HOPKINSVILLE ELECTRIC SYSTEM

OF THE

CITY OF HOPKINSVILLE, KENTUCKY

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

JUNE 30, 2024 AND 2023

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

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, 2024 and 2023, 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, 2024 and 2023, 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 Opinions

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 Auditor's 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 opinions.

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.

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 other required supplementary information 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 audits were conducted for the purpose of forming opinions 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. 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2024, 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.

DGA, PSC

DGA, PSC

Certified Public Accountants
Hopkinsville, Kentucky

October 21, 2024

MANAGEMENT’S DISCUSSION AND ANALYSIS

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2024

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, 2024. 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 2024 fiscal year by $18.3M (*net position*).
- The System's total net position increased by $2.3M during the period.
- Total operating revenues for the 2024 fiscal year increased by $6M or about 13.72% compared to the previous period.
- FY 2024 operating expenses totaled $47M which was $3.3M or about 7.58% 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, 2024

Over the past year, total assets of the System increased by $2.2M while total liabilities decreased by ($5.3M). Also, deferred outflows of resources decreased by ($741K) while deferred inflows of resources increased by $2.8M. The net operating income of the System totaled $2.4M. Net operating income included $1.5M from Electric and $936K 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.

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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 2023 to FY 2024	
	2024	2023	Amount	Percent
ASSETS				
Current and other assets	$ 15,949,353	$ 14,684,585	$ 1,264,768	8.61%
Capital assets	42,303,123	41,416,820	886,303	2.14%
Total assets	58,252,476	56,101,405	2,151,071	3.83%
DEFERRED OUTFLOWS OF RESOURCES	3,645,494	4,386,661	(741,167)	-16.90%
LIABILITIES				
Current liabilities	10,566,730	8,923,872	1,642,858	18.41%
Long-term liabilities	27,139,984	32,426,864	(5,286,880)	-16.30%
Total liabilities	37,706,714	41,350,736	(3,644,022)	-8.81%
DEFERRED INFLOWS OF RESOURCES	5,911,158	3,144,338	2,766,820	87.99%
NET POSITION				
Invested in capital assets, net of related debt	23,859,966	21,826,437	2,033,529	9.32%
Restricted for capital projects	1,272,997	4,194,462	(2,921,465)	-69.65%
Unrestricted	(6,852,865)	(10,027,907)	3,175,042	31.66%
Total net position	$ 18,280,098	$ 15,992,992	$ 2,287,106	14.30%

Assets and Deferred Outflows

Net additions to plant in 2023-2024 amounted to $6.2M.

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 a decrease of ($224k). Cash balances increased $1.4M. Deferred charges decreased $(12K). Investment in affiliated organizations increased by $146K. Heat pump loans decreased by ($52K). These changes net to the overall increase of $1.3M in current and other assets listed above.

Liabilities, Deferred Inflows and Net Position

Liabilities decreased by ($3.7M). Principal payments on debt reduced revenue bonds payable by ($1.1M), and net pension and other postemployment benefits liabilities decreased by ($4.3M).

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.

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 ($24M or 130.52% 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 2023 to FY 2024	
	2024	2023	Amount	Percent
Invested in capital assets, net of related debt	$ 23,859,966	$ 21,826,437	$ 2,033,529	9.32%
Restricted for capital projects	1,272,997	4,194,462	(2,921,465)	-69.65%
Unrestricted	(6,852,865)	(10,027,907)	3,175,042	31.66%
	$ 18,280,098	$ 15,992,992	$ 2,287,106	14.30%

During the 2024 fiscal year, *Net Position Invested in Capital Assets, Net of Related Debt* increased by $2M or 9.32% 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 an increase in the *Unrestricted Net Position* category of $3.2M or 31.66%.

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, 2024 and 2023 balances by asset classification are shown in the table below.

TABLE 3
COMPARISON OF CURRENT ASSETS

	Fiscal Year		Change from FY 2023 to FY 2024	
	2024	2023	Amount	Percent
Cash and cash equivalents	$ 8,289,884	$ 6,882,857	$ 1,407,027	20.44%
Accounts receivable (net)	3,590,366	4,091,510	(501,144)	-12.25%
Unbilled revenue	1,504,562	1,197,133	307,429	25.68%
Inventories	1,111,343	1,141,364	(30,021)	-2.63%
Prepaid expenses	203,445	219,072	(15,627)	-7.13%
Other current assets	115,649	100,095	15,554	15.54%
	$ 14,815,249	$ 13,632,031	$ 1,183,218	8.68%

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.

TABLE 4
COMPARISON OF NONCURRENT ASSETS

	Fiscal Year		Change from FY 2023 to FY 2024	
	2024	2023	Amount	Percent
Investment in affiliated organization	$ 897,952	$ 751,861	$ 146,091	19.43%
Deferred charges	136,162	148,602	(12,440)	-8.37%
Heat pump loans	99,990	152,091	(52,101)	-34.26%
Capital assets (net)	42,303,123	41,416,820	886,303	2.14%
	$ 43,437,227	$ 42,469,374	$ 967,853	2.28%

The table above demonstrates the relatively large investment that the System has made in capital assets. At the end of the 2024 fiscal year, capital assets represented about 97.39% 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.

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TABLE 5
COMPARISON OF CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED NET POSITION

	Fiscal Year		Change from FY 2023 to FY 2024	
	2024	2023	Amount	Percent
Accounts payable - purchased power	$ 5,197,109	$ 4,206,552	$ 990,557	23.55%
Accounts payable - other	824,143	701,570	122,573	17.47%
Customer deposits	2,283,268	1,540,023	743,245	48.26%
Accrued taxes	326,922	327,245	(323)	-0.10%
Accrued interest	153,980	163,222	(9,242)	-5.66%
Deferred revenue - MuniNet	120,629	142,287	(21,658)	-15.22%
Compensated absences	145,411	151,101	(5,690)	-3.77%
Deferred revenue	260,047	318,925	(58,878)	-18.46%
Other current and accrued liabilities	261,927	169,039	92,888	54.95%
	$ 9,573,436	$ 7,719,964	$ 1,853,472	24.01%

Current Liabilities Payable from Unrestricted Assets had a net increase in its various components of $1.9M or about 24.01% 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.

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As indicated in Table 6, the change in net position for the fiscal year ended June 30, 2024 was $2.3M.

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

	Fiscal Year ended June 30		Change from FYE 2023 to FYE 2024	
	2024	2023	Amount	Percent
OPERATING REVENUES				
Electric revenues	$39,974,349	$37,005,070	$ 2,969,279	8.02%
Telecom revenues	9,663,400	6,645,169	3,018,231	45.42%
Total operating revenues	49,637,749	43,650,239	5,987,510	13.72%
OPERATING EXPENSES				
Purchased power	28,836,587	27,214,707	1,621,880	5.96%
Other expenses	18,409,669	16,703,603	1,706,066	10.21%
Total operating expenses	47,246,256	43,918,310	3,327,946	7.58%
Net operating revenues (expenses)	2,391,493	(268,071)	2,659,564	992.11%
Net non-operating revenues (expenses)	(104,387)	(187,884)	83,497	44.44%
Change in net position	2,287,106	(455,955)	2,743,061	601.61%
Net position, beginning of year	15,992,992	16,448,947	(455,955)	-2.77%
Net position, end of year	$18,280,098	$15,992,992	$ 2,287,106	14.30%

Analysis of Revenue

For the 2024 fiscal year, the *Operating Revenues* of the System totaled $49.6M. This amount represented an increase of 13.72% when compared to the previous year's total of $44.6M.

Included in the *Non-operating Revenues (Expenses)* of ($104K) is interest income of $382K, interest expense of ($527K), amortization expense of $17.9K and other income of $23.7K.

