HOPKINSVILLE ELECTRIC SYSTEM

OF THE

CITY OF HOPKINSVILLE, KENTUCKY

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

JUNE 30, 2020 AND 2019

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Hopkinsville Electric System of the
City of Hopkinsville, Kentucky
Hopkinsville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Hopkinsville Electric System of the City of Hopkinsville, Kentucky, as of and for the years ended June 30, 2020 and 2019, 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.

Auditors' 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hopkinsville Electric System of the City of Hopkinsville, Kentucky, as of June 30, 2020 and 2019, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and postemployment benefit schedules as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's basic financial statements. The accompanying additional information as 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 additional information 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 additional information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2020, on our consideration of the Hopkinsville Electric System of the City of Hopkinsville, Kentucky'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 Hopkinsville Electric System of the City of Hopkinsville, Kentucky'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 Hopkinsville Electric System of the City of Hopkinsville, Kentucky's internal control over financial reporting and compliance.

Duguid, Gentry & Associates, PSC

Duguid, Gentry & Associates, PSC

Certified Public Accountants
Hopkinsville, Kentucky

October 20, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020

The management of Hopkinsville Electric System of the City of Hopkinsville, Kentucky (HES, the "System") offers Management's Discussion and Analysis to provide an overview and analysis of the System's financial activities for the year ended June 30, 2020. To fully understand the entire scope of the System's financial activities, this information should be read in conjunction with the financial statements provided in this document.

FINANCIAL HIGHLIGHTS

- The assets of HES exceeded its liabilities at the close of the 2020 fiscal year by $17,227,859 (*net position*).
- The System's total net position decreased by $1,062,857 during the period.
- Total operating revenues for the 2020 fiscal year decreased by $771,615 or about 2.02% compared to the previous period.
- FY 2020 operating expenses totaled $38,301,364 which was $58,349 or about 0.15% less than the previous year's amount.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the System's basic financial statements. The System's basic financial statements are comprised of two components: (1) basic financial statements and (2) notes to the basic financial statements. The basic financial statements and notes to these statements reflect the combined accounts and activities of both the electric and broadband divisions. The report also contains other supplementary information in addition to the basic financial statements. The supplementary information section contains statements that show the results of operations for the separate divisions.

The basic financial statements provide information about the System's business-type activities. The financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

REQUIRED FINANCIAL STATEMENTS

The financial statements of the System report information utilizing the full accrual basis of accounting. This method of accounting recognizes revenues when earned instead of when received and recognizes expenses when incurred rather than when paid. The financial statements conform to accounting principles which are generally accepted in the United States of America.

Statement of Net Position

The Statement of Net Position presents information on the System's assets and deferred outflows of resources and liabilities and deferred inflows of resources with the difference between them reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the System is improving or deteriorating.

Statement of Revenues, Expenses and Changes in Net Position

While the Statement of Net Position provides information about the nature and amount of resources and obligations at year-end, the Statement of Revenues, Expenses and Changes in Net Position presents the results of the System's operations over the course of the operating cycle. This statement can be used to determine whether the System has successfully recovered all of its actual costs, including depreciation, through user fees and other charges. All changes in net position are reported during the period in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, such as delayed collection of operating revenues and delayed payment of current year expenses.

Statement of Cash Flows

The Statement of Cash Flows provides information on the System's cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities. From the Statement of Cash Flows, the reader can obtain information on the source and use of cash and the change in the cash balance for the operating cycle.

Financial Analysis of the Fiscal Year Ended June 30, 2020

Over the past year, total assets of the System increased by $70,520 while total liabilities increased by $1,744,402. Also, deferred outflows of resources increased by $742,095 while deferred inflows of resources increased by $131,070. And, for the current period the net operating income of the System totaled ($1,062,857). Net operating income included ($889,084) from Electric and ($173,773) from Telecommunications.

Condensed Statements of Net Position

The Statement of Net Position, shown in tabular format below, represents information on all of the System's assets and deferred outflows of resources and liabilities and deferred inflows of resources with the difference between them reported as net position. The System's total net position decreased from the prior year by $1,062,857 or about 5.81% for the period.

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020

Our analysis that follows focuses on the System's net position (shown in Table 1) and the changes in net position (shown in Table 2) during the year.

TABLE 1
Condensed Statements of Net Position

	Fiscal Year		Change in FY 2019 to FY 2020	
	2020	2019	Amount	Percent
Current and other assets	$ 11,732,309	$ 13,945,216	$ (2,212,907)	-15.87%
Capital assets	38,875,641	36,592,214	2,283,427	6.24%
TOTAL ASSETS	50,607,950	50,537,430	70,520	0.14%
Deferred outflows	3,629,015	2,886,920	742,095	25.71%
Current liabilities	9,098,867	9,404,185	(305,318)	-3.25%
Long-term liabilities	26,503,200	24,453,480	2,049,720	8.38%
TOTAL LIABILITIES	35,602,067	33,857,665	1,744,402	5.15%
Deferred inflows	1,407,039	1,275,969	131,070	10.27%
Invested in utility plant, net of related debt	24,158,040	22,481,451	1,676,589	7.46%
Restricted for capital projects	3,382,930	3,902,281	(519,351)	-13.31%
Unrestricted	(10,313,111)	(8,093,016)	(2,220,095)	-27.43%
TOTAL NET POSITION	$ 17,227,859	$ 18,290,716	$ (1,062,857)	-5.81%

Analysis of Net Position

To better understand the System's actual financial positions and its ability to deliver services in future periods, the reader will need to review the various components of the net position category and obtain an understanding of how each relate specifically to the business activities of the System. For example, the vast majority of net position ($24,158,040 or 140.23% of total net position) represents investment in plant assets, which is the lifeblood to the provision of electric and telecommunication services.

**TABLE 2
Components of Net Position**

	Fiscal Year		Change FY 2019 to FY 2020	
	2020	2019	Amount	Percent
Invested in capital assets, net of related debt	$ 24,158,040	$ 22,481,451	$ 1,676,589	7.46%
Restricted for capital projects	3,382,930	3,902,281	(519,351)	-13.31%
Unrestricted	(10,313,111)	(8,093,016)	(2,220,095)	-27.43%
	$ 17,227,859	$ 18,290,716	$ (1,062,857)	-5.81%

During the 2020 fiscal year, *Net Position Invested in Capital Assets, Net of Related Debt* increased by $1,676,589 or 7.46% compared to the previous year. The amount shown in this category is calculated by taking the depreciated value of our capital assets and subtracting the associated bond debt. The significance of this increase on future operations is that it represents additional equity that the System has accumulated in its plant, equipment and infrastructure.

Compared to the prior year's balance, there was a decrease in the *Unrestricted Net Position* category of $2,220,095 or 27.43%.

Unrestricted net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Analysis of Current Assets

The textbook definition of "current assets" is balance sheet items which equal the sum of cash and cash equivalents, accounts receivable, inventory, marketable securities, prepaid expenses and other assets that could be converted to cash in less than one year. Current assets are important in any financial analysis because it is from current assets that a business funds its ongoing, day-to-day operations. A comparison of the June 30, 2020 and 2019 balances by asset classification are shown in the table below.

TABLE 3
Comparison of Current Assets

	Fiscal Year		Change from FY 2019 to FY 2020	
	2020	2019	Amount	Percent
Cash and cash equivalents	$ 5,868,034	$ 7,965,210	$ (2,097,176)	-26.33%
Accounts receivable (net)	2,517,829	2,567,160	(49,331)	-1.92%
Unbilled revenue	1,303,906	1,348,921	(45,015)	-3.34%
Inventories	673,128	789,626	(116,498)	-14.75%
Prepaid expenses	134,796	129,385	5,411	4.18%
Other current assets	70,912	68,763	2,149	3.13%
	$ 10,568,605	$ 12,869,065	$ (2,300,460)	-17.88%

Analysis of Noncurrent Assets

Noncurrent assets represent assets that are not reasonably expected to be realized in cash or sold or consumed during the next fiscal year. When making the distinction between whether an asset should be considered current or noncurrent, liquidity or nearness to cash is not the proper basis for determining the classification. In making this determination, any encumbrances on the use of the asset must be considered. Thus, cash investments intended for liquidation or liabilities due beyond the one-year period are noncurrent assets, as would assets segregated or restricted for the liquidation of long-term debts (including amounts due within the next operating cycle). Assets designated to be used to acquire, construct or improve capital assets would also be noncurrent.

TABLE 4
Comparison of Noncurrent Assets

	Fiscal Year		Change from FY 2019 to FY 2020	
	2020	2019	Amount	Percent
Investment in affiliated organization	$ 478,320	$ 390,934	$ 87,386	22.35%
Nonutility property	33,958	33,958	-	0.00%
Deferred charges	140,943	85,533	55,410	64.78%
Heat pump loans	510,483	565,726	(55,243)	-9.76%
Capital assets (net)	38,875,641	36,592,214	2,283,427	6.24%
	$ 40,039,345	$ 37,668,365	$ 2,370,980	6.29%

The table above demonstrates the relatively large investment that the System has made in capital assets. At the end of the 2020 fiscal year, capital assets represented about 97.09% of the noncurrent assets.

Analysis of Liabilities

In financial accounting, the term "liability" is defined as an obligation of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future. To put it in more simplistic terms, this section analyzes the various claims that creditors have against the System's assets.

TABLE 5
Comparison of Current Liabilities Payable from Unrestricted Net Position

	Fiscal Year		Change From FY 2019 to FY 2020	
	2020	2019	Amount	Percent
Accounts payable - purchased power	$ 4,020,434	$ 4,397,044	$ (376,610)	-8.57%
Accounts payable - other	379,899	581,518	(201,619)	-34.67%
Customer deposits	1,507,436	1,500,922	6,514	0.43%
Accrued taxes	366,158	373,095	(6,937)	-1.86%
Accrued interest	80,642	70,549	10,093	14.31%
Deferred revenue - MuniNet	173,759	187,168	(13,409)	-7.16%
Compensated abenses	419,593	360,449	59,144	16.41%
Deferred revenue	496,263	514,765	(18,502)	-3.73%
Other current and accrued liabilities	227,785	214,506	13,279	6.19%
	$ 7,671,969	$ 8,200,016	$ (528,047)	-6.44%

Current Liabilities Payable from Unrestricted Assets had a net decrease in its various components of $528,047 or about 6.44% compared to the previous fiscal year's balance. In fiscal year 2020, the total of compensated absences was separated with portions designated as short term and long term based on pay-out expectations.

