2,139,631</u>
Capital assets, being depreciated:				
Distribution plant	56,233,429	1,657,812	362,749	57,528,492
General plant	21,172,126	1,221,415	300,709	22,092,832
Total capital assets, being depreciated	<u>77,405,555</u>	<u>2,879,227</u>	<u>663,458</u>	<u>79,621,324</u>
Less accumulated depreciation for:				
Distribution plant	20,303,792	1,917,771	477,462	21,744,101
General plant	6,935,856	1,266,757	290,613	7,912,000
Total accumulated depreciation	<u>27,239,648</u>	<u>3,184,528</u>	<u>768,075</u>	<u>29,656,101</u>
Total capital assets, being depreciated, net	<u>50,165,907</u>	<u>(305,301)</u>	<u>(104,617)</u>	<u>49,965,223</u>
Total capital assets, net	<u>\$ 51,250,968</u>	<u>\$ 749,269</u>	<u>\$ (104,617)</u>	<u>\$ 52,104,854</u>

Description	Balance at June 30, 2012	Additions	Disposals	Balance at June 30, 2013
Capital assets, not being depreciated:				
Distribution plant	\$ 178,766	\$ -	\$ -	\$ 178,766
General plant	190,597	-	-	190,597
Construction in progress	953,295	(237,597)	-	715,698
Total capital assets, not being depreciated	<u>1,322,658</u>	<u>(237,597)</u>	<u>-</u>	<u>1,085,061</u>
Capital assets, being depreciated:				
Distribution plant	54,509,472	2,142,827	418,870	56,233,429
General plant	20,168,518	1,057,272	53,664	21,172,126
Total capital assets, being depreciated	<u>74,677,990</u>	<u>3,200,099</u>	<u>472,534</u>	<u>77,405,555</u>
Less accumulated depreciation for:				
Distribution plant	19,031,323	1,858,435	585,966	20,303,792
General plant	5,753,882	1,229,516	47,542	6,935,856
Total accumulated depreciation	<u>24,785,205</u>	<u>3,087,951</u>	<u>633,508</u>	<u>27,239,648</u>
Total capital assets, being depreciated, net	<u>49,892,785</u>	<u>112,148</u>	<u>(160,974)</u>	<u>50,165,907</u>
Total capital assets, net	<u>\$ 51,215,443</u>	<u>\$ (125,449)</u>	<u>\$ (160,974)</u>	<u>\$ 51,250,968</u>

**PES ENERGIZE
PULASKI, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

Broadband System:

Description	Balance at June 30, 2013	Additions	Disposals	Balance at June 30, 2014
Capital assets, not being depreciated:				
Construction in progress	\$ 178,983	\$ 14,469	\$ -	\$ 193,452
Capital assets, being depreciated:				
General plant	\$ 3,239,652	\$ 170,624	\$ 1,157	\$ 3,409,119
Less: accumulated depreciation for:				
General plant	1,375,221	320,646	1,157	1,694,710
Total capital assets, being depreciated, net	<u>1,864,431</u>	<u>(150,022)</u>	<u>-</u>	<u>1,714,409</u>
Total capital assets, net	<u>\$ 2,043,414</u>	<u>\$ (135,553)</u>	<u>\$ -</u>	<u>\$ 1,907,861</u>

Description	Balance at June 30, 2012	Additions	Disposals	Balance at June 30, 2013
Capital assets, not being depreciated:				
Construction in progress	\$ 186,979	\$ (7,996)	\$ -	\$ 178,983
Capital assets, being depreciated:				
General plant	\$ 3,104,985	\$ 137,815	\$ 3,148	\$ 3,239,652
Less: accumulated depreciation for:				
General plant	1,070,702	307,667	3,148	1,375,221
Total capital assets, being depreciated, net	<u>2,034,283</u>	<u>(169,852)</u>	<u>-</u>	<u>1,864,431</u>
Total capital assets, net	<u>\$ 2,221,262</u>	<u>\$ (177,848)</u>	<u>\$ -</u>	<u>\$ 2,043,414</u>

Depreciation expense amounted to \$3,184,528 in the electric division and \$320,646 in the Broadband division for the fiscal year ended June 30, 2014 and \$3,087,951 in the electric division and \$307,667 in the broadband division for the fiscal year ended June 30, 2013. Amounts charged to transportation expense in the electric division were \$232,365 for the year ended June 30, 2013 and \$233,555 for the year ended June 30, 2013.