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Analysis of Expenses

The *Total Operating Expenses* for FY 2024 were $47M. That amount represents an increase of $3.3M or about 7.58% more than the prior fiscal year total of $44M. 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 2023 to FY 2024	
	2024	2023	Amount	Percent
Cost of power	$ 28,836,587	$ 27,214,707	$ 1,621,880	5.96%
Cost of sales - telecom	2,931,345	1,635,697	1,295,648	79.21%
Distribution				
Operation	4,409,596	3,419,720	989,876	28.95%
Maintenance	1,365,884	1,531,647	(165,763)	-10.82%
Customer accounts	2,111,515	1,661,239	450,276	27.10%
Sales	182,122	169,470	12,652	7.47%
Administrative and general	2,602,030	3,638,726	(1,036,696)	-28.49%
Depreciation	3,201,445	3,050,577	150,868	4.95%
Taxes	1,605,732	1,596,527	9,205	0.58%
	$ 47,246,256	$ 43,918,310	$ 3,327,946	7.58%

As indicated by the comparative information presented above, *Cost of Power* increased by $1.6M or 5.96% compared to the prior year.

Capital Assets

Hopkinsville Electric System's investment in capital assets as of June 30, 2024 was $42M (net of accumulated depreciation), as shown in the following table.

TABLE 8
SCHEDULE OF CAPITAL ASSETS (NET OF DEPRECIATION)

	Fiscal Year		Increase
	2024	2023	(Decrease)
Land	$ 326,709	$ 326,709	$ -
Construction in progress			
Electric	453,107	1,523,801	(1,070,694)
Telecommunications	931,145	(602,998)	1,534,143
Transmission plant	328,030	348,023	(19,993)
Distribution plant	22,330,295	20,891,827	1,438,468
General plant	4,279,536	5,283,390	(1,003,854)
Telecommunications plant	13,654,301	13,646,068	8,233
Total capital assets	$ 42,303,123	$ 41,416,820	$ 886,303

2023 - Included in the telecommunications construction work in progress is grant funding which explains the negative balance.

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, 2024, the System had $18M long-term debt outstanding, a net decrease of ($1.1M) or approximately 5.86% less than the previous fiscal year. The System's debt is comprised of various bonds and notes. A comparative schedule at June 30, 2024 and 2023 is shown in the tabular information provided below.

**TABLE 9
SCHEDULE OF LONG-TERM DEBT**

	Fiscal Year		Increase
	2024	2023	(Decrease)
KY League of Cities leases	$ -	$ 156,023	$ (156,023)
Revenue bond - 2013A	-	17,500	(17,500)
KIA loan 2018	3,587,455	3,771,590	(184,135)
Revenue bond - 2020	5,690,000	5,890,000	(200,000)
Revenue bond - 2021F	9,170,000	9,760,000	(590,000)
	$ 18,447,455	$ 19,595,113	$ (1,147,658)

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

<u>Economic Factors</u>

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, due to increased energy efficiency measures electric sales continue to trend downward by a small percentage like other municipal electric utilities nationwide, HES's customer base continues to remain stable, however there are opportunities for future residential and commercial load growth through electric vehicle charging, data processing and AI - related services. In FY 2024 the local power company added a data mining facility to its system load, which led to growth in industrial customer revenues by 61%.

The largest effect on our financial condition is the cost of our wholesale power from Tennessee Valley Authority (TVA). Approximately 73.88% of our electric revenues go to pay our TVA power bill. In October 2024, TVA implemented a 5.25% wholesale rate increase resulting in a 3.35% retail rate increase. HES added an additional 1.9% to help withstand the dramatic cost increases in all areas of our business, while also providing the financial stability to look toward future system investment needs. The majority of the HES rate increase is through the per KWh usage charge. This is a variable amount that HES will receive based on weather conditions and allows customers to better manage their monthly energy bills through efficiency measures. With the growing energy demand throughout the Tennessee Valley region, we can expect more frequent rate increases to fund the construction of more TVA transmission and generation assets.

Economic Factors, continued

In 2021 HES and energynet entered into agreements with Pennyrile RECC and the Fiscal Courts of Christian, Todd, Trigg, Caldwell, Muhlenberg, Logan, and Lyon Counties to provide high speed fiber internet service within the Pennyrile RECC service area. All of these counties have committed a significant portion of their Federal American Rescue Act Grant money to be used for fiber infrastructure construction. This has resulted in a dramatic increase in energynet's customer base and will provide a strong revenue source for our company. Energynet currently has over 12,500 total broadband customers within the City of Hopkinsville and PRECC's seven county service area.

The Electric Plant Board of the City of Hopkinsville, Kentucky DBA Hopkinsville Electric System and energynet continues to assess, anticipate, and respond to changes in economic factors to ensure we accomplish our mission 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, 2024 AND 2023

	2024	2023
ASSETS		
Capital assets		
Nondepreciable	$ 1,710,960	$ 1,247,510
Depreciable, net of accumulated depreciation	40,592,163	40,169,310
Net capital assets	42,303,123	41,416,820
Restricted assets		
Cash	1,272,997	4,194,462
Other assets		
Investment in affiliated organizations	897,952	751,861
Heat pump loans	99,990	152,091
Total other assets	997,942	903,952
Current assets		
Cash - general funds	7,016,887	2,688,395
Accounts receivable (less accumulated provision for uncollectible accounts of $25,071 in 2024 and $32,457 in 2023)	3,590,366	4,091,510
Unbilled revenue	1,504,562	1,197,133
Inventories (at weighted-average cost)	1,111,343	1,141,364
Prepaid expenses	203,445	219,072
Other current assets	115,649	100,095
Total current assets	13,542,252	9,437,569
Deferred charges	136,162	148,602
Total assets	58,252,476	56,101,405
DEFERRED OUTFLOWS OF RESOURCES		
OPEB related	1,044,054	1,621,248
Pension related	2,601,440	2,765,413
Total deferred outflows of resources	3,645,494	4,386,661

Continued

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF NET POSITION, continued
JUNE 30, 2024 AND 2023

	2024	2023
LIABILITIES		
Current liabilities		
Revenue bonds payable	993,294	1,203,908
Accounts payable - purchased power	5,197,109	4,206,552
Accounts payable - other	824,143	701,570
Customer deposits	2,283,268	1,540,023
Accrued taxes	326,922	327,245
Accrued interest	153,980	163,222
Unearned revenue - MuniNet	120,629	142,287
Deferred revenue	260,047	318,925
Compensated absences	145,411	151,101
Other current and accrued liabilities	261,927	169,039
Total current liabilities	10,566,730	8,923,872
Noncurrent liabilities		
Revenue bonds payable	17,449,863	18,386,475
Compensated absences	223,164	227,006
Net OPEB liability	(205,902)	2,929,127
Net pension liability	9,569,452	10,731,326
Advances from others		
Conservation advances - TVA	103,407	152,930
Total noncurrent liabilities	27,139,984	32,426,864
Total liabilities	37,706,714	41,350,736
DEFERRED INFLOWS OF RESOURCES		
OPEB related	3,721,887	1,606,290
Pension related	2,189,271	1,538,048
Total deferred inflows of resources	5,911,158	3,144,338
NET POSITION		
Invested in capital assets, net of related debt	23,859,966	21,826,437
Restricted	1,272,997	4,194,462
Unrestricted	(6,852,865)	(10,027,907)
Total net position	$ 18,280,098	$ 15,992,992

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, 2024 AND 2023

	2024	2023
OPERATING REVENUES	$ 49,637,749	$ 43,650,239
OPERATING EXPENSES		
Cost of power	28,836,587	27,214,707
Cost of sales - telecommunications	2,931,345	1,635,697
Distribution		
Operation	4,409,596	3,419,720
Maintenance	1,365,884	1,531,647
Customer accounts	2,111,515	1,661,239
Sales	182,122	169,470
Administrative and general	2,602,030	3,638,726
Depreciation and amortization	3,201,445	3,050,577
Taxes	1,605,732	1,596,527
Total operating expenses	47,246,256	43,918,310
Net operating revenues (expenses)	2,391,493	(268,071)
NON-OPERATING REVENUES (EXPENSES)		
Interest on long-term debt	(458,073)	(527,064)
Other interest	(69,237)	(37,196)
Amortization of debt expense	17,936	(11,183)
Interest income	382,103	274,864
Gain (loss) on sale of fixed assets	23,783	84,500
Other revenue (expenses)	(899)	28,195
Net non-operating revenues (expenses)	(104,387)	(187,884)
Change in net position	2,287,106	(455,955)
Net position, beginning of year	15,992,992	16,448,947
Net position, end of year	$ 18,280,098	$ 15,992,992