As indicated in Table 6, the change in net position for the fiscal year ended June 30, 2020 was $(1,062,857).

**TABLE 6
Condensed Statements of Revenues, Expenses and Changes in Net Position**

	Fiscal Year Ended June 30		Change From FYE 2019 To FYE 2020	
	2020	2019	Amount	Percent
Operating revenues:				
Electric revenues	$33,361,469	$34,673,282	$ (1,311,813)	-3.78%
Telecom revenues	4,120,460	3,580,262	540,198	15.09%
Total operating revenues	37,481,929	38,253,544	(771,615)	-2.02%
Operating expenses:				
Purchased power	24,258,713	25,640,605	(1,381,892)	-5.39%
Other expenses	14,042,651	12,719,108	1,323,543	10.41%
Total operating expenses	38,301,364	38,359,713	(58,349)	-0.15%
Net operating income (loss)	(819,435)	(106,169)	(713,266)	671.82%
Non-operating income, net	(243,422)	126,040	(369,462)	-293.13%
Change in net position	(1,062,857)	19,871	(1,082,728)	-5448.78%
Net position, beginning of year	18,290,716	18,270,845	19,871	0.11%
Net position, end of year	$17,227,859	$18,290,716	$ (1,062,857)	-5.81%

Analysis of Revenue

For the 2020 fiscal year, The *Operating Revenues* of the System totaled $37,481,929. This amount represented a decrease of 2.02% when compared to the previous year's total of $38,253,544.

Included in the *Non-Operating Revenues (Expenses)* of ($243,422) is interest income of $94,344, interest expense of $385,276, amortization expense of $29,250, gain on sale of assets $27,282 and other income of $83,879.

Analysis of Expenses

The *Total Operating Expenses* for FY 2020 were $38,301,348. That amount represents a decrease of $58,349 or about 0.15% less than the prior fiscal year total of $38,359,713. The eight major categories of Operating Expenses are shown in the chart below.

TABLE 7
Comparison of Operating Expenses

	Fiscal Year Ended June 30		Change from FY 2019 to FY 2020	
	2020	2019	Amount	Percent
Cost of power	$ 24,258,713	$ 25,640,605	$ (1,381,892)	-5.39%
Cost of sales - telecom	817,565	542,629	274,936	50.67%
Distribution:				
Operation	2,822,754	2,331,674	491,080	21.06%
Maintenance	1,288,711	1,157,527	131,184	11.33%
Transmission - maintenance	-	-	-	0.00%
Customer accounts	1,024,369	1,095,667	(71,298)	-6.51%
Sales	73,765	125,956	(52,191)	-41.44%
Administrative and general	4,022,252	3,516,665	505,587	14.38%
Depreciation	2,471,162	2,404,813	66,349	2.76%
Taxes	1,522,073	1,544,177	(22,104)	-1.43%
	$ 38,301,364	$ 38,359,713	$ (58,349)	-0.15%

As indicated by the comparative information presented above, *Cost of Power* decreased by $1,381,892 or 5.39% compared to the prior year. This decrease is primarily due to the change in the TVA wholesale rate structure from Demand and Energy to Modified Time of Use (MTOU).

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Hopkinsville Electric System's investment in capital assets as of June 30, 2020 was $38,875,641 (net of accumulated depreciation), as shown in the following table.

TABLE 8
Schedule of Capital Assets (Net of Depreciation)

	Fiscal Year 2020	Fiscal Year 2019	Increase (Decrease)
Land	$ 283,388	$ 283,389	$ (1)
Construction in progress -			
Electric	1,708,048	1,610,517	97,531
Telecommunications	308,317	2,499,992	(2,191,675)
Transmission plant	408,120	428,114	(19,994)
Distribution plant	20,099,544	19,553,317	546,227
General plant	4,678,701	5,263,550	(584,849)
Telecommunications plant	11,389,523	6,953,335	4,436,188
Total capital assets	$ 38,875,641	$ 36,592,214	$ 2,283,427

Additional detailed information concerning the System's capital assets can be found in Note 2 in the notes to the financial statements.

Long-term Debt

At June 30, 2020, the System had $14,730,886 long-term debt outstanding, a net increase of $609,217 or approximately 4.31% more than the previous fiscal year. The System's debt is comprised of various bonds and notes. A comparative schedule at June 30, 2020 and 2019 is shown in the tabular information provided below.

TABLE 9
Schedule of Long Term Debt

	Fiscal Year 2020	Fiscal Year 2019	Increase (Decrease)
KY League of Cities leases	$ 2,769,687	$ 3,563,672	$ (793,985)
KIA loan - 2013	922,112	1,225,212	(303,100)
Revenue bond - 2013A	319,167	426,250	(107,083)
Regions Bank - Bond anticipation	-	6,000,000	(6,000,000)
KIA loan 2018	4,274,900	2,906,515	1,368,385
Revenue bond - 2020	6,445,000	-	6,445,000
	$ 14,730,866	$ 14,121,649	$ 609,217

Additional detailed information concerning the System's liabilities can be found in the notes to the financial statements, Note 7.

Economic Factors

The future financial condition of the System will be affected by two factors in the future: weather conditions and consumer use patterns. Weather is a tremendous driver in kWh sales – extreme hot conditions and extreme cold conditions will drive up kWh sales and mild temperatures drive down usage.

HES' electric sales continue to trend down by a small percentage like other electric utilities nationwide, due to loss of customers and energy efficiency measures.

Also affecting the System's financial condition is the recent change to Modified Time of Use (MTOU) rates put in place by TVA. These rates were implemented October 1, 2015.

HES EnergyNet continues to gain high speed broadband customers.

As we demonstrate financial responsibility, we continue to strive to deliver the highest quality of services to our community at the lowest feasible cost.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Hopkinsville Electric System's finances for all those with an interest in the System's finances. Questions or requests for additional information may be addressed to Jeff Hurd, Manager, Hopkinsville Electric System, 1820 East Ninth Street, Hopkinsville, KY 42240.

FINANCIAL STATEMENTS

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF NET POSITION
JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
Utility plant	$ 64,963,333	$ 61,239,427
Less accumulated depreciation	26,087,692	24,647,213
Net utility plant	38,875,641	36,592,214
Restricted assets		
Cash	3,382,930	3,902,281
Other assets		
Investment in affiliated organizations	478,320	390,934
Nonutility property	33,958	33,958
Heat pump loans	510,483	565,726
Total other assets	1,022,761	990,618
Current assets		
Cash - general funds	2,485,104	4,062,929
Accounts receivable (less accumulated provision for uncollectible accounts of $32,087 in 2020 and $27,036 in 2019)	2,517,829	2,567,160
Unbilled revenue	1,303,906	1,348,921
Inventories (at weighted-average cost)	673,128	789,626
Prepaid expenses	134,796	129,385
Other current assets	70,912	68,763
Total current assets	7,185,675	8,966,784
Deferred charges	140,943	85,533
Total assets	50,607,950	50,537,430
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts from pension and other postemployment benefits	3,629,015	2,886,920

See accompanying notes to financial statements

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF NET POSITION
JUNE 30, 2020 AND 2019, continued

	2020	2019
LIABILITIES		
Current liabilities		
Revenue bonds payable	$ 1,426,898	$ 1,204,169
Accounts payable - purchased power	4,020,434	4,397,044
Accounts payable - other	379,899	581,518
Customer deposits	1,507,436	1,500,922
Accrued taxes	366,158	373,095
Accrued interest	80,642	70,549
Unearned revenue - MuniNet	173,759	187,168
Deferred revenue	496,263	514,765
Compensated absences	419,593	360,449
Other current & accrued liabilities	227,785	214,506
Total current liabilities	9,098,867	9,404,185
Noncurrent liabilities		
Bonds payable	13,290,703	12,906,594
Compensated absences	178,931	374,287
Net pension and other postemployment benefit liabilities	12,510,107	10,588,988
Advances from others:		
Conservation advances - TVA	523,459	583,611
Total noncurrent liabilities	26,503,200	24,453,480
Total liabilities	35,602,067	33,857,665
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts from pension and other postemployment benefits	1,407,039	1,275,969
Total deferred inflows	1,407,039	1,275,969
NET POSITION		
Invested in capital assets, net of related debt	24,158,040	22,481,451
Restricted	3,382,930	3,902,281
Unrestricted	(10,313,111)	(8,093,016)
Total net position	$ 17,227,859	$ 18,290,716

See accompanying notes to financial statements

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
OPERATING REVENUES	$ 37,481,929	$ 38,253,544
OPERATING EXPENSES		
Cost of power	24,258,713	25,640,605
Cost of sales - telecommunications	817,565	542,629
Distribution - operation	2,822,754	2,331,674
- maintenance	1,288,711	1,157,527
Customer accounts	1,024,369	1,095,667
Sales	73,765	125,956
Administrative and general	4,022,252	3,516,665
Depreciation and amortization	2,471,162	2,404,813
Taxes	1,522,073	1,544,177
Total operating expenses	38,301,364	38,359,713
Net operating revenues	(819,435)	(106,169)
NONOPERATING REVENUES (EXPENSES)		
Interest on long-term debt	(385,276)	(217,309)
Other interest	(34,401)	(20,292)
Amortization of debt expense	(29,250)	(27,920)
Interest income	94,344	46,398
Gain on sale of fixed assets	27,282	311,673
Other revenue (expenses)	83,879	33,490
Net nonoperating revenues (expenses)	(243,422)	126,040
CHANGE IN NET POSITION	(1,062,857)	19,871
NET POSITION, BEGINNING OF YEAR	18,290,716	18,270,845
NET POSITION, END OF YEAR	$ 17,227,859	$ 18,290,716

