

Utility Commission
City of London, Kentucky

Independent Auditors' Report
And Financial Statements
For the Year Ended
June 30, 2021

Utility Commission, City of London, Kentucky
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Independent Auditors' Report

To the Commissioners
Utility Commission
City of London, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Utility Commission, City of London, Kentucky, (the Commission), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Commission'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.

Auditors' 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 auditors' 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 Utility Commission, City of London, Kentucky, as of June 30, 2021, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Utility Commission, City of London, Kentucky and do not purport to, and do not, present fairly the financial position of the City of London, Kentucky as of June 30, 2021, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of the Commission's Proportionate Share of the Net Pension Liability, Schedule of the Commission's Pension Contributions, Schedule of the Commission's Proportionate Share of the Net OPEB Liability, and Schedule of the Commission's OPEB Contributions on pages 36 – 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying schedule of operating revenues, schedule of operating expenses – water, schedule of operating expenses – sewer, and schedule of debt service are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of operating revenues, schedule of operating expenses – water, schedule of operating expenses – sewer, and schedule of debt service 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2020 on our consideration of the Commission'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 effectiveness of the Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Abner & Cox, PLLC

Abner & Cox, PLLC
London, Kentucky

December 13, 2021

Utility Commission, City of London, Kentucky
Statement of Net Position
June 30, 2021

Assets

Current Assets

Cash and cash equivalents	\$	6,524,243
Accounts receivable, less allowance		1,169,889
Unbilled receivables		407,649
Other receivables		10,029
Inventory		311,538
Total Current Assets		8,423,348

Noncurrent Assets

Restricted Assets		
Cash		796,794
Capital assets, net of depreciation		25,342,788
Total Noncurrent Assets		26,139,582

Total Assets		34,562,930
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Deferred Outflows of Resources

Differences between expected and actual experience related to pensions		103,168
Changes of assumptions related to pensions		161,549
Net difference between projected and actual earnings on pension plan investments		103,527
Changes of assumptions related to OPEB		226,493
Changes in proportion and differences between employer contributions and proportionate share of contributions - pensions		70,530
Pension contributions subsequent to measurement date		280,440
Differences between expected and actual experience related to OPEB		217,558
Net difference between projected and actual earnings on OPEB plan investments		43,279
Changes in proportion and differences between employer contributions and proportionate share of contributions - OPEB		17,776
OPEB contributions subsequent to measurement date		65,758
Total Deferred Outflows of Resources		1,290,078

Utility Commission, City of London, Kentucky
Statement of Net Position (Continued)
June 30, 2021

Liabilities

Current Liabilities

Current portion of long-term debt	724,181
Accounts payable	622,107
Accrued payroll and related taxes	193,990
Accrued interest	3,208
Water meter deposits	153,521
Other current liabilities	49,434
Total Current Liabilities	1,746,441

Noncurrent Liabilities

Notes payable	3,944,098
Net pension liability	4,137,153
Net OPEB liability	1,302,125
Total Noncurrent Liabilities	9,383,376

Total Liabilities

11,129,817

Deferred Inflows of Resources

Differences between expected and actual experience related to OPEB	217,728
Changes of assumptions related to OPEB	1,377
Changes in proportion and differences between employer contributions and proportionate share of contributions - pensions	126,561
Changes in proportion and differences between employer contributions and proportionate share of contributions - OPEB	83,565
Total Deferred Outflows of Resources	429,231

Net Position

Net investment in capital assets	20,674,509
Restricted for:	
Repairs and maintenance	796,794
Unrestricted	2,822,657
Total Net Position	\$ 24,293,960

Utility Commission, City of London, Kentucky
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2021

Operating Revenues	
Water services	\$ 2,050,697
Sewer services	4,665,094
Total Operating Revenues	<u>6,715,791</u>
Operating Expenses	
Water services	2,850,939
Sewer services	3,844,425
Total Operating Expenses	<u>6,695,364</u>
Operating Income (Loss)	<u>20,427</u>
Non-Operating Revenues (Expenses)	
Interest income	14,312
Grant income	-
Gain (loss) on assets	3,752
Bond and interest expense	(52,990)
Total Non-Operating Revenues (Expenses)	<u>(34,926)</u>
Change in Net Position	(14,499)
Beginning Net Position	<u>24,308,459</u>
Ending Net Position	<u><u>\$ 24,293,960</u></u>

Utility Commission, City of London, Kentucky
Statement of Cash Flows
For the Year Ended June 30, 2021

Cash Flows From Operating Activities	
Cash received from user charges	\$ 6,647,475
Cash payments to employees for services	(2,355,433)
Cash payments for goods and services	(2,220,779)
Net Cash Provided by Operating Activities	<u>2,071,263</u>
Cash Flows From Noncapital Financing Activities	
Grant income	<u>-</u>
Net Cash Provided by Noncapital Financing Activities	<u>-</u>
Cash Flows From Capital Financing Activities	
Acquisition and construction of capital assets	(1,405,521)
Proceeds from sale of capital assets	3,700
Principal paid on loans	(717,471)
Proceeds from loans	-
Interest and service fees paid on loans	(51,554)
Net Cash Used by Capital Financing Activities	<u>(2,170,846)</u>
Cash Flows From Investing Activities	
Interest income	<u>14,014</u>
Net Cash Provided by Investing Activities	<u>14,014</u>
Net Increase in Cash and Cash Equivalents	(85,569)
Cash and Cash Equivalents at Beginning of Year	<u>7,406,606</u>
Cash and Cash Equivalents at End of Year	<u>\$ 7,321,037</u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating loss	\$ 20,427
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	1,890,336
Changes in assets and liabilities:	
Receivables	(68,316)
Inventory	39,010
Deferred pension & OPEB costs	(532,769)
Other liabilities	2,464
Accounts payable	(165,580)
Accrued expenses	17,735
Net pension & OPEB liabilities	867,956
Net Cash Provided by Operating Activities	<u>\$ 2,071,263</u>
Reconciliation of Cash and Cash Equivalents at End of Year	
Cash and cash equivalents	\$ 6,524,243
Restricted cash	796,794
Total Cash and Cash Equivalents at End of Year	<u>\$ 7,321,037</u>

See accompanying notes to financial statements.