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, 2024 AND 2023

	2024	2023
Cash flows from operating activities		
Receipts from customers and users	$ 49,815,910	$ 42,947,127
Payments to suppliers	(37,196,281)	(36,022,821)
Payments to employees	(4,114,436)	(4,161,455)
Payments of taxes	(1,606,055)	(1,648,621)
Net cash provided (used) by operating activities	6,899,138	1,114,230
Cash flows from capital financing activities		
Expenditures for utility plant	(6,159,437)	(3,854,903)
Net cost of retiring plant	2,118,132	260,407
Principal payments on long-term debt	(1,147,658)	(1,976,863)
Payments on line of credit	-	(600,000)
Conservation advances from TVA	(49,523)	(128,093)
Interest paid	(533,678)	(473,231)
Net cash provided (used) by capital financing activities	(5,772,164)	(6,772,683)
Cash flows from investing activities		
Conservation loan receivable	52,101	111,427
Investment in affiliated organizations	(146,091)	(101,178)
Proceeds from the sale of fixed assets	23,783	84,500
Interest and other revenues	350,260	255,991
Net cash provided (used) by investing activities	280,053	350,740
Net increase (decrease) in cash	1,407,027	(5,307,713)
Cash, beginning of year	6,882,857	12,190,570
Cash, end of year	8,289,884	6,882,857
Less restricted funds	(1,272,997)	(4,194,462)
Cash, end of year, per statement of net position	$ 7,016,887	$ 2,688,395

Continued

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF CASH FLOWS, continued
FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

	2024	2023
Reconciliation of operating income to net cash provided by operating activities		
Net operating revenues	$ 2,391,493	$ (268,071)
Adjustments to reconcile net operating revenues to net cash provided by operating activities		
Depreciation	3,155,002	3,031,617
Changes in assets and liabilities		
Receivables	485,590	(1,064,408)
Unbilled revenues	(307,429)	361,296
Materials and supplies	30,021	(363,448)
Prepaid expenses	15,627	(52,839)
Accounts payable	1,113,130	(731,799)
Deferred pension and postemployment benefits amounts	(788,916)	261,961
Accrued taxes	(323)	(52,094)
Other current and accrued liabilities	92,888	33,288
Compensated absences	(9,532)	(56,551)
Customer deposits	743,245	18,816
Unearned revenue - MuniNet	(21,658)	(3,538)
Total adjustments	4,507,645	1,382,301
	$ 6,899,138	$ 1,114,230

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, the Board, 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, 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 $368,575 and $378,108 for the years ended June 30, 2024 and 2023, 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, 2024 and 2023.

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 21, 2024, 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, 2024 and 2023.

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, 2024 and 2023.

Disaggregation of revenue

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended June 30, 2024 and 2023:

	2024	2023
Residential	$ 14,630,235	$ 15,068,989
Small commercial	5,589,463	5,569,275
Large commercial	17,947,059	14,579,280
Public lights	863,061	857,637
Rent from electric property	393,104	384,565
Miscellaneous service revenue	551,427	545,324
Telecommunications	9,663,400	6,645,169
	$ 49,637,749	$ 43,650,239

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, 2024 and 2023:

	2024	2023
Contract assets		
Unbilled electric/fiber revenue	$ 1,504,562	$ 1,197,133
Contract liabilities		
Customer deposits	$ 2,283,268	$ 1,540,023

NOTE 3 – BOARD PLANT AND DEPRECIATION PROCEDURES

A summary of changes in major classifications of the System plant in service as of June 30, 2024 follows:

	Balance June 30, 2023	Additions	Deductions	Balance June 30, 2024
Utility plant not depreciated				
Land	$ 326,709	$ -	$ -	$ 326,709
Construction in progress - electric	1,523,799	-	1,070,692	453,107
Construction in progress - telecommunications	(602,998)	6,546,274	5,012,132	931,144
Total utility plant not depreciated	1,247,510	6,546,274	6,082,824	1,710,960
Utility plant depreciated				
Transmission plant	730,867	-	-	730,867
Distribution plant	34,601,020	2,279,221	203,542	36,676,699
General plant	18,594,997	31,112	-	18,626,109
Telecommunications plant	19,480,536	3,385,654	2,367,030	20,499,160
Total utility plant depreciated	73,407,420	5,695,987	2,570,572	76,532,835
Accumulated depreciation	(33,238,110)	(3,161,815)	459,253	(35,940,672)
Total utility plant depreciated, net	40,169,310	2,534,172	2,111,319	40,592,163
Total utility plant	$ 41,416,820	$ 9,080,446	$ 8,194,143	$ 42,303,123

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

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, 2023 follows:

	Balance June 30, 2022	Additions	Deductions	Balance June 30, 2023
Utility plant not depreciated				
Land	$ 326,709	$ -	$ -	$ 326,709
Construction in progress - electric	1,618,434	-	94,635	1,523,799
Construction in progress - telecommunications	1,063,670	-	1,666,668	(602,998)
Total utility plant not depreciated	3,008,813	-	1,761,303	1,247,510
Utility plant depreciated				
Transmission plant	730,867	-	-	730,867
Distribution plant	34,042,723	764,884	206,587	34,601,020
General plant	18,691,078	110,454	206,535	18,594,997
Telecommunications plant	15,109,894	4,740,858	370,216	19,480,536
Total utility plant depreciated	68,574,562	5,616,196	783,338	73,407,420
Accumulated depreciation	(30,729,424)	(3,045,612)	536,926	(33,238,110)
Total utility plant depreciated, net	37,845,138	2,570,584	246,412	40,169,310
Total utility plant	$ 40,853,951	$ 2,570,584	$ 2,007,715	$ 41,416,820

Included in the telecommunications construction work in progress is grant funding which supports the negative balance.

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	4.00
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	7.25
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, 2024 and 2023 are summarized as follows:

	2024	2023
Accumulated provision for depreciation, July 1	$ 33,238,110	$ 30,729,424
Add		
Depreciation charged directly to expense	3,140,188	2,986,972
Depreciation charged to transportation - clearing	14,814	44,645
Other additions	6,813	13,995
Subtotal	36,399,925	33,775,036
Deduct		
Original cost of plant retired	229,502	292,960
Cost of removal less salvage	319,755	124,730
Salvage	(79,302)	(86,726)
Other subtractions	(10,702)	205,962
Total charges against provision	459,253	536,926
Accumulated provision for depreciation, June 30	$ 35,940,672	$ 33,238,110

NOTE 4 – CASH AND CASH EQUIVALENTS

At June 30, 2024, the System's deposits in depository institutions had a carrying amount of $8,289,884 and bank balances of $8,669,234. At June 30, 2024, the deposits were covered entirely by FDIC insurance or a properly executed collateral security agreement. At June 30, 2023, the System's deposits in depository institutions had a carrying amount of $6,882,857 and bank balances of $6,925,476.46. At June 30, 2023, 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:

	2024	2023
Change funds	$ 1,750	$ 1,750
Checking accounts	6,999,711	2,673,823
TVA power bill early payment	2,606	2
Other	12,820	12,820
Total	$ 7,016,887	$ 2,688,395

Restricted cash at June 30 consisted of:

	2024	2023
2007 Telecom bond issue fund	$ -	$ 4
Series 2018 note proceeds	1,230	1,171
KIA 2008 maintenance and replacement	44,525	19,615
First Financial Health Plan	71,769	64,639
2020 Bond issue	582,384	553,759
2021F Debt service revenue	205,700	205,700
2021F Construction fund	-	3,001,125
BYN Mellon bond sinking fund	367,389	348,449
Total investments	$ 1,272,997	$ 4,194,462

