HOPKINSVILLE ELECTRIC SYSTEM

OF THE

CITY OF HOPKINSVILLE, KENTUCKY

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

JUNE 30, 2021 AND 2020

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY

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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, 2021 and 2020, 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, 2021 and 2020, 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 14 , 2021, 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 14, 2021

MANAGEMENT’S DISCUSSION AND ANALYSIS

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021

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, 2021. 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 and deferred outflows of HES exceeded its liabilities and deferred inflows at the close of the 2021 fiscal year by $16,709,588 (*net position*).

- The System's total net position decreased by ($518,271) during the period.

- Total operating revenues for the 2021 fiscal year decreased by ($2,103,596) or about 5.61% compared to the previous period.

- FY 2021 operating expenses totaled $35,633,265 which was $2,668,099 or about 6.97% 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 plus deferred outflows of resources and liabilities plus 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, 2021

Over the past year, total assets of the System decreased by ($999,185) while total liabilities increased by $173,972. Also, deferred outflows of resources increased by $188,546 while deferred inflows of resources decreased by ($466,340). And, for the current period the net operating income (loss) of the System totaled ($518,271). Net operating income (loss) included ($162,085) from Electric and ($356,186) 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 plus deferred outflows of resources and liabilities plus 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 ($518,271) or about 3.01% for the period.

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 from FY 2020 to FY 2021	
	2021	2020	Amount	Percent
ASSETS				
Current and other assets	$ 10,438,619	$ 11,732,309	$ (1,293,690)	-11.03%
Capital assets	39,170,146	38,875,641	294,505	0.76%
Total assets	49,608,765	50,607,950	(999,185)	-1.97%
DEFERRED OUTFLOWS OF RESOURCES	3,817,561	3,629,015	188,546	5.20%
LIABILITIES				
Current liabilities	9,289,327	9,101,654	187,673	2.06%
Long-term liabilities	26,486,712	26,500,413	(13,701)	-0.05%
Total liabilities	35,776,039	35,602,067	173,972	0.49%
DEFERRED INFLOWS OF RESOURCES	940,699	1,407,039	(466,340)	-33.14%
NET POSITION				
Invested in capital assets, net of related debt	26,023,789	24,158,040	1,865,749	7.72%
Restricted for capital projects	2,294,877	3,382,930	(1,088,053)	-32.16%
Unrestricted	(11,609,078)	(10,313,111)	(1,295,967)	-12.57%
Total net position	$ 16,709,588	$ 17,227,859	$ (518,271)	-3.01%

<u>Assets and Deferred Outflows</u>

Additions to plant in 2020-2021 amounted to $3,359,515.

Balances of current assets other than cash (such as accounts receivable, unbilled electric revenue, materials and prepayments) remained stable when compared to the prior year with a decrease of ($40,046). Cash balances decreased ($1,117,482). Deferred charges decreased ($27,349). Investment in affiliated organizations increased by $66,518. Heat pump loans decreased by ($141,373). Nonutility property was sold resulting in a decrease of ($33,958) in other assets. These changes net to the overall decrease of ($1,293,690) in current and other assets listed above.

Liabilities, Deferred Inflows and Net Position

Liabilities increased by $173,972. Principal payments on debt reduced revenue bonds payable by ($1,599,131), and net pension and other postemployment benefits liabilities increased by $1,950,640.

The net pension liability (NPL) and the other postemployment benefits (OPEB) are significant liabilities reported by the System. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the System's actual financial condition by adding deferred inflows of resources related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows of resources related to pension and OPEB.

GASB 68 (pension) and GASB 75 (OPEB) require the net pension liability and the net OPEB liability to equal the System's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service.

2. Minus plan assets available to pay these benefits.

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for-benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the System is not responsible for certain key factors affecting the balance of these liabilities.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. Changes in benefits, contribution rates and return on investments affect the balance of these liabilities but are outside the control of the local government.

In the event that contributions, investment returns and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the System's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's change in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows of resources.

Overall, net position decreased ($518,271) for the year compared to a decrease of ($1,062,857) for the prior year. The components of this decrease were a decrease in net position of electric operations of ($162,085), and a decrease in net position of telecom operations of ($356,186).

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 ($26,023,789 or 155.74% 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 from FY 2020 to FY 2021	
	2021	2020	Amount	Percent
Invested in capital assets, net of related debt	$ 26,023,789	$ 24,158,040	$ 1,865,749	7.72%
Restricted for capital projects	2,294,877	3,382,930	(1,088,053)	-32.16%
Unrestricted	(11,609,078)	(10,313,111)	(1,295,967)	-12.57%
	$ 16,709,588	$ 17,227,859	$ (518,271)	-3.01%

During the 2021 fiscal year, *Net Position Invested in Capital Assets, Net of Related Debt* increased by $1,865,749 or 7.72% 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 ($1,295,967) or 12.57%.

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, 2021 and 2020 balances by asset classification are shown in the table below.

TABLE 3
COMPARISON OF CURRENT ASSETS

	Fiscal Year		Change from FY 2020 to FY 2021	
	2021	2020	Amount	Percent
Cash and cash equivalents	$ 4,750,552	$ 5,868,034	$ (1,117,482)	-19.04%
Accounts receivable (net)	2,428,789	2,517,829	(89,040)	-3.54%
Unbilled revenue	1,371,236	1,303,906	67,330	5.16%
Inventories	649,878	673,128	(23,250)	-3.45%
Prepaid expenses	131,149	134,796	(3,647)	-2.71%
Other current assets	79,473	70,912	8,561	12.07%
	$ 9,411,077	$ 10,568,605	$ (1,157,528)	-10.95%

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 2020 to FY 2021	
	2021	2020	Amount	Percent
Investment in affiliated organization	$ 544,838	$ 478,320	$ 66,518	13.91%
Nonutility property	-	33,958	(33,958)	-100.00%
Deferred charges	113,594	140,943	(27,349)	-19.40%
Heat pump loans	369,110	510,483	(141,373)	-27.69%
Capital assets (net)	39,170,146	38,875,641	294,505	0.76%
	$ 40,197,688	$ 40,039,345	$ 158,343	0.40%

The table above demonstrates the relatively large investment that the System has made in capital assets. At the end of the 2021 fiscal year, capital assets represented about 97.44% 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 2020 to FY 2021	
	2021	2020	Amount	Percent
Accounts payable - purchased power	$ 3,953,284	$ 4,020,434	$ (67,150)	-1.67%
Accounts payable - other	621,086	379,899	241,187	63.49%
Customer deposits	1,530,594	1,507,436	23,158	1.54%
Accrued taxes	381,458	366,158	15,300	4.18%
Accrued interest	78,741	80,642	(1,901)	-2.36%
Deferred revenue - MuniNet	160,351	173,759	(13,408)	-7.72%
Compensated absences	358,296	419,593	(61,297)	-14.61%
Deferred revenue	437,384	496,263	(58,879)	-11.86%
Other current and accrued liabilities	114,149	227,785	(113,636)	-49.89%
	$ 7,635,343	$ 7,671,969	$ (36,626)	-0.48%

Current Liabilities Payable from Unrestricted Assets had a net decrease in its various components of ($36,626) or about -0.48% compared to the previous fiscal year's balance. In fiscal year 2021, 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, 2021 was $(518,272).

