

COVINGTON ELECTRIC SYSTEM
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR YEARS ENDED
JUNE 30, 2021 AND 2020

COVINGTON ELECTRIC SYSTEM

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**INTRODUCTORY SECTION
COVINGTON ELECTRIC SYSTEM
DIRECTORY**
June 30, 2021

GOVERNING BOARD

Keith McCalla
Mary Jones
James Baddour
Christy Hayden
CH Sullivan

MANAGEMENT TEAM

Tim Sallee, General Manager
Kathy McClinton, Comptroller

COUNSEL

David E. Owen
Covington, Tennessee

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION



Independent Auditor's Report

Board of Directors
Covington Electric System
Covington, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the major fund and the Covington Electric System Employees' 457 Plan of the Covington Electric System (the System), which are enterprise and fiduciary funds of the City of Covington, Tennessee, as of and for the years ended June 30, 2021 and 2020, and the financial statements of the Covington Electric System Employees' Retirement Plan (fiduciary fund) as of and for the years ended March 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the System'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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund and the Covington Electric System Employees' 457 Plan of the System as of June 30, 2021 and 2020, and the Covington Electric System Employees' Retirement Plan as of March 31, 2021 and 2020 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Covington Electric System funds and do not purport to, and do not, present fairly the financial position of the City of Covington, Tennessee, as of June 30, 2021 and 2020, the changes in its financial position or, where applicable, its cash flows for the years 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 Management's Discussion and Analysis, Schedules of Changes in Net Pension Liability (Asset) and Related Ratios Based on Participation in the Public Employee Pension Plan, Schedules of Contributions Based on Participation in the Public Employee Pension Plan, Schedules of Investment Returns, and the Notes to the Required Supplementary Information as listed in the Table of Contents 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 audits 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.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The introductory section and supplementary and other information section as listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary and other information section as listed in the Table of Contents, except that which has been marked unaudited, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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 supplementary and other information section as listed in the Table of Contents except that which is

marked unaudited is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and the supplementary and other information marked unaudited have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Governmental Auditing Standards*, we have also issued our report dated September 21, 2021 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report solely 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 System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Jackson, Tennessee
September 21, 2021

MANAGEMENT DISCUSSION AND ANALYSIS

As management of the Covington Electric System, we offer readers of the System's financial statements this narrative overview and analysis of the financial activities of the System for the fiscal years ended June 30, 2021 and 2020. All amounts, unless otherwise indicated, are expressed in actual dollars.

FINANCIAL HIGHLIGHTS

Management believes the System's financial condition is strong. The System is well within the stringent financial policies and guidelines set by the Board and management. The following are combined key financial highlights for the Electric System.

- Total assets and deferred outflows of resources at year-end were \$23.57 million and exceeded liabilities and deferred inflows of resources in the amount of \$17.65 million (i.e. net position).
- Net position increased \$166 thousand during the current year. Unrestricted net position decreased by \$539 thousand, net investment in capital assets decreased by \$381 thousand, and restricted for debt service and pension increased by \$1.09 million.
- During fiscal year 2021, the System delivered 238.66 million kWh compared to 238.37 million kWh during the fiscal year 2020.
- Operating revenues were \$19.95 million, a decrease from fiscal year 2020 in the amount of \$491 thousand.
- Operating expenses were \$19.40 million, a decrease from fiscal year 2020 in the amount of \$430 thousand.
- The operating income for the year was \$545 thousand as compared to \$606 thousand operating income during the 2020 fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the System's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the System's strategic plan, budget, bond resolutions and other management tools were used for this analysis. The Financial Statements and Supplementary Information is made up of four sections: 1) the introductory section, 2) the financial section, 3) the supplementary and other information section, and 4) the internal control and compliance section. The introductory section includes the System's directory. The financial section includes the required MD&A, the independent auditor's report, the financial statements with accompanying notes, and the required supplementary information. The supplementary and other information section includes selected financial and operational information. The internal control and compliance section includes the report on internal control and compliance. These sections make up the financial report presented here.

REQUIRED FINANCIAL STATEMENTS

An Enterprise Fund is used to account for the operations of the System, which is financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges. The financial statements report information about the System, using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities.

A Fiduciary Fund is used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support Covington Electric System's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

MANAGEMENT DISCUSSION AND ANALYSIS

Covington Electric System maintains two types of fiduciary funds. The pension trust fund is used to report resources held for retirees and beneficiaries covered by the defined benefit plan. They also report a deferred compensation trust plan that allows employees to contribute a portion of their salary toward the plan.

The fiduciary funds financial statements can be found as listed in the table of contents.

The *Statement of Net Position* presents the financial position of the System on a full accrual historical cost basis. The statement includes all of the System's assets, liabilities, and deferred inflows/outflows of resources with the differences reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the System is improving or deteriorating.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the System's operations and can be used to determine whether the System has successfully recovered all of its costs. This statement also measures the System's profitability and credit worthiness.

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

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

FINANCIAL ANALYSIS

One of the most important questions asked about the System's finances is "Is the System, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the System's activities in a way that will help answer this question. These two statements report the net position of the System, and the changes in the net position. Net position is one way to measure the financial health or financial position of the System. Over time, increases or decreases in the System's net position is an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

The System's total net position increased by \$166 thousand for the fiscal year ended June 30, 2021 and increased \$241 thousand for the fiscal year ended June 30, 2020. The analysis below focuses on the System's net position (Tables 1A and 1B) and changes in net position during the year (Tables 2A and 2B).

MANAGEMENT DISCUSSION AND ANALYSIS

Table 1A
CONDENSED STATEMENT OF NET POSITION

	June 30, 2021	June 30, 2020	Increase (Decrease)	
			\$	%
Assets				
Current and other assets	\$ 12,143,260	\$ 10,292,284	\$ 1,850,976	17.98%
Capital assets	11,270,181	11,784,939	(514,758)	-4.37%
Total assets	<u>23,413,441</u>	<u>22,077,223</u>	<u>1,336,218</u>	6.05%
Deferred outflows of resources	<u>160,590</u>	<u>603,367</u>	<u>(442,777)</u>	-73.38%
Liabilities				
Long-term liabilities	395,198	524,167	(128,969)	-24.60%
Other liabilities	4,606,346	4,335,963	270,383	6.24%
Total liabilities	<u>5,001,544</u>	<u>4,860,130</u>	<u>141,414</u>	2.91%
Deferred inflows of resources	<u>924,410</u>	<u>338,268</u>	<u>586,142</u>	173.28%
Net Position				
Net investment in capital assets	10,832,794	11,213,977	(381,183)	-3.40%
Restricted for debt service and pension	1,765,765	680,067	1,085,698	159.65%
Unrestricted	5,049,518	5,588,148	(538,630)	-9.64%
Total net position	<u>\$ 17,648,077</u>	<u>\$ 17,482,192</u>	<u>\$ 165,885</u>	0.95%

Table 1B
CONDENSED STATEMENT OF NET POSITION

	June 30, 2020	June 30, 2019	Increase (Decrease)	
			\$	%
Assets				
Current and other assets	\$ 10,292,284	\$ 10,471,238	\$ (178,954)	-1.71%
Capital assets	11,784,939	12,278,735	(493,796)	-4.02%
Total assets	<u>22,077,223</u>	<u>22,749,973</u>	<u>(672,750)</u>	-2.96%
Deferred outflows of resources	<u>603,367</u>	<u>177,008</u>	<u>426,359</u>	240.87%
Liabilities				
Long-term liabilities	524,167	649,799	(125,632)	-19.33%
Other liabilities	4,335,963	4,672,503	(336,540)	-7.20%
Total liabilities	<u>4,860,130</u>	<u>5,322,302</u>	<u>(462,172)</u>	-8.68%
Deferred inflows of resources	<u>338,268</u>	<u>363,797</u>	<u>(25,529)</u>	-7.02%
Net Position				
Net investment in capital assets	11,213,977	11,579,198	(365,221)	-3.15%
Restricted for debt service	680,067	1,289,324	(609,257)	-47.25%
Unrestricted	5,588,148	4,372,360	1,215,788	27.81%
Total net position	<u>\$ 17,482,192</u>	<u>\$ 17,240,882</u>	<u>\$ 241,310</u>	1.40%

MANAGEMENT DISCUSSION AND ANALYSIS

Over the three year period, the decrease in capital assets was primarily due to depreciation expense charged to plant. The increase in current and other assets was due to the client using existing funds in order to fund a net pension asset which increased in market value.

Changes in the System's net position can be determined by reviewing the following condensed Statement of Revenues, Expenses, and Changes in Net Position for the years.

