

***OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM
&
WATER WORKS SYSTEM
FINANCIAL STATEMENTS
& SUPPLEMENTARY INFORMATION
Years Ended May 31, 2021 and 2020***

(With Independent Auditor's Report Thereon)

CONTENTS

	<u>Pages</u>
Electric Light and Power System:	
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-6
Financial Statements:	
Statements of Net Position	7-8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10-11
Notes to Financial Statements	12-34
Required Supplementary Information:	
Pension and Other Postemployment Benefits (OPEB) Schedules:	
Schedule of Proportionate Share of the Net Pension Liability	35
Schedule of Pension Contributions	36
Schedule of Proportionate Share of the Net OPEB Liability	37
Schedule of OPEB Contributions	38
Notes to Required Supplementary Information	39
Supplementary Information:	
Schedule of Revenues and Expenses	40-41
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	42-43
Water Works System:	
Independent Auditor's Report	44-45
Management's Discussion and Analysis	46-49
Financial Statements:	
Statements of Net Position	50-51
Statements of Revenues, Expenses and Changes in Net Position	52
Statements of Cash Flows	53-54
Notes to Financial Statements	55-73
Required Supplementary Information:	
Pension and Other Postemployment Benefits (OPEB) Schedules:	
Schedule of Proportionate Share of the Net Pension Liability	74
Schedule of Pension Contributions	75
Schedule of Proportionate Share of the Net OPEB Liability	76
Schedule of OPEB Contributions	77
Notes to Required Supplementary Information	78
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	79-80



Riney Hancock CPAs
PSC

INDEPENDENT AUDITOR'S REPORT

City Utility Commission
City of Owensboro, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Owensboro Municipal Utilities Electric Light and Power System (Electric System), a component unit of the City of Owensboro, Kentucky, as of and for the years ended May 31, 2021 and 2020, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Owensboro Municipal Utilities Electric Light and Power System of the City of Owensboro, Kentucky, as of May 31, 2021 and 2020, and the 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.

..... www.rineyhancock.com - info@rineyhancock.com

2900 Veach Road, Suite 2 - Owensboro, Kentucky 42303 - 270-926-4540 - Fax: 270-926-1494

313 Southeast First Street - Evansville, Indiana 47713 - 812-423-0300 - Fax: 812-423-6282

A member of Allinial Global - An association of legally independent firms

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 and the Pension and Other Postemployment Benefits (OPEB) Schedules on pages 35 through 39, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Revenues and Expenses is presented for purposes of additional analysis and is not a required part of the financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2021, on our consideration of Electric System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Electric System'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 Electric System's internal control over financial reporting and compliance.

Owensboro, Kentucky
September 13, 2021

Ringham & Co. PSC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Owensboro Municipal Utilities Electric Light and Power System (Electric System) financial performance provides an overview of the Electric System's financial activities for the fiscal year ended May 31, 2021. Please read it in conjunction with the Electric System's financial statements, which begin on page 7.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis, Financial Statements, and Supplementary Information.

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the Electric System's financial condition and performance.

The financial statements report information using accounting methods similar to those used by private sector companies. The financial statements include a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Fund Net Position; a Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Position presents the financial position of the Electric System and thus 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 business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flow.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Financial Summary

The following table summarizes the financial condition and operations of the Electric System for 2021 and 2020.

Assets and Deferred Outflows of Resources	<u>2021</u>	<u>2020</u>
Utility plant, net	\$ 135,920,246	\$ 144,403,195
Restricted assets	49,369,859	57,605,012
Current assets	68,972,761	72,233,239
Other noncurrent assets	17,682,483	19,881,111
Deferred outflows of resources	<u>69,471,826</u>	<u>59,929,304</u>
	<u>\$ 341,417,175</u>	<u>\$ 354,051,861</u>
Liabilities, Deferred Inflows of Resources, and Net Position		
Net position		
Net investment in capital assets	\$ 36,831,311	\$ 31,356,118
Restricted	40,487,501	38,602,466
Unrestricted	<u>67,442,298</u>	<u>72,355,305</u>
Total net position	144,761,110	142,313,889
Long-term debt	95,086,352	111,081,991
Current liabilities	34,518,498	33,919,239
Other noncurrent liabilities	62,653,095	60,863,962
Deferred revenues	1,052,486	1,080,450
Deferred inflows of resources	<u>3,345,634</u>	<u>4,792,330</u>
	<u>\$ 341,417,175</u>	<u>\$ 354,051,861</u>
Revenues, Expenses and Changes in Net Position		
Operating revenues	\$ 90,128,932	\$ 122,627,803
Operating expenses	<u>75,605,309</u>	<u>105,107,398</u>
Operating income	<u>14,523,623</u>	<u>17,520,405</u>
Interest, debt expense and defeasance	(3,353,160)	(5,814,348)
Interest and other income	<u>1,046,887</u>	<u>2,612,709</u>
Net nonoperating expenses	<u>(2,306,273)</u>	<u>(3,201,639)</u>
Income before transfers	12,217,350	14,318,766
Transfers out - dividends to City of Owensboro	<u>(9,770,129)</u>	<u>(9,611,802)</u>
Change in net position	<u>\$ 2,447,221</u>	<u>\$ 4,706,964</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

FINANCIAL HIGHLIGHTS

- Total net position increased \$2.4 million in 2021, or 1.7%, versus an increase of \$4.7 million in 2020 as the result of changes in operating revenues, operating expenses, nonoperating revenues/expenses and transfers, as discussed below.
- Operating revenues decreased \$32.5 million, or 26.5%, in 2021 when compared to 2020. The decrease in 2021 is primarily related to the elimination of wholesale energy sales volumes, including the associated revenues (\$16.2 million), as a result of ceased power generation at the Elmer Smith Generating Station (ESGS) as of May 31, 2020. Supplemental power revenue also ceased when generation ended resulting in a decrease in revenues of \$1.1 million. In addition, Industrial revenues decreased \$9.5 million, or 17.3% from closures due to COVID-19. COVID-19 also resulted in a decrease in residential and commercial revenues as well. Residential revenues decreased \$3.4 million or 10.1% and commercial revenues decreased \$1 million or 11% in 2021. Lastly, the City of Owensboro and Schools revenues decreased \$.8 million or 23.9% from COVID-19 closures in 2021.
- Operating expenses in 2021 decreased \$29.5 million, or 28.1%, versus 2020, largely the result of an overall decrease in power cost of \$25 million, or 38.8%. Power costs (formerly reported as fuel, purchased power and other costs, separately) decreased due to the decommissioning of Elmer Smith Generation Station resulting in decreased power production costs offset by increased external purchased power. Fuel cost decreased \$37.6 million, or 99.0%, as less fuel was required due to decreased power generation discussed above. Purchased power increased \$25.4 million, 260.7% as power was no longer generated but purchased for all of 2021. Other production costs decreased \$12.8 million, or 77.4%, as steam expense and maintenance costs decreased \$12.8 million, or 77.4%, due to no power generated in 2021. Transmission and distribution decreased \$1.2 million or 11% due to decreased sales related to COVID-19 mentioned above. Depreciation decreased \$3 million, or 15.2% in 2021, as well.
- Nonoperating expenses decreased by \$.9 million, or 28.0%, in 2021 when compared to 2020. Interest expense decreased by \$2.5 million, or 42.3%, primarily the result of the debt refunded in connection with the 2019 Series bond issuance. Interest income also decreased by \$1.5 million, or 59.7%, primarily due to lower bank and investment balances as well as lower rates received on those balances.
- Dividend transfers to the City of Owensboro increased by \$158,327 in 2021, or 1.6%, due primarily to an increase in actual cash transfers to the City.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2021, the Electric System had \$135.9 million invested in a broad range of assets, including power plant facilities and equipment, substation facilities and equipment, transformers, poles, wiring, street lighting, traffic signal equipment, communication equipment, fiber optic cable and equipment, buildings and other equipment. This represents a decrease of \$8.5 million over 2020 due to depreciation that exceeded capital asset additions. The Electric system capital asset additions include \$1.5 million on routine distribution and transmission pole replacements, \$444,000 on street, park, security and traffic lights as well as \$424,000 in vehicles and equipment. In addition, \$2.4 million was incurred on the Fiber to the Home system to deliver high-speed internet service to residential customers. The following table summarizes capital assets, net of accumulated depreciation, at the end of 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Production plant	\$ 50,630,313	\$ 61,136,316
Transmission plant	12,932,665	11,325,226
Distribution plant	52,753,501	47,606,200
General plant	6,148,923	6,550,857
Unclassified plant and construction in progress	<u>13,454,844</u>	<u>17,784,596</u>
	<u>\$ 135,920,246</u>	<u>\$ 144,403,195</u>

Debt

At the end of 2021, the Electric System had \$100.1 million in bonds outstanding versus \$113.5 million in 2020, for a decrease of \$13.4 million, or 11.8%. Scheduled debt repayments resulted in the overall decline in outstanding debt. The Electric System bonds carry ratings of "A-" (stable outlook) and "A3" (stable outlook) as assigned by S&P Global Ratings and Moody's Investors Services, Inc., respectively.

Outlook

We expect the 2022 net operating results to increase somewhat from 2021 results, with higher revenues anticipated as less closures are anticipated from COVID-19. Interest expense should continue to decline with the scheduled repayment of debt. Finally, in 2022 Telecom residential revenue is expected to continue growing with the ongoing expansion of the Fiber-to-the-Home system

(This page intentionally left blank.)

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

STATEMENTS OF NET POSITION

May 31, 2021 and 2020

**ASSETS AND DEFERRED OUTFLOWS OF
RESOURCES**

	<u>2021</u>	<u>2020</u>
Utility plant, net	\$ 135,920,246	\$ 144,403,195
Restricted assets	<u>49,369,859</u>	<u>57,605,012</u>
Current assets:		
Cash and cash equivalents	25,541,348	29,163,473
Investments	25,886,303	24,000,367
Receivables:		
Retail accounts receivable, less allowance for doubtful accounts of \$179,093 for 2021 and \$95,984 for 2020	10,473,631	9,533,890
Wholesale accounts receivable	-	1,401,643
City of Owensboro	150,443	127,505
Other	969,048	2,441,741
Materials and supplies inventories	5,568,805	5,137,982
Prepayments	382,429	425,884
Other	<u>754</u>	<u>754</u>
Total current assets	<u>68,972,761</u>	<u>72,233,239</u>
Other noncurrent assets:		
Unamortized debt expense	619,949	735,276
Energy cost to be recovered	16,753,185	19,140,835
Other noncurrent assets	<u>309,349</u>	<u>5,000</u>
Total other noncurrent assets	<u>17,682,483</u>	<u>19,881,111</u>
Total assets	<u>271,945,349</u>	<u>294,122,557</u>
Deferred outflows of resources:		
Deferred outflow regulatory asset - decommissioning	4,713,762	285,523
Deferred pension outflows	6,296,991	8,438,711
Deferred other postemployment benefit outflows	5,952,457	3,818,353
Deferred pension obligation	39,764,046	35,835,162
Deferred postemployment benefit obligation	11,079,250	10,219,173
Unamortized loss on debt refunding	1,129,995	1,332,382
Net unrealized loss on investments	<u>535,325</u>	<u>-</u>
Total deferred outflows of resources	<u>69,471,826</u>	<u>59,929,304</u>
Total assets and deferred outflows of resources	\$ <u>341,417,175</u>	\$ <u>354,051,861</u>

See Notes to Financial Statements

**LIABILITIES, DEFERRED INFLOWS OF
RESOURCES, AND NET POSITION**

	<u>2021</u>	<u>2020</u>
Net position:		
Net investment in capital assets	\$ 36,831,311	\$ 31,356,118
Restricted for capital projects, net of related debt	8,092,984	6,885,749
Restricted for debt service	6,529,216	6,434,428
Restricted for other purposes	25,865,301	25,282,289
Unrestricted	<u>67,442,298</u>	<u>72,355,305</u>
Total net position	<u>144,761,110</u>	<u>142,313,889</u>
Long-term debt	<u>95,086,352</u>	<u>111,081,991</u>
Current liabilities (payable from restricted assets):		
Current maturities of long-term debt	14,255,000	13,390,000
Accrued interest payable	1,820,729	2,313,838
Accounts payable	<u>538,281</u>	<u>399,012</u>
	<u>16,614,010</u>	<u>16,102,850</u>
Current liabilities (payable from current assets):		
Accounts payable	8,917,704	5,616,704
Other	<u>8,986,784</u>	<u>12,199,685</u>
	<u>17,904,488</u>	<u>17,816,389</u>
Total current liabilities	<u>34,518,498</u>	<u>33,919,239</u>
Other noncurrent liabilities:		
Net pension liability	45,444,200	43,315,494
Net other postemployment benefit liability	14,302,910	10,356,480
Asset retirement obligation	<u>2,905,985</u>	<u>7,191,988</u>
Total other noncurrent liabilities	<u>62,653,095</u>	<u>60,863,962</u>
Commitments and contingencies (Note 9)		
Deferred revenues	<u>1,052,486</u>	<u>1,080,450</u>
Total liabilities	<u>193,310,431</u>	<u>206,945,642</u>
Deferred inflows of resources:		
Deferred pension inflows	616,837	958,379
Deferred other postemployment benefit inflows	2,728,797	3,681,046
Net unrealized gain on investments	<u>-</u>	<u>152,905</u>
Total deferred inflows of resources	<u>3,345,634</u>	<u>4,792,330</u>
Total liabilities, deferred inflows of resources, and net position	\$ <u>341,417,175</u>	\$ <u>354,051,861</u>

