

City of Tupelo, Mississippi Electric Department

**Financial Statements
For the year ended June 30, 2021**

Jarrell Group, PLLC
Tupelo, Mississippi
Certified Public Accountants

Draft Copy

**CITY OF TUPELO – ELECTRIC DEPARTMENT
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INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

Honorable 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, 2021 and 2020, 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, 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.

Prior Period Financial Statements

The financial statements of City of Tupelo-Electric Department as of June 30, 2020, were audited by other auditors whose report dated October 15, 2020, expressed an unmodified opinion on those statements.

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 14, 2021 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.

Jarrell Group, PLLC

Jarrell Group, PLLC
Tupelo, Mississippi
October 14, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Required Supplementary Information for the Year Ended June 30, 2021 and 2020

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, 2021 and 2020. 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, 2021 and 2020 fiscal years by \$31,084,249 and \$31,160,827, respectively. Of this amount, \$3,314,864 and \$3,592,843 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, 2021 and 2020 fiscal years, the City of Tupelo – Electric Department reported net position balances of \$31,084,249 and \$31,160,827, a decrease of \$76,578 and a decrease of \$914,617 in comparison to the prior year.
- The City of Tupelo – Electric Department’s total long-term debt outstanding at June 30, 2021 and 2020 was \$5,349,811 and \$5,703,595, 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, 2021 and 2020.

A large portion, 89.3% and 88.5%, 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, 2021 and 2020, 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

	<u>Total 6/30/21</u>	<u>Total 6/30/20</u>
Current and Other Assets	\$ 17,332,064	\$ 17,166,215
Capital Assets	<u>33,119,196</u>	<u>33,271,579</u>
Total Assets	<u>50,451,260</u>	<u>50,437,794</u>
Total Deferred Outflows	<u>711,109</u>	<u>428,511</u>
Current and Other Liabilities	8,114,675	7,933,981
Long-Term Liabilities	<u>11,301,830</u>	<u>11,337,320</u>
Total Liabilities	<u>19,416,505</u>	<u>19,271,301</u>
Total Deferred Inflows	<u>661,615</u>	<u>434,177</u>
Net Position		
Net Investment in Capital Assets	27,769,385	27,567,984
Unrestricted	<u>3,314,864</u>	<u>3,592,843</u>
Total Net Position	<u>\$ 31,084,249</u>	<u>\$ 31,160,827</u>

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

Revenues and Expenses. Approximately 99.8% 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 June 30, 2021 and 2020.

Table A-2

Revenues and Expenses of the City of Tupelo – Electric Department

	<u>Total</u> <u>6/30/21</u>	<u>Total</u> <u>6/30/20</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 51,256,622	\$ 52,130,623
Investment Income	<u>105,154</u>	<u>151,402</u>
Total Revenues	<u>51,361,776</u>	<u>52,282,025</u>
Expenses		
Power Cost	41,420,466	43,166,890
Distribution Expense – Operating	751,607	766,742
Maintenance – General Plant	3,914	1,459
Distribution Expense – Maintenance	1,047,475	870,453
Customer Accounting & Collection	637,892	782,360
Customer Service and Information	35,356	33,765
Sales Expense	41,653	41,989
Administrative and General	1,395,107	1,271,382
Depreciation Expense	2,372,882	1,948,389
Loss on Disposal of Electric Plant	-	636,784
Interest Expense	196,626	204,818
Taxes and Equivalents	<u>3,535,376</u>	<u>3,471,611</u>
Total Expenses	<u>51,438,354</u>	<u>53,196,642</u>
Excess (Deficit) of Revenue		
Over (Under) Expenses	(76,578)	(914,617)
Transfers	<u>-</u>	<u>-</u>
Net Income (Loss)	(76,578)	(914,617)
Net Position – Beginning	<u>31,160,827</u>	<u>32,075,444</u>
Net Position – Ending	<u>\$ 31,084,249</u>	<u>\$ 31,160,827</u>

