HOPKINSVILLE ELECTRIC SYSTEM

OF THE

CITY OF HOPKINSVILLE, KENTUCKY

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

JUNE 30, 2022 AND 2021

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY

TABLE OF CONTENTS

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY

TABLE OF CONTENTS

Internal Control and Compliance

ANNA B. GENTRY HERR, CPA, CFE

WALTER G. CUMMINGS, CPA

4443 CANTON PIKE
HOPKINSVILLE, KY 42240

270.886.6355

DUGUID, GENTRY & ASSOCIATES, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Hopkinsville Electric System of the City of Hopkinsville, Kentucky as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Hopkinsville Electric System of the City of Hopkinsville, Kentucky as of June 30, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Hopkinsville Electric System of the City of Hopkinsville, Kentucky and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's basic financial statements. The accompanying additional information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2022, on our consideration of the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's internal control over financial reporting and compliance.

Duguid, Gentry & Associates, PSC

Duguid, Gentry & Associates, PSC

Certified Public Accountants
Hopkinsville, Kentucky

October 20, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022

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, 2022. 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 2022 fiscal year by $16,448,947 (*net position*).
- The System's total net position decreased by ($260,641) during the period.
- Total operating revenues for the 2022 fiscal year increased by $5,242,365 or about 14.82% compared to the previous period.
- FY 2022 operating expenses totaled $40,401,104 which was $4,767,839 or about 13.38% more 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 Telecom 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, 2022

Over the past year, total assets of the System increased by $10,152,020 while total liabilities increased by $8,182,376. Also, deferred outflows of resources increased by $156,053 while deferred inflows of resources increased by $2,386,338. And, for the current period the net operating income (loss) of the System totaled ($260,641). Net operating income (loss) included ($77,711) from Electric and ($182,930) 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 ($260,641) or about (1.56%) 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 2021 to FY 2022	
	2022	2021	Amount	Percent
ASSETS				
Current and other assets	$ 18,906,834	$ 10,438,619	$ 8,468,215	81.12%
Capital assets	40,853,951	39,170,146	1,683,805	4.30%
Total assets	59,760,785	49,608,765	10,152,020	20.46%
DEFERRED OUTFLOWS OF RESOURCES	3,973,614	3,817,561	156,053	4.09%
LIABILITIES				
Current liabilities	11,366,930	9,286,451	2,080,479	22.40%
Long-term liabilities	32,591,485	26,489,588	6,101,897	23.04%
Total liabilities	43,958,415	35,776,039	8,182,376	22.87%
DEFERRED INFLOWS OF RESOURCES	3,327,037	940,699	2,386,338	253.68%
NET POSITION				
Invested in capital assets, net of related debt	19,289,579	26,023,789	(6,734,210)	-25.88%
Restricted for capital projects	9,960,563	2,294,877	7,665,686	334.03%
Unrestricted	(12,801,195)	(11,609,078)	(1,192,117)	-10.27%
Total net position	$ 16,448,947	$ 16,709,588	$ (260,641)	-1.56%

Assets and Deferred Outflows

Additions to plant in 2021-2022 amounted to $8,402,955.

Balances of current assets other than cash (such as accounts receivable, unbilled electric revenue, materials, prepayments and other current assets) remained stable when compared to the prior year with an increase of $969,250. Cash balances increased $7,440,018. Deferred charges increased $58,694. Investment in affiliated organizations increased by $105,845. Heat pump loans decreased by ($105,592). These changes net to the overall increase of $8,468,855 in current and other assets listed above.

Liabilities, Deferred Inflows and Net Position

Liabilities increased by $8,182,376. Principal payments on debt reduced revenue bonds payable by ($1,869,859), and net pension and other postemployment benefits liabilities decreased by ($1,658,001).

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 ($260,641) for the year compared to a decrease of ($518,271) for the prior year. The components of this decrease were a decrease in net position of electric operations of ($77,711), and a decrease in net position of telecom operations of ($182,930).

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 ($19,289,579 or 117.27% 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 2021 to FY 2022	
	2022	2021	Amount	Percent
Invested in capital assets, net of related debt	$ 19,289,579	$ 26,023,789	$ (6,734,210)	-25.88%
Restricted for capital projects	9,960,563	2,294,877	7,665,686	334.03%
Unrestricted	(12,801,195)	(11,609,078)	(1,192,117)	-10.27%
	$ 16,448,947	$ 16,709,588	$ (260,641)	-1.56%

During the 2022 fiscal year, *Net Position Invested in Capital Assets, Net of Related Debt* decreased by $6,734,210 or 25.88% 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 ($1,192,117) or (10.27%).

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, 2022 and 2021 balances by asset classification are shown in the table below.

TABLE 3
COMPARISON OF CURRENT ASSETS

	Fiscal Year		Change from FY 2021 to FY 2022	
	2022	2021	Amount	Percent
Cash and cash equivalents	$ 12,190,570	$ 4,750,552	$ 7,440,018	156.61%
Accounts receivable (net)	2,897,064	2,428,789	468,275	19.28%
Unbilled revenue	1,558,429	1,371,236	187,193	13.65%
Inventories	777,916	649,878	128,038	19.70%
Prepaid expenses	166,233	131,149	35,084	26.75%
Other current assets	230,133	79,473	150,660	189.57%
	$ 17,820,345	$ 9,411,077	$ 8,409,268	89.36%

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 are 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.

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022

TABLE 4
COMPARISON OF NONCURRENT ASSETS

	Fiscal Year		Change from FY 2021 to FY 2022	
	2022	2021	Amount	Percent
Investment in affiliated organization	$ 650,683	$ 544,838	$ 105,845	19.43%
Deferred charges	172,288	113,594	58,694	51.67%
Heat pump loans	263,518	369,110	(105,592)	-28.61%
Capital assets (net)	40,853,951	39,170,146	1,683,805	4.30%
	$ 41,940,440	$ 40,197,688	$ 1,742,752	4.34%

The table above demonstrates the relatively large investment that the System has made in capital assets. At the end of the 2022 fiscal year, capital assets represented about 97.41% 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.

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022

TABLE 5
COMPARISON OF CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED NET POSITION

	Fiscal Year		Change from FY 2021 to FY 2022	
	2022	2021	Amount	Percent
Accounts payable - purchased power	$ 4,721,912	$ 3,953,284	$ 768,628	19.44%
Accounts payable - other	918,009	621,086	296,923	47.81%
Line of credit	600,000	-	600,000	100.00%
Customer deposits	1,521,207	1,530,594	(9,387)	-0.61%
Accrued taxes	379,339	381,458	(2,119)	-0.56%
Accrued interest	75,067	78,741	(3,674)	-4.67%
Deferred revenue - MuniNet	145,825	160,351	(14,526)	-9.06%
Compensated absences	268,617	358,296	(89,679)	-25.03%
Deferred revenue	378,506	437,384	(58,878)	-13.46%
Other current and accrued liabilities	135,751	114,149	21,602	18.92%
	$ 9,144,233	$ 7,635,343	$ 1,508,890	19.76%

Current Liabilities Payable from Unrestricted Assets had a net increase in its various components of $1,508,890 or about 19.76% compared to the previous fiscal year's balance. The total of compensated absences was separated with portions designated as short-term and long-term based on pay-out expectations.

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022

As indicated in Table 6, the change in net position for the fiscal year ended June 30, 2022 was $(260,641).

