

**FINANCIAL REPORT**  
**CITY OF TUPELO, MISSISSIPPI -**  
**ELECTRIC DEPARTMENT**  
**June 30, 2020 and 2019**

Franks, Franks, Wilemon & Hagood, P.A.  
Certified Public Accountants

**Draft Copy**

**CITY OF TUPELO, MISSISSIPPI -  
ELECTRIC DEPARTMENT**

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## INDEPENDENT AUDITORS' REPORT

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## **INDEPENDENT AUDITORS' REPORT**

Mayor and City Council  
City of Tupelo, Mississippi

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the City of Tupelo-Electric Department as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the City of Tupelo – Electric Department's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the City of Tupelo-Electric Department as of June 30, 2020 and 2019, 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 a Matter

As discussed in Note 1, the financial statements of the City of Tupelo-Electric Department are intended to present the financial position and results of operations and the cash flows of the proprietary fund types of only that portion of the financial reporting entity of the City of Tupelo that is attributable to the transactions of the City of Tupelo-Electric Department. The financial statements are not intended to present fairly the financial position of the City of Tupelo and the results of operations and the cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6, the schedule of proportionate share of the net pension liability on page 24, and the schedule of contributions on page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 15, 2020 on our consideration of the City of Tupelo-Electric Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Tupelo-Electric Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Tupelo-Electric Department's internal control over financial reporting and compliance.

*Franks, Franks, Wilemon & Hagood P.A.*

FRANKS, FRANKS, WILEMON & HAGOOD, P.A.  
Tupelo, Mississippi  
October 15, 2020

## MANAGEMENT'S DISCUSSION AND ANALYSIS

# **CITY OF TUPELO – ELECTRIC DEPARTMENT MANAGEMENT’S DISCUSSION AND ANALYSIS**

## **Required Supplementary Information for the Year Ended June 30, 2020 and 2019**

This section of the City of Tupelo - Electric Department's Financial Report presents our discussion and analysis of the City of Tupelo - Electric Department's financial performance during the fiscal years ending June 30, 2020 and 2019. Please read it in conjunction with the City of Tupelo - Electric Department's financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

- The assets of the City of Tupelo – Electric Department exceeded its liabilities at the close of the June 30, 2020 and 2019 fiscal years by \$31,160,827 and \$32,075,444, respectively. Of this amount, \$3,592,843 and \$6,280,631 may be used to meet the City of Tupelo – Electric Department's ongoing obligations to citizens and creditors.
- As of the close of the June 30, 2020 and 2019 fiscal years, the City of Tupelo – Electric Department reported net position balances of \$31,160,827 and \$32,075,444, a decrease of \$914,617 and a decrease of \$507,097 in comparison to the prior year.
- The City of Tupelo – Electric Department's total long-term debt outstanding at June 30, 2020 and 2019 was \$5,703,595 and \$6,045,410, respectively.
- The City of Tupelo – Electric Department is a Proprietary fund of the City of Tupelo, Mississippi. The management's discussion and analysis and financial statements contained in this report present only the financial position and financial analysis of the Electric Department. It should not be used to evaluate the entire operation of the City of Tupelo or the total proprietary funds of the City of Tupelo. Proprietary funds are funds in which charges for services from customers in the form of a fee are reported. Proprietary funds provide both long and short-term financial information. The measurement focus of proprietary funds is upon determination of net income, financial position and change in financial position. These funds are maintained on the accrual basis of accounting. The Statement of Net Position, Statement of Revenues and Expenses, Statement of Changes in Net Position, and Statement of Cash Flows are all required statements.

# CITY OF TUPELO – ELECTRIC DEPARTMENT MANAGEMENT’S DISCUSSION AND ANALYSIS

## FINANCIAL ANALYSIS

Table A-1 provides a summary of the City of Tupelo – Electric Department’s net position at June 30, 2020 and 2019.

A large portion, 88.5% and 80.4%, of the City of Tupelo – Electric Department’s net position reflects its investment in capital assets (such as land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding for the years ended June 30, 2020 and 2019, respectively. The City of Tupelo – Electric Department uses these capital assets to provide services to citizens; however, these assets are not available for future spending.

Table A-1

### City of Tupelo – Electric Department’s Statements of Net Position

	Total <u>6/30/20</u>	Total <u>6/30/19</u>
Current and Other Assets	\$ 17,166,215	\$ 19,570,615
Capital Assets	<u>33,271,579</u>	<u>31,840,223</u>
<b>Total Assets</b>	<u>50,437,794</u>	<u>51,410,838</u>
<b>Total Deferred Outflows</b>	<u>428,511</u>	<u>359,009</u>
Current and Other Liabilities	7,933,981	7,925,318
Long-Term Liabilities	<u>11,337,320</u>	<u>11,416,168</u>
<b>Total Liabilities</b>	<u>19,271,301</u>	<u>19,341,486</u>
<b>Total Deferred Inflows</b>	<u>434,177</u>	<u>352,917</u>
<b>Net Position</b>		
Net Investment in Capital Assets	27,567,984	25,794,813
Unrestricted	<u>3,592,843</u>	<u>6,280,631</u>
<b>Total Net Position</b>	<u>\$ 31,160,827</u>	<u>\$ 32,075,444</u>

## CITY OF TUPELO – ELECTRIC DEPARTMENT MANAGEMENT’S DISCUSSION AND ANALYSIS

**Revenues and Expenses.** Approximately 99.7% of the City of Tupelo – Electric Department’s revenue comes from fees charged for services. A negligible portion of revenues come from investment earnings.