Business-Type Activities

The City of Tupelo – Electric Department net position decreased by \$76,578 for the fiscal year June 30, 2021 and decreased by \$914,617 for the June 30, 2020 fiscal year which was a 0.25% decrease and a 2.85% 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, 2021 and 2020, amounted to \$33,119,196 and \$33,271,579, respectively, net of accumulated depreciation of \$35,387,934 and \$33,488,753. 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

	<u>Total</u> <u>6/30/21</u>	<u>Total</u> <u>6/30/20</u>
Land	\$ 333,013	\$ 333,013
Distribution Equipment	57,209,332	56,540,400
General Plant	6,139,121	6,066,114
Transmission Equipment	2,690,519	1,866,826
Construction-In-Progress	2,135,145	1,953,979
Accumulated Depreciation	<u>(35,387,934)</u>	<u>(33,488,753)</u>
 Total	 <u>\$ 33,119,196</u>	 <u>\$ 33,271,579</u>

Long-term Debt—Debt—At year-ends June 30, 2021 and 2020, the City of Tupelo – Electric Department had bonds payable in the amount of \$5,349,811 and \$5,703,595, 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 10.8% 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 2021.

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	June 30,	
	2021	2020
ELECTRIC PLANT:		
In Service - at Cost	\$ 68,507,130	\$ 66,760,332
Less: Accumulated Provisions for Depreciation	35,387,934	33,488,753
Net Electric Plant	33,119,196	33,271,579
CURRENT ASSETS:		
Cash and Cash Equivalents	7,866,949	8,049,266
Accounts Receivable - (Net of Provision for Bad Debts of \$88,505 for 2021 and \$69,116 for 2020)	6,551,120	6,292,631
Unbilled Revenue	1,353,568	1,362,437
Other Accounts Receivable	340,770	288,282
Due from Municipality	376	-
Materials and Supplies	855,659	735,534
Prepaid Expenses	60,836	64,280
Other Current Assets	130,285	146,893
Total Current Assets	17,159,563	16,939,323
DEFERRED DEBITS AND OTHER ASSETS:		
Receivable from Customers for Energy Conservation Loans	102,961	166,578
Receivable from Central Service Association (CSA)	69,540	60,314
Total Deferred Debits and Other Assets	172,501	226,892
TOTAL ASSETS	\$ 50,451,260	\$ 50,437,794
DEFERRED OUTFLOWS OF RESOURCES	\$ 711,109	\$ 428,511

See accompanying notes to the financial statements.

CITY OF TUPELO - ELECTRIC DEPARTMENT
TUPELO, MISSISSIPPI
STATEMENTS OF NET POSITION

LIABILITIES	June 30,	
	2021	2020
CURRENT LIABILITIES:		
Accounts Payable	\$ 4,321,693	\$ 4,384,215
Accrued Expenses	381,328	182,415
Accrued Interest	38,325	38,984
Due to Municipality	9,203	83,281
Customer Deposits	3,049,126	2,940,086
Bonds Payable	315,000	305,000
Total Current Liabilities	8,114,675	7,933,981
NONCURRENT LIABILITIES:		
Budget Billing Advances	6	6
Net Pension Liability	6,158,132	5,766,823
Advances from TVA - For Energy Conservation Loans	108,881	171,896
Bonds Payable	5,034,811	5,398,595
Total Noncurrent Liabilities	11,301,830	11,337,320
TOTAL LIABILITIES	\$ 19,416,505	\$ 19,271,301
DEFERRED INFLOWS OF RESOURCES	\$ 661,615	\$ 434,177
NET POSITION		
Net Investment in Capital Assets	27,769,385	27,567,984
Unrestricted	3,314,864	3,592,843
TOTAL NET POSITION	\$ 31,084,249	\$ 31,160,827

See accompanying notes to the financial statements.