Table 2A

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	Increase (Decrease)	
			<u>\$</u>	<u>%</u>
Revenues				
Operating revenues	\$ 19,947,474	\$ 20,438,647	\$ (491,173)	-2.40%
Non-operating revenues	13,513	38,710	(25,197)	-65.09%
Total revenues	<u>19,960,987</u>	<u>20,477,357</u>	<u>(516,370)</u>	-2.52%
Expenses				
Cost of sales and services	15,700,874	16,459,701	(758,827)	-4.61%
Operations expense	1,788,949	1,906,350	(117,401)	-6.16%
Maintenance expense	1,032,641	585,657	446,984	76.32%
Depreciation and amortization	788,540	785,474	3,066	0.39%
Taxes	91,139	95,240	(4,101)	-4.31%
Interest and other expenses	29,323	34,420	(5,097)	-14.81%
Total expenses	<u>19,431,466</u>	<u>19,866,842</u>	<u>(435,376)</u>	-2.19%
Transfers in (out)	<u>(363,636)</u>	<u>(369,205)</u>	<u>5,569</u>	-1.51%
Change in net position	165,885	241,310	(75,425)	-31.26%
Beginning net position	<u>17,482,192</u>	<u>17,240,882</u>	<u>241,310</u>	1.40%
Ending net position	<u>\$ 17,648,077</u>	<u>\$ 17,482,192</u>	<u>\$ 165,885</u>	0.95%

MANAGEMENT DISCUSSION AND ANALYSIS

Table 2B

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	Increase (Decrease)	
			<u>\$</u>	<u>%</u>
Revenues				
Operating revenues	\$ 20,438,647	\$ 20,708,285	\$ (269,638)	-1.30%
Non-operating revenues	<u>38,710</u>	<u>73,164</u>	<u>(34,454)</u>	-47.09%
Total revenues	<u>20,477,357</u>	<u>20,781,449</u>	<u>(304,092)</u>	-1.46%
Expenses				
Cost of sales and services	16,459,701	16,952,319	(492,618)	-2.91%
Operations expense	1,906,350	2,115,258	(208,908)	-9.88%
Maintenance expense	585,657	932,303	(346,646)	-37.18%
Depreciation and amortization	785,474	732,448	53,026	7.24%
Taxes	95,240	92,271	2,969	3.22%
Interest and other expenses	<u>34,420</u>	<u>38,982</u>	<u>(4,562)</u>	-11.70%
Total expenses	<u>19,866,842</u>	<u>20,863,581</u>	<u>(996,739)</u>	-4.78%
Transfers in (out)	<u>(369,205)</u>	<u>(364,720)</u>	<u>(4,485)</u>	1.23%
Change in net position	<u>241,310</u>	<u>(446,852)</u>	<u>688,162</u>	-154.00%
Beginning net position	<u>17,240,882</u>	<u>17,687,734</u>	<u>(446,852)</u>	-2.53%
Ending net position	<u>\$ 17,482,192</u>	<u>\$ 17,240,882</u>	<u>\$ 241,310</u>	1.40%

Operating revenues showed a 2.40% decrease and a 1.30% decrease from 2020 to 2021 and 2019 to 2020. The fluctuations are due primarily to changes in rates and usage. Non-operating revenues decreased 65.09% in 2021 and decreased 47.09% in 2020, as the result of fluctuations in amounts invested and their respective interest rates on certificates of deposits and savings accounts. Total expenses decreased 2.19% in 2021 due to a decrease in cost of sales and services in relation to less purchased kilowatts through TVA. Total expenses decreased 4.78% in 2020 due to a decrease in cost of sales and services in relation to less purchased kilowatts through TVA. Ending net position showed an increase of 0.95% in 2021 and an increase of 1.40% in 2020, due to the above mentioned.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal years 2021 and 2020, the system had \$11.27 million (net of accumulated depreciation) and \$11.78 million (net of accumulated depreciation), respectively, invested in a broad range of System capital assets. This investment includes land, land rights, distribution and transmission systems and their related equipment, and various types of equipment. Based on the uses of the aforementioned assets, they are classified for financial purposes as general plant, transmission plant, distribution plant, and construction in progress. This investment represents an overall decrease of 8.21% over the three year period, due to depreciation.

The following table summarizes the System's capital assets, net of accumulated depreciation, and changes therein, for the years ended June 30, 2021 and 2020. These changes are presented in detail in Note 3D to the financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Table 3A

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	Increase (Decrease)	
			<u>\$</u>	<u>%</u>
General plant	\$ 3,999,043	\$ 4,134,135	\$ (135,092)	-3.27%
Transmission plant	627,431	711,971	(84,540)	-11.87%
Distribution plant	6,591,614	6,869,138	(277,524)	-4.04%
Unamortized acquisition adjustment	28,192	52,356	(24,164)	-46.15%
Construction in progress	23,901	17,339	6,562	37.85%
Total capital assets	\$ 11,270,181	\$ 11,784,939	\$ (514,758)	-4.37%

Table 3B

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	Increase (Decrease)	
			<u>\$</u>	<u>%</u>
General plant	\$ 4,134,135	\$ 4,310,919	\$ (176,784)	-4.10%
Transmission plant	711,971	796,545	(84,574)	-10.62%
Distribution plant	6,869,138	7,067,210	(198,072)	-2.80%
Unamortized acquisition adjustment	52,356	76,520	(24,164)	-31.58%
Construction in progress	17,339	27,541	(10,202)	-37.04%
Total capital assets	\$ 11,784,939	\$ 12,278,735	\$ (493,796)	-4.02%

Debt Administration

The System has outstanding Revenue Bonds of \$440 thousand as of June 30, 2021 and \$575 thousand as of June 30, 2020. Principal payments are due in the upcoming fiscal year in the amount of \$140,000 with interest payments totaling \$16,188 also due. Details relating to the outstanding debt can be found in Note 3G. The System also has no current plans to issue new debt or refund outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The System's electric supplier is also expected to increase rates in the next fiscal year, and this will cause the System to have to pass on the additional costs to customers. The City is actively recruiting new industries to the area to make up for past plant closures. Any new industry that comes to the area will increase the System's power sales and should help the overall financial condition of the System. The System is actively monitoring the daily impacts and changes caused by Covid-19.

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the System's finances for all those with an interest in the System's finances and to demonstrate the System's accountability for the money it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the General Manager of the Covington Electric System, P.O. Box 488, Covington, TN, 38019.

COVINGTON ELECTRIC SYSTEM
STATEMENTS OF NET POSITION
June 30, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash on hand	\$ 2,150	\$ 2,150
Cash and cash equivalents on deposit	7,626,615	7,153,183
Accounts receivable	2,087,789	1,962,727
Due from other funds - municipality	568	402
Inventories	406,440	259,876
Prepayments and other current assets	209,478	190,262
Total current assets	10,333,040	9,568,600
Noncurrent assets:		
Restricted cash, cash equivalents, and investments:		
Cash and cash equivalents on deposit	340,260	337,426
Customer's CD's held for deposit	21,167	21,068
Net pension asset	1,430,318	348,846
Total restricted assets	1,791,745	707,340
Other assets:		
Investments in associated companies	14,040	9,489
Unamortized debt expense	4,435	6,855
Total other assets	18,475	16,344
Capital assets:		
Not being depreciated		
General plant	195,885	195,885
Transmission plant	8,267	8,267
Distribution plant	16,560	16,560
Construction in progress	23,901	17,339
Being depreciated		
General plant	7,072,308	6,968,147
Transmission plant	2,161,810	2,161,810
Distribution plant	14,177,750	14,129,417
Less: Accumulated depreciation	(12,414,492)	(11,764,842)
Unamortized acquisition adjustment	28,192	52,356
Total capital assets (net of accumulated depreciation)	11,270,181	11,784,939
Total noncurrent assets	13,080,401	12,508,623
Total assets	23,413,441	22,077,223
Deferred outflows of resources:		
Pension contributions subsequent to the measurement date	25,913	47,610
Net difference between expected and actual experience	134,677	144,941
Net difference between projected and actual earnings in pension investments	-	410,816
Total deferred outflows of resources	\$ 160,590	\$ 603,367

The accompanying notes are an integral part of the financial statements.

COVINGTON ELECTRIC SYSTEM
STATEMENTS OF NET POSITION
June 30, 2021 and 2020

	2021	2020
Liabilities		
Current liabilities:		
Accounts payable	\$ 2,916,015	\$ 2,690,828
Customer deposits	1,391,505	1,357,862
Compensated absences - current portion	10,868	9,801
Accrued expenses and other liabilities	121,978	115,199
Total current liabilities	4,440,366	4,173,690
Current liabilities payable from restricted assets:		
Accrued interest payable	4,813	6,205
Consumer's deposits	21,167	21,068
Current maturities of long-term debt	140,000	135,000
Total current liabilities payable from restricted assets	165,980	162,273
Noncurrent liabilities:		
Compensated absences	97,811	88,205
Bonds payable (less current maturities)	297,387	435,962
Total noncurrent liabilities	395,198	524,167
Total liabilities	5,001,544	4,860,130
Deferred inflows of resources		
Net difference between expected and actual experience-pension	457,871	338,268
Net difference between projected and actual earnings in pension investments	466,539	-
Total deferred inflows of resources	924,410	338,268
Net Position		
Net investment in capital assets	10,832,794	11,213,977
Restricted for debt service	335,447	331,221
Restricted for pension	1,430,318	348,846
Unrestricted	5,049,518	5,588,148
Total net position	\$ 17,648,077	\$ 17,482,192

The accompanying notes are an integral part of the financial statements.