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

	Fiscal Year ended June 30		Change from FYE 2021 to FYE 2022	
	2022	2021	Amount	Percent
OPERATING REVENUES				
Electric revenues	$35,364,843	$30,685,173	$ 4,679,670	15.25%
Telecom revenues	5,255,855	4,693,160	562,695	11.99%
Total operating revenues	40,620,698	35,378,333	5,242,365	14.82%
OPERATING EXPENSES				
Purchased power	25,237,903	20,845,480	4,392,423	21.07%
Other expenses	15,163,201	14,787,785	375,416	2.54%
Total operating expenses	40,401,104	35,633,265	4,767,839	13.38%
Net operating revenues (expenses)	219,594	(254,932)	474,526	-186.14%
Net non-operating revenues (expenses)	(480,235)	(263,339)	(216,896)	82.36%
Change in net position	(260,641)	(518,271)	257,630	-49.71%
Net position, beginning of year	16,709,588	17,227,859	(518,271)	-3.01%
Net position, end of year	$16,448,947	$16,709,588	$ (260,641)	-1.56%

Analysis of Revenue

For the 2022 fiscal year, the *Operating Revenues* of the System totaled $40,620,698. This amount represented an increase of 14.82% when compared to the previous year's total of $35,378,333.

Included in the *Non-operating Revenues (Expenses)* of ($480,235) is interest income of $12,473, interest expense of ($479,488), amortization expense of ($20,602) and other income of $7,382.

Analysis of Expenses

The *Total Operating Expenses* for FY 2022 were $40,401,104. That amount represents an increase of $4,767,839 or about 13.38% more than the prior fiscal year total of $35,633,265. 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 2021 to FY 2022	
	2022	2021	Amount	Percent
Cost of power	$ 25,237,903	$ 20,845,480	$ 4,392,423	21.07%
Cost of sales - telecom	1,115,791	921,100	194,691	21.14%
Distribution				
Operation	2,998,889	2,859,360	139,529	4.88%
Maintenance	1,402,274	1,248,547	153,727	12.31%
Customer accounts	1,218,907	1,156,431	62,476	5.40%
Sales	95,664	80,546	15,118	18.77%
Administrative and general	3,936,793	4,204,202	(267,409)	-6.36%
Depreciation	2,883,237	2,831,675	51,562	1.82%
Taxes	1,511,646	1,485,924	25,722	1.73%
	$ 40,401,104	$ 35,633,265	$ 4,767,839	13.38%

As indicated by the comparative information presented above, *Cost of Power* increased by $4,392,423 or 21.07% compared to the prior year.

Capital Assets

Hopkinsville Electric System's investment in capital assets as of June 30, 2022 was $40,853,951 (net of accumulated depreciation), as shown in the following table.

TABLE 8
SCHEDULE OF CAPITAL ASSETS (NET OF DEPRECIATION)

	Fiscal Year		Increase
	2022	2021	(Decrease)
Land	$ 326,709	$ 283,388	$ 43,321
Construction in progress			
Electric	1,618,434	2,859,860	(1,241,426)
Telecommunications	1,063,670	540,736	522,934
Transmission plant	368,016	388,126	(20,110)
Distribution plant	21,084,225	19,983,028	1,101,197
General plant	6,292,329	3,952,664	2,339,665
Telecommunications plant	10,100,568	11,162,344	(1,061,776)
Total capital assets	$ 40,853,951	$ 39,170,146	$ 1,683,805

Additional detailed information concerning the System's capital assets can be found in Note 3 in the notes to the financial statements.

Long-term Debt

At June 30, 2022, the System had $21,571,976 long-term debt outstanding, a net increase of $8,415,141 or approximately 63.96% more than the previous fiscal year. The System's debt is comprised of various bonds and notes. A comparative schedule at June 30, 2022 and 2021 is shown in the tabular information provided below.

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022

TABLE 9
SCHEDULE OF LONG-TERM DEBT

	Fiscal Year		Increase
	2022	2021	(Decrease)
KY League of Cities leases	$ 1,067,461	$ 1,938,014	$ (870,553)
KIA loan - 2013	309,520	616,887	(307,367)
Revenue bond - 2013A	97,084	209,167	(112,083)
KIA loan 2018	3,951,661	4,127,767	(176,106)
Revenue bond - 2020	6,080,000	6,265,000	(185,000)
Revenue bond - 2021F	10,066,250	-	10,066,250
	$ 21,571,976	$ 13,156,835	$ 8,415,141

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 will drive down usage.

Additionally, 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. However, there are opportunities for future residential and commercial load growth through electric vehicle charging and crypto data mining.

The largest effect on our financial condition is the cost of our wholesale power from Tennessee Valley Authority (TVA). Over 73% of our electric revenues go to pay our TVA power bill. Beginning in 2019, HES 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 HES and a more accurate operational budget.

Recently, HES and energynet entered into agreements with Pennyrile RECC and the Fiscal Courts of Christian, Todd, Trigg, Caldwell, Muhlenberg, Lyon and Lyon Counties to provide high speed fiber internet service within the Pennyrile RECC service area. All these counties have committed a significant portion of 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 our company.

The Electric Plant Board of the City of Hopkinsville, Kentucky DBA Hopkinsville Electric System 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, 2022 AND 2021

	2022	2021
ASSETS		
Capital assets		
Nondepreciable	$ 3,008,813	$ 3,683,985
Depreciable, net of accumulated depreciation	37,845,138	35,486,161
Net capital assets	40,853,951	39,170,146
Restricted assets		
Cash	9,960,563	2,294,877
Other assets		
Investment in affiliated organizations	650,683	544,838
Heat pump loans	263,518	369,110
Total other assets	914,201	913,948
Current assets		
Cash - general funds	2,230,007	2,455,675
Accounts receivable (less accumulated provision for uncollectible accounts of $38,394 in 2022 and $35,879 in 2021)	2,897,064	2,428,789
Unbilled revenue	1,558,429	1,371,236
Inventories (at weighted-average cost)	777,916	649,878
Prepaid expenses	166,233	131,149
Other current assets	230,133	79,473
Total current assets	7,859,782	7,116,200
Deferred charges	172,288	113,594
Total assets	59,760,785	49,608,765
DEFERRED OUTFLOWS OF RESOURCES		
OPEB related	1,869,401	1,653,546
Pension related	2,104,213	2,164,015
Total deferred outflows of resources	3,973,614	3,817,561

Continued

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF NET POSITION, continued
JUNE 30, 2022 AND 2021

	2022	2021
LIABILITIES		
Current liabilities		
Revenue bonds payable	2,222,697	1,651,108
Line of credit	600,000	-
Accounts payable - purchased power	4,721,912	3,953,284
Accounts payable - other	918,009	621,086
Customer deposits	1,521,207	1,530,594
Accrued taxes	379,339	381,458
Accrued interest	75,067	78,741
Unearned revenue - MuniNet	145,825	160,351
Deferred revenue	378,506	437,384
Compensated absences	268,617	358,296
Other current and accrued liabilities	135,751	114,149
Total current liabilities	11,366,930	9,286,451
Noncurrent liabilities		
Revenue bonds payable	19,341,675	11,495,249
Compensated absences	166,041	153,556
Net OPEB liability	2,955,986	3,461,779
Net pension liability	9,846,760	10,998,968
Advances from others		
Conservation advances - TVA	281,023	380,036
Total noncurrent liabilities	32,591,485	26,489,588
Total liabilities	43,958,415	35,776,039
DEFERRED INFLOWS OF RESOURCES		
OPEB related	1,537,071	710,919
Pension related	1,789,966	229,780
Total deferred inflows of resources	3,327,037	940,699
NET POSITION		
Invested in capital assets, net of related debt	19,289,579	26,023,789
Restricted	9,960,563	2,294,877
Unrestricted	(12,801,195)	(11,609,078)
Total net position	$ 16,448,947	$ 16,709,588