TABLE 6
CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year ended June 30		Change from FYE 2020 to FYE 2021	
	2021	2020	Amount	Percent
OPERATING REVENUES				
Electric revenues	$30,685,173	$33,361,469	$ (2,676,296)	-8.02%
Telecom revenues	4,693,160	4,120,460	572,700	13.90%
Total operating revenues	35,378,333	37,481,929	(2,103,596)	-5.61%
OPERATING EXPENSES				
Purchased power	20,845,480	24,258,713	(3,413,233)	-14.07%
Other expenses	14,787,785	14,042,651	745,134	5.31%
Total operating expenses	35,633,265	38,301,364	(2,668,099)	-6.97%
Net operating revenues (expenses)	(254,932)	(819,435)	564,503	-68.89%
Net non-operating revenues (expenses)	(263,339)	(243,422)	(19,917)	8.18%
Change in net position	(518,271)	(1,062,857)	544,586	-51.24%
Net position, beginning of year	17,227,859	18,290,716	(1,062,857)	-5.81%
Net position, end of year	$16,709,588	$17,227,859	$ (518,271)	-3.01%

Analysis of Revenue

For the 2021 fiscal year, The *Operating Revenues* of the System totaled $35,378,333. This amount represented a decrease of 5.61% when compared to the previous year's total of $37,481,929.

Included in the *Nonoperating Revenues (Expenses)* of ($263,339) is interest income of $16,415, interest expense of ($407,731), amortization expense of ($27,263) and other income of $174,196.

Analysis of Expenses

The *Total Operating Expenses* for FY 2021 were $35,633,265. That amount represents a decrease of ($2,668,098) or about 6.97% less than the prior fiscal year total of $38,301,364. 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 2020 to FY 2021	
	2021	2020	Amount	Percent
Cost of power	$ 20,845,480	$ 24,258,713	$ (3,413,233)	-14.07%
Cost of sales - telecom	921,100	817,565	103,535	12.66%
Distribution				
Operation	2,859,360	2,822,754	36,606	1.30%
Maintenance	1,248,547	1,288,711	(40,164)	-3.12%
Customer accounts	1,156,431	1,024,369	132,062	12.89%
Sales	80,546	73,765	6,781	9.19%
Administrative and general	4,204,202	4,022,252	181,950	4.52%
Depreciation	2,831,675	2,471,162	360,513	14.59%
Taxes	1,485,924	1,522,073	(36,149)	-2.37%
	$ 35,633,265	$ 38,301,364	$ (2,668,099)	-6.97%

As indicated by the comparative information presented above, *Cost of Power* decreased by ($3,413,233) or 14.07% compared to the prior year.

Capital Assets

Hopkinsville Electric System's investment in capital assets as of June 30, 2021 was $39,170,146 (net of accumulated depreciation), as shown in the following table.

**TABLE 8
SCHEDULE OF CAPITAL ASSETS (NET OF DEPRECIATION)**

	Fiscal Year		Increase
	2021	2020	(Decrease)
Land	$ 283,388	$ 283,388	$ -
Construction in progress			
Electric	2,859,860	1,708,048	1,151,812
Telecommunications	540,736	308,317	232,419
Transmission plant	388,126	408,120	(19,994)
Distribution plant	19,983,028	20,099,544	(116,516)
General plant	3,952,664	4,678,701	(726,037)
Telecommunications plant	11,162,344	11,389,523	(227,179)
Total capital assets	$ 39,170,146	$ 38,875,641	$ 294,505

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, 2021, the System had $13,156,835 long-term debt outstanding, a net decrease of ($1,574,031) or approximately 10.69% less than the previous fiscal year. The System's debt is comprised of various bonds and notes. A comparative schedule at June 30, 2021 and 2020 is shown in the tabular information provided below.

TABLE 9
SCHEDULE OF LONG-TERM DEBT

	Fiscal Year		Increase
	2021	2020	(Decrease)
KY League of Cities leases	$ 1,938,014	$ 2,769,687	$ (831,673)
KIA loan - 2013	616,887	922,112	(305,225)
Revenue bond - 2013A	209,167	319,167	(110,000)
KIA loan 2018	4,127,767	4,274,900	(147,133)
Revenue bond - 2020	6,265,000	6,445,000	(180,000)
	$ 13,156,835	$ 14,730,866	$ (1,574,031)

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

Economic Factors

Being that the majority of our customers are residential, the 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.

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

The largest effect on the System's financial condition is the cost of our wholesale power from Tennessee Valley Authority (TVA). Roughly 70% of our electric revenues go to pay our TVA power bill. Beginning in 2019, the System started to benefit from a 3.1 % wholesale partnership credit by signing a 20 year power contract. In addition, TVA has made a commitment to hold the wholesale electric flat for the next 10 years. This knowledge will allow better financial planning by the System and a more accurate operational budget.

Recently, the System and EnergyNet entered into agreements with Pennyrile RECC and the Fiscal Courts of Christian, Todd, Trigg, Caldwell and Lyon Counties to provide high speed broadband service within the Pennyrile RECC service area. All these counties have committed their Federal American Rescue Act Grant money to be used for fiber infrastructure build out. This will result in a dramatic increase in EnergyNet's customer base over the next three to five years which will provide a strong revenue source for the System.

Hopkinsville Electric System of the City of Hopkinsville, Kentucky and EnergyNet will continue to strive to deliver safe, reliable and economical electric and telecommunication services through excellent customer service.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Hopkinsville Electric System of the City of Hopkinsville, Kentucky'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, 2021 AND 2020

	2021	2020
ASSETS		
Capital assets		
Nondepreciable	$ 3,683,985	$ 2,299,752
Depreciable, net of accumulated depreciation	35,486,161	36,575,889
Net capital assets	39,170,146	38,875,641
Restricted assets		
Cash	2,294,877	3,382,930
Other assets		
Investment in affiliated organizations	544,838	478,320
Nonutility property	-	33,958
Heat pump loans	369,110	510,483
Total other assets	913,948	1,022,761
Current assets		
Cash - general funds	2,455,675	2,485,104
Accounts receivable (less accumulated provision for uncollectible accounts of $35,879 in 2021 and $32,087 in 2020)	2,428,789	2,517,829
Unbilled revenue	1,371,236	1,303,906
Inventories (at weighted-average cost)	649,878	673,128
Prepaid expenses	131,149	134,796
Other current assets	79,473	70,912
Total current assets	7,116,200	7,185,675
Deferred charges	113,594	140,943
Total assets	49,608,765	50,607,950
DEFERRED OUTFLOWS OF RESOURCES		
OPEB related	1,653,546	1,027,892
Pension related	2,164,015	2,601,123
Total deferred outflows of resources	3,817,561	3,629,015

Continued

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF NET POSITION, continued
JUNE 30, 2021 AND 2020

	2021	2020
LIABILITIES		
Current liabilities		
Revenue bonds payable	1,653,984	1,429,685
Accounts payable - purchased power	3,953,284	4,020,434
Accounts payable - other	621,086	379,899
Customer deposits	1,530,594	1,507,436
Accrued taxes	381,458	366,158
Accrued interest	78,741	80,642
Unearned revenue - MuniNet	160,351	173,759
Deferred revenue	437,384	496,263
Compensated absences	358,296	419,593
Other current & accrued liabilities	114,149	227,785
Total current liabilities	9,289,327	9,101,654
Noncurrent liabilities		
Revenue bonds payable	11,492,373	13,287,916
Compensated absences	153,556	178,931
Net OPEB liability	3,461,779	2,413,890
Net pension liability	10,998,968	10,096,217
Advances from others		
Conservation advances - TVA	380,036	523,459
Total noncurrent liabilities	26,486,712	26,500,413
Total liabilities	35,776,039	35,602,067
DEFERRED INFLOWS OF RESOURCES		
OPEB related	710,919	918,164
Pension related	229,780	488,875
Total deferred inflows of resources	940,699	1,407,039
NET POSITION		
Invested in capital assets, net of related debt	26,023,789	24,158,040
Restricted	2,294,877	3,382,930
Unrestricted	(11,609,078)	(10,313,111)
Total net position	$ 16,709,588	$ 17,227,859