See accompanying notes to financial statements

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash flows from operating activities		
Receipts from customers and users	$ 37,574,126	$ 38,874,465
Payments to suppliers	(29,750,250)	(29,647,853)
Payments to employees	(3,809,500)	(3,703,561)
Payments of taxes	(1,529,010)	(1,534,703)
Net cash provided (used) by operating activities	2,485,366	3,988,348
Cash flows from capital financing activities		
Expenditures for utility plant	(4,597,171)	(5,827,954)
Net cost of retiring plant	(192,673)	78,534
Principal payments on long-term debt	(7,204,168)	(1,367,273)
Payments on line of credit	-	(500,000)
Conservation advances from TVA	(60,152)	(97,943)
Proceeds from debt issuance	7,728,805	2,906,515
Bond issue cost from issuance of debt	84,580	-
Deferred revenue - Dark Fiber Lease	(60,634)	514,167
Interest paid	(408,707)	(193,044)
Net cash provided (used) by capital financing activities	(4,710,120)	(4,486,998)
Cash flows from investing activities		
Conservation loan receivable	55,243	94,556
Investment in affiliated companies	(87,386)	(78,916)
Interest and other revenues	159,721	48,000
Net cash provided (used) by investing activities	127,578	63,640
Net increase (decrease) in cash	(2,097,176)	(435,010)
Cash, beginning of year	7,965,210	8,400,220
Cash, end of year	$ 5,868,034	$ 7,965,210

See accompanying notes to financial statements

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF CASH FLOWS, continued
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
econciliation of operating income to net cash provided by operating activities:		
Net operating revenues	$ (819,435)	$ (106,169)
Adjustments to reconcile net operating revenues to net cash provided by operating activities:		
Depreciation	2,506,417	2,443,966
Changes in assets and liabilities:		
Receivables	49,331	471,374
Unbilled revenues	45,015	149,547
Materials and supplies	116,498	(5,129)
Prepaid expenses and other current assets	(7,560)	(32,299)
Accounts payable	(578,229)	(238,138)
Deferred pension and postemployment benefits amounts	1,310,094	1,214,020
Accrued taxes	(6,937)	9,474
Other current and accrued liabilities	13,279	29,199
Compensated absences	(136,212)	(82,523)
Customer deposits	6,514	49,411
Unearned revenue - MuniNet	(13,409)	85,615
Total adjustments	3,304,801	4,094,517
	$ 2,485,366	$ 3,988,348

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Electric Plant Board of the City of Hopkinsville (d.b.a. Hopkinsville Electric System) was created by Ordinance No. 382, passed June 2, 1942, pursuant to authority conferred upon the City by Chapter 119 of the General Assembly of Kentucky, 1932, amended.

The Board was established for the purpose of owning and operating all properties, real, personal and mixed tangible or intangible, acquired or used or held for use, in connection with the electric plant acquired by purchase from Kentucky – Tennessee Light and Power Company.

The Board consists of four appointed members, the term of one expiring each year, and a fifth member from the City's governing body, presently represented by Terry Parker, a member of the Common Council. The Hopkinsville Electric System elects its own officers and management.

Basis of Presentation and Accounting

The records of the Board are maintained in accordance with provisions of the power contract with the Tennessee Valley Authority and are consistent with requirements of the Federal Energy Regulatory Commission's system of accounts. Revenues and expenses are recognized on the accrual basis.

Proprietary Fund Type

The Board is intended to be self-supporting through user charges. All of its revenues, expenses, assets and liabilities, including fixed assets, and long-term debt associated with the specific activity, are accounted for within its financial statements.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the System considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Investments

Investment purchases and sales are recorded as of the trade date. Dividend income is recognized on the ex-dividend date. Other investment income is recognized when earned.

Investments are reported at fair value. Fair value is the amount reasonably expected to be received for an investment in a current sale between a willing buyer and a willing seller. Fixed income securities, real estate investment trusts (REITs), derivatives and common and preferred stocks are valued based on published market prices and quotations from national security exchanges and securities pricing services. International stocks are then adjusted to reflect the current exchange rate of the underlying currency. Investments, for which no national exchanges or pricing services exist, such as private equity assets, are valued at fair value by the investment partnership based on the valuation methodology outlined in the partnership agreement. Real estate may be valued by the manager or independent appraisers. Commingled assets that are not traded on a national exchange are valued by the commingled manager. The System performs due diligence reviews of the investment pricing, process and infrastructure of private equity, commingled and real estate investments to assure that the asset values provided by the managers are available.

Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the beginning of the year and the end of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expenses consist of external expenses directly related to the System's investment operations, as well as the internal administrative expenses associated with the System's investment program.

Material and Supplies Inventory

Material and supplies inventory (which consists of wire, poles and other supplies) is valued at cost determined by the weighted-average method.

System Plant

System plant is stated at original cost, which includes payroll related costs such as taxes, fringe benefits and administrative and general costs. Interest expense incurred during a construction period is capitalized. Construction work in progress has been included in the rate base for determining retail customer rates. The System has not recorded any significant allowance for funds used during construction.

When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its original cost, together with its cost of removal less salvage, is charged to the accumulated provision for depreciation. The System charges maintenance and repairs, including the cost of renewals of minor items of property, to maintenance expense accounts or applicable clearing accounts. Placements of property (exclusive of minor items of property) are capitalized to System plant accounts.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Depreciation

Property and equipment in plant accounts are recorded at cost with depreciation being computed at rates recommended by the Tennessee Valley Authority. The rates used throughout the current year were consistent with those in use in the prior year.

Compensated Absences

Full-time employees are allowed to carryover a maximum of forty (40) hours accumulated annual leave. Upon retirement from Hopkinsville Electric System, the employee is entitled to payment for unused accumulated annual leave time. Accrued vacation leave was $598,524 and $734,736 for the years ended June 30, 2020 and 2019, respectively.

Impairment of Capital Assets

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, management evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service System of the capital asset is large in magnitude, and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. No impairment losses were recognized in the years ended June 30, 2020 and 2019.

Pensions and Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, OPEB and OPEB expense, information about the fiduciary net position of the County Employees Retirement System ("CERS") and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The System has two items that qualify for reporting in this category. The deferred outflows of resources relate to the net pension liability described in Note 10 and the OPEB liability described in Note 11.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

In addition to liabilities, the statement of net 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 and so will not be recognized as an inflow of resources (revenue) until that time. The System has two items that qualify for reporting in this category: The deferred inflows of resources relate to the net pension liability as described in Note 10 and the OPEB liability described in Note 11.

Revenues and Expenses

Proprietary funds distinguish between operating and non-operating items. Operating revenues generally result from providing services, producing and delivering goods in connection with the System's principal ongoing operations. The principal operating revenues of the System are charges to customers for sales and services. Operating expenses for enterprise 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.

Net Position

Net position is categorized as invested in capital assets (net of related debt), restricted and unrestricted and further described as follows.

- *Invested in Capital Assets, Net of Related Debt* - This category groups all capital assets including infrastructure into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributed to the acquisition, construction or improvement of these assets reduce the balance in this category.

- *Restricted* - This category represents those assets which have constraints placed on the expenditures either externally imposed or imposed by law or enabled by legislature.

- *Unrestricted* - This category presents the net position of the System not included elsewhere.

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.

Income Tax Status

The System is exempt from federal and state income taxes. Accordingly, the financial statements include no provision for such taxes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Future Accounting Pronouncements

The provisions of Statement Number 87 "*Leases*" are effective for fiscal years beginning after June 30, 2021.

The provisions for Statement Number 89 "*Accounting for Indirect Cost Incurred before the End of a Construction Period"* are effective for fiscal years beginning after December 15, 2020.

Subsequent Events

Subsequent events have been evaluated through October 20, 2020, which is the date the financial statements were available to be issued.

NOTE 2 – BOARD PLANT AND DEPRECIATION PROCEDURES

A summary of changes in major classifications of the System plant in service as of June 30, 2020 follows:

	Balance June 30, 2019	Additions	Reclassifications/ Retirements	Balance June 30, 2020
Utility plant not depreciated:				
Land	$ 283,389	$ -	$ -	$ 283,389
Construction in progress - electric	1,610,516	97,531	-	1,708,047
Construction in progress - telecommunications	2,499,992	4,484,609	6,676,285	308,316
Total utility plant not depreciated	4,393,897	4,582,140	6,676,285	2,299,752
Utility plant depreciated:				
Transmission plant	730,867	-	-	730,867
Distribution plant	30,869,361	1,290,252	292,973	31,866,640
General plant	14,943,919	323,289	304,863	14,962,345
Telecommunications plant	10,301,383	5,077,775	275,429	15,103,729
Total utility plant depreciated	56,845,530	6,691,316	873,265	62,663,581
Accumulated depreciation	(24,647,213)	(2,522,562)	1,082,083	(26,087,692)
Total utility plant depreciated, net	32,198,317	4,168,754	(208,818)	36,575,889
Total utility plant	$ 36,592,214	$ 8,750,894	$ 6,467,467	$ 38,875,641

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 – BOARD PLANT AND DEPRECIATION PROCEDURES, continued

A summary of changes in major classifications of the System plant in service as of June 30, 2019 follows:

	Balance June 30, 2018	Additions	Reclassifications/ Retirements	Balance June 30, 2019
Utility plant not depreciated:				
Land	$ 283,389	$ -	$ -	$ 283,389
Construction in progress - electric	1,065,214	545,302	-	1,610,516
Construction in progress - telecommunications	149,752	2,350,240	-	2,499,992
Total utility plant not depreciated	1,498,355	2,895,542	-	4,393,897
Utility plant depreciated:				
Transmission plant	730,867	-	-	730,867
Distribution plant	29,748,643	1,827,518	706,800	30,869,361
General plant	14,767,280	182,949	6,310	14,943,919
Telecommunications plant	9,956,137	921,945	576,699	10,301,383
Total utility plant depreciated	55,202,927	2,932,412	1,289,809	56,845,530
Accumulated depreciation	(23,414,522)	(2,467,835)	1,235,144	(24,647,213)
Total utility plant depreciated, net	31,788,405	464,577	54,665	32,198,317
Total utility plant	$ 33,286,760	$ 3,360,119	$ 54,665	$ 36,592,214

NOTE 2 – BOARD PLANT AND DEPRECIATION PROCEDURES, continued

Telecommunications plant depreciation rates have been applied on a straight-line basis and are as follows:

General plant	3.00%
Poles	4.00
Office furniture and equipment	7.25
Computers	VAR/straight line
Vehicles	VAR/straight line
Transmission tower and fixtures	14.00
Telecommunications equipment	6.67

Transmission plant depreciation rates have been applied on a straight-line basis and are as follows:

Towers and fixtures	0.00%
Poles and fixtures	3.00
Overhead conductors and devices	2.00

Provision has been made for depreciation of distribution plant on a straight-line basis and rates are as follows:

Structures and improvements	3.00%
Station equipment	2.00
Poles, towers and fixtures	4.00
Overhead conductors and devices	1.75
Underground equipment	4.00
Line transformers	2.00
Services	5.00
Meters	5.00
Installation on customers' premises	6.00
Street lighting and signal systems	4.00

General plant depreciation rates have been applied on a straight-line basis and are as follows:

Structures and improvements	3.00%
Office furniture	VAR
Transportation equipment	VAR
Tools, shop and garage equipment	8.00
Laboratory equipment	8.00

NOTE 2 – BOARD PLANT AND DEPRECIATION PROCEDURES, continued

Transactions through the Accumulated Provision for Depreciation account for the years ended June 30, 2020 and 2019 are summarized as follows:

	2020	2019
Accumulated provision for depreciation, July 1	$ 24,647,213	$ 23,414,522
Add:		
Depreciation charged directly to expense	2,424,396	2,355,969
Depreciation charged to transportation - clearing	82,021	87,997
Other additions	16,145	23,869
Subtotal	27,169,775	25,882,357
Deduct:		
Original cost of plant retired	716,694	721,964
Cost of removal less salvage	341,590	371,056
Salvage	(60,869)	(39,394)
Other subtractions	84,668	181,518
Total charges against provision	1,082,083	1,235,144
Accumulated provision for depreciation, June 30	$ 26,087,692	$ 24,647,213

NOTE 3 – CASH AND CASH EQUIVALENTS

At June 30, 2020, the System’s deposits in depository institutions had a carrying amount of $5,868,034 and bank balances of $5,852,251. At June 30, 2020, the deposits were covered entirely by FDIC insurance or a properly executed collateral security agreement. At June 30, 2019, the System’s deposits in depository institutions had a carrying amount of $7,965,210 and bank balances of $8,035,113. At June 30, 2019, the deposits were covered entirely by FDIC insurance or a properly executed collateral security agreement.

NOTE 3 – CASH AND CASH EQUIVALENTS, continued

The carrying amounts are reflected in the financial statements as follows:

Unrestricted cash at June 30 consisted of:

	2020	2019
Change funds	$ 1,750	$ 1,750
Checking accounts	2,473,809	4,051,802
TVA power bill early payment	169	1
Other	9,376	9,376
Total	$ 2,485,104	$ 4,062,929

Restricted cash at June 30 consisted of:

	2020	2019
2007 Telecom bond issue fund	$ 4	$ 4
Series 2018 note proceeds	2,732,501	3,751,496
KIA 2008 maintenance and replacement	151,445	150,781
2020 Bond issue	498,980	-
Total investments	$ 3,382,930	$ 3,902,281

The operation and maintenance fund, established by the bond ordinance, is a reserve for extraordinary costs of operating and maintaining the plant over and above ordinary operation and maintenance.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a depository institution failure, the System's deposits may not be returned to it. The System does not have a policy regarding custodial credit risk for deposits.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Kentucky; bonds of any city, county, school district or special road district of the State of Kentucky; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of deposits.

At June 30, 2020 and 2019, the System was not exposed to custodial credit risk.

NOTE 3 – CASH AND CASH EQUIVALENTS, continued

Interest Rate Risk

The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Under Kentucky Revised Statutes Section 66.480, the System is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations or any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds. The System has no investment policy that would further limit its investment choices.

NOTE 4 – RECEIVABLES

Net receivables include the following at June 30:

	2020	2019
Accounts receivable		
Electric	$ 2,490,746	$ 2,588,285
Other miscellaneous	59,170	5,911
	2,549,916	2,594,196
Less:		
Reserve for uncollectible accounts	(32,087)	(27,036)
Total net receivables	$ 2,517,829	$ 2,567,160

NOTE 4 – RECEIVABLES, continued

Electric accounts and miscellaneous accounts together with the current billing for home insulation, heat pump and wood burning stove loans, were aged as follows:

	June 30, 2020		June 30, 2019	
	Amount	Percent	Amount	Percent
Accounts having discount dates after June 30	$ 387,746	15.21%	$ 314,504	12.12%
Accounts with credit balances	-	0.00%	-	0.00%
Accounts less than one month past due	1,854,398	72.72%	2,106,442	81.20%
Accounts 31 to 60 days past due	132,051	5.18%	83,491	3.22%
Accounts 61 to 90 days past due	55,546	2.18%	18,695	0.72%
Accounts over 90 days past due	120,175	4.71%	71,064	2.74%
	$ 2,549,916	100.00%	$ 2,594,196	100.00%

A reserve for uncollectible electric accounts is maintained by means of monthly charges to operations. Lists of accounts considered to be worthless are charged to the reserve account annually, with the last such list having been prepared as of June 30, 2020. Accounts charged off are turned over to various agencies for collection as authorized by HES.

A summary of the reserve's transactions for each year is as follows:

	2020	2019
Beginning balance	$ 27,036	$ 25,509
Monthly additions and adjustments	5,051	1,527
Charge-off of bad accounts	-	-
Balance, June 30	$ 32,087	$ 27,036

NOTE 5 – MATERIALS AND SUPPLIES

The values of electric materials at balance sheet dates were ascertained by reference to perpetual inventory records. Hopkinsville Electric System personnel make physical counts of stock at the end of each year and adjust the perpetual inventory records to actual count. The adjustment to the general ledger control is made to bring it into conformity with perpetual stock records. This amount is charged against stores expense (clearing) in January of each year.

NOTE 6 – DEFERRED CHARGES

Deferred charges at June 30 consisted of:

	2020	2019
Deferred costs on bond issue - 2007	$ 30,771	$ 40,752
Deferred costs on bond issue - 2013 KLC	18,053	23,091
Deferred costs on bond issue - 2018	8,949	21,690
Deferred costs on bond issue - 2020	83,170	-
Total	$ 140,943	$ 85,533

NOTE 7 – LONG-TERM OBLIGATIONS

Issue Date	Original Proceeds	Interest Rates	Maturity Date	Balance at June 30, 2020
Series 2007	$ 10,189,500	3.62%	8/1/2023	$ 2,769,687
Series 2013	3,000,000	0.70%	6/1/2023	922,112
Series 2013A	1,055,000	2.00%	2/1/2024	319,167
Series 2018	6,000,000	2.45%	2/16/2021	-
Series 2018	2,500,000	1.75%	6/1/2039	2,500,000
Series 2018	1,800,000	3.00%		1,774,900
Series 2020	6,445,000	2.00%	2/1/2045	6,445,000

All bonded debt is secured by revenues or property of the System.

On February 5, 2020, the System issued Series 2020 revenue bonds in the amount of $6,445,000 with interest rates of 2.00% - $.00%. The bonds were issued to pay off interim financing for the purpose of additions and improvements to the System's electric plant and distribution system. Payments of interest are due semi-annually, and payments of principal are due annually with the last payment scheduled for February 1, 2045.

NOTE 7 – LONG-TERM OBLIGATIONS, continued

The changes in outstanding debt as of June 30, 2020 follows:

	Balance July 1, 2019	New Issues/ Adjustments	Debt Payments/ Adjustments	Balance June 30, 2020
KY League of Cities - Series 2007	$ 3,563,672	$ -	$ 793,985	$ 2,769,687
KY Infrastructure Authority - Series 2013	1,225,212	-	303,100	922,112
Revenue Bond - Series 2013A	426,250	-	107,083	319,167
2018 Bond anticipation note	6,000,000	-	6,000,000	-
KY Infrastructure Authority - Series 2018	2,500,000	-	-	2,500,000
KY Infrastructure Authority - Series 2018	406,515	1,368,385	-	1,774,900
Revenue Bond - Series 2020	-	6,445,000	-	6,445,000
	$ 14,121,649	$ 7,813,385	$ 7,204,168	14,730,866
Less: Unamortized discount				(13,265)
Net total				$ 14,717,601

NOTE 7 – LONG-TERM OBLIGATIONS, continued

The changes in outstanding debt as of June 30, 2019 follows:

	Balance July 1, 2018	New Issues/ Adjustments	Debt Payments/ Adjustments	Balance June 30, 2019
KY League of Cities - Series 2004	202,676	$ -	$ 202,676	$ -
KY League of Cities - Series 2007	4,322,280	-	758,608	3,563,672
KY Infrastructure Authority - Series 2013	1,526,201	-	300,989	1,225,212
Revenue Bond - Series 2013A	531,250	-	105,000	426,250
2018 - Bond anticipation note	6,000,000	-	-	6,000,000
KY Infrastructure Authority - Series 2018	-	2,500,000	-	2,500,000
KY Infrastructure Authority - Series 2018	-	406,515	-	406,515
	$ 12,582,407	$ 2,906,515	$ 1,367,273	14,121,649
Less: Unamortized discount				(10,886)
Net total				$ 14,110,763

The discount associated with the issuance of the revenue bonds payable is being amortized on the straight-line method over the term of the bonds. The amount charged to interest expense for the year ending June 30 follows:

	2020	2019
Series 2004	$ -	$ 1,967
Series 2007	2,667	2,666
Series 2020	87	-
	$ 2,754	$ 4,633

The cost of issuance associated with the issuance of the revenue bonds payable is being amortized on the straight-line method over the term of the bonds. Amortization charged to expense for the year ending June 30 follows:

NOTE 7 – LONG-TERM OBLIGATIONS, continued

	2020	2019
Series 2004	$ -	$ 161
Series 2007	9,980	9,980
Series 2013	5,038	5,038
Series 2018	12,741	12,741
Series 2020	1,497	-
	$ 29,256	$ 27,920

The following represents principal and interest payments on outstanding debt.