Utility Commission, City of London, Kentucky
Notes to Financial Statements
June 30, 2021

Note 1 – Summary of Significant Accounting Policies

Nature of Organization and Operations

The Utility Commission, City of London, Kentucky (the "Commission") provides water and sewer services to customers in the city limits of London, Kentucky and surrounding areas. These financial statements of the Utility Commission will be combined and integrated with the financial statements of the City of London, Kentucky at June 30, 2021. The Utility Commission is operated by a five-member group which is appointed by the Mayor and City Council of the City of London, Kentucky.

Basis of Accounting, Financial Presentation and Measurement Focus

The Commission operates as a fund of the City of London, Kentucky. The Commission is subject to the authority of the City of London Mayor and City Council. The Commission operates as a proprietary fund. The financial statements of the Commission are intended to present the financial position and results of operations and cash flows of only that portion of the business-type activities of the City of London, Kentucky that is attributable to the transactions of the Utility Commission. They do not purport to, and do not, present fairly the financial position, changes in financial position, or cash flows of the City of London, Kentucky as a whole.

In evaluating the Commission as a reporting entity, all potential component units (traditionally separate reporting entities) for which the Commission may be financially accountable and, as such, should be included within the Commission's financial statements have been addressed. The Commission is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the Commission. Additionally, the Commission is required to consider other organizations for which the nature and significance of their relationship with the Commission are such that they are part of the Commission. It was determined that the Commission does not have any component units.

Measurement Focus and Basis of Accounting

The accounting and reporting treatment applied to the Commission is determined by its measurement focus. As a proprietary fund, the Commission is reported using the economic resources measurement focus. The statement of cash flows provides information about how the Commission finances and meets its cash flow needs.

As a proprietary fund, the Commission utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Operating revenues, such as charges for water and sewer services, result from exchange transactions associated with the principal activities of the Commission. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as investment earnings, result from non-exchange transactions or ancillary activities.

Cash and Cash Equivalents

Demand deposits, money market funds, and certificates of deposits are considered to be cash equivalents for purposes of financial statement presentation.

Utility Commission, City of London, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 1 – Summary of Significant Accounting Policies (Continued)

Accounts Receivable and Allowance for Doubtful Accounts

Receivables include amounts due from customers for water and sewer services. These receivables are due at the time the services are billed. Management provides for probable uncollectible amounts of accounts receivable through a charge to earnings and a credit to a valuation allowance based on an estimate calculated using historical write-offs. Accounts receivable are presented net of uncollectible accounts. At June 30, 2021, the allowance for doubtful accounts totaled \$137,000.

Unbilled receivables represent an estimate of revenue earned but not billed between the time that meters are last read in June and the last day of the fiscal year which is June 30.

Inventory

Inventories consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost and are recorded as an expense at the time individual items are used.

Capital Assets

Property, plant and equipment with useful lives of more than one year are stated at historical cost. The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method over their estimated useful lives. When assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives for depreciable assets are as follows:

<u>Asset Classification</u>	<u>Range of Lives (in years)</u>
Water intake and purification	25-45
Sewage disposal	25
Transmission mains and accessories	30-50
Buildings	25-30
Equipment and vehicles	5-10

Capitalized Interest

Interest costs are capitalized when incurred on debt where proceeds are used to finance the construction of assets.

Grants-in-Aid of Construction

Grants-in-aid of construction are accrued as qualifying expenditures are incurred. Such grants are recognized as revenue in the period earned.

Accumulated Unpaid Vacation, Sick Pay, and Other Employee Benefit Amounts

Accumulated unpaid vacation is accrued when incurred, when the amount is material (using the accrual basis of accounting). Sick pay and other employee benefit amounts are recognized only as paid.

Utility Commission, City of London, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 1 – Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Position

Net position is comprised of the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted – This component of net position consists of restricted assets less liabilities and deferred inflows of resources related to those assets. Restricted assets are those with limits on their use that are externally imposed constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net amounts of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or the restricted components of net position.

The Commission would typically use restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Pensions and Other Post Employment Benefits

For purposes of measuring net pension liability, net OPEB liability, 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/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. The plan's financial statements are prepared using the accrual basis of accounting and are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) that apply to governmental accounting for fiduciary funds. Investments are reported at fair value.

Utility Commission, City of London, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 2 – Kentucky Revised Statute

At June 30, 2021, all of the total bank balances of \$7,651,169 of the Commission were covered by federal depository insurance and securities pledged as collateral on behalf of the Commission. In accordance with Kentucky Revised Statute (KRS) 66.480, the deposits are to be insured by the Federal Depository Insurance Corporation or collateralized to the extent uninsured by any obligations permitted by KRS 41.240(4). According to KRS 41.240(4), the financial institution shall either pledge or provide as collateral securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. According to KRS 66.480, the Commission is allowed to invest in obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, interest bearing deposits of insured savings and loans, or interest bearing deposits of insured national or state banks.