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, 2021 AND 2020

	2021	2020
OPERATING REVENUES	$ 35,378,333	$ 37,481,929
OPERATING EXPENSES		
Cost of power	20,845,480	24,258,713
Cost of sales - telecommunications	921,100	817,565
Distribution		
Operation	2,859,360	2,822,754
Maintenance	1,248,547	1,288,711
Customer accounts	1,156,431	1,024,369
Sales	80,546	73,765
Administrative and general	4,204,202	4,022,252
Depreciation and amortization	2,831,675	2,471,162
Taxes	1,485,924	1,522,073
Total operating expenses	35,633,265	38,301,364
Net operating revenues (expenses)	(254,932)	(819,435)
NONOPERATING REVENUES (EXPENSES)		
Interest on long-term debt	(407,731)	(385,276)
Other interest	(18,956)	(34,401)
Amortization of debt expense	(27,263)	(29,250)
Interest income	16,415	94,344
Gain (loss) on sale of fixed assets	(1,516)	27,282
Other revenue (expenses)	175,712	83,879
Net nonoperating revenues (expenses)	(263,339)	(243,422)
Change in net position	(518,271)	(1,062,857)
Net position, beginning of year	17,227,859	18,290,716
Net position, end of year	$ 16,709,588	$ 17,227,859

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, 2021 AND 2020

	2021	2020
Cash flows from operating activities		
Receipts from customers and users	$ 35,391,482	$ 37,574,126
Payments to suppliers	(25,842,010)	(29,750,250)
Payments to employees	(4,031,469)	(3,809,500)
Payments of taxes	(1,470,624)	(1,529,010)
Net cash provided (used) by operating activities	4,047,379	2,485,366
Cash flows from capital financing activities		
Expenditures for utility plant	(3,359,515)	(4,597,171)
Net cost of retiring plant	97,278	(192,673)
Principal payments on long-term debt	(1,599,131)	(7,204,168)
Conservation advances from TVA	(143,423)	(60,152)
Proceeds from debt issuance	25,100	7,728,805
Bond issue cost from debt issuance	-	84,580
Deferred revenue - Dark Fiber lease	-	(60,634)
Interest paid	(425,713)	(408,707)
Net cash provided (used) by capital financing activities	(5,405,404)	(4,710,120)
Cash flows from investing activities		
Conservation loan receivable	141,373	55,243
Investment in affiliated organizations	(66,518)	(87,386)
Proceeds from the sale of nonutility property	32,440	-
Interest and other revenues	133,248	159,721
Net cash provided (used) by investing activities	240,543	127,578
Net increase (decrease) in cash	(1,117,482)	(2,097,176)
Cash, beginning of year	5,868,034	7,965,210
Cash, end of year	$ 4,750,552	$ 5,868,034

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, 2021 AND 2020

	2021	2020
Reconciliation of operating income to net cash provided by operating activities		
Net operating revenues	$ (254,932)	$ (819,435)
Adjustments to reconcile net operating revenues to net cash provided by operating activities		
Depreciation	2,967,732	2,506,417
Changes in assets and liabilities		
Receivables	89,040	49,331
Unbilled revenues	(67,330)	45,015
Materials and supplies	23,250	116,498
Prepaid expenses and other current assets	(4,914)	(7,560)
Accounts payable	174,037	(578,229)
Deferred pension and postemployment benefits amounts	1,295,754	1,310,094
Accrued taxes	15,300	(6,937)
Other current and accrued liabilities	(113,636)	13,279
Compensated absences	(86,672)	(136,212)
Customer deposits	23,158	6,514
Unearned revenue - MuniNet	(13,408)	(13,409)
Total adjustments	4,302,311	3,304,801
	$ 4,047,379	$ 2,485,366

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, Kentucky (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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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 $511,852 and $598,524 for the years ended June 30, 2021 and 2020, 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 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, 2021 and 2020.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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 nonoperating 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 positions represent the difference between the System's assets plus deferred outflows of resources and the System's liabilities plus deferred inflows of resources. Net positions are classified in the following categories.

- *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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Income Tax Status

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

Subsequent Events

Subsequent events have been evaluated through October 14, 2021, 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, 2021 follows:

	Balance June 30, 2020	Additions	Deductions	Balance June 30, 2021
Utility plant not depreciated				
Land	$ 283,389	$ -	$ -	$ 283,389
Construction in progress - electric	1,708,047	1,151,813	-	2,859,860
Construction in progress - telecommunications	308,316	1,573,447	1,341,027	540,736
Total utility plant not depreciated	2,299,752	2,725,260	1,341,027	3,683,985
Utility plant depreciated				
Transmission plant	730,867	-	-	730,867
Distribution plant	31,866,640	874,588	194,734	32,546,494
General plant	14,962,345	204,132	23,228	15,143,249
Telecommunications plant	15,103,729	896,562	270,972	15,729,319
Total utility plant depreciated	62,663,581	1,975,282	488,934	64,149,929
Accumulated depreciation	(26,087,692)	(2,976,002)	399,926	(28,663,768)
Total utility plant depreciated, net	36,575,889	(1,000,720)	89,008	35,486,161
Total utility plant	$ 38,875,641	$ 1,724,540	$ 1,430,035	$ 39,170,146

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, 2020 follows:

	Balance June 30, 2019	Additions	Deductions	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

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
Vehicles	VAR
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, 2021 and 2020 are summarized as follows:

	2021	2020
Accumulated provision for depreciation, July 1	$ 26,087,692	$ 24,647,213
Add		
Depreciation charged directly to expense	2,895,279	2,424,396
Depreciation charged to transportation - clearing	72,453	82,021
Other additions	8,270	16,145
Subtotal	29,063,694	27,169,775
Deduct		
Original cost of plant retired	296,742	716,694
Cost of removal less salvage	197,330	341,590
Salvage	(99,695)	(60,869)
Other subtractions	5,549	84,668
Total charges against provision	399,926	1,082,083
Accumulated provision for depreciation, June 30	$ 28,663,768	$ 26,087,692

NOTE 3 – CASH AND CASH EQUIVALENTS

At June 30, 2021, the System's deposits in depository institutions had a carrying amount of $4,750,552 and bank balances of $4,903,600. At June 30, 2021, the deposits were covered entirely by FDIC insurance or a properly executed collateral security agreement. 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.