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended May 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Charges for services:		
Residential	\$ 30,549,571	\$ 33,974,239
Commercial	8,163,694	9,173,504
Industrial	45,789,791	55,351,826
Water Works System	1,075,852	1,192,960
City of Owensboro and Schools	2,615,502	3,436,495
Supplemental power	-	1,124,848
Other wholesale	456,334	16,697,010
Build America Bond subsidy	-	276,741
Other	1,478,188	1,400,180
	<hr/>	<hr/>
Total operating revenues	90,128,932	122,627,803
	<hr/>	<hr/>
Operating expenses:		
Power costs:		
Fuel for electric generation	370,002	37,951,248
Purchased power	35,208,034	9,761,292
Other	3,752,587	16,573,476
Transmission and distribution	9,384,980	10,549,046
Customer service and information	2,156,663	2,066,091
General and administrative	6,876,590	7,381,448
Telecommunications	1,095,365	1,053,280
Depreciation	16,761,088	19,771,517
	<hr/>	<hr/>
Total operating expenses	75,605,309	105,107,398
	<hr/>	<hr/>
Operating income	14,523,623	17,520,405
	<hr/>	<hr/>
Nonoperating revenues (expenses):		
Interest and debt expense	(3,353,160)	(5,814,348)
Interest income on investments	1,042,087	2,584,889
Other, net	4,800	27,820
Net increase (decrease) in fair value of investments	(688,230)	359,709
Deferred net change in fair value of investments	688,230	(359,709)
	<hr/>	<hr/>
Total nonoperating revenues (expenses)	(2,306,273)	(3,201,639)
	<hr/>	<hr/>
Income before transfers	12,217,350	14,318,766
	<hr/>	<hr/>
Transfers out - dividends to City of Owensboro	(9,770,129)	(9,611,802)
	<hr/>	<hr/>
Change in net position	2,447,221	4,706,964
	<hr/>	<hr/>
Net position, beginning of year	142,313,889	137,606,925
	<hr/>	<hr/>
Net position, end of year	\$ 144,761,110	\$ 142,313,889
	<hr/>	<hr/>

See Notes to Financial Statements

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

STATEMENTS OF CASH FLOWS

Years Ended May 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Receipts from customers, including collections as agent for third parties	\$ 121,862,043	\$ 146,693,308
Customer remittances to third parties	(28,912,296)	(27,588,177)
Payments to suppliers	(44,586,590)	(67,694,217)
Payments to employees	(9,246,524)	(15,554,479)
Net cash provided by operating activities	<u>39,116,633</u>	<u>35,856,435</u>
Cash flows from noncapital financing activities:		
Transfers out - dividends to City of Owensboro	<u>(9,770,129)</u>	<u>(9,611,802)</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(18,161,857)	(10,298,459)
Payments on long-term debt	(13,390,000)	(19,275,000)
Interest paid on long-term debt	(5,269,194)	(4,345,550)
Proceeds from bond issuance	-	71,486,827
Payment to refunded bond agent	-	(90,305,755)
Debt issuance cost	-	(302,055)
Net cash used in capital and related financing activities	<u>(36,821,051)</u>	<u>(53,039,992)</u>
Cash flows from investing activities:		
Purchase of investments	(31,095,966)	(28,501,425)
Proceeds from sale and maturities of investments	27,499,000	68,552,767
Interest on investments	<u>1,104,742</u>	<u>2,984,854</u>
Net cash provided by (used in) investing activities	<u>(2,492,224)</u>	<u>43,036,196</u>
Net increase (decrease) in cash and cash equivalents	(9,966,771)	16,240,837
Cash and cash equivalents, beginning of year	<u>75,386,046</u>	<u>59,145,209</u>
Cash and cash equivalents, end of year	<u>\$ 65,419,275</u>	<u>\$ 75,386,046</u>
Included in the following Statements of Net Position captions:		
Restricted assets	\$ 39,877,927	\$ 46,222,573
Cash and cash equivalents	<u>25,541,348</u>	<u>29,163,473</u>
	<u>\$ 65,419,275</u>	<u>\$ 75,386,046</u>

See Notes to Financial Statements

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

STATEMENTS OF CASH FLOWS, Concluded

Years Ended May 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 14,523,623	\$ 17,520,405
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	17,038,723	20,048,657
Amortization	501,916	-
Other revenues	4,800	6,086
Change in assets and liabilities:		
Decrease (increase) in assets:		
Restricted assets:		
Fuel inventory	2,879,950	4,289,245
Other	8,296	998,823
Receivables	740,813	1,424,969
Materials and supplies	(430,823)	(910,365)
Prepayments	43,455	(80,035)
Other noncurrent assets	2,083,301	(5,319,857)
Deferred outflows of resources		144,100
Increase (decrease) in liabilities:		
Accounts payable	4,991,152	(7,021,467)
Other current liabilities	(3,240,608)	4,107,385
Deferred revenues	(27,965)	648,489
Net cash provided by operating activities	\$ <u>39,116,633</u>	\$ <u>35,856,435</u>
Noncash investing, capital and financing activities:		
Accretion of interest expense on long-term debt	\$ <u>-</u>	\$ <u>613,162</u>
Amortization of debt premium and expense and deferred loss on debt defeasance	\$ <u>(1,422,926)</u>	\$ <u>(432,909)</u>
Unrealized gain (loss) on investments	\$ <u>(535,325)</u>	\$ <u>152,905</u>

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies

General Information

In 1940, the City of Owensboro, Kentucky (City), established the City Utility Commission to manage, control and operate Owensboro Municipal Utilities (OMU). City officials appoint the five individuals who comprise the City Utility Commission. OMU consists of the Electric Light and Power System (Electric System) and the Water Works System (Water System), which are component units of the City. Accordingly, the Electric System and the Water System are part of the financial reporting entity of the City. The accompanying financial statements present only the Electric System and are not intended to present fairly the financial position of the City and the changes in its financial position or, where applicable, its cash flows, in conformity with accounting principles generally accepted in the United States of America. The Electric System is subject to regulation by the City, including approval of rates charged for utility services, as set forth in applicable City ordinances.

The Electric System provides electric power to approximately 26,000 residential, commercial and industrial customers in Owensboro, Kentucky. In 2020, the Electric System also sold electric power into regional wholesale power markets and to other wholesale customers.

System of Accounts and Basis of Accounting

The Electric System's accounts are maintained substantially in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission and in conformity with accounting principles generally accepted in the United States of America using the economic resources measurement focus and the accrual basis of accounting.

The financial statements are prepared in accordance with generally accepted accounting principles and follow accounting guidance provided by the Governmental Accounting Standards Board (GASB) in the regulated operations provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which permit certain entities with cost-based rates to defer certain costs or income that would otherwise be recognized when incurred to the extent that the rate-regulated entity is recovering or expects to recover such amounts in future rates charged to its customers. Regulatory assets are the deferral of costs expected to be recovered in future customer rates and regulatory liabilities represent current recovery of expected future costs.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies, Continued

System of Accounts and Basis of Accounting, Continued

The Electric System considers electric and telecommunications revenues and costs that are directly related to generation, purchase, transmission, and distribution of electricity and telecommunications services to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

The Electric System accrues revenues as services are rendered to utility customers. In addition, the Electric System's present electric rate ordinance provides for an energy cost adjustment and environmental control cost adjustment to be made to customer bills, except bills rendered to the City, to reflect changes in the price of fuel and maintenance costs and environmental compliance costs to generate electricity. The Electric System estimates and records amounts to be billed or refunded under the energy cost adjustment on a monthly basis.

Change in Accounting Principles

In 2020, the Electric System adopted the provisions of GASB Statement No. 83, *Certain Asset Retirement Obligations*, as it relates to the shutdown of Elmer Smith Generating Station (ESGS) and the requirement for OMU to record an asset obligation (ARO) for the portion of ESGS decommissioning costs that is legally enforceable and a reasonable estimated cost is available. The Federal Environmental Protection Agency's (EPA) rule for coal combustion residuals under the Resource Conservation and Recovery Act, requires OMU to close the ESGS ash ponds, resulting in a legally enforceable obligation in the estimated amount of \$7,205,000. The cumulative effect of this change resulted in a restatement of beginning net position of \$6,916,800, a corresponding increase to the asset retirement obligation of \$7,205,000 and an increase in deferred asset retirement obligation of \$144,100 for the year ended May 31, 2019. In addition, \$144,100 was restated as an additional outflow of resources for 2019 and is included in other production expense.

Additionally, in 2020, the Electric System adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB AICPA Pronouncements*, (GASB 62) as it relates to the shutdown of ESGS and the costs for removal of the coal stockpile, removal of the smoke stacks, removal of asbestos, other environmental maintenance expenses, and for other structures such as fencing. These expenses are not legally enforceable by the EPA or required by the City of Owensboro, and since there are no contracts that have been awarded and signed for the decommissioning, they are not legally enforceable obligations. Therefore, OMU is applying the provisions of GASB Statement No. 62 to defer these expenses and recognize them over a five-year period, as they will be recovered from retail customers through the Energy Cost Adjustment (ECA)

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies, Continued

Change in Accounting Principles, Continued

over that same period. The adjustment allows the Electric System to adjust charges to its retail customers for fluctuations in energy costs. Accordingly, \$285,523 is included in deferred asset retirement outflow at May 31, 2020. There were no restatements required as a result of this change.

Finally, in 2020, the Electric System adopted the provisions of GASB Statement No. 41, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, as it related to impairment of ESGS assets due to the shutdown of ESGS. The Electric System is applying GASB 62, as it relates to rate-regulated entities, to defer the impairment loss associated with the shutdown. ESGS was permanently shut down on May 31, 2020, which was prior to the end of the normal economic life cycle of many ESGS assets, resulting in an impairment in the net book value of those assets. The remaining net book value of ESGS assets at May 31, 2020, was \$68.6 million. In lieu of immediate recognition of the associated impairment loss, the Electric System is deferring that loss and continuing to depreciate those ESGS assets over the remaining life of the corresponding ESGS long-term debt. That debt will continue to be serviced through January 1, 2026, with funds recovered through existing rates from retail customers, thus corresponding to the remaining depreciation on those assets. There were no restatements as a result of this change.

In 2021, the Electric System adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB AICPA Pronouncements*, (GASB 62) as it relates to the write-off of obsolete inventory due to the shutdown of ESGS. Therefore, OMU is applying the provisions of GASB Statement No. 62 to defer the expense and recognize it over a five-year period, as the expense will be recovered from retail customers through the Energy Cost Adjustment (ECA) over that same period. The adjustment allows the Electric System to adjust charges to its retail customers for fluctuations in energy costs. Accordingly, \$2,736,352 was included in maintenance expense for ESGS in 2021.

In 2021, the Electric System adopted the provisions of GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* (GASB 89). Prior to the implementation of GASB 89, interest costs incurred during the construction period of a capitalized asset were included in its historical cost. As a result of GASB 89, interest costs are now recognized as an expense in the period in which the cost is incurred.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies, Continued

Utility Plant and Depreciation

Utility plant is stated at original cost, which includes the cost of contracted services, materials, labor, and labor-related expenditures, administrative and general costs, and an allowance for borrowed funds used during construction.

Replacements of depreciable property units, except minor replacements, are charged to utility plant. Property units replaced or retired, including cost of removal net of any salvage value received, are charged to accumulated depreciation. Routine maintenance, repairs and minor replacement costs are charged to expense as incurred.

In 2020, allowance for borrowed funds used during construction included capitalized interest during the construction period less any interest income on construction fund investments from bond proceeds during such period. Capitalization of interest was discontinued when the project was completed and the related utility plant was placed in service.

Depreciation of utility plant and unclassified plant in service is provided using the straight-line composite rate method over the estimated service lives of the depreciable assets of the Electric System, excluding ESGS, and on the sinking fund method for ESGS depreciable assets. Estimated service lives of assets depreciated using the composite method range from 5 to 60 years. The sinking fund method was adopted for ESGS as a result of the terms of a power sale contract. Depreciation expense during 2021 and 2020 was approximately 3.6% and 4.3%, respectively, of the average original cost of depreciable utility plant in service.

Restricted Assets

The City ordinances that authorized the Electric Light and Power Revenue Bonds require that certain amounts from bond proceeds and payments by customers for services provided be deposited into designated funds and be used only for the specified purposes of the funds. The Electric System's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Cash and Investments

Cash deposits are reported at carrying amounts. The Electric System categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. Agency securities and negotiable certificates of deposit are stated at fair values based upon externally developed models that use rates and prices of similar securities.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies, Continued

Cash and Investments, Continued

The Electric System considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Unrestricted investments with initial maturities exceeding three months, consisting of U.S. treasury and agency securities, negotiable certificates of deposit, and repurchase agreements, are classified as temporary investments.

Inventories

Inventories consisting of materials and supplies are valued at the lower of weighted average cost or net realizable value.

Bond Issuance Costs

Premiums and discounts arising from various bond issues are deferred and amortized using the straight-line method over the lives of the bond issues.

The Electric System's rate making methodology allows for future recovery of debt costs, including bond issuance costs, in its rate making process. Accordingly, under GASBS No. 62, debt issuance costs are deferred and amortized using the straight-line method over the lives of the bond issues.

The difference between the reacquisition price and the net carrying amount of defeased bond issues has been deferred and is being amortized using the straight-line method over the lives of the refunding bond issues.