**PES ENERGIZE
PULASKI, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

E. Interfund Receivables and Payables

The composition of interfund balances at June 30, 2014 is as follows:

	Due from:			
	Electric	City Hall	Eliminated	Total
Due to:				
Broadband	\$ 12,552	\$ -	\$ (12,552)	\$ -
Electric	-	15,506	-	15,506
City Hall	(624,113)	-	-	(624,113)
	\$ (611,561)	\$ 15,506	\$ (12,552)	\$ (608,607)

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

F. Long-term Debt

A summary of changes in the long-term debt for the years ended June 30, 2014 and 2013 is as follows:

	Balance			Balance	
	July 1, 2013	Additions	Payments	July 30, 2014	Current Portion
Revenue Bonds - Series 2001	\$ 220,000	\$ -	\$ (220,000)	\$ -	\$ -
Revenue and Tax Bonds - 2005 - Electric	4,040,564	-	(269,700)	3,770,864	280,488
Revenue and Tax Bonds - 2005 - Broadband	3,459,436	-	(230,300)	3,229,136	239,512
Revenue and Tax Refunding Bonds - 2001	8,840,000	-	(300,000)	8,540,000	360,000
Revenue Bonds - 2013 - Electric	-	2,540,000	(90,000)	2,450,000	95,000
Note Payable - Bank of Frankewing	264,477	-	(264,477)	-	-
Total	\$ 16,824,477	\$ 2,540,000	\$ (1,374,477)	17,990,000	\$ 975,000

	Balance			Balance	
	July 1, 2012	Additions	Payments	July 30, 2013	Current Portion
Revenue Bonds - Series 2001	\$ 430,000	\$ -	\$ (210,000)	\$ 220,000	\$ 220,000
Revenue and Tax Bonds - 2005 - Electric	4,256,324	-	(215,760)	4,040,564	269,700
Revenue and Tax Bonds - 2005 - Broadband	3,643,676	-	(184,240)	3,459,436	230,300
Revenue and Tax Refunding Bonds - 2001	9,130,000	-	(290,000)	8,840,000	300,000
Subordinate Revenue Bonds - Series 2010	730,000	-	(730,000)	-	-
Note Payable - Bank of Frankewing	271,882	-	(7,405)	264,477	7,596
Total	\$ 18,461,882	\$ -	\$ (1,637,405)	16,824,477	\$ 1,027,596

**PES ENERGIZE
PULASKI, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

Long-term debt consisted of the following at June 30, 2014:

Electric System revenue and tax bonds - Series 2005, due through June 1, 2025, with an interest rate of 3.5 to 4.15%	\$ 3,770,864
Broadband System revenue and tax bonds - Series 2005, due through June 1, 2025, with an interest rate of 3.5 to 4.15%	3,229,136
Electric System revenue refunding and improvement bonds - Series 2006, due through June 1, 2031, with an interest rate of 4 to 4.45%	8,540,000
Electric System revenue bonds - Series 2013, due through June 1, 2033, with an interest rate of 3.38%	<u>2,450,000</u>
	<u>\$ 17,990,000</u>

A summary of future debt service amounts are as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 975,000	\$ 721,155	\$ 1,696,155
2016	1,005,000	682,744	1,687,744
2017	1,040,000	643,173	1,683,173
2018	1,085,000	603,593	1,688,593
2019	1,130,000	556,004	1,686,004
2020-2024	6,375,000	2,103,855	8,478,855
2025-2029	4,380,000	900,485	5,280,485
2030-2033	<u>2,000,000</u>	<u>146,220</u>	<u>2,146,220</u>
Total	<u>\$ 17,990,000</u>	<u>\$ 6,357,229</u>	<u>\$ 24,347,229</u>

G. Net Position

Net position represent the difference between assets, liabilities, and outflows/inflows of resources. The restricted net position as of June 30, 2014 and 2013 were as follows:

	2014	2013
Net investments in capital assets		
Net property, plant and equipment in service	\$ 54,012,715	\$ 53,294,382
Less: Debt disclosed in Note 3F	<u>(17,990,000)</u>	<u>(16,824,477)</u>
	<u>36,022,715</u>	<u>36,469,905</u>
Restricted for debt service		
Restricted cash and cash equivalents	3,943,817	1,545,950
Less: Current liabilities payable from restricted assets	<u>(792,942)</u>	<u>(768,056)</u>
	<u>3,150,875</u>	<u>777,894</u>
Unrestricted	<u>3,916,133</u>	<u>3,025,640</u>
Total net position	<u>\$ 43,089,723</u>	<u>\$ 40,273,439</u>

**PES ENERGIZE
PULASKI, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 4 - OTHER INFORMATION

A. Defined Benefit Plan

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

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

Annual Pension Cost: For the year ended June 30, 2014, the System's annual pension cost of \$489,938 for the Plan was in excess of the System's required and actual contributions. The required contribution was determined as part of the July 1, 2013 calculation.

Annual Pension and Net Pension Obligation Under GASB 27					
	2009	2010	2011	2012	2013
Beginning NPO	\$ (541,114)	\$ (727,852)	\$ (663,091)	\$ (790,294)	\$ (953,122)
Contribution - funding method	363,828	616,399	649,213	522,493	489,938
Amortization of NPO	(84,691)	(64,209)	(58,496)	(69,718)	(84,082)
Annual Required Contribution (ARC)	279,137	552,190	590,717	452,775	405,856
Interest on NPO	(37,878)	(50,950)	(46,416)	(55,321)	(66,719)
Total Annual Pension Cost	325,950	565,449	602,797	467,172	423,219
Employer contribution	512,688	500,688	730,000	630,000	489,938
Change in NPO due to principal repayment	46,813	13,259	12,080	14,397	17,363
Change in NPO due to contribution	(233,551)	51,502	(139,283)	(177,225)	(84,082)
Ending NPO	\$ (727,852)	\$ (663,091)	\$ (790,294)	\$ (953,122)	\$ (1,019,841)

B. Power Contract

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

**PES ENERGIZE
PULASKI, TENNESSEE
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June 30, 2014 and 2013

C. Transfer of Assets

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

D. OPEB Disclosure

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

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

Annual OPEB Cost and Net OPEB Obligation - The System's annual other post-retirement benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the System's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the System's net OPEB Obligation based off the most recent actuarial dated October 25, 2011.

Components of Net OPEB Obligation

Annual required contribution	\$ 56,695
Amortization of OPEB Obligation	660
Annual OPEB Cost (expense)	<u>57,355</u>
Interest on Net OPEB Obligation	2,747
Amortization of OPEB Obligation	(660)
Contributions and subsidy	<u>(52,361)</u>
Change in obligation	7,081
Net OPEB Obligation (BOY)	<u>91,552</u>
Net OPEB (Asset) Obligation (EOY)	<u><u>\$ 98,633</u></u>

The System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2012 and 2011 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 59,345	\$ 52,361	88.23%	\$ (98,633)
June 30, 2011	78,578	52,900	67.32%	(91,552)

PES ENERGIZE
PULASKI, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

Funded Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$661,506 and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$661,506. The covered payroll (annual payroll of active employees covered by the plan) was \$3,168,939 and the ratio of the UAAL to the covered payroll was 20.88%.

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

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

In the June 30, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan assets at the valuation date, and an annual healthcare cost trend rate of 6.5% initially, reduced each year by .25% until a rate of 2.5% is reached. The actuarial value of assets was determined using a standard balanced portfolio expectation for retirement plan asset returns. The UAAL is being amortized as a level percentage of payrolls on an open basis. The remaining amortization period at June 30, 2011 was 15 years.

REQUIRED SUPPLEMENTARY INFORMATION

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
SCHEDULE OF FUNDING PROGRESS - EMPLOYEE RETIREMENT SYSTEM
For the Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2013	\$ 10,418,465	\$ 11,374,683	\$ 956,218	91.59%	\$ 3,263,719	29.30%
7/1/2012	9,263,084	10,591,882	1,328,798	87.45%	3,369,015	39.44%
7/1/2011	8,543,472	10,434,331	1,890,859	81.88%	3,168,939	59.67%

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

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

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

See independent auditor's report.