Note 3 – Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. The Commission does not have a deposit policy for custodial credit risk. As of June 30, 2021, \$7,151,169 of the Commission's bank balances of \$7,651,169 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ -
Uninsured and collateral held by pledging bank	7,151,169
Uninsured and collateral held by pledging bank's trust department not in the Commission's name	-
Total	<u>\$ 7,151,169</u>

Utility Commission, City of London, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 4 – Capital Assets

The following is a summary of capital asset transactions for the year ended June 30, 2021:

	- Balance June 30, 2020	Additions	Dispositions	Balance June 30, 2021
Historical Cost				
Land and land rights	\$ 1,242,888	\$ -	\$ -	\$ 1,242,888
Sewage collection and disposal	38,697,917	149,140	-	38,847,057
Water transmission mains and accessories	8,430,936	474,916	-	8,905,852
Source of supply structures	1,608,482	-	-	1,608,482
Purification structures and improvements	7,151,978	8,693	-	7,160,671
Office buildings	2,404,806	63,617	-	2,468,423
Equipment	1,641,979	81,561	18,540	1,705,000
Radio meters	880,140	35,544	-	915,684
SCADA upgrade	122,313	-	-	122,313
Construction in process	549,955	720,400	128,350	1,142,005
Total at Historical Cost	<u>62,731,394</u>	<u>1,533,871</u>	<u>146,890</u>	<u>64,118,375</u>
Less: Accumulated Depreciation				
Land and land rights	-	-	-	-
Sewage collection and disposal	21,387,571	1,219,297	-	22,606,868
Water transmission mains and accessories	6,049,413	128,883	-	6,178,296
Source of supply structures	1,293,005	37,825	-	1,330,830
Purification structures and improvements	5,576,782	263,669	-	5,840,451
Office buildings	812,160	55,005	-	867,165
Equipment	1,315,365	89,452	18,540	1,386,277
Radio meters	447,155	90,087	-	537,242
SCADA upgrade	22,342	6,116	-	28,458
Construction in process	-	-	-	-
Total Accumulated Depreciation	<u>36,903,793</u>	<u>1,890,334</u>	<u>18,540</u>	<u>38,775,587</u>
Capital Assets - Net	<u>\$ 25,827,601</u>	<u>\$ (356,463)</u>	<u>\$ 128,350</u>	<u>\$ 25,342,788</u>

Note 5 – Restricted Assets

During the fiscal year ended June 30, 2002, the Commission fully funded an equipment replacement reserve account in the amount of \$675,000. The reserve account relates to the financing of construction of a waste water treatment plant. The \$675,000 reserve account must be maintained for the life of the loan, which matures in the year 2024. During the fiscal year ended June 30, 2017, the Commission began funding a replacement reserve account in the amount of \$10,900 per year (\$54,500 required as of June 30, 2021) until the total reserve reaches \$109,000. This reserve account relates to the financing of a sanitary sewer relocation project and must be maintained for the life of the loan, which matures in the year 2036. Both reserves are required by the Kentucky Division of Water and Kentucky Infrastructure Authority. The total balance of the reserve account at June 30, 2021 was \$796,794.

Utility Commission, City of London, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 6 –Notes Payable

The following is a summary of long-term debt activity for the year ended June 30, 2021:

	<u>Balance June 30, 2020</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2021</u>	<u>Due Within One Year</u>
Loan payable to Kentucky Infrastructure Authority, principal, interest (at the rate of 0.75%), and servicing fee (at the rate of 0.20%) payable on a semi-annual basis with final payment due June 1, 2036	\$ 3,252,356	\$ -	\$ (192,076)	\$ 3,060,280	\$ 193,519
Loan payable to Kentucky Infrastructure Authority, principal, interest (at the rate of 1%), and servicing fee (at the rate of 0.20%) payable on a semi-annual basis with final payment due June 1, 2024	<u>2,133,394</u>	<u>-</u>	<u>(525,395)</u>	<u>1,607,999</u>	<u>530,662</u>
	<u>\$ 5,385,750</u>	<u>\$ -</u>	<u>\$ (717,471)</u>	<u>\$ 4,668,279</u>	<u>\$ 724,181</u>

Future revenues through 2024 from water and sewer operations approximating \$5,000,000 are pledged as collateral on the loans payable to the Kentucky Infrastructure Authority. Annual principal and interest payments on the notes are expected to require approximately 15 percent of water and sewer revenues.

The aggregate annual debt service requirements on long-term debt are summarized as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest and Servicing Fee</u>	<u>Total</u>
2022	\$ 724,181	\$ 46,325	\$ 770,506
2023	730,955	38,098	769,053
2024	737,793	29,795	767,588
2025	197,914	23,050	220,964
2026	199,401	21,165	220,566
2027-2031	1,019,707	77,072	1,096,779
2032-2036	1,058,328	27,812	1,086,140
	<u>\$ 4,668,279</u>	<u>\$ 263,317</u>	<u>\$ 4,931,596</u>

Utility Commission, City of London, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 7 – Transactions and Balances with Primary Government

Transactions and balances between the City of London, Kentucky, the primary government, and the Utility Commission at June 30, 2021 and for the year then ended are as follows:

Accounts payable to the City of London for sanitation collections	\$ 432,455
Payments made to the City of London for sanitation collections	\$ 3,169,769
Accounts payable to the City of London for employee health insurance reimbursements	\$ -
Payments made to the City of London for employee health insurance reimbursements	\$ 596,499

Note 8 – Retirement Plan

The Utility Commission is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees of Kentucky Retirement Systems administers CERS, in accordance with the provisions of Kentucky Revised Statute Sections 16.555, 61.570, and 78.630. The assets of the system are segregated by plan (KERS, CERS, and SPRS), where each system's assets are used only for the payment of benefits to the members of that plan, and a pro rata share of administrative costs. The plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be downloaded from the Kentucky Retirement Systems website or may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description

CERS is a cost sharing, multiple-employer, defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous and hazardous duty positions of each participating state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate in the System.