Pension and Other Postemployment Benefits

For purposes of measuring the net liabilities, the deferred outflows of resources and deferred inflows of resources and expense related to pensions and other postemployment benefits (OPEB), information about the fiduciary net position of the pension/OPEB plans, and additions to/deductions from the pension/OPEB plans' fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plans. For this purpose, revenues are recognized when earned. Contributions are recognized when due, pursuant to legal (or statutory) requirements. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

The Electric System's rate making methodology allows for future recovery of certain pension and other postemployment benefit costs in its rate making process. Accordingly, under GASBS No. 62, pension and other postemployment benefit costs in excess of required contributions are deferred.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies, Continued

Income Taxes

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Hedging Derivative Instruments

The Electric System has adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASBS No. 53). GASBS No. 53 requires that hedging derivative instruments (Hedging Transactions) be recorded at fair value and establishes certain requirements for revenue recognition, measurement and disclosure related to Hedging Transactions. The Electric System's Hedging Transactions have been tested for effectiveness under the guidelines prescribed by GASBS No. 53. The Electric System utilized one of the three quantitative methods required by GASBS No. 53, the synthetic instrument method. This method evaluates the effectiveness of a hedge transaction by comparing the relationship of the variable cash flows of the potential hedging item and the hedgeable item. The effectiveness testing of the Electric System's Hedging Transactions demonstrated that the hedges are effective as defined by GASBS No. 53.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

2. Utility Plant

Electric utility plant activity for the year ended May 31, 2021, was as follows:

	Beginning Balance		Additions		Retirements		Ending Balance
Utility plant:							
Production plant	\$ 324,212,376	\$	-	\$	-	\$	324,212,376
Transmission plant	32,749,415		2,963,242		(82,092)		35,630,565
Distribution plant	101,957,471		9,240,793		(2,043,948)		109,154,316
General plant	22,823,451		681,491		-		23,504,942
Unclassified plant in service	10,951,348		5,005,846		(8,159,711)		7,797,483
Total, at original cost	<u>492,694,061</u>		<u>17,891,372</u>		<u>(10,285,751)</u>		<u>500,299,682</u>
Accumulated depreciation:							
Production plant	(263,076,060)		(10,506,003)		-		(273,582,063)
Transmission plant	(21,424,189)		(1,355,803)		82,092		(22,697,900)
Distribution plant	(54,351,271)		(4,093,492)		2,043,948		(56,400,815)
General plant	(16,272,594)		(1,083,425)		-		(17,356,019)
Total accumulated depreciation	<u>(355,124,114)</u>		<u>(17,038,723)</u>		<u>2,126,040</u>		<u>(370,036,797)</u>
Construction in progress	<u>6,833,248</u>		<u>(1,175,887)</u>		-		<u>5,657,361</u>
Utility plant, net	<u>\$ 144,403,195</u>	\$	<u>(323,238)</u>	\$	<u>(8,159,711)</u>	\$	<u>135,920,246</u>

Depreciation expense for the years ended May 31 was as follows:

	2021		2020
Electric utility plant	\$ 15,785,774	\$	19,095,369
Telecommunications	<u>975,315</u>		<u>676,148</u>
	16,761,089		19,771,517
Transportation and stores depreciation charged to construction activities or other operating expenses	<u>277,634</u>		<u>277,140</u>
	<u>\$ 17,038,723</u>	\$	<u>20,048,657</u>

In 2020, the Electric System's policy was to capitalize interest on funds borrowed to finance the construction of utility plant. In 2020, \$143,850 of interest was capitalized in connection with construction in progress.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

3. Restricted Assets

Restricted assets at May 31 consists of the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 39,877,927	\$ 46,222,573
Investments	9,436,534	8,423,088
Accrued interest receivable	35,899	51,607
Inventory, at cost	19,499	2,899,448
Other	-	8,296
	<u>\$ 49,369,859</u>	<u>\$ 57,605,012</u>

The above balances are contained in the following funds:

	<u>2021</u>	<u>2020</u>
Operation and Maintenance Fund	\$ 10,296,825	\$ 16,186,089
Construction Fund	2,126,219	1,226,178
Depreciation Fund	5,751,918	5,711,846
Sinking Funds	17,105,974	17,332,863
Facility Charge Fund	110,079	363,063
Reserve and Contingency Fund	13,978,844	16,784,973
	<u>\$ 49,369,859</u>	<u>\$ 57,605,012</u>

The terms of the City ordinances authorizing the Electric System's Electric Light and Power Revenue Bonds require all investment income to be credited to the various restricted asset funds.

OMU follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools* (GASBS No. 31), which requires certain investments to be carried at fair value in the statements of net position and changes in the fair value of investments to be reported in the statements of revenues, expenses and changes in net position. In accordance with GASBS No. 31, OMU recorded unrealized gain(loss) of (\$688,230) and \$359,709 for the years ended May 31, 2021 and 2020, respectively. OMU's rate making methodology does not consider unrealized gains or losses on marketable securities in its rate making process. Accordingly, the unrealized gains for the years ended May 31, 2021 and 2020, have been deferred.

The net increase (decrease) in the fair value of investments as of May 31 was:

	<u>2021</u>	<u>2020</u>
Net unrealized gain (loss) on investments	\$ (535,325)	\$ 152,905

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

3. Restricted Assets, Continued

The calculation of realized gains or losses on sales of investments is independent of the calculation of the net change in the fair value of investments. Realized gains or losses on investments that were held in more than one fiscal year and sold in the current year were included as a net change in the fair value of investments reported in prior years and the current year.

4. Cash Deposits and Investments

At May 31, the carrying amounts of the Electric System's deposits held in financial institutions and investments other than deposits were:

	2021	2020
Deposits in financial institutions	\$ 65,419,275	\$ 78,413,470
Investments other than deposits	35,322,837	29,396,031
	<u>\$ 100,742,112</u>	<u>\$ 107,809,501</u>

These amounts are reflected in the statements of net position as:

	2021	2020
Cash and cash equivalents	\$ 25,541,348	\$ 29,163,473
Temporary investments	25,886,303	24,000,367
Restricted assets:		
Cash and cash equivalents	39,877,927	46,222,573
Investments	9,436,534	8,423,088
	<u>\$ 100,742,112</u>	<u>\$ 107,809,501</u>

Deposit and Investment Policy. The Electric System's deposit and investment policy prescribes to the prudent-person rule: Investments shall be made with applicable law and under prevailing circumstances which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

4. Cash Deposits and Investments, Continued

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a bank failure, the Electric System's deposits may not be returned to it. The Electric System's deposit and investment policy permits uncollateralized deposits only if issued by institutions ranked in one of the three highest categories by a nationally recognized rating agency. As of May 31, 2021, \$65,277,385 of the Electric System's bank balance of \$66,001,708 was exposed to custodial credit risk as follows:

Uninsured with collateral held by pledging bank's agent	\$ <u>65,277,385</u>
---	----------------------

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Electric System's investments include U.S. treasury and agency securities and negotiable certificates of deposit, which utilize Level 2 inputs for fair value measurements. Fair value is based upon externally developed models that use rates and prices of similar securities, due to the limited market activity of the securities.

As of May 31, 2021, the Electric System had the following investments:

<u>Investments</u>	<u>Maturities</u>	
Federal Farm Credit Bank – Callable	12/16/2026 thru 12/11/2030	\$ 17,707,342
Federal Home Loan Bank – Callable	11/29/2021 thru 03/10/2031	12,249,057
Federal Home Loan Mtg Corp - Callable	06/24/2030	3,000,000
Federal National Mtg Assn - Callable	07/27/2028	1,845,122
Negotiable Certificates of Deposit	12/06/2021 thru 05/24/2022	<u>521,316</u>
		\$ <u>35,322,837</u>

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

4. Cash Deposits and Investments, Continued

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Electric System's deposit and investment policy limits investment maturities based upon provisions of bond ordinances. The bond ordinances limit investments contained in the Operation and Maintenance Fund to five years and limit investments in the Depreciation Fund, Sinking Funds, and Facility Charge Fund to ten years.

Credit Risk. The Electric System's deposit and investment policy authorizes the investment of funds in any manner permitted by bond ordinances and the Kentucky Revised Statutes and does not further limit its investment choices.

Concentration of Credit Risk. Other than the prudent-person rule, the Electric System's deposit and investment policy places no limit on the amount the Electric System may invest in any one issuer. The Electric System's investments, other than deposits, consist of U.S. government agencies at May 31, 2021.

5. Hedging Transactions

The Electric System is exposed to market price fluctuations on its sale of surplus electricity. To protect itself from wholesale electricity price fluctuations, the Electric System periodically entered into electricity price and futures contracts (hedging transactions) in 2020. Hedging transactions are measured at fair value on a recurring basis. The Electric System utilizes Level 2 inputs (see investment footnote for definition of fair value inputs) for fair value measurements of hedging transactions.

The Electric System entered into electricity hedging transactions at various fixed prices and notional amounts. Each electricity short hedging transaction provides for the Electric System to pay a floating price and for the contract counterparty to pay a fixed price. Furthermore, the Electric System from time to time will remove an electricity short hedge position by entering into a long hedging transaction to pay a fixed price, and for the contract counterparty to pay a floating price for a like notional amount as the original hedging transaction. The notional amount of each electricity hedging transaction is measured in megawatt hours (MWh), with the floating price based on a specific published index (spot price) for the relevant contract month.

The Electric System entered into electricity hedging transactions with notional amounts totaling 121,000 MWh in 2020. Hedging transactions with notional amounts totaling 323,495 MWh were settled in 2020, with a resulting gain of \$472,294, which is reflected in other wholesale revenue.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

5. Hedging Transactions

The electricity hedging transactions are settled by cash payments that are equal to the difference between the contract price and the settlement price (financially settled). These financially settled hedging transactions are hedging derivative instruments as defined by GASBS No. 53. Accordingly, any unrealized gains and losses on its outstanding hedging transactions are reported at fair value in other current assets, other noncurrent assets, other current liabilities and other noncurrent liabilities in the statement of net position. At May 31, 2021 and 2020, the Electric System had no outstanding electricity hedging swap transactions.

6. Long-Term Debt

Long-term debt activity for the year ended May 31, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds payable:					
Series of 2017	\$ 49,345,000	\$ -	\$ (3,205,000)	\$ 46,140,000	\$ 3,975,000
Series of 2019	64,155,000	-	(10,185,000)	53,970,000	10,280,000
	113,500,000	-	(13,390,000)	100,110,000	14,255,000
Add unamortized debt premium	10,971,991	-	(1,740,639)	9,231,352	-
Total long-term debt	\$ 124,471,991	\$ -	\$ (15,130,639)	\$ 109,341,352	\$ 14,255,000

Long-term debt at May 31 consists of the following Electric Light and Power Revenue Bonds:

	2021	2020
Series of 2017:		
Current interest bonds, 4.00%, due from 2022 to 2037	\$46,140,000	\$ 49,345,000
Series of 2019:		
Current interest bonds, 4.00% to 5.00%, due from 2022 to 2027	53,970,000	64,155,000
Total long-term debt	100,110,000	113,500,000
Less current maturities	(14,255,000)	(13,390,000)
Add unamortized debt premium	9,231,352	10,971,991
	<u>\$95,086,352</u>	<u>\$111,081,991</u>

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

6. Long-Term Debt, Continued

Sinking fund requirements and scheduled aggregate maturities of long-term debt are as follows:

<u>Year Ending May 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 14,255,000	\$ 4,369,750	\$ 18,624,750
2023	14,930,000	3,696,750	18,626,750
2024	15,525,000	3,099,550	18,624,550
2025	16,235,000	2,391,800	18,626,800
2026	16,880,000	1,742,400	18,622,400
2027 – 2031	19,135,000	1,672,850	20,807,850
2032 – 2036	2,540,000	439,800	2,979,800
2037	610,000	24,400	634,400
	<u>\$ 100,110,000</u>	<u>\$ 17,437,300</u>	<u>\$ 117,547,300</u>

The Electric System is subject to certain debt covenants, compliance with which is required by the ordinances authorizing its bond issues. Such ordinances require revenue to be first applied to the Sinking Funds, second to the Operations and Maintenance Fund, third to the Additions and Replacements Fund, fourth to the Depreciation Fund, fifth to the Reserve and Contingency Fund, and lastly to the Facility Charge Fund.

On August 9, 2017, the City issued \$49,685,000 of Electric Light and Power System Revenue Bonds, 2017 Series, each dated August 9, 2017. The 2017 Bonds were issued to fund construction of a residential fiber optic distribution network with the ability to provide ultrahigh speed internet access to approximately 6,500 dwellings and to refund the 2010-C series bonds and certain 2013-B series bonds. The in-substance defeasance of the 2010-C and 2013-B bonds was accomplished by placing \$48,325,931 in proceeds from the 2017 Bonds and \$456,210 in funds from the 2010-C and 2013-B Bond Sinking Funds in an irrevocable escrow fund to be used solely for satisfying scheduled debt service payments of the 2010-C and 2013-B Bonds. Accordingly, the 2010-C Bonds in the amount of \$8,935,000, and certain 2013-B Bonds in the amount of \$36,160,000, as well as accrued interest payable of \$347,104 and unamortized discount and issuance costs of \$1,152,596, were extinguished resulting in the accounting recognition of a loss from defeasance of \$2,187,441, reported in the accompanying financial statements as a deferred outflow of resources. The City advance refunded the 2010-C and 2013-B bonds to reduce the effective rate on the debt. The advance refunding resulted in an economic savings (difference between the present value of the debt service payment on the old and new debt) of \$3,128,648.

The 2017 series bonds maturing on or after January 1, 2028, are subject to redemption prior to maturity in whole or in part on any date on or after January 1, 2027, at the redemption price (expressed as a percentage of principal amount to be redeemed) of 100%, plus accrued interest to the redemption date.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

6. Long-Term Debt, Continued

On December 4, 2019, the City issued \$64,155,000 of Electric Light and Power System Refunding Revenue Bonds, 2019 Series, each dated December 4, 2019. The 2019 Bonds were issued for the purpose of refunding certain outstanding revenue bonds which include the 2010-A Series, 2010-B Series, 2013-A Series and 2013-B Series. The in-substance defeasance of the 2010 and 2013 Series bonds was accomplished by placing \$71,178,711 in proceeds from the 2019 Bonds, \$3,895,548 of sinking funds and \$15,231,495 of other restricted funds in an irrevocable escrow fund to be used solely for satisfying scheduled debt service payments of the 2010 and 2013 Series Bonds. Accordingly, the 2010 Series Bonds in the amount of \$38,495,000, the 2013 Series Bonds in the amount of \$49,815,000, as well as accrued interest payable of \$1,772,444 and unamortized discount and issuance costs of \$449,846, were extinguished resulting in the accounting recognition of a gain from defeasance of \$226,536, reported in the accompanying financial statements as a deferred outflow of resources. The City advance refunded these bonds to reduce its total outstanding debt and reduce the effective rate on the debt. The advance refunding resulted in an economic savings (difference between the present value of the debt service payment on the old and new debt) of \$7,441,846.

All bonds are secured by a pledge of, and are payable from, the gross revenues derived from the operation of the Electric System and are secured by a statutory mortgage lien as provided and authorized by the Kentucky Revised Statutes.

For all bonds, in the event of default, any Bondholder may proceed to protect and enforce its rights and the rights of the holders of the Bonds under the Ordinance forthwith by a suit or suits in equity or at law.