COVINGTON ELECTRIC SYSTEM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended June 30, 2021 and 2020

	2021	2020
Operating revenues:		
Charges for sales and services	\$ 19,626,249	\$ 20,156,901
Other revenue	321,225	281,746
Total operating revenues	19,947,474	20,438,647
Operating expenses:		
Cost of sales and services	15,700,874	16,459,701
Operations expense	1,788,949	1,906,350
Maintenance expense	1,032,641	585,657
Depreciation and amortization	788,540	785,474
Payroll taxes	91,139	95,240
Total operating expenses	19,402,143	19,832,422
Operating income (loss)	545,331	606,225
Nonoperating revenues (expenses):		
Interest and other revenue	13,513	32,518
Gain or loss on disposition of capital assets	(1,083)	6,192
Other expenses	(7,598)	(6,936)
Interest	(20,642)	(27,484)
Total nonoperating revenues (expenses)	(15,810)	4,290
Change in net position before transfers	529,521	610,515
Transfers in (out) - City - in lieu of taxes	(363,636)	(369,205)
Change in net position	165,885	241,310
Total net position - beginning	17,482,192	17,240,882
Total net position - ending	\$ 17,648,077	\$ 17,482,192

The accompanying notes are an integral part of the financial statements.

COVINGTON ELECTRIC SYSTEM
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash received from consumers	\$ 19,822,412	\$ 20,487,269
Cash paid to suppliers and employees	(18,496,998)	(19,212,258)
Taxes paid including payments in lieu of taxes	(91,139)	(95,240)
Transfers to the City - payment in lieu of taxes	(363,636)	(369,205)
Customer deposits received	241,122	245,084
Customer deposits refunded	(207,380)	(172,035)
Net cash provided (used) by operating activities	904,381	883,615
 Cash flows from non-capital and related financing activities:		
Increase (decrease) in advances from TVA	-	(240)
Net cash provided (used) by non-capital and related financing activities	-	(240)
 Cash flows from capital and related financing activities:		
Principal paid on debt	(135,000)	(130,000)
Unamortized debt expense	2,420	2,420
Interest paid on bonds, notes and leases	(22,034)	(27,484)
Construction and acquisition of plant	(420,550)	(480,939)
Disposal of plant	156,228	212,456
Plant removal cost	(27,089)	(29,042)
Materials salvaged from retirements	16,546	12,039
Net cash provided (used) by capital and related financing activities	(429,479)	(440,550)
 Cash flows from investing activities:		
Interest earned	13,513	32,518
Cash paid for other nonoperating expenses	(7,598)	(6,936)
(Increase) decrease in investments in associated companies	(4,551)	(2,017)
(Increase) decrease in conservation loans	-	111
Net cash provided (used) by investing activities	1,364	23,676
 Net increase (decrease) in cash and cash equivalents	476,266	466,501
 Cash and cash equivalents - beginning of year	7,492,759	7,026,258
 Cash and cash equivalents - end of year	\$ 7,969,025	\$ 7,492,759
 Cash and cash equivalents		
Unrestricted cash on hand	\$ 2,150	\$ 2,150
Unrestricted cash and cash equivalents on deposit	7,626,615	7,153,183
Restricted cash and cash equivalents on deposit	340,260	337,426
Total cash and cash equivalents	\$ 7,969,025	\$ 7,492,759

The accompanying notes are an integral part of the financial statements.

COVINGTON ELECTRIC SYSTEM
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2021 and 2020

	2021	2020
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 545,331	\$ 606,225
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	788,540	785,474
Amortization of bond discount	1,425	1,425
Pension contributions in excess of actuarially determined pension expense	(52,553)	163,506
Operating transfer in (out)	(363,636)	(369,205)
Changes in operation assets and liabilities:		
Accounts and other receivable	(125,062)	48,622
Inventories	(146,564)	(9,210)
Prepayments and CDs held for deposit	(19,315)	(9,786)
Due from other funds	(166)	(79)
Accounts payable and accrued expenses	242,639	(406,406)
Customer deposits	33,742	73,049
Net cash provided (used) by operating activities	\$ 904,381	\$ 883,615

The accompanying notes are an integral part of the financial statements.

COVINGTON ELECTRIC SYSTEM
STATEMENTS OF FIDUCIARY NET POSITION - DEFINED BENEFIT PLAN
March 31, 2021 and 2020

Assets	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 7,141	\$ 82,238
Investments		
Equity	2,706,122	1,742,166
Balanced	-	1,388
Fixed	2,088,539	1,958,754
International	1,074,483	966,315
Total investments	<u>5,869,144</u>	<u>4,668,623</u>
Net position available for benefits	5,876,285	4,750,861
Liabilities	<u>-</u>	<u>-</u>
Net position restricted for pensions	<u>\$ 5,876,285</u>	<u>\$ 4,750,861</u>

The accompanying notes are an integral part of the financial statements.

COVINGTON ELECTRIC SYSTEM
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION - DEFINED BENEFIT PLAN
 March 31, 2021 and 2020

Additions	<u>2021</u>	<u>2020</u>
Contributions		
Employer	\$ 47,610	\$ 25,130
Investment income		
Dividend income	105,894	126,003
Realized losses	50,591	12,413
Net appreciation(loss) in fair value of investments	<u>1,133,035</u>	<u>(305,067)</u>
Total investment income	<u>1,289,520</u>	<u>(166,651)</u>
Total additions	<u>1,337,130</u>	<u>(141,521)</u>
Deductions		
Benefit payments	169,086	138,477
Administrative expenses	<u>42,620</u>	<u>41,588</u>
Total deductions	<u>211,706</u>	<u>180,065</u>
Net change in fiduciary net position	1,125,424	(321,586)
Net position restricted for pensions		
Beginning of year	<u>4,750,861</u>	<u>5,072,447</u>
End of year	<u>\$ 5,876,285</u>	<u>\$ 4,750,861</u>

The accompanying notes are an integral part of the financial statements.

COVINGTON ELECTRIC SYSTEM
STATEMENTS OF FIDUCIARY NET POSITION - 457 PLAN
June 30, 2021 and 2020

Assets	<u>2021</u>	<u>2020</u>
Investments		
Equity	\$ 56,312	\$ 24,100
Balanced	722,631	443,798
Fixed	113,313	241,984
International	<u>80,411</u>	<u>42,932</u>
Total investments	<u>972,667</u>	<u>752,814</u>
 Net position available for benefits	 972,667	 752,814
 Liabilities	 <u>-</u>	 <u>-</u>
 Net position restricted for pensions	 <u>\$ 972,667</u>	 <u>\$ 752,814</u>

The accompanying notes are an integral part of the financial statements.

COVINGTON ELECTRIC SYSTEM
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION - 457 PLAN
For the Years Ended June 30, 2021 and 2020

Additions	<u>2021</u>	<u>2020</u>
Contributions		
Employer	\$ 69,211	\$ 191,914
Investment income		
Dividend income	30,230	21,341
Net appreciation in fair value of investments	<u>175,243</u>	<u>16,504</u>
Total investment income	<u>205,473</u>	<u>37,845</u>
Total additions	<u>274,684</u>	<u>229,759</u>
 Deductions		
Benefit payments	52,662	8,200
Administrative expenses	<u>2,169</u>	<u>1,148</u>
Total deductions	<u>54,831</u>	<u>9,348</u>
 Net change in fiduciary net position	 219,853	 220,411
 Net position restricted for pensions		
Beginning of year	<u>752,814</u>	<u>532,403</u>
End of year	<u>\$ 972,667</u>	<u>\$ 752,814</u>

The accompanying notes are an integral part of the financial statements.

COVINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements provide information about the government's funds; including its fiduciary funds and include only the financial activities of the Covington Electric System, Covington, Tennessee (the System). Separate statements for each fund category (enterprise and fiduciary) are presented. The oversight unit consists of the funds maintained by the Office of the City Recorder of the City of Covington, Tennessee (the City). The System is under the regulatory authority of the Tennessee Valley Authority.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The System's enterprise and pension funds are reported using the economic resources measurement focus and the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounting policies of the System conform to applicable accounting principles generally accepted in the United States of America as defined in by the *Governmental Accounting Standards Board (GASB)*.

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

Additionally, the government reports the following fiduciary funds:

The deferred compensation trust fund is used to account for assets held for employees in accordance with the provisions of Internal Revenue Service Code Section 457.

The defined benefit pension plan which accumulates the resources for pension benefit payments to qualified public safety employees. The pension trust fund reports on a March 31 year end.

C. Assets, Liabilities, and Net Position

Deposits and Investments

The System's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

COVINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

State statutes authorize the System to invest in certificates of deposit, obligations of the U. S. Treasury, agencies, instrumentalities, and obligations guaranteed as to principal and interest by the United States or any of its agencies, repurchase agreements, and the Tennessee local government investment pool.

Investments in Pension Plan

Investment policy: The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Directors by a majority vote of its members. It is the policy of the Board of Directors to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes.

Investments are stated at fair market value. The Plan's investments consist of stocks in U.S. and foreign publicly traded companies and mutual funds. Dividend income is accrued on the ex-dividend date. Purchases and sales of securities are recorded on the trade-date basis. Realized gains and losses from security transactions are reported on the average cost method.

Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the Statement of Net Position.

Trade receivables result from unpaid billings for service to customers and from unpaid billings related to work performed for or materials sold to certain entities. All trade receivables are shown at their estimated realizable amount, which does not include an allowance for uncollectible accounts. The System did not record an allowance for uncollectible customer accounts based on the past history of uncollectible accounts and management's analysis of the current accounts.

Inventories and Prepaid Items

All inventories are valued at the lower of average cost or market, using the first-in/first-out (FIFO) method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Restricted Assets

Certain proceeds of the bond issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The System elects to use restricted assets before unrestricted assets when the situation arises where either can be used.

Capital Assets

Capital assets, which include property, plant, equipment, and construction in progress, are recorded at historical cost or estimated historical cost if purchased or constructed. Capital assets are defined by the system as assets with an initial undivided cost of more than \$500 and an estimated useful life of at least 5 years. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are

COVINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the System are depreciated using the straight line method over the following useful lives:

General plant	5 - 50 years
Transmission plant	25 - 33.33 years
Distribution plant	16.66 - 36.36 years

Compensated Absences

It is the System's policy to permit employees to accumulate earned but unused vacation benefits. All vacation pay has been accrued and is reflected by current and noncurrent liabilities on the financial statements.

Long-term Obligations

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. The Utility will continue to report bond cost as an asset and amortize those over the life of the bonds instead of expensing those costs in the current year in accordance with certain provisions included in GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This regulatory option as part of GASB Statement No. 65 is available due to the above mentioned cost being used for rate setting by the utility.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The System currently has three items that qualify for reporting in this category: Pension contributions subsequent to the measurement date, net difference between expected and actual experience, and pension net difference between projected and actual earnings in pension investments.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The System has two items that qualify for reporting in this category as of June 30, 2021 the pension difference between expected and actual experience and actual earnings in pension investments.

Net Position Flow Assumption

Sometimes the System will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the System policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

COVINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

Net Position

Equity is classified as net position and displayed in the following three components:

- Net Investment in Capital Assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.
- Restricted for Debt Service – Consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates, less any related liabilities.
- Unrestricted – All other net position that does not meet the description of the above categories.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Covington Electric System's participation in Covington Electric System's Employees' Retirement Plan, and additions to/deductions from Covington Electric System's fiduciary net position have been determined on the same basis as they are reported by Covington Electric System's Employees' Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of Covington Electric System's Employees' Retirement Plan. Investments are reported at fair value.

Payment of Benefits: Benefits are recorded when the participant has met all the Plan requirements to receive a benefit. At March 31, 2021 no benefits were payable and not paid.

Administrative and Other Expenses: Qualified Plan administrative expenses are paid by the Plan. During the years ended March 31, 2021 and 2020 administrative and other expenses paid were \$42,620 and \$41,588.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The System adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with generally accepted accounting principles. The current operating budget details the System's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest, and general functions and other charges for the fiscal year. The capital budget details the plan to receive and expend cash basis capital contribution fees, special assessments, grants, borrowings, and certain revenues for capital projects.

All unexpended appropriations in the operating budget remaining at the end of the fiscal year lapse.

Management submits a proposed budget to the System's Board. A budget is then adopted for the next fiscal year. During the year, management is authorized to transfer budgeted amounts between line items.

COVINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Electric

Deposits and investments: At June 30, 2021, the System had cash on hand of \$2,150 and deposits with a carrying amount of \$7,966,875 and a bank balance of \$7,987,280, as compared to June 30, 2020, at which the System had cash on hand of \$2,150 and deposits with a carrying amount of \$7,490,609 and a bank balance of \$7,512,614. Of the bank balances, \$250,000 was covered by federal depository insurance, with the remaining covered by the State Collateral Pool. Investments were made up of consumer's certificates of deposits held for customer deposits totaling \$21,167 for 2021 and \$21,068 for 2020 and investment in associated companies of \$14,040 for 2021 and \$9,489 for 2020.

Custodial Credit Risk: The System's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statute requires that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the System's agent in the System's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the System to invest in bonds, notes, or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations, and federally chartered banks and savings and loan associations, or repurchase agreements utilizing obligations of the United States or its agencies, as the underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2021 and 2020, all bank deposits were fully collateralized or insured.

Pension Plan

The following are the asset allocations as of March 31, 2021 and 2020:

	2021		2020	
	Market Value	Percentage of Total	Market Value	Percentage of Total
Equities	\$ 2,706,122	46.11%	\$ 1,742,166	37.32%
Balanced	-	0.00%	1,388	0.03%
Fixed income	2,088,539	35.59%	1,958,754	41.96%
International	1,074,483	18.31%	966,315	20.70%
Total	\$ 5,869,144	100.00%	\$ 4,668,623	100.00%

The following investments represent more than 5% of the fiduciary net position and are not issued or explicitly guaranteed by the U.S. government at March 31, 2021 and 2020:

COVINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

	2021	2020
iShares Core S&P 500 ETF	\$ 742,332	\$ 457,626
DoubleLine Total Return Bond Fund	294,921	285,256
Calamos Market Neutral Income Fund	269,513	242,697
Baird Aggregate Bond Fund	731,280	707,240
Fidelity Investment Grade Bond Fund	740,935	708,436
JPMorgan Strategic Income	312,191	248,177

For the years ended March 31, 2021 and 2020, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 26.60 and -3.39 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Fair Value Measurements: The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Plan has the following recurring fair value measurements as of March 31, 2021:

	Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Equity securities				
Mutual funds	\$ 2,706,122	\$ 2,706,122	\$ -	\$ -
Common stocks	3,163,022	3,163,022	-	-
Total equity securities	<u>\$ 5,869,144</u>	<u>\$ 5,869,144</u>	<u>\$ -</u>	<u>\$ -</u>

The Plan has the following recurring fair value measurements as of March 31, 2020:

	Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Equity securities				
Mutual funds	\$ 1,743,554	\$ 1,743,554	\$ -	\$ -
Common stocks	2,925,069	2,925,069	-	-
Total equity securities	<u>\$ 4,668,623</u>	<u>\$ 4,668,623</u>	<u>\$ -</u>	<u>\$ -</u>

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

COVINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

Deferred Compensation Plan (457 Plan)

The following are the asset allocations as of June 30, 2021 and 2020:

	2021		2020	
	Market Value	Percentage of Total	Market Value	Percentage of Total
Equities	\$ 56,312	5.79%	\$ 24,100	3.20%
Balanced	722,631	74.29%	443,798	58.95%
Fixed income	113,313	11.65%	241,984	32.14%
International	80,411	8.27%	42,932	5.70%
Total	\$ 972,667	100.00%	\$ 752,814	100.00%

The following investments represent more than 5% of the fiduciary net position and are not issued or explicitly guaranteed by the U.S. government at June 30, 2021 and 2020:

	2021	2020
VOYA Fixed Account	\$ 113,313	\$ 241,984
Amer Cent One Choice 2045 Portfolio	280,091	206,995
American Funds Fdmntl Inv R4	134,766	82,994
Voya Large Cap Growth Prt Ins	80,779	40,554
Voya Russell MdCp Indx Part 1	61,682	-

For the years ended June 30, 2021 and 2020, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 27.29 and 1.82 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Fair Value Measurements: The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Plan has the following recurring fair value measurements as of June 30, 2021:

	Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Equity securities				
Mutual funds	\$ 169,625	\$ 169,625	\$ -	\$ -
Common stocks	803,042	803,042	-	-
Total equity securities	\$ 972,667	\$ 972,667	\$ -	\$ -

COVINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

The Plan has the following recurring fair value measurements as of June 30, 2020:

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Equity securities				
Mutual funds	\$ 266,084	\$ 266,084	\$ -	\$ -
Common stocks	486,730	486,730	-	-
Total equity securities	<u>\$ 752,814</u>	<u>\$ 752,814</u>	<u>\$ -</u>	<u>\$ -</u>

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

B. Receivables

Receivables as of the fiscal years ended were made up of the following:

	June 30,	
	2021	2020
Billed services for utility customers	\$ 2,087,789	\$ 1,962,727
Less: Allowance for uncollectibles	-	-
Total	<u>\$ 2,087,789</u>	<u>\$ 1,962,727</u>

C. Restricted Assets

The following amounts represent only the accounts with restrictions associated with use of the funds. The funding applicable to the bonds issued is in compliance with the funding requirements.