Table A-2 and the narrative that follows consider the operations of City of Tupelo – Electric Department activities only for the years ended June 30, 2020 and 2019.

Table A-2

### Revenues and Expenses of the City of Tupelo – Electric Department

	Total F.Y.E. <u>6/30/20</u>	Total F.Y.E. <u>6/30/19</u>
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$ 52,130,623	\$ 54,768,644
Investment Income	<u>151,402</u>	<u>216,212</u>
Total Revenues	<u>52,282,025</u>	<u>54,984,856</u>
<b>Expenses</b>		
Power Cost	43,166,890	46,391,727
Distribution Expense – Operating	766,742	767,014
Maintenance – General Plant	1,459	595
Distribution Expense – Maintenance	870,453	879,039
Customer Accounting & Collection	782,360	565,111
Customer Service and Information	33,765	40,103
Sales Expense	41,989	41,607
Administrative and General	1,271,382	1,352,556
Depreciation Expense	1,948,389	1,917,102
Loss on Disposal of Electric Plant	636,784	-
Interest Expense	204,818	211,149
Taxes and Equivalents	<u>3,471,611</u>	<u>3,325,950</u>
Total Expenses	<u>53,196,642</u>	<u>55,491,653</u>
Excess (Deficit) of Revenue Over (Under) Expenses	(914,617)	(507,097)
Transfers	<u>-</u>	<u>-</u>
Net Income (Loss)	(914,617)	(507,097)
Net Position – Beginning	<u>32,075,444</u>	<u>32,582,541</u>
Net Position – Ending	<u>\$ 31,160,827</u>	<u>\$ 32,075,444</u>

### Business-Type Activities

The City of Tupelo – Electric Department net position decreased by \$914,617 for the fiscal year June 30, 2020 and decreased by \$507,097 for the June 30, 2019 fiscal year which was a 2.85% decrease and a 1.56% decrease, respectfully.

# CITY OF TUPELO – ELECTRIC DEPARTMENT MANAGEMENT’S DISCUSSION AND ANALYSIS

## CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets**—In accordance with GASB 34, the City of Tupelo – Electric Department has recorded depreciation expense associated with all of its capital assets. The City’s Electric Department investment in capital assets as of June 30, 2020 and 2019, amounted to \$33,271,579 and \$31,840,223, respectively, net of accumulated depreciation of \$33,488,753 and \$32,333,464. This investment in capital assets includes land, buildings, improvements other than buildings, machinery & equipment, and construction in progress.

Table A-3

### City of Tupelo – Electric Department Capital Assets

	Total <u>6/30/20</u>	Total <u>6/30/19</u>
Land	\$ 333,013	\$ 333,013
Distribution Equipment	56,540,400	49,662,496
General Plant	6,066,114	5,935,915
Transmission Equipment	1,866,826	1,791,119
Construction-In-Progress	1,953,979	6,451,144
Accumulated Depreciation	<u>(33,488,753)</u>	<u>(32,333,464)</u>
Total	<u>\$ 33,271,579</u>	<u>\$ 31,840,223</u>

**Long-term Debt**—At year-ends June 30, 2020 and 2019, the City of Tupelo – Electric Department had bonds payable in the amount of \$5,703,595 and \$6,045,410, respectively.

## ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The City of Tupelo – Electric Department revenues are dependent upon the customer base in the City of Tupelo, Mississippi and certain surrounding areas. The local economy and weather conditions can have a significant effect on the financial performance of the City of Tupelo – Electric Department. The City of Tupelo – Electric Department has one major customer that accounts for approximately 10.5% of the total revenues of the Electric Department. The City of Tupelo Electric Department anticipates no growth for next year in both revenue and expenditures. It is a practice for the Electric Budget to prepare for extreme weather to handle a larger than normal year without overcommitting to capital projects, therefore the Electric Department’s Budget is higher than actual revenues and expenditures from fiscal year 2020.

### CONTACTING THE CITY OF TUPELO FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City of Tupelo – Electric Department finances and to demonstrate the City of Tupelo – Electric Department’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Tupelo – Electric Department, P.O. Box 1485 Tupelo, MS 38802-1485.