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:

	2021	2020
Change funds	$ 1,745	$ 1,750
Checking accounts	2,444,385	2,473,809
TVA power bill early payment	169	169
Other	9,376	9,376
Total	$ 2,455,675	$ 2,485,104

Restricted cash at June 30 consisted of:

	2021	2020
2007 Telecom bond issue fund	$ 4	$ 4
Series 2018 note proceeds	1,522,866	2,732,501
KIA 2008 maintenance and replacement	162,539	151,445
First Financial Health Plan	77,877	-
2020 Bond issue	531,591	498,980
Total investments	$ 2,294,877	$ 3,382,930

Operation and maintenance funds established by bond ordinances are reserves 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, 2021 and 2020, 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:

	2021	2020
Accounts receivable		
Electric	$ 2,415,609	$ 2,490,746
Other miscellaneous	49,059	59,170
	2,464,668	2,549,916
Less		
Reserve for uncollectible accounts	(35,879)	(32,087)
Total net receivables	$ 2,428,789	$ 2,517,829

NOTE 4 – RECEIVABLES, continued

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

	June 30, 2021		June 30, 2020	
	Amount	Percent	Amount	Percent
Accounts having discount dates after June 30	$ 381,050	15.46%	$ 387,746	15.21%
Accounts less than one month past due	1,909,370	77.47%	1,854,398	72.72%
Accounts 31 to 60 days past due	87,141	3.54%	132,051	5.18%
Accounts 61 to 90 days past due	15,727	0.64%	55,546	2.18%
Accounts over 90 days past due	71,380	2.90%	120,175	4.71%
	$ 2,464,668	100.00%	$ 2,549,916	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, 2021. 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:

	2021	2020
Beginning balance	$ 32,087	$ 27,036
Monthly additions and adjustments	3,792	5,051
Charge-off of bad accounts	-	-
Balance, June 30	$ 35,879	$ 32,087

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:

	2021	2020
Deferred costs on bond issue - 2007	$ 20,792	$ 30,771
Deferred costs on bond issue - 2013 KLC	13,015	18,053
Deferred costs on bond issue - 2018	-	8,949
Deferred costs on bond issue - 2020	79,787	83,170
Total	$ 113,594	$ 140,943

NOTE 7 – LONG-TERM OBLIGATIONS

Issue Date	Proceeds	Rates	Maturity Date
Series 2007	$ 10,189,500	3.62%	8/1/2023
Series 2013	3,000,000	0.70%	6/1/2023
Series 2013A	1,055,000	2.00%	2/1/2024
Series 2018	2,500,000	1.75%	6/1/2040
Series 2018	1,800,000	3.00%	6/1/2040
Series 2020	6,445,000	2.00%	2/1/1945

All the revenue bonds are payable solely from and secured by revenues. So long as any of the bonds are outstanding and unpaid, the System will ensure that the electric and telecom plant be continuously operated and maintained in good condition, and rates and charges of services rendered will be imposed and collected so that gross revenues will be sufficient at all times to provide for the payment of the operation and maintenance of the electric and telecom plant.

On February 5, 2020, the System issued Series 2020 revenue bonds in the amount of $6,445,000 with interest rates of 2.00%. 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.

During fiscal year 2021, the remaining KIA loan C18-008 funds in the amount of $25,100 were received. KIA loans B18-009 and C18-008 were converted to permanent loans.

NOTE 7 – LONG-TERM OBLIGATIONS, continued

The changes in outstanding debt as of June 30, 2021 follows:

	Balance July 1, 2020	Additions	Deductions	Balance June 30, 2021	Amounts Due Within One Year
Revenue bonds	$ 14,730,866	$ 25,100	$ 1,599,131	$ 13,156,835	$ 1,651,108
Premium (discount)	(13,265)	-	(2,787)	(10,478)	2,876
Compensated absences	598,524	-	86,672	511,852	358,296
Net OPEB liability	2,413,890	1,047,889	-	3,461,779	-
Net pension liability	10,096,217	902,751	-	10,998,968	-
Total long-term liabilities	$ 27,826,232	$ 1,975,740	$ 1,683,016	$ 28,118,956	$ 2,012,280

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

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020	Amounts Due Within One Year
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)	2,787
Compensated absences	734,736	-	136,212	598,524	419,593
Net OPEB liability	2,390,098	23,792	-	2,413,890	-
Net pension liability	8,198,890	1,897,327	-	10,096,217	-
Total long-term liabilities	$ 25,434,487	$ 9,729,458	$ 7,337,713	$ 27,826,232	$ 1,849,278

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:

	2021	2020
Series 2007	$ 2,667	$ 2,667
Series 2020	209	87
	$ 2,876	$ 2,754

NOTE 7 – LONG-TERM OBLIGATIONS, continued

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:

	2021	2020
Series 2007	$ 9,980	$ 9,980
Series 2013	5,038	5,038
Series 2018	8,949	12,741
Series 2020	3,296	1,497
	$ 27,263	$ 29,256

The following represents principal and interest payments on outstanding debt:

	Series 2007		
	Principal	Interest	Total
2022	$ 870,553	$ 73,605	$ 944,158
2023	911,438	33,365	944,803
2024	156,023	1,516	157,539
	$ 1,938,014	$ 108,486	$ 2,046,500

	KIA 2013			Series 2013A		
	Principal	Interest	Total	Principal	Interest	Total
2022	$ 307,367	$ 3,781	$ 311,148	$ 112,083	$ 5,227	$ 117,310
2023	309,520	1,626	311,146	79,584	2,427	82,011
2024	-	-	-	17,500	438	17,938
	$ 616,887	$ 5,407	$ 622,294	$ 209,167	$ 8,092	$ 217,259

(table continued)

NOTE 7 – LONG-TERM OBLIGATIONS, continued

	KIA B18-009			KIA C18-008		
	Principal	Interest	Total	Principal	Interest	Total
2022	$ 107,250	$ 41,438	$ 148,688	$ 68,855	$ 51,482	$ 120,337
2023	109,136	39,553	148,689	70,936	49,401	120,337
2024	111,054	37,636	148,690	73,080	47,257	120,337
2025	113,006	35,683	148,689	75,288	45,048	120,336
2026	114,992	33,696	148,688	77,565	42,772	120,337
2027-2031	605,997	137,446	743,443	424,440	177,249	601,689
2032-2036	661,161	82,286	743,447	492,581	109,108	601,689
2037-2041	572,006	22,752	594,758	450,420	30,932	481,352
	$ 2,394,602	$ 430,490	$ 2,825,092	$ 1,733,165	$ 553,249	$ 2,286,414

	Series 2020			All Series Combined		
	Principal	Interest	Total	Principal	Interest	Total
2022	$ 185,000	$ 167,438	$ 352,438	$ 1,651,108	$ 342,971	$ 1,994,079
2023	190,000	160,038	350,038	1,670,614	286,410	1,957,024
2024	200,000	152,438	352,438	557,657	239,285	796,942
2025	205,000	144,437	349,437	393,294	225,168	618,462
2026	215,000	136,238	351,238	407,557	212,706	620,263
2027-2031	1,175,000	574,188	1,749,188	2,205,437	888,883	3,094,320
2032-2036	1,310,000	440,417	1,750,417	2,463,742	631,811	3,095,553
2037-2041	1,470,000	281,688	1,751,688	2,492,426	335,372	2,827,798
2042-2046	1,315,000	87,018	1,402,018	1,315,000	87,018	1,402,018
	$ 6,265,000	$ 2,143,900	$ 8,408,900	$ 13,156,835	$ 3,249,624	$ 16,406,459

NOTE 8 – LINE OF CREDIT

On May 1, 2020, 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, 2021 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 $380,036 and $523,459 as of June 30, 2021 and 2020, 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. Effective April 1, 2021, administration of CERS was transferred from the Kentucky Retirement Systems Board of Trustees to the CERS board of trustees established by House Bill 484, which created a new section of Kentucky Revised Statute 61.510 to 61.705.