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, 2022 AND 2021

	2022	2021
OPERATING REVENUES	$ 40,620,698	$ 35,378,333
OPERATING EXPENSES		
Cost of power	25,237,903	20,845,480
Cost of sales - telecommunications	1,115,791	921,100
Distribution		
Operation	2,998,889	2,859,360
Maintenance	1,402,274	1,248,547
Customer accounts	1,218,907	1,156,431
Sales	95,664	80,546
Administrative and general	3,936,793	4,204,202
Depreciation and amortization	2,883,237	2,831,675
Taxes	1,511,646	1,485,924
Total operating expenses	40,401,104	35,633,265
Net operating revenues (expenses)	219,594	(254,932)
NON-OPERATING REVENUES (EXPENSES)		
Interest on long-term debt	(472,080)	(407,731)
Other interest	(7,408)	(18,956)
Amortization of debt expense	(20,602)	(27,263)
Interest income	12,473	16,415
Gain (loss) on sale of fixed assets	9,609	27,282
Other revenue (expenses)	(2,227)	146,914
Net non-operating revenues (expenses)	(480,235)	(263,339)
Change in net position	(260,641)	(518,271)
Net position, beginning of year	16,709,588	17,227,859
Net position, end of year	$ 16,448,947	$ 16,709,588

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, 2022 AND 2021

	2022	2021
Cash flows from operating activities		
Receipts from customers and users	$ 39,814,570	$ 35,391,482
Payments to suppliers	(30,029,931)	(25,842,010)
Payments to employees	(4,182,098)	(4,031,469)
Payments of taxes	(1,513,765)	(1,470,624)
Net cash provided (used) by operating activities	4,088,776	4,047,379
Cash flows from capital financing activities		
Expenditures for utility plant	(8,402,955)	(3,359,515)
Net cost of retiring plant	3,436,929	97,278
Principal payments on long-term debt	(1,869,859)	(1,599,131)
Conservation advances from TVA	(99,013)	(143,423)
Proceeds from debt issuance	10,285,000	25,100
Bond issue cost from debt issuance	(79,300)	-
Proceeds from line of credit	600,000	-
Interest paid	(480,284)	(425,713)
Net cash provided (used) by capital financing activities	3,390,518	(5,405,404)
Cash flows from investing activities		
Conservation loan receivable	105,592	141,373
Investment in affiliated organizations	(105,845)	(66,518)
Proceeds from the sale of fixed assets	9,609	32,440
Interest and other revenues	(48,632)	133,248
Net cash provided (used) by investing activities	(39,276)	240,543
Net increase (decrease) in cash	7,440,018	(1,117,482)
Cash, beginning of year	4,750,552	5,868,034
Cash, end of year	$ 12,190,570	$ 4,750,552

Continued

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF CASH FLOWS, continued
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
Reconciliation of operating income to net cash provided by operating activities		
Net operating revenues	$ 219,594	$ (254,932)
Adjustments to reconcile net operating revenues to net cash provided by operating activities		
Depreciation	3,282,221	2,967,732
Changes in assets and liabilities		
Receivables	(620,652)	89,040
Unbilled revenues	(187,193)	(67,330)
Materials and supplies	(128,038)	23,250
Prepaid expenses and other current assets	(33,367)	(4,914)
Accounts payable	1,065,551	174,037
Deferred pension and postemployment benefits amounts	572,284	1,295,754
Accrued taxes	(2,119)	15,300
Other current and accrued liabilities	21,602	(113,636)
Compensated absences	(77,194)	(86,672)
Customer deposits	(9,387)	23,158
Unearned revenue - MuniNet	(14,526)	(13,408)
Total adjustments	3,869,182	4,302,311
	$4,088,776	$4,047,379

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 carry over 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 $434,658 and $511,852 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021.

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 11 and the OPEB liability described in Note 12.

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 11 and the OPEB liability described in Note 12.

Revenues and Expenses

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

Net Position

Net 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 20, 2022, which is the date the financial statements were available to be issued.

NOTE 2 – REVENUE RECOGNITION

Revenue from contracts

The System is engaged in the distribution and sale of electricity to residential and commercial customers. The System satisfies their performance obligation upon the delivery of electricity to customers. Revenue is recognized over time as the customer simultaneously receives and consumes the benefits provided by the System. The amount of revenue recognized is the billed volume of electricity multiplied by rate per-unit of energy, plus any applicable fixed or additional regulatory charges. Customers are billed monthly and outstanding amounts are typically due within 20 days of the date of the bill. Revenue for pole attachments is invoiced the month specified in the contract. The performance obligation is satisfied ratably over the term of the contract and revenue is recognized monthly as earned.

The Telecommunications Division is engaged in providing fiber to residential and commercial customers. The performance obligation is satisfied upon the delivery of services to customers. Revenue is recognized over time as the customer simultaneously receives and consumes the benefits provided by the Telecommunications Division. The amount of revenue recognized is based on a monthly package price per service, plus any applicable fixed or additional regulatory charges. Customers are billed monthly and outstanding amounts are typically due within 20 days of the date of the bill.

Significant judgments

The System bills consumers on monthly cycles based on meter readings taken at approximately the same day each month. Large power consumers are billed on a monthly calendar basis. The System calculates unbilled revenue based on actual usage readings from the last meter reading date through the end of the month using advanced metering infrastructure. Unbilled revenues are reversed in the following month when the customer bills are generated based on usage readings for the full billing cycle. This method of revenue recognition fairly presents the System's transfer of electricity to customers as the amount recognized is based on actual volumes delivered and any applicable fixed charges.

NOTE 2 – REVENUE RECOGNITION, continued

The Telecommunications Division bills consumers on monthly cycles based on price per package taken at approximately the same day each month. Customers are billed in current month of usage so there are no unbilled revenues for these services. This method of revenue recognition fairly presents the provision of services to customers as the amount recognized as delivered and any applicable fixed charges related to the services.

Performance obligations

The System customers generally have no minimum purchase commitments except for those included in large power customer agreements. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation to recognize as of June 30, 2022 and 2021.

The Telecommunications customers generally have no minimum purchase commitments. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation to recognize as of June 30, 2022 and 2021.

Disaggregation of revenue

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended June 30, 2022 and 2021:

	2022	2021
Residential	$ 14,329,539	$ 13,302,405
Small commercial	5,320,119	4,976,946
Large commercial	14,037,025	10,848,185
Public lights	816,957	791,736
Rent from electric property	381,102	380,214
Miscellaneous service revenue	462,693	385,687
Telecommunications	5,243,700	4,693,160
	$ 40,591,135	$ 35,378,333

NOTE 2 – REVENUE RECOGNITION, continued

Contract assets and cost liabilities

Contract assets include unbilled electric revenue. Contract liabilities include customer deposits. Contract assets and liabilities were as follows as of June 30, 2022 and 2021

	2022	2021
Contract assets		
Unbilled electric/fiber revenue	$ 1,558,429	$ 1,371,236
Contract liabilities		
Customer deposits	$ 1,521,207	$ 1,530,594

NOTE 3 – BOARD PLANT AND DEPRECIATION PROCEDURES

A summary of changes in major classifications of the System plant in service as of June 30, 2022 follows:

	Balance June 30, 2021	Additions	Deductions	Balance June 30, 2022
Utility plant not depreciated				
Land	$ 283,389	$ 43,320	$ -	$ 326,709
Construction in progress - electric	2,859,860	-	1,241,426	1,618,434
Construction in progress - telecommunications	540,736	522,934	-	1,063,670
Total utility plant not depreciated	3,683,985	566,254	1,241,426	3,008,813
Utility plant depreciated				
Transmission plant	730,867	-	-	730,867
Distribution plant	32,546,494	2,048,162	551,933	34,042,723
General plant	15,143,249	3,676,723	128,894	18,691,078
Telecommunications plant	15,729,319	3,353,242	3,972,667	15,109,894
Total utility plant depreciated	64,149,929	9,078,127	4,653,494	68,574,562
Accumulated depreciation	(28,663,768)	(4,107,735)	2,042,079	(30,729,424)
Total utility plant depreciated, net	35,486,161	4,970,392	2,611,415	37,845,138
Total utility plant	$ 39,170,146	$ 5,536,646	$ 3,852,841	$ 40,853,951

NOTE 3 – BOARD PLANT AND DEPRECIATION PROCEDURES, continued

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 3 – 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
Communication equipment	8.00

NOTE 3 – BOARD PLANT AND DEPRECIATION PROCEDURES, continued

Transactions through the Accumulated Provision for Depreciation account for the years ended June 30, 2022 and 2021 are summarized as follows:

	2022	2021
Accumulated provision for depreciation, July 1	$ 28,663,768	$ 26,087,692
Add		
Depreciation charged directly to expense	3,237,576	2,895,279
Depreciation charged to transportation - clearing	44,645	72,453
Other additions	825,514	8,270
Subtotal	32,771,503	29,063,694
Deduct		
Original cost of plant retired	1,346,193	296,742
Cost of removal less salvage	150,750	197,330
Salvage	(89,257)	(99,695)
Other subtractions	634,393	5,549
Total charges against provision	2,042,079	399,926
Accumulated provision for depreciation, June 30	$ 30,729,424	$ 28,663,768

NOTE 4 – CASH AND CASH EQUIVALENTS

At June 30, 2022, the System's deposits in depository institutions had a carrying amount of $12,190,570 and bank balances of $12,705,755. At June 30, 2022, the deposits were covered entirely by FDIC insurance or a properly executed collateral security agreement. 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.

NOTE 4 – CASH AND CASH EQUIVALENTS, continued

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

Unrestricted cash at June 30 consisted of:

	2022	2021
Change funds	$ 1,750	$ 1,745
Checking accounts	2,215,435	2,444,385
TVA power bill early payment	2	169
Other	12,820	9,376
Total	$ 2,230,007	$ 2,455,675

Restricted cash at June 30 consisted of:

	2022	2021
2007 Telecom bond issue fund	$ 4	$ 4
Series 2018 note proceeds	991,639	1,522,866
KIA 2008 maintenance and replacement	173,967	162,539
First Financial Health Plan	132,418	77,877
2020 Bond issue	532,704	531,591
2021F Debt service revenue	205,700	-
2021F Construction fund	7,924,131	-
Total investments	$ 9,960,563	$ 2,294,877

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, 2022 and 2021, the System was not exposed to custodial credit risk.

NOTE 4 – 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 5 – RECEIVABLES

Net receivables include the following at June 30:

	2022	2021
Accounts receivable		
Electric	$ 2,847,905	$ 2,415,609
Other miscellaneous	87,553	49,059
	2,935,458	2,464,668
Less		
Reserve for uncollectible accounts	(38,394)	(35,879)
Total net receivables	$ 2,897,064	$ 2,428,789

NOTE 5 – 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, 2022		June 30, 2021	
	Amount	Percent	Amount	Percent
Accounts having discount dates after June 30	$ 541,908	18.46%	$ 381,050	15.21%
Accounts less than one month past due	2,255,448	76.83%	1,909,370	72.72%
Accounts 31 to 60 days past due	62,269	2.12%	87,141	5.18%
Accounts 61 to 90 days past due	18,130	0.62%	15,727	2.18%
Accounts over 90 days past due	57,703	1.97%	71,380	4.71%
	$ 2,935,458	100.00%	$ 2,464,668	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, 2022. Accounts charged off are turned over to various agencies for collection as authorized by the System.

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

	2022	2021
Beginning balance	$ 35,879	$ 32,087
Monthly additions and adjustments	97,932	203,750
Charge-off of bad accounts	(95,417)	(199,958)
Balance, June 30	$ 38,394	$ 35,879

NOTE 6 – MATERIALS AND SUPPLIES

The values of electric materials at balance sheet dates were ascertained by reference to perpetual inventory records. The System's 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 7 – DEFERRED CHARGES

Deferred charges at June 30 consisted of:

	2022	2021
Deferred costs on bond issue - 2007	$ 10,811	$ 20,792
Deferred costs on bond issue - 2013 KLC	7,976	13,015
Deferred costs on bond issue - 2020	76,404	79,787
Deferred costs on bond issue - 2021F	77,097	-
Total	$ 172,288	$ 113,594

NOTE 8 – 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 2020	6,445,000	2.00%	2/1/1945
Series 2021F	10,285,000	2.00-2.125%	2/1/2038

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 December 16, 2021, the System issued Series 2021F revenue bonds in the amount of $10,285,000 with interest rates of 2.00% - 2.125%. The bonds were issued to finance the acquisition, construction, installation and equipping of a new fiber project. Payments of interest and principal are due monthly with the last payment scheduled for January 1, 2038.

NOTE 8 – LONG-TERM OBLIGATIONS, continued

The changes in outstanding debt as of June 30, 2022 follows:

	Balance July 1, 2021	Additions	Deductions	Balance June 30, 2022	Amounts Due Within One Year
Revenue bonds	$ 13,156,835	$ 10,285,000	$ 1,869,859	$ 21,571,976	$ 2,222,697
Premium (discount)	(10,478)	-	(2,874)	(7,604)	-
Compensated absences	511,852	12,485	89,679	434,658	268,617
Net OPEB liability	3,461,779	-	505,793	2,955,986	-
Net pension liability	10,998,968	-	1,152,208	9,846,760	-
Total long-term liabilities	$ 28,118,956	$ 10,297,485	$ 3,614,665	$ 34,801,776	$ 2,491,314

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)	-
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	$ 2,009,404

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:

	2022	2021
Series 2007	$ 2,667	$ 2,667
Series 2020	207	120
	$ 2,874	$ 2,787

NOTE 8 – 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:

	2022	2021
Series 2007	$ 9,979	$ 9,980
Series 2013	5,038	5,038
Series 2020	3,383	3,296
Series 2021F	2,202	-
	$ 20,602	$ 18,314

The following represents principal and interest payments on outstanding debt:

	Series 2007		
	Principal	Interest	Total
2023	$ 911,438	$ 33,365	$ 944,803
2024	156,023	1,516	157,539
	$ 1,067,461	$ 34,881	$ 1,102,342

	KIA 2013			Series 2013A		
	Principal	Interest	Total	Principal	Interest	Total
2023	$ 309,520	$ 1,626	$ 311,146	$ 79,584	$ 2,427	$ 82,011
2024	-	-	-	17,500	438	17,938
	$ 309,520	$ 1,626	$ 311,146	$ 97,084	$ 2,865	$ 99,949

(table continued)