	June 30,	
	2021	2020
Sinking funds	\$ 114,058	\$ 111,547
Reserve funds	226,202	225,879
Certificates of deposit	21,167	21,068
Net pension asset	1,430,318	348,846
Total	<u>\$ 1,791,745</u>	<u>\$ 707,340</u>

COVINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

D. Capital Assets

Capital asset activity during the fiscal years ended was as follows:

Description	Balance at June 30, 2020	Additions	Disposals	Balance at June 30, 2021
Capital assets, not being depreciated				
General plant	\$ 195,885	\$ -	\$ -	\$ 195,885
Transmission plant	8,267	-	-	8,267
Distribution plant	16,560	-	-	16,560
Construction in progress	17,339	6,562	-	23,901
Total capital assets not being depreciated	<u>238,051</u>	<u>6,562</u>	<u>-</u>	<u>244,613</u>
Capital assets, being depreciated				
General plant	6,968,147	135,858	31,697	7,072,308
Transmission plant	2,161,810	-	-	2,161,810
Distribution plant	14,129,417	204,559	156,226	14,177,750
Total capital assets being depreciated	<u>23,259,374</u>	<u>340,417</u>	<u>187,923</u>	<u>23,411,868</u>
Less accumulated depreciation for:				
General plant	3,029,897	266,182	26,929	3,269,150
Transmission plant	1,458,106	84,540	-	1,542,646
Distribution plant	7,276,839	492,627	166,770	7,602,696
Total accumulated depreciation	<u>11,764,842</u>	<u>843,349</u>	<u>193,699</u>	<u>12,414,492</u>
Total capital assets, being depreciated, net	<u>11,494,532</u>	<u>(502,932)</u>	<u>(5,776)</u>	<u>10,997,376</u>
Unamortized acquisition adjustment	<u>52,356</u>	<u>-</u>	<u>24,164</u>	<u>28,192</u>
Total capital assets, net	<u>\$ 11,784,939</u>	<u>\$ (496,370)</u>	<u>\$ 18,388</u>	<u>\$ 11,270,181</u>

Depreciation expense amounted to \$843,349 (including \$78,973 charged to transportation clearing) for the fiscal year ended June 30, 2021.

Description	Balance at June 30, 2019	Additions	Disposals	Balance at June 30, 2020
Capital assets, not being depreciated				
General plant	\$ 195,885	\$ -	\$ -	\$ 195,885
Transmission plant	8,267	-	-	8,267
Distribution plant	16,560	-	-	16,560
Construction in progress	27,541	-	10,202	17,339
Total capital assets not being depreciated	<u>248,253</u>	<u>-</u>	<u>10,202</u>	<u>238,051</u>
Capital assets, being depreciated				
General plant	6,932,785	91,547	56,185	6,968,147
Transmission plant	2,161,810	-	-	2,161,810
Distribution plant	14,019,300	266,390	156,273	14,129,417
Total capital assets being depreciated	<u>23,113,895</u>	<u>357,937</u>	<u>212,458</u>	<u>23,259,374</u>
Less accumulated depreciation for:				
General plant	2,817,751	257,903	45,757	3,029,897
Transmission plant	1,373,532	84,574	-	1,458,106
Distribution plant	6,968,650	491,895	183,706	7,276,839
Total accumulated depreciation	<u>11,159,933</u>	<u>834,372</u>	<u>229,463</u>	<u>11,764,842</u>
Total capital assets, being depreciated, net	<u>11,953,962</u>	<u>(476,435)</u>	<u>(17,005)</u>	<u>11,494,532</u>
Unamortized acquisition adjustment	<u>76,520</u>	<u>-</u>	<u>24,164</u>	<u>52,356</u>
Total capital assets, net	<u>\$ 12,278,735</u>	<u>\$ (476,435)</u>	<u>\$ 17,361</u>	<u>\$ 11,784,939</u>

COVINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

Depreciation expense amounted to \$834,372 (including \$73,062 charged to transportation clearing) for the fiscal year ended June 30, 2020.

E. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2021 is as follows:

	Due from City		City - Transfer In
Due to Electric	\$ 568	Transfer out	\$ 363,636

The composition of interfund balances as of June 30, 2020 is as follows:

	Due from City		City - Transfer In
Due to Electric	\$ 402	Transfer out	\$ 369,205

For both fiscal years end, the interfund receivables to Electric from the City are for unpaid invoices.

The transfer from the Electric System to the City is for property taxes for fiscal years 2021 and 2020.

F. Leases

Operating Leases

The System currently leases one copier. The lease has been classified as operating leases for reporting purposes. The System copier lease began in June 2019 and is scheduled to continue for 60 months with monthly payments of \$74.80. Future minimum lease payments are as follows:

Year ending June 30	Lease Amount
2022	898
2023	898
2024	823
	\$ 2,619

Lease expense for the years ended June 30, 2021 and 2020 was \$898, respectively.

G. Long-term Debt

Revenue and Tax Bonds - Direct placements

For the years ended June 30, 2021 and 2020 the system has one revenue and tax bond outstanding that is a direct placement.

On April 1, 2003, the System issued \$2,280,000 in Electric System Revenue Bonds, Series 2003 with interest of 2.50% to 4.375% to provide funds to finance the construction of improvements and expansion of the City's electrical power distribution system. The bonds are to be repaid solely from and be secured by a pledge of the net revenues to be derived from the operation of the system.

COVINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

The above bond payable contain provisions that in the event of default, the lender can exercise one or more of the following options: (1) Make all or any of the outstanding bonds payable balance immediately due and accrued interest at highest post maturity interest rate, (2) Use any remedy allowed by state or federal law.

	June 30,	
	2021	2020
Bonds payable are as follows:		
Electric System Revenue Bonds, Series 2003, 2.50% to 4.375%, due serially through 2024	\$ 440,000	\$ 575,000
Less bond discounts	2,613	4,038
Less current portion bonds payable	140,000	135,000
Total long-term portion bonds payable	\$ 297,387	\$ 435,962

The annual requirements to amortize all debt outstanding at June 30, 2021, including interest of \$29,533 are as follows:

Year ending June 30	Revenue and Tax Bonds from Direct Placements	
	Principal	Interest
2022	140,000	16,188
2023	145,000	9,954
2024	155,000	3,391
	\$ 440,000	\$ 29,533

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

	Balance at June 30, 2020	Additions	Retirements	Balance at June 30, 2021	Due within one year
Electric System					
Borrowings from direct placements					
Revenue and tax bonds payable	\$ 575,000	\$ -	\$ 135,000	\$ 440,000	\$ 140,000
Compensated absences	98,006	10,673	-	108,679	10,868
Bond discounts	(4,038)	-	(1,425)	(2,613)	(1,425)
Total debt outstanding	\$ 668,968	\$ 10,673	\$ 133,575	\$ 546,066	\$ 149,443

The following is a summary of long-term debt transactions for the year ended June 30, 2020.

	Balance at June 30, 2019	Additions	Retirements	Balance at June 30, 2020	Due within one year
Electric System					
Borrowings from direct placements					
Revenue and tax bonds payable	\$ 705,000	\$ -	\$ 130,000	\$ 575,000	\$ 135,000
Compensated absences	88,913	9,093	-	98,006	9,801
Bond discounts	(5,463)	-	(1,425)	(4,038)	(1,425)
Total debt outstanding	\$ 788,450	\$ 9,093	\$ 128,575	\$ 668,968	\$ 143,376

COVINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

The System has no unused lines of credit for the years ended June 30, 2021 and 2020.

Direct borrowings

The System currently does not have notes from direct borrowings for the years ended June 30, 2021 and 2020.

H. Net Position

Net position represents the difference between assets and liabilities and deferred outflows/inflows of resources. The restricted net position amounts were as follows:

	June 30,	
	2021	2020
Net investment in capital assets		
Net property, plant, and equipment in services	\$ 11,270,181	\$ 11,784,939
Unamortized debt discount	2,613	4,038
Less: Debt as disclosed in Note 3G	(440,000)	(575,000)
Total invested in capital assets	10,832,794	11,213,977
Restricted for debt service:		
Restricted cash and cash equivalents	340,260	337,426
Restricted investments	21,167	21,068
Restricted net pension asset	1,430,318	348,846
Less: Current liabilities payable from restricted assets	(25,980)	(27,273)
Total restricted for debt service and pension	1,765,765	680,067
Unrestricted	5,049,518	5,588,148
Total net position	\$ 17,648,077	\$ 17,482,192

NOTE 4 - OTHER INFORMATION

A. Pension Plan

Plan Description: The Retirement Plan Committee accounts for the activity of the Retirement Plan for employees of Covington Electric System. The Plan is a single employer public employee retirement System (PERS) administered by Ellis & Ward Consulting Group Inc.. All employees of the Covington Electric System participate as of April 1st following one year of service.

The Retirement Plan for employees of Covington Electric System issues a publically available report that can be obtained by contacting Ellis & Ward Consulting Group Inc. P.O. Box 2470, Cordova, TN 38088-2470.

Benefits Provided: The Plan provides retirement benefits as well as death and disability benefits. Retirement benefits vest at a rate of 20% per year beginning with three years of service. Employees may retire after age 60 and the completion of 10 years of service with a reduction for early commencement.

COVINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

Normal retirement benefit: The amount of retirement benefit to be provided for each Participant who retires on the Participant's Normal Retirement Date shall be a monthly income equal to the number of years of continuous service multiplied by 1.6% of the final average monthly compensation.