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
SCHEDULE OF FUNDING PROGRESS - OTHER POST EMPLOYMENT BENEFITS
For the Year Ended June 30, 2014

Actuarial Valuation Date	Change in OPEB	Net OPEB Obligation Balance	Amortization Loss/(Gain)	Amortization of Factor	Amortization of Loss/(Gain)	Beginning Balance	Ending Balance
7/1/2011	6,984	98,536	91,552	18.87684	660	91,552	98,633
7/1/2010	14,375	92,953	78,578	19.32703	2,139	78,578	91,552
7/1/2009	42,997	80,024	37,027	19.76411	1,834	37,027	78,578

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

See independent auditor's report.

SUPPLEMENTARY AND OTHER INFORMATION SECTION

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

	<u>2014</u>		<u>2013</u>	
	Amount	Percent	Amount	Percent
Operating revenues				
Charges for sales and services				
Residential sales	\$ 20,316,933	44.37	\$ 18,909,186	44.02
Small lighting and power sales	3,458,872	7.55	3,225,854	7.51
Large lighting and power sales	14,949,782	32.65	14,736,167	34.31
Industrial sales	5,154,008	11.25	4,233,130	9.85
Street and athletic lighting sales	418,390	0.91	418,747	0.97
Outdoor lighting sales	341,939	0.75	334,387	0.78
Other sales	20,844	0.05	18,232	0.04
Total charges for sales and services	<u>44,660,768</u>	<u>97.52</u>	<u>41,875,703</u>	<u>97.49</u>
Other revenues:				
Forfeited discounts	325,273	0.71	277,467	0.65
Service charge revenue	159,640	0.35	156,845	0.37
Miscellaneous service revenue	5,220	0.01	5,700	0.01
Rent from property	618,761	1.35	615,516	1.43
Other electric revenue	24,629	0.05	23,644	0.06
Total other revenues	<u>1,133,523</u>	<u>2.48</u>	<u>1,079,172</u>	<u>2.51</u>
Total operating revenue	<u>\$ 45,794,291</u>	<u>100.00</u>	<u>\$ 42,954,875</u>	<u>100.00</u>
Operating expenses				
Cost of sales and services				
Purchased power	\$ 33,219,577	72.54	31,525,793	73.39
Distribution expenses				
Supervision and engineering	-	-	45,365	0.11
Overhead line expense	26,650	0.06	7,165	0.02
Underground line expense	1,316	0.00	1,320	0.00
Substation expense	60,752	0.13	53,150	0.12
Street lighting and signal system	10,936	0.02	-	-
Meter expense	163,781	0.36	182,279	0.42
Installation expense	121,801	0.27	96,473	0.22
Rents	24,589	0.05	24,424	0.06
Miscellaneous	133,522	0.29	129,510	0.30
Total distribution expenses	<u>\$ 543,347</u>	<u>1.19</u>	<u>\$ 539,686</u>	<u>1.26</u>

See independent auditor's report.

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

	<u>2014</u>		<u>2013</u>	
	Amount	Percent	Amount	Percent
Customer accounts expenses				
Customer records and collection expense	\$ 413,853	0.90	\$ 406,691	0.95
Customer service and information expenses				
Supervision customer service	70,523	0.15	70,179	0.16
Customer assistance expense	145,365	0.32	172,694	0.40
Information and advertising expense	18,537	0.04	22,298	0.05
Demonstrating and selling	12,525	0.03	12,525	0.03
Sales	44,908	0.10	99,856	0.23
Miscellaneous	1,248	0.00	1,248	-
Total customer service and information expenses	<u>293,106</u>	<u>0.64</u>	<u>378,800</u>	<u>0.87</u>
Administrative expenses				
Salaries	768,744	1.68	741,406	1.73
Board members pay	7,658	0.02	7,807	0.02
Safety coordinator	111,970	0.24	101,491	0.24
Office supplies and expense	353,650	0.77	373,682	0.87
Outside services employed	281,643	0.62	242,024	0.56
Insurance	211,819	0.46	215,305	0.50
Duplicate charge credit	(131,806)	(0.29)	(125,303)	(0.29)
Employee pension and benefits	-	-	6,823	0.02
Employee educational expense	20,678	0.05	20,663	0.05
Property taxes	322,341	0.70	318,433	0.74
Donations	8,864	0.02	10,791	0.03
Miscellaneous	73,808	0.16	67,373	0.16
Total administrative expenses	<u>\$ 2,029,369</u>	<u>4.43</u>	<u>\$ 1,980,495</u>	<u>4.63</u>

See independent auditor's report.