## BASIC FINANCIAL STATEMENTS

**CITY OF TUPELO - ELECTRIC DEPARTMENT**

TUPELO, MISSISSIPPI

**STATEMENTS OF NET POSITION****ASSETS**

	<b>June 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>ELECTRIC PLANT:</b>		
In Service - at Cost	\$ 66,760,332	\$ 64,173,687
Less: Accumulated Provisions for Depreciation	<u>33,488,753</u>	<u>32,333,464</u>
Net Electric Plant	<u>33,271,579</u>	<u>31,840,223</u>
<b>CURRENT ASSETS:</b>		
Cash and Cash Equivalents	8,049,266	9,761,682
Accounts Receivable - (Net of Provision for Bad Debts of \$69,116 for 2020 and \$74,110 for 2019)	6,292,631	7,050,319
Unbilled Revenue	1,362,437	1,359,278
Other Accounts Receivable	288,282	286,645
Due from Municipality	-	13,516
Materials and Supplies	735,534	634,312
Prepaid Expenses	64,280	62,842
Other Current Assets	<u>146,893</u>	<u>115,644</u>
Total Current Assets	<u>16,939,323</u>	<u>19,284,238</u>
<b>DEFERRED DEBITS AND OTHER ASSETS:</b>		
Receivable from Customers for Energy		
Conservation Loans	166,578	231,096
Receivable from Central Service Association (CSA)	<u>60,314</u>	<u>55,281</u>
Total Deferred Debits and Other Assets	<u>226,892</u>	<u>286,377</u>
<b>TOTAL ASSETS</b>	<u>\$ 50,437,794</u>	<u>\$ 51,410,838</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 428,511</u>	<u>\$ 359,009</u>

See accompanying notes to the financial statements.

**CITY OF TUPELO - ELECTRIC DEPARTMENT**

TUPELO, MISSISSIPPI

**STATEMENTS OF NET POSITION****LIABILITIES**

	<b>June 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>CURRENT LIABILITIES:</b>		
Accounts Payable	\$ 4,384,215	\$ 4,482,808
Accrued Expenses	182,415	251,632
Accrued Interest	38,984	40,451
Due to Municipality	83,281	34,171
Customer Deposits	2,940,086	2,816,256
Bonds Payable	305,000	300,000
<b>Total Current Liabilities</b>	<b>7,933,981</b>	<b>7,925,318</b>
<b>NONCURRENT LIABILITIES:</b>		
Budget Billing Advances	6	6
Net Pension Liability	5,766,823	5,429,391
Advances from TVA - For Energy Conservation Loans	171,896	241,361
Bonds Payable	5,398,595	5,745,410
<b>Total Noncurrent Liabilities</b>	<b>11,337,320</b>	<b>11,416,168</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 19,271,301</b>	<b>\$ 19,341,486</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 434,177</b>	<b>\$ 352,917</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	27,567,984	25,794,813
Unrestricted	3,592,843	6,280,631
<b>TOTAL NET POSITION</b>	<b>\$ 31,160,827</b>	<b>\$ 32,075,444</b>

See accompanying notes to the financial statements.

**CITY OF TUPELO - ELECTRIC DEPARTMENT**  
**TUPELO, MISSISSIPPI**  
**STATEMENTS OF REVENUES AND EXPENSES**

	<b>For the years ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>OPERATING REVENUES:</b>		
Residential Sales	\$ 13,156,131	\$ 13,697,779
Commercial Sales	7,845,368	8,348,124
Industrial Sales	28,165,180	29,829,751
Street and Athletic Lighting	1,199,763	1,111,240
Outdoor Lighting	800,212	815,722
Total Electric Revenues	51,166,654	53,802,616
Revenue from Late Payments	196,584	200,995
Customer Service Charge	184,870	184,372
Rent from Electric Property	352,678	340,853
Miscellaneous Revenue	229,837	239,808
Total Operating Revenues	52,130,623	54,768,644
<b>OPERATING EXPENSES:</b>		
Power Purchased	43,166,890	46,391,727
Distribution Expense - Operating	766,742	767,014
Maintenance - General Plant	1,459	595
Distribution Expense - Maintenance	870,453	879,039
Customer Accounting and Collection	782,360	565,111
Customer Service and Information	33,765	40,103
Sales Expense	41,989	41,607
Administrative and General	1,271,382	1,352,556
Depreciation Expense	1,948,389	1,917,102
Taxes and Equivalents	3,471,611	3,325,950
Total Operating Expenses	52,355,040	55,280,804
OPERATING INCOME (LOSS)	(224,417)	(512,160)
<b>OTHER INCOME (EXPENSES):</b>		
Loss on Disposal of Electric Plant	(636,784)	-
Interest Expense	(204,818)	(211,149)
Interest Income	151,402	216,212
Total Other Income	(690,200)	5,063
<b>NET INCOME (LOSS)</b>	<b>\$ (914,617)</b>	<b>\$ (507,097)</b>

See accompanying notes to the financial statements.

