ELECTRIC & WATER PLANT
BOARD OF THE
CITY OF FRANKFORT, KENTUCKY

FINANCIAL STATEMENTS
June 30, 2020

ELECTRIC & WATER PLANT BOARD OF THE
CITY OF FRANKFORT, KENTUCKY

FINANCIAL STATEMENTS
June 30, 2020

CONTENTS

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Members of the Electric & Water Plant Board
of the City of Frankfort, Kentucky
Frankfort, Kentucky

Report on Financial Statements

We have audited the accompanying financial statements of the Electric and Water Plant Board of the City of Frankfort, Kentucky (the "Board"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Board's basic 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 audit. We conducted our audit 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 Electric and Water Plant Board of the City of Frankfort, Kentucky, as of June 30, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Other Matters

Prior-Year Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Board's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Board's basic financial statements. The combining schedules and budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedules and budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statement of Net Position – Electric & Water, Telecommunications, Statement of Revenues, Expenses and Changes in Net Position – Budget to Actual, Combining Statement of Revenues and Expenses – Electric, Water and Telecommunications, and Statement of Operating Expenses – Budget to Actual are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated September 14, 2020 on our consideration of the Board'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 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 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 Board's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

Louisville, Kentucky
September 14, 2020

The following discussion and analysis of the Electric & Water Plant Board (the "Board" or "FPB") of the City of Frankfort, Kentucky's financial performance provides an overview of the financial activities of the fiscal years ended June 30, 2020 and 2019. We encourage readers to consider the information presented here in conjunction with the Board's financial statements, which follow this section.

The Board was established under Kentucky Revised Statutes (KRS 96.176) as a combined Electric and Water System to operate, maintain, improve, and expand the respective facilities and began operations in 1943. In 1954, the Board created Community Television and appointed a separate Cable Board to provide Cable TV service to Frankfort and the surrounding area. In 1988, the Board took direct control of the Cable TV operation in order to provide additional services over a fiber optic network, as a public project (the Full Service Network). All three operations are combined together and presented in the financial statements of this report. Cable Telecommunications operations are separated from the Electric and Water operations on the report under "Supplementary Information". The Full Service Network includes Digital TV, HDTV, DVR, Broadband Service, Point to Point Fiber Service, Security Service, and Local and Long Distance telephone service.

Financial Highlights

- The Board's net position increased $9,433,441 during fiscal year 2020 compared to an increase of $10,341,541 during fiscal year 2019.

Revenues

- Total operating revenues were $100,302,455 for fiscal year 2020 compared to $101,541,849 for fiscal year 2019.

Expenses

- Operating expenses were $91,657,239 for fiscal year 2020 compared to $95,083,839 for fiscal year 2019.

Financial Overview

The Board's financial statements are comprised of two components:

- Financial Statements; and
- Notes to the Financial Statements

Included as part of the Financial Statements are three different types (and names) of statements and their respective notes. The three financial statement types:

1. The Statement of Net Position presents information on the Board's assets and liabilities with the difference between the two reported as Net Position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial condition of the Board is improving or deteriorating.

2. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Board's net position changed during FY20. Results of the Board's operations are reported as the underlying events occur, regardless of the timing of cash flows. This means that the Board's revenues and expenses are reported in the financial statements for some items that will result in cash flows (positive or negative) in some future year. This is the "accrual" basis of accounting and is further explained in Note 2.

3. The Statement of Cash Flows presents the cash flow changes occurring during FY20 in highly liquid cash and investments, including certain restricted cash accounts or cash-like assets. "Highly liquid" means it is, or can quickly be, turned into usable cash.

(Continued)

The Notes to the Financial Statements provide additional information that is essential for a full and complete understanding of the information provided in the financial statements.

FINANCIAL ANALYSIS

Statement of Net Position

	June 30, 2020	June 30, 2019	Change	% Change
Current and other assets	$ 63,274,125	$ 55,137,849	$ 8,136,276	14.76%
Capital assets, net	115,540,036	116,051,789	(511,753)	(0.44)
Total assets	178,814,161	171,189,638	7,624,523	4.45
Deferred outflows of resources	10,286,139	8,511,202	1,774,937	20.85
Total assets and deferred outflows	189,100,300	179,700,840	9,399,460	5.23
Current liabilities	18,105,879	19,060,966	(955,087)	(5.01)
Long-term liabilities	70,479,272	70,362,088	117,184	0.17
Total liabilities	88,585,151	89,423,054	(837,903)	(0.94)
Deferred inflows of resources	3,674,457	2,870,535	803,922	28.01
Total liabilities and deferred inflows	92,259,608	92,293,589	(33,981)	(0.04)
Net investment in capital assets	82,481,843	77,998,507	4,483,336	5.75
Restricted	1,968,847	3,831,566	(1,862,719)	(48.62)
Unrestricted	12,390,002	5,577,178	6,812,824	122.16
Total net position	$ 96,840,692	$ 87,407,251	$ 9,433,441	10.79%

Assets and Deferred Outflows of Resources
The Board's total assets and deferred outflows of resources increased $9,399,460 from fiscal year 2019. The statement of net position indicates the most significant changes was in investments. Investments increased primarily due to better than expected operating performance and lower capital investment than originally planned during the fiscal year that resulted in elevated cash funds that were converted to cash.

Liabilities and Deferred Inflows of Resources
The Board's total liabilities and deferred inflows of resources decreased $33,981 from fiscal year 2019 due primarily to a decrease in long-term debt which was offset by an increase in our Net Pension Liability with the Kentucky Retirement Systems.

Net Position
The Board's assets and deferred outflows exceeded its liabilities and deferred inflows by $96,840,692 at the end of fiscal year 2020. This represents an increase of $9,433,441 from fiscal year 2019.

The vast majority of the Board's net position is invested in capital assets, such as electric transmission and distribution facilities, water treatment and distribution assets, and telecommunication equipment and infrastructure, less any related debt used to acquire such assets that remain outstanding as of the end of the fiscal year.

(Continued)

Statement of Revenues, Expenses and Changes in Net Position

	June 30, 2020	June 30, 2019	Change	% Change
Operating revenues	$ 100,302,455	$ 101,541,849	$ (1,239,394)	(1.22)%
Operating expenses	91,657,239	95,083,839	(3,426,600)	(3.60)
Income from operations	8,645,216	6,458,010	2,187,206	33.87
Net non-operating revenue (expenses)	358,397	3,197,851	(2,839,454)	(88.79)
Income before capital contributions	9,003,613	9,655,861	(652,248)	(6.75)
Capital contributions	429,828	685,680	(255,852)	(37.31)
Change in net position	$ 9,433,441	$ 10,341,541	$ (908,100)	(8.78)%

Revenues

Operating revenues in 2020 decreased by $1,239,394 or 1.22% compared to operating revenues in 2019 of $101,541,849. This minimal decrease in revenue is primarily due to decreases in electric revenue due to lower customer usage.

Expenses

Operating expenses decreased in 2020 compared to 2019 by $3,426,600 or 3.6% to $91,657,239. This decrease is mainly due to a $5,319,490 decrease in wholesale power supply cost.

Non-operating revenues (expenses) ended the year with a net revenue of $358,397, which was a decrease over the prior year's net revenue of $2,839,454. This decrease is primarily due to a reduction in the true-up refund from our previous power supplier of $3,011,697 to end our long-term relationship.

BUDGET

Every year, the Board approves a one-year budget and an additional four-year financial plan for all operations of the Board. Budgeted revenues and expenses are calculated based on historical trends, most recent financial results, and knowledge of future circumstances what will impact the financial performance of the Board. The budget and financial plan includes a comprehensive capital plan and cash reserve estimate based on projected financial performance. Budget verses actual financial reports are reviewed regularly by the Board and are presented in the supplementary information section of this report for the year ended June 30, 2020.