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

	<u>2014</u>		<u>2013</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Maintenance expenses				
Substation expense	\$ 118,631	0.26	\$ 53,724	0.13
Overhead lines	1,728,657	3.77	1,667,665	3.88
Underground Lines	76	0.00	-	-
Line transformers	18,211	0.04	55,102	0.13
Street lights and signal system	32,722	0.07	29,193	0.07
Meters	113,155	0.25	130,622	0.30
Outdoor lighting	46,347	0.10	26,881	0.06
Maintenance - general	125,389	0.27	127,706	0.30
Total maintenance expenses	<u>2,183,188</u>	<u>4.77</u>	<u>2,090,893</u>	<u>4.87</u>
Provision for depreciation	<u>2,952,163</u>	<u>6.45</u>	<u>2,854,396</u>	<u>6.65</u>
Total operating expenses	<u>\$ 41,634,603</u>	<u>90.92</u>	<u>\$ 39,776,754</u>	<u>92.60</u>

See independent auditor's report.

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

	<u>2014</u>		<u>2013</u>	
	Amount	Percent	Amount	Percent
Operating revenues				
Charges for sales and services				
Video	\$ 1,251,237	39.63	\$ 1,139,549	39.41
Pay per view	5,009	0.16	4,938	0.17
STB channel	78,330	2.48	72,224	2.50
Data	904,521	28.65	831,109	28.74
Other data services	124,229	3.93	120,696	4.17
Collection and data storage	52,384	1.66	51,467	1.78
Telephone	638,755	20.23	593,079	20.51
Other sales	<u>(40,190)</u>	<u>(1.27)</u>	<u>(44,023)</u>	<u>(1.52)</u>
Total charges for sales and services	<u>3,014,275</u>	<u>95.46</u>	<u>2,769,039</u>	<u>95.77</u>
Other revenues				
Service charge revenue	89,190	2.82	83,379	2.88
Miscellaneous	13,292	0.42	5,587	0.19
Late payment fee	<u>40,865</u>	<u>1.29</u>	<u>33,347</u>	<u>1.15</u>
Total other revenues	<u>143,347</u>	<u>4.54</u>	<u>122,313</u>	<u>4.23</u>
Total operating revenue	<u>\$ 3,157,622</u>	<u>100.00</u>	<u>\$ 2,891,352</u>	<u>100.00</u>
Operating expenses				
Cost of sales and services				
Internet cogs	\$ 196,840	6.23	\$ 200,534	6.94
Telephone cogs	254,797	8.07	249,197	8.62
Programming fee	<u>1,207,756</u>	<u>38.25</u>	<u>1,076,643</u>	<u>37.24</u>
Total cost of sales and services	<u>1,659,393</u>	<u>53</u>	<u>1,526,374</u>	<u>53</u>
Distribution expenses				
Sub-station expense	199,982	6.33	190,975	6.61
Miscellaneous	<u>25,206</u>	<u>0.80</u>	<u>22,858</u>	<u>0.79</u>
Total distribution expenses	<u>225,188</u>	<u>7.13</u>	<u>213,833</u>	<u>7.40</u>
Customer accounts expenses				
Customer records and collection expense	<u>\$ 73,417</u>	<u>2.33</u>	<u>\$ 66,138</u>	<u>2.29</u>

See independent auditor's report.