7. Dividends - City of Owensboro

Under the terms of City ordinances authorizing the Electric System bonds, whenever all specified or required transfers and payments have been set aside and paid into the restricted asset funds and there is a balance in excess of the amount to be set aside and paid into the restricted asset funds during the next succeeding two months (approximately \$15,561,000 at May 31, 2020), the City Utility Commission may withdraw and transfer from such excess to the general fund of the City in any fiscal year an amount not to exceed 10% of the value of the City's ownership (net assets) exclusive of interest accumulated on deposits in the Reserve and Contingency Fund (\$5,106,496 at May 31, 2021) and amounts reserved for asset retirement (\$108,807 at May 31, 2021) as shown on the Electric System's books on the first day of the fiscal year. The Ordinance also allows for the transfer to the City of a sum equal to the dollar value of services purchased by the City from the Electric System in the fiscal year, not to exceed, however, \$700,000 for the fiscal year ended June 30, 1985, and thereafter increasing at a compound rate of 5% per annum. Transfers to the City under this ordinance and agreement were \$9,770,129 and \$9,611,802 for 2021 and 2020, respectively.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

8. Pension and Other Postemployment Benefits – CERS

Plan Description

The Electric System contributes to the Kentucky County Employees Retirement System (CERS), which is a cost-sharing multiple-employer defined benefit pension/OPEB plan administered by the Kentucky Public Pensions Authority (KPPA) that covers members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. Kentucky Revised Statute (KRS) Section 61.645 assigns the authority to establish and amend benefit provisions to the Board of Trustees of KPPA (Board). KPPA issues a publicly available financial report that can be obtained at www.kyret.ky.gov.

Benefits Provided

CERS provides for retirement, disability, and death benefits to system members through its Pension Fund, as well as other postemployment benefits (OPEB) for hospital and medical insurance through its Insurance Fund.

Retirement benefits may be extended to beneficiaries of members under certain circumstances. Retirement benefits are determined using a formula which considers the member's final compensation; benefit factors set by statute which vary depending upon the type/amount of service, participation date, and retirement date; and years of service. Plan members with a participation date prior to September 1, 2008, are eligible to retire with full benefits at any time with 27 or more years of service credit, or at age 65 with at least 4 years of service credit. Plan members with a participation date on or after September 1, 2008, are eligible to retire with full benefits at age 57 if the member's age and years of service equal 87, or at age 65 with at least 5 years of service credit.

Other postemployment benefits provided by CERS consist of prescribed contributions for whole or partial payments of required premiums to purchase hospital and medical insurance.

Contributions

State statute requires active members to contribute 5% of creditable compensation. For members participating on or after September 1, 2008, an additional 1% of creditable compensation is required. This amount is credited to the Insurance Fund and is non-refundable to the member. Employers contribute at the rate determined by the KPPA Board to be necessary for the actuarial soundness of the systems, as required by KRS 61.565 and KRS 61.752.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

8. Pension and Other Postemployment Benefits – CERS, Continued

Contributions, Continued

The Electric System's actuarially determined contribution rates and contribution amounts, based on annual creditable compensation for the year ended May 31, 2021, were as follows:

	<u>Contribution Rates</u>	<u>Contributions</u>
Pension	19.30%	\$ 2,373,172
OPEB	4.76%	585,300
Total	24.06%	\$ 2,958,472

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

The net pension and OPEB liabilities reported as of May 31, 2021, were measured as of June 30, 2020, and the total pension and OPEB liabilities used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019. The Electric System's proportion of the liabilities was based on a projection of the Electric System's long-term share of contributions to the plan relative to the projected contributions of all participating entities, actuarially determined. Changes in the Electric System's pension and OPEB proportions as of the measurement dates were as follows:

	<u>Pension</u>	<u>OPEB</u>
June 30, 2019	0.615885%	0.615885%
Decrease	(0.023386)	(0.023557)
June 30, 2020	0.592499%	0.592328%

The Electric System's pension and OPEB liabilities and expense as of and for the year ended May 31, 2021, were as follows:

	<u>Net Pension Liability</u>	<u>Net OPEB Liability</u>
Proportionate Share	\$ 45,444,200	\$ 14,302,910
Pension/OPEB Expense	\$ 2,373,172	\$ 585,300

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

8. Pension and Other Postemployment Benefits – CERS, Continued

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

At May 31, 2021, the Electric System reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		OPEB	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,133,234	\$ -	\$ 2,389,715	\$ 2,391,582
Changes of assumptions	1,774,520	-	2,487,861	15,129
Net difference between projected and actual earnings on plan investments	1,137,184	-	475,395	-
Changes in proportion and differences between contributions and proportionate share of contributions	74,426	616,837	62,412	322,086
Contributions subsequent to the measurement date	2,177,627	-	537,074	-
Total	\$ 6,296,991	\$ 616,837	\$ 5,952,457	\$ 2,728,797

The \$2,177,627 and \$537,074 of deferred outflows of resources resulting from the Electric System's pension and OPEB contributions subsequent to the measurement date will be recognized as a reduction of the net pension and OPEB liabilities in the year ending May 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension and OPEB expense as follows:

Year ending May 31,	Pension	OPEB
2022	\$ 1,616,025	\$ 719,961
2023	919,965	860,650
2024	509,817	591,230
2025	456,720	552,243
2026	-	(37,498)
	\$ 3,502,527	\$ 2,686,586

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

8. Pension and Other Postemployment Benefits – CERS, Continued

Actuarial Assumptions

The total pension/OPEB liabilities in the June 30, 2019, actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Healthcare payroll growth rate	2.00%
Salary increases	3.30% to 10.30%, varies by service
Net investment rate of return	6.25%
Healthcare cost trend rates (OPEB)	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. Post-65: Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

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

OPEB: The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of 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 rate of return for each major asset class are summarized in the following table.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

8. Pension and Other Postemployment Benefits – CERS, Continued

Actuarial Assumptions, Continued

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth		
US equity	18.75%	4.50%
Non US equity	18.75	5.25%
Private equity	10.00	6.65%
Specialty credit/high yield	15.00	3.90%
	<u>62.50</u>	
Liquidity		
Core bonds	13.50	(0.25)%
Cash	1.00	(0.75)%
	<u>14.50</u>	
Diversifying strategies		
Real estate	5.00	5.30%
Opportunistic	3.00	2.25%
Real return	15.00	3.95%
	<u>23.00</u>	
Total	<u>100.00%</u>	

Discount Rate

The discount rates used to measure the total pension/OPEB liabilities at the measurement dates and changes since the prior year were as follows:

	Pension	OPEB
Discount rate, June 30, 2019	6.25%	5.68%
Increase (decrease)	-	(0.34)
Discount rate, June 30, 2020	<u>6.25%</u>	<u>5.34%</u>

The discount rate of 6.25% used to measure the total pension liability was based on the expected rate of return on pension plan investments. The discount rate of 5.34% used to measure the total OPEB liability was based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 2.45% as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2020.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

8. Pension and Other Postemployment Benefits – CERS, Continued

Discount Rate, Continued

The projection of cash flows used to determine the pension discount rate assumed that the funds would receive the required employer contributions in each future year, as determined by the current funding policy established in Statute last amended by House Bill 362 (passed in 2018). The projection of cash flows used to determine the OPEB discount rate assumed that employers would contribute the actuarially determined contribution rate of projected compensation in accordance with the current funding policy, as most recently revised by Kentucky Senate Bill 249.

Sensitivity of the Electric System's Proportionate Share of the Liabilities to Changes in the Discount Rate

The following presents the Electric System's proportionate share of the net pension/OPEB liabilities, as well as what the Electric System's proportionate share of the net pension/OPEB liabilities would be if they were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Electric System's Proportionate Share			
	Discount Rate	Net pension Liability	Discount Rate	Net OPEB Liability
1% decrease	5.25%	\$ 56,042,587	4.34%	\$ 18,375,039
Current discount rate	6.25%	\$ 45,444,200	5.34%	\$ 14,302,910
1% increase	7.25%	\$ 36,668,332	6.34%	\$ 10,958,334

Sensitivity of the Electric System's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the Electric System's proportionate share of the net OPEB liability, as well as what the Electric 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 rate:

	Healthcare Cost Trend Rates	Electric System's Proportionate Share of Net OPEB Liability
1% decrease	5.40% Pre-65 or 1.90% Post-65	\$ 11,074,026
Current healthcare cost trend rates	6.40% Pre-65 or 2.90% Post-65	\$ 14,302,910
1% increase	7.40% Pre-65 or 3.90% Post-65	\$ 18,221,234

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

8. Pension and Other Postemployment Benefits – CERS, Continued

Plan Fiduciary Net Position

Detailed information about the CERS fiduciary net position is available in the separately issued KPPA Comprehensive Annual Financial Report.

Payables to the Pension/OPEB Plans

The Electric System reported the following payables for the outstanding amount of pension/OPEB contributions due to CERS for the year ended May 31, 2021.

<u>Pension</u>	<u>OPEB</u>
\$ 156,190	\$ 38,522

9. Commitments and Contingencies

OMU is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. OMU manages its risks through coverages provided by private insurance carriers for various risks of losses to which it is exposed, including directors and officers, employee dishonesty, workers' compensation, and other property risks. The property and casualty insurance policy contains a deductible of \$250,000 and excludes acts of terrorism from its coverage. For the last three years, settled claims have not exceeded private insurance coverage, nor has there been any reduction in insurance coverage.

OMU is self-insured for group health and limits its risks of loss by purchasing reinsurance coverage. A third-party administrator administers claims. The estimated liability for unpaid health claims at May 31, 2021, has been included in other current liabilities. The following reconciles health claims payable for the three years ended May 31:

<u>Fiscal Year Ended May 31,</u>	<u>Claims Payable June 1</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Paid</u>	<u>Claims Payable May 31</u>
2021	\$ 404,076	\$ 2,885,394	\$ 2,905,004	\$ 384,466
2020	\$ 880,458	\$ 3,339,938	\$ 3,816,321	\$ 404,076
2019	\$ 329,773	\$ 3,608,350	\$ 3,057,665	\$ 880,458

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

9. Commitments and Contingencies, Continued

OMU has been identified by the United States Environmental Protection Agency as one of numerous parties that may be liable for damages under federal law with respect to a superfund hazardous waste site. Through May 31, 2021, OMU had paid \$57,500, plus legal costs, related to this matter. Based upon the opinion of its outside legal counsel, management does not anticipate additional costs to be material; however, the ultimate resolution of this matter and the related financial impact on OMU, if any, cannot be determined at this time.

There are a number of other pending legal actions involving OMU. Management believes that the outcome of such legal actions and claims will not have a material effect on OMU's financial position or results of operations.

10. Asset Retirement Obligation and Deferred Asset Retirement Outflow

The Electric System accounts for certain costs associated with the dismantling and removal of the Elmer Smith Generating System (ESGS) in accordance with GASB Statement No. 83, Certain Asset Retirement Obligations. Under Statement No. 83, the Electric System recognized a liability of \$7,205,000 at May 31, 2020, adjusted to \$6,905,000, at May 31, 2021, which equals the estimated cost of activities that are legally required by the Environmental Protection Agency to perform retirement of the ash ponds. As of May 31, 2021 and 2020, the Electric System had expended \$3,986,003 and \$13,012, respectively, in costs for retirement leaving an obligation of \$2,905,985 and \$7,191,988, respectively.

The Electric System accounts for other not legally enforceable costs associated with the dismantling and removal of the ESGS in accordance with GASB statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB AICPA Pronouncements. These costs are for removal of the coal stockpile, removal of the smoke stacks, removal of asbestos, other environmental maintenance expenses, and for other structures, such as fencing. During 2021 and 2020, the Electric System expended \$4,930,157 and \$285,523, respectively, for these costs for a total of \$5,215,680. OMU is amortizing these costs over five years and has recorded amortization expense of \$501,918 in 2021 for a net deferred decommissioning asset of \$4,713,762 at May 31, 2021.

11. Concentrations

The Electric System discontinued generating its own power with the shutdown of the Elmer Smith Generating Station on May 31, 2020. As a result, the Electric System now purchases its power from third-party providers. The Electric System purchased approximately 95% of its power from one third-party provider for the year ended May 31, 2021.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

12. COVID-19 Considerations

In December 2019, a novel strain of coronavirus, known as COVID-19, was reported in Wuhan, China, and has since extensively impacted the global health and economic environment. In March 2020, the World Health Organization characterized COVID-19 as a pandemic, and the President declared the COVID-19 outbreak in the United States as a national emergency.

During the COVID-19 pandemic, our services have generally been considered essential in nature and have not been materially interrupted. As the situation continues to evolve, we are closely monitoring the impact of the COVID-19 pandemic on all aspects of our business, including how it impacts our customers, subcontractors, suppliers, vendors and employees, in addition to how the COVID-19 pandemic impacts our ability to provide services to our customers. We believe the ultimate impact of the COVID-19 pandemic will not have a significant impact on our operating results, cash flows and financial condition.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Last 10 Fiscal Years *

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Electric System's proportion of the net pension liability	0.592499%	0.615885%	0.620000%	0.611400%	0.626738%	0.610636%	0.632508%
Electric System's proportionate share of the net pension liability	\$ 45,444,200	\$ 43,315,494	\$ 37,759,911	\$ 35,787,099	\$ 30,858,179	\$ 26,254,442	\$ 20,520,943
Electric System's covered payroll	\$ 15,150,724	\$ 15,475,990	\$ 14,991,261	\$ 14,942,435	\$ 15,035,975	\$ 14,221,628	\$ 14,612,052
Electric System's proportionate share of the net pension liability as a percentage of its covered payroll	299.95%	279.89%	251.88%	239.50%	205.23%	184.61%	140.44%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	50.45%	53.54%	53.32%	55.50%	59.97%	66.80%

* Presented for those years for which the information is available.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

SCHEDULE OF PENSION CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM

Last 10 Fiscal Years

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 2,373,172	\$ 2,913,660	\$ 2,497,758	\$ 2,148,899	\$ 2,062,855	\$ 1,908,105	\$ 1,820,510
Contributions in relation to the contractually required contributions	<u>(2,373,172)</u>	<u>(2,913,660)</u>	<u>(2,497,758)</u>	<u>(2,148,899)</u>	<u>(2,062,855)</u>	<u>(1,908,105)</u>	<u>(1,820,510)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Electric System's covered payroll	\$ 12,300,680	\$ 15,221,323	\$ 15,527,315	\$ 14,873,999	\$ 14,889,969	\$ 15,097,888	\$ 14,199,426
Contributions as a percentage of covered payroll	19.29%	19.14%	16.09%	14.45%	13.85%	12.64%	12.82%

* Presented for those years for which the information is available.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Last 10 Fiscal Years *

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Electric System's proportion of the net OPEB liability	0.592328%	0.615885%	0.620000%	0.611400%	0.626738%
Electric System's proportionate share of the net OPEB liability	\$ 14,302,910	\$ 10,356,480	\$ 11,007,791	\$ 12,291,225	\$ 9,663,041
Electric System's covered payroll	\$ 15,150,724	\$ 15,475,990	\$ 14,991,261	\$ 14,942,435	\$ 15,035,975
Electric System's proportionate share of the net OPEB liability as a percentage of its covered payroll	94.40%	66.92%	73.43%	82.26%	64.27%
Plan fiduciary net position as a percentage of the total OPEB liability	51.67%	60.44%	57.62%	52.39%	55.24%

* Presented for those years for which the information is available.

OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM

SCHEDULE OF OPEB CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM

Last 10 Fiscal Years

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 585,300	\$ 718,602	\$ 810,001	\$ 697,502	\$ 699,448	\$ 712,851	\$ 698,185
Contributions in relation to the contractually required contributions	<u>(585,300)</u>	<u>(718,602)</u>	<u>(810,001)</u>	<u>(697,502)</u>	<u>(699,448)</u>	<u>(712,851)</u>	<u>(698,185)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Electric System's covered payroll	\$ 12,300,680	\$ 15,221,323	\$ 15,527,315	\$ 14,873,999	\$ 14,889,969	\$ 15,097,888	\$ 14,199,426
Contributions as a percentage of covered payroll	4.76%	4.72%	5.22%	4.69%	4.70%	4.72%	4.92%

* Presented for those years for which the information is available.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Year Ended May 31, 2021

Changes of Benefit Terms

2021	None
2020	None
2019	None
2018	None
2017	None
2016	None

Changes of Assumptions

2021 OPEB:

The single discount rate changed from 5.68% to 5.34%.

2020 Pension and OPEB:

The salary increases assumption was changed from 3.05% to 3.30%-10.30%.

OPEB:

The single discount rate changed from 5.85% to 5.68%.

2019 Pension and OPEB:

The salary increases assumption was changed from 2.00% to 3.05%.

OPEB:

The single discount rate changed from 5.84% to 5.85%.

2018 Pension and OPEB:

The assumed investment return was changed from 7.50% to 6.25%.

The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service.

The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

OPEB:

The single discount rate changed from 6.89% to 5.84%.

2017 None

2016 Pension:

The assumed investment rate of return was decreased from 7.75% to 7.50%.

The assumed rate of inflation was reduced from 3.50% to 3.25%.

The assumed rate of wage inflation was reduced from 1.00% to 0.75%.

Payroll growth assumption was reduced from 4.50% to 4.00%.

The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

(This page intentionally left blank.)

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

SCHEDULE OF REVENUES AND EXPENSES

Year Ended May 31, 2021 (with comparative totals for 2020)

	Retail Electric System	Wholesale Power Marketing
Operating revenues:		
Charges for services:		
Residential	\$ 29,143,361	\$ -
Commercial	6,665,832	-
Industrial	45,789,791	-
Water Works System	1,055,578	-
City of Owensboro and Schools	2,547,572	-
Supplemental power	-	-
Other wholesale	-	456,334
Electric Light and Power System	-	-
Build America Bond subsidy	-	-
Other	1,496,514	-
	<hr/>	<hr/>
Total operating revenues	86,698,648	456,334
Operating expenses:		
Power costs:		
Fuel for electric generation	-	-
Purchased power	52,555,677	10,011
Other	-	-
Transmission and distribution	6,475,068	2,916,152
Customer service and information	2,050,068	-
General and administrative	6,214,278	88,483
Telecommunications	-	-
Depreciation	4,757,011	-
	<hr/>	<hr/>
Total operating expenses	72,052,102	3,014,646
	<hr/>	<hr/>
Operating income (loss)	14,646,546	(2,558,312)
Nonoperating revenues (expenses):		
Interest and debt expense	(1,036,818)	-
Interest income on investments	800,001	7,332
Interest income on Elmer Smith Generating Station		
investments allocated to:		
Electric System	168,001	-
Other, net	-	-
Net increase (decrease) in fair value of investments	(499,245)	-
Deferred net change in fair value of investments	499,245	-
	<hr/>	<hr/>
Total nonoperating revenues (expenses)	(68,816)	7,332
	<hr/>	<hr/>
Income before transfers	14,577,730	(2,550,980)
	<hr/>	<hr/>
Transfers out - dividends to City of Owensboro	(9,702,199)	-
	<hr/>	<hr/>
Change in net position	<u>\$ 4,875,531</u>	<u>\$ (2,550,980)</u>

Elmer Smith Generating Station	Telecommunications	Eliminations	Total	2020 Total
\$ -	\$ 1,406,210	\$ -	\$ 30,549,571	\$ 33,974,239
-	1,497,862	-	8,163,694	9,173,504
-	-	-	45,789,791	55,351,826
-	20,274	-	1,075,852	1,192,960
-	67,930	-	2,615,502	3,436,495
-	-	-	-	1,124,848
-	-	-	456,334	16,697,010
18,091,198	193,950	(18,285,148)	-	-
-	-	-	-	276,741
-	-	(18,326)	1,478,188	1,400,180
<u>18,091,198</u>	<u>3,186,226</u>	<u>(18,303,474)</u>	<u>90,128,932</u>	<u>122,627,803</u>
370,002	-	-	370,002	37,951,248
733,545	-	(18,091,199)	35,208,034	9,761,292
3,752,587	-	-	3,752,587	16,573,476
-	-	(6,240)	9,384,980	10,549,046
-	106,595	-	2,156,663	2,066,091
204,711	398,273	(29,155)	6,876,590	7,381,448
-	1,272,245	(176,880)	1,095,365	1,053,280
11,028,762	975,315	-	16,761,088	19,771,517
<u>16,089,607</u>	<u>2,752,428</u>	<u>(18,303,474)</u>	<u>75,605,309</u>	<u>105,107,398</u>
<u>2,001,591</u>	<u>433,798</u>	<u>-</u>	<u>14,523,623</u>	<u>17,520,405</u>
(2,091,165)	(259,382)	34,205	(3,353,160)	(5,814,348)
252,775	16,184	(34,205)	1,042,087	2,584,889
(168,001)	-	-	-	-
4,800	-	-	4,800	27,820
(188,985)	-	-	(688,230)	359,709
188,985	-	-	688,230	(359,709)
<u>(2,001,591)</u>	<u>(243,198)</u>	<u>-</u>	<u>(2,306,273)</u>	<u>(3,201,639)</u>
-	190,600	-	12,217,350	14,318,766
-	(67,930)	-	(9,770,129)	(9,611,802)
<u>\$ -</u>	<u>\$ 122,670</u>	<u>\$ -</u>	<u>\$ 2,447,221</u>	<u>\$ 4,706,964</u>



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

City Utility Commission
City of Owensboro, 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 Owensboro Municipal Utilities Electric Light and Power System (Electric System) of the City of Owensboro, Kentucky as of and for the year ended May 31, 2021, and the related notes to the financial statements, and have issued our report thereon dated August 31, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Electric System'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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Electric System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Electric System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Electric System'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 statements. 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 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.

Owensboro, Kentucky
September 13, 2021

Ring Hammond CPAs PSC



INDEPENDENT AUDITOR'S REPORT

City Utility Commission
City of Owensboro, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Owensboro Municipal Utilities Water Works System (Water System) a component unit of the City of Owensboro, Kentucky, as of and for the years ended May 31, 2021 and 2020, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Owensboro Municipal Utilities Water Works System of the City of Owensboro, Kentucky, as of May 31, 2021 and 2020, and the 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 46 through 49 and the Pension and Other Postemployment Benefits (OPEB) Schedules on pages 74 through 78, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2021, on our consideration of the Water System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Water System'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 Water System's internal control over financial reporting and compliance.

Ring Hammock CPAs PSC

Owensboro, Kentucky
September 13, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Owensboro Municipal Utilities Water Works System (Water System) financial performance provides an overview of the Water System's financial activities for the fiscal year ended May 31, 2021. Please read it in conjunction with the Water System's financial statements, which begin on page 50.

Overview of the Financial Statements

This annual report consists of two parts: Management's Discussion and Analysis and the Financial Statements.

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements. The MD&A represents management's examination and analysis of the Water System's financial condition and performance.

The financial statements report information using accounting methods similar to those used by private sector companies. The financial statements include a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Fund Net Position; a Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Position presents the financial position of the Water System and thus 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 business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flow.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Financial Summary

The following table summarizes the financial condition and operations of the Water System for 2021 and 2020.

Assets and Deferred Outflows of Resources	<u>2021</u>	<u>2020</u>
Utility plant, net	\$ 92,207,227	\$ 77,448,664
Restricted assets	14,150,420	31,233,781
Current assets	7,924,113	8,094,624
Other noncurrent assets	1,248,094	1,284,402
Deferred outflow of resources	<u>14,880,976</u>	<u>12,974,921</u>
	<u>\$ 130,410,830</u>	<u>\$ 131,036,392</u>
 Liabilities, Deferred Inflows of Resources, and Net Position		
Net position		
Net investment in capital assets	\$ 20,467,699	\$ 21,405,311
Restricted	5,351,264	4,789,442
Unrestricted	<u>7,302,699</u>	<u>6,307,138</u>
Total net position	33,121,662	32,501,891
Long-term debt	78,892,064	80,567,640
Current liabilities	4,288,885	5,644,033
Other noncurrent liabilities	13,361,480	11,256,127
Deferred inflows of resources	<u>746,739</u>	<u>1,066,701</u>
	<u>\$ 130,410,830</u>	<u>\$ 131,036,392</u>
 Revenues, Expenses and Changes in Net Position		
Operating revenues	\$ 14,593,307	\$ 15,212,463
Operating expenses	<u>10,902,256</u>	<u>10,644,111</u>
Operating income	<u>3,691,051</u>	<u>4,568,352</u>
Interest expense	(3,085,383)	(3,145,859)
Interest and other income	<u>277,228</u>	<u>972,265</u>
Net nonoperating expenses	<u>(2,808,155)</u>	<u>(2,173,594)</u>
Income (loss) before contributions and transfers	882,896	2,394,758
Capital contributions	13,887	63,976
Transfers out - dividends to City of Owensboro	<u>(277,012)</u>	<u>(321,270)</u>
Change in net position	<u>\$ 619,771</u>	<u>\$ 2,137,464</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

FINANCIAL HIGHLIGHTS

- Net position increased \$619,771 in 2021, and the income before contributions and transfers was \$882,896 in 2021 versus \$2,394,758 in 2020, as a result of changes in operating revenues, operating expenses and interest as discussed below.
- Operating revenues decreased by \$619,156 in 2021 when compared to 2020, or 4.1%. The decrease in revenues in 2021 is primarily attributable to a decrease in residential and commercial revenues which decreased \$163,093 and \$293,866, or 2.9% and 5.7%, as a result of the impact of COVID-19. Operating revenues for Electric Light & Power System also decreased \$302,392 or 77.6% as a result of the Elmer Smith Generating Station ceasing to generate power as of May 31, 2020. Wholesale revenues increased by \$222,987 in 2021 in comparison to 2020 or 7.1%, due to amendments to contracts with three rural water districts, necessary for establishing a proportionate allocated share of the fixed cost for the expanded Cavin Plant. The Water System's Cavin Plant expansion was 99% completed as of May 31, 2021.
- Operating expenses increased \$258,145 in 2021 when compared to 2020, or 2.4%. Production and purification expenses increased \$237,845 in 2021, or 6.1% due to increased expenses from the addition of an Assistant Water Plant Operator, unreimbursed COVID-19 expenses, switch from chlorine to sodium hypochlorite and quick lime to hydrated lime, engineering costs for risk and resilience study, and emergency response plan required by the American Water Works Association. Transmission and distribution expenses increased \$138,359 in 2021, or 9.4% due to increased maintenance costs as well as utility technician salaries being allocated to distribution in 2021. Depreciation increased \$162,035, or 5.2% due to additions described below. Partially offsetting the increases was a decrease in Customer service and information expenses of \$172,262 in 2021, or 25.1% due to a decrease in the allocation percentage of these costs to the Water System. General and administrative expenses decreased \$107,832 in 2021, or 7.6% due in part to a reduction in property insurance coverage as a result of a decrease in rates.
- Interest expense decreased by \$60,476 in 2021, or 1.9%, due primarily to a decrease in the principal balance of bonds outstanding that were issued for expansion of the Cavin Plant, as discussed above. Interest income also decreased \$695,037, or 71.5%, primarily due to less interest being earned on the Cavin Plant construction funds since these funds were used for the expansion of the Cavin Plant, as well as lower rates received on bank and investment balances.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2021, the Water System had \$92.2 million invested in a broad range of assets, including wells, treatment facilities and equipment, storage tanks, buildings and water mains. This amount represents an increase of \$14.8 million from 2020 due to capital asset additions which exceeded current depreciation expense. The following table summarizes capital assets, net of accumulated depreciation, at the end of 2021 and 2020.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

CAPITAL ASSET AND DEBT ADMINISTRATION, CONTINUED

Capital Assets, Continued

	<u>2021</u>	<u>2020</u>
Source of supply plant	\$ 2,352,097	\$ 2,456,441
Pumping plant	518,179	326,105
Water treatment plant	17,234,756	11,940,080
Transmission and distribution plant	23,712,178	29,894,591
General plant	1,904,121	1,301,569
Unclassified plant and construction in progress	<u>46,485,896</u>	<u>31,529,878</u>
	<u>\$ 92,207,227</u>	<u>\$ 77,448,664</u>

In addition to the Water System's routine additions and replacement of distribution plant, the Water System incurred \$591,000 for new vehicles and equipment, \$528,000 for engineering and construction support services related to expansion of the Water System's Cavin Plant, and \$13.9 million for the actual construction on the Cavin Water Treatment Plant expansion project.

Debt

At the end of 2021, the Water System had \$79 million in bonds outstanding versus \$80.6 million in 2020, for a decrease of \$1.6 million, or 1.9%. As there was no new debt issued during 2021, this decrease is due to scheduled bond payments. The Water System bonds carry ratings of "AA" (stable outlook) and "A1" (upper medium grade) as assigned by S&P Global Ratings and Moody's Investors Services, Inc., respectively.