(Continued)

CAPITAL ASSETS

The Board's investments in capital assets, net of accumulated depreciation, amounted to $115,540,036 as of June 30, 2020 and $116,051,789 as of June 30, 2019. This includes investment in electric, water, and telecommunications plant infrastructure, as well as general items such as office equipment, vehicles, etc. See Note 4 for additional information on capital assets. The following is a summary of capital assets activity during the fiscal year ending June 30, 2020:

	June 30, 2019	Additions and Transfers	Transfers and Retirements	June 30, 2020
Capital assets	$ 260,843,127	$ 5,315,724	$ (169,318)	$ 265,989,533
Accumulated depreciation	(147,856,642)	(7,356,741)	161,114	(155,052,269)
Non-depreciable capital assets	3,065,304	6,886,298	(5,348,830)	4,602,772
Capital assets, net	$ 116,051,789	$ 4,845,281	$ (5,357,034)	$ 115,540,036

Major capital assets events during the current fiscal year included:

Electric Division

- Distribution Substation improvements – replaced battery State Farm and Capital Plaza substation
- Transmission Substation Improvements – installed Main 3 and wiring at Myrick
- Distribution Automation – Re-closure and S&C Smart trip savers
- Installed 3 electric vehicle charging stations
- Installed animal guards on 10 power transformers
- Replaced 1 distribution breaker at Ridgeview substation due to failure
- Replaced rotten poles throughout system
- Completed erosion control at Myrick substation

Water Division

- Meter replacement
- New services
- East Main water main line replacement
- West Main water main line replacement
- Overall distribution upgrades and improvements
- Purchased large service dump body truck
- WTP replaced raw water travelling screen
- WTP replaced sludge removal valves in 3 sedimentation basins

Telecommunications Division

- Finish construction of IRP phase 1 and begin design of IRP phase 2
- Replace & Upgrade set-top boxes SD/HD/DVR
- Upgrade digital access controller for set-top box provisioning
- Community Wi-Fi – expand service area to 3 additional parks
- Upgrade modems and add whole-home WIFI equipment
- Upgraded all technician meters

(Continued)

LONG-TERM DEBT

As of June 30, 2020, and 2019, the Board had long-term bonds outstanding in the amount of $15,845,223 and $17,894,269, respectively, including the unamortized bond premiums associated with these bonds. This total is composed of Electric and Water Revenue Bonds Series 2013 and Series 2015A with year-end balances of $1,696,309 and $14,148,914, respectively, including the unamortized bond premium. These bonds are payable solely from the net revenues of the combined electric and water system.

The Board has two long-term lease financings outstanding with Wesbanco Bank in Frankfort, Kentucky. The original proceeds were used for Full Service Network (FSN) improvements and expansions in the system. As of June 30, 2020, the outstanding balances were $3,512,506 for the FSN consolidated lease and $7,125,000 for the FSN third-lien lease. As of June 30, 2019, the outstanding balances were $5,512,506 for the FSN consolidated lease and $7,785,000 for the FSN third-lien lease.

The Board also has two outstanding loans from the Kentucky Infrastructure Authority (KIA). As of June 30, 2020, the chemical feed process upgrade loan had a balance of $4,040,828 and the generator loan had a balance of $2,008,408. As of June 30, 2019, the chemical feed process upgrade loan had a balance of $4,370,788 and the generator loan had a balance of $2,120,294. Both loans are secured on a subordinate basis to the Board's outstanding electric and water revenue bonds.

The following is a summary of bonds (including unamortized bond premium), leases, and KIA loans payable activity for the year ended June 30, 2020:

Debt Description	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020	Amounts Due Within One Year
Bonds and leases payable	$ 31,281,775	$ -	$ (4,799,045)	$ 26,482,730	$ 3,637,850
KIA loans	6,491,082	-	(441,846)	6,049,236	447,120
Total	$ 37,772,857	$ -	$ (5,240,891)	$ 32,531,966	$ 4,084,970

There is a full summary of all of the Board's revenue bonds, loans and lease obligations located in Note 5 of this report.

CURRENTLY KNOWN FACTS AND OPERATING ACTIVITIES

Electric

The primary goals of the electric division are to continue strengthening the transmission/distribution system and improve power quality and reliability. The electric division will continue to perform upgrades of transmission/distribution lines and facilities, specifically breaker replacements and implementations of Advanced Metering Infrastructure (AMI) and additional smart grid technologies. The division will also continue to improve and expand the existing distribution substations to include increased Supervisory Control and Data Acquisition (SCADA) functionality. This will give our system greater flexibility, redundancy and improved efficiencies.

In fiscal year 2021, we will begin implementation of our Advanced Metering Infrastructure project, which will span 2-3 years. During FY21, we plan to select the final vendor, deploy the first round of a few hundred meters in a test scenario in order to get all of the back-office functionality/data transmission/analytics set up correctly, and then begin the broader deployment across the service territory.

(Continued)

We will continue animal guard installation, tree trimming and spray programs to maintain low incidences of tree related outages. FPB maintains reliability indices three times better than the national average with aggressive line maintenance and adherence to a tree-trimming program being a large part of that success.

Water

The primary goal of the water division is to meet existing and future demand for safe, high quality water that exceeds regulatory standards at a reasonable rate. This will be accomplished by monitoring and maintaining the aging infrastructure of our water system and implementing projects to strengthen and improve our infrastructure. The following initiatives will be implemented to achieve these goals:

- Enhance water quality and flow characteristics through the systematic elimination of dead ends, the replacement of deteriorating mains, and the addition of mixing systems in our storage tanks
- Begin the Reservoir Replacement project in fiscal year 2021
- Continue to replace aging subsystems at the water treatment plant
- Implement Advanced Metering Infrastructure (AMI) with initial field installation and acceptance testing scheduled to be complete by end of fiscal year 2021

While we do not anticipate the need to add any personnel positions over the next five years the water division does face rising operational costs and is challenged by minimal cash reserve levels. In addition to rising operational costs, the water division has continued to see water consumption drop year over year due to customer conservation efforts, more efficient appliances and sewer rates linked to water usage that are higher than the water rate for average residential monthly usage. Based on these challenges, the need to implement regular rate adjustments annually is anticipated.

Telecommunications

The primary goal of the Telecommunications division is to meet the existing and anticipated future demands for services while assuring quality, reliable, and economical services. In order to accomplish this goal, the division will be wrapping up the outside plant infrastructure improvements project for our existing Hybrid-Fiber-Coax (HFC), in addition to, engineering and designing FPB's next generation Fiber-to-the-Home network.

During FY 21, we will continue to engineer, design, and implement a Fiber-to-the-Home (FTTH) network. This FTTH infrastructure will position FPB's telecommunications division for at least 30 years with a low-maintenance fiber optic network that will have the immediate bandwidth capacity to handle all modes of digital video, data and voice traffic. The FTTH network will have the flexibility to easily increase bandwidth capacities to satisfy future customer demand by replacing end-point electronic components at a reasonable cost, which can be done network-wide or for individual customers or classes of customers.

Administrative and General

The Board continues to streamline processes and increase efficiency in departments that provide services to all divisions within the company with the goal of decreasing the pace of rate increases driven by issues discussed above.

(Continued)

COVID-19

As a provider of critical infrastructure and essential services, FPB plans for many different potential hazards and emergencies. In mid-March 2020 as the COVID-19 pandemic began to impact all aspects of life, FPB implemented plans that would allow us to provide all the critical services we supply to our customer-owners while keeping employees and our community safe. Initially, FPB voluntarily implemented a temporary suspension of service disconnections for non-payment and waived late fees to assist customers during this extraordinary health and financial event. On May 8, 2020 Kentucky's governor, Andy Beshear, issued Executive Order 2020-323 that suspended utility disconnections and required waving late fees for the duration of the State of Emergency under Executive Order 2020-215 issued March 6, 2020. As of the date of this report both Executive Orders mentioned above were still in place. FPB has seen the number and dollar value of past due accounts increase since the suspension of utility disconnections and late fees was enacted. The Board is proactively calling customers that are past due and offering extended payment plans to help get customers current on their bills. FPB has a strong financial position that will enable the company to handle negative financial impacts resulting from COVID-19.

Overall

Over the coming years, the Board has several significant capital projects planned that are needed to maintain the level of superior, reliable service that our customers have come to expect. We must also continue to move the company forward by implementing and utilizing innovative technologies to improve efficiency and performance. We will continue to monitor and manage costs in an ever-changing regulatory environment in order to provide services at the most reasonable rates possible.

Contact Information

This financial report is designed to provide customers, creditors, and other users with an overview of The Electric and Water Plant Board of the City of Frankfort, Kentucky's finances, fiscal practices and responsibilities. If you have questions or need additional information, please contact the General Manager at 151 Flynn Avenue, Frankfort, Kentucky.