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

	2014		2013	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Customer service and information expenses				
Supervision customer service	\$ 7,642	0.24	\$ 6,951	0.24
Customer assistance expense	169,723	5.38	146,903	5.08
Information and advertising expense	36,365	1.15	49,313	1.71
Sales	1,813	0.06	7,537	0.26
Total customer service and information expenses	<u>215,543</u>	<u>6.83</u>	<u>210,704</u>	<u>7.29</u>
Administrative and general expenses				
Salaries	81,396	2.58	80,618	2.79
Office supplies and expense	34,117	1.08	37,958	1.31
Outside services employed	43,421	1.38	36,372	1.26
Insurance	3,659	0.12	15,718	0.54
Employee pension and benefits	96	0.00	149	0.01
Rents	58,882	1.86	55,973	1.94
Property taxes	6,500	0.21	7,260	0.25
Business taxes	7,902	0.25	7,469	0.26
Miscellaneous	14,817	0.47	12,576	0.43
Total administrative and general expenses	<u>250,790</u>	<u>7.94</u>	<u>254,093</u>	<u>8.79</u>
Maintenance expenses				
Distribution	-	-	842	0.03
Total maintenance expenses	<u>-</u>	<u>-</u>	<u>842</u>	<u>0.03</u>
Provision for depreciation	<u>320,646</u>	<u>10.15</u>	<u>307,667</u>	<u>10.64</u>
Total operating expenses	<u>\$ 2,744,977</u>	<u>86.93</u>	<u>\$ 2,579,651</u>	<u>89.22</u>

See independent auditor's report.

PES ENERGIZE
CITY OF PULASKI, TENNESSEE
SCHEDULE OF ELECTRIC RATES IN FORCE
For the Year Ended June 30, 2014

Residential rate schedule RS

Customer charge - per delivery point per month	\$ 20.15
Energy charge - cents per kWh	-
First 800 kWh	0.10253
Additional	0.10253

Commercial Rate:

Demand from 0 to 50 kW - Schedule GSA1

Customer charge - per delivery point per month	\$ 35.00
Each kWh - cents per kWh	0.10525

Demand from 5 to 1,000 kW - Schedule GSA2

Customer charge per delivery point per month	\$ 150.00
Demand charges - per kW per month over 51 kW	15.01
Energy charge - cents per kWh	
First 15,000 kWh per month	0.10874
Additional kWh per month	0.06533

Industrial Rate:

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

Customer charge per delivery point per month	\$ 525.00
Demand charges - per kW per month	
First 1,000 kW	17.87000
Excess over 1,000 kW	12.26000
Energy charge - cents per kWh	0.06858

American Mag

Customer charge per delivery point per month	\$ 1,500.00
Energy charge - cents per kWh for up to 620 hours	0.04506
Per kWh for all additional kWh per month	0.04506
Demand charges - per kW per month	19.98000

Demand for Street Outdoor Lighting - Schedule OL

Per kWh per month	\$ 0.07258
150W HPS Security	8.81
175W MPI Security	7.79
250W HPS Security	12.49
400W MH Security	17.76
400W MVI Security	15.31
400W HPS Security	17.76
1000W MVI Security	34.42
1000W HPS Security	37.18
1000W MH Security	40.63

See independent auditor's report.