Outlook

We expect the 2022 results to be lower than in 2021, as the water treatment chemicals for disinfection and softening at the Cavin Plant have been changed and will result in additional expense, as well as an expected increase in labor expense due to completion of the Cavin Water Treatment Plant expansion project.

(This page intentionally left blank.)

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

STATEMENT OF NET POSITION

May 31, 2021 and 2020

**ASSETS AND DEFERRED OUTFLOWS OF
RESOURCES**

	<u>2021</u>	<u>2020</u>
Utility plant, net	\$ <u>92,207,227</u>	\$ <u>77,448,664</u>
Restricted assets	<u>14,150,420</u>	<u>31,233,781</u>
Current assets:		
Cash and cash equivalents	3,919,079	4,154,327
Investments	151,352	149,637
Accounts receivable, less allowance for doubtful accounts of \$20,806 for 2021 and \$11,860 for 2020	3,130,585	3,151,740
Materials and supplies inventories	671,047	635,480
Prepayments	<u>52,050</u>	<u>3,440</u>
Total current assets	<u>7,924,113</u>	<u>8,094,624</u>
Other noncurrent assets	<u>1,248,094</u>	<u>1,284,402</u>
Total assets	<u>115,529,854</u>	<u>118,061,471</u>
Deferred outflows of resources:		
Deferred pension outflow	1,654,137	1,851,193
Deferred other postemployment benefit outflows	1,389,905	819,446
Deferred pension obligation	8,626,604	7,397,703
Deferred postemployment benefit obligation	2,411,541	2,113,019
Unamortized loss on debt refunding	737,255	793,560
Net unrealized loss on investments	<u>61,534</u>	<u>-</u>
Total deferred outflows of resources	<u>14,880,976</u>	<u>12,974,921</u>
Total assets and deferred outflows of resources	\$ <u>130,410,830</u>	\$ <u>131,036,392</u>

See Notes to Financial Statements

**LIABILITIES, DEFERRED INFLOWS OF
RESOURCES, AND NET POSITION**

	<u>2021</u>	<u>2020</u>
Net position:		
Net investment in capital assets	\$ 20,467,699	\$ 21,405,311
Restricted for capital projects, net of related debt	3,387,410	3,076,104
Restricted for debt service	1,963,854	1,713,338
Unrestricted	<u>7,302,699</u>	<u>6,307,138</u>
Total net position	<u>33,121,662</u>	<u>32,501,891</u>
Long-term debt	<u>78,892,064</u>	<u>80,567,640</u>
Current liabilities (payable from restricted assets):		
Current maturities of long-term debt	1,620,000	1,560,000
Accrued interest payable	626,903	639,697
Accounts payable	<u>1,428,849</u>	<u>2,675,111</u>
	<u>3,675,752</u>	<u>4,874,808</u>
Current liabilities (payable from current assets):		
Accounts payable	<u>613,133</u>	<u>769,225</u>
Total current liabilities	<u>4,288,885</u>	<u>5,644,033</u>
Other noncurrent liabilities:		
Net pension liability	10,143,064	9,048,688
Net other postemployment benefit liability	3,192,384	2,163,488
Customers' advances for construction	<u>26,032</u>	<u>43,951</u>
Total other noncurrent liabilities	<u>13,361,480</u>	<u>11,256,127</u>
Total liabilities	<u>96,542,429</u>	<u>97,467,800</u>
Deferred inflows of resources:		
Deferred pension inflows	137,677	200,208
Deferred other postemployment benefit inflows	609,062	768,977
Net unrealized gain on investments	<u>-</u>	<u>97,516</u>
	<u>746,739</u>	<u>1,066,701</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 130,410,830</u></u>	<u><u>\$ 131,036,392</u></u>

See Notes to Financial Statements

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended May 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Charges for services:		
Residential	\$ 5,386,218	\$ 5,549,311
Commercial	4,827,688	5,121,554
Water districts	3,362,783	3,139,796
Fire protection	356,313	360,162
City of Owensboro	277,012	320,976
Electric Light and Power System	87,453	389,845
Service revenues	<u>295,840</u>	<u>330,819</u>
Total operating revenues	<u>14,593,307</u>	<u>15,212,463</u>
Operating expenses:		
Production and purification	4,144,765	3,906,920
Transmission and distribution	1,608,282	1,469,923
Customer service and information	514,062	686,324
General and administrative	1,321,813	1,429,644
Depreciation	<u>3,313,334</u>	<u>3,151,300</u>
Total operating expenses	<u>10,902,256</u>	<u>10,644,111</u>
Operating income	<u>3,691,051</u>	<u>4,568,352</u>
Nonoperating revenues (expenses):		
Interest and debt expense	(3,085,383)	(3,145,859)
Interest income on investments	277,228	972,265
Net increase (decrease) in fair value of investments	(159,050)	25,489
Deferred net change in fair value of investments	<u>159,050</u>	<u>(25,489)</u>
Total nonoperating revenues (expenses)	<u>(2,808,155)</u>	<u>(2,173,594)</u>
Income (loss) before contributions and transfers	882,896	2,394,758
Capital contributions	13,887	63,976
Transfers out - dividends to City of Owensboro	<u>(277,012)</u>	<u>(321,270)</u>
Change in net position	<u>619,771</u>	<u>2,137,464</u>
Net position, beginning of year	<u>32,501,891</u>	<u>30,364,427</u>
Net position, end of year	<u><u>\$ 33,121,662</u></u>	<u><u>\$ 32,501,891</u></u>

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

STATEMENTS OF CASH FLOWS

Years Ended May 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Receipts from customers	\$ 14,595,866	\$ 14,339,623
Payments to suppliers	(4,503,624)	(4,174,611)
Payments to employees	(3,228,701)	(2,909,107)
Net cash provided by operating activities	<u>6,863,541</u>	<u>7,255,905</u>
Cash flows from noncapital financing activities:		
Transfers out - dividends to City of Owensboro	<u>(275,175)</u>	<u>(328,170)</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(19,418,162)	(28,699,714)
Payments on long-term debt	(1,560,000)	(1,500,000)
Interest paid on long-term debt	(3,039,839)	(3,099,646)
Reimbursements of customers' advances	<u>(4,032)</u>	<u>(4,273)</u>
Net cash used in capital and related financing activities	<u>(24,022,033)</u>	<u>(33,303,633)</u>
Cash flows from investing activities:		
Purchase of investments	(2,400,000)	-
Proceeds from sale and maturities of investments	5,500,000	10,540,898
Interest on investments	<u>336,837</u>	<u>943,020</u>
Net cash provided by investing activities	<u>3,436,837</u>	<u>11,483,918</u>
Net decrease in cash and cash equivalents	(13,996,830)	(14,891,980)
Cash and cash equivalents, beginning of year	<u>27,329,286</u>	<u>42,221,266</u>
Cash and cash equivalents, end of year	<u><u>\$ 13,332,456</u></u>	<u><u>\$ 27,329,286</u></u>
Included in the following Statements of Net Position captions:		
Cash and cash equivalents, unrestricted	\$ 3,919,079	\$ 4,154,327
Cash and cash equivalents, restricted	<u>9,413,377</u>	<u>23,174,959</u>
	<u><u>\$ 13,332,456</u></u>	<u><u>\$ 27,329,286</u></u>

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

STATEMENTS OF CASH FLOWS, Concluded

Years Ended May 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 3,691,053	\$ 4,568,353
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,413,334	3,251,300
Change in assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	22,561	(851,441)
Materials and supplies	(35,567)	(46,236)
Prepayments	(48,610)	145,480
Other noncurrent assets	(21,301)	31,035
Increase (decrease) in liabilities:		
Accounts payable	<u>(157,929)</u>	<u>157,414</u>
Net cash provided by operating activities	<u>\$ 6,863,541</u>	<u>\$ 7,255,905</u>
Noncash investing, capital and financing activities:		
Noncash contributions in aid of construction	<u>\$ -</u>	<u>\$ 52,498</u>
Unrefunded customers' advances credited to contributions in aid of construction	<u>\$ 13,887</u>	<u>\$ 11,478</u>
Amortization of debt discount and expense and deferred loss on debt defeasance	<u>\$ 58,339</u>	<u>\$ 58,339</u>

OWENSBORO MUNICIPAL UTILITIES WATER WORKS SYSTEM

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies

General Information

In 1940, the City of Owensboro, Kentucky (the City), established the City Utility Commission to manage, control, and operate Owensboro Municipal Utilities (OMU). City officials appoint the five individuals who comprise the City Utility Commission. OMU consists of the Electric Light and Power System (Electric System) and the Water Works System (Water System), which are component units of the City. Accordingly, the Electric System and the Water System are part of the financial reporting entity of the City. The accompanying financial statements present only the Water System and are not intended to present fairly the financial position of the City and changes in its financial position or, where applicable, its cash flows, in conformity with accounting principles generally accepted in the United States of America. The Water System is subject to regulation, including approval of rates charged for utility services, by the City, as set forth in the applicable city ordinances.

The Water System provides water to approximately 24,000 residential, commercial and industrial customers in Owensboro, Kentucky. The Water System also furnishes water to three rural water districts in Daviess County, Kentucky, under wholesale supply agreements.

System of Accounts and Basis of Accounting

The Water System's accounts are maintained substantially in accordance with the Uniform System of Accounts for water companies developed by the National Association of Regulatory Utility Commissioners and in conformity with accounting principles generally accepted in the United States of America using the economic resources measurement focus and the accrual basis of accounting.

The financial statements are prepared in accordance with generally accepted accounting principles and follow accounting guidance provided by the Governmental Accounting Standards Board (GASB) in the regulated operations provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which permit certain entities with cost-based rates to defer certain costs or income that would otherwise be recognized when incurred to the extent that the rate-regulated entity is recovering or expects to recover such amounts in future rates charged to its customers. Regulatory assets are the deferral of costs expected to be recovered in future customer rates and regulatory liabilities represent current recovery of expected future costs.

The Water System considers water revenues and costs that are directly related to production, purification, transmission, and distribution of water to be operating revenues and expenses.

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies, Continued

System of Accounts and Basis of Accounting, Continued

Revenues and expenses related to financing and other activities are reflected as nonoperating. The Water System accrues revenues as services are rendered to utility customers.

Utility Plant and Depreciation

Utility plant is stated at original cost, which includes the cost of contracted services, materials, labor, labor-related expenditures, general and administrative costs and an allowance for borrowed funds used during construction.

Replacements of depreciable property units, except minor replacements, are charged to utility plant. In addition, the costs of refurbishments of water tanks are charged to utility plant. Property units replaced or retired, including cost of removal net of any salvage, are charged to accumulated depreciation. Routine maintenance, repairs and minor replacement costs are charged to expense as incurred.

Allowance for borrowed funds used during construction includes capitalized interest during the construction period less any interest income on construction fund investments from bond proceeds during such period. Capitalization of interest is discontinued when the project is completed and the related utility plant is placed in service.

Depreciation of utility plant and unclassified plant in service is provided using the straight-line composite rate method over the estimated service lives of the depreciable assets. Estimated service lives of assets range from 5 to 80 years. Depreciation expense during 2021 and 2020 was approximately 3.4% of the average original cost of depreciable utility plant in service.

Restricted Assets

The City ordinances that authorized the Water Revenue Bonds require that certain amounts from bond proceeds and payments by customers for services provided be deposited into designated funds and be used only for the specified purposes of the funds. The Water System's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Cash and Investments

Cash deposits are reported at carrying amounts. The Water System categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. U.S. treasury and agency securities and negotiable certificates of deposit are stated at fair values based upon externally developed models that use rates and prices of similar securities.

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies, Continued

Cash and Investments, Continued

The Water System considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Unrestricted investments with initial maturities exceeding three months, consisting of U.S. treasury and agency securities and negotiable certificates of deposit, are classified as temporary investments.

Inventories

Inventories consisting of materials and supplies are valued at the lower of weighted average cost or net realizable value.

Bond Issuance Costs

Premiums and discounts arising from various bond issues are deferred and amortized using the straight-line method over the lives of the bond issues.

The Water System's rate making methodology allows for future recovery of debt costs, including bond issuance costs, in its rate making process. Accordingly, under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, debt issuance costs are deferred and amortized using the straight-line method over the lives of the bond issues.

The difference between the reacquisition price and the net carrying amount of defeased bond issues has been deferred and is being amortized using the straight-line method over the lives of the refunding bond issues.

Pension and Other Postemployment Benefits

For purposes of measuring the net liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits (OPEB), information about the fiduciary net position of the pension/OPEB plans, and additions to/deductions from the pension/OPEB plans' fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plans. For this purpose, revenues are recognized when earned. Contributions are recognized when due, pursuant to legal (or statutory) requirements. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies, Continued

Pension and Other Postemployment Benefits, Continued

The Water System's rate making methodology allows for future recovery of certain pension and other postemployment benefit costs in its rate making process. Accordingly, under GASBS No. 62, pension and other postemployment benefit costs in excess of required contributions are deferred.

Customers' Advances for Construction

Customers' advances for construction are refundable to depositors over a 10-year period. Refund amounts under the contracts are based on annual revenues from the extensions. Unrefunded balances at the end of the contract period are credited to contributions in aid of construction and are no longer refundable.

Contributed Property and Equipment

The donor cost or appraised value of contributed property and equipment is included in contributions.

Income Taxes

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Change in Accounting Principles

In 2021, the Water System adopted the provisions of GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* (GASB 89). Prior to the implementation of GASB 89, interest costs incurred during the construction period of a capitalized asset were included in its historical cost. As a result of GASB 89, interest costs are now recognized as an expense in the period in which the cost is incurred.