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY

STATEMENT OF NET POSITION

June 30, 2020

(With Summarized Financial Information as of June 30, 2019)

	2020	2019
ASSETS		
Current assets		
Unrestricted cash and cash equivalents	$ 13,079,790	$ 24,326,281
Accounts receivable, net	12,676,620	10,681,218
Inventory	4,007,537	3,496,808
Unrestricted investments	30,956,719	12,216,248
Restricted investments	1,477,772	2,501,741
Prepaid expenses	584,612	585,729
Total current assets	62,783,050	53,808,025
Noncurrent assets		
Restricted cash reserves	491,075	1,329,824
Depreciable capital assets, net of accumulated depreciation	110,937,264	112,986,485
Capital assets not being depreciated	4,602,772	3,065,304
Total noncurrent assets	116,031,111	117,381,613
Total assets	178,814,161	171,189,638
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts from pension	7,052,024	5,984,099
Deferred amounts from other postemployment benefits	3,234,115	2,527,103
Total deferred outflows of resources	10,286,139	8,511,202
Total assets and deferred outflows of resources	$ 189,100,300	$ 179,700,840
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable and accrued expenses	$ 8,875,028	$ 8,933,399
Customer deposits	3,083,060	2,889,263
Unearned revenues	2,062,821	1,997,413
Bonds and leases payable due in one year	3,637,850	4,799,045
KIA notes payable due in one year	447,120	441,846
Total current liabilities	18,105,879	19,060,966
Long-term liabilities		
Net pension liability	33,920,796	29,291,199
Net OPEB liability	8,111,480	8,538,923
Long-term debt		
Bonds and leases payable	22,844,880	26,482,730
KIA notes payable	5,602,116	6,049,236
Total long-term liabilities	70,479,272	70,362,088
Total liabilities	88,585,151	89,423,054
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts from pension	828,386	1,249,561
Deferred amounts from other postemployment benefits	2,846,071	1,620,974
Total deferred inflows of resources	3,674,457	2,870,535
Total liabilities and deferred inflows of resources	92,259,608	92,293,589
NET POSITION		
Net investment in capital assets	82,481,843	77,998,507
Restricted for debt retirement	1,765,475	3,658,224
Restricted for KIA loan covenant	203,372	173,342
Total restricted net position	1,968,847	3,831,566
Unrestricted	12,390,002	5,577,178
Total net position	96,840,692	87,407,251
Total liabilities, deferred inflows of resources and net position	$ 189,100,300	$ 179,700,840

See accompanying notes to financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year ended June 30, 2020
(With Summarized Financial Information for the Year Ended June 30, 2019)

	2020	2019
Operating revenues		
Electric	$ 59,804,609	$ 62,081,006
Water	12,428,527	11,751,915
Telecommunications	28,069,319	27,708,928
Total operating revenues	100,302,455	101,541,849
Operating expenses		
Electric	54,160,100	59,479,590
Water	11,131,842	10,262,573
Telecommunications	26,365,297	25,341,676
Total operating expenses	91,657,239	95,083,839
Income from operations	8,645,216	6,458,010
Non-operating revenues (expenses)		
Other revenue	1,425,600	4,397,313
Interest expense	(1,095,290)	(1,242,005)
Retirement plan net gain (loss)	-	(6,670)
Gain (loss) on sale of capital assets	28,087	49,213
Total non-operating revenues (expenses)	358,397	3,197,851
Income before capital contributions	9,003,613	9,655,861
Capital contributions	429,828	685,680
Change in net position	9,433,441	10,341,541
Net position – beginning of year	87,407,251	77,065,710
Net position – end of year	$ 96,840,692	$ 87,407,251

See accompanying notes to financial statements.

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY

STATEMENT OF CASH FLOWS

Year ended June 30, 2020

(With Summarized Financial Information for the Year Ended June 30, 2019)

	2020	2019
Cash Flows from Operating Activities		
Cash received from users and customers	$ 98,514,551	$ 103,219,015
Cash payments to and on behalf of employees for services and benefits	(22,471,413)	(20,479,187)
Cash payments to suppliers of goods and services	(58,477,380)	(69,439,424)
Net cash provided by operating activities	17,565,758	13,300,404
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets	(7,238,223)	(6,010,344)
Proceeds from sale of capital assets	29,004	47,475
Principal paid on debt obligations	(5,186,846)	(5,116,638)
Interest paid on debt obligations	(1,101,736)	(1,247,966)
Net cash used by capital and related financing activities	(13,497,801)	(12,327,473)
Cash Flows from Noncapital Financing Activities		
Cash received from other non-operating revenues	602,301	4,313,118
Cash Flows from Investing Activities		
Receipt of interest	561,755	318,043
Purchase of investments	(36,445,631)	(6,764,265)
Sale of investments	19,128,378	-
Net cash used by investment activities	(16,755,498)	(6,446,222)
Net change in cash and cash equivalents	(12,085,240)	(1,160,173)
Cash and cash equivalents, beginning of year	25,656,105	26,816,278
Cash and cash equivalents, end of year	$ 13,570,865	$ 25,656,105
Reconcilement of Cash and Cash Equivalents		
Unrestricted cash and cash equivalents	$ 13,079,790	$ 24,326,281
Restricted cash and cash equivalents	491,075	1,329,824
Cash and cash equivalents, end of year	$ 13,570,865	$ 25,656,105
Reconcilement of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 8,645,216	$ 6,458,010
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,356,741	7,327,968
Bad debts	582,797	178,912
Change in assets and liabilities:		
Accounts receivable	(1,995,402)	1,971,254
Inventory	(510,729)	198,690
Prepaid expenses	1,117	(21,316)
Accounts payable and accrued expenses	(58,371)	(5,898,557)
Customer deposits	193,797	211,349
Unearned revenue	65,408	19,632
Net pension liability	4,629,597	1,452,401
Net OPEB liability	(427,443)	(1,022,425)
Deferred outflows and deferred inflows of resources – Pension	(1,489,100)	1,012,624
Deferred outflows and deferred inflows of resources – OPEB	518,085	1,351,623
Unamortized bond premium	54,045	60,239
Net cash provided by operating activities	$ 17,565,758	$ 13,300,404
Supplemental Disclosure of Noncash Capital and Related Financing Activities		
Contributed capital assets	$ 429,829	$ 685,680
Capital asset acquisitions in accounts payable	$ 526,227	$ 280,426

See accompanying notes to financial statements.

NOTE 1 – NATURE OF ORGANIZATION AND OPERATIONS

The Electric and Water Plant Board of the City of Frankfort, Kentucky (the "Board") was formed in April 1943 through the acquisition by the City of Frankfort of the entire capital stock of the Tri-City Utilities Company. The Company was dissolved immediately after the acquisition of the capital stock. The properties and the operation of the combined electric and water system purchased were placed under the control of the Electric and Water Plant Board, which consists of five members appointed by the Mayor and approved by the City Commissioners. Since 1946, the Board operates as an independent entity under the provisions of the Kentucky Revised Statutes 96.172 through 96.188. The Board produces its own water supply and purchases electricity from the Kentucky Utilities Company. On January 1, 1988, the Electric and Water Plant Board acquired the assets and interests of Community Cable Services, Inc. Previously, the cable system was operated as an independent subsidiary of the Board and controlled by a separate Board of Directors. On January 1, 1989, the Electric and Water Plant Board assumed the ownership of the North Woodford Water District facilities in consideration for the assumption of its obligations and liabilities. The Kentucky Public Service Commission approved the acquisition on October 6, 1988. The Board bills and collects sewer charges for the City of Frankfort and school tax for the local city and county school boards.

The financial statements of the Board have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Board’s financial statements for the year ended June 30, 2019, from which the summarized information was derived.

In October of 1999, the Board of Directors of the Electric and Water Plant Board formed the Frankfort Plant Board Municipal Projects Corporation with the purpose of authorizing and approving the initial financing of the costs of the new improvements to and expansions of the Municipal Cable Television of the Plant Board. The Corporation will provide the lease for the cable system, as improved and expended, to the Plant Board and authorize the assignment of the Corporation's rights and interest under the lease to United Bank.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting principles and policies utilized by the Board are described below:

Reporting Entity
The Board is not considered a component unit of the City of Frankfort. The Board operates under the provisions of the Kentucky Revised Statutes mentioned above. Additionally, the City of Frankfort does not exercise financial, budgetary, accounting or administrative controls over the Board. Therefore, the financial statements of the Board are not included in the financial statements of the City of Frankfort.

Basis of Accounting
The Board is accounted for as an enterprise fund, which is a type of proprietary fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The focus of proprietary fund measurement is upon the determination of operating income, changes in net position, financial position and cash flows. All proprietary funds are accounted for using the accrual basis of accounting. For internal management and statutory purposes, the Board maintains the internal funds described below.

Purpose of Various Internal Funds

Operating Funds

1. Water and Electric Revenue Fund - Chapter 96 of the Kentucky Revised Statutes provides that all revenues of the system shall be placed in this fund as collected. Distributions to other funds are made upon approval of the Electric and Water Plant Board in accordance with the requirements of each fund.

2. Operations and Maintenance Fund - This fund was created for the purpose of paying expenses of operating and maintaining the combined water works, electric power, cable, and Full Service network systems. The amount necessary to meet these expenses is transferred to this fund as needed from the Revenue Fund accounts. Approval of expenditures from this fund is made by the Board upon presentation of request for reimbursement to this fund.