**CITY OF TUPELO - ELECTRIC DEPARTMENT**  
TUPELO, MISSISSIPPI  
STATEMENTS OF CHANGES IN NET POSITION

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	<b>For the years ended June 30,</b>	
	<b><u>2020</u></b>	<b><u>2019</u></b>
Balance - Beginning of Year	\$ 32,075,444	\$ 32,582,541
Net Income (Loss) for the Years as Shown on Statements of Revenues and Expenses	<u>(914,617)</u>	<u>(507,097)</u>
Balance - End of Year	<u><u>\$ 31,160,827</u></u>	<u><u>\$ 32,075,444</u></u>

See accompanying notes to the financial statements.

**CITY OF TUPELO - ELECTRIC DEPARTMENT**  
**TUPELO, MISSISSIPPI**  
**STATEMENTS OF CASH FLOWS**

	<b>For the years ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from Customers	\$ 52,831,104	\$ 54,776,474
Payments to Suppliers	(43,629,438)	(47,075,655)
Payments to Employees	(2,269,669)	(2,130,537)
Payments for Other Services and Charges	(4,304,994)	(3,977,117)
Other Receipts (Payments)	21,162	32,761
Net Cash Provided (Used) by Operating Activities	2,648,165	1,625,926
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Due To (From) Municipality	62,626	5,033,098
Net Cash Provided (Used) by Noncapital Financing Activities	62,626	5,033,098
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchases of Capital Assets	(3,936,388)	(6,151,861)
Cost of Removal Net of Salvage	556,643	(139,277)
Principal Paid on Bonds	(300,000)	(280,000)
Interest Paid	(248,100)	(267,090)
Conservation Advances from TVA	(69,465)	(68,548)
Net Cash Provided (Used) by Capital and Related Financing Activities	(4,634,094)	(6,906,776)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest and Dividends	151,402	216,212
Receivable from Customers for Energy Conservation Loans	64,518	72,371
(Increase) Decrease in Receivable from CSA	(5,033)	(3,892)
Net Cash Provided (Used) by Investing Activities	210,887	284,691
Net Increase (Decrease) in Cash Equivalents	(1,712,416)	36,939
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>9,761,682</b>	<b>9,724,743</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 8,049,266</b>	<b>\$ 9,761,682</b>

See accompanying notes to the financial statements.

**CITY OF TUPELO - ELECTRIC DEPARTMENT**

TUPELO, MISSISSIPPI

**STATEMENTS OF CASH FLOWS**

	<b>For the years ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ (224,417)	\$ (512,160)
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	1,948,389	1,917,102
Net Pension Expense	349,190	380,844
Provision for Uncollectible Accounts	(4,994)	(26,586)
Change in Assets and Liabilities:		
Accounts Receivable	762,682	(115,318)
Unbilled Revenue	(3,159)	201,348
Other Accounts Receivable	(1,637)	(18,853)
Materials and Supplies	(101,222)	228,114
Prepaid Expenses	(1,438)	7
Other Current Assets	(31,249)	-
Accounts Payable	(98,593)	(570,712)
Accrued Expenses	(69,217)	(11,280)
Customer Deposits	123,830	153,420
Net Cash Provided (Used) by Operating Activities	\$ <u>2,648,165</u>	\$ <u>1,625,926</u>

See accompanying notes to the financial statements.

## NOTES TO FINANCIAL STATEMENTS

**CITY OF TUPELO - ELECTRIC DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Tupelo, Mississippi - Electric Department is an Enterprise fund of the City of Tupelo. The Department provides electric utility service for customers within the City and in a limited surrounding area.

The accounting policies of the Department conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of significant accounting policies:

Fund Accounting

Governmental basis reports are organized on the basis of funds, each of which is considered to be a separate accounting entity. The transactions of each fund are accounted for with a separate set of self-balancing accounts that include its assets, liabilities, fund balances, revenues, and expenditures/expenses. Resources are allocated to and accounted for in the individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Proprietary Funds

Proprietary Funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position and changes in cash flow. All assets and liabilities associated with a Proprietary Fund's activities are included on its balance sheet. The following are the Proprietary Fund types:

Enterprise Funds

The Enterprise Funds are used for activities which are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Proprietary Fund Types are accounted for on an economic resources measurement focus using the accrual basis of accounting. Revenues are recorded when they are earned, including unbilled water and sewer services which are accrued. Expenses are recorded at the time liabilities are incurred.

**CITY OF TUPELO - ELECTRIC DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Electric Plant

The electric plant is carried at cost. Additions to plant are recorded at cost, which includes materials, labor and overhead. Plant retirements including original cost and removal cost less salvage are charged against appropriate accumulated depreciation accounts. The cost of current repairs and maintenance is charged to appropriate operating expenses and clearing accounts. The cost of renewals and replacements are capitalized.

Straight-line depreciation is provided on a composite basis at prescribed rates that approximate the useful life of the assets. Current rates in effect are: transmission plant - 3%, distribution plant - 2.25% to 5% and general plant - 2% to 10%.

Inventories

Inventories are priced at average cost.