	Series 2007		
	Principal	Interest	Total
2021	$ 831,673	$ 112,042	$ 943,715
2022	870,553	73,605	944,158
2023	911,438	33,365	944,803
2024	156,023	1,516	157,539
	$ 2,769,687	$ 220,528	$ 2,990,215

	KIA 2013			Series 2013A		
	Principal	Interest	Total	Principal	Interest	Total
2021	$ 305,225	$ 5,922	$ 311,147	$ 110,000	$ 7,975	$ 117,975
2022	307,367	3,781	311,148	112,082	5,227	117,309
2023	309,520	1,626	311,146	79,584	2,427	82,011
2024	-	-	-	17,500	438	17,938
	$ 922,112	$ 11,329	$ 933,441	$ 319,166	$ 16,067	$ 335,233

	Series 2020			All Series Combined		
	Principal	Interest	Total	Principal	Interest	Total
2021	$ 180,000	$ 172,697	$ 352,697	$ 1,426,898	$ 298,636	$ 1,725,534
2022	185,000	167,438	352,438	1,475,002	250,051	1,725,053
2023	190,000	160,038	350,038	1,490,542	197,456	1,687,998
2024	200,000	152,438	352,438	373,523	154,392	527,915
2025	205,000	144,437	349,437	205,000	144,437	349,437
2026-2030	1,145,000	605,889	1,750,889	1,145,000	605,889	1,750,889
2031-2035	1,280,000	468,598	1,748,598	1,280,000	468,598	1,748,598
2036-2040	1,435,000	316,169	1,751,169	1,435,000	316,169	1,751,169
2041-2045	1,625,000	128,893	1,753,893	1,625,000	128,893	1,753,893
	$ 6,445,000	$ 2,316,597	$ 8,761,597	$ 10,455,965	$ 2,564,521	$ 13,020,486

NOTE 7 – LONG-TERM OBLIGATIONS, continued

The last draw of funds has not occurred on the KIA 2018 loans, and the loans are not included in the above schedule.

Changes in long-term obligations are as follows:

	Balance July 1, 2019	New Issues/ Adjustments	Debt Payments/ Adjustments	Balance June 30, 2020	Amounts Due Within One Year
Bonds payable:					
Revenue bonds	$ 14,121,649	$ 7,813,385	$ 7,204,168	$ 14,730,866	$ 1,426,898
Premium (discount)	(10,886)	(5,046)	2,667	(13,265)	-
Total bonds payable	14,110,763	7,808,339	7,206,835	14,717,601	1,426,898
Other liabilities:					
Compensated absences	734,736	-	(136,212)	598,524	419,593
Total other liabilities	734,736	-	(136,212)	598,524	419,593
Total long-term liabilities	$ 14,845,499	$ 7,808,339	$ 7,070,623	$ 15,316,125	$ 1,846,491

NOTE 8 – LINE OF CREDIT

On May 1, 2019, HES renewed a revolving line of credit with Heritage Bank as a bridge for short-term cash needs. The line of credit has a maximum principal amount of $1,000,000 with a maturity date of May 1, 2021. The balance at June 30, 2020 was $0.00. The interest rate is 5.50%. The revolving line of credit is secured by a Commercial Security Agreement.

NOTE 9 – ADVANCES FROM OTHERS

Advances have been received from Tennessee Valley Authority for the purpose of making long-term loans to electric customers under various energy conservation programs. The balances due Tennessee Valley Authority were $523,459 and $583,611 as of June 30, 2020 and 2019, respectively.

NOTE 10 – PENSION PLANS

The System's employees are provided a pension plan through the County Employees Retirement System.

General information about the County Employees Retirement System Non-Hazardous ("CERS")

Plan description – The System contributes to the Non-Hazardous CERS plan, a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the plan. CERS is administered by the Board of Trustees of the Kentucky Retirement System. CERS issues a publicly available financial report that can be obtained at www.kyret.ky.gov .

Benefits provided – CERS provides retirement, death and disability benefits to Plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, Cost of Living Adjustments (COLAs) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. After July 1, 2009, the COLAs were limited to 1.5%. No COLA has been granted since July 1, 2011. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years' service or 65 years old
	Reduced retirement	At least 5 years' service and 55 years old
		At least 25 years' service and any age
	Required contributions	5%
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years' service and 65 years old
		Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years' service and 60 years old
	Required contributions	5% + 1% for insurance
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years' service and 65 years old
		Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available
	Required contributions	5% + 1% for insurance

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NOTE 10 – PENSION PLANS, continued

Contributions – Employers participating in the CERS were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contributions and past service contribution rates shall be determined by the KRS Board of Trustees on the basis of an annual valuation last preceding the July 1 of a new biennium. The KRS Board of Trustees may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the KRS Board of Trustees. For the fiscal year ended June 30, 2019 and 2018, participating employers contributed 16.22% and 14.48%, respectively, of each employee's creditable compensation. The actuarially determine rate set by the KRS Board of Trustees for the fiscal years June 30, 2019 and 2018 was 16.22% and 14.48%, respectively.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2020 and 2019, the System reported a liability of $10,096,217 and $8,198,890, respectively, for its proportionate share of the net pension liability. The net pension liability of the plan was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The System's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2020 and 2019, the System's proportion was 0.143554% and 0.134622%, respectively.

For the years ended June 30, 2020 and 2019, the System recognized pension expense of $1,962,480 and $1,385,965, respectively, related to CERS. At June 30, 2020 and 2019, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 10 – PENSION PLANS, continued

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 257,787	$ 42,659	$ 267,425	$ 120,014
Changes in assumptions	1,021,852	-	801,270	-
Net difference between projected and actual earnings on pension plan investments	193,808	356,563	381,254	479,564
Changes in proportion and differences between contributions and proportionate share of contributions	418,731	89,653	181,834	151,060
System's contributions subsequent to the measurement date	708,945	-	587,332	-
Total	$ 2,601,123	$ 488,875	$ 2,219,115	$ 750,638

The amount of $708,945 reported as deferred outflows of resources related to pensions resulting from System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

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

Years Ending June 30,	
2020	$ 853,706
2021	375,820
2022	162,228
2023	11,549
2024	-
Thereafter	-
Total	$ 1,403,303

NOTE 10 – PENSION PLANS, continued

Actuarial assumptions – The total pension liability, net pension liability and sensitivity information as of June 30, 2019 were based on an actuarial valuation date of in the June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019, using generally accepted actuarial principles. There have been no changes in plan provisions since June 30, 2018. The plan adopted new actuarial assumptions since June 30, 2018, which were used to determine the total pension liability as follows:

	Measurement Period	
	2019	2018
Inflation	2.30%	2.30%
Projected salary increases, average, including inflation	3.30 to 10.30%	3.05%
Investment rate of return, net of plan investment expense, including inflation	6.25%	6.25%

June 30, 2019: The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

June 30, 2018: However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to the surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

Long-term rate of return – The long-term expected return on plan assets was determined by using a building-block method in which best-estimated ranges of expected future real returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following tables:

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NOTE 10 – PENSION PLANS, continued

Measurement Period 2019 Asset Class	Target Allocation	Long-Term Expected Nominal Return
US equity	18.75%	4.30%
International equity	18.75%	4.80%
Core bonds	13.50%	1.35%
High yield	15.00%	2.60%
Opportunistic	3.00%	2.97%
Real estate	5.00%	4.85%
Real return	15.00%	4.10%
Private equity	10.00%	6.65%
Cash	1.00%	2.00%
Total	100.00%	

Measurement Period 2018 Asset Class	Target Allocation	Long-Term Expected Nominal Return
US equity	17.50%	5.97%
International equity	17.50%	7.85%
Global bonds	4.00%	2.63%
Global credit	2.00%	3.63%
High yield	7.00%	5.75%
Emerging market debt	5.00%	5.50%
Private credit	10.00%	8.75%
Real estate	5.00%	7.63%
Absolute return	10.00%	5.63%
Real return	10.00%	6.13%
Private equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	100.00%	

NOTE 10 – PENSION PLANS, continued

Discount rate – The discount rate used to measure the total pension liability for the measurement periods with years ended June 30, 2019 and 2018 was 6.25% and 6.25%, respectively. The projection of cash flows used to determine the discount rate assumed that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018). The discount rate determinations do not use a municipal bond rate. The actuarial determined contribution rate is adjusted to reflect the phase-in of anticipated gains on actuarial value of assets over the first four years of the projection period.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate – The following table presents the System's proportionate share of the net pension liability, calculated using the discount rates selected by the pension system, as well as what the System's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
2020	5.25%	6.25%	7.25%
System's proportionate share of net pension liability	$ 12,627,504	$ 10,096,217	$ 7,986,414
2019	5.25%	6.25%	7.25%
System's proportionate share of net pension liability	$ 10,321,553	$ 8,198,890	$ 6,420,470

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of CERS.

Payable to the Pension Plan – At June 30, 2020, the System reported a payable of $0.00 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020.

<u>System's Thrift Plan –</u>

Plan Description – The System's employees hired after September 1, 1969 have the option to participate in the System's Thrift Plan, which consists of a 401K plan and a 401M plan.

Funding Policy – Employees who participate in the Plan may contribute up to 100% (in multiples of 1%) of their base annual compensation. Employees who elect to also participate in the 401M plan are limited to 14% in their contributions. All such amounts were deposited with the trustee, John Hancock, to be held or invested in accordance with provisions in the Thrift Plan Trust Agreement executed November 24, 1969. Employer contributions, which totaled $120,036 and $121,880 in the years ended June 30, 2020 and 2019, respectively, are charged monthly to plant and expense in the same ratio as payroll.

NOTE 11 – OTHER POST- EMPLOYMENT BENEFITS (OPEB)

General Information about the OPEB Plan

Plan description: County Employees Retirement System consists of two plans, Non-Hazardous and Hazardous. Each plan is a cost-sharing multiple-employer defined benefit Other Postemployment Benefits (OPEB) plan administered by the Kentucky Retirement Systems (KRS) under the provision of Kentucky Revised Statute 61.645. The plan covers all regular full-time members employed in non-hazardous and hazardous duty positions of each participating county, city and any additional eligible local agencies electing to participate. The Board participates in the Non-Hazardous plan. The CERS Insurance Fund is included in a publicly available financial report that can be obtained at www.kyret.ky.gov.