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, 2024 and 2023, 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:

	2024	2023
Accounts receivable		
Electric	$ 2,730,070	$ 1,955,841
Fiber grant	-	1,333,534
Telecom	853,978	626,221
Other miscellaneous	51,434	208,371
	3,635,482	4,123,967
Less		
Reserve for uncollectible accounts	(45,116)	(32,457)
Total net receivables	$ 3,590,366	$ 4,091,510

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, 2024		June 30, 2023	
	Amount	Percent	Amount	Percent
Accounts having discount dates after June 30	$ 1,658,716	45.63%	$ 2,407,199	58.37%
Accounts less than one month past due	1,858,455	51.12%	1,646,854	39.94%
Accounts 31 to 60 days past due	66,434	1.83%	17,108	0.41%
Accounts 61 to 90 days past due	12,021	0.33%	8,210	0.20%
Accounts over 90 days past due	39,856	1.10%	44,596	1.08%
	$ 3,635,482	100.00%	$ 4,123,967	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, 2024. 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:

	2024	2023
Beginning balance	$ 32,457	$ 38,394
Monthly additions and adjustments	102,000	102,000
Charge-off of bad accounts	(109,386)	(107,937)
Balance, June 30	$ 25,071	$ 32,457

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:

	2024	2023
Deferred costs on bond issue - 2007	$ -	$ 831
Deferred costs on bond issue - 2013 KLC	-	2,939
Deferred costs on bond issue - 2020	69,638	73,021
Deferred costs on bond issue - 2021F	66,524	71,811
Total	$ 136,162	$ 148,602

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%	2/1/2045
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.

NOTE 8 – LONG-TERM OBLIGATIONS, continued

The changes in outstanding debt as of June 30, 2024 follows:

	Balance July 1, 2023	Additions	Deductions	Balance June 30, 2024	Amounts Due Within One Year
Revenue bonds	$ 19,595,113	$ -	$ 1,147,658	$ 18,447,455	$ 993,294
Premium (discount)	(4,730)	432	-	(4,298)	-
Compensated absences	378,107	-	9,532	368,575	145,411
Net OPEB liability	2,929,127	-	3,135,029	(205,902)	-
Net pension liability	10,731,326	-	1,161,875	9,569,452	-
Total long-term liabilities	$ 33,628,943	$ 432	$ 5,454,094	$ 28,175,282	$ 1,138,705

The changes in outstanding debt as of June 30, 2023 follows:

	Balance July 1, 2022	Additions	Deductions	Balance June 30, 2023	Amounts Due Within One Year
Revenue bonds	$ 21,571,976	$ -	$ 1,976,863	$ 19,595,113	$ 1,203,908
Premium (discount)	(7,604)	2,874	-	(4,730)	-
Compensated absences	434,658	174,228	230,779	378,107	151,101
Net OPEB liability	2,955,986	-	26,859	2,929,127	-
Net pension liability	9,846,760	884,566	-	10,731,326	-
Total long-term liabilities	$ 34,801,776	$ 1,061,668	$ 2,234,501	$ 33,628,943	$ 1,355,009

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:

	2024	2023
Series 2007	$ 2,666	$ 2,667
Series 2020	208	207
	$ 2,874	$ 2,874

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:

	2024	2023
Series 2007	$ 831	$ 9,980
Series 2013	(27,437)	(7,467)
Series 2020	3,383	3,383
Series 2021F	5,287	5,287
	$ (17,936)	$ 11,183

The following represents principal and interest payments on outstanding debt:

	Series 2007		
	Principal	Interest	Total
2025	$ 156,022	$ 1,516	$ 157,538
	$ 156,022	$ 1,516	$ 157,538

	Series 2013A		
	Principal	Interest	Total
2025	$ 17,500	$ 438	$ 17,938
	$ 17,500	$ 438	$ 17,938

(table continued)

NOTE 8 – LONG-TERM OBLIGATIONS, continued

	KIA B18-009			KIA C18-008		
	Principal	Interest	Total	Principal	Interest	Total
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	119,070	29,619	148,689	82,325	38,013	120,338
2029	121,162	27,526	148,688	84,813	35,526	120,339
2030-2034	638,518	104,929	743,447	464,101	137,586	601,687
2035-2039	696,641	46,806	743,447	538,609	63,081	601,690
2040	146,760	1,929	148,689	117,683	2,655	120,338
	$ 2,067,162	$ 311,863	$ 2,379,025	$ 1,520,293	$ 405,109	$ 1,925,402

	Series 2020			Series 2021 F		
	Principal	Interest	Total	Principal	Interest	Total
2025	$ 205,000	$ 144,437	$ 349,437	$ 600,000	$ 183,650	$ 783,650
2026	215,000	136,238	351,238	615,000	171,650	786,650
2027	225,000	127,638	352,638	630,000	159,350	789,350
2028	230,000	118,638	348,638	645,000	146,750	791,750
2029	235,000	114,038	349,038	660,000	133,850	793,850
2030-2034	1,250,000	495,504	1,745,504	3,515,000	465,950	3,980,950
2035-2039	1,405,000	349,225	1,754,225	2,505,000	109,900	2,614,900
2040-2044	1,585,000	169,344	1,754,344	-	-	-
2045	340,000	8,924	348,924	-	-	-
	$ 5,690,000	$ 1,663,986	$ 7,353,986	$ 9,170,000	$ 1,371,100	$ 10,541,100

	All Series Combined		
	Principal	Interest	Total
2025	$ 993,294	$ 408,818	$ 1,402,112
2026	1,022,557	384,356	1,406,913
2027	1,051,922	359,091	1,411,013
2028	1,076,395	333,020	1,409,415
2029	1,100,975	310,940	1,411,915
2030-2034	5,867,619	1,203,969	7,071,588
2035-2039	5,145,250	569,012	5,714,262
2040-2044	1,849,443	173,928	2,023,371
2045	340,000	8,924	348,924
	$ 18,447,455	$ 3,752,058	$ 22,199,513

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 balance at June 30, 2024 was $0. The line of credit was renewed on July 1, 2024 with a maximum principal amount of $2,000,000.

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 $103,407 and $152,930 as of June 30, 2024 and 2023, respectively.

NOTE 11 – PENSION PLANS

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

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

Plan description – CERS is a cost-sharing multiple-employer defined benefit pension 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 retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Benefits provided – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service.

NOTE 11 – PENSION PLANS, continued

For retirement purposes, employees are grouped into three tiers, based on hire date:

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

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are $5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and $10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

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 fiscal year ended June 30, 2024, 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, 2024 and 2023, participating employers contributed 23.34% and 23.40%, respectively, of each employee's creditable compensation.

NOTE 11 – PENSION PLANS, continued

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

At June 30, 2024 and 2023, the System reported a liability of $9,569,452 and $10,731,326, respectively, for its proportionate share of the net pension liability. The net pension liability of the plan was measured as of June 30, 2023 and 2022, 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, 2024 and 2023, the System's proportion was 0.149138% and 0.148448%, respectively.

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, 2023 and 2022, the System recognized pension expense of $693,332 and $1,050,547, respectively, related to CERS.

At June 30, 2024 and 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2024		2023	
	Deferred Outflows of Resources	Deferred Inflows Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 495,392	$ 26,003	$ 11,473	$ 95,567
Changes in assumptions	-	877,047	-	-
Net difference between projected and actual earnings on pension plan investments	1,033,772	1,164,304	1,460,212	1,185,100
Changes in proportion and differences between contributions and proportionate share of contributions	32,267	121,917	280,716	257,381
System's contributions subsequent to the measurement date	1,040,009	-	1,013,012	-
Total	$ 2,601,440	$ 2,189,271	$ 2,765,413	$ 1,538,048

NOTE 11 – PENSION PLANS, continued

The amounts of $1,040,009 and $1,013,012, respectively, 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 years ended June 30, 2025 and 2024.