The administrative entity comprising the office of counselors and professional staff that has traditionally been known as Kentucky Retirement System has changed its name to the Kentucky Public Pensions Authority (KPPA). The entity issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained on the KPPA website at www.kyret.ky.gov or by writing to Kentucky Public Pensions Authority, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124.

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. Cost of living (COLA) adjustments are provided at the discretion of the State legislature. 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 October 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%

NOTE 10 – PENSION PLANS, continued

Tier 2	Participation date	October 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

Contributions – Contribution rates are established by the Kentucky Revised Statutes. For the fiscal year ended June 30, 2021 and 2020, participating employers contributed 19.30% and 19.30%, respectively, of each employee's creditable compensation. The actuarially determined contribution requirements of plan members and the Board were established and could be amended by the Kentucky Systems Board of Trustees.

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

At June 30, 2021 and 2020, the System reported a liability of $10,998,968 and $10,096,217, respectively, for its proportionate share of the net pension liability. The net pension liability of the plan was measured as of June 30, 2020 and 2019, 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, 2021 and 2020, the System's proportion was 0.143404% and 0.143554%, respectively.

NOTE 10 – PENSION PLANS, continued

For the years ended June 30, 2021 and 2020, the System recognized pension expense of $1,842,108 and $1,962,480, respectively, related to CERS. At June 30, 2021 and 2020, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 274,279	$ -	$ 257,787	$ 42,659
Changes in assumptions	429,491	-	1,021,852	-
Net difference between projected and actual earnings on pension plan investments	476,768	201,533	193,808	356,563
Changes in proportion and differences between contributions and proportionate share of contributions	222,131	28,247	418,731	89,653
System's contributions subsequent to the measurement date	761,346	-	708,945	-
Total	$ 2,164,015	$ 229,780	$ 2,601,123	$ 488,875

The amounts of $761,346 and $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, 2022 and 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	
2021	$ 570,916
2022	357,483
2023	133,950
2024	110,540
2025	-
Thereafter	-
Total	$ 1,172,889

NOTE 10 – PENSION PLANS, continued

Actuarial assumptions

Fiscal year June 30, 2021 – The total pension liability, net pension liability and sensitivity information for the actuarial valuation as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled forward from the valuation date (June 30, 2019) to the plan's fiscal year ended June 30, 2020, using generally accepted actuarial principles. An actuarial experience study was conducted for the five-year period July 1, 2013 to June 30, 2018, and the Board adopted updated assumptions for first use in the June 30, 2019 actuarial valuation.

Fiscal year June 30, 2020 – The total pension liability, net pension liability and sensitivity information for the actuarial valuation as of June 30, 2019 were based on an actuarial valuation date of 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.

The valuation utilized the assumptions, as listed below.

	Measurement Period	
	2020	2019
Inflation	2.30%	2.30%
Projected salary increases, average, including inflation	3.30 to 11.55%	3.30 to 11.55%
Investment rate of return, net of plan investment expense, including inflation	6.25%	6.25%

House Bill 271 passed during the 2020 legislative session which removed provisions that reduce the monthly payment to a surviving spouse of a member whose death was due to an in line of duty or duty-related injury upon remarriage of the surviving spouse. It also increased benefits for a very small number of surviving spouses and dependent children who did not initially elect the in line of duty or duty-related benefit. There were no other material benefit provision changes since the prior valuation.

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.

NOTE 10 – PENSION PLANS, continued

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:

Measurement Period 2020 Asset Class	Target Allocation	Long-term Expected Real Rate of Return
US equity	18.75%	4.50%
International equity	18.75%	5.26%
Core bonds	13.50%	-0.25%
High yield	15.00%	3.90%
Opportunistic	3.00%	2.25%
Real estate	5.00%	5.30%
Real return	15.00%	3.95%
Private equity	10.00%	6.65%
Cash	1.00%	-0.75%
Total	100.00%	

Measurement Period 2019 Asset Class	Target Allocation	Long-term Expected Real Rate of 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%	

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, 2020 and 2019 was 6.25% and 6.25%, respectively. The projection of cash flows used to determine the single discount rate must include an assumption regarding actual employer contributions made each future year. The future contributions are projected assuming that each participating employer contributes the actuarially determined employer contribution rate each future year calculated in accordance with the current funding policy, as most recently revised by Senate Bill 249, passed during the 2020 Legislative Session. This includes the phase-in provisions from House Bill 362 (passed in 2020) which kept CERS contributions level for fiscal year ended 2021.

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
2021	5.25%	6.25%	7.25%
System's proportionate share of net pension liability	$ 13,564,121	$ 10,998,968	$ 8,874,924
2020	5.25%	6.25%	7.25%
System's proportionate share of net pension liability	$ 12,627,504	$ 10,096,217	$ 7,986,414

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, 2021, 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, 2021.

<u>System's Thrift Plan</u>

Plan description – The System's employees hired after October 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 $132,289 and $120,036 in the years ended June 30, 2021 and 2020, respectively, are charged monthly to plant and expense in the same ratio as payroll.

NOTE 11 – OTHER POSTEMPLOYMENT 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. 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. Effective April 1, 2021, administration of the Insurance Fund was transferred from the Kentucky Retirement Systems Board of Trustees to the CERS board of trustees established by House Bill 484.

The administrative entity comprising the office of counselors and professional staff that has traditionally been known as Kentucky Retirement System has changed its name to the Kentucky Public Pensions Authority (KPPA). The entity issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained on the KPPA website at www.kyret.ky.gov or by writing to Kentucky Public Pensions Authority, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124.

Benefits provided – The KPPA' 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. KPPA submits the premium payments to DEI. The Board contracts with Humana to provide healthcare 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 KPPA board is a percentage of each employee's creditable compensation. For the years ended June 30, 2021 and 2020, required contributions were 4.76% and 4.76%, respectively, of each employee's covered payroll. Contributions from the System to the CERS Insurance Fund for the years ended June 30, 2021 and 2020, were $187,772 and $174,848, respectively. The KPPA 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 KPPA board. Employees qualifying as Tier 2 and Tier 3 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 KPPA 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 healthcare benefits to retirees under age 65 is higher than the average cost of providing healthcare 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 POSTEMPLOYMENT BENEFITS (OPEB), continued

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

At June 30, 2021 and 2020, the System reported a liability of $3,461,780 and $2,413,891, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020 and 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The total OPEB liability was rolled forward from the valuation date to the plan's fiscal year end, June 30, 2020, 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, 2021 and 2020, the System's proportion for the non-hazardous system was 0.143363% and 0.143517%, respectively.

For the year ended June 30, 2021 and 2020, the System recognized OPEB expense of $474,805 and $273,367. At June 30, 2021 and 2020, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 578,391	$ 578,843	$ -	$ 728,327
Changes of assumptions	602,145	3,662	714,293	4,776
Net difference between projected and actual earnings on OPEB plan investments	185,699	70,638	15,900	123,114
Changes in proportion and differences between employer contributions and proportionate share of contributions	99,539	57,776	122,851	61,947
System's contributions subsequent to the measurement date	187,772	-	174,848	-
Total	$ 1,653,546	$ 710,919	$ 1,027,892	$ 918,164

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

The amounts of $187,772 and $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, 2022 and 2021.