NOTE 8 – LONG-TERM OBLIGATIONS, continued

	KIA B18-009			KIA C18-008		
	Principal	Interest	Total	Principal	Interest	Total
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	117,013	31,675	148,688	79,909	40,428	120,337
2028-2032	616,649	126,796	743,445	437,269	164,420	601,689
2033-2037	672,782	70,665	743,447	507,469	94,221	601,690
2038-2042	432,719	13,348	446,067	342,794	18,220	361,014
	$ 2,287,351	$ 389,052	$ 2,676,403	$ 1,664,310	$ 501,767	$ 2,166,077

	Series 2020			Series 2021 F		
	Principal	Interest	Total	Principal	Interest	Total
2023	$ 190,000	$ 160,038	$ 350,038	$ 552,083	$ 205,866	$ 757,949
2024	200,000	152,438	352,438	594,167	190,533	784,700
2025	205,000	144,437	349,437	606,250	185,650	791,900
2026	215,000	136,238	351,238	621,250	166,525	787,775
2027	225,000	127,638	352,638	636,250	154,100	790,350
2028-2032	1,200,000	545,881	1,745,881	3,396,250	574,009	3,970,259
2033-2037	1,340,000	411,255	1,751,255	3,543,333	211,816	3,755,149
2038-2042	1,505,000	245,644	1,750,644	116,667	2,479	119,146
2043-2045	1,000,000	52,893	1,052,893	-	-	-
	$ 6,080,000	$ 1,976,462	$ 8,056,462	$ 10,066,250	$ 1,690,978	$ 11,757,228

	All Series Combined		
	Principal	Interest	Total
2023	$ 2,222,697	$ 492,276	$ 2,714,973
2024	1,151,824	429,818	1,581,642
2025	999,544	410,818	1,410,362
2026	1,028,807	379,231	1,408,038
2027	1,058,172	353,841	1,412,013
2028-2032	5,650,168	1,411,106	7,061,274
2033-2037	6,063,584	787,957	6,851,541
2038-2042	2,397,180	279,691	2,676,871
2043-2045	1,000,000	52,893	1,052,893
	$ 21,571,976	$ 4,597,631	$ 26,169,607

NOTE 9 – LINE OF CREDIT

On April 30, 2021, HES opened a revolving line of credit with First Financial 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 2, 2023. The balance at June 30, 2022 was $600,000. The interest rate is 4%. The revolving line of credit is secured by a first security interest in accounts receivable.

NOTE 10 – 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 $281,023 and $380,036 as of June 30, 2022 and 2021, respectively.

NOTE 11 – PENSION PLANS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' 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.

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

Plan description – The System and covered employees contribute to the County Employees Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Board of Trustees of the Kentucky Public Pensions Authority (KPPA). Kentucky Revised Statute Section 61.645 as amended by House Bill 484 and House Bill 9 of the 2020 and 2021 regular sessions, respectively, of the Kentucky General Assembly assigns the authority to establish and amend benefit provisions to the Board of Trustees of the KPPA. These amendments transferred governance of the CERS to a separate nine member board of trustees. The CERS financial statements and other supplementary information are contained in the publicly available annual financial report of the KPPA. Copies of the report are sent to each participating employer as well as distributed to legislative personnel, state libraries and other interested parties. KPPA issues a publicly available financial report that can be obtained on their website.

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. Employees are vested in the plan after five years' service. Cost of living (COLA) adjustments are provided at the discretion of the State legislature. For retirement purposes, employees are grouped into three tiers, based on hire date:

NOTE 11 – PENSION PLANS, continued

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%
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 – Per Kentucky Revised Statute 61.565, normal contribution and past service contribution rates shall be determined by the Board of Trustees of the Kentucky Public Pensions Authority on the basis of an annual valuation last preceding the July 1 of a new biennium. The 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 Board. For the year ended June 30, 2022, plan members were required to contribute 5% of their annual creditable compensation. Plan members hired subsequent to September 1, 2008 were required to contribute 6% of their annual creditable compensation. The System is required to contribute at an actuarial determined rate. For the fiscal year ended June 30, 2022 and 2021, participating employers contributed 21.17% and 19.30%, respectively, of each employee's creditable compensation.

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

At June 30, 2022 and 2021, the System reported a liability of $9,846,760 and $10,998,968, respectively, for its proportionate share of the net pension liability. The net pension liability of the plan was measured as of June 30, 2021 and 2020, 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, 2022 and 2021, the System's proportion was 0.154440% and 0.143404%, respectively.

NOTE 11 – PENSION PLANS, continued

Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense, they are labeled deferred inflows. If they will increase pension expense, they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period.

For the measurement periods ended June 30, 2021 and 2020, the System recognized pension expense of $1,336,791 and $1,842,108, respectively, related to CERS.

At June 30, 2022 and 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2022		2021	
	Deferred Outflows of Resources	Deferred Inflows Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 113,071	$ 95,569	$ 274,279	$ -
Changes in assumptions	132,155	-	429,491	-
Net difference between projected and actual earnings on pension plan investments	381,989	1,694,397	476,768	201,533
Changes in proportion and differences between contributions and proportionate share of contributions	607,990	-	222,131	28,247
System's contributions subsequent to the measurement date	869,008	-	761,346	-
Total	$ 2,104,213	$ 1,789,966	$ 2,164,015	$ 229,780

The amounts of $869,008 and $761,346 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, 2023 and 2022.

NOTE 11 – PENSION PLANS, continued

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	
2022	$ 184,404
2023	(51,338)
2024	(276,849)
2025	(410,978)
2026	-
Thereafter	-
Total	$ (554,761)

Actuarial assumptions – The total pension liability, net pension liability and sensitivity information as of June 30, 2021 and 2020 were based on an actuarial valuation date of June 30, 2020. The total pension liability was rolled forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principles.

There have been no actuarial assumption or method changes since June 30, 2020. Senate Bill 169 passed during the 2021 legislative session increased the disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or as a result of a duty-related disability. The total pension liability as of June 30, 2021, is determined using these updated benefit provisions.

	Measurement Period	
	2021	2020
Inflation	2.30%	2.30%
Projected salary increases, average, including inflation	3.30 to 10.30%	3.30 to 11.55%
Investment rate of return, net of plan investment expense, including inflation	6.25%	6.25%

NOTE 11 – PENSION PLANS, continued

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.

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 2021 Asset Class	Target Allocation	Long-term Expected Real Rate of Return
US equity	21.75%	5.70%
International equity	21.75%	6.35%
Core bonds	10.00%	0.00%
High yield	15.00%	2.89%
Real estate	10.00%	5.49%
Real return	10.00%	5.40%
Private equity	10.00%	9.70%
Cash	1.50%	-0.60%
Total	100.00%	

NOTE 11 – PENSION PLANS, continued

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%	

Discount rate – The discount rate used to measure the total pension liability for the measurement periods with years ended June 30, 2021 and 2020 was 6.25% and 6.25%, respectively. The projection of cash flows used to determine the discount rate of 6.25% for CERS Non-hazardous assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as amended by House Bill 362 (passed in 2018) over the remaining 30 years (closed) amortization period of the unfunded actuarial accrued liability.

The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the Annual Comprehensive Financial Report (ACFR).

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	$ 12,628,939	$ 9,846,760	$ 7,544,575
2020	5.25%	6.25%	7.25%
System's proportionate share of net pension liability	$ 13,564,121	$ 10,998,968	$ 8,874,924

NOTE 11 – PENSION PLANS, continued

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 and OPEB Plan – At June 30, 2022 and 2021, the System reported a payable of $0 and $0, respectively for the outstanding amount of contributions required for the years then ended. These amounts represent the employee withholding and employer match for the last month of the years then ended. The payable includes both pension and insurance (OPEB) contributions.