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

June 30, 2014

Year Ended June 30,	Electric Revenue and Tax Bonds - Electric		Electric Revenue and Tax Bonds - Broadband		Electric Revenue and Tax Refunding Bonds and Notes		Electric Revenue Bonds		Total Requirements		
	Series 2005		Series 2005		Series 2006		Series 2013		Principal	Interest	Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest			
2015	280,488	149,028	239,512	127,257	360,000	362,060	95,000	82,810	975,000	721,155	1,696,155
2016	291,276	137,809	248,724	117,676	370,000	347,660	95,000	79,599	1,005,000	682,744	1,687,744
2017	302,064	127,177	257,936	108,598	380,000	331,010	100,000	76,388	1,040,000	643,173	1,683,173
2018	312,852	115,850	267,148	98,925	400,000	315,810	105,000	73,008	1,085,000	603,593	1,688,593
2019	323,640	100,725	276,360	86,010	420,000	299,810	110,000	69,459	1,130,000	556,004	1,686,004
2020	339,822	91,501	290,178	78,134	440,000	282,800	110,000	65,741	1,180,000	518,176	1,698,176
2021	356,004	78,248	303,996	66,817	450,000	264,760	115,000	62,023	1,225,000	471,848	1,696,848
2022	366,792	64,008	313,208	54,657	470,000	246,310	120,000	58,136	1,270,000	423,111	1,693,111
2023	382,974	49,336	327,026	42,129	500,000	226,805	125,000	54,080	1,335,000	372,350	1,707,350
2024	399,156	33,826	340,844	28,884	500,000	205,805	125,000	49,855	1,365,000	318,370	1,683,370
2025	415,796	17,460	364,204	14,910	540,000	184,805	130,000	45,630	1,450,000	262,805	1,712,805
2026	-	-	-	-	550,000	161,855	135,000	41,236	685,000	203,091	888,091
2027	-	-	-	-	580,000	138,205	140,000	36,673	720,000	174,878	894,878
2028	-	-	-	-	600,000	113,265	145,000	31,941	745,000	145,206	890,206
2029	-	-	-	-	630,000	87,465	150,000	27,040	780,000	114,505	894,505
2030	-	-	-	-	660,000	59,745	155,000	21,970	815,000	81,715	896,715
2031	-	-	-	-	690,000	30,705	160,000	16,731	850,000	47,436	897,436
2032	-	-	-	-	-	-	165,000	11,323	165,000	11,323	176,323
2033	-	-	-	-	-	-	170,000	5,746	170,000	5,746	175,746
	<u>\$ 3,770,864</u>	<u>\$ 964,968</u>	<u>\$ 3,229,136</u>	<u>\$ 823,997</u>	<u>\$ 8,540,000</u>	<u>\$ 3,658,875</u>	<u>\$ 2,450,000</u>	<u>\$ 909,389</u>	<u>\$ 17,990,000</u>	<u>\$ 6,357,229</u>	<u>\$ 24,347,229</u>

See independent auditor's report.

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

	Electric Division				
	2014	2013	2012	2011	2010
Revenue					
Residential	\$ 20,316,933	\$ 18,909,186	\$ 18,154,388	\$ 19,914,513	\$ 17,165,929
Small lighting and power sales	3,458,872	3,225,854	3,698,992	3,680,033	3,347,714
Large lighting and power sales	14,949,782	14,736,167	14,576,100	14,795,607	12,752,350
Industrial sales	5,154,008	4,233,130	4,106,388	3,961,359	3,805,623
Street, athletic and outdoor lighting sales	760,329	753,134	747,608	752,139	697,050
Other sales	20,844	18,232	25,669	32,878	13,200
Interest and other revenue	1,155,903	1,102,155	1,049,981	1,067,322	1,195,003
	<u>45,816,671</u>	<u>42,977,858</u>	<u>42,359,126</u>	<u>44,203,851</u>	<u>38,976,869</u>
Expense					
Cost of sales and services	33,219,577	31,525,793	31,688,303	33,101,481	28,628,766
Distribution expenses	543,347	539,686	627,722	567,027	716,732
Customer accounts expenses	413,853	406,691	395,729	391,419	443,793
Customer service and information expenses	293,106	378,800	454,393	402,437	309,433
Administrative and general expenses	2,029,369	1,980,495	2,046,768	1,964,466	1,914,221
Maintenance expenses	2,183,188	2,090,893	1,944,284	1,771,190	1,573,797
Provision for depreciation expense	2,952,163	2,854,396	2,690,425	2,394,107	2,051,786
Amortization expense	12,573	14,488	8,837	20,169	23,554
Interest and other expense	595,500	587,954	619,222	653,553	666,291
Transfers out - in lieu of tax payments to city	1,031,943	1,017,607	1,000,923	993,259	927,523
	<u>43,274,619</u>	<u>41,396,803</u>	<u>41,476,606</u>	<u>42,259,108</u>	<u>37,255,896</u>
Net income (loss)	<u>\$ 2,542,052</u>	<u>\$ 1,581,055</u>	<u>\$ 882,520</u>	<u>\$ 1,944,743</u>	<u>\$ 1,720,973</u>
Financial					
Plant in service (at original cost)	<u>\$ 81,760,955</u>	<u>\$ 78,490,616</u>	<u>\$ 76,000,648</u>	<u>\$ 73,233,034</u>	<u>\$ 72,209,636</u>
Power in use - KWH					
Residential	180,262,551	172,404,997	164,870,658	187,523,527	184,100,375
Commercial	30,296,769	28,899,469	28,804,421	29,041,706	28,827,311
Industrial	227,146,735	217,877,543	215,829,273	226,409,421	204,072,167
Other customers	6,042,191	6,029,997	5,984,964	6,017,938	6,025,721
Total	<u>443,748,246</u>	<u>425,212,006</u>	<u>415,489,316</u>	<u>448,992,592</u>	<u>423,025,574</u>
Peak KW demand	<u>101,796</u>	<u>78,767</u>	<u>91,156</u>	<u>104,241</u>	<u>100,145</u>
Number of customers					
Residential	11,661	11,698	11,697	11,564	11,596
Commercial	2,180	2,177	2,176	2,175	2,139
Industrial	205	213	205	214	214
Street and athletic	58	55	55	55	55
Outdoor lighting	80	73	73	78	78
	<u>14,184</u>	<u>14,216</u>	<u>14,206</u>	<u>14,086</u>	<u>14,082</u>
Line Loss	<u>4.64%</u>	<u>4.16%</u>	<u>5.01%</u>	<u>4.30%</u>	<u>5.29%</u>