Benefits Provided

The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the Plan documents. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

Contributions

Funding for the plan is provided through payroll withholdings and contributions by the Utility Commission. All employees meeting the requirements for membership are required to contribute a percentage of their gross wages. For the year ended June 30, 2021, plan members in non-hazardous positions were required to contribute 5% of the employee's total compensation subject to contribution. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565, normal contribution and past service contribution rates shall be determined by the Kentucky Retirement Systems Board of Trustees on the basis of the annual actuarial valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of July 1 of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements in accordance with the actuarial basis adopted by the Board. The Utility Commission's required contribution rate for the year ended June 30, 2021 was 24.06% of each employee's wages, as actuarially determined and adopted by the Kentucky Retirement Systems Board of Trustees. Administrative costs of the Kentucky Retirement System are financed through employer contributions and investment earnings.

Utility Commission, City of London, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 8 – Retirement Plan (Continued)

Plan members who began participating on or after January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. A Cash Balance Plan resembles a defined contribution plan because it determines the value of benefits for each participant based on individual accounts. However, the assets of the plan remain in a single investment pool like a traditional defined benefit plan. A Cash Balance Plan resembles a defined benefit plan since it uses a specific formula to determine benefits. Members and employers contribute specified percentages of the member's wages each month to the member's account. Non-hazardous plan members are required to contribute 5% of wages to their individual account. All members are required to contribute 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. Each month, when employer contributions are received, an Employer Pay Credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% Employer Pay Credit. The Employer Pay Credit represents a portion of the employer contribution. The account earns a guaranteed amount of interest, 4% on both the member contributions and the Employer Pay Credit Balance, at the end of each fiscal year. If the member contributed to the plan during the fiscal year, there may be additional interest credit added to the members' account depending on Kentucky Retirement Systems' investment returns. This "upside" interest sharing is based on the 5-year average geometric investment return. If it exceeds 4%, the member's account will be credited with 75% of the amount of the returns over 4% on the account balance as of June 30 of the previous year. For the year ended June 30, 2019, the interest earned on CERS non-hazardous plans was 5.13%.

The Utility Commission's total payroll for the years ended June 30, 2021, 2020, and 2019 totaled \$1,493,554, \$1,420,337, and \$1,357,538, respectively, of which \$1,453,057, \$1,381,673, and \$1,323,175, respectively, was covered by CERS. The Utility Commission's contribution requirements for CERS for the years ended June 30, 2021, 2020, and 2019 were \$350,836 (\$280,440 allocated to the CERS pension fund and \$70,396 allocated to the CERS insurance fund), \$332,430 (\$266,663 allocated to the CERS pension fund and \$65,767 allocated to the CERS insurance fund), and \$284,218 (\$214,619 allocated to the CERS pension fund and \$69,599 allocated to the CERS insurance fund), respectively. The Utility Commission contributed 100% of their required contributions for the years ended June 30, 2021, 2020, and 2019.

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

At June 30, 2021 the Utility Commission reported a liability of \$4,137,153 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date. The Utility Commission's proportion of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plan relative to the projected contributions of all participating plan members, as actuarially determined. At the June 30, 2020 measurement date, the Utility Commission's proportion was 0.05246 percent.

For financial reporting, the actuarial valuation as of June 30, 2020, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2019. However, during the 2019 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

Utility Commission, City of London, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 8 – Retirement Plan (Continued)

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

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, 2020 is determined using these updated benefit provisions. The actuarial assumptions are:

Inflation	2.30%
Payroll Growth Rate	2.00%
Salary Increase	3.30% to 10.30%, varies by service for CERS non-hazardous
Investment Rate of Return	6.25% for CERS non-hazardous and hazardous

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

House Bill 1 passed during the 2019 Special Legislative Session allows certain employers in the KERS Non-hazardous plan to elect to cease participating in the System as of June 30, 2020. Since each employer's election was unknown at the time of the valuation, and the legislation was enacted after the June 30, 2020 measurement date, no adjustments were made to the Total Pension Liability to reflect this legislation. There were no other plan provision changes.

The Utility Commission recognized pension expense of \$582,052 for the year ended June 30, 2021. At June 30, 2021, the Utility Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 103,168	\$ -
Changes of assumptions	161,549	-
Net difference between projected and actual earnings on pension plan investments	103,527	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	70,530	126,561
Employer contributions subsequent to the measurement date	280,440	-
Total	<u>\$ 719,214</u>	<u>\$ 126,561</u>

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period. Deferred outflows and inflows related to experience gains/losses, the impact of changes in actuarial assumptions, changes in the employer's proportionate share of net pension liability, and differences between employer contributions and the proportionate share of contributions are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year.