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	
2024	$ (396,643)
2025	(352,183)
2026	213,629
2027	(92,643)
2028	-
Thereafter	-
Total	$ (627,840)

Actuarial assumptions – For financial reporting, the actuarial valuation as of June 30, 2023, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2023 were based on an actuarial valuation date of June 30, 2022. The total pension liability was rolled forward from the valuation date to the plan's fiscal year ending June 30, 2023, using generally accepted actuarial principles.

The CERS Board of Trustees adopted new actuarial assumptions on May 9, 2023 and include a change in the investment return assumption from 6.25% to 6.50%. The KRS Board of Trustees adopted new actuarial assumptions on June 5, 2023. These assumptions are documented in the report titled "2022 Actuarial Experience Study for the Period Ending June 30, 2022." The total pension liability as of June 30, 2023, is determined using these updated assumptions.

House Bill 506 passed during the 2023 legislative session and reinstated the Partial Lump Sum Option form of payment for members who retire on and after January 1, 2024, with the lump-sum options expanded to include 48 or 60 times the member's monthly retirement allowance. Since this optional form of payment results in a reduced, actuarial equivalent, monthly retirement allowance for members who elect a partial lump-sum option, this provision does not have a fiscal impact to the total pension liability.

NOTE 11 – PENSION PLANS, continued

House Bill 506 also adjusted the minimum required separation period before a retiree may become reemployed and continue to receive their retirement allowance to one month under all circumstances. This is a minimal change for members in the hazardous plans, as the minimum separation period was already one month for members who became reemployed on a full-time basis in a hazardous position. The requirement was previously three months only for members who became reemployed on a part-time basis or in any nonhazardous position. GRS believes this provision of House Bill 506 will have an insignificant impact on the retirement pattern of hazardous members and therefore have reflected no fiscal impact to the total pension liability of the hazardous plan. Similarly, this is a relatively small change for future retirees in the nonhazardous plans.

But as the minimum separation period was previously three months in almost every circumstance, GRS assumed that there would be a one percent (1%) increase in the rate of retirement for each of the first two years a nonhazardous member becomes retirement eligible under the age of 65 in order to reflect a shift in the retirement pattern. The total pension liability as of June 30, 2023, for the nonhazardous plans is determined using these updated benefits provisions.

Based on the June 30, 2023 actuarial valuation report, the actuarial methods and assumptions used to calculate the required contributions are below.

NOTE 11 – PENSION PLANS, continued

Determined by the Actuarial Valuation as of:	June 30, 2021
Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization Method:	Level percent of pay
Amortization Period:	30-year closed period at June 30, 2019 *Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases*
Payroll Growth Rate:	2.00%
Investment Return:	6.25%
Inflation:	2.30%
Salary Increases:	3.30% to 10.30%, varies by service
Mortality:	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
Phase-in provision:	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

NOTE 11 – PENSION PLANS, continued

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

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

2023 Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equity		
Public equity	50.00%	5.90%
Private Equity	10.00%	11.73%
Fixed Income		
Core Bonds	10.00%	2.45%
Specialty Credit/High Yield	10.00%	3.65%
Cash	0.00%	1.39%
Inflation Protected		
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
Expected Term Inflation Assumption	**100%**	**5.75%**
Long Term Inflation Assumption		**2.50%**
Expected Nominal Return for Portfolio		**8.25%**

NOTE 11 – PENSION PLANS, continued

2022 Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equity		
Public equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Fixed Income		
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Inflation Protected		
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Expected Term Inflation Assumption	**100%**	**4.28%**
Long Term Inflation Assumption		**2.30%**
Expected Nominal Return for Portfolio		**6.58%**

Discount rate – The single discount rate used to measure the total pension liability for the fiscal year ending June 30, 2023 was 6.50% for nonhazardous and hazardous employees. The projection of cash flows used to determine the single discount rate for each plan must include an assumption regarding actual employer contributions made each future year. Except where noted below, future contributions are projected assuming that each participating employer in each pension 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 employee 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. The discount rate determination does not use a municipal bond rate.

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.

NOTE 11 – PENSION PLANS, continued

	1% Decrease	Current Discount Rate	1% Increase
2023	5.50%	6.50%	7.50%
System's proportionate share of net pension liability	$ 12,082,012	$ 9,569,452	$ 7,481,421
2022	5.25%	6.25%	7.25%
System's proportionate share of net pension liability	$ 13,412,826	$ 10,731,326	$ 8,513,503

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, 2024 and 2023, 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.

<u>System's 401 (k) plan</u>

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 $138,232 and $132,251 in the years ended June 30, 2024 and 2023, 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), Hopkinsville Electric System 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.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

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.

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 fiscal years ended June 30, 2024 and 2023, required contribution was 0.00% and 3.39%, respectively, of each employee’s covered payroll. Contributions from the System to the CERS Insurance Fund for the years ended June 30, 2024 and 2023, were $0 and $146,757, respectively.

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

At June 30, 2024 and 2023, the System reported a liability of ($205,902) and $2,929,127, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2023, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2022. The total OPEB liability was rolled forward from the valuation date to the plan’s fiscal year-end, June 30, 2023, 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, 2024 and 2023, the System’s proportion for the non-hazardous system was 0.149132% and 0.148422%, respectively.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

For the measurement periods ended June 30, 2023 and 2022, the System recognized OPEB expense of ($375,117) and $465,933, respectively. At June 30, 2024 and 2023, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2024		2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 143,545	$ 2,923,597	$ 294,841	$ 671,717
Changes of assumptions	405,200	282,384	463,262	381,725
Net difference between projected and actual earnings on OPEB plan investments	385,337	433,123	545,434	426,548
Changes in proportion and differences between employer contributions and proportionate share of contributions	109,972	82,783	170,954	126,300
System's contributions subsequent to the measurement date	-	-	146,757	-
Total	$ 1,044,054	$ 3,721,887	$ 1,621,248	$ 1,606,290

The amounts of $0 and $146,757, respectively, 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 years ending June 30, 2025 and 2024.

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	
2024	$ (637,230)
2025	(814,406)
2026	(663,532)
2027	(562,665)
2028	-
Thereafter	-
Total	$ (2,677,833)

Actuarial assumptions – The total OPEB liability, net OPEB liability and sensitivity information in the June 30, 2023 actuarial valuation was based on an actuarial valuation date of June 30, 2022. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year ending June 30, 2022, using generally accepted actuarial principles. The CERS Board of Trustees adopted new actuarial assumptions on May 9, 2023. The KRS Board of Trustees adopted new actuarial assumptions on June 5, 2023. These assumptions are documented in the report titled "2022 Actuarial Experiences Study for the Period Ending June 30, 2022". Additionally, the single discount rates used to calculate the total OPEB liability within each plan changed since the prior year. Additional information regarding the single discount rates is provided below. The Total OPEB Liability as of June 30, 2023, is determined using these updated assumptions.

House Bill 506 passed during the 2023 legislative session reinstated the Partial Lump Sum Option form of payment for members who retire on and after January 1, 2024 and adjusted the minimum required separation period before a retiree may become reemployed and continue to receive their retirement allowance to one month for all circumstances.

This is a minimal change for members in the hazardous plans, as the minimum separation period was already one month for members who became reemployed on a full-time basis in a hazardous position. The requirement was previously three months only for members who became reemployed on a part-time basis in any nonhazardous position. GRS believes this provision of House Bill 506 will have an insignificant impact on the retirement pattern of hazardous members and therefore have reflected no fiscal impact to the total OPEB liability of the hazardous plan.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

Similarly, this is a relatively small change for future retirees in the nonhazardous plan. But as the minimum separation period was previously three months in almost every circumstance, GRS assumed that there would be a one percent (1%) increase in the rate of retirement for each of the first two years a nonhazardous member becomes retirement eligible under the age of 65, in order to reflect a shift in the retirement pattern. The total OPEB liability as of June 30, 2023, for the nonhazardous plan is determined using these updated benefit provisions.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

Determine by the Actuarial Valuation as of:	June 30, 2021
Actuarial Cost Method:	Entry age normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization Method:	Level percent of pay
Amortization Period:	30-year closed period at June 30, 2019 *Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases*
Payroll Growth Rate:	2.00%
Investment Rate of Return:	6.25%
Inflation:	2.30%
Salary Increase:	3.30% to 10.30%, varies by service
Mortality:	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.
Healthcare Cost Trend Rates (Pre-65):	Initial trend 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. The 2022 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Healthcare Cost Trend Rates (Post-65):	Initial trend 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. The 2022 premiums were known at the time of the valuation and were incorporated into the liability measurement.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

The actuarial assumption used in the June 30, 2023 valuation were based on the results of an actuarial experience study by Gabriel Roeder Smith (GRS) for a five year period ending June 30, 2022.