Accounts Receivable

The Department's Customer Accounts Receivable balance, net of unbilled receivables, for June 30, 2020 and 2019 was \$6,292,631 and \$7,050,319, respectively. The net provision for bad debts is calculated by comparing actual annual write offs for the past five 5 years to annual sales revenue. When accounts are 90 to 120 days past due, they are turned over to a collection agency. If the agency is unable to collect the account it is written off as a bad debt, after approval of the Council. All bad debts are written off twice a year. If an account that has been previously written off is collected, it is posted to the bad debt reserve account.

Cash Equivalents

For purposes of the statements of cash flows, the Department considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Estimates

Management and the Council use estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates. Significant estimates used in preparing these financial statements include those assumed in computing the net pension liability, as mentioned in Note 7. It is as least reasonably possible that the significant estimates used will change within the next year.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not used by the Department.

**CITY OF TUPELO - ELECTRIC DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Concentrations of Credit Risks

The Department sells electric utility service to local customers with its facilities located in Tupelo, Mississippi. The Department extends credit to customers located within the City and surrounding areas.

Deferred Outflows / Inflows of Resources

In addition to assets and liabilities, the statement of net position will sometimes report a separate section for deferred outflows and deferred inflows of resources. These separate financial statement elements, deferred inflows and deferred outflows, represent a consumption of net position that applies to future periods (deferred outflows) or an acquisition of net position that applies to future periods (deferred inflows). The Department has deferred outflows and inflows related to pensions. See Note 7 for further details.

Long-Term Debt and Bond Discounts / Premiums

In the financial statements, outstanding debt is reported as liabilities. Bond discounts or premiums are capitalized and amortized over the terms of the respective bonds using a straight line method.

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 the City of Tupelo-Electric Department's participation in the Public Employees' Retirement System of Mississippi (PERS), and additions to/deductions from the City of Tupelo-Electric Department's fiduciary net position have been determined on the same basis as they are reported by the Public Employees' Retirement System of Mississippi (PERS). For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employees' Retirement System of Mississippi (PERS). Investments are reported at fair value.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

**NOTE 2 - CASH, OTHER DEPOSITS AND CASH INVESTMENTS**

*Deposits - Custodial credit risk:* The entity's entire bank balances were covered by federal depository insurance or collateralized in accordance with state law at year end. The collateral for public entities' deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

**CITY OF TUPELO - ELECTRIC DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

**NOTE 3 - ELECTRIC PLANT**

The following is a summary of the electric plant at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
<b>Transmission</b>		
Land and Land Rights	\$ 31,802	\$ 31,802
Poles and Fixtures	1,253,039	1,177,332
Overhead Conductors	<u>613,787</u>	<u>613,787</u>
Total Transmission	<u>1,898,628</u>	<u>1,822,921</u>
<b>Distribution Equipment</b>		
Land & Land Rights	180,345	180,345
Station Equipment	11,722,538	11,317,325
Poles, Towers Etc.	7,840,000	7,642,211
Overhead Conductors and Devices	5,497,478	5,462,933
Underground Conductors and Devices	1,964,190	1,951,758
Underground Conduit	4,374,474	4,027,738
Line Transformers	9,150,973	8,953,972
Service	1,517,516	1,638,210
Meters	7,537,022	2,115,053
Installations on Customer's Premises	2,531,050	2,285,749
Street Lights and Signal System	<u>4,405,159</u>	<u>4,267,547</u>
Total Distribution Equipment	<u>56,720,745</u>	<u>49,842,841</u>
<b>General Plant</b>		
Land and Land Rights	120,866	120,866
Structure and Improvements	1,953,364	1,953,364
Office Furniture and Equipment	81,960	81,829
Transportation Equipment	1,367,059	1,259,826
Stores Equipment	8,065	8,065
Tools, Shop and Garage Equipment	169,114	159,008
Power Operated Equipment	2,360,386	2,345,063
Communications Equipment	49,513	52,107
Miscellaneous Equipment	<u>76,653</u>	<u>76,653</u>
Total General Plant	<u>6,186,980</u>	<u>6,056,781</u>
Total Plant In Service	64,806,353	57,722,543
Construction Work In Progress	<u>1,953,979</u>	<u>6,451,144</u>
Total Plant	<u>66,760,332</u>	<u>64,173,687</u>
Less: Accumulated Depreciation	<u>33,488,753</u>	<u>32,333,464</u>
Net Electric Plant	\$ <u>33,271,579</u>	\$ <u>31,840,223</u>

**CITY OF TUPELO - ELECTRIC DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

**NOTE 4 - RECEIVABLE FROM CUSTOMERS FOR ENERGY CONSERVATION LOANS**

Receivables from customers for energy conservation loans represent unbilled amounts due from customers as a result of their participation in an energy conservation program sponsored by the Tennessee Valley Authority (TVA) in which the customers install energy conservation measures approved by a TVA energy advisor. The installation charges are paid by the Department and billed to the customer over a period of time on the customer's monthly utility bill. TVA reimburses the Department for amounts paid out under the program. Repayments are made to TVA by the Department as collections are made from the customers.

**NOTE 5 - ADVANCES FROM TVA FOR ENERGY CONSERVATION LOANS**

Advances from TVA for energy conservation loans represent the amounts advanced by TVA, net of repayments, under the energy conservation loan program referred to in Note 4.