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

2. Utility Plant

Water utility plant activity for the year ended May 31, 2021, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Utility plant:				
Source of supply plant	\$ 5,471,219	\$ 80,934	\$ -	\$ 5,552,153
Pumping plant	1,201,471	225,096	-	1,426,567
Water treatment plant	36,822,863	236,564	(38,677)	37,020,750
Transmission and distribution plant	46,166,742	1,872,758	(457,950)	47,581,550
General plant	5,389,788	800,527	(4,059)	6,186,256
Unclassified plant in service	1,334,079	(1,200,033)	-	134,046
Total, at original cost	<u>96,386,162</u>	<u>2,015,846</u>	<u>(500,686)</u>	<u>97,901,322</u>
Accumulated depreciation:				
Source of supply plant	(3,014,778)	(185,278)	-	(3,200,056)
Pumping plant	(875,366)	(33,022)	-	(908,388)
Water treatment plant	(18,748,575)	(1,076,096)	38,677	(19,785,994)
Transmission and distribution plant	(22,406,359)	(1,920,963)	457,950	(23,869,372)
General plant	(4,088,219)	(197,975)	4,059	(4,282,135)
Total accumulated depreciation	<u>(49,133,297)</u>	<u>(3,413,334)</u>	<u>500,686</u>	<u>(52,045,945)</u>
Construction in progress	<u>30,195,799</u>	<u>16,156,051</u>	<u>-</u>	<u>46,351,850</u>
Utility plant, net	<u>\$ 77,448,664</u>	<u>\$ 14,758,563</u>	<u>\$ -</u>	<u>\$ 92,207,227</u>

Depreciation expense for the years ended May 31 was as follows:

	<u>2021</u>	<u>2020</u>
Water utility plant	\$ 3,313,334	\$ 3,151,300
Transportation depreciation charged to construction activities or other operating expenses	<u>100,000</u>	<u>100,000</u>
	<u>\$ 3,413,334</u>	<u>\$ 3,251,300</u>

3. Restricted Assets

Restricted assets at May 31 consists of the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 9,413,377	\$ 23,174,959
Investments	4,715,020	7,974,630
Accrued interest receivable	<u>22,023</u>	<u>84,192</u>
	<u>\$ 14,150,420</u>	<u>\$ 31,233,781</u>

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

3. Restricted Assets, Continued

The above balances are contained in the following funds:

	<u>2021</u>	<u>2020</u>
Sinking Fund	\$ 6,891,645	\$ 6,857,233
Renewal and Replacement Fund	1,205,401	658,804
Construction Fund	<u>6,053,374</u>	<u>23,717,744</u>
	\$ <u>14,150,420</u>	\$ <u>31,233,781</u>

Under the terms of the Water Revenue Bond ordinances, interest income from the temporary investment of the Water System's restricted assets must be credited to the various restricted asset funds. In addition, whenever all specified and required payments and transfers into the restricted asset funds have been made as provided in the Water Revenue Bond ordinances and there is a balance in excess of the estimated amounts required to pay current month operation and maintenance costs (approximately \$638,938 at May 31, 2021), all or any part of such excess may be used for any lawful purpose related to the Water System.

The Water System follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools* (GASBS No. 31), which requires certain investments to be carried at fair value in the statements of net position and changes in the fair value of investments to be reported in the statements of revenues, expenses and changes in net assets. In accordance with GASBS No. 31, the Water System recorded unrealized gains (losses) of (\$159,050) and \$25,489 for the years ended May 31, 2021 and 2020, respectively. The Water System's rate making methodology does not consider unrealized gains or losses on marketable securities in its rate making process. Accordingly, under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, as it relates to rate-regulated entities, the unrealized gains (losses) for the years ended May 31, 2021 and 2020, have been deferred.

The net increase (decrease) in the fair value of investments as of May 31 was:

	<u>2021</u>	<u>2020</u>
Net unrealized gain (loss) on investments	\$ <u>(61,534)</u>	\$ <u>97,516</u>

The calculation of realized gains or losses on sales of investments is independent of the calculation of the net change in the fair value of investments. Realized gains or losses on investments that were held in more than one fiscal year and sold in the current year were included as a net change in the fair value of investments reported in prior years and the current year.

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

4. Cash Deposits and Investments

At May 31, the carrying amounts of the Water System's deposits in financial institutions and investments other than deposits were:

	<u>2021</u>	<u>2020</u>
Deposits in financial institutions	\$ 13,815,842	\$ 27,810,106
Investments other than deposits	<u>4,382,986</u>	<u>7,643,447</u>
	<u>\$ 18,198,828</u>	<u>\$ 35,453,553</u>

These amounts are reflected in the statements of net position as:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 3,919,079	\$ 4,154,327
Investments	151,352	149,637
Restricted assets:		
Cash and cash equivalents	9,413,377	23,174,959
Investments	<u>4,715,020</u>	<u>7,974,630</u>
	<u>\$ 18,198,828</u>	<u>\$ 35,453,553</u>

Deposit and Investment Policy. The Water System's deposit and investment policy prescribes to the prudent-person rule: Investments shall be made with applicable law and under prevailing circumstances which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a bank failure, the Water System's deposits may not be returned to it. The Water System's deposit and investment policy permits uncollateralized deposits only if issued by institutions ranked in one of the three highest categories by a nationally recognized rating agency. As of May 31, 2021, \$13,290,165 of the Water System's bank balance of \$13,332,456 was exposed to custodial credit risk as follows:

Uninsured with collateral held by pledging bank's agent	\$ <u>13,290,165</u>
---	----------------------

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

4. Cash Deposits and Investments, Continued

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Water System's Investments consist of U.S. treasury and agency securities and negotiable certificates of deposit, which utilize Level 2 inputs for fair value measurements. Fair value is based upon externally developed models that use rates and prices of similar securities, due to the limited market activity of the securities.

As of May 31, 2021, the Water System had the following investments:

<u>Investments</u>	<u>Maturities</u>	
Federal Home Loan Bank – Callable	11/29/2021 thru 02/25/2031	\$ 3,412,363
Federal Farm Credit Bank – Callable	06/03/2030	970,623
Negotiable Certificates of Deposit	06/17/2021 thru 05/24/2022	<u>483,386</u>
		<u>\$ 4,866,372</u>

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Water Works System's deposit and investment policy limits investment maturities based upon provisions of bond ordinances.

Credit Risk. The Water System's deposit and investment policy authorizes the investment of funds in any manner permitted by bond ordinances and the Kentucky Revised Statutes and does not further limit its investment choices.

Concentration of Credit Risk. Other than the prudent-person rule, the Water System's deposit and investment policy places no limit on the amount the Water System may invest in any one issuer. The Water System's investments, other than deposits, consist of U.S. government agencies at May 31, 2021.

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

5. Long-Term Debt

Long-term debt activity for the year ended May 31, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds payable:					
Series of 2014	\$ 6,925,000	\$ -	\$ (305,000)	\$ 6,620,000	\$ 315,000
Series of 2015	5,255,000	-	(35,000)	5,220,000	35,000
Series of 2016	6,185,000	-	(250,000)	5,935,000	250,000
Series of 2018	<u>62,260,000</u>	<u>-</u>	<u>(970,000)</u>	<u>61,290,000</u>	<u>1,020,000</u>
	80,625,000	-	(1,560,000)	79,065,000	1,620,000
Add unamortized debt premium	<u>1,502,640</u>	<u>-</u>	<u>(55,576)</u>	<u>1,447,064</u>	<u>-</u>
Total bonds payable	<u>\$ 82,127,640</u>	<u>\$ -</u>	<u>\$ (1,615,576)</u>	<u>\$ 80,512,064</u>	<u>\$ 1,620,000</u>

Long-term debt at May 31 consists of the following Water Revenue Bonds:

	<u>2021</u>	<u>2020</u>
Series of 2014:		
1.75% to 3.9%, due serially		
September 15, 2021 to 2038	\$ 6,620,000	\$ 6,925,000
Series of 2015:		
3.0% to 4.0%, due serially		
September 15, 2021 to 2041	5,220,000	5,255,000
Series of 2016:		
2.0% to 3.0%, due serially		
September 15, 2021 to 2035	5,935,000	6,185,000
Series of 2018:		
3.0% to 5.0%, due serially		
September 15, 2021 to 2048	<u>61,290,000</u>	<u>62,260,000</u>
Total long-term debt	79,065,000	80,625,000
Less current maturities	(1,620,000)	(1,560,000)
Add unamortized debt premium	<u>1,447,064</u>	<u>1,502,640</u>
	<u>\$ 78,892,064</u>	<u>\$ 80,567,640</u>

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

5. Long-Term Debt, Continued

Sinking fund requirements and scheduled aggregate maturities of long-term debt are as follows:

<u>Year Ending May 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 1,620,000	\$ 2,976,670	\$ 4,596,670
2023	1,690,000	2,909,789	4,599,789
2024	1,760,000	2,839,020	4,599,020
2025	1,840,000	2,760,820	4,600,820
2026	1,920,000	2,676,954	4,596,954
2027 – 2031	10,730,000	12,263,806	22,993,806
2032 – 2036	12,675,000	10,314,313	22,989,313
2037 – 2041	15,305,000	7,682,480	22,987,480
2042 – 2046	18,525,000	4,469,981	22,994,981
2047 – 2049	13,000,000	794,000	13,794,000
	<u>\$ 79,065,000</u>	<u>\$ 49,687,833</u>	<u>\$ 128,752,833</u>

The Water System is subject to certain debt covenants, compliance with which is required by the ordinances authorizing its bond issues. Such ordinances require revenue to be first applied to the Sinking Fund, next to the Operations and Maintenance Fund, and, finally, to the Renewal and Replacement Fund.

On June 12, 2014, the City issued \$9,730,000 of Water Revenue Refunding and Improvement Bonds, Series 2014, dated July 31, 2014. The 2014 Bonds were issued to refund all 1999 and 2003 series bonds due after September 15, 2014, and to fund various capital improvement expenditures for the Water System. The in-substance defeasance of the 1999 and 2003 Bonds was accomplished by placing \$3,835,802 in proceeds from the 2014 Bonds and \$40,700 in funds from the 1999 and 2003 Bond Sinking Funds in an irrevocable escrow fund to be used solely for satisfying scheduled debt service payments of the 1999 and 2003 Bonds. Accordingly, 1999 and 2003 Bonds in the amount of \$1,305,000 and \$2,510,000, respectively, net of unamortized discount and issuance costs of \$60,176 and accrued interest payable of \$47,483, were extinguished resulting in the accounting recognition of a loss from defeasance of \$74,195, reported in the accompanying financial statements as a deferred outflow of resources. The City advance refunded the 1999 and 2003 bonds to reduce the effective rate on the debt. The advance refunding resulted in an economic gain (difference between the present value of the debt service payment on the old and new debt) of \$252,617.

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

5. Long-Term Debt, Continued

The Series 2014 Bonds maturing on and after September 15, 2023, are subject to redemption prior to maturity in whole or in part on September 15, 2022, and on any date thereafter, at the redemption price of 100% of the principal amount redeemed, plus accrued interest to the redemption date.

On December 16, 2015, the City issued \$5,385,000 of Water Revenue Improvement Bonds, Series 2015, dated December 1, 2015. The 2015 Bonds were issued to provide funds for the various capital improvement expenditures for the Water System and to fully fund the Bond Reserve Account. The Series 2015 Bonds maturing on and after September 15, 2024, are subject to redemption in whole or in part on September 15, 2023, and on any date thereafter, at the redemption price of 100% of the principal amount redeemed, plus accrued interest to the redemption date.

On June 8, 2016, the City issued \$6,590,000 of Water Revenue Refunding Bonds, Series 2016, dated June 8, 2016. The 2016 Bonds were issued to refund a portion of the outstanding Series 2009 Bonds. The in-substance defeasance of the 2009 Bonds was accomplished by placing \$6,417,071 in proceeds from the 2014 Bonds and \$104,023 in funds from the 2009 Bond Sinking Fund in an irrevocable escrow fund to be used solely for satisfying scheduled debt service payments of the 2009 Bonds. Accordingly, 2009 Bonds in the amount of \$5,895,000, net of unamortized discount and issuance costs of \$129,024 and accrued interest payable of \$69,133, were extinguished resulting in the accounting recognition of a loss from defeasance of \$685,985, reported in the accompanying financial statements as a deferred outflow of resources. The City advance refunded the 2009 bonds to reduce the effective rate on the debt. The advance refunding resulted in an economic gain (difference between the present value of the debt service payment on the old and new debt) of \$771,709.

The Series 2016 Bonds maturing on and after September 15, 2025, are subject to redemption in whole or in part on September 15, 2024, and on any date thereafter, at the redemption price of 100% of the principal amount redeemed, plus accrued interest to the redemption date.

On September 27, 2018, the City issued \$63,190,000 of Water Revenue Refunding and Improvement Bonds, Series 2018, dated September 27, 2018. The 2018 Bonds were issued to refund all outstanding 2009 series bonds due after September 15, 2018, and to fund various capital improvement expenditures for the Water System, including expansion of the Cavin Water Treatment Plant to treat an additional 20 million gallons of water per day. The refunding of the 2009 Bonds was accomplished by placing \$12,811,686 in proceeds from the 2018 Bonds with a paying agent to be used solely for refunding the outstanding 2009 Bonds. Accordingly, 2009 Bonds in the amount of \$12,790,000, net of unamortized discount and issuance costs of \$255,218 and accrued interest payable of \$21,686, were extinguished resulting in the accounting recognition of a loss from defeasance of \$255,218, reported in the

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

5. Long-Term Debt, Continued

accompanying financial statements as a deferred outflow of resources. The City refunded the 2009 bonds to reduce the effective rate on the debt. The refunding resulted in an economic gain (difference between the present value of the debt service payment on the old and new debt) of \$1,777,076.

The Series 2018 Bonds maturing on and after September 15, 2028, are subject to redemption prior to maturity in whole or in part on September 15, 2027, and on any date thereafter, at the redemption price of 100% of the principal amount redeemed, plus accrued interest to the redemption date.

All bonds are secured by a pledge of, and are payable from, the gross revenues derived from the operation of the Water System and are secured by the statutory mortgage lien as provided and authorized by the Kentucky Revised Statutes.

For all bonds, in the event of default, any Bondholder may proceed to protect and enforce its rights and the rights of the holders of the Bonds under the Ordinance forthwith by a suit or suits in equity or at law.

The difference between the reacquisition price and the net carrying amount of defeased bond issues has been deferred and is being amortized using the straight-line method over the lives of the defeased bond issues.