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

Years Ending June 30	
2021	$ 195,724
2022	229,775
2023	164,527
2024	166,898
2025	(2,069)
Thereafter	-
Total	$ 754,855

Actuarial assumptions

Fiscal year June 30, 2021 – The total OPEB liability, net OPEB liability and sensitivity information for the actuarial valuation as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total OPEB liability was rolled forward from the valuation date (June 30, 2019) to the plan's fiscal year ended June 30, 2020, using generally accepted actuarial principles. An actuarial experience study was conducted for the five-year period July 1, 2013 to June 30, 2018, and the Board adopted updated assumptions for first use in the June 30, 2019 actuarial valuation. The assumed increase in future healthcare costs, or trend assumption, is reviewed on an annual basis and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. The assumed impact of the Cadillac Tax (previously a 0.90% load on employer paid non-Medicare premiums for those who became participants prior to July 1, 2003) was removed to reflect its repeal since the prior valuation.

Fiscal year June 30, 2020 – The total OPEB liability, net OPEB liability and sensitivity information as of June 30, 2019 were based on an actuarial valuation date of June 30, 2018. The total OPEB 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.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

June 30, 2020	
Payroll growth rate	2.00%
Inflation	2.30%
Salary increase	3.30% to 11.55%, 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 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

June 30, 2019	
Payroll growth rate	2.00%
Inflation	2.30%
Salary increase	3.30% to 11.55%, 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 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

The mortality table used for active members is PUB-2010 General Mortality Table projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For healthy retired members, the mortality table used is the 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. For disabled members, the mortality table used is 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.

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.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

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

Measurement Period 2020 Asset Class	Target Allocation	Long-term Expected Real Rate of Return
US equity	18.75%	4.50%
International equity	18.75%	5.26%
Core bonds	13.50%	-0.25%
High yield	15.00%	3.90%
Opportunistic	3.00%	2.25%
Real estate	5.00%	5.30%
Real return	15.00%	3.95%
Private equity	10.00%	6.65%
Cash	1.00%	-0.75%
Total	100.00%	

Measurement Period 2019 Asset Class	Target Allocation	Long-term Expected Real Rate of 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%	

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

Discount rate – The discount rate used to measure the total OPEB liability for the years ended June 30, 2021 and 2020 was 5.34% and 5.68% for non-hazardous and 5.30% and 5.69% for hazardous, respectively. The future contributions are projected in accordance with the current funding policy, as most recently revised by Senate Bill 249 (passed in 2020). The cost associated with the implicit employer subsidy was not included in the calculation of the Kentucky Retirement System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the Kentucky Retirement System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. There was a change in the Municipal Bond Index Rate from the prior measurement date, so as required under GASB 75, the single discount rate at the measurement date of 5.34% for non-hazardous was calculated using the Municipal Bond Index Rate as of the measurement date of 2.45%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2020. This change in the discount rate is considered a change in actuarial assumptions or other inputs under GASB 75.

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 or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
2021	4.34%	5.34%	6.34%
System's proportionate share of net OPEB liability	$ 4,447,372	$ 3,461,779	$ 2,652,282
2020	4.68%	5.68%	6.68%
System's proportionate share of net OPEB liability	$ 3,233,621	$ 2,413,891	$ 1,738,488

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

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:

2021	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
System's proportionate share of net OPEB liability	$ 2,680,283	$ 3,461,779	$ 4,410,146
2020			
System's proportionate share of net OPEB liability	$ 1,795,223	$ 2,413,891	$ 3,164,100

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, 2021.

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, 2021 and 2020:

	2021	2020
Accrued pole rentals	$ 59,305	$ 48,418
Accrued payroll	54,844	179,367
	$ 114,149	$ 227,785

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 for the years ended June 30, 2021 and 2020 was 69.7% and 74.7%, respectively. TVA implemented a Grid Access Charge (GAC) in October 2019. The GAC allows TVA to recover their fixed cost and lower the wholesale energy rate by $.005/kWh. The GAC is based on the previous 5 years' standard service kWh purchases. TVA permitted the System to add a risk premium charge onto the retail energy rate to mitigate the GAC increase and to prevent the System from suffering a net loss. The System signed a 20-year agreement with TVA in September 2019 which included a 3.1% partnership credit on wholesale standard service energy and demand charges.

Fuel Cost Adjustment (FCA) – 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 and to meet government environmental standards. The charge is a fixed amount of $0.00186 per kWh, under the MTOU rate structure. The charge was set 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 through October 2020. The municipal utility implemented a 1.5% local rate increase in energy charges October 2017. In October 2021, the System will implement a customer service charge increase, increase the GSA-1 revenue by 1%, lower GSA-2 revenue by 0.61%, increase the first 50 kW demand charge in GSA-2 class by $1/kW and lower first block of energy by same amount of revenue. These 2021 changes will be revenue neutral for the System.

Pandemic Relief Credit – For the second year, the TVA Board has approved a 2.5% base rate credit to begin October 2021 through September 2022 for all TVA local power companies and direct served customers. The pandemic relief credit will provide an estimated $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 October 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 $13,408 and $13,409 during the fiscal years ended June 30, 2021 and 2020 on the $245,069 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 $61,518 and $82,386 for administrative and operating costs during fiscal years ended June 30, 2021 and 2020.

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

	2021	2020
Initial investment	$ 5,000	$ 5,000
Project 2 Investment in MuniNet		
Beginning balance July 1	478,320	390,934
Program revenue	-	-
Costs incurred	61,518	82,386
	539,838	473,320
Ending balance June 30	$ 544,838	$ 478,320

NOTE 16 – RISKS AND UNCERTANTIES

The outbreak of the COVID-19 pandemic has resulted in governments and customers enacting emergency measures to combat the spread of the virus. The System continued to serve customers who did not pay, and the state government subsequently issued an order requiring utilities to offer payment plans to customers with past due account balances. It is not currently possible to estimate the length, severity or financial impact of these developments in the future. Any prolonged restrictive measures put in place in order to contain the outbreak of the virus could adversely affect the System's financial results.

NOTE 17 – RECENT ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 87, *Leases (GASB 87)*, increases the usefulness of governments' financial statements by requiring recognition in the statements of certain leased assets and related liabilities that previously were classified as operating leases which recognized inflows or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financing arrangements for the right to use an underlying asset. GASB 87 will be effective for reporting periods beginning after June 15, 2021. GASB No. 87 will only change the title of "capital leases" to "financed purchases" in the System's financial reporting.

In June, 2018, the GASB issued Statement 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. GASB 89 requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions of this statement were supposed to take effect for the System's financial statements for the fiscal year ending June 30, 2021; however, this statement is now postponed to the fiscal year ending June 30, 2022.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for fiscal years beginning after June 15, 2022. This standard will require similar recognition of the right-to-use a subscription to intangible assets and the corresponding subscription liability that is provided for long-term leases in GASB No. 87. The System will review its current IT subscription services to evaluate the impact of this standard, but since the recognized value for the intangible assets is generally the same as the corresponding subscription liability, there will be minimal financial impact for the System.

NOTE 18 – SUBSEQUENT EVENTS

In June 2021, the System was awarded $2,300,000 in total grants from Christian, Todd and Trigg County Fiscal Courts. The funds are a part of the county government's CARES Act funds and are to be used to expand fiber broadband service in their respective counties. The System will use these funds for a $8,300,000 project to expand service in these areas, as a partner with Pennyrile Rural Electric Cooperative Corporation (PRECC) in conjunction with the existing dark fiber lease agreement. The remaining $6,000,000 of the project that will not be covered by the grant will be paid with a bond issue.

In September 2021, a $10,000,000 bond resolution was approved by the System. Funds will be used to fund the fiber broadband service expansion project with PRECC and to expand fiber to the home service in the System's service area.