Utility Commission, City of London, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 8 – Retirement Plan (Continued)

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

The \$280,440 reported as deferred outflows of resources related to pensions resulting from the Utility Commission's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:		
2022	\$	106,574
2023		109,360
2024		54,701
2025		41,578
2026		-
Thereafter		-
	<u>\$</u>	<u>312,213</u>

Actuarial Assumptions

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for the fiscal year ending June 30, 2020:

Valuation Date	June 30, 2017
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of payroll
Remaining Amortization Period	25 years, closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 10.30%, varies by service, for CERS non-hazardous
Investment Rate of Return	6.25%

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

Utility Commission, City of London, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 8 – Retirement Plan (Continued)

Actuarial Assumptions (Continued)

The long-term expected rate of return was determined by using the building-block method in which best-estimate ranges of expected future real rates of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target allocation percentage. The target 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
Growth	62.50%	
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%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that the local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

Sensitivity of the Commission's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Utility Commission's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the Commission's proportionate share 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%)
Commission's proportionate share of net pension liability	\$ 5,102,048	\$ 4,137,153	\$ 3,338,240

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report.

Utility Commission, City of London, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 8 – Retirement Plan (Continued)

Payable to the Pension Plan

At June 30, 2021, the Commission reported a payable of \$31,409 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2021. The payable includes the pension and insurance contribution allocations as well as contributions withheld from employees.

Additional Retirement Plan

The Commission also offers employees the option to participate in a defined contribution plan under section 401(k) and 457 of the Internal Revenue Code. All employees are eligible to participate and may contribute up to the maximum allowable by law. The Commission does not contribute to this plan.

Note 9 – OPEB Plan

As a participating employer of the County Employees' Retirement System (CERS), the Utility Commission also participates in the Kentucky Retirement Systems Insurance Fund (Insurance Fund). Under the provisions of Kentucky Revised Statute Sections 61.645 and 61.701, the Board of Trustees of Kentucky Retirement Systems administers the Kentucky Retirement Systems Insurance Fund (KERS), County Employees Retirement System Insurance Fund (CERS), and State Police Retirement System Insurance Fund (SPRS). 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 Kentucky Retirement Systems (KERS, CERS, and SPRS). The assets of the Insurance Fund are also segregated by plan. The plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be downloaded from the Kentucky Retirement Systems website or may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description

CERS Insurance Fund is a cost sharing, multiple-employer, defined benefit Other Postemployment Benefits (OPEB) plan that covers substantially all regular full-time members employed in non-hazardous and hazardous duty positions of each participating state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate in the System.

Plan Membership

The net OPEB liability was calculated based on the Insurance plan membership as of June 30, 2019:

Membership Status	<u>Non-Hazardous</u>
Inactive plan members currently receiving benefits	36,371
Inactive plan members entitled to but not yet receiving benefits	29,362
Active plan members	81,147
	<u>146,880</u>

Utility Commission, City of London, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 9 – OPEB Plan (Continued)

Benefits Provided

The Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. Kentucky Retirement Systems submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays a proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. The amount of contribution paid by the Insurance Fund is based on years of service. Additional details can be found in the publicly available Kentucky Retirement Systems Comprehensive Annual Financial Report (CAFR) which may be downloaded from the Kentucky Retirement Systems website.

Contributions

Funding for the plan is provided through payroll withholdings and contributions by the Utility Commission. See Note 8 for a description of the Utility Commission's covered payroll and contribution requirements as well as the breakdown of contributions between the pension and insurance funds.

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

At June 30, 2021 the Utility Commission reported a liability of \$1,302,125 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate net OPEB liability was determined by an actuarial valuation as of that date. The Utility Commission's proportion of the net OPEB liability was based on a projection of the Commission's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating plan members, as actuarially determined. At the June 30, 2020 measurement date, the Utility Commission's proportion was 0.05392 percent.

For financial reporting the actuarial valuation as of June 30, 2020 was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2020, were based on an actuarial valuation date of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2019 (other than the blended discount rate used to calculate the total OPEB liability). 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, as described previously in Note 8. The total OPEB liability as of June 30, 2020 is determined using these updated assumptions.

Utility Commission, City of London, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 9 – OPEB Plan (Continued)

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

The following actuarial assumptions were used in performing the actuarial valuation as of June 30, 2019:

Inflation	2.30%
Payroll Growth Rate	2.00% for CERS non-hazardous and hazardous
Salary Increases	3.30% to 10.30%, varies by service for CERS non-hazardous
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post - 65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.
Mortality	
Pre-retirement	PUB-2010 General Mortality table, for the Non-Hazardous Systems, and the PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
Post-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

House Bill 1 passed during the 2019 Special Legislative Session allows certain employers in the KERS Non-hazardous plan to elect to cease participating in the System as of June 30, 2020. Since each employer's election was unknown at the time of the valuation, and the legislation was enacted after June 30, 2020 measurement date, no adjustments were made to the Total Pension Liability to reflect this legislation. There were no other plan provision changes.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rates of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class are the same as those adopted for the CERS Pension Plan and are summarized in the table in Note 8.

Utility Commission, City of London, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 9 – OPEB Plan (Continued)

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

The Utility Commission recognized OPEB expense of \$159,962 for the year ended June 30, 2021. At June 30, 2021, the Utility Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 217,558	\$ 217,728
Changes of assumptions	226,493	1,377
Net difference between projected and actual earnings on OPEB plan investments	43,279	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	17,776	83,566
Employer contributions subsequent to the measurement date	65,758	-
Total	\$ 570,864	\$ 302,671

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period. Deferred outflows and inflows related to experience gains/losses, the impact of changes in actuarial assumptions, changes in the employer's proportionate share of net OPEB liability, and differences between employer contributions and the proportionate share of contributions are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year.