6. Pension and Other Postemployment Benefits – CERS

Plan Description

The Water System contributes to the Kentucky County Employees Retirement System (CERS), which is a cost-sharing multiple-employer defined benefit pension/OPEB plan administered by the Kentucky Public Pensions Authority (KPPA) that covers members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. Kentucky Revised Statute (KRS) Section 61.645 assigns the authority to establish and amend benefit provisions to the Board of Trustees of KPPA (Board). KPPA issues a publicly available financial report that can be obtained at www.kyret.ky.gov.

Benefits Provided

CERS provides for retirement, disability, and death benefits to system members through its Pension Fund, as well as other postemployment benefits (OPEB) for hospital and medical insurance through its Insurance Fund.

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

6. Pension and Other Postemployment Benefits – CERS, Continued

Benefits Provided, Continued

Retirement benefits may be extended to beneficiaries of members under certain circumstances. Retirement benefits are determined using a formula which considers the member's final compensation; benefit factors set by statute which vary depending upon the type/amount of service, participation date, and retirement date; and years of service. Plan members with a participation date prior to September 1, 2008, are eligible to retire with full benefits at any time with 27 or more years of service credit, or at age 65 with at least 4 years of service credit. Plan members with a participation date on or after September 1, 2008, are eligible to retire with full benefits at age 57 if the member's age and years of service equal 87, or at age 65 with at least 5 years of service credit.

Other postemployment benefits provided by CERS consist of prescribed contributions for whole or partial payments of required premiums to purchase hospital and medical insurance.

Contributions

State statute requires active members to contribute 5% of creditable compensation. For members participating on or after September 1, 2008, an additional 1% of creditable compensation is required. This amount is credited to the Insurance Fund and is non-refundable to the member. Employers contribute at the rate determined by the KPPA Board to be necessary for the actuarial soundness of the systems, as required by KRS 61.565 and KRS 61.752.

The Water System's actuarially determined contribution rates and contribution amounts, based on annual creditable compensation for the year ended May 31, 2021, were as follows:

	<u>Contribution Rates</u>	<u>Contributions</u>
Pension	19.30%	\$ 800,674
OPEB	4.76%	197,472
Total	<u>24.06%</u>	<u>\$ 998,146</u>

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

The net pension and OPEB liabilities reported as of May 31, 2021, were measured as of June 30, 2020, and the total pension and OPEB liabilities used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019. The Water System's proportion of the liabilities was based on a projection of the Water System's long-term share of

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

6. Pension and Other Postemployment Benefits – CERS, Continued

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

contributions to the plan relative to the projected contributions of all participating entities, actuarially determined. Changes in the Water System's pension and OPEB proportions as of the measurement dates were as follows:

	Pension	OPEB
June 30, 2019	0.128660%	0.128660%
Increase	0.003585	0.003546
June 30, 2020	0.132245%	0.132206%

The Water System's pension and OPEB liabilities and expense as of and for the year ended May 31, 2021, were as follows:

	Net Pension Liability	Net OPEB Liability
Proportionate Share	\$ 10,143,064	\$ 3,192,384
Pension/OPEB Expense	\$ 800,674	\$ 197,472

At May 31, 2021, the Water System reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		OPEB	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 252,936	\$ -	\$ 533,381	\$ 533,797
Changes of assumptions	396,069	-	555,286	3,376
Net difference between projected and actual earnings on plan investments	253,818	-	106,107	-
Changes in proportion and differences between contributions and proportionate share of contributions	16,612	137,677	13,930	71,889
Contributions subsequent to the measurement date	734,702	-	181,201	-
Total	\$ 1,654,137	\$ 137,677	\$ 1,389,905	\$ 609,062

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

6. Pension and Other Postemployment Benefits – CERS, Continued

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

The \$734,702 and \$181,201 of deferred outflows of resources resulting from the Water System's pension and OPEB contributions subsequent to the measurement date will be recognized as a reduction of the net pension and OPEB liabilities in the year ending May 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension and OPEB expense as follows:

Year ending May 31,	<u>Pension</u>	<u>OPEB</u>
2022	\$ 360,695	\$ 160,694
2023	205,334	192,096
2024	113,790	131,962
2025	101,939	123,260
2026	-	(8,370)
	<u>\$ 781,758</u>	<u>\$ 599,642</u>

Actuarial Assumptions

The total pension/OPEB liabilities in the June 30, 2019, actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Healthcare payroll growth rate	2.00%
Salary increases	3.30% to 10.30%, varies by service
Net investment rate of return	6.25%
Healthcare cost trend rates (OPEB)	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. Post-65: Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

Pension: The mortality table used for active members was a Pub-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

6. Pension and Other Postemployment Benefits – CERS, Continued

Actuarial Assumptions, Continued

specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

OPEB: The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of 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 rate of return for each major asset class are summarized in the following table.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth		
US equity	18.75%	4.50%
Non US equity	18.75	5.25%
Private equity	10.00	6.65%
Specialty credit/high yield	15.00	3.90%
	<u>62.50</u>	
Liquidity		
Core bonds	13.50	(0.25)%
Cash	1.00	(0.75)%
	<u>14.50</u>	
Diversifying strategies		
Real estate	5.00	5.30%
Opportunistic	3.00	2.25%
Real return	15.00	3.95%
	<u>23.00</u>	
Total	<u>100.00%</u>	

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

6. Pension and Other Postemployment Benefits – CERS, Continued

Discount Rate

The discount rates used to measure the total pension/OPEB liabilities at the measurement dates and changes since the prior year were as follows:

	<u>Pension</u>	<u>OPEB</u>
Discount rate, June 30, 2019	6.25%	5.68%
Increase (decrease)	-	(0.34)
Discount rate, June 30, 2020	<u>6.25%</u>	<u>5.34%</u>

The discount rate of 6.25% used to measure the total pension liability was based on the expected rate of return on pension plan investments. The discount rate of 5.34% used to measure the total OPEB liability was based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 2.45% as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2020.

The projection of cash flows used to determine the pension discount rate assumed that the funds would receive the required employer contributions in each future year, as determined by the current funding policy established in Statute last amended by House Bill 362 (passed in 2018). The projection of cash flows used to determine the OPEB discount rate assumed that employers would contribute the actuarially determined contribution rate of projected compensation in accordance with the current funding policy, as most recently revised by Kentucky Senate Bill 249.

Sensitivity of the Water System's Proportionate Share of the Liabilities to Changes in the Discount Rate

The following presents the Water System's proportionate share of the net pension/OPEB liabilities, as well as what the Water System's proportionate share of the net pension/OPEB liabilities would be if they were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>Water System's Proportionate Share</u>			
	<u>Discount Rate</u>	<u>Net pension Liability</u>	<u>Discount Rate</u>	<u>Net OPEB Liability</u>
1% decrease	5.25%	\$ 12,508,605	4.34%	\$ 4,101,276
Current discount rate	6.25%	\$ 10,143,064	5.34%	\$ 3,192,384
1% increase	7.25%	\$ 8,184,306	6.34%	\$ 2,445,880

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

6. Pension and Other Postemployment Benefits – CERS, Continued

Sensitivity of the Water System's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the Water System's proportionate share of the net OPEB liability, as well as what the Water 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 rate:

	Healthcare Cost Trend Rates		Water System's Proportionate Share of Net OPEB Liability
1% decrease	5.40% Pre-65 or 1.90% Post-65	\$	2,471,703
Current healthcare cost trend rates	6.40% Pre-65 or 2.90% Post-65	\$	3,192,384
1% increase	7.40% Pre-65 or 3.90% Post-65	\$	4,066,947

Plan Fiduciary Net Position

Detailed information about the CERS fiduciary net position is available in the separately issued KPPA Comprehensive Annual Financial Report.

Payables to the Pension/OPEB Plans

The Water System reported the following payables for the outstanding amount of pension/OPEB contributions due to CERS for the year ended May 31, 2021.

Pension	OPEB
\$ <u>52,697</u>	\$ <u>12,997</u>

7. Dividends - City of Owensboro

The Water System transfers to the City each year a sum equal to the dollar value of services purchased by the City from the Water System.

8. Major Customers

Water revenues from three rural water district customers in Daviess County, Kentucky, under wholesale supply agreements totaled approximately \$3,363,000 and \$3,140,000 for 2021 and 2020, respectively.

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2021 and 2020

9. Risk Management

OMU is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. OMU manages its risks through coverages provided by private insurance carriers for various risks of losses to which it is exposed, including directors and officers, employee dishonesty, workers' compensation, and other property risks. OMU is self-insured for group health and limits its risks of loss by purchasing reinsurance coverage.

10. Commitments and Contingencies

During fiscal year 2019, the Water System entered into a construction contract totaling \$39,735,000 for the expansion of the Cavin Water Treatment Plant. Remaining commitment under this contract was \$1,332,706 at May 31, 2021, of which \$1,199,985 was included in accounts payable.

11. COVID-19 Considerations

In December 2019, a novel strain of coronavirus, known as COVID-19, was reported in Wuhan, China, and has since extensively impacted the global health and economic environment. In March 2020, the World Health Organization characterized COVID-19 as a pandemic, and the President declared the COVID-19 outbreak in the United States as a national emergency.

During the COVID-19 pandemic, our services have generally been considered essential in nature and have not been materially interrupted. As the situation continues to evolve, we are closely monitoring the impact of the COVID-19 pandemic on all aspects of our business, including how it impacts our customers, subcontractors, suppliers, vendors and employees, in addition to how the COVID-19 pandemic impacts our ability to provide services to our customers. We believe the ultimate impact of the COVID-19 pandemic will not have a significant impact on our operating results, cash flows and financial condition.

**OWENSBORO MUNICIPAL UTILITIES
WATER SYSTEM**

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Last 10 Fiscal Years *

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Water System's proportion of the net pension liability	0.132245%	0.128660%	0.126208%	0.122463%	0.123810%	0.120923%	0.126427%
Water System's proportionate share of the net pension liability	\$ 10,143,064	\$ 9,048,688	\$ 7,686,431	\$ 7,168,159	\$ 6,095,910	\$ 5,199,116	\$ 4,101,776
Water System's covered payroll	\$ 3,721,734	\$ 3,491,495	\$ 3,316,556	\$ 2,923,793	\$ 2,869,077	\$ 2,803,919	\$ 2,920,692
Water System's proportionate share of the net pension liability as a percentage of its covered payroll	272.54%	259.16%	231.76%	245.17%	212.47%	185.42%	140.44%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	50.45%	53.54%	53.32%	55.50%	59.97%	66.80%

* Presented for those years for which the information is available.

**OWENSBORO MUNICIPAL UTILITIES
WATER SYSTEM**

**SCHEDULE OF PENSION CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Last 10 Fiscal Years

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 800,674	\$ 703,199	\$ 564,166	\$ 484,778	\$ 407,575	\$ 355,884	\$ 363,125
Contributions in relation to the contractually required contributions	(800,674)	(703,199)	(564,166)	(484,778)	(407,575)	(355,884)	(363,125)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Water System's covered payroll	\$ 4,150,073	\$ 3,673,597	\$ 3,507,140	\$ 3,355,482	\$ 2,941,934	\$ 2,815,932	\$ 2,838,215
Contributions as a percentage of covered payroll	19.29%	19.14%	16.09%	14.45%	13.85%	12.64%	12.79%

* Presented for those years for which the information is available.

**OWENSBORO MUNICIPAL UTILITIES
WATER SYSTEM**

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Last 10 Fiscal Years *

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Water System's proportion of the net OPEB liability	0.132206%	0.128660%	0.126208%	0.122463%	0.123810%
Water System's proportionate share of the net OPEB liability	\$ 3,192,384	\$ 2,163,488	\$ 2,240,753	\$ 2,461,933	\$ 1,908,895
Water System's covered payroll	\$ 3,721,734	\$ 3,491,495	\$ 3,316,556	\$ 2,923,793	\$ 2,869,077
Water System's proportionate share of the net OPEB liability as a percentage of its covered payroll	85.78%	61.96%	67.56%	84.20%	66.53%
Plan fiduciary net position as a percentage of the total OPEB liability	51.67%	60.44%	57.62%	52.39%	55.24%

* Presented for those years for which the information is available.

OWENSBORO MUNICIPAL UTILITIES
WATER SYSTEM

SCHEDULE OF OPEB CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM

Last 10 Fiscal Years

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 197,472	\$ 173,431	\$ 182,954	\$ 157,352	\$ 138,196	\$ 132,955	\$ 139,262
Contributions in relation to the contractually required contributions	(197,472)	(173,431)	(182,954)	(157,352)	(138,196)	(132,955)	(139,262)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Water System's covered payroll	\$ 4,150,073	\$ 3,673,597	\$ 3,507,140	\$ 3,355,482	\$ 2,941,934	\$ 2,815,932	\$ 2,838,215
Contributions as a percentage of covered payroll	4.76%	4.72%	5.22%	4.69%	4.70%	4.72%	4.91%

* Presented for those years for which the information is available.

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Year Ended May 31, 2021

Changes of Benefit Terms

2021	None
2020	None
2019	None
2018	None
2017	None
2016	None

Changes of Assumptions

2021 OPEB:

The single discount rate changed from 5.68% to 5.34%.

2020 Pension and OPEB:

The salary increases assumption was changed from 3.05% to 3.30%-10.30%.

OPEB:

The single discount rate changed from 5.85% to 5.68%.

2019 Pension and OPEB:

The salary increases assumption was changed from 2.00% to 3.05%.

OPEB:

The single discount rate changed from 5.84% to 5.85%.

2018 Pension and OPEB:

The assumed investment return was changed from 7.50% to 6.25%.

The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service.

The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

OPEB:

The single discount rate changed from 6.89% to 5.84%.

2017 None

2016 Pension:

The assumed investment rate of return was decreased from 7.75% to 7.50%.

The assumed rate of inflation was reduced from 3.50% to 3.25%.

The assumed rate of wage inflation was reduced from 1.00% to 0.75%.

Payroll growth assumption was reduced from 4.50% to 4.00%.

The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.



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

City Utility Commission
City of Owensboro, 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 Owensboro Municipal Utilities Water Works System (Water System) of the City of Owensboro, Kentucky as of and for the year ended May 31, 2021, and the related notes to the financial statements, and have issued our report thereon dated August 31, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Water System'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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Water System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Water System'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 statements. 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 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.

Owensboro, Kentucky
September 13, 2021

Ring Damore CPHS P/C