Early retirement, death benefits and benefits upon termination of employment: The accrued retirement income will be determined using the final average monthly compensation and continuous services at the date of termination. A participant is eligible for early retirement when he / she has both completed at least 10 years of service and attained age sixty (60). The normal retirement for early retirement is the accrued retirement income calculated as described above and reduced by an actuarial reduction factor due to younger age at retirement and earlier commencement of retirement income payments. Upon the death of a participant after his / her initial vesting date and prior to his / her normal retirement date, his / her beneficiary will receive the actuarial equivalent of the participant's vested accrued benefit. A participant whose employment is terminated due to total and permanent disability shall be entitled to the retirement income at normal retirement age which the participant would have received had he/she continued in employment to his/her normal retirement date assuming constant earnings.

Normal form of retirement income: The normal form of retirement income is life only income

At March 31, 2021, the Retirement Plan membership consisted of:

	2021	2020
Inactive plan members or beneficiaries currently receiving benefits	17	12
Inactive plan members entitled to but not yet receiving benefits	14	10
Active plan members	10	18
	41	40

Contributions: Required contributions are determined by The Retirement Plan for employees of Covington Electric System based on calculations performed by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The current contribution rate is 3.71% of payroll.

The Utility's required contribution for the years ended as follows.

	Minimum Contribution	Actual Contribution
2021	47,610	47,610
2020	25,130	25,130

Funded status and funding progress: As of March 31, 2021 the actuarial accrued liability for benefits was \$4,445,967 and the net pension asset was \$1,430,318. Total covered payroll was \$1,284,349 and the ratio of net pension liability(asset) to covered payroll was -111.37%. As of March 31, 2020 the actuarial accrued liability for benefits was \$4,402,015 and the net pension asset was \$348,846. Total covered payroll was \$1,236,503 and the ratio of net pension liability(asset) to covered payroll was -28.21%.

COVINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

Net Pension Liability (Asset): Covington Electric System's net pension liability (asset) was measured as of March 31, 2021, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions: The total pension liability as of March 31, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Aggregate
Asset valuation method	5 year asset smoothing method
Inflation	2.5%
Salary increases	3.0% including inflation
Investment rate of return	6.5%, net of plan investment expense, including inflation
Retirement age	65
Mortality	PUB G-2010 for General Employees
Withdrawal rates	None

The actuarial assumptions used in the April 1, 2021 actuarial valuation were based on the results of an actuarial experience study performed for the period April 1, 2020 through March 31, 2021. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Discount Rate: The discount rate used to measure the total pension liability was 6.5%. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and the employer will continue to contribute the actuarially determined contribution in accordance with the plan's current funding policy on an annual basis. Based on that assumption, the pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability (Asset):

2021 Changes in net pension liability (asset)

	Increase/Decrease		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at March 31, 2020	\$ 4,402,015	\$ 4,750,861	\$ (348,846)
Changes for the year:			
Service cost	84,492	-	84,492
Interest cost	283,382	-	283,382
Difference between expected and actual experience	(154,836)	-	(154,836)
Employer contributions	-	47,610	(47,610)
Employee contributions	-	-	-
Net investment income	-	303,473	(303,473)
Actual vs Expected Income	-	986,052	(986,052)
Benefit payments	(169,086)	(169,086)	-
Administrative expense	-	(42,625)	42,625
Net changes:	43,952	1,125,424	(1,081,472)
Balance at March 31, 2021	\$ 4,445,967	\$ 5,876,285	\$ (1,430,318)

COVINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

2020 Changes in net pension liability (asset)

	Increase/Decrease		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at March 31, 2019	\$ 4,108,207	\$ 5,072,447	\$ (964,240)
Changes for the year:			
Service cost	101,204	-	101,204
Interest cost	265,821	-	265,821
Difference between expected and actual experience	65,260	-	65,260
Employer contributions	-	25,130	(25,130)
Employee contributions	-	-	-
Net investment income	-	324,673	(324,673)
Actual vs Expected Income	-	(491,324)	491,324
Benefit payments	(138,477)	(138,477)	-
Administrative expense	-	(41,588)	41,588
Net changes:	<u>293,808</u>	<u>(321,586)</u>	<u>615,394</u>
Balance at March 31, 2020	<u>\$ 4,402,015</u>	<u>\$ 4,750,861</u>	<u>\$ (348,846)</u>

Sensitivity of the net pension liability (asset) to changes in the discount rate: The following presents the net pension liability (asset) of Covington Electric System calculated using the discount rate of 6.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.5 percent) or 1-percentage-point higher (7.5 percent) than the current rate:

	2021	2020
Net Pension Liability with a 1% Decrease in Discount Rate: 5.5%	\$ (828,304)	\$ 272,313
Net Pension Liability at Current Discount Rate: 6.5%	(1,430,318)	(348,846)
Net Pension Liability with a 1% Increase in Discount Rate: 7.5%	(1,937,734)	(871,099)

Plan Fiduciary Net Position: Detailed information about the Plan's fiduciary net position is available on pages 16 and 17 of this report.

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2021 and 2020, the System recognized pension expense of -\$26,613 and \$211,116 respectively.

At June 30, 2021 and 2020, deferred outflows of resources and inflows of resources in relation to pensions were as follows:

	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	\$ 134,677	\$ 457,871
Net difference between projected and actual earnings in pension investments	-	466,539
Pension contributions subsequent to measurement date	25,913	-
	<u>\$ 160,590</u>	<u>\$ 924,410</u>

COVINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

2020 Deferred outflows/inflows of resources

	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	\$ 144,941	\$ 338,268
Net difference between projected and actual earnings in pension investments	410,816	-
Pension contributions subsequent to measurement date	47,610	-
	\$ 603,367	\$ 338,268

The System makes an annual contribution to the pension plan instead of monthly contributions. This contribution is typically made in May/June of each year, so there will be a full year of contributions included in deferred outflows as “pension contributions subsequent to measurement date” in most years. The amount shown above for “pension contributions subsequent to measurement date” will be recognized as a reduction(increase) to the net pension liability(asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending March 31,	
2022	(114,165)
2023	(106,098)
2024	(123,887)
2025	(222,152)
2026	(24,942)
Thereafter	(198,489)

Payable to The Retirement Plan for employees of Covington Electric System: At June 30, 2021 and 2020, the utility showed no amounts outstanding for contributions due to The Retirement Plan for Employees of Covington Electric System.

B. Risks and Uncertainties – Pension Plan

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and, that such changes could materially affect the amounts reported in the statement of net position available for benefits.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

COVINGTON ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

C. Deferred Compensation Plan (457 Plan)

The System offers a deferred compensation plan (Covington Electric System Employees' 457 Plan) that is administered by VOYA. The contribution rates for this plan are determined by the employee while the System does not match any contributions. The employee can change contributions rates at any time while on the plan. The amount of pension expense recognized by the System in the current period was \$0. The amount of forfeitures reflected in pension expense were \$0 during the current period, and there will never be forfeitures due to the fact that the employee is 100% vested at the time of contribution. The System did not have a liability at June 30, 2021.

D. Power Contract

The System has a power contract with the Tennessee Valley Authority (TVA) whereby the System purchases all its electric power from TVA and is subject to certain restrictions and conditions as provided for in the power contract. Such restrictions include, but are not limited to, prohibitions against furnishing, advancing, lending, pledging, or otherwise diverting System funds, revenues, or property to other operations of the municipality and the purchase or payment of or providing security for indebtedness on other obligations applicable to such other operations.

E. Risk Management

The System 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. During the years ended June 30, 2021 and 2020, the System purchased commercial insurance for all of the above risks. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in the amount of coverage.

F. Unamortized Acquisition Adjustment - Vandergrift Annexation

As of May 2012, the System has made an agreement to pay Southwest Tennessee Electric Membership Corporation a one time payment in the amount of \$241,642 for lost revenue in a recent Vandergrift annexation. This payment took place in the fiscal year 2013 when the project was closed. The annexation cost is reflected as an unamortized acquisition adjustment on the Statements of Net Position and is amortized monthly over 10 years. The amortization expense related to this annexation as of June 30, 2021 and 2020 was \$24,164. The balance as of June 30, 2021 is \$28,192. The balance at June 30, 2020 was \$52,356.

G. Subsequent Events

The System paid off the Series 2003 bonds in July of 2021.