System's 401 (k) plan

Plan description – The System's employees have the option to participate in the "Hopkinsville Electric System Employees 401 (k) Plan which is a defined contribution plan covering full-time employees of the System who have ninety days of service and are age eighteen or older.

Funding policy – Employees who participate in the Plan may contribute up to 100% (in multiples of 1%) of their base annual compensation. After completion of twelve months of service, the System will make a matching contribution to the participant's contribution according to the plan document.

Contributions – Employer contributions, which totaled $126,944 and $132,289 in the years ended June 30, 2022 and 2021, respectively, are charged monthly to plant and expense in the same ratio as payroll.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

General Information about the OPEB Plan

Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Public Pensions Authority's administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS) and State Police Retirement System (SPRS) is a participating employer of the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority's website.

Plan description – The Kentucky Public Pensions Authority (KPPA) Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from KERS and CERS. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan and the administrative costs incurred by those receiving an insurance benefit.

Benefits provided – The CERS Non-hazardous Insurance Fund is a cost-sharing multiple-employer defined benefit Other Post-Employment Benefits (OPEB) plan that covers substantially all regular full-time members employed in positions of each participating county, city and school board and any additional eligible local agencies electing to participate in the System. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

Implicit subsidy – KPPA pays fully insured premiums for the Kentucky Health Plan. The premiums 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. GASB 74 requires that the liability associated with this implicit subsidy be included in the calculation of the total OPEB liability.

Contributions – The Commonwealth is required to contribute at an actuarially determined rate for KERS. Participating employers are required to contribute at an actuarially determined rate for CERS pensions. Per Kentucky Revised Statute Sections KERS 61.565(3) and CERS 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of the last annual valuation preceding July 1 of a new biennium. The 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 Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget for KERS. For the years ended June 30, 2022 and 2021, required contribution was 5.78% 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, 2022 and 2021, were $237,263 and $187,772, respectively.

At June 30, 2022 and 2021, the System reported a liability of $2,955,986 and $3,461,780, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020. The total OPEB liability was rolled forward from the valuation date to the plan’s fiscal year-end, June 30, 2021, 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, 2022 and 2021, the System’s proportion for the non-hazardous system was 0.154404% and 0.143363%, respectively.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

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

For the measurement periods ended June 30, 2022 and 2021, the System recognized OPEB expense of $429,168 and $474,805. At June 30, 2022 and 2021, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2022		2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 464,830	$ 882,560	$ 578,391	$ 578,843
Changes of assumptions	783,688	2,749	602,145	3,662
Net difference between projected and actual earnings on OPEB plan investments	148,931	611,355	185,699	70,638
Changes in proportion and differences between employer contributions and proportionate share of contributions	234,689	40,407	99,539	57,776
System's contributions subsequent to the measurement date	237,263	-	187,772	-
Total	$ 1,869,401	$ 1,537,071	$ 1,653,546	$ 710,919

The amounts of $237,263 and $187,772 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, 2023 and 2022.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

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	
2022	$ 121,368
2023	51,027
2024	52,814
2025	(130,142)
2026	-
Thereafter	-
Total	$ 95,067

Actuarial assumptions

Fiscal year June 30, 2022 – The total OPEB liability, net OPEB liability and sensitivity information for the actuarial valuation as of June 30, 2021 were based on an actuarial valuation date of June 30, 2020. The total OPEB liability was rolled forward from the valuation date (June 30, 2020) to the plan's fiscal year ended June 30, 2021, 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, 2020 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. There were no other material assumption changes.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

June 30, 2021	
Payroll growth rate	2.00%
Inflation	2.30%
Salary increase	3.30% to 10.30%, varies by source
Investment rate of return	6.25%
Healthcare cost trend rates (pre-65)	Initial trend starting at 6.25% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Healthcare cost trend rates (post-65)	Initial trend starting at 5.50% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
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.

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 12 – 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 2021 Asset Class	Target Allocation	Long-term Expected Real Rate of Return
US equity	21.75%	5.70%
International equity	21.75%	6.35%
Core bonds	10.00%	0.00%
High yield	15.00%	2.89%
Real estate	10.00%	5.40%
Real return	10.00%	4.55%
Private equity	10.00%	9.70%
Cash	1.50%	-0.60%
Total	100.00%	

Measurement Period 2020 Asset Class	Target Allocation	Long-term Expected Real Rate of Return
US equity	18.75%	4.59%
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%	

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

Discount rate – Single discount rates used to measure the total OPEB liability for the years ended June 30, 2021 and 2020 were 5.20% and 5.34% for CERS Non-hazardous plans. The single discount rates are based on the expected rate of return on OPEB plan investments of 6.25%, and a municipal bond rate of 1.92%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2021. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, each plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy was not included in the calculation of the plans' actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the plans' trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the ACFR.

The projection of cash flows used to determine the single discount rate must include an assumption regarding future employer contributions made each year. Future contributions are projected assuming that each participating employer in each insurance plan contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy, as most recently revised by House Bill 8, passed during the 2021 legislative session. The assumed future employer contributions reflect the provisions of House Bill 362 (passed during the 2018 legislative session) which limit the increases to the employer contribution rates to 12% over the prior fiscal year through June 30 2028, for the CERS plans.

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	4.20%	5.20%	6.20%
System's proportionate share of net OPEB liability	$ 4,058,548	$ 2,955,986	$ 2,051,153
2020	4.34%	5.34%	6.34%
System's proportionate share of net OPEB liability	$ 4,447,372	$ 3,461,779	$ 2,652,282

NOTE 12 – 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	$ 2,127,960	$ 2,955,987	$ 3,955,430
2020			
System's proportionate share of net OPEB liability	$ 2,680,283	$ 3,461,780	$ 4,410,146

NOTE 13 – OTHER CURRENT AND ACCRUED LIABILITIES

Following is a summary of the amounts recorded as other current and accrued liabilities as of June 30, 2022 and 2021:

	2022	2021
Accrued pole rentals	$ 60,392	$ 59,305
Accrued payroll	75,359	54,844
	$ 135,751	$ 114,149

NOTE 14 – 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 15 – RATE INCREASE

Wholesale Base Rates – The ratio of Tennessee Valley Authority (TVA) purchased power to total energy sales for the years ended June 30, 2022 and 2021 was 73.14% and 69.7%, 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 $.00512/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 3.10% 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 did implement a 1.50% local rate increase in energy charges in October 2017. In June 2022, the System approved a 1.70% retail rate increase, which will equally be distributed to all customer classes and will take effect on October 1, 2022.

Pandemic Relief Credit – For the third year, the TVA Board has approved a 2.50% base rate credit to begin October 2022 through September 2023 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 16 – COMMITMENTS

<u>TVA</u>

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.

<u>MuniNet</u>

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. The 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 16 – 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.

The 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 the System for its provision of an IRU in such fibers in the amount of $270,809 to be amortized over 20 years with no interest. During fiscal year ending June 30, 2016, $135,404 was received. During fiscal year 2019, $96,257 of the additional $135,404 was received. Amortization expense was $13,409 and $13,408 during the fiscal years ended June 30, 2022 and 2021 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 $59,534 and $61,518 for administrative and operating costs during fiscal years ended June 30, 2022 and 2021.