Restricted Funds

1. Electric and Water Revenue Bonds and Interest Sinking Fund - This fund was established in accordance with Kentucky Revised Statute 96.182. It provides that a reserve is to be accumulated over a ten-year period to equal the average annual interest and principal requirements for such bonds then outstanding.

Budgets and Budgetary Accounting
The Board follows these procedures in establishing budgetary data reflected in the financial statements:

1. Formal budgetary integration is employed as a management control device during the year for all funds.
2. The Board of Directors of the Electric and Water Plant Board approves the budget.
3. Unused appropriations of the annual budget lapse at the end of the year.
4. The budgeted amounts shown in the financial statements are the formal authorized amounts as revised during the year.

Revenue Requirements
The Board is regulated by Kentucky Revised Statute 96.182 concerning the application of revenues earned by the Board. The provisions of Kentucky Revised Statute 96.182 are as follows:

Subject to the provisions of outstanding bonds and contracts, the Board shall apply all funds derived from operations (1) to the payment of operating expenses, (2) to the payment of bond interest and retirement, (3) to sinking fund requirements, (4) to the maintenance of a fund to meet depreciation and the improvements and extension of the plant in an amount equal to six percent (6%) of the undepreciated book value of its property, (5) to the maintenance of a cash working fund equal to one (1) month's revenue, and (6) to the payment of other obligations incurred in the operations and maintenance of the plant and the furnishings of service.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents
The Board considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Statutes require that financial institutions pledge approved securities to secure those funds on deposit in an amount equal to the amount of those funds.

Restricted and Unrestricted Asset Funds
As of June 30, 2020, the restricted funds are reserved for the purpose of bond debt service, funding of capital construction, cost of issuance, and debt service reserves. Unrestricted funds, generated from service fees and other operating income, are used to pay for operating expenses, invest in capital assets and service debt. When an expense or outlay is incurred for which both restricted and unrestricted net position is available, it is the Board's practice to use revenue from operations to finance construction, then to reimburse from restricted net position for construction as it is needed.

Investments
Investments of the Board consist of certificates of deposit, which are stated at cost and approximate fair value.

Inventory
Materials and supplies inventory are stated at lower of cost or market using average cost to determine unit cost on all items with the exception of chemicals.

Accounts Receivable
Accounts receivable consist primarily of user fees charged in the month when earned from customers for services. Electric and water fees are recorded as accounts receivable and revenue in the month when earned. Telecommunications fees are billed one month in advance and are recorded as unearned revenues when billed.

The following is a summary of accounts receivable as of June 30, 2020:

Billed user fees, net	$ 7,307,888
Unbilled user fees	5,078,108
Other	290,540
Interest	84
Accounts receivable, net	$ 12,676,620

Allowance for Uncollectible Amounts
The Board records an allowance for doubtful accounts through a charge to earnings and a credit to valuation allowance based on its assessment of the current status of individual accounts. The allowance for doubtful accounts at June 30, 2020 was $606,576.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets include property, plant and equipment. Expenditures for items having a useful life greater than one year and a cost greater than $1,000 are capitalized. Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair value. Depreciation is provided in amounts sufficient to expense the related cost of the depreciable assets to operations over their estimated useful lives on the straight-line basis. The estimated useful lives by type of asset are as follows:

Structure and Improvements	30 years
Electric Distribution Systems	30 years
Water Distribution Systems	50 years
Cable Distribution System	15 years
Furniture and Equipment	5 – 10 years

Impairment of Capital Assets

In accordance with GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, management evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations, other changes in environmental factors, technology changes or evidence of obsolescence, changes in manner or duration of use of a capital asset, and construction stoppage. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. No impairment losses were recognized during the year ended June 30, 2020.

Accumulated Compensated Absences

It is the Board's policy to permit employees to accumulate limited amounts of earned, but unused vacation pay which will be paid to employees upon separation from the Board's service. Vacation pay is accrued in the period in which it is earned and is reflected in accrued expenses.

Bonds Payable

Bonds payable are recorded at the principal amount outstanding, net of any applicable premium or discount. Bond issue costs are expensed in the year incurred. Original issue discounts and premiums on bonds are amortized as a component of interest expense using the straight-line method, which approximates the effective interest method, over the lives of the bonds to which they relate.

Pensions and Other Postemployment Benefits (“OPEB”)

For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to or deductions from the CERS fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The Board became a member of the County Employees' Retirement System (CERS) on July 1, 1988. Eligible employees were enrolled in CERS on that date.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restrictions of Net Position
Revenue bond sinking accounts are the resources accumulated for debt service payments. KIA loan covenant funds are resources accumulated for replacements and repairs.

	2020
Revenue bond sinking reserve	$ 1,765,475
KIA loan covenant	203,372
Total restricted net position	$ 1,968,847

Operating Revenues and Expenses
Operating revenues are those that are generated directly from the primary activity of the Board, such as charges for utility services. Operating expenses are necessary costs that have been incurred in order to provide the goods or services that are the primary activity.

Operating expenses generally refer to the ordinary and necessary business expenses incurred in the day-to-day operations of the Board. They include such things as system maintenance, fleet maintenance, office supplies, customer service, fringe benefits, billing, and accounting. These are current period expenses, which are not otherwise capitalized as part of construction projects having a service life greater than one year. Operating expenses do not include interest expense, which relates to financing activities.

Non-Operating Revenues and Expenses
Non-operating revenues and expenses are comprised of investment and financing earnings and costs as well as other gains and losses.

Capital Contributions
Construction and acquisition of facilities and plants are financed, in part, from governmental grants and contributions in aid of construction from property owners and developers. Governmental grants in aid of construction represent the portion of construction cost incurred where paperwork has been submitted to the grantor. These amounts are recorded as a receivable and revenues from contributions at the time the documentation is submitted. The revenues from capital contributions are part of the change in net position.

Estimates in the Financial Statements
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires, at times, 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.

Subsequent Events
In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Organization could be materially adversely affected. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.

(Continued)

NOTE 3 – INVESTMENTS

Investments of the Board are all invested in non-negotiable certificates of deposit with maturity dates ranging from July 2020 to June 2021. Certificates of deposits are held at contract value, which approximates fair value.

Interest Rate Risk: The Board has an investment policy, limiting investments to interest bearing accounts and certificates of deposit with a maturity of no greater than three years. The policy effectively manages the Boards exposure to fair value losses arising from increasing interest rates.

Credit Risk: State law limits the type of investment in which the Board may invest its funds. The Board's policy is within State guidelines.

Concentration of Credit: The Board places no limit on the amount it may invest in any one investment.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned to it. As of June 30, 2020, all deposits were fully insured and collateralized.

(Continued)

NOTE 4 – CAPITAL ASSETS

The following is a summary of capital assets as of June 30, 2020:

	June 30, 2019	Additions and Transfers	Transfers and Retirements	June 30, 2020
Capital assets not being depreciated				
Land	$ 584,030	$ -	$ -	$ 584,030
Construction in progress	2,481,274	6,886,298	(5,348,830)	4,018,742
Total capital assets not being depreciated	3,065,304	6,886,298	(5,348,830)	4,602,772
Capital assets				
Structures and improvements	41,266,202	397,526	-	41,663,728
Plant infrastructure	157,352,494	3,246,793	-	160,599,287
Plant equipment	38,144,994	334,714	-	38,479,708
Transport equipment	6,366,917	658,272	(94,347)	6,930,842
Power operated equipment	3,155,542	243,638	(74,971)	3,324,209
Lab equipment	65,151	-	-	65,151
Furniture and fixtures	7,760,076	53,023	-	7,813,099
Garage equipment	389,713	11,101	-	400,814
Computer equipment	3,619,358	176,380	-	3,795,738
Communications equipment	555,815	5,659	-	561,474
Miscellaneous equipment	2,166,865	188,618	-	2,355,483
Total depreciable capital assets	260,843,127	5,315,724	(169,318)	265,989,533
Total capital assets	263,908,431	12,202,022	(5,518,148)	270,592,305
Accumulated depreciation				
Structures and improvements	9,206,716	1,187,680	-	10,394,396
Plant infrastructure	97,271,258	4,239,129	-	101,510,387
Plant equipment	21,873,032	924,437	-	22,797,469
Transport equipment	4,077,894	509,482	(86,143)	4,501,233
Power operated equipment	3,054,569	78,826	(74,971)	3,058,424
Lab equipment	62,265	1,296	-	63,561
Furniture and fixtures	7,199,309	95,320	-	7,294,629
Garage equipment	379,142	2,493	-	381,635
Computer equipment	3,100,950	157,175	-	3,258,125
Communications equipment	421,681	20,644	-	442,325
Miscellaneous equipment	1,209,826	140,259	-	1,350,085
Total accumulated depreciation	147,856,642	7,356,741	(161,114)	155,052,269
Total depreciable capital assets, net of accumulated depreciation	112,986,485	(2,041,017)	(8,204)	110,937,264
Net capital assets	$ 116,051,789	$ 4,845,281	$ (5,357,034)	$ 115,540,036

(Continued)

NOTE 4 – CAPITAL ASSETS (Continued)

The Board has several projects under construction at June 30, 2020. A summary of construction in progress is below:

Main 3 Myrick	$ 424,330
AMI engineering/procurement	387,724
Fiber-to-the-Home (FTTH)	1,653,689
Myrick draining & erosion control	263,093
Electric - vehicle purchases	150,355
Water - vehicle purchases	169,930
New reservoir design	275,321
Water projects under $100,000	135,292
Electric projects under $100,000	459,939
Telecommunications projects under $100,000	31,472
Administrative projects under $100,000	67,597
Total	$ 4,018,742

The estimated cost to complete construction projects under contract was approximately $783,077 at June 30, 2020.