The full impact of the COVID-19 outbreak continues to evolve as of September 21, 2021. As such, it is uncertain as to the full magnitude that the pandemic will have on the System's financial condition and future results of operations. Management is actively monitoring the situation on its financial condition, liquidity, operations, suppliers, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the System is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2022. Management has evaluated subsequent events through September 21, 2021, the date in which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

COVINGTON ELECTRIC SYSTEM
SCHEDULES OF CHANGES IN NET POSITION LIABILITY (ASSET) AND RELATED
RATIOS BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN

March 31,

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability							
Service cost	\$ 84,492	\$ 101,204	\$ 99,478	\$ 103,352	\$ 91,976	\$ 95,438	\$ 92,286
Interest	283,382	265,821	245,008	237,814	217,905	207,893	201,831
Changes in benefit terms		-	-	-	-	-	-
Differences between actual & expected experience	(154,836)	65,260	(183,733)	(104,479)	109,220	(36,904)	(102,458)
Change of assumptions		-	292,016	-	-	-	-
Benefit payments, including refunds of employee contributions	<u>(169,086)</u>	<u>(138,477)</u>	<u>(128,358)</u>	<u>(119,767)</u>	<u>(117,249)</u>	<u>(104,077)</u>	<u>(95,873)</u>
Net change in total pension liability	\$ 43,952	\$ 293,808	\$ 324,411	116,920	301,852	162,350	95,786
Total pension liability - beginning	<u>4,402,015</u>	<u>4,108,207</u>	<u>3,783,796</u>	<u>3,666,876</u>	<u>3,365,024</u>	<u>3,202,674</u>	<u>3,106,888</u>
Total pension liability - ending (a)	<u>4,445,967</u>	<u>4,402,015</u>	<u>4,108,207</u>	<u>3,783,796</u>	<u>3,666,876</u>	<u>3,365,024</u>	<u>3,202,674</u>
Plan fiduciary net position							
Contributions - employer	47,610	25,130	1,632,956	146,866	135,141	120,292	127,307
Contributions - employee		-	-	-	-	-	-
Net investment income (loss)	303,473	324,673	270,142	246,691	285,550	(75,956)	164,946
Actual vs Expected Income	986,052	(491,324)	(88,559)	-	-	-	-
Benefit payments, including refunds of employee contributions	(169,086)	(138,477)	(128,358)	(119,767)	(117,249)	(104,077)	(95,873)
Administrative expense	<u>(42,625)</u>	<u>(41,588)</u>	<u>(34,943)</u>	<u>(27,583)</u>	<u>(28,884)</u>	<u>(23,130)</u>	<u>(28,073)</u>
Net change in plan fiduciary net position - beginning	1,125,424	(321,586)	1,651,238	246,207	274,558	(82,871)	168,307
Plan fiduciary net position - beginning	<u>4,750,861</u>	<u>5,072,447</u>	<u>3,421,209</u>	<u>3,175,002</u>	<u>2,900,444</u>	<u>2,983,315</u>	<u>2,815,008</u>
Plan fiduciary net position - ending (b)	<u>5,876,285</u>	<u>4,750,861</u>	<u>5,072,447</u>	<u>3,421,209</u>	<u>3,175,002</u>	<u>2,900,444</u>	<u>2,983,315</u>
Net pension liability (asset) - ending (a) - (b)	(1,430,318)	(348,846)	(964,240)	\$ 362,587	\$ 491,874	\$ 464,580	\$ 219,359
Plan fiduciary net position as a percentage of total pension liability	132.17%	107.92%	123.47%	90.42%	86.59%	86.19%	93.15%
Covered - employee payroll	\$ 1,284,349	\$ 1,236,503	\$ 1,146,661	\$ 1,216,369	\$ 1,255,270	\$ 1,105,403	\$ 1,150,884
Net pension liability (asset) as a percentage of covered employee payroll	-111.37%	-28.21%	-84.09%	29.81%	39.18%	42.03%	19.06%

This is a 10-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 10 years of information is available.

See independent auditor's report.

COVINGTON ELECTRIC SYSTEM
SCHEDULES OF CONTRIBUTIONS BASED ON PARTICIPATION IN THE PUBLIC
EMPLOYEE PENSION PLAN
For the Last Fiscal Year Ended June 30,

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 47,610	\$ 25,130	\$ 132,956	\$ 146,866	\$ 135,141	\$ 120,292	\$ 127,307
Contributions in relation to the actuarially determined contribution	<u>47,610</u>	<u>25,130</u>	<u>1,658,086</u>	<u>146,866</u>	<u>135,141</u>	<u>120,292</u>	<u>127,307</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,525,130)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,284,349	\$ 1,236,503	\$ 1,146,661	\$ 1,216,369	\$ 1,255,270	\$ 1,105,403	\$ 1,150,884
Contributions as a percentage of covered - employee payroll	3.71%	2.03%	144.60%	12.07%	10.77%	10.88%	11.06%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future fiscal years until 10 years of information is available.

See independent auditor's report.

**COVINGTON ELECTRIC SYSTEM
SCHEDULES OF INVESTMENT RETURNS
EMPLOYEE PENSION PLAN**
For the Last Fiscal Year Ended June 30,

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual money-weighted rate of return, net of investment expense	26.60%	-3.39%	4.28%	6.70%	8.70%	-3.30%	4.80%

* Only seven years are available from actuarial valuation.

COVINGTON ELECTRIC SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Years Ended June 30, 2021 and 2020

Valuation Date	Actuarially determined contributions are calculated as of April 1st, three months prior to the fiscal year in which contributions are reported
Actuarial cost method	Aggregate
Amortization Method	NA
Remaining Amortization	NA
Asset valuation	5 year asset smoothing method
Inflation	2.5%
Withdrawal Rates	None
Salary Increases	3% , including inflation
Investment Rate of Return	6.5 percent, net of plan investment expense, including inflation
Retirement age	Age 65
Mortality	PUB G-2010 for General Employees

See independent auditor's report.

SUPPLEMENTARY AND OTHER INFORMATION SECTION

COVINGTON ELECTRIC SYSTEM
SCHEDULES OF OPERATING REVENUES AND EXPENSES - ELECTRIC SYSTEM
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>		<u>2020</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Operating revenues:				
Charges for sales and services:				
Residential sales	\$ 4,836,437	24.25	\$ 4,802,340	23.50
Small lighting and power sales	1,742,841	8.74	1,780,412	8.71
Large lighting and power sales	13,384,327	67.10	14,011,888	68.56
Power credit	(731,720)	(3.67)	(789,669)	(3.86)
Street and athletic lighting sales	153,428	0.77	151,098	0.74
Outdoor lighting	246,412	1.24	251,175	1.23
Uncollectible accounts	(5,476)	(0.03)	(50,343)	(0.25)
Total charges for sales and services	<u>19,626,249</u>	<u>98.39</u>	<u>20,156,901</u>	<u>98.62</u>
Other revenues				
Forfeited discounts	97,711	0.49	83,168	0.41
Miscellaneous service revenue	48,350	0.24	42,570	0.21
Rent from electric property	151,631	0.76	143,872	0.70
Other electric revenue	23,533	0.12	12,136	0.06
Total other revenues	<u>321,225</u>	<u>1.61</u>	<u>281,746</u>	<u>1.38</u>
Total operating revenues	<u>19,947,474</u>	<u>100.00</u>	<u>20,438,647</u>	<u>100.00</u>
Operating expenses:				
Cost of sales and services:				
Purchased power	<u>15,700,874</u>	<u>78.71</u>	<u>16,459,701</u>	<u>80.53</u>
Operations expenses:				
Distribution expenses:				
Supervision and engineering	69,559	0.35	67,532	0.33
Station expense	60,643	0.30	34,334	0.17
Overhead line expense	168,507	0.84	201,884	0.99
Fiber operating expense	4,342	0.02	3,043	0.01
Underground line expense	34,861	0.17	18,846	0.09
Street lighting and signal system	18,214	0.09	16,095	0.08
Meter expense	119,222	0.60	98,698	0.48
Customer installation expense	18,071	0.09	16,433	0.08
Miscellaneous	105,675	0.53	35,687	0.17
Rents	16,873	0.08	15,037	0.07
Total distribution expenses	<u>\$ 615,967</u>	<u>3.09</u>	<u>\$ 507,589</u>	<u>2.48</u>

See independent auditor's report.

COVINGTON ELECTRIC SYSTEM
SCHEDULES OF OPERATING REVENUES AND EXPENSES - ELECTRIC SYSTEM
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>		<u>2020</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Customer accounts expenses:				
Supervision customer accounts	\$ 59,760	0.30	\$ 57,549	0.28
Meter reading expense	37,464	0.19	37,944	0.19
Customer records and collection	<u>274,050</u>	<u>1.37</u>	<u>260,105</u>	<u>1.27</u>
Total customer accounts expenses	<u>371,274</u>	<u>1.86</u>	<u>355,598</u>	<u>1.74</u>
Customer service and information expenses:				
Customer assistance expense	5,725	0.03	6,315	0.03
Miscellaneous customer service	<u>6,875</u>	<u>0.03</u>	<u>7,500</u>	<u>0.04</u>
Total customer service and information expenses	<u>12,600</u>	<u>0.06</u>	<u>13,815</u>	<u>0.07</u>
Administrative expenses				
Salaries	311,259	1.56	311,759	1.53
Office supplies and expense	70,591	0.35	73,670	0.36
Administrative expenses transferred	(34,460)	(0.17)	(38,205)	(0.19)
Outside services employed	52,293	0.26	77,688	0.38
Insurance	25,544	0.13	23,859	0.12
Injuries and damages	107,337	0.54	99,314	0.49
Employee pension and benefits	173,797	0.87	412,284	2.02
Advertising	592	0.00	344	0.00
Miscellaneous	<u>82,155</u>	<u>0.41</u>	<u>68,635</u>	<u>0.34</u>
Total administrative expenses	<u>789,108</u>	<u>3.96</u>	<u>1,029,348</u>	<u>5.04</u>
Total operations expenses	<u>1,788,949</u>	<u>8.97</u>	<u>1,906,350</u>	<u>9.33</u>
Maintenance expenses				
Distribution expenses:				
Supervision and engineering	69,559	0.35	17,131	0.08
Station equipment	42,836	0.21	67,532	0.33
Overhead lines	743,089	3.73	335,312	1.64
Underground lines	14,892	0.07	7,722	0.04
Line transformers	1,702	0.01	600	0.00
Street lights and signal system	21,604	0.11	20,745	0.10
Outdoor lighting	<u>45,066</u>	<u>0.23</u>	<u>37,701</u>	<u>0.18</u>
Total distribution expenses	<u>938,748</u>	<u>4.71</u>	<u>501,198</u>	<u>2.45</u>
Administrative expenses:				
General plant and equipment	<u>93,893</u>	<u>0.47</u>	<u>84,459</u>	<u>0.41</u>
Total maintenance expenses	<u>1,032,641</u>	<u>5.18</u>	<u>585,657</u>	<u>2.87</u>
Depreciation and amortization	<u>788,540</u>	<u>3.95</u>	<u>785,474</u>	<u>3.84</u>
Taxes	<u>91,139</u>	<u>0.46</u>	<u>95,240</u>	<u>0.47</u>
Total operating expenses	<u>\$ 19,402,143</u>	<u>97.27</u>	<u>\$ 19,832,422</u>	<u>97.03</u>

See independent auditor's report.