REQUIRED SUPPLEMENTARY INFORMATION

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE OF NET LIABILITY – PENSION
COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)

As of June 30	2021	2020	2019	2018	2017	2016	2015
System's proportion of net pension liability (asset)	0.143404%	0.143554%	0.134622%	0.139034%	0.129410%	0.130320%	0.127380%
System's proportion share of net pension liability (asset)	$ 10,998,968	$ 10,096,217	$ 8,198,890	$ 8,138,087	$ 6,371,513	$ 5,603,152	$ 4,224,200
System's covered-employee payroll	$ 3,673,288	$ 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	299.43%	278.82%	245.73%	240.41%	206.40%	187.43%	161.29%
Plan fiduciary net position as a percentage of total pension liability	47.81%	50.45%	54.54%	53.32%	55.50%	59.97%	66.80%

Note: Information prior to 2015 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the System's measurement date which is the prior year-end.

Plan refers to entire plan for KPPA, not individual employers/members.

See accompanying notes to the required supplementary information

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF EMPLOYER CONTRIBUTIONS – PENSION
COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)

For the year ended June 30	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 761,346	$ 708,945	$ 587,332	$ 483,139	$ 632,342	$ 526,645	$ 528,249
Contributions in relation to the contractually required contribution	761,346	708,945	587,332	483,139	632,342	526,645	528,249
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
System's covered employee payroll	$ 3,944,797	$ 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%	19.30%	16.22%	14.48%	13.95%	12.42%	12.75%

Note: Information prior to 2015 was unavailable. Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.

See accompanying notes to the required supplementary information

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION
COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)

Changes in benefit terms

2020

House Bill 271 passed during the 2020 Legislative Session and removed provisions that reduce the monthly payment to a surviving spouse of a member whose death was due to a duty-related injury upon remarriage of the spouse. It also increased benefits for a very small number of beneficiaries.

2019

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 3.05% to 2.00%.

Changes of assumptions

No changes.

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE OF NET LIABILITY – OPEB
COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)

As of June 30	2021	2020	2019	2018
System's proportion of net OPEB liability (asset)	0.143363%	0.143517%	0.134617%	0.139034%
System's proportionate share of OPEB liability (asset)	$ 3,461,780	$ 2,413,891	$ 2,390,098	$ 2,795,059
System's covered - employee payroll	$ 3,673,288	$ 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	106.11%	150.01%	139.60%	121.11%
Plan fiduciary net position as a percentage of total OPEB liability	51.67%	60.44%	57.62%	52.40%

Note: Information prior to 2018 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the System's measurement date which is the prior year-end.

Plan refers to entire plan for KPPA, not individual employers/members.

See accompanying notes to the required supplementary information

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF EMPLOYER CONTRIBUTIONS – OPEB
COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)

For the year ended June 30	2021	2020	2019	2018
Contractually required OPEB contribution	$ 187,772	$ 174,848	$ 190,467	$ 156,819
Contributions in relation to the contractually required contribution	187,772	174,848	190,467	156,819
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
System's covered-employee payroll	$ 3,944,797	$ 3,673,288	$ 3,621,038	$ 3,336,593
Contributions as a percentage of covered-employee payroll	4.76%	4.76%	5.26%	4.70%

Note: Information prior to 2018 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying notes to the required supplementary information

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – OPEB
COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)

Changes in benefit terms

No changes.

Changes of assumptions

2020

- The single discount rate of non-hazardous changed from 5.68% to 5.34%.
- The municipal bond rate decreased from 3.13% to 2.45%.
- The assumed increase in future healthcare costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs.
- The June 30, 2020 actuarial information reflects the anticipated savings from the repeal of the “Cadillac Tax and “Health Insurer Fee”, which occurred in December of 2019. The assumed loan on pre-Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee.

2019

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total OPEB liability have been updated as follows:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 3.05% to 2.00%.

ADDITIONAL INFORMATION

HOKINSVILLE ELCTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMBINED SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021

	ELECTRIC	TELECOM	TOTAL
OPERATING REVENUES	$ 30,685,173	$ 4,693,160	$ 35,378,333
OPERATING EXPENSES			
Cost of power	20,845,480	-	20,845,480
Cost of sales - telecom	-	921,100	921,100
Distribution			
Operation	1,272,199	1,587,161	2,859,360
Maintenance	1,190,032	58,515	1,248,547
Customer accounts	977,798	178,633	1,156,431
Sales	38,372	42,174	80,546
Administrative and general	3,048,471	1,155,731	4,204,202
Depreciation and amortization	1,952,280	879,395	2,831,675
Taxes	1,408,607	77,317	1,485,924
Total operating expenses	30,733,239	4,900,026	35,633,265
Net operating revenues	(48,066)	(206,866)	(254,932)
NONOPERATING REVENUES (EXPENSES)			
Interest on long-term debt	(261,760)	(145,971)	(407,731)
Other interest	(18,956)	-	(18,956)
Amortization of debt expense	(23,570)	(3,693)	(27,263)
Interest income	16,071	344	16,415
Gain (loss) on sale of fixed assets	(1,516)	-	(1,516)
Other income (expenses)	175,712	-	175,712
Net nonoperating revenues (expenses)	(114,019)	(149,320)	(263,339)
Change in net position	(162,085)	(356,186)	(518,271)
Net position, beginning of year	14,919,491	2,308,368	17,227,859
Net position, end of year	$ 14,757,406	$ 1,952,182	$ 16,709,588

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUKCY
COMPARATIVE SCHEDULES OF REVENUES AND EXPENSES – ELECTRIC
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	ELECTRIC 2021	ELECTRIC 2020	VARIANCE FAVORABLE (UNFAVORABLE)
OPERATING REVENUES	$ 30,685,173	$ 33,361,469	$ (2,676,296)
OPERATING EXPENSES			
Cost of power	20,845,480	24,258,713	3,413,233
Distribution			
Operation	1,272,199	1,450,641	178,442
Maintenance	1,190,032	1,256,511	66,479
Customer accounts	977,798	828,675	(149,123)
Sales	38,372	36,716	(1,656)
Administrative and general	3,048,471	2,941,549	(106,922)
Depreciation and amortization	1,952,280	1,896,337	(55,943)
Taxes	1,408,607	1,448,964	40,357
Total operating expenses	30,733,239	34,118,106	3,384,867
Net operating revenues	(48,066)	(756,637)	708,571
NONOPERATING REVENUES (EXPENSES)			
Interest on long-term debt	(261,760)	(277,330)	15,570
Other interest	(18,956)	(34,401)	15,445
Amortization of debt expense	(23,570)	(25,557)	1,987
Interest income	16,071	93,680	(77,609)
Gain (loss) on sale of fixed assets	(1,516)	27,282	(28,798)
Other revenues (expenses)	175,712	83,879	91,833
Net nonoperating revenues (expenses)	(114,019)	(132,447)	18,428
Change in net position	$ (162,085)	$ (889,084)	$ 726,999