**NOTE 6 - RECEIVABLE FROM CENTRAL SERVICE ASSOCIATION**

The Department is a member of the Central Service Association. At June 30, 2020 and 2019, the amount loaned to C.S.A. by the Department was \$60,314 and \$55,281. Repayment of the loan will begin upon retirement of the debt for a new building constructed to house the Central Service Association. Interest is payable yearly and the rate at June 30, 2020 and 2019 was 1.25% and 1.25%, respectively. Interest income in the amount of \$383 and \$395 was received for years ended June 30, 2020 and 2019, respectively.

**NOTE 7 - DEFINED BENEFIT PENSION PLAN**

*Plan Description* - Employees of the City of Tupelo-Electric Department are provided a defined benefit pension plan through the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing agent multiple-employer pension plan. The Public Employees' Retirement System of Mississippi (PERS) was created with the purpose to provide pension benefits for all state and public education employees, sworn officers of the Mississippi Highway Safety Patrol, other public employees whose employers have elected to participate in the System, and elected members of the State Legislature and the President of the Senate. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

*Benefits Provided* - For the cost-sharing plan participating members who are vested and retire at or after age 60 or those retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.00% of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.50% for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. A member may elect a reduced retirement allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS

**CITY OF TUPELO - ELECTRIC DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

**NOTE 7 - DEFINED BENEFIT PENSION PLAN - continued**

also provides certain death and disability benefits. In the event of death prior to retirement of any member whose spouse and/or children are not entitled to a retirement allowance, the deceased member's accumulated contributions and interest are paid to the designated beneficiary. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter.

Employee membership data related to the Plan, as of June 30, 2018 was as follows:

Inactive Members or Beneficiaries Currently Receiving Benefits	104,973
Inactive Members Assumed Eligible for a Benefit at Retirement Date	16,578
Inactive Members Assumed Not to Receive Service Retirement Benefits	52,763
Active Members	<u>150,687</u>
Total	<u>325,001</u>

*Contributions* - The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. PERS members are required to contribute 9.00% of their annual covered salary and the City of Tupelo is required to contribute at an actuarially determined rate. The current rate is 17.40% of annual covered payroll. The contributions are deducted from the employees' wages or salary and remitted by the City to PERS on a monthly basis. By law, employer contributions are required to be paid. The employer's actuarially determined contribution and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

For the year ended June 30, 2020, the City of Tupelo-Electric Department's total payroll for all employees was \$2,200,452. Total covered payroll was \$2,118,167. Covered payroll refers to all compensation paid by the Electric Department to active employees covered by the Plan.

*Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions*- At June 30, 2020, the City of Tupelo-Electric Department reported a liability of \$5,766,823 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability percentage used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Tupelo-Electric Department's proportion of the net pension liability was based on a projection of the City of Tupelo-Electric Department's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2019, the City of Tupelo-Electric Department's proportion was 0.032781%.

For the year ended June 30, 2020, the City of Tupelo-Electric Department recognized pension expense of \$349,190. At June 30, 2020, the City of Tupelo-Electric Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**CITY OF TUPELO - ELECTRIC DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

**NOTE 7 - DEFINED BENEFIT PENSION PLAN - continued**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 3,412	\$ 6,207
Changes of Assumptions	56,538	-
Changes in Proportion of Net Pension Liability	-	364,878
City Pension Contributions Subsequent to the Measurement Date	368,561	-
Net Difference Between Projected and Actual Investment Earnings	-	63,092
Total	\$ <u>428,511</u>	\$ <u>434,177</u>

The \$368,561 of deferred outflows of resources resulting from the Electric Department's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Amount
2021	\$ (127,617)
2022	(218,561)
2023	(54,377)
2024	26,328
Total	\$ <u>(374,227)</u>

*Actuarial Assumptions* -The total pension liability was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.00 – 18.50%, average, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates for June 30, 2019 were based on the RP-2014 Healthy Annuitant Blue Collar Table projected Scale BB to 2022, with rates set forward one year for males with adjustments.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2016. The experience report is dated April 18, 2017.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**CITY OF TUPELO - ELECTRIC DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

**NOTE 7 - DEFINED BENEFIT PENSION PLAN - continued**

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2019, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	27.00 %	4.90 %
International Equity	22.00	4.75
Global Equity	12.00	5.00
Debt Securities	20.00	1.50
Real Estate	10.00	4.00
Private Equity	8.00	6.25
Cash Equivalents	1.00	0.25
Total	100.00	

*Discount Rate* - The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current contribution rate (17.40%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. 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.

*Sensitivity of the City of Tupelo-Electric Department's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* -The following presents the City of Tupelo-Electric Department's proportionate share of the net pension liability using the discount rate of 7.75 %, as well as what the City of Tupelo-Electric Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 %) or 1-percentage-point higher (8.75 %) than the current rate:

	Discount Rate	Electric Department's Proportionate Share of Net Pension Liability
1% Decrease	6.75%	\$ 7,179,315
Current Discount Rate	7.75%	5,766,823
1% Increase	8.75%	4,112,594

*Plan Fiduciary Net Position*-Detailed information about the Plan's fiduciary net position is available in the separately issued Public Employees' Retirement System of Mississippi (PERS) financial report.