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

	2022	2021
Initial investment	$ 5,000	$ 5,000
Project 2 Investment in MuniNet		
Beginning balance July 1	544,838	478,320
Program revenue	-	-
Costs incurred	59,534	61,518
	604,372	539,838
Ending balance June 30	$ 609,372	$ 544,838

Dark Fiber Lease – Pennyrile Rural Electric Cooperative Corporation ("PRECC")

On October 2, 1998, the System signed a lease agreement with PRECC. Under the terms of the lease, the System will exclusively lease PRECC's dark fiber optic network from PRECC to provide internet service to such areas in the PRECC territory that the System and PRECC jointly determine to be financial viable for each.

NOTE 17 – RECENT ACCOUNTING PRONOUNCEMENTS

Implemented

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; however, this statement was postponed for eighteen months and took effect for the fiscal year ended June 30, 2022. 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 was postponed and took effect for the fiscal year ending June 30, 2022. There were no amounts expended for this purpose during the current fiscal year.

Recent Pronouncements

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 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 Telecom service in their respective counties. The System will use these funds for an $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. The Board plans to initiate requests for grant funds by the end of calendar year 2022.

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	2022	2021	2020	2019	2018	2017	2016	2015
System's proportion of net pension liability (asset)	0.154440%	0.143404%	0.143554%	0.134622%	0.139034%	0.129410%	0.130320%	0.127380%
System's proportion share of net pension liability (asset)	$ 9,846,760	$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	$ 3,944,797	$ 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	249.61%	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	57.33%	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	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 869,008	$ 761,346	$ 708,945	$ 587,332	$ 483,139	$ 632,342	$ 526,645	$ 528,249
Contributions in relation to the contractually required contribution	869,008	761,346	708,945	587,332	483,139	632,342	526,645	528,249
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
System's covered employee payroll	$ 4,104,904	$ 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	21.17%	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

2021

No changes.

2020

During the 2020 legislative session, Senate Bill 249 passed and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 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.

Changes in assumptions

2021

No changes.

2020

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	2022	2021	2020	2019	2018
System's proportion of net OPEB liability (asset)	0.154404%	0.143363%	0.143517%	0.134617%	0.139034%
System's proportionate share of OPEB liability (asset)	$ 2,955,986	$ 3,461,779	$ 2,413,891	$ 2,390,098	$ 2,795,059
System's covered - employee payroll	$ 3,944,797	$ 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	133.45%	106.11%	150.01%	139.60%	121.11%
Plan fiduciary net position as a percentage of total OPEB liability	62.91%	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	2022	2021	2020	2019	2018
Contractually required OPEB contribution	$ 237,263	$ 187,772	$ 174,848	$ 190,467	$ 156,819
Contributions in relation to the contractually required contribution	237,263	187,772	174,848	190,467	156,819
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
System's covered-employee payroll	$4,104,904	$3,944,797	$3,673,288	$3,621,038	$3,336,593
Contributions as a percentage of covered-employee payroll	5.78%	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

2021

During the 2021 legislative session, Senate Bill 169 passed during the 2021 legislative session and increased the disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or as a result of a duty-related disability. The total OPEB liability as of June 30, 2021 is determined using these updated benefit provisions. There were no other material plan provision changes, and it is our opinion that these procedures are reasonable and appropriate and comply with applicable requirements under GASB Statement No. 75.

2020

No changes.

Changes in assumptions

2021

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for OPEB:

- The single discount rate used to calculate the OPEB liability was decreased from 5.34% to 5.20% for non-hazardous and from 5.30% to 5.05% for hazardous.
- The healthcare trend rate starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years for pre-65. The healthcare trend rate starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years for post-65.

2020

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The healthcare trend rate starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years for pre-65. The healthcare trend rate starting at 2.90% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years for post-65.
- 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 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 was reduced by 11% to reflect the repeal of the Health Insurer Fee.

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, 2022

	ELECTRIC	TELECOM	TOTAL
OPERATING REVENUES	$ 35,364,843	$ 5,255,855	$ 40,620,698
OPERATING EXPENSES			
Cost of power	25,237,903	-	25,237,903
Cost of sales - telecom	-	1,115,791	1,115,791
Distribution			
Operation	1,390,641	1,608,248	2,998,889
Maintenance	1,348,497	53,777	1,402,274
Customer accounts	982,193	236,714	1,218,907
Sales	48,580	47,084	95,664
Administrative and general	2,776,662	1,160,131	3,936,793
Depreciation and amortization	1,993,596	889,641	2,883,237
Taxes	1,433,877	77,769	1,511,646
Total operating expenses	35,211,949	5,189,155	40,401,104
Net operating revenues	152,894	66,700	219,594
NON-OPERATING REVENUES (EXPENSES)			
Interest on long-term debt	(224,991)	(247,089)	(472,080)
Other interest	(7,408)	-	(7,408)
Amortization of debt expense	(14,708)	(5,894)	(20,602)
Interest income	9,120	3,353	12,473
Gain (loss) on sale of fixed assets	9,609	-	9,609
Other income (expenses)	(2,227)	-	(2,227)
Net non-operating revenues (expenses)	(230,605)	(249,630)	(480,235)
Change in net position	(77,711)	(182,930)	(260,641)
Net position, beginning of year	14,757,406	1,952,182	16,709,588
Net position, end of year	$ 14,679,695	$ 1,769,252	$ 16,448,947

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUKCY
COMPARATIVE SCHEDULES OF REVENUES AND EXPENSES – ELECTRIC
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	ELECTRIC 2022	ELECTRIC 2021	VARIANCE FAVORABLE (UNFAVORABLE)
OPERATING REVENUES	$ 35,364,843	$ 30,685,173	$ 4,679,670
OPERATING EXPENSES			
Cost of power	25,237,903	20,845,480	(4,392,423)
Distribution			
Operation	1,390,641	1,272,199	(118,442)
Maintenance	1,348,497	1,190,032	(158,465)
Customer accounts	982,193	977,798	(4,395)
Sales	48,580	38,372	(10,208)
Administrative and general	2,776,662	3,048,471	271,809
Depreciation and amortization	1,993,596	1,952,280	(41,316)
Taxes	1,433,877	1,408,607	(25,270)
Total operating expenses	35,211,949	30,733,239	(4,478,710)
Net operating revenues	152,894	(48,066)	200,960
NON-OPERATING REVENUES (EXPENSES)			
Interest on long-term debt	(224,991)	(261,760)	36,769
Other interest	(7,408)	(18,956)	11,548
Amortization of debt expense	(14,708)	(23,570)	8,862
Interest income	9,120	16,071	(6,951)
Gain (loss) on sale of fixed assets	9,609	27,282	(17,673)
Other revenues (expenses)	(2,227)	146,914	(149,141)
Net non-operating revenues (expenses)	(230,605)	(114,019)	(116,586)
Change in net position	$ (77,711)	$ (162,085)	$ 84,374

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMPARATIVE SCHEDULES OF REVENUES AND EXPENSES – TELECOMMUNICATIONS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	TELECOM 2022	TELECOM 2021	VARIANCE FAVORABLE (UNFAVORABLE)
OPERATING REVENUES	$ 5,255,855	$ 4,693,160	$ 562,695
OPERATING EXPENSES			
Cost of sales - telecom	1,115,791	921,100	(194,691)
Distribution			
Operation	1,608,248	1,587,161	(21,087)
Maintenance	53,777	58,515	4,738
Customer accounts	236,714	178,633	(58,081)
Sales	47,084	42,174	(4,910)
Administrative and general	1,160,131	1,155,731	(4,400)
Depreciation and amortization	889,641	879,395	(10,246)
Taxes	77,769	77,317	(452)
Total operating expenses	5,189,155	4,900,026	(289,129)
Net operating revenues	66,700	(206,866)	273,566
NON-OPERATING REVENUES (EXPENSES)			
Interest on long-term debt	(247,089)	(145,971)	(101,118)
Amortization of debt expense	(5,894)	(3,693)	(2,201)
Interest income	3,353	344	3,009
Net non-operating revenues (expenses)	(249,630)	(149,320)	(100,310)
Change in net position	$ (182,930)	$ (356,186)	$ 173,256