NOTE 5 – BONDS, LEASES, LOANS AND KIA PAYABLES

The following schedule summarizes the Board's revenue bonds and lease obligations:

Issue	Purpose of Issue	Original Issue	Interest Rate	Final Maturity	Amount Outstanding
FSN Consolidated Lease Financing	Refinance leases used for improvements and expansions of the cable telecommunications system	$ 22,937,506	2.85%	03/31/2022	`$ 3,512,506
2013 Electric & Water Bonds	Refinance note payable used for major improvement and additions to the electric and water systems	3,920,000	2.00% - 3.50%	12/01/2023	1,685,000
2015A Electric & Water Bonds	Finance the construction of a new administrative building	15,130,000	2.00% - 4.75%	12/01/2040	13,280,000
FSN Third-Lien Lease	Finance the construction of a new headend facility and related cable telecommunications improvements	9,000,000	3.00%	12/31/2029	7,125,000
Total Bond Premiums					880,224
					$ 26,482,730

(Continued)

NOTE 5 – BONDS, LEASES, LOANS AND KIA PAYABLES (Continued)

Pledged Revenues: Through the various bond financing agreements, the Board has generally pledged available System Revenues (not Full Service Network Revenues) to secure payment associated with the bond issues. Lease financing obligations are subject to rental payments derived from and are secured by a subordinated pledge of the net revenues (after providing for operation and maintenance expenses and a reasonable allowance for depreciation) of the Expanded Systems as defined in the lease agreements. It is reasonably expected that such revenues accumulated for operation and maintenance expenses and a reasonable allowance for depreciation will not have to be used to make rental payments under the lease.

Financial Covenants: Electric and Water debt service coverage must be at or above a 1.20. After KIA loans, it must be at or above 1.10. Telecommunications debt has a 1.20 debt service coverage per the debt agreements. Debt service coverage is defined as funds available for debt service divided by net revenue before capital contributions. As of June 30, 2020, the Board reported being in compliance with the debt covenants and reporting requirements.

KIA Notes Payable: In February 2008, the Board entered into a revolving loan fund conditional commitment with KIA for $6,743,307 for the purpose of the rehabilitation of chemical feed facilities. The loan bears a fixed interest rate of 1.00% for a period of 20 years. At June 30, 2020, the outstanding balance was $4,040,828.

In March 2013, the Board entered into a federally assisted drinking water revolving loan fund conditional commitment for $2,496,896 for the purpose of constructing a generator for the water processing facilities. The loan bears a fixed interest rate of 1.75% for a period of 20 years. Upon issuance of each draw KIA will forgive 10% of the draw up to a maximum of $400,000. For the year ended June 30, 2020, the Board had no draws and KIA granted no debt forgiveness. At June 30, 2020, the outstanding balance was $2,008,408.

Bonds, leases and KIA payable activity for the year ended June 30, 2020 is as follows:

	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020	Amounts Due Within One Year
Bonds and leases payable					
2009 Electric & Water Bonds	$ 1,180,000	$ -	$ (1,180,000)	$ -	$ -
FSN Consolidated Lease	5,512,506	-	(2,000,000)	3,512,506	2,000,000
2013 Electric & Water Bonds	2,075,000	-	(390,000)	1,685,000	400,000
2015A Electric & Water bonds	13,705,000	-	(425,000)	13,280,000	440,000
FSN Third-Lien Lease	7,875,000	-	(750,000)	7,125,000	750,000
Total bonds and leases payable	30,347,506		(4,745,000)	25,602,506	3,590,000
Bond Premiums	934,269	-	(54,045)	880,224	-
	$ 31,281,775	$ -	$ (4,799,045)	$ 26,482,730	$ 3,637,850
KIA Loan – chemical feed	$ 4,370,788	$ -	$ (329,960)	$ 4,040,828	$ 333,267
KIA Loan – generator	2,120,294	-	(111,886)	2,008,408	113,853
	$ 6,491,082	$ -	$ (441,846)	$ 6,049,236	$ 447,120

(Continued)

NOTE 5 – BONDS, LEASES, LOANS AND KIA PAYABLES (Continued)

The maturities of principal and interest on the bonds and leases payable are as follows:

	Principal	Interest	Total
2021	$ 3,590,000	$ 810,793	$ 4,400,793
2022	3,132,506	704,317	3,836,823
2023	1,650,000	631,556	2,281,556
2024	1,680,000	574,631	2,254,631
2025	1,260,000	524,431	1,784,431
2026-2030	6,160,000	2,041,066	8,201,066
2031-2035	3,240,000	1,343,719	4,583,719
2036-2040	3,990,000	589,194	4,579,194
2041	900,000	15,188	915,188
Total	$ 25,602,506	$ 7,234,895	$ 32,837,401

The maturities of principal and interest on the KIA loans are as follows:

	Principal	Interest	Total
2021	$ 447,120	$ 89,073	$ 536,193
2022	452,463	82,610	535,073
2023	457,873	76,064	533,937
2024	463,354	69,436	532,790
2025	468,905	62,723	531,628
2026-2030	2,430,330	209,887	2,640,217
2031-2035	1,255,583	53,401	1,308,984
2036	73,608	736	74,344
Total	$ 6,049,236	$ 643,930	$ 6,693,166

NOTE 6 – RISK MANAGEMENT

The Board 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 for which the Board carries commercial insurance.

The Board has elected to retain risk related to employees' health insurance. The Board has stop loss coverage with Pan American on the self-insurance plan. There is a specific deductible of $75,000 per employee per year, plus an additional liability corridor of $75,000. There is no lifetime maximum benefit for members due to the Affordable Care Act.

The Board pays Medben a fee to administer this plan. The Board has an insurance escrow account set up as a liability to cover possible future health insurance claims. All claims are paid out of the general funds of the Board through a separate self-insurance checking account.

(Continued)

NOTE 6 – RISK MANAGEMENT (Continued)

For the year ended June 30, 2020 and 2019, the Board had the following activity related to the future health insurance claims:

	Future Health Insurance Claims
Liability at July 1, 2018	$ 243,971
Claims and changes in estimates in FY 2019	1,670,768
Claims paid in FY 2019	(1,708,635)
Liability at June 30, 2019	206,104
Claims and changes in estimates in FY 2020	2,349,533
Claims paid in FY 2020	(2,360,937)
Liability at June 30, 2020	$ 194,700

Claims have not exceeded coverage for the last three years.

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS

General Information About the Pension and OPEB Plan: All full-time and eligible part-time employees of the Board participate in County Employee Retirement System (CERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System (KRS), an agency of the Commonwealth. Under the provisions of Kentucky Revised Statute Section 78.520, the Board of Trustees (the Board) of KRS administers CERS, Kentucky Employee Retirement System, and State Police Retirement System. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to members of that plan, and a pro rata share of administrative costs.

The plan provides for retirement, disability and death benefits to plan members. Retirement benefits may also be extended to beneficiaries of plan members under certain circumstances. Under the provisions of Kentucky Revised Statute Section 61.701, the Board of KRS also administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by KRS. The assets of the insurance fund are invested as a whole. KRS and the Commonwealth have statutory authority to determine Plan benefits and employer contributions.

KRS issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or it may be found at the KRS website at www.kyret.ky.gov.

Basis of Accounting: For purposes of measuring the net pension and other post-employment benefits plan (OPEB) liabilities, deferred outflow of resources and deferred inflow of resources related to pensions and OPEB, pension and OPEB expense, information about the fiduciary net position of CERS and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

Pension Benefits Provided: The information below summarizes the major retirement benefit provisions of CERS-Non-Hazardous. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions:

***Members whose participation began before 8/1/2004*:**
Age and Service Requirement: Age 65 with at least one month of Nonhazardous duty service credit, or at any age with 27 or more years of service credit.