**CITY OF TUPELO - ELECTRIC DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

**NOTE 8 - LONG-TERM DEBT**

**BONDS PAYABLE**

The Department issued series 2018 special obligation bonds during the year to provide financing for the cost of improvement, repair and extension of the electric system of the City of Tupelo. The bonds are dated April 12, 2018, with a maturity date of May 1, 2033. The bonds have a coupon rate ranging from 2% to 5% with principal and interest payments due semiannually commencing November 1, 2018.

During the fiscal year, the following changes occurred in long-term debt:

	<b>Balances</b>			<b>Balances</b>
	<b>July 1,</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30,</b>
Special Obligation Bonds	\$ 5,460,000	\$ -	\$ 300,000	\$ 5,160,000
Premium	627,225	-	-	627,225
Amortization of Premium	(41,815)	(41,815)		(83,630)
	<u>\$ 6,045,410</u>	<u>\$ (41,815)</u>	<u>\$ 300,000</u>	<u>\$ 5,703,595</u>

The annual debt service requirements to maturity are as follows:

<b>Fiscal Year Ending</b>			
<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 305,000	\$ 239,100	\$ 544,100
2022	315,000	229,950	544,950
2023	325,000	220,500	545,500
2024	335,000	210,750	545,750
2025	350,000	194,000	544,000
2026-2030	2,045,000	688,000	2,733,000
2031-2033	1,485,000	151,000	1,636,000
Total	<u>\$ 5,160,000</u>	<u>\$ 1,933,300</u>	<u>\$ 7,093,300</u>

**NOTE 9 - ECONOMIC DEPENDENCY**

Sales to one major customer during the years ended June 30, 2020 and 2019 totaled approximately \$5,496,558 and \$6,245,884, respectively. This represented approximately 10.5% and 11.3% of the Department's total revenues for the years ended June 30, 2020 and 2019, respectively.

**CITY OF TUPELO - ELECTRIC DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

**NOTE 10 - DUE FROM / TO MUNICIPALITY**

The Electric Department is an Enterprise Fund of the City of Tupelo, thus it has certain inter-fund transfers with other Departments. Customers are billed for electric, water, and sanitation services on the same bill. The Electric Department collects the bills and then disburses the fees collected to the respective departments/funds of the City. The City of Tupelo Accounting and Finance Department provides accounting services to the Electric Department for which it reimburses the General Fund for the cost of services provided. The Electric Department also reimburses the City a portion of the Mayor and City Council salaries based on the amount of time their duties were devoted to the Electric Department. The Electric Department makes in lieu property tax payments to the General Fund based on the Electric Department properties located in the City.

The Department has certain quasi-external transactions, which are reported as revenues and receivables as if they involved organizations external to the City that consist of utility billings to the City departments. Thus, the receivable related to the sale of electric power to the City is recorded in accounts receivable.

The balance of Due From Municipality and Due To Municipality at June 30, 2020 and 2019, consisted of the following:

	<u>2020</u>	<u>2019</u>
Due From Municipality		
General Fund	\$ -	\$ 13,516
Water and Sewer Fund	-	-
Total	<u>\$ -</u>	<u>\$ 13,516</u>
Due To Municipality		
Solid Waste Management	\$ 18,449	\$ 7,958
Water and Sewer Fund	<u>64,832</u>	<u>26,213</u>
Total	<u>\$ 83,281</u>	<u>\$ 34,171</u>

**CITY OF TUPELO - ELECTRIC DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

**NOTE 11 - RISK MANAGEMENT**

The Department is exposed to various risks of losses related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs of the City except for certain employment practices liabilities, certain environmental liabilities, worker's compensation liabilities funded through a public entity risk pool, and catastrophic natural disasters that may exceed insurance coverages for which the City retains the risk of loss.

Risk of loss related to workers compensation for injuries to City employees is covered through the Mississippi Municipal Workers' Compensation Group, a public entity risk pool. The pool was formed on March 28, 1989, by the Mississippi Nonprofit Corporation Act, pursuant to Section 71-3-75, Mississippi Code Annotated (1972), to provide public entities within the State of Mississippi workers compensation and employers' liability coverage. The City pays premiums to the pool for its worker's compensation insurance coverage based on total payroll. The participation agreement provides that the pool will be self-sustaining through member premiums. The risk of loss is remote for claims exceeding the pool's retention liability. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. For insured programs there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The City Attorney estimates that the amount of actual or potential claims against the City as of June 30, 2020 and 2019, will not materially affect the financial condition of the City. Therefore, no provisions have been made for estimated claims. There have been no material claims paid by the City during the current or prior year.