See independent auditor's report.

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

	Broadband Division				
	2014	2013	2012	2011	2010
Revenue					
Video	\$ 1,251,237	\$ 1,139,549	\$ 1,045,404	\$ 946,916	\$ 787,479
Pay per view	5,009	4,938	8,012	9,882	12,105
STB Channel	78,330	72,224	69,697	61,684	60,276
Data and related services	1,028,750	951,805	876,563	794,444	682,120
Collection and data storage	52,384	51,467	37,708	36,370	33,408
Telephone	638,755	593,079	592,934	562,503	464,364
Other sales	(40,190)	(44,023)	(50,819)	(34,715)	(55,868)
Interest and other revenue	143,738	122,843	142,831	127,842	151,403
	<u>3,158,013</u>	<u>2,891,882</u>	<u>2,722,330</u>	<u>2,504,926</u>	<u>2,135,287</u>
Expense					
Cost of sales and services	1,659,393	1,526,374	1,390,872	1,325,026	448,832
Distribution expenses	225,188	213,833	183,260	226,451	1,065,051
Customer accounts expenses	73,417	66,138	59,836	56,393	52,287
Customer service and information expenses	215,543	210,704	205,319	152,085	148,127
Administrative and general expenses	250,790	254,093	376,668	222,159	217,841
Maintenance expenses	-	842	1,050	365	1,774
Provision for depreciation expense	320,646	307,667	288,146	261,933	217,231
Amortization expense	3,103	3,103	3,103	3,103	7,494
Interest and other expense	135,701	142,380	147,082	152,251	135,693
	<u>2,883,781</u>	<u>2,725,134</u>	<u>2,655,336</u>	<u>2,399,766</u>	<u>2,294,330</u>
Net income (loss)	<u>\$ 274,232</u>	<u>\$ 166,748</u>	<u>\$ 66,994</u>	<u>\$ 105,160</u>	<u>\$ (159,043)</u>
Financial					
Plant in service (at original cost)	<u>\$ 3,602,571</u>	<u>\$ 3,418,635</u>	<u>\$ 3,291,964</u>	<u>\$ 3,133,405</u>	<u>\$ 2,924,014</u>

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

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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 Directors
PES Energize
City of Pulaski, 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 PES Energize (the System), enterprise fund of the City of Pulaski, Tennessee, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report dated December 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System'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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 over financial reporting 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 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.

Compliance and Other Matters

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

Purpose of this Report

This 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.

Alexander Thompson Arnold PLLC

Jackson, Tennessee
December 12, 2014

**PES ENERGIZE
CITY OF PULASKI, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2014 AND 2013**

CURRENT YEAR FINDINGS

There are no current year findings reported.

**PES ENERGIZE
CITY OF PULASKI, TENNESSEE
SCHEDULE OF PRIOR YEAR FINDINGS**
June 30, 2014 AND 2013

PRIOR YEAR FINDINGS

There were no prior year findings reported.