Benefit: If a member has at least 48 months of service, the monthly benefit is 2.20% times final average compensation times years of service depending on participation and retirement dates. Final compensation is calculated by taking the average of the highest five (5) fiscal years of salary. If the number of months of service credit during the five (5) year period is less than forty-eight (48), one (1) or more additional fiscal years shall be used. If a member has less than 48 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

Members whose participation began on or after 8/1/2004, but before 9/1/2008:
Age and Service Requirement: Age 65 with at least one month of Nonhazardous duty service credit, or at any age with 27 or more years of service credit.

Benefit: If a member has at least 48 months of service, the monthly benefit is 2.00% multiplied by final average compensation, multiplied by years of service. Final compensation is calculated by taking the average of the highest five (5) fiscal years of salary. If the number of months of service credit during the five (5) year period is less than forty-eight (48), one (1) or more additional fiscal years shall be used. If a member has less than 48 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

Members whose participation began on or after 9/1/2008, but before 1/1/2014:
Age and Service Requirement: Age 65 with 60 months of Nonhazardous duty service credit, or age 57 if age plus service equals at least 87.

Benefit: The monthly benefit is the following benefit factor based on service credit at retirement plus 2.00% for each year of service greater than 30 years, multiplied by final average compensation, multiplied by years of service.

Service Credit	Benefit Factor
10 years or less	1.10%
10+ - 20 years	1.30%
20+ - 26 years	1.50%
26+ - 30 years	1.75%

Final compensation is calculated by taking the average of the last (not highest) five (5) complete fiscal years of salary. Each fiscal year used to determine final compensation must contain twelve (12) months of service credit.

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

Members whose participation began on or after 1/1/2014:
Age and Service Requirement: Age 65 with 60 months of Nonhazardous duty service credit, or age 57 if age plus service equals at least 87.

Benefit: Each year that a member is an active contributing member to the System, the member contributes 5.00% of creditable compensation, and the member's employer contributes 4.00% of creditable compensation, which is a portion of the total employer contribution, into a hypothetical account. The hypothetical account will earn interest annually on both the member's and employer's contribution at a minimum rate of 4.00%. If the System's geometric average net investment return for the previous five years exceeds 4.00%, then the hypothetical account will be credited with an additional amount of interest equal to 75.00% of the amount of the return, which exceeds 4.00%. All interest credits will be applied to the hypothetical account balance on June 30 based on the account balance as of June 30 of the previous year. Upon retirement the hypothetical account, which includes member contributions, employer contributions and interest credits, can be withdrawn from the System as a lump sum or annuitized into a single life annuity option.

OPEB Benefits Provided: The information below summarizes the major retirement benefit provisions of CERS-Non-Hazardous. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions:

Insurance Tier 1: Participation began before 7/1/2003

Benefit Eligibility: Recipient of a retirement allowance

Benefit: The percentage of member premiums paid by the retirement system are dependent on the number of years of service. Benefits also include duty disability retirements, duty death in service, non-duty death in service and surviving spouse of a retiree.

Insurance Tier 2: Participation began on or after 7/1/2003, but before 9/1/2008

Benefit Eligibility: Recipient of a retirement allowance with at least 120 months of service at retirement

Benefit: The system provides a monthly contribution subsidy of $10 for each year of earned service. The monthly contribution is increased by 1.5% each July 1. Benefits also include duty disability retirements, duty death in service and non-duty death in service.

Insurance Tier 3: Participation began on or after 9/1/2008

Benefit Eligibility: Recipient of a retirement allowance with at least 180 months of service at retirement

Benefit: The system provides a monthly contribution subsidy of $10 for each year of earned service. The monthly contribution is increased by 1.5% each July 1. Benefits also include duty disability retirements, duty death in service and non-duty death in service.

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

Contributions: The Board was required to contribute at an actuarially determined rate determined by Statute. Per Kentucky Revised Statute Section 78.545(33) normal contribution and past service contribution rates shall be determined by the KRS Board based on an annual valuation last preceding July 1 of a new biennium. The KRS Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined based on a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the KRS Board.

For the fiscal year ended June 30, 2020, participating employers contributed 24.06% (19.30% allocated to pension and 4.76% allocated to OPEB) as set by KRS, respectively, of each Nonhazardous employee's creditable compensation. These percentages are inclusive of both pension and insurance payments for employers. Administrative costs of KRS are financed through employer contributions and investments earnings.

The Board has met 100% of the contribution funding requirement for the fiscal year ended June 30, 2020. Total current year contributions recognized by the Plan were $3,161,663 ($2,536,163 related to pension and $625,500 related to OPEB) for the year ended June 30, 2020. The OPEB contributions amount does not include the implicit subsidy reported in the amount of $174,167.

Members whose participation began before 9/1/2008:

Nonhazardous member contributions equal 5% of all creditable compensation. Interest paid on the members' accounts is currently 2.5%; and per statute shall not be less than 2.0%. Members are entitled to a full refund of contributions with interest.

Members whose participation began on or after 9/1/2008, but before 1/1/2014:

Nonhazardous member contributions equal to 6% of all creditable compensation, with 5% being credited to the member's account and 1% deposited to the KRS 401(h) Account. Interest paid on the members' accounts will be set at 2.5%. Members are entitled to a full refund of contributions and interest in their individual account, however, the 1% contributed to the insurance fund is non-refundable.

Members whose participation began on or after 1/1/2014

Nonhazardous member contributions equal to 6% of all creditable compensation, with 5% being credited to the member's account and 1% deposited to the KRS 401(h) Account. Members are entitled to a full refund of contributions and interest on the member's portion of the hypothetical account, however, the 1% contributed to the insurance fund is non-refundable.

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

PENSION INFORMATION

<u>Total Pension Liability</u>: The total pension liability ("TPL") was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	2.30 percent
Salary increases	3.30 percent, average, including inflation
Investment rate of return	6.25 percent, net of pension plan investment expense, including inflation

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 (setback 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. Discount rate assumptions:

(a) **Discount Rate**: The discount rate used to measure the total pension liability was 6.25.

(b) **Projected Cash Flows:** The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the statutorily determined contribution rate of projected compensation over the remaining 25-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on the actuarial value of assets over the first four years of the projection period.

(c) **Long-Term Rate of Return**: The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. However, the Board of KRS has the authority to review the assumptions on a more frequent basis and adopt new assumptions prior to the next scheduled experience study. 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.

(d) **Municipal Bond Rate**: The discount rate determination does not use a municipal bond rate.

(e) **Periods of Projected Benefit Payments**: The long-term assumed rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

(f) **Assumed Asset Allocation:** The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	18.75%	4.30%
Non-US Equity	18.75	4.80
Private Equity	10.00	6.65
Specialty Credit/High Yield	15.00	2.60
Core Bonds	13.50	1.35
Cash	1.00	0.20
Real Estate	5.00	4.85
Opportunistic	3.00	2.97
Real Return	15.00	4.10
Total	100.00%	3.89%

The long-term expected rate of return on pension plan assets was established by the KRS Board of Trustees at 6.25% based on a blending of the factors described above.

(g) **Sensitivity Analysis:** This paragraph requires disclosure of the sensitivity of the net pension liability to changes in the discount rate. The following presents the Board's allocated portion of the net pension liability ("NPL") of the System, calculated using the discount rate of 6.25 percent, as well as what the Board's allocated portion of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.25 percent) or 1 percentage-point higher (7.25 percent) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Net position liability - Nonhazardous	$ 42,425,295	$ 33,920,796	$ 26,832,379

Employer's Portion of the Collective Net Pension Liability: The Board's proportionate share of the net pension liability, as indicated in the prior table, is $33,920,796, or approximately 0.48%. The net pension liability was distributed based on 2019 actual employer contributions to the plan.

Measurement Date: June 30, 2019 is the actuarial valuation date and measurement date upon which the total pension liability is based.

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

Changes in Assumptions and Benefit Terms: Since the prior measurement date, there have been no changes in actuarial assumptions.

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

- Payroll growth assumption was increased from 3.05% to 3.30%.

Pension Expense: The Board was allocated pension expense of $5,670,658 related to the CERS for the year ended June 30, 2020.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 866,100	$ 143,324
Change of assumptions	3,433,170	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	216,591	138,244
Differences between expected and actual investment earning on plan investments	-	546,818
	4,515,861	828,386
Contributions subsequent to the measurement date	2,536,163	-
Total	$ 7,052,024	$ 828,386

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of $2,536,163 will be recognized as a reduction of net pension liability in the year ending June 30, 2021. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2021	$ 2,355,122
2022	932,507
2023	361,051
2024	38,795
	$ 3,687,475

Pension Plan Fiduciary Net Position: Detailed information about the pension plans' fiduciary net position is available in the separately issued pension plan financial reports.