**NOTE 12 - COMMITMENTS AND CONTINGENCIES**

Under its wholesale power agreement, the Department is committed to purchase its power from the Tennessee Valley Authority. The rates paid for such purchases are subject to review annually.

**NOTE 13 - SUBSEQUENT EVENTS**

Date of Management Evaluation

Management has evaluated subsequent events through October 15, 2020, the date on which the financial statements were available to be issued.

## REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF TUPELO - ELECTRIC DEPARTMENT**  
**TUPELO, MISSISSIPPI**  
Schedule of the Department's Proportionate  
Share of the Net Pension Liability  
For the six years ended June 30, 2020

	2020		2019		2018		2017		2016		2015	
Tupelo Electric's proportion of net pension liability (%)	0.032781	%	0.032642	%	0.031707	%	0.030491	%	0.030470	%	0.032011	%
Tupelo Electric's proportionate share of net pension liability	\$	5,766,823	\$	5,429,391	\$	5,270,811	\$	5,446,490	\$	4,560,118	\$	3,580,761
Tupelo Electric's covered payroll	\$	2,118,167	\$	2,104,997	\$	2,065,238	\$	2,074,070	\$	1,967,778	\$	1,903,784
Tupelo Electric's proportionate share of net pension liability as a percentage of its covered payroll (%)	272.26	%	257.93	%	255.22	%	262.60	%	231.74	%	188.09	%
Plan fiduciary net position as a percentage of total pension liability	61.59	%	62.54	%	61.49	%	57.47	%	61.70	%	67.21	%

Schedule is intended to show information for 10 years. Additional years will be available as they become available.  
The accompanying notes to the required supplementary information are an integral part of this schedule.

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**CITY OF TUPELO - ELECTRIC DEPARTMENT**  
**TUPELO, MISSISSIPPI**  
Schedule of the Department's Contributions  
For the seven years ended June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contributions	\$ 368,561	\$ 331,537	\$ 325,275	\$ 326,666	\$ 309,925	\$ 299,846	\$ 308,146
Actual contributions	\$ 368,561	\$ 331,537	\$ 325,275	\$ 326,666	\$ 309,925	\$ 299,846	\$ 308,146
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Department's covered payroll	\$ 2,118,167	\$ 2,104,997	\$ 2,065,238	\$ 2,074,070	\$ 1,967,778	\$ 1,903,784	\$ 1,956,483
Contributions as a % of covered employee payroll	17.40 %	15.75 %	15.75 %	15.75 %	15.75 %	15.75 %	15.75 %

-25-

Schedule is intended to show information for 10 years. Additional years will be available as they become available.  
Contribution rate changed to 17.40% on July 1, 2019.  
The accompanying notes to the required supplementary information are an integral part of this schedule.

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**CITY OF TUPELO – ELECTRIC DEPARTMENT**  
**Notes to the Required Supplementary Information**  
**For the year ended June 30, 2020**

**Changes of Assumptions**

2019 The expectation of retired life mortality was changed to the PubS.H-2010(B) Retiree Table with the following adjustments:

- For males, 112% of male rates from ages 18 to 75 scaled down to 105% for ages 80 to 119.
- For females, 85% of the female rates from ages 18 to 65 scaled up to 102% for ages 75 to 119.
- Projection scale MP-2018 will be used to project future improvements in life expectancy generationally.

The expectation of disabled mortality was changed to PubT.H-2010 Disabled Retiree Table for disabled retirees with the following adjustments:

- For males, 137% of male rates at all ages.
- For females, 115% of female rates at all ages.
- Projection scale MP-2018 will be used to project future improvements in life expectancy generationally.

The price inflation assumption was reduced from 3.00% to 2.75%.

The wage inflation assumption was reduced from 3.25% to 3.00%.

Withdrawal rates, pre-retirement mortality rates, and service retirement rates were also adjusted to more closely reflect actual experience.

The percentage of active member disabilities assumed to be in the line of duty was increased from 7% to 9%.

2017 The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022. Small adjustments were also made to the Mortality Table for disabled lives.

The wage inflation assumption was reduced from 3.75% to 3.25%.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.

The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.

2016 The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

2015 The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015.

The expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015.

**CITY OF TUPELO – ELECTRIC DEPARTMENT**  
**Notes to the Required Supplementary Information**  
**For the year ended June 30, 2020**

**Changes of Assumptions (continued)**

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.

Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

**Changes of Benefit Provisions**

- 2016 Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

## REPORT ON COMPLIANCE AND INTERNAL CONTROL

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

Mayor and City Council  
City of Tupelo, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Tupelo, Mississippi-Electric Department as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Tupelo, Mississippi-Electric Department's basic financial statements and have issued our report thereon dated October 10, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Tupelo, Mississippi-Electric Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Tupelo, Mississippi-Electric Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Tupelo, Mississippi-Electric Department'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 City of Tupelo, Mississippi-Electric Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

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

Franks, Franks, Wilemon & Hagood P.A.

FRANKS, FRANKS, WILEMON & HAGOOD, P.A.

Tupelo, Mississippi

October 15, 2020