COVINGTON ELECTRIC SYSTEM
SCHEDULE OF LONG-TERM DEBT
June 30, 2021

Year Ended June 30,	Series 2003	
	Electric Revenue and Tax	
	Bonds	
	Principal	Interest
2022	140,000	16,188
2023	145,000	9,954
2024	155,000	3,391
	\$ 440,000	\$ 29,533

See independent auditor's report.

COVINGTON ELECTRIC SYSTEM
SCHEDULE OF CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE
June 30, 2021

Description of Indebtness	Original amount of issue	Interest rate	Date of issue	Last maturity date	Outstanding 7/1/2020	Issued during period	Paid and/or matured during period	Refunded during period	Outstanding 6/30/2021
Bonds Payable									
Electric Revenue Bonds - Series 2003	<u>\$ 2,280,000</u>	2.5-4.375%	April 1, 2003	October 1, 2023	<u>\$ 575,000</u>	<u>\$ -</u>	<u>\$ 135,000</u>	<u>\$ -</u>	<u>\$ 440,000</u>
Total Bonds Payable	<u>\$ 2,280,000</u>				<u>\$ 575,000</u>	<u>\$ -</u>	<u>\$ 135,000</u>	<u>\$ -</u>	<u>\$ 440,000</u>

See independent auditor's report.

COVINGTON ELECTRIC SYSTEM
SCHEDULE OF TRANSFERS
For the Year Ended June 30, 2021

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Electric Fund	General Purpose Fund	In lieu of property tax	\$ 363,636

See independent auditor's report.

COVINGTON ELECTRIC SYSTEM
ELECTRIC RATES IN FORCE
June 30, 2021

Residential rate schedule

Customer charge - per delivery point per month	\$	26.40
Energy charge - cents per kWh		0.07917

General power schedule

GSA1 Low Usage (Under 50 kW demand & less than 15,000 kWh)		
Customer charge - per delivery point per month		38.00
Energy charge - cents per kWh		0.09722
GSA1 High Usage (Under 50 kW demand & less than 15,000 kWh)		
Customer charge - per delivery point per month		50.00
Energy charge - cents per kWh		0.09722
GSA2 (51-1000 kW demand or more than 15,000 kWh)		
Customer charge - per delivery point per month		185.00
Demand charges - per kW per month		
First 50 Kw		5.50
Excess over 50 kW		14.23
Energy charge - cents per kWh		
First 15,000 kWh per month		0.08651
Additional kWh per month		0.05826
GSA3 (1000 - 5000 kW demand)		
Customer charge - per delivery point per month		550.00
Demand charges - per kW per month		
First 1,000 kW		13.46
Excess over 1,000 kW		13.46
Excess over 2,500 kW		13.46
Energy charge - cents per kWh		0.06539
SMSB (Seasonal Demand and Energy - Manufacturing Service)		
Customer charge - per delivery point per month		1,500.00
Administrative charge		350.00
OnPeak kW		10.24
Max kW		2.15
OffPeak Excess of Contract kW		10.24
OnPeak kW		0.07403
OffPeak kWh - First 200 HUD		0.04903
OffPeak kWh - Next 200 HUD		0.01934
OffPeak kWh - Additional HUD		0.01679
Outdoor Lighting LS	\$	0.06545

See independent auditor's report.

COVINGTON ELECTRIC SYSTEM
SUPPLEMENTAL INFORMATION - ELECTRIC SYSTEM - UNAUDITED
For the Years Ended June 30,

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Revenue					
Residential	\$ 4,836,437	\$ 4,802,340	\$ 4,926,644	\$ 4,971,099	\$ 4,896,278
Small lighting	1,742,841	1,780,412	1,822,369	1,838,302	1,884,632
Large lighting	12,652,607	13,222,219	13,257,255	13,456,513	13,819,043
Street and athletic lighting	153,428	151,098	153,115	150,462	148,592
Outdoor lighting	246,412	251,175	249,443	247,508	249,418
Uncollectible accounts	(5,476)	(50,343)	(7,594)	(8,261)	(18,557)
Other operating	321,225	281,746	307,053	297,367	302,931
Interest and other revenue	13,513	38,710	73,164	34,486	10,810
	<u>19,960,987</u>	<u>20,477,357</u>	<u>20,781,449</u>	<u>20,987,476</u>	<u>21,293,147</u>
Expense					
Electric power costs	15,700,874	16,459,701	16,952,319	17,112,807	17,427,379
Other operating expenses	2,821,590	2,492,007	3,047,561	2,392,731	2,593,551
Provision for depreciation	788,540	785,474	732,448	729,682	731,793
Taxes	91,139	95,240	92,271	97,061	92,540
Transfer - tax equivalent	363,636	369,205	364,720	366,061	392,459
Interest and other expense	29,323	34,420	38,982	46,152	52,752
	<u>19,795,102</u>	<u>20,236,047</u>	<u>21,228,301</u>	<u>20,744,494</u>	<u>21,290,474</u>
Net income (loss)	<u>\$ 165,885</u>	<u>\$ 241,310</u>	<u>\$ (446,852)</u>	<u>\$ 242,982</u>	<u>\$ 2,673</u>
Financial					
Plant in service (at original cost)	<u>\$ 23,656,481</u>	<u>\$ 23,497,425</u>	<u>\$ 21,635,718</u>	<u>\$ 21,480,215</u>	<u>\$ 21,171,149</u>
Bonds and notes outstanding	<u>\$ 440,000</u>	<u>\$ 575,000</u>	<u>\$ 830,000</u>	<u>\$ 950,000</u>	<u>\$ 1,175,000</u>
Power in use - kWh					
Residential	48,689,803	47,859,460	48,690,916	49,602,628	48,426,182
Small commercial	14,118,781	14,370,649	14,667,308	14,999,913	15,445,297
Large commercial	172,310,475	172,542,868	172,498,785	172,972,197	178,229,254
Street and athletic lighting	1,581,354	1,547,951	1,553,318	1,519,464	1,496,166
Outdoor lighting	1,956,902	2,049,756	2,012,006	1,986,799	1,973,004
Total	<u>238,657,315</u>	<u>238,370,684</u>	<u>239,422,333</u>	<u>241,081,001</u>	<u>245,569,903</u>
Peak kW demand	<u>49,381</u>	<u>52,266</u>	<u>49,599</u>	<u>49,786</u>	<u>52,777</u>
Number of customers					
Residential	3,737	3,740	3,724	3,729	3,710
Small lighting	804	797	815	808	799
Large lighting	126	127	122	127	130
Street and athletic lighting	24	25	25	29	27
Outdoor lighting	28	28	28	34	32
	<u>4,719</u>	<u>4,717</u>	<u>4,714</u>	<u>4,727</u>	<u>4,698</u>
Line loss	<u>2.45%</u>	<u>2.37%</u>	<u>2.47%</u>	<u>2.45%</u>	<u>2.25%</u>

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION



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 Governmental Auditing Standards

Board of Directors
Covington Electric System
Covington, Tennessee

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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the major fund and the Covington Electric System Employees’ 457 Plan of the Covington Electric System (the System), which are enterprise and fiduciary funds of the City of Covington, Tennessee, as of and for the year ended June 30, 2021, and the Covington Electric System Employees’ Retirement Plan as of and for the year ended March 31, 2021, and the related notes to the financial statements, which collectively comprise the System’s basic financial statements, and have issued our report thereon dated September 21, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System’s internal control. Accordingly, we do not express an opinion on the effectiveness of the System’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 System’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 *Governmental Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alexander Thompson Arnold PLLC

Jackson, Tennessee
September 21, 2021

COVINGTON ELECTRIC SYSTEM
SCHEDULE OF FINDINGS
June 30, 2021 and 2020

Current Year Findings:

No current year findings reported.

COVINGTON ELECTRIC SYSTEM
SCHEDULE OF PRIOR YEAR FINDINGS
June 30, 2021 and 2020

Prior Year Findings:

No prior year findings reported.