OPEB INFORMATION

Total OPEB Liability: The total other postemployment benefits plan ("OPEB") liability was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	2.30 percent
Payroll growth rate	2.00 percent
Salary increases	3.30 percent, average
Investment rate of return	6.25 percent
Healthcare trend rates:	
Pre-65	Initial trend starting at 7.00 percent at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05 percent over a period of 12 years.
Post-65	Initial trend starting at 5.00 percent at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05 percent over a period of 10 years.

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 (setback 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

Discount rate assumptions:

(a) **Discount Rate:** The discount rate used to measure the total OPEB liability was 5.68%, which decreased from the 5.85% discount rate used in the prior year.

(b) **Projected Cash Flows:** The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the actuarially determined contribution rate of projected compensation over the remaining 25-year amortization period of the unfunded actuarial accrued liability.

(c) **Long-Term Rate of Return:** The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. However, the Board of KRS has the authority to review the assumptions on a more frequent basis and adopt new assumptions prior to the next scheduled experience study. 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.

(d) **Municipal Bond Rate**: The discount rate determination used a municipal bond rate of 3.13% as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 28, 2019.

(e) **Period of Projected Benefit Payments:** Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the system's actuarial determined contributions, and it is the actuary's understanding that any cost associated with the implicit subsidy will not be paid out of the system's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

(f) **Assumed Asset Allocations**: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	18.75%	4.30%
Non-US Equity	18.75	4.80
Private Equity	10.00	6.65
Specialty Credit/High Yield	15.00	2.60
Core Bonds	13.50	1.35
Cash	1.00	0.20
Real Estate	5.00	4.85
Opportunistic	3.00	2.97
Real Return	15.00	4.10
Total	100.00%	3.89%

The long-term expected rate of return on pension plan assets was established by the KRS Board of Trustees at 6.25% based on a blending of the factors described above.

(g) **Sensitivity Analysis**: This paragraph requires disclosure of the sensitivity of the net OPEB liability to changes in the discount rate and changes in the healthcare cost trend rate.

The following presents the Board's allocated portion of the net OPEB liability of the System, calculated using the discount rate of 5.68% percent, as well as what the Board's allocated portion of the System's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.68%) or 1-percentage-point higher (6.68%) than the current rate for non-hazardous:

	1% Decrease (4.68%)	Current Discount Rate (5.68%)	1% Increase (6.68%)
Net OPEB liability	$ 10,866,046	$ 8,111,480	$ 5,841,901

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

The following presents the Board's allocated portion of the net OPEB liability of the System, calculated using the healthcare cost trend rate of percent, as well as what the Board's allocated portion of the System's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate for non-hazardous:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB liability	$ 6,032,549	$ 8,111,480	$ 10,632,430

Employer's Portion of the Collective OPEB Liability: The Board's proportionate share of the net OPEB liability, as indicated in the prior table, is $8,111,480, or approximately 0.48%. The net OPEB liability was distributed based on 2019 actual employer contributions to the plan.

Measurement Date: June 30, 2019 is the actuarial valuation date and measurement date upon which the total pension liability is based.

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

- Payroll growth assumption was increased from 3.05% to 3.30%.

Changes Since Measurement Date: There were no changes between the measurement date of the collective net OPEB liability and the employer's reporting date.

OPEB Expense: The Board was allocated OPEB expense of $891,787 related to the CERS for the year ended June 30, 2020.

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

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 2,447,421
Change of assumptions	2,400,262	16,050
Changes in proportion and differences between employer contributions and proportionate shares of contributions	34,186	22,324
Differences between expected and actual investment earnings on plan investments	-	360,276
	2,434,448	2,846,071
Contributions subsequent to the measurement date	799,667	-
Total	$ 3,234,115	$ 2,846,071

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of $799,667, which includes the implicit subsidy reported of $174,167, will be recognized as a reduction of net OPEB liability in the year ending June 30, 2020. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2021	$ (58,229)
2022	(58,229)
2023	56,318
2024	(163,122)
2025	(159,792)
Thereafter	(28,569)
	$ (411,623)

OPEB Plan Fiduciary Net Position: Detailed information about the OPEB plans' fiduciary net position is available in the separately issued OPEB plan financial reports.

NOTE 8 – DEFERRED COMPENSATION

Eligible employees can participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax-sheltered supplemental retirement plans for all state employees, public school and university employees, and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full-time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plan is voluntary.

(Continued)

NOTE 8 – DEFERRED COMPENSATION (Continued)

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. A copy of this report may be requested by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 100, Frankfort, Kentucky 40601-8862 or by telephone at 502-573-7925.

REQUIRED SUPPLEMENTARY INFORMATION

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
June 30, 2020

	2020	2019	2018	2017	2016	2015
Board's proportion of the net pension liability	0.48%	0.48%	0.48%	0.50%	0.51%	0.49%
Board's proportionate share of the net pension liability	$ 33,920,796	$ 29,291,199	$ 27,838,798	$ 24,591,568	$ 21,991,771	$ 16,041,000
Board's covered payroll	$ 12,174,321	$ 11,879,220	$ 11,484,973	$ 11,914,702	11,431,022	$ 11,992,713
Board's proportion of the net pension liability as a percentage of its covered payroll	278.63%	246.58%	242.39%	206.40%	192.39%	133.76%
Plan fiduciary net position as a percentage of the total pension liability	50.45%	53.54%	53.32%	55.50%	59.97%	66.80%

* The amounts presented for each fiscal year were determined as of the year end that occurred one year prior.

** This is a ten-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE BOARD'S PENSION CONTRIBUTIONS
June 30, 2020

	2020	2019	2018	2017	2016	2015
Statutorily required contribution	$ 2,536,163	$ 1,979,294	$ 1,728,392	$ 1,615,247	$ 1,479,545	$ 1,521,452
Contributions in relation to the statutorily required contribution	(2,536,163)	(1,979,294)	(1,728,392)	(1,615,247)	(1,479,545)	(1,521,452)
Annual contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Board's contributions as a percentage of statutorily required contribution for pension	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Board's covered payroll	$ 13,109,590	$ 12,174,321	$ 11,879,220	$ 11,484,973	$ 11,914,702	$ 11,431,022
Contributions as a percentage of its covered payroll	19.35%	16.26%	14.55%	14.06%	12.42%	13.31%

* This is a ten-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

Changes in Assumptions and Benefit Terms:

2019: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- Payroll growth assumption was increased from 3.05% to 3.30%.

2018: Since the prior measurement date, there have been no changes in actuarial assumptions. However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The total pension liability as of June 30, 2018 was determined using these updated benefit provisions.

2017: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 3.05%.

2016: There were no changes in assumptions and benefit terms since the prior measurement date.

2015: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as described in Schedule D of the CERS actuary report. The changes are noted below:

- 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 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 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again, when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to accurately reflect experience.

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
June 30, 2020

	2020	2019	2018
Board's proportion of the net OPEB liability	0.48%	0.48%	0.48%
Board's proportionate share of the net OPEB liability	$ 8,111,480	$ 8,538,923	$ 9,561,348
Board's covered payroll	$ 12,174,321	$ 11,879,220	$ 11,484,973
Board's proportion of the net OPEB liability as a percentage of its covered payroll	66.63%	71.88%	83.25%
Plan fiduciary net position as a percentage of the total OPEB liability	60.40%	57.60%	52.40%

* The amounts presented for each fiscal year were determined as of the year end that occurred one year prior.

** This is a ten-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE BOARD'S OPEB CONTRIBUTIONS
June 30, 2020

	2020	2019	2018
Statutorily required contribution	$ 625,500	$ 641,867	$ 561,011
Contributions in relation to the statutorily required contribution	$ (625,500)	$ (641,867)	(561,011)
Annual contribution deficiency (excess)	$ -	$ -	$ -
Board's contributions as a percentage of statutorily required contribution for OPEB	100.00%	100.00%	100.00%
Board's covered payroll	$ 13,109,590	$ 12,174,321	$ 11,879,220
Contributions as a percentage of its covered payroll	4.77%	5.27%	4.72%

* This is a ten-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

<u>Changes in Assumptions and Benefit Terms</u>:

2019: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- Payroll growth assumption was increased from 3.05% to 3.30%.

2018: Since the prior measurement date, there have been no changes in actuarial assumptions. However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

2017: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total OPEB liability have been updated as follows:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 3.05%.