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

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

2023 Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equity		
Public equity	50.00%	5.90%
Private Equity	10.00%	11.73%
Fixed Income		
Core Bonds	10.00%	2.45%
Specialty Credit/High Yield	10.00%	3.65%
Cash	0.00%	1.39%
Inflation Protected		
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
Expected Term Inflation Assumption	**100%**	**5.75%**
Long Term Inflation Assumption		**2.50%**
Expected Nominal Return for Portfolio		**8.25%**

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

2022 Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equity		
Public equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Fixed Income		
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Inflation Protected		
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Expected Term Inflation Assumption	**100%**	**4.28%**
Long Term Inflation Assumption		**2.30%**
Expected Nominal Return for Portfolio		**6.58%**

Discount rate – Single discount rates used to measure the total OPEB liability for the years ended June 30, 2023 and 2022 were 5.93% and 5.70% for CERS Non-hazardous plans. The single discount rates are based on the expected rate of return on OPEB plan investments of 6.50%, and a municipal bond rate of 3.86%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2022. 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.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

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.

Implicit subsidy - The fully-insured premiums KPPA pays for the KERS, CERS, and SPRS Health Insurance Plans are blended rates based on the combined experience of active and retired members. Since the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for non-Medicare eligible retirees. Participating employers should adjust their contributions by the implicit subsidy in order to determine the total employer contribution for GASB 75 purposes. This adjustment is needed for contributions made during the measurement period and for the purpose of deferred outflows related to contributions made after measurement date.

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
2023	4.93%	5.93%	6.93%
System's proportionate share of net OPEB liability	$ 386,398	$ (205,902)	$ (701,881)
2022	4.70%	5.70%	6.70%
System's proportionate share of net OPEB liability	$ 3,915,777	$ 2,929,127	$ 2,113,498

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

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

2023	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
CERS			
System's proportionate share of net OPEB liability	$ (659,951)	$ (205,902)	$ 351,855

2022	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
CERS			
System's proportionate share of net OPEB liability	$ 2,177,742	$ 2,929,127	$ 3,831,402

Pension plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at www.kyret.ky.gov.

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, 2024 and 2023:

	2024	2023
Accrued pole rentals	$ 62,321	$ 56,176
Accrued payroll	119,383	112,863
Miscellaneous	80,223	-
	$ 261,927	$ 169,039

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 in fiscal year 2024 was 73.88% and 75.44% in fiscal year 2023. TVA implemented a "Grid Access Charge" in October 2019. The GAC is a way for TVA to recover their fixed cost and lowering the wholesale energy rate by $.00512/kWh. The GAC is based on the previous 5 years' standard service kWh purchases. TVA did allow HES to add a risk premium charge onto the retail energy rate to mitigate the GAC increase and keep HES from suffering a net loss. HES signed a 20-year long term agreement with TVA in September 2019 which included a 3.1% partnership credit on wholesale standard service energy and demand charges.

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

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

Retail Adder: HES' margin is provided by a Retail Adder. HES implemented a customer service charge increase with corresponding decreases in energy charges effective October 2013 - October 2020. The municipal utility did implement a 1.5% local rate increase in energy charges in October 2017. In June 2022, the HES board approved a 1.7% retail rate increase which was equally distributed to all customer classes and will took effect on October 1, 2022. In June 2023, the HES board approved a 3.4% retail rate increase which was equally distributed to all customer classes and took effect on October 1, 2023. In June 2024, the HES board approved a 1.9% retail rate increase which will equally be distributed to all customer classes and will take effect on October 1, 2024.

NOTE 16 – COMMITMENTS

TVA

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

MuniNet

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

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

On April 30, 2013, the Board signed a Resolution approving the Project 2 Participation Agreement among the Board, MuniNet and the other Project 2 participants. 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, 2024 and 2023 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 $141,091 and $96,178, respectively, for administrative and operating costs during fiscal years ended June 30, 2024 and 2023.

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

	2024	2023
Initial investment	$ 5,000	$ 5,000
Project 2 Investment in MuniNet		
Beginning balance July 1	751,861	650,683
Costs incurred	141,091	96,178
	892,952	746,861
Ending balance June 30	$ 897,952	$ 751,861

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

In June 2022, the GASB issued statement No. 100, *Accounting Changes and Error Corrections*. This statement improves the accounting and financial reporting requirements for accounting changes and error corrections to enhance the relevance and comparability of financial information. The requirements of this Statement are effective for fiscal years after June 15, 2023. Adoption of this statement did not have a significant impact on the Utility's financial position or results of operations.

NOTE 18 – SUBSEQUENT EVENT

In September 2024, the System issued 2024F Revenue Bond to fund the approximately $1.5 million update of the Network Operations Center update.

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	2024	2023	2022	2021	2020
System's proportion of net pension liability (asset)	0.149138%	0.148448%	0.154440%	0.143404%	0.143554%
System's proportion share of net pension liability (asset)	$ 9,569,452	$ 10,731,326	$ 9,846,760	$ 10,998,968	$ 10,096,217
System's covered-employee payroll	$ 4,329,112	$ 4,104,904	$ 3,944,797	$ 3,673,288	$ 3,621,038
System's proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	221.05%	261.43%	249.61%	299.43%	278.82%
Plan fiduciary net position as a percentage of total pension liability	57.48%	52.42%	57.33%	47.81%	50.45%

As of June 30	2019	2018	2017	2016	2015
System's proportion of net pension liability (asset)	0.134622%	0.139034%	0.129410%	0.130320%	0.127380%
System's proportion share of net pension liability (asset)	$ 8,198,890	$ 8,138,087	$ 6,371,513	$ 5,603,152	$ 4,224,200
System's covered-employee payroll	$ 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	245.73%	240.41%	206.40%	187.43%	161.29%
Plan fiduciary net position as a percentage of total pension liability	54.54%	53.32%	55.50%	59.97%	66.80%

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	2024	2023	2022	2021	2020
Contractually required contribution	$ 1,040,009	$ 1,013,012	$ 869,008	$ 761,346	$ 708,945
Contributions in relation to the contractually required contribution	1,040,009	1,013,012	869,008	761,346	708,945
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
System's covered employee payroll	$ 4,455,910	$ 4,329,112	$ 4,104,904	$ 3,944,797	$ 3,673,288
Contributions as a percentage of covered employee payroll	23.34%	23.40%	21.17%	19.30%	19.30%

For the year ended June 30	2019	2018	2017	2016	2015
Contractually required contribution	$ 587,332	$ 483,139	$ 632,342	$ 526,645	$ 528,249
Contributions in relation to the contractually required contribution	587,332	483,139	632,342	526,645	528,249
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
System's covered employee payroll	$ 3,621,038	$ 3,336,593	$ 3,385,128	$ 3,087,016	$ 2,989,520
Contributions as a percentage of covered employee payroll	16.22%	14.48%	13.95%	12.42%	12.75%

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)

Notes to Schedule

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

Changes in benefit terms

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2023: No changes in benefit terms.
2022: No changes in benefit terms.
2021: No changes in benefit terms.
2020: No changes in benefit terms.
2019: No changes in benefit terms.
2018: No changes in benefit terms.
2017: No changes in benefit terms.
2016: No changes in benefit terms.
2015: No changes in benefit terms.