Benefits provided: The KRS' Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

Contributions: Employers participating in the CERS Insurance Fund contribute a percentage of each employee's creditable compensation. The actuarially determined rates set by the KRS board is a percentage of each employee's creditable compensation. For the years ended June 30, 2019 and 2018, required contribution were 5.26% and 4.70%, respectively, of each employee's covered payroll. Contributions from the System to the CERS Insurance Fund for the years ended June 30, 2020 and 2019, were $178,848 and $190,467, respectively. The KRS board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the KRS board. Employees qualifying as Tier 2 and Tier 3 of the CERS plan members contribute 1% of creditable compensation to an account created for the payment of health insurance benefits.

Implicit Subsidy: The fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. This implicit subsidy is included in the calculation of the total OPEB liability.

NOTE 11 – OTHER POST- EMPLOYMENT BENEFITS (OPEB), continued

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

At June 30, 2020 and 2019, the System reported a liability of $2,413,891 and $2,390,098, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2019, using generally accepted actuarial principles. The System's proportion of the net OPEB liability was based on the System's share of contributions to the OPEB plan relative to the contributions of all participating employers. At June 30, 2020 and 2019, the System's proportion for the non-hazardous system was 0.143517% and 0.134617% respectively.

For the year ended June 30, 2020 and 2019, the System recognized OPEB expense of $273,367 and $270,367. At June 30, 2020 and 2019, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 728,327	$ -	$ 278,534
Changes of assumptions	714,293	4,776	477,388	5,522
Net difference between projected and actual earnings on OPEB plan investments	15,900	123,114	-	164,631
Changes in proportion and differences between employer contributions and proportionate share of contributions	122,851	61,947	-	76,644
System's contributions subsequent to the measurement date	174,848	-	190,467	-
Total	$ 1,027,892	$ 918,164	$ 667,855	$ 525,331

$174,848 reported as deferred outflows of resources related to OPEB resulting from System contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

NOTE 11 – OTHER POST- EMPLOYMENT BENEFITS (OPEB), continued

Years Ending June 30,		
2020	$	(9,348)
2021		(9,348)
2022		24,740
2023		(40,579)
2024		(28,509)
Thereafter		(2,076)
Total	$	(65,120)

Actuarial assumptions: The total OPEB liability actuarial valuation were determined using the following actuarial methods and assumptions:

June 30, 2019	
Payroll growth rate	2.00%
Inflation	2.30%
Salary increase	3.30% to 10.30%, varies by source
Investment rate of return	6.25%
Healthcare cost trend rates (pre-65)	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Healthcare cost trend rates (post-65)	Initial trend starting at 5.0% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

NOTE 11 – OTHER POST- EMPLOYMENT BENEFITS (OPEB), continued

June 30, 2018	
Payroll growth rate	2.00%
Inflation	2.30%
Salary increase	3.05%, average
Investment rate of return	6.25%
Healthcare cost trend rates (pre-65)	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Healthcare cost trend rates (post-65)	Initial trend starting at 5.0% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

The mortality for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy retired members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back on year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years) is used for the period after disability retirement.

Long-term expected rate of return: The long-term expected return on plan assets was determined by using a building-block method in which best-estimated ranges of expected future real returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

NOTE 11 – OTHER POST- EMPLOYMENT BENEFITS (OPEB), continued

Measurement Period 2019 Asset Class	Target Allocation	Long-Term Expected Nominal Return
US equity	18.75%	4.30%
International equity	18.75%	4.80%
Core bonds	13.50%	1.35%
High yield	15.00%	2.60%
Opportunistic	3.00%	2.97%
Real estate	5.00%	4.85%
Real return	15.00%	4.10%
Private equity	10.00%	6.65%
Cash	1.00%	0.20%
Total	100.00%	

Measurement Period 2018 Asset Class	Target Allocation	Long-Term Expected Nominal Return
US equity	17.50%	5.97%
International equity	17.50%	7.85%
Global bonds	4.00%	2.63%
Global credit	2.00%	3.63%
High yield	7.00%	5.75%
Emerging market debt	5.00%	5.50%
Private credit	10.00%	8.75%
Real estate	5.00%	7.63%
Absolute return	10.00%	5.63%
Real return	10.00%	6.13%
Private equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	100.00%	

NOTE 11 – OTHER POST- EMPLOYMENT BENEFITS (OPEB), continued

Discount rate: The discount rate used to measure the total OPEB liability for the years ended June 30, 2020 and 2019 was 5.68% and 5.85% for non-hazardous and 5.69% and 5.97% for hazardous, respectively, assuming that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The single discount rate based on the expected rate of return on the OPEB plan investments for the years ended June 30, 2020 and 2019 was 6.25% and 6.25% and a municipal bond rate of 3.13% and 3.62%, respectively, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2019. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the System's proportionate share of the net OPEB liability to changes in the discount rate: The following presents the System's proportionate share of the net OPEB liability, as well as what the System's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.68% for non-hazardous and 4.69% for hazardous) or 1-percentage-point higher (6.69% for non-hazardous and 6.69% for hazardous) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
2020	4.68%	5.68%	6.68%
System's proportionate share of net OPEB liability	$ 3,233,621	$ 2,413,891	$ 1,738,488
2019	4.85%	5.85%	6.85%
System's proportionate share of net OPEB liability	$ 3,104,354	$ 2,390,098	$ 1,781,682

Sensitivity of the System's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates: The following presents the System's proportionate share of the net OPEB liability, as well as what the System's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

NOTE 11 – OTHER POST- EMPLOYMENT BENEFITS (OPEB), continued

2020	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
System's proportionate share of net OPEB liability	$ 1,795,223	$ 2,413,891	$ 3,164,100

2019			
System's proportionate share of net OPEB liability	$ 1,779,452	$ 2,390,098	$ 3,109,874

Payable to the OPEB plan: At June 30, 2020, the System reported a payable of $0.00 for the outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2020.

NOTE 12 – OTHER CURRENT AND ACCRUED LIABILITIES

Following is a summary of the amounts recorded as other current and accrued liabilities as of June 30, 2020 and 2019:

	2020	2019
Accrued pole rentals	$ 48,418	$ 56,781
Accrued payroll	179,367	157,725
	$ 227,785	$ 214,506

NOTE 13 – RISK MANAGEMENT AND LITIGATION

The System is exposed to various risks of loss related torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The System carries commercial insurance for the risks of loss, including worker's compensation, and property and casualty loss insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Limits of insurance coverage remain unchanged in the past three years.

From time to time, the System is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management and legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the System's financial statements.

NOTE 14 – RATE INCREASE

Wholesale Base Rates: The ratio of Tennessee Valley Authority (TVA) purchased power to total energy sales in fiscal year 2019 was 74.7% and 76.1% in fiscal year 2019. The GAC is a way for TVA to recover their fixed cost and lowering the wholesale energy rate by $.005/kWh. The GAC is based on the previous 5 years' standard service kWh purchases. TVA did allow the System to add a risk premium charge onto the retail energy rate to mitigate the GAC increase and keep the System from suffering a net loss. The System signed a 20 year long term agreement with TVA in September 2019 which included a 3.1% partnership credit on wholesale standard service energy and demand charges.

Fuel Cost Adjustment: In October 2009, TVA changed from a quarterly FCA to monthly FCA. In April 2011, TVA separated its fuel cost, which had been included in its Base Rates prior to the implementation of the quarterly FCA in October 2007, and started to include it in its monthly FCA.

Environmental Charge: In October 2003, TVA added a charge to its wholesale rates to recover its cost to add equipment to its generation facilities to meet government environmental standards. The charge is a fixed amount and is $0.00186 per kWh under the MTOU rate structure. The charge was to expire September 2013 but was extended indefinitely.

Retail Adder: The System's margin is provided by a Retail Adder. The System implemented a customer service charge increase with corresponding decreases in energy charges effective October 2013 - October 2019. The System did implement a 1.5% local rate increase in energy charges in October 2017. In October 2020, the System will implement a customer service charge increase, increase the GSA-1 revenue by 1% and lower GSA-2 revenue by 0.55%, increase the first 50 kW demand charge in GSA-2 class by $1/kW and lowered first block of energy by same amount of revenue. These 2020 changes will be revenue neutral for the System.

Pandemic Relief Credit: The TVA Board has approved a 2.5% base rate credit beginning in October 2020 through September 2021 (FY2020-21) for all TVA local power companies and direct served customers. This pandemic relief credit will provide an estimated total of $400,000 which can be used at the discretion of the System.

NOTE 15 – COMMITMENTS

TVA

Under its wholesale power agreement, dated April 20, 1982, the System is committed to purchase its electric power and energy requirements from the Tennessee Valley Authority (TVA). As provided by amendment dated October 1, 1997, the contract may be terminated by either party at any time upon not less than five years prior written notice. Neither party shall exercise its right to give notice of termination before the date occurring five years after the date of the agreement. The rates paid for such purchases are subject to change periodically by the supplier. As provided by amendment effective October 1, 1999, the System has a decreasing term contract beginning on that date. The term decreases one year each year until the term levels off at five years. The System signed a long term agreement with TVA in September 2019 with a 20-year termination notice. The agreement includes a wholesale credit and enhanced power supply flexibility.

MuniNet

MuniNet Fiber Agency ("MuniNet") was formed to undertake the financing, acquisition, construction, management, operation, utilization and ownership of fiber network projects and any and all facilities, including all equipment, structures, machinery and tangible and intangible property, real or personal, useful for such projects, either within or without the Commonwealth of Kentucky. Projects are approved by the MuniNet Board on a project-specific basis. After a project is approved, MuniNet and the individual MuniNet members who desire to participate in the project enter into a Project Participation Agreement which sets forth the terms and conditions of the project's development and operation and establishes each participant's rights and obligations with respect to the project.

MuniNet Project 2 ("Project 2") consists of the development of a fiber optic cable system and a contractual arrangement for a connection to an Internet Access Provider (IAP) located in Nashville, Tennessee that will provide each project participant with high speed access to the internet. The estimated cost of Project 2 is $3,173,049.