SUPPLEMENTARY INFORMATION

	Electric & Water	Telecom	Total
ASSETS			
Current Assets			
Unrestricted cash and cash equivalents	$ 13,079,790	$ -	$ 13,079,790
Accounts receivable, net	10,232,977	2,443,643	12,676,620
Inventory, net	2,936,576	1,070,961	4,007,537
Prepaid expenses	383,449	201,163	584,612
Total current assets	26,632,792	3,715,767	30,348,559
Noncurrent assets			
Unrestricted investments	20,846,254	10,110,465	30,956,719
Restricted cash reserves	413,973	77,102	491,075
Restricted investments	1,171,617	306,155	1,477,772
Depreciable capital assets, net of acc depreciation	81,448,266	29,488,998	110,937,264
Capital assets not being depreciated	2,829,336	1,773,436	4,602,772
Total noncurrent assets	106,709,446	41,756,156	148,465,602
Total assets	133,342,238	45,471,923	178,814,161
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow - KRS Pension	4,466,061	2,585,963	7,052,024
Deferred Outflow - KRS OPEB	2,048,171	1,185,944	3,234,115
Total deferred outflows	6,514,232	3,771,907	10,286,139
Total assets and deferred outflows of resources	$ 139,856,470	$ 49,243,830	$ 189,100,300
LIABILITIES AND NET POSITION			
Current liabilities			
Accounts payable and accrued expenses	$ 7,465,165	$ 1,409,863	$ 8,875,028
Customer deposits	1,640,350	1,442,710	3,083,060
Unearned revenues	-	2,062,821	2,062,821
Bonds and leases payable due in one year	723,592	2,914,258	3,637,850
KIA notes payable due in one year	447,120	-	447,120
Total current liabilities	10,276,227	7,829,652	18,105,879
Long-term liabilities			
Net pension liability	21,482,106	12,438,690	33,920,796
Net OPEB liability	5,137,016	2,974,464	8,111,480
Long-term debt			
Bonds and leases payable	10,381,877	12,463,003	22,844,880
KIA notes payable	5,602,116	-	5,602,116
Total long-term liabilities	42,603,115	27,876,157	70,479,272
Total liabilities	52,879,342	35,705,809	88,585,151
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts from pension	524,619	303,767	828,386
Deferred amounts from OPEB	1,802,422	1,043,649	2,846,071
Total deferred inflows	2,327,041	1,347,416	3,674,457
Total liabilities and deferred inflows of resources	55,206,383	37,053,225	92,259,608

	Electric & Water	Telecom	Total
NET POSITION			
Net investment in capital assets	$ 66,817,138	$ 15,664,705	$ 82,481,843
Restricted for debt retirement	1,382,218	383,257	1,765,475
Restricted for KIA loan covenant	203,372	-	203,372
Total restricted net position	1,585,590	383,257	1,968,847
Unrestricted	17,584,790	(5,194,788)	12,390,002
Total net position	85,987,518	10,853,174	96,840,692
Total liabilities, deferred inflow of resources and net position	$ 141,193,901	$ 47,906,399	$ 189,100,300

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – BUDGET TO ACTUAL
Year ended June 30, 2020

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues			
User fees			
Electric	$ 62,188,820	$ 59,804,609	$ (2,384,211)
Water	12,484,161	12,428,527	(55,634)
Cable	27,817,371	28,069,319	251,948
Total operating revenues	102,490,352	100,302,455	(2,187,897)
Operating Expenses			
Electric	55,769,396	54,160,100	1,609,296
Water	9,993,938	11,131,842	(1,137,904)
Cable	24,887,589	26,365,297	(1,477,708)
Total operating expenses	90,650,923	91,657,239	(1,006,316)
Income from operations	11,839,429	8,645,216	(3,194,213)
Non-operating Revenues (Expenses)			
Other revenue	980,513	1,425,600	445,087
Interest expense	(1,140,590)	(1,095,290)	45,300
Gain on sale of fixed assets	-	28,087	28,087
Total non-operating revenues	(160,077)	358,397	518,474
Income before contributions	11,679,352	9,003,613	(2,675,739)
Capital contributions	340,000	429,828	89,828
Change in net position	12,019,352	9,433,441	(2,585,911)
Net position – beginning of year	87,407,251	87,407,251	-
Net position – end of year	$ 99,426,603	$ 96,840,692	$ (2,585,911)

COMBINING STATEMENT OF REVENUES AND EXPENSES – ELECTRIC, WATER, TELECOMMUNICATIONS
Year ended June 30, 2020

	Electric	Water	Telecommunications	Total
Operating Revenues				
User fees				
Electric	$ 59,804,609	$ -	$ -	$ 59,804,609
Water	-	12,428,527	-	12,428,527
Cable	-	-	28,069,319	28,069,319
Total operating revenues	59,804,609	12,428,527	28,069,319	100,302,455
Operating Expenses				
Electric	54,160,100	-	-	54,160,100
Water	-	11,131,842	-	11,131,842
Cable	-	-	26,365,297	26,365,297
Total operating expenses	54,160,100	11,131,842	26,365,297	91,657,239
Income from operations	5,644,509	1,296,685	1,704,022	8,645,216
Non-operating Revenues (Expenses)				
Other revenue	700,328	338,733	386,539	1,425,600
Interest expense	(211,934)	(326,755)	(556,601)	(1,095,290)
Gain on sale of fixed assets	5,198	20,168	2,721	28,087
Total non-operating revenues	493,592	32,146	(167,341)	358,397
Income before contributions	6,138,101	1,328,831	1,536,681	9,003,613
Capital contributions	342,922	91,070	(4,164)	429,828
Change in net position	6,481,023	1,419,901	1,532,517	9,433,441
Net position - beginning of year	47,795,378	30,271,535	9,340,338	87,407,251
Net position - end of year	$ 54,276,401	$ 31,691,436	$ 10,872,855	$ 96,840,692

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
STATEMENT OF OPERATING EXPENSES – BUDGET TO ACTUAL
Year ended June 30, 2020

	Budgeted	Actual	Variable Favorable (Unfavorable)
Electric Division			
Electricity purchased	$ 44,119,259	$ 41,565,264	$ 2,553,995
Operating	7,580,700	8,000,668	(419,968)
General and administrative	1,187,408	1,284,348	(96,940)
Board of directors	70,166	91,211	(21,045)
Customer service	681,796	854,559	(172,763)
Finance	226,334	260,314	(33,980)
Fleet services	223,639	238,765	(15,126)
Human resources	112,395	123,145	(10,750)
Information technology	347,522	342,729	4,793
Meter reading	342,918	379,006	(36,088)
Safety	69,145	72,163	(3,018)
Support services	502,194	542,445	(40,251)
Network Operations Center	305,920	405,483	(99,563)
Total operating expenses - Electric Division	$ 55,769,396	$ 54,160,100	$ 1,609,296
Water Division			
Water Treatment	$ 2,062,252	$ 2,194,400	$ (132,148)
Water Distribution	1,625,782	2,289,104	(663,322)
Operating	3,367,664	3,395,199	(27,535)
General and administrative	1,043,337	1,126,373	(83,036)
Board of directors	12,486	16,231	(3,745)
Customer service	323,484	405,453	(81,969)
Finance	153,223	176,227	(23,004)
Fleet services	188,530	201,281	(12,751)
Human resources	110,417	120,977	(10,560)
Information technology	304,348	300,149	4,199
Meter reading	262,837	290,497	(27,660)
Safety	67,928	70,893	(2,965)
Support services	326,504	352,673	(26,169)
Network Operations Center	145,146	192,385	(47,239)
Total operating expenses - Water Division	$ 9,993,938	$ 11,131,842	$ (1,137,904)
Telecommunications Division			
Operating	$ 20,591,016	$ 21,548,095	$ (957,079)
General and administrative	1,331,060	1,435,063	(104,003)
Board of directors	36,152	46,995	(10,843)
Customer service	818,192	1,025,516	(207,324)
Finance	194,312	223,485	(29,173)
Fleet services	107,197	114,447	(7,250)
Human resources	189,345	207,454	(18,109)
Information technology	763,700	753,166	10,534
Safety	116,484	121,568	(5,084)
Support services	373,010	402,907	(29,897)
Network Operations Center	367,121	486,601	(119,480)
Total operating expenses - Telecommunications Division	$ 24,887,589	$ 26,365,297	$ (1,477,708)

Crowe LLP
Independent Member Crowe Global

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*

Members of the Electric and Water Plant Board
Frankfort, 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 business-type activities of the Electric and Water Plant Board (the "Board") of the City of Frankfort, Kentucky as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated September 14, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this 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 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.

Crowe LLP

Crowe LLP

Louisville, Kentucky
September 14, 2020