Changes in assumptions

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2023: The CERS board of Trustees adopted new actuarial assumptions on May 9, 2023 and include a change in the investment return assumption from 6.25% to 6.50%. The KRS Board of Trustees adopted new actuarial assumptions on June 5, 2023. These assumptions are documented in the report titled "2022 Actuarial Experience Study for the Period Ending June 30, 2022". The total pension liability as of June 30, 2023, is determined using these updated assumptions.

2022: No changes.

2021: During the 2021 legislative session, Senate Bill 169 was enacted which increased disability benefits for certain qualifying members who became "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.

Changes of assumptions, continued

2020: During the legislative session, Senate Bill 249 was enacted which 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 affect the calculation of total pension liability and only affects the calculation of the contribution rates that would be payable starting July 1, 2020. Additionally, House Bill 271 was enacted with 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. This did not have a material (or measurable) impact on the liability of the plans and therefore, no adjustment was made to the total pension liability to reflect this legislation.

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

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

2017: There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for CERS. However, subsequent to the actual valuation date (June 30, 2016), but prior to the measurement date (June 30, 2017), the KRS Board of Trustees adopted updated actuarial assumptions which will be used in performing the actuarial valuation as of June 30, 2017. Specifically, the total pension liability as of June 30, 2017 is determined using a 2.30% price inflation assumption for the non-hazardous system and the assumed rate of return is 6.25% for the non-hazardous system.

2016: There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for CERS. However, subsequent to the actual valuation date (June 30, 2016), but prior to the measurement date (June 30, 2017), the KRS Board of Trustees adopted updated actuarial assumptions which will be used in performing the actuarial valuation as of June 30, 2017. Specifically, the total pension liability as of June 30, 2017 is determined using a 2.30% price inflation assumption for the non-hazardous system and the assumed rate of return is 6.25% for the non-hazardous system.

2015: No changes in assumptions.

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	2024	2023	2022	2021	2020
System's proportion of net OPEB liability (asset)	0.149132%	0.148422%	0.154404%	0.143363%	0.143517%
System's proportionate share of OPEB liability (asset)	$ (205,902)	$ 2,929,127	$ 2,955,986	$ 3,461,779	$ 2,413,891
System's covered - employee payroll	$ 4,329,113	$ 4,104,904	$ 3,944,797	$ 3,673,288	$ 3,621,038
System's proportionate share of net OPEB liability (asset) as a percentage of its covered-employee payroll	-2102.51%	140.14%	133.45%	106.11%	150.01%
Plan fiduciary net position as a percentage of total OPEB liability	104.23%	60.95%	62.91%	51.67%	60.44%

As of June 30	2019	2018
System's proportion of net OPEB liability (asset)	0.134617%	0.139034%
System's proportionate share of OPEB liability (asset)	$ 2,390,098	$ 2,795,059
System's covered - employee payroll	$ 3,336,593	$ 3,385,128
System's proportionate share of net OPEB liability (asset) as a percentage of its covered-employee payroll	139.60%	121.11%
Plan fiduciary net position as a percentage of total OPEB liability	57.62%	52.40%

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	2024	2023	2022	2021	2020
Contractually required OPEB contribution	$ -	$ 146,757	$ 237,263	$ 187,772	$ 174,848
Contributions in relation to the contractually required contribution	$ -	$ 146,757	$ 237,263	$ 187,772	$ 174,848
System's covered-employee payroll	$ 4,455,910	$ 4,329,113	$ 4,104,904	$ 3,944,797	$ 3,673,288
Contributions as a percentage of covered-employee payroll	0.00%	3.39%	5.78%	4.76%	4.76%

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

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)

<u>Notes to Schedule</u>

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

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

<u>Changes of Benefit Terms</u>

2023: No changes of benefit terms.
2022: No changes of benefit terms.
2021: No changes of benefit terms.
2020: No changes of benefit terms.
2019: No changes of benefit terms.
2018: No changes of benefit terms (other than the blended discount rate used to calculate the total OPEB liability).

<u>Changes in assumptions</u>

2023: The CERS Board of Trustees adopted new actuarial assumptions on May 9, 2023. The KRS Board of Trustees adopted new actuarial assumptions on June 5, 2023. These assumptions are documented in the report titled "2022 Actuarial Experiences Study for the Period Ending June 30, 2022". Additionally, the single discount rates used to calculate the total OPEB liability within each plan changed since the prior year. The Total OPEB Liability as of June 30, 2023, is determined using these updated assumptions.

2022: The initial healthcare trend rate for pre-65 was changed from 6.30% to 6.20%. The initial healthcare trend rate for post-65 was changed from 6.30% to 9.00%.

2021: The single discount rates used to calculate the total OPEB liability within the plan changed since the prior year. Additional information regarding the single discount rates is provided in Note 12 of the financial statements. During the 2021 legislative session, Senate Bill 169 was enacted which increased 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.

2020: During the 2020 legislative session, Senate Bill 249 was enacted which 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 total OPEB liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020.

Changes of assumptions, continued

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

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

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, 2024

	ELECTRIC	TELECOM	TOTAL
OPERATING REVENUES	$ 39,974,349	$ 9,663,400	$ 49,637,749
OPERATING EXPENSES			
Cost of power	28,836,587	-	28,836,587
Cost of sales - telecom	-	2,931,345	2,931,345
Distribution			
Operation	1,640,331	2,769,265	4,409,596
Maintenance	1,300,531	65,353	1,365,884
Customer accounts	1,322,190	789,325	2,111,515
Sales	103,239	78,883	182,122
Administrative and general	1,672,702	929,328	2,602,030
Depreciation and amortization	2,170,103	1,031,342	3,201,445
Taxes	1,473,120	132,612	1,605,732
Total operating expenses	38,518,803	8,727,453	47,246,256
Net operating revenues	1,455,546	935,947	2,391,493
NON-OPERATING REVENUES (EXPENSES)			
Interest on long-term debt	(150,583)	(307,490)	(458,073)
Other interest	(69,237)	-	(69,237)
Amortization of debt expense	23,530	(5,594)	17,936
Interest income	265,193	116,910	382,103
Gain (loss) on sale of fixed assets	23,783	-	23,783
Other income (expenses)	(899)	-	(899)
Net non-operating revenues (expenses)	91,787	(196,174)	(104,387)
Change in net position	1,547,333	739,773	2,287,106
Net position, beginning of year	14,207,641	1,785,351	15,992,992
Net position, end of year	$ 15,754,974	$ 2,525,124	$ 18,280,098

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUKCY
COMPARATIVE SCHEDULES OF REVENUES AND EXPENSES – ELECTRIC
FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

	ELECTRIC 2024	ELECTRIC 2023	VARIANCE FAVORABLE (UNFAVORABLE)
OPERATING REVENUES	$ 39,974,349	$ 37,005,070	$ 2,969,279
OPERATING EXPENSES			
Cost of power	28,836,587	27,214,707	(1,621,880)
Distribution			
Operation	1,640,331	1,434,678	(205,653)
Maintenance	1,300,531	1,465,636	165,105
Customer accounts	1,322,190	1,127,825	(194,365)
Sales	103,239	90,799	(12,440)
Administrative and general	1,672,702	2,481,702	809,000
Depreciation and amortization	2,170,103	2,142,818	(27,285)
Taxes	1,473,120	1,500,515	27,395
Total operating expenses	38,518,803	37,458,680	(1,060,123)
Net operating revenues	1,455,546	(453,610)	1,909,156
NON-OPERATING REVENUES (EXPENSES)			
Interest on long-term debt	(150,583)	(185,240)	34,657
Other interest	(69,237)	(37,196)	(32,041)
Amortization of debt expense	23,530	(2,203)	25,733
Interest income	265,193	93,500	171,693
Gain (loss) on sale of fixed assets	23,783	84,500	(60,717)
Other revenues (expenses)	(899)	28,195	(29,094)
Net non-operating revenues (expenses)	91,787	(18,444)	110,231
Change in net position	$ 1,547,333	$ (472,054)	$ 2,019,387