On April 30, 2013, the Board signed a Resolution approving the Project 2 Participation Agreement among the Board, MuniNet and the other Project 2 participants. Hopkinsville Electric System is one of seven (7) Kentucky Public Board companies who are participants in Project 2. Each participant in Project 2 ("Participant") has a one-seventh (1/7) interest in the project ("Project Share").

MuniNet obtained a loan from the Kentucky Infrastructure Authority in the amount of $3,200,000 to finance the development, construction and equipping of Project 2.

The Superintendent/General Manager of each Participant is on the Project Committee. The Superintendent/General Manager of the Participant also appoints one other member to the Committee.

NOTE 15– COMMITMENTS, continued

Costs and expenses associated with financing, development, equipping, maintenance and operation of Project 2, including debt service, will be paid from the revenue generated from the project. In the event the revenue generated from Project 2 is insufficient to pay the full amount of the costs and expenses associated with the project as they come due, each participant will be responsible for its Project Share of the deficit.

Hopkinsville Electric System has provided MuniNet with an indefeasible right of use (IRU) for fibers on the System's existing fiber system. MuniNet has agreed to pay Hopkinsville Electric System for its provision of an IRU in such fibers in the amount of $270,809 to be amortized over 20 years with no interest. During fiscal year ending June 30, 2016, $135,404 was received. During fiscal year 2019, $96,257 of the additional $135,404 was received. Amortization expense was $13,409 and $10,643 during the fiscal years ended June 30, 2020 and 2019 on the $231,661 which has been received.

MuniNet bills each participant monthly indicating the amount payable for its project share of payment obligations due under the Project Participation Agreement. In addition, MuniNet bills each participant administrative and operating costs which will be expensed. The System paid $82,386 and $73,916 for administrative and operating costs during fiscal years ended June 30, 2020 and 2019.

The following are costs incurred for the initial investment in MuniNet and Project 2 costs:

	2020	2019
Initial investment	$ 5,000	$ 5,000
Project 2 Investment in Muninet		
Beginning balance July 1	390,934	312,018
Program revenue		
Costs incurred	82,386	73,916
Less MuniNet reimbursements	-	-
	473,320	385,934
Ending balance June 30	$ 478,320	$ 390,934

NOTE 15– COMMITMENTS, continued

COVID-19 Pandemic

The System is assessing the effects of the ongoing COVID-19 pandemic, caused by a novel strain of coronavirus, on the System and its business and operations.

Current and potential economic and fiscal impacts to the System related to the COVID-19 pandemic include, but are not limited to, reduced operating revenues, increases in delinquencies or non-payment of System bills, increased operating costs to support modified working arrangements and other COVID-19 related activities.

The degree of impact of the System's finances and operations is difficult to predict due to the evolving nature of the COVID-19 pandemic. The ultimate duration and severity of the pandemic, the ramifications of future actions that may be taken or required by governmental authorities to contain and respond to the pandemic, and the severity of an associated economic recession and extent to which a recovery may be prolonged, are not yet known. In light of the uncertainties surrounding the COVID-19 pandemic and its impacts, management is unable to reasonably quantify the effect on future finances of the Board at this time.

NOTE 16 – ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

During fiscal year 2019, the System adopted the following accounting pronouncement:

- GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements,* issued April 2018. The primary objective of the Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

REQUIRED SUPPLEMENTARY INFORMATION

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
JUNE 30, 2020
County Employees Retirement System

	2020	2019	2018	2017	2016	2015
System's proportion of net pension liability (asset)	0.143554%	0.134622%	0.139034%	0.129410%	0.130320%	0.127380%
System's proportion share of net pension liability (asset)	$ 10,096,217	$ 8,198,890	$ 8,138,087	$ 6,371,513	$ 5,603,152	$ 4,224,200
System's covered-employee payroll	$ 3,621,038	$ 3,336,593	$ 3,385,128	$ 3,087,016	$ 2,989,520	$ 2,618,972
System's proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	278.82%	245.73%	240.41%	206.40%	187.43%	161.29%
Plan fiduciary net position as a percentage of total pension liability**	50.45%	54.54%	53.32%	55.50%	59.97%	66.80%

Schedule is intended to present information for 10 years. Additional years will be displayed as they become available. GASB 68 was implemented in fiscal year 2015.

***Plan refers to entire plan for KRS, not individual employers/members*

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN
JUNE 30, 2020
County Employees Retirement System

	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 708,945	$ 587,332	$ 483,139	$ 632,342	$ 526,645	$ 528,249
Contributions in relation to the contractually required contribution	708,945	587,332	483,139	632,342	526,645	528,249
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
System's covered employee payroll	$ 3,673,288	$ 3,621,038	$ 3,336,593	$ 3,385,128	$ 3,087,016	$ 2,989,520
Contributions as a percentage of covered employee payroll	19.30%	16.22%	14.48%	18.68%	17.06%	17.67%

Schedule is intended to present information for 10 years. Additional years will be displayed as they become available. GASB 68 was implemented in fiscal year 2015.

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN
JUNE 30, 2020 AND 2019

Changes in Benefit Terms

2019: No changes in benefit terms

2018: No changes in benefit terms

Changes of Assumptions

2019: There have been no changes in plan provisions since June 30, 2018. However, the Board of Trustees has adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018". The total pension liability as of June 30, 2019 is determined using these updated assumptions.

2018: House Bill 185 was enacted during the 2018 legislative session. This bill updates the benefit provisions for active members who die in the line of duty.

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY
JUNE 30, 2020
County Employees Retirement System

	2020	2019	2018
System's proportion of net OPEB liability (asset)	0.143517%	0.134617%	0.139034%
System's proportionate share of OPEB liability (asset)	$ 2,413,891	$ 2,390,098	$ 2,795,059
System's covered - employee payroll	$ 3,621,038	$ 3,336,593	$ 3,385,128
System's proportionate share of net OPEB liability (asset) as a percentage of its covered-employee payroll	150.01%	139.60%	121.11%
Plan fiduciary net position as a percentage of total OPEB liability**	60.44%	57.62%	52.40%

Schedule is intended to present inforamtion for 10 years. Additional years will be displayed as they become available. GASB 75 was implemented in fiscal year 2018.

***Plan refers to entire plan for KRS, not individual employers/members*

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
JUNE 30, 2020
County Employees Retirement System

	2020	2019	2018
Contractually required OPEB contribution	$ 174,848	$ 190,467	$ 156,819
Contributions in relation to the contractually required contribution	174,848	190,467	156,819
Contribution deficiency (excess)	$ -	$ -	$ -
System's covered-employee payroll	$ 3,673,288	$ 3,621,038	$ 3,336,593
Contributions as a percentage of covered-employee payroll	4.76%	5.26%	4.70%

Schedule is intended to present information for 10 years. Additional years will be displayed as they become available. GASB 75 was implemented in fiscal year 2018.

Changes of Assumptions

2019: There have been no changes in plan provisions since June 30, 2018. However, the Board of Trustee has adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 actuarial Experience Study for the Period Ending June 30, 2018". The total OPEB liability as of June 30, 2019 is determined using these updated assumptions.

2018: House Bill 185 was enacted during the 2018 legislative session. This bill updates the benefit provisions for active members who die in the line of duty.

ADDITIONAL INFORMATION

HOKINSVILLE ELCTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMBINED SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020

	ELECTRIC	TELECOM	TOTAL
OPERATING REVENUES	$ 33,361,469	$ 4,120,460	$ 37,481,929
OPERATING EXPENSES			
Cost of power	24,258,713	-	24,258,713
Cost of sales - telecom	-	817,565	817,565
Distribution - operation	1,450,641	1,372,113	2,822,754
- maintenance	1,256,511	32,200	1,288,711
Customer accounts	828,675	195,694	1,024,369
Sales	36,716	37,049	73,765
Administrative and general	2,941,549	1,080,703	4,022,252
Depreciation and amortization	1,896,337	574,825	2,471,162
Taxes	1,448,964	73,109	1,522,073
Total operating expenses	34,118,106	4,183,258	38,301,364
Net operating revenues	(756,637)	(62,798)	(819,435)
NONOPERATING REVENUES (EXPENSES)			
Interest on long-term debt	(277,330)	(107,946)	(385,276)
Other interest	(34,401)	-	(34,401)
Amortization of debt expense	(25,557)	(3,693)	(29,250)
Interest income	93,680	664	94,344
Gain on sale of fixed assets	27,282	-	27,282
Other income (expenses)	83,879	-	83,879
Net nonoperating revenues (expenses)	(132,447)	(110,975)	(243,422)
CHANGE IN NET POSITION	(889,084)	(173,773)	(1,062,857)
NET POSITION, BEGINNING OF YEAR	15,808,575	2,482,141	18,290,716
NET POSITION, END OF YEAR	$ 14,919,491	$ 2,308,368	$ 17,227,859

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUKCY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES – ELECTRIC
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	ELECTRIC 2020	ELECTRIC 2019	VARIANCE FAVORABLE (UNFAVORABLE)
OPERATING REVENUES	$ 33,361,469	$ 34,673,282	$ (1,311,813)
OPERATING EXPENSES			
Cost of power	24,258,713	25,640,605	1,381,892
Distribution - operation	1,450,641	1,269,412	(181,229)
- maintenance	1,256,511	1,114,348	(142,163)
Customer accounts	828,675	872,509	43,834
Sales	36,716	83,641	46,925
Administrative and general	2,941,549	2,551,086	(390,463)
Depreciation and amortization	1,896,337	1,857,849	(38,488)
Taxes	1,448,964	1,476,803	27,839
Total operating expenses	34,118,106	34,866,253	748,147
Net operating revenues	(756,637)	(192,971)	(563,666)
NONOPERATING REVENUES (EXPENSES)			
Interest on long-term debt	(277,330)	(149,372)	(127,958)
Other interest	(34,401)	(20,292)	(14,109)
Amortization of debt expense	(25,557)	(24,227)	(1,330)
Interest income	93,680	46,398	47,282
Gain on sale of fixed assets	27,282	311,673	(284,391)
Other revenues (expenses)	83,879	33,490	50,389
Net nonoperating revenues (expenses)	(132,447)	197,670	(330,117)
CHANGE IN NET POSITION	$ (889,084)	$ 4,699	$ (893,783)