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMPARATIVE SCHEDULES OF REVENUES AND EXPENSES – TELECOMMUNICATIONS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	TELECOM 2021	TELECOM 2020	VARIANCE FAVORABLE (UNFAVORABLE)
OPERATING REVENUES	$ 4,693,160	$ 4,120,460	$ 572,700
OPERATING EXPENSES			
Cost of sales - telecom	921,100	817,565	(103,535)
Distribution			
Operation	1,587,161	1,372,113	(215,048)
Maintenance	58,515	32,200	(26,315)
Customer accounts	178,633	195,694	17,061
Sales	42,174	37,049	(5,125)
Administrative and general	1,155,731	1,080,703	(75,028)
Depreciation and amortization	879,395	574,825	(304,570)
Taxes	77,317	73,109	(4,208)
Total operating expenses	4,900,026	4,183,258	(716,768)
Net operating revenues	(206,866)	(62,798)	(144,068)
NONOPERATING REVENUES (EXPENSES)			
Interest on long-term debt	(145,971)	(107,946)	(38,025)
Amortization of debt expense	(3,693)	(3,693)	-
Interest income	344	664	(320)
Net nonoperating revenues (expenses)	(149,320)	(110,975)	(38,345)
Change in net position	$ (356,186)	$ (173,773)	$ (182,413)

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

	Year Ended June 30, 2021 Amount	Year Ended June 30, 2021 Percent	Year Ended June 30, 2020 Amount	Year Ended June 30, 2020 Percent	Increase (Decrease)
Distribution Operation					
Supervision and engineering	$ 122,871	0.40 %	$ 111,767	0.34 %	$ 11,104
Station expense	87,994	0.29	75,815	0.23	12,179
Overhead lines expense	536,464	1.75	619,130	1.86	(82,666)
Street light and signal system expense	1,792	0.01	4,295	0.01	(2,503)
Meter expense	113,518	0.37	111,472	0.33	2,046
Customer installation expense	32,545	0.11	28,183	0.08	4,362
Miscellaneous distribution expense	7,733	0.03	8,071	0.02	(338)
Rents	369,282	1.20	491,908	1.47	(122,626)
Total distribution operation	$ 1,272,199	4.15 %	$ 1,450,641	4.35 %	$ (178,442)
Distribution Maintenance					
Supervision and engineering	$ 32,862	0.11 %	$ 32,675	0.10 %	$ 187
Substations	11,515	0.04	851	0.00	10,664
Overhead lines	1,099,727	3.58	1,145,911	3.43	(46,184)
Underground services	4,808	0.02	6,149	0.02	(1,341)
Transformers	30,878	0.10	50,376	0.15	(19,498)
Street light and signal system	10,242	0.03	20,115	0.06	(9,873)
Meters	-	0.00	434	0.00	(434)
Total distribution maintenance	$ 1,190,032	3.88 %	$ 1,256,511	3.77 %	$ (66,479)
Customer Accounts					
Meter reading	$ 54,677	0.18	$ 60,621	0.18	(5,944)
Customer records and collection expense	712,208	2.32	666,977	2.00	45,231
Uncollectible accounts	144,824	0.47	33,150	0.10	111,674
Miscellaneous customer accounting	2,909	0.01	3,029	0.01	(120)
Customer assistance expense	25,686	0.08	28,772	0.09	(3,086)
Information and instructional advertising	37,494	0.12	36,126	0.11	1,368
Total customer accounts	$ 977,798	3.19 %	$ 828,675	2.48 %	$ 149,123

Continued

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

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	Year Ended June 30, 2021			Year Ended June 30, 2020			Increase
	Amount	Percent		Amount	Percent		(Decrease)
Sales Expense							
Demonstrating and selling expense	$ 26,712	0.09	%	$ 23,210	0.07	%	$ 3,502
Advertising expense	10,933	0.04		12,749	0.04		(1,816)
Miscellaneous	727	0.00		757	0.00		(30)
Total sales expense	$ 38,372	0.13	%	$ 36,716	0.11	%	$ 1,656
Administrative and General							
Administrative and office salaries	$ 557,549	1.82	%	$ 512,023	1.53	%	$ 45,526
Office supplies and expense	186,219	0.61		208,899	0.63		(22,680)
Outside services employed	84,754	0.28		67,709	0.20		17,045
Property insurance	106,657	0.35		99,521	0.30		7,136
Injuries and damages	43,344	0.14		56,424	0.17		(13,080)
Employees pension and other benefits	2,025,046	6.60		1,950,489	5.85		74,557
Duplicate charges (credit)	(124,738)	(0.41)		(118,874)	(0.36)		(5,864)
Regulatory commission expense	400	0.00		-	0.00		400
Miscellaneous general expense	88,552	0.29		92,738	0.28		(4,186)
Maintenance	80,688	0.26		72,620	0.22		8,068
Total administrative and general	$ 3,048,471	9.93	%	$ 2,941,549	8.82	%	$ 106,922

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

	Year Ended June 30, 2021		Year Ended June 30, 2020		Increase
	Amount	Percent	Amount	Percent	(Decrease)
Distribution Operation					
Supervision and engineering	$ 115,916	2.47 %	$ 120,702	2.93 %	$ (4,786)
Hub expenses	36,239	0.77	38,829	0.94	(2,590)
Overhead cable expense	806,014	17.17	592,901	14.39	213,113
Customer installation expense	312,197	6.65	287,809	6.98	24,388
Miscellaneous distribution expense	291	0.01	305	0.01	(14)
Rents	316,504	6.74	331,567	8.05	(15,063)
Total distribution operation	$ 1,587,161	33.82 %	$ 1,372,113	33.30 %	$ 215,048
Distribution Maintenance					
Supervision and engineering	$ 27,497	0.59 %	$ 14,780	0.36 %	$ 12,717
Hub expenses	26,203	0.56	16,215	0.39	9,988
General maintenance	4,711	0.10	1,205	0.03	3,506
Maintenance underground services	104	0.00	-	0.00	104
Total distribution maintenance	$ 58,515	1.25 %	$ 32,200	0.78 %	$ 26,315
Customer Accounts					
Billing expense	$ 71,581	1.53 %	$ 70,543	1.71 %	$ 1,038
Customer records and collection expense	86,655	1.85	82,192	1.99	4,463
Uncollectible accounts	14,137	0.30	35,883	0.87	(21,746)
Customer assistance expense	6,260	0.13	7,076	0.17	(816)
Total customer accounts	$ 178,633	3.81 %	$ 195,694	4.75 %	$ (17,061)

Continued

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

	Year Ended June 30, 2021		Year Ended June 30, 2020		Increase
	Amount	Percent	Amount	Percent	(Decrease)
Sales Expense					
Demonstrating and selling expense	$ 14,024	0.30 %	$ 13,335	0.32 %	$ 689
Advertising expense	28,150	0.60	23,714	0.58	4,436
Total sales expense	$ 42,174	0.90 %	$ 37,049	0.90 %	$ 5,125
Administrative and General					
Administrative and office salaries	$ 115,080	2.45 %	$ 112,888	2.74 %	$ 2,192
Office supplies and expense	46,481	0.99	42,612	1.03	3,869
Meeting expenses	525	0.01	11,281	0.27	(10,756)
Outside services employed	50,648	1.08	39,064	0.95	11,584
Property insurance	19,167	0.41	20,964	0.51	(1,797)
Injuries and damages	29,239	0.62	26,745	0.65	2,494
Employees pension and other benefits	739,634	15.76	694,212	16.85	45,422
General advertising	19	0.00	19	0.00	-
Miscellaneous general expense	8,795	0.19	4,953	0.12	3,842
Maintenance	146,143	3.11	127,965	3.11	18,178
Total administrative and general	$ 1,155,731	24.63 %	$ 1,080,703	26.23 %	$ 75,028

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, 2021 and 2020, 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 14, 2021.

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) as a basis for designing 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 2021-001).

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 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 14, 2021

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2021

2021-001 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.