The \$65,758 reported as deferred outflows of resources related to OPEB resulting from the Utility Commission's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources related to pensions will be recognized in OPEB expense as follows:

Year Ended June 30:		
2022	\$	55,289
2023		68,097
2024		43,382
2025		43,703
2026		(8,036)
Thereafter		-
	\$	202,435

Utility Commission, City of London, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 9 – OPEB Plan (Continued)

Investment Policy

Kentucky Revised Statute 61.650 grants the responsibility for the investment of plan assets to the Kentucky Retirement System Board. The Board has established an Investment Committee which is specifically charged with oversight and investment of plan assets. The Investment Committee recognizes their duty to invest the funds in accordance with the "Prudent Person Rule" (set forth in Kentucky Revised Statute 61.650) and manage those funds consistent with the long-term nature of the systems. The Investment Committee has adopted a Statement of Investment Policy that contains guidelines and restrictions for deposits and investments. By statute, all investments are to be registered and held in the name of Kentucky Retirement Systems. The Statement of Investment Policy contains the specific guidelines for the investment of Pension and Insurance assets. The target allocation and best estimates of arithmetic real rates of return for each major asset class adopted by the Kentucky Retirement System Board for the Insurance Plan are the same as those adopted for the CERS Pension Plan (See Note 8).

Net OPEB Liability

The components of the net OPEB liability of the participating employers in the CERS Non-Hazardous System and the Utility Commission's proportionate share at June 30, 2020 were as follows:

	Total CERS Non-Hazardous System	Utility Commission's Proportionate Share
Total OPEB liability	\$ 4,996,309,000	\$ 2,694,010
Plan fiduciary net position	(2,581,613,000)	(1,391,885)
Employers' Net OPEB Liability	\$ 2,414,696,000	\$ 1,302,125
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	51.67%	51.67%

Utility Commission, City of London, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 9 – OPEB Plan (Continued)

Actuarial Methods and Assumptions

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for the fiscal year ending June 30, 2020:

Valuation Date	June 30, 2019
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	26 years, closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increases	3.30% to 11.55%, varies by service for CERS non-hazardous
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post - 65	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018 for CERS non-hazardous and hazardous

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

Discount Rate

The discount rate used to measure the total OPEB liability was 5.34 percent. The projection of cash flows used to determine the discount rate assumed that the local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25% and a municipal bond rate of 3.13%, as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2019. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Utility Commission, City of London, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 9 – OPEB Plan (Continued)

Sensitivity of the Commission's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Utility Commission's proportionate share of the net OPEB liability calculated using the discount rate of 5.34 percent, as well as what the Commission's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.34 percent) or 1-percentage-point higher (6.34 percent) than the current rate:

	1% Decrease (4.34%)	Current Discount Rate (5.34%)	1% Increase (6.34%)
Commission's proportionate share of net OPEB liability	\$ 1,672,832	\$ 1,302,125	\$ 997,628

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

The following presents the Utility Commission's proportionate share of the net OPEB liability calculated using the healthcare cost trend rate, as well as what the Commission's proportionate share of the 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:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 1,008,160	\$ 1,302,125	\$ 1,658,830

Note 10 – Risk Management

The Utility Commission is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the Utility Commission carries commercial insurance. There have been no significant reductions in coverage for the year and settlements have not exceeded coverage in the past three years.

Utility Commission, City of London, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 11 – Subsequent Events

The world-wide outbreak of COVID-19 is having a major impact on the normal business activities in the United States and the state of Kentucky. Measures taken by various entities to contain the virus have effected economic activity. Management has taken several measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for our employees and customers and securing the supply of materials that are essential to operations. The Commission will continue to follow the various government policies and advice and will do its utmost to continue operations in the best and safest way possible without jeopardizing the health of its employees and customers. The Commission has not yet determined the impact, if any, that the COVID-19 outbreak will have on its net position, results of operations and cash flows.

Management has evaluated subsequent events through December 13, 2021, the date on which the financial statements were available to be issued.

Utility Commission, City of London, Kentucky
Schedule of Operating Revenues
For the Year Ended June 30, 2021

Operating Revenues:

Water Services	
Residential sales	\$ 1,074,729
Commercial sales	919,374
Miscellaneous	56,594
Total Water Services	<u>2,050,697</u>
Sewer Services	
Service fees	4,572,984
Miscellaneous	92,110
Total Sewer Services	<u>4,665,094</u>
Total Operating Revenues	<u>\$ 6,715,791</u>

Utility Commission, City of London, Kentucky
 Schedule of Operating Expenses - Water
 For the Year Ended June 30, 2021

Operating Expenses - Water

Transmission and Distribution	
Labor and maintenance	\$ 433,562
Depreciation	95,202
Supplies and other expenses	22,286
Total Transmisison and Distribution	<u>551,050</u>
Purification	
Labor and maintenance	331,623
Depreciation	235,502
Supplies and other expenses	165,805
Total Purification	<u>732,930</u>
Source of Supply	
Labor and maintenance	3,135
Depreciation	35,088
Total Source of Supply	<u>38,223</u>
Power and Pumping	
Supplies and other expenses	129,891
Total Power and Pumping	<u>129,891</u>
General and Administrative	
Labor and maintenance	556,876
Depreciation	209,535
Supplies and other expenses	632,434
Total General and Administrative	<u>1,398,845</u>
Total Operating Expenses - Water	<u><u>\$ 2,850,939</u></u>

Utility Commission, City of London, Kentucky
Schedule of Operating Expenses - Sewer
For the Year Ended June 30, 2021