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES – TELECOMMUNICATIONS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	TELECOM 2020	TELECOM 2019	VARIANCE FAVORABLE (UNFAVORABLE)
OPERATING REVENUES	$ 4,120,460	$ 3,580,262	$ 540,198
OPERATING EXPENSES			
Cost of sales - telecom	817,565	542,629	(274,936)
Distribution - operation	1,372,113	1,062,262	(309,851)
- maintenance	32,200	43,179	10,979
Customer accounts	195,694	223,158	27,464
Sales	37,049	42,315	5,266
Administrative and general	1,080,703	965,579	(115,124)
Depreciation and amortization	574,825	546,964	(27,861)
Taxes	73,109	67,374	(5,735)
Total operating expenses	4,183,258	3,493,460	(689,798)
Net operating revenues	(62,798)	86,802	(149,600)
NONOPERATING REVENUES (EXPENSES)			
Interest on long-term debt	(107,946)	(67,937)	(40,009)
Amortization of debt expense	(3,693)	(3,693)	-
Interest income	664	-	664
Net nonoperating revenues (expenses)	(110,975)	(71,630)	(39,345)
CHANGE IN NET POSITION	$ (173,773)	$ 15,172	$ (188,945)

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMPARATIVE ANALYSIS OF OPERATING EXPENSES – ELECTRIC

	For the Year Ended June 30, 2020 Amount	Percent		For the Year Ended June 30, 2019 Amount	Percent		Increase (Decrease)
Distribution - operation							
Supervision & engineering	$ 111,767	0.34	%	$ 107,338	0.31	%	$ 4,429
Station expense	75,815	0.23		58,889	0.17		16,926
Overhead lines expense	619,130	1.86		522,004	1.51		97,126
Street light & signal system expense	4,295	0.01		8,827	0.03		(4,532)
Meter expense	111,472	0.33		99,942	0.29		11,530
Customer installation expense	28,183	0.08		20,142	0.06		8,041
Miscellaneous distribution expense	8,071	0.02		8,138	0.02		(67)
Rents	491,908	1.47		444,132	1.28		47,776
Total distribution operation	$ 1,450,641	4.35	%	$ 1,269,412	3.66	%	$ 181,229
Distribution - maintenance							
Supervision & engineering	$ 32,675	0.10	%	$ 31,032	0.09	%	$ 1,643
Substations	851	0.00		7,771	0.02		(6,920)
Overhead lines	1,145,911	3.43		994,629	2.87		151,282
Underground services	6,149	0.02		3,881	0.01		2,268
Transformers	50,376	0.15		61,918	0.18		(11,542)
Street light & signal system	20,115	0.06		13,688	0.04		6,427
Meters	434	0.00		1,429	0.00		(995)
Total distribution maintenance	$ 1,256,511	3.77	%	$ 1,114,348	3.21	%	$ 142,163
Customer accounts							
Meter reading	$ 60,621	0.18		$ 65,314	0.19		(4,693)
Customer records & collection expense	666,977	2.00		619,347	1.79		47,630
Uncollectible accounts	33,150	0.10		87,024	0.25		(53,874)
Miscellaneous customer accounting	3,029	0.01		3,142	0.01		(113)
Customer assistance expense	28,772	0.09		50,944	0.15		(22,172)
Information & instructional advertising	36,126	0.11		46,738	0.13		(10,612)
Total customer accounts	$ 828,675	2.48	%	$ 872,509	2.52	%	$ (43,834)

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMPARATIVE ANALYSIS OF OPERATING EXPENSES – ELECTRIC, continued

	For the Year Ended June 30, 2020		For the Year Ended June 30, 2019		Increase
	Amount	Percent	Amount	Percent	(Decrease)
Sales expense					
Demonstrating and selling expense	$ 23,210	0.07 %	$ 56,327	0.16 %	$ (33,117)
Advertising expense	12,749	0.04	26,496	0.08	(13,747)
Miscellaneous	757	0.00	818	0.00	(61)
Total sales expense	$ 36,716	0.11 %	$ 83,641	0.24 %	$ (46,925)
Administrative and general					
Administrative & office salaries	$ 512,023	1.53 %	$ 552,158	1.59 %	$ (40,135)
Office supplies & expense	208,899	0.63	191,963	0.55	16,936
Outside services employed	67,709	0.20	60,760	0.18	6,949
Property insurance	99,521	0.30	81,772	0.24	17,749
Injuries & damages	56,424	0.17	71,819	0.21	(15,395)
Employees pension & other benefits	1,950,489	5.85	1,556,175	4.49	394,314
Duplicate charges (credit)	(118,874)	(0.36)	(122,790)	(0.35)	3,916
Miscellaneous general expense	92,738	0.28	87,152	0.25	5,586
Maintenance	72,620	0.22	72,077	0.21	543
Total administrative and general	$2,941,549	8.82 %	$2,551,086	7.36 %	$ 390,463

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMPARATIVE ANALYSIS OF OPERATING EXPENSES – TELECOMMUNICATIONS

	For the Year Ended June 30, 2020		For the Year Ended June 30, 2019		Increase
	Amount	Percent	Amount	Percent	(Decrease)
Distribution - operation					
Supervision & engineering	$ 120,702	2.93 %	$ 116,463	3.25 %	$ 4,239
Hub expenses	38,829	0.94	38,670	1.08	159
Overhead cable expense	592,901	14.39	435,296	12.16	157,605
Customer installation expense	287,809	6.98	211,663	5.91	76,146
Miscellaneous distribution expense	305	0.01	297	0.01	8
Rents	331,567	8.05	259,873	7.26	71,694
Total distribution operation	$ 1,372,113	33.30 %	$ 1,062,262	29.67 %	$ 309,851
Distribution - maintenance					
Supervision & engineering	$ 14,780	0.36 %	$ 14,198	0.40 %	$ 582
Hub expenses	16,215	0.39	18,569	0.52	(2,354)
General maintenance	1,205	0.03	10,412	0.29	(9,207)
Total distribution maintenance	$ 32,200	0.78 %	$ 43,179	1.21 %	$ (10,979)
Customer accounts					
Billing expense	$ 70,543	1.71 %	$ 65,971	1.84 %	$ 4,572
Customer records & collection expense	82,192	1.99	89,837	2.51	(7,645)
Uncollectible accounts	35,883	0.87	56,336	1.57	(20,453)
Customer assistance expense	7,076	0.17	11,014	0.31	(3,938)
Total customer accounts	$ 195,694	4.75 %	$ 223,158	6.23 %	$ (27,464)

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMPARATIVE ANALYSIS OF OPERATING EXPENSES – TELECOMMUNICATIONS, continued

	For the Year Ended June 30, 2020		For the Year Ended June 30, 2019		Increase
	Amount	Percent	Amount	Percent	(Decrease)
Sales expense					
Demonstrating and selling expense	$ 13,335	0.32 %	$ 23,938	0.67 %	$ (10,603)
Advertising expense	23,714	0.58	18,377	0.51	5,337
Total sales expense	$ 37,049	0.90 %	$ 42,315	1.18 %	$ (5,266)
Administrative and general					
Administrative & office salaries	$ 112,888	2.74 %	$ 130,143	3.64 %	$ (17,255)
Office supplies & expense	42,612	1.03	47,072	1.31	(4,460)
Meeting expenses	11,281	0.27	13,262	0.37	(1,981)
Outside services employed	39,064	0.95	33,535	0.94	5,529
Property insurance	20,964	0.51	13,548	0.38	7,416
Injuries & damages	26,745	0.65	33,928	0.95	(7,183)
Employees pension & other benefits	694,212	16.85	547,877	15.30	146,335
General advertising	19	0.00	18	0.00	1
Miscellaneous general expense	4,953	0.12	20,811	0.58	(15,858)
Maintenance	127,965	3.11	125,385	3.50	2,580
Total administrative and general	$ 1,080,703	26.23 %	$ 965,579	26.97 %	$ 115,124

INTERNAL CONTROL AND COMPLIANCE

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INDEPENDENT AUDITORS' 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*

To the Board of the
Hopkinsville Electric System of the
City of Hopkinsville, Kentucky
Hopkinsville, Kentucky

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 Hopkinsville Electric System of the City of Hopkinsville, Kentucky, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's basic financial statements and have issued our report thereon dated October 20, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hopkinsville Electric System of the City of Hopkinsville, Kentucky'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency (item 2020-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hopkinsville Electric System of the City of Hopkinsville, Kentucky'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*.

Hopkinsville Electric System of the City of Hopkinsville, Kentucky's Response to Findings

The Hopkinsville Electric System of the City of Hopkinsville, Kentucky's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Hopkinsville Electric System of the City of Hopkinsville, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Duguid, Gentry & Associates, PSC

Duguid, Gentry & Associates, PSC

Certified Public Accountants
Hopkinsville, Kentucky

October 20, 2020

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2020

2020-001 Internal Controls

Condition – There was inadequate design of internal controls over the preparation of the financial statements of the System.

Criteria – Statement on Auditing Standards (SAS 115) states that a control deficiency exists when an entity does not have controls in place which would prevent or detect a misstatement in the financial statements.

Effect – There was an increased risk that controls in place might not prevent, or detect and correct, misstatements in the financial statements.

Cause – Available funds do not allow for such staffing.

Recommendation – The System should designate an individual who possesses suitable skill, knowledge and/or experience to review the financial statements, including footnote disclosures, and take responsibility for these financial statements.

Response – Management outsourced the preparation of their financial statements and the related notes to Duguid, Gentry & Associates, PSC. Management maintained responsibility for the financial statements and related notes and for the establishment of controls over the financial reporting process and acknowledged that outsourcing preparation of the financial statements and related notes does not relieve management of the responsibility for the financial statements. Management provided oversight for the financial statement preparation service by designating an individual within senior management who possesses suitable technical skill, knowledge and experience sufficient to (a) understand the financial statement preparation service sufficiently to be able to provide general direction for the service; (b) understand the key issues the auditors identify; (c) make any required management decisions; and (d) evaluate the adequacy of, and accept responsibility for, the results of the auditors' work.