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

	Year Ended June 30, 2022		Year Ended June 30, 2021		Increase
	Amount	Percent	Amount	Percent	(Decrease)
Distribution Operation					
Supervision and engineering	$ 120,851	0.34 %	$ 122,871	0.34 %	$ (2,020)
Station expense	119,774	0.34	87,994	0.23	31,780
Overhead lines expense	614,396	1.74	536,464	1.86	77,932
Street light and signal system expense	(123)	0.00	1,792	0.01	(1,915)
Meter expense	106,921	0.30	113,518	0.33	(6,597)
Customer installation expense	40,004	0.11	32,545	0.08	7,459
Miscellaneous distribution expense	17,732	0.05	7,733	0.02	9,999
Rents	371,086	1.05	369,282	1.47	1,804
Total distribution operation	$ 1,390,641	3.93 %	$ 1,272,199	4.35 %	$ 118,442
Distribution Maintenance					
Supervision and engineering	$ 33,337	0.09 %	$ 32,862	0.10 %	$ 475
Substations	10,689	0.03	11,515	0.00	(826)
Overhead lines	1,271,160	3.59	1,099,727	3.43	171,433
Underground services	8,310	0.02	4,808	0.02	3,502
Transformers	17,790	0.05	30,878	0.15	(13,088)
Street light and signal system	7,211	0.02	10,242	0.06	(3,031)
Meters	-	0.00	-	0.00	-
Total distribution maintenance	$ 1,348,497	3.81 %	$ 1,190,032	3.76 %	$ 158,465
Customer Accounts					
Meter reading	$ 57,765	0.16	$ 54,677	0.18	$ 3,088
Customer records and collection expense	626,449	1.77	712,208	2.00	(85,759)
Uncollectible accounts	230,366	0.65	144,824	0.10	85,542
Miscellaneous customer accounting	3,016	0.01	2,909	0.01	107
Customer assistance expense	31,751	0.09	25,686	0.09	6,065
Information and instructional advertising	32,846	0.09	37,494	0.11	(4,648)
Total customer accounts	$ 982,193	2.77 %	$ 977,798	2.49 %	$ 4,395

Continued

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

`

	Year Ended June 30, 2022		Year Ended June 30, 2021		Increase
	Amount	Percent	Amount	Percent	(Decrease)
Sales Expense					
Demonstrating and selling expense	$ 25,188	0.07 %	$ 26,712	0.07 %	$ (1,524)
Advertising expense	22,638	0.06	10,933	0.04	11,705
Miscellaneous	754	0.00	727	0.00	27
Total sales expense	$ 48,580	0.13 %	$ 38,372	0.11 %	$ 10,208
Administrative and General					
Administrative and office salaries	$ 567,794	1.61 %	$ 557,549	1.53 %	$ 10,245
Office supplies and expense	233,115	0.66	186,219	0.63	46,896
Outside services employed	110,934	0.31	84,754	0.20	26,180
Property insurance	181,955	0.51	106,657	0.30	75,298
Injuries and damages	46,600	0.13	43,344	0.17	3,256
Employees pension and other benefits	1,593,476	4.51	2,025,046	5.85	(431,570)
Duplicate charges (credit)	(136,876)	(0.39)	(124,738)	(0.36)	(12,138)
Regulatory commission expense	-	0.00	400	0.00	(400)
Miscellaneous general expense	93,799	0.27	88,552	0.28	5,247
Maintenance	85,865	0.24	80,688	0.22	5,177
Total administrative and general	$ 2,776,662	7.85 %	$ 3,048,471	8.82 %	$ (271,809)

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

	Year Ended June 30, 2022		Year Ended June 30, 2021		Increase
	Amount	Percent	Amount	Percent	(Decrease)
Distribution Operation					
Supervision and engineering	$ 135,627	2.58 %	$ 115,916	2.93 %	$ 19,711
Hub expenses	39,256	0.75	36,239	0.94	3,017
Overhead cable expense	731,829	13.92	806,014	14.39	(74,185)
Customer installation expense	377,129	7.18	312,197	6.98	64,932
Miscellaneous distribution expense	322	0.01	291	0.01	31
Rents	324,085	6.17	316,504	8.05	7,581
Total distribution operation	$ 1,608,248	30.61 %	$ 1,587,161	33.30 %	$ 21,087
Distribution Maintenance					
Supervision and engineering	$ 12,118	0.23 %	$ 27,497	0.36 %	$ (15,379)
Hub expenses	36,915	0.70	26,203	0.39	10,712
General maintenance	3,329	0.06	4,711	0.03	(1,382)
Maintenance underground services	1,415	0.03	104	0.00	1,311
Total distribution maintenance	$ 53,777	1.02 %	$ 58,515	0.78 %	$ (4,738)
Customer Accounts					
Billing expense	$ 59,481	1.13 %	$ 71,581	1.71 %	$ (12,100)
Customer records and collection expense	136,245	2.59	86,655	1.99	49,590
Uncollectible accounts	7,971	0.15	14,137	0.87	(6,166)
Customer assistance expense	33,017	0.63	6,260	0.17	26,757
Total customer accounts	$ 236,714	4.50 %	$ 178,633	4.74 %	$ 58,081

Continued

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

	Year Ended June 30, 2022		Year Ended June 30, 2021		
	Amount	Percent	Amount	Percent	Increase (Decrease)
Sales Expense					
Demonstrating and selling expense	$ 15,024	0.29 %	$ 14,024	0.32 %	$ 1,000
Advertising expense	32,060	0.61	28,150	0.58	3,910
Total sales expense	$ 47,084	0.90 %	$ 42,174	0.90 %	$ 4,910
Administrative and General					
Administrative and office salaries	$ 132,947	2.53 %	$ 115,080	2.74 %	$ 17,867
Office supplies and expense	48,960	0.93	46,481	1.03	2,479
Meeting expenses	19,495	0.37	525	0.27	18,970
Outside services employed	85,744	1.63	50,648	0.95	35,096
Property insurance	32,100	0.61	19,167	0.51	12,933
Injuries and damages	30,033	0.57	29,239	0.65	794
Employees pension and other benefits	640,583	12.19	739,634	16.85	(99,051)
General advertising	930	0.02	19	0.00	911
Miscellaneous general expense	8,515	0.16	8,795	0.12	(280)
Maintenance	160,824	3.06	146,143	3.11	14,681
Total administrative and general	$ 1,160,131	22.07 %	$ 1,155,731	26.23 %	$ 4,400

INTERNAL CONTROL AND COMPLIANCE

ANNA B. GENTRY HERR, CPA, CFE

WALTER G. CUMMINGS, CPA

4443 CANTON PIKE
HOPKINSVILLE, KY 42240

270.886.6355

DUGUID, GENTRY & ASSOCIATES, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS

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, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's basic financial statements and have issued our report thereon dated October 20, 2022.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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 20, 2022

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
SUMMARY SCHEDULE OF PRIOR YEAR FINDING
JUNE 30, 2022

Financial Statement Findings

2021-001 INTERNAL CONTROLS

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

Current Status – This finding was not repeated for June 30, 2022.