Operating Expenses - Sewer

Collection	
Labor and maintenance	\$ 311,960
Depreciation	973,999
Supplies and other expenses	12,390
Total Collection	<u>1,298,349</u>
Treatment and Disposal	
Labor and maintenance	551,483
Depreciation	131,475
Supplies and other expenses	466,548
Total Treatment and Disposal	<u>1,149,506</u>
Power and Pumping	
Labor and maintenance	23,744
Supplies and other expenses	122,193
Total Power and Pumping	<u>145,937</u>
General and Administrative	
Labor and maintenance	478,237
Depreciation	209,535
Supplies and other expenses	562,861
Total General and Administrative	<u>1,250,633</u>
Total Operating Expenses - Sewer	<u>\$ 3,844,425</u>

Utility Commission, City of London, Kentucky
 Schedule of Debt Service
 June 30, 2021

Kentucky Infrastructure Authority
 Loan Number AO2-09

Fiscal Year Ending June 30	Principal Payment Due on		% Interest Rate	Interest Payment Due During Fiscal Year		% Servicing Fee	Servicing Fee Due During Fiscal Year		Fiscal Year Payment Totals
	December 1	June 1		December 1	June 1		December 1	June 1	
2022	\$ 264,669	\$ 265,993	1.00	\$ 8,040	\$ 6,717	0.20	\$ 1,608	\$ 1,343	\$ 548,370
2023	267,323	268,659	1.00	5,387	4,050	0.20	1,077	810	547,306
2024	270,003	271,352	1.00	2,707	1,357	0.20	541	271	546,231
	<u>\$ 801,995</u>	<u>\$ 806,004</u>		<u>\$ 16,134</u>	<u>\$ 12,124</u>		<u>\$ 3,226</u>	<u>\$ 2,424</u>	<u>\$ 1,641,907</u>

Utility Commission, City of London, Kentucky
 Schedule of Debt Service (Continued)
 June 30, 2021

Kentucky Infrastructure Authority
 Loan Number A14-010

Fiscal Year Ending June 30	Principal Payment Due on		Interest Rate %	Interest Payment Due During Fiscal Year		Servicing Fee %	Servicing Fee Due During Fiscal Year		Fiscal Year Payment Totals
	December 1	June 1		December 1	June 1		December 1	June 1	
2022	\$ 96,578	\$ 96,941	0.75	\$ 11,477	\$ 11,115	0.20	\$ 3,061	\$ 2,964	\$ 222,136
2023	97,304	97,669	0.75	10,751	10,386	0.20	2,867	2,770	221,747
2024	98,035	98,403	0.75	10,020	9,653	0.20	2,672	2,574	221,357
2025	98,772	99,142	0.75	9,284	8,913	0.20	2,476	2,377	220,964
2026	99,514	99,887	0.75	8,541	8,168	0.20	2,278	2,178	220,566
2027	100,262	100,638	0.75	7,794	7,418	0.20	2,078	1,978	220,168
2028	101,015	101,394	0.75	7,040	6,661	0.20	1,877	1,776	219,763
2029	101,774	102,156	0.75	6,281	5,900	0.20	1,675	1,573	219,359
2030	102,539	102,923	0.75	5,516	5,132	0.20	1,471	1,369	218,950
2031	103,309	103,697	0.75	4,746	4,359	0.20	1,266	1,162	218,539
2032	104,086	104,476	0.75	3,970	3,579	0.20	1,059	955	218,125
2033	104,868	105,261	0.75	3,188	2,794	0.20	850	745	217,706
2034	105,656	106,052	0.75	2,400	2,003	0.20	640	534	217,285
2035	106,450	106,849	0.75	1,606	1,207	0.20	428	322	216,862
2036	107,250	107,380	0.75	806	404	0.20	215	108	216,163
	<u>\$ 1,527,412</u>	<u>\$ 1,532,868</u>		<u>\$ 93,420</u>	<u>\$ 87,692</u>		<u>\$ 24,913</u>	<u>\$ 23,385</u>	<u>\$ 3,289,690</u>

Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the Commissioners
Utility Commission
City of London, 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 Utility Commission, City of London, Kentucky, (the Commission) as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise the Utility Commission, City of London's basic financial statements, and have issued our report thereon dated December 13, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Utility Commission, City of London'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 Utility Commission, City of London's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, that we consider to be material weaknesses (See items 2021-1 and 2021-2).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility Commission, City of London's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Utility Commission, City of London, Kentucky's Response to Findings

The Utility Commission, City of London's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Utility Commission, City of London's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part on 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.

Abner & Cox, PLLC

Abner & Cox, PLLC
London, Kentucky

December 13, 2021

Utility Commission, City of London, Kentucky
Schedule of Findings and Responses
June 30, 2021

A. Findings – Financial Statement Audit

2021-1

Criteria:

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:

During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:

The Commission's limited internal resources prevent the preparation of financial statements and related note disclosures in accordance with generally accepted accounting principles.

Effect:

The Commission was unable to prepare their financial statements and related note disclosures in accordance with generally accepted accounting principles.

Views of responsible officials and planned corrective actions:

We are aware that we have limited resources which prevent the preparation of financial statements and related note disclosures in accordance with generally accepted accounting principles. It is due to these limited resources that we cannot have additional personnel or seek the assistance of outside accounting firms to assist with this process.

2021-2

Criteria:

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:

During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:

There is not appropriate segregation of duties in the areas of accounts receivable, cash receipts, and general ledger and subsidiary maintenance. Those individuals charged with maintaining the accounts receivable ledgers for utility services also have the duties to approve and record customer adjustments and credit memos and are in charge of collecting payments, both mail in and over the counter, without mitigating controls in place. Those individuals charged with maintaining the accounts receivable subsidiary ledgers also have the duties to maintain and update the accounts receivable general ledger accounts without mitigating controls in place.