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMPARATIVE SCHEDULES OF REVENUES AND EXPENSES – TELECOMMUNICATIONS
FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

	TELECOM 2024	TELECOM 2023	VARIANCE FAVORABLE (UNFAVORABLE)
OPERATING REVENUES	$ 9,663,400	$ 6,645,169	$ 3,018,231
OPERATING EXPENSES			
Cost of sales - telecom	2,931,345	1,635,697	(1,295,648)
Distribution			
Operation	2,769,265	1,985,042	(784,223)
Maintenance	65,353	66,011	658
Customer accounts	789,325	533,414	(255,911)
Sales	78,883	78,671	(212)
Administrative and general	929,328	1,157,024	227,696
Depreciation and amortization	1,031,342	907,759	(123,583)
Taxes	132,612	96,012	(36,600)
Total operating expenses	8,727,453	6,459,630	(2,267,823)
Net operating revenues	935,947	185,539	750,408
NON-OPERATING REVENUES (EXPENSES)			
Interest on long-term debt	(307,490)	(341,824)	34,334
Amortization of debt expense	(5,594)	(8,980)	3,386
Interest income	116,910	181,364	(64,454)
Net non-operating revenues (expenses)	(196,174)	(169,440)	(26,734)
Change in net position	$ 739,773	$ 16,099	$ 723,674

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

	Year Ended June 30, 2024			Year Ended June 30, 2023			Increase
	Amount	Percent		Amount	Percent		(Decrease)
Distribution Operation							
Supervision and engineering	$ 195,973	0.49	%	$ 159,202	0.43	%	$ 36,771
Station expense	102,528	0.26		96,475	0.26		6,053
Overhead lines expense	678,862	1.70		583,109	1.58		95,753
Underground line expense	1,162	0.00		-	0.00		1,162
Street light and signal system expense	929	0.00		6,100	0.02		(5,171)
Meter expense	222,413	0.56		143,988	0.39		78,425
Customer installation expense	65,483	0.16		63,165	0.17		2,318
Miscellaneous distribution expense	9,455	0.02		20,233	0.05		(10,778)
Rents	363,526	0.91		362,406	0.98		1,120
Total distribution operation	$ 1,640,331	4.10	%	$ 1,434,678	3.88	%	$ 205,653
Distribution Maintenance							
Supervision and engineering	$ 56,529	0.14	%	$ 50,309	0.14	%	$ 6,220
Substations	14,017	0.04		13,193	0.04		824
Overhead lines	1,186,393	2.97		1,353,621	3.66		(167,228)
Underground services	-	0.00		8,759	0.02		(8,759)
Transformers	29,610	0.07		26,833	0.07		2,777
Street light and signal system	13,974	0.03		12,921	0.03		1,053
Meters	8	0.00		-	0.00		8
Total distribution maintenance	$ 1,300,531	3.25	%	$ 1,465,636	3.96	%	$ (165,105)
Customer Accounts							
Meter reading	$ 132,321	0.33		$ 75,672	0.20		$ 56,649
Customer records and collection expense	915,006	2.29		798,844	2.16		116,162
Uncollectible accounts	231,686	0.58		212,020	0.57		19,666
Miscellaneous customer accounting	3,277	0.01		3,187	0.01		90
Customer assistance expense	39,900	0.10		38,102	0.10		1,798
Total customer accounts	$ 1,322,190	3.31	%	$ 1,127,825	3.04	%	$ 194,365

Continued

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

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	Year Ended June 30, 2024		Year Ended June 30, 2023		Increase
	Amount	Percent	Amount	Percent	(Decrease)
Sales Expense					
Demonstrating and selling expense	$ 33,861	0.08 %	$ 27,341	0.07 %	$ 6,520
Advertising expense	68,559	0.17	62,661	0.06	5,898
Miscellaneous	819	0.00	797	0.00	22
Total sales expense	$ 103,239	0.26 %	$ 90,799	0.13 %	$ 12,440
Administrative and General					
Administrative and office salaries	$ 532,198	1.33 %	$ 575,680	1.51 %	$ (43,482)
Office supplies and expense	122,646	0.31	98,849	0.26	23,797
Outside services employed	141,586	0.35	123,457	0.33	18,129
Property insurance	184,385	0.46	181,545	0.49	2,840
Injuries and damages	27,189	0.07	30,750	0.08	(3,561)
Employees pension and other benefits	613,649	1.54	1,461,038	3.38	(847,389)
Duplicate charges (credit)	(153,903)	(0.39)	(158,347)	(0.42)	4,444
Regulatory commission expense	400	0.00	400	0.00	-
Miscellaneous general expense	90,513	0.23	51,316	0.21	39,197
Maintenance	114,039	0.29	117,014	0.35	(2,975)
Total administrative and general	$ 1,672,702	4.18 %	$ 2,481,702	6.19 %	$ (809,000)

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

	Year Ended June 30, 2024		Year Ended June 30, 2023		Increase
	Amount	Percent	Amount	Percent	(Decrease)
Distribution Operation					
Supervision and engineering	$ 592,014	6.13 %	$ 167,122	2.46 %	$ 424,892
Hub expenses	56,935	0.59	52,172	0.79	4,763
Overhead cable expense	648,843	6.71	720,916	10.91	(72,073)
Customer installation expense	1,165,443	12.06	756,146	11.44	409,297
Miscellaneous distribution expense	1,639	0.02	352	0.01	1,287
Rents	304,391	3.15	288,334	4.61	16,057
Total distribution operation	$ 2,769,265	28.66 %	$ 1,985,042	30.22 %	$ 784,223
Distribution Maintenance					
Supervision and engineering	$ 13,753	0.14 %	$ 12,964	0.20 %	$ 789
Hub expenses	49,109	0.51	50,590	0.76	(1,481)
General maintenance	2,491	0.03	2,256	0.03	235
Maintenance underground services	-	0.00	201	0.00	(201)
Total distribution maintenance	$ 65,353	0.68 %	$ 66,011	0.99 %	$ (658)
Customer Accounts					
Billing expense	$ 183,036	1.89 %	$ 113,263	1.70 %	$ 69,773
Customer records and collection expense	172,277	1.78	168,716	2.54	3,561
Uncollectible accounts	94,905	0.98	19,664	0.30	75,241
Customer assistance expense	339,107	3.51	231,771	3.49	107,336
Total customer accounts	$ 789,325	8.17 %	$ 533,414	8.03 %	$ 255,911

Continued

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

	Year Ended June 30, 2024		Year Ended June 30, 2023		Increase
	Amount	Percent	Amount	Percent	(Decrease)
Sales Expense					
Demonstrating and selling expense	$ 37,643	0.39 %	$ 37,419	0.56 %	$ 224
Advertising expense	41,240	0.43	41,252	0.62	(12)
Total sales expense	$ 78,883	0.82 %	$ 78,671	1.18 %	$ 212
Administrative and General					
Administrative and office salaries	$ 144,434	1.49 %	$ 139,957	2.20 %	$ 4,477
Office supplies and expense	51,870	0.54	43,324	0.64	8,546
Meeting expenses	11,927	0.12	9,355	0.14	2,572
Outside services employed	174,499	1.81	87,293	1.29	87,206
Property insurance	32,529	0.34	32,028	0.49	501
Injuries and damages	11,731	0.12	21,734	0.33	(10,003)
Employees pension and other benefits	317,349	3.28	585,667	7.88	(268,318)
Miscellaneous general expense	25,133	0.26	8,420	0.13	16,713
Maintenance	159,856	1.65	229,246	3.47	(69,390)
Total administrative and general	$ 929,328	9.88 %	$ 1,157,024	16.57 %	$ (227,696)

INTERNAL CONTROL AND COMPLIANCE

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Hopkinsville Electric System of the City of Hopkinsville, Kentucky, as of and for the years ended June 30, 2024 and 2023 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 21, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audits 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 or significant deficiencies may exist that were not identified.

Report on 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*.

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.

DGA, PSC

DGA, PSC

Certified Public Accountants
Hopkinsville, Kentucky

October 21, 2024