Effect:

This condition could provide an opportunity for misappropriation of funds and concealment of such activity.

Utility Commission, City of London, Kentucky
Schedule of Findings and Responses (Continued)
June 30, 2021

2021-2 (Continued)

Views of responsible officials and planned corrective actions:

The Commission has limited resources that prevent being able to further segregate duties, but will consider implementing stronger internal controls to help mitigate any risk associated with the process.

Utility Commission, City of London, Kentucky
 Schedule of the Commission's Proportionate Share of the Net Pension Liability
 County Employee's Retirement System (CERS) Pension Plan
 Last Ten Fiscal Years*

	2021	2020	2019	2018	2017	2016	2015
Commission's proportion of the net pension liability (asset)	0.053940%	0.052440%	0.057802%	0.059333%	0.056333%	0.053898%	0.052539%
Commission's proportionate share of the net pension liability (asset)	\$ 4,137,153	\$ 3,689,254	\$ 3,520,318	\$ 3,472,943	\$ 2,773,641	\$ 2,317,338	\$ 1,704,551
Commission's covered-employee payroll	\$ 1,453,057	\$ 1,381,673	\$ 1,323,175	\$ 1,432,605	\$ 1,444,612	\$ 1,343,840	\$ 1,265,648
Commission's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	284.72%	267.01%	266.05%	242.42%	192.00%	172.44%	134.68%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	50.45%	53.54%	53.32%	55.50%	59.97%	66.80%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size or composition of the population covered by the benefit terms since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten year trend is compiled, the Commission will present information for those years for which information is available.

* The amounts presented for each fiscal year were determined (measured) as of the previous fiscal year.

See independent auditors' report.

Utility Commission, City of London, Kentucky
 Schedule of the Commission's Proportionate Share of the Net OPEB Liability
 County Employee's Retirement System (CERS) OPEB Plan
 Last Ten Fiscal Years*

	2021	2020	2019	2018	2017
Commission's proportion of the net OPEB liability	0.053920%	0.052440%	0.057802%	0.059333%	0.059333%
Commission's proportionate share of the total OPEB liability	\$ 2,694,010	\$ 2,227,768	\$ 2,421,550	\$ 2,505,557	\$ 2,090,317
Commission's proportionate share of the plan fiduciary net position	<u>(1,391,885)</u>	<u>(1,345,700)</u>	<u>(1,395,340)</u>	<u>(1,312,761)</u>	<u>(1,154,723)</u>
Commission's proportionate share of the net OPEB liability	\$ 1,302,125	\$ 882,068	\$ 1,026,210	\$ 1,192,796	\$ 935,594
Plan fiduciary net position as a percentage of the total OPEB liability	51.67%	60.44%	57.62%	52.39%	55.24%
Commission's covered-employee payroll	\$ 1,453,057	\$ 1,381,673	\$ 1,323,175	\$ 1,432,605	\$ 1,444,612
Commission's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	89.61%	63.84%	77.56%	83.26%	64.76%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size or composition of the population covered by the benefit terms since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten year trend is compiled, the Commission will present information for those years for which information is available.

* The amounts presented for each fiscal year were determined (measured) as of the previous fiscal year.

See independent auditors' report.

Utility Commission, City of London, Kentucky
 Schedule of the Commission's Pension Contributions
 County Employee's Retirement System (CERS) Pension Plan
 Last Ten Fiscal Years*

	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 280,440	\$ 266,663	\$ 214,619	\$ 207,441	\$ 201,523	\$ 166,905	\$ 161,370
Contributions in relation to the contractually required contribution	(280,440)	(266,663)	(214,619)	(207,441)	(201,523)	(166,905)	(161,370)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commission's covered-employee payroll	\$ 1,453,057	\$ 1,381,673	\$ 1,323,175	\$ 1,432,605	\$ 1,444,612	\$ 1,343,840	\$ 1,265,648
Contributions as a percentage of covered-employee payroll	19.30%	19.30%	16.22%	14.48%	13.95%	12.42%	12.75%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size or composition of the population covered by the benefit terms since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten year trend is compiled, the Commission will present information for those years for which information is available.

* The amounts presented for each fiscal year were determined (measured) as of the previous fiscal year.

Utility Commission, City of London, Kentucky
 Schedule of the Commission's OPEB Contributions
 County Employee's Retirement System (CERS) OPEB Plan
 Last Ten Fiscal Years*

	2021	2020	2019	2018	2017
Actuarially determined contribution	\$ 69,166	\$ 65,768	\$ 69,599	\$ 67,332	\$ 68,330
Contributions in relation to the actuarially determined contribution	<u>(69,166)</u>	<u>(65,768)</u>	<u>(69,599)</u>	<u>(67,332)</u>	<u>(68,330)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Commission's covered-employee payroll	\$ 1,453,057	\$ 1,381,673	\$ 1,323,175	\$ 1,432,605	\$ 1,444,612
Contributions as a percentage of covered-employee payroll	4.76%	4.76%	5.26%	4.70%	4.73%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size or composition of the population covered by the benefit terms since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the pension fund of the CERS. The above contributions only include those contributions allocated directly to the CERS insurance fund.

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten year trend is compiled, the Commission will present information for those years for which information is available.

* The amounts presented for each fiscal year were determined (measured) as of the previous fiscal year.

See independent auditors' report.