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

	For the years ended June 30,	
	2021	2020
OPERATING REVENUES:		
Residential Sales	\$ 13,092,799	\$ 13,156,131
Commercial Sales	7,764,250	7,845,368
Industrial Sales	27,302,123	28,165,180
Street and Athletic Lighting	1,289,414	1,199,763
Outdoor Lighting	794,304	800,212
 Total Electric Revenues	 50,242,890	 51,166,654
 Revenue from Late Payments	 165,190	 196,584
Customer Service Charge	188,141	184,870
Rent from Electric Property	394,335	352,678
Miscellaneous Revenue	266,066	229,837
 Total Operating Revenues	 51,256,622	 52,130,623
OPERATING EXPENSES:		
Power Purchased	41,420,466	43,166,890
Distribution Expense - Operating	751,607	766,742
Maintenance - General Plant	3,914	1,459
Distribution Expense - Maintenance	1,047,475	870,453
Customer Accounting and Collection	637,892	782,360
Customer Service and Information	35,356	33,765
Sales Expense	41,653	41,989
Administrative and General	1,395,107	1,271,382
Depreciation Expense	2,372,882	1,948,389
Taxes and Equivalents	3,535,376	3,471,611
 Total Operating Expenses	 51,241,728	 52,355,040
 OPERATING INCOME (LOSS)	 14,894	 (224,417)
OTHER INCOME:		
Loss on Disposal of Electric Plant	-	(636,784)
Interest Expense	(196,626)	(204,818)
Interest Income	105,154	151,402
 Total Other Income	 (91,472)	 (690,200)
 NET INCOME (LOSS)	 \$ (76,578)	 \$ (914,617)

See accompanying notes to the financial statements.

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

	For the years ended June 30,	
	<u>2021</u>	<u>2020</u>
Balance - Beginning of Year	\$ 31,160,827	\$ 32,075,444
Net Income (Loss) for the Years as Shown on Statements of Revenues and Expenses	<u>(76,578)</u>	<u>(914,617)</u>
Balance - End of Year	<u>\$ 31,084,249</u>	<u>\$ 31,160,827</u>

See accompanying notes to the financial statements.

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

	For the years ended June 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers	\$ 50,949,336	\$ 52,831,104
Payments to Suppliers	(41,856,547)	(43,629,438)
Payments to Employees	(2,062,941)	(2,269,669)
Payments for Other Services and Charges	(4,484,459)	(4,304,994)
Other Receipts (Payments)	21,786	21,162
Net Cash Provided (Used) by Operating Activities	2,567,175	2,648,165
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Due To (From) Municipality	(74,454)	62,626
Net Cash Provided (Used) by Noncapital Financing Activities	(74,454)	62,626
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of Capital Assets	(2,146,947)	(3,936,388)
Cost of Removal of Capital Assets	(99,056)	(87,610)
Salvage Value	25,504	7,469
Principal Paid on Bonds	(305,000)	(300,000)
Interest Paid	(246,069)	(248,100)
Conservation Advances from TVA	(63,015)	(69,465)
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,834,583)	(4,634,094)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and Dividends	105,154	151,402
Receivable from Customers for Energy Conservation Loans	63,617	64,518
(Increase) Decrease in Receivable from CSA	(9,226)	(5,033)
Net Cash Provided (Used) by Investing Activities	159,545	210,887
Net Increase (Decrease) in Cash Equivalents	(182,317)	(1,712,416)
Cash and Cash Equivalents - Beginning of Year	8,049,266	9,761,682
Cash and Cash Equivalents - End of Year	\$ 7,866,949	\$ 8,049,266

See accompanying notes to the financial statements.

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

	For the years ended June 30,	
	2021	2020
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 14,894	\$ (224,417)
Adjustment to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	2,372,882	1,948,389
Net Pension Expense	336,149	349,190
Provision for Uncollectible Accounts	19,389	(4,994)
Change in Assets and Liabilities:		
Accounts Receivable	(277,878)	762,682
Unbilled Revenue	8,869	(3,159)
Other Accounts Receivable	(52,488)	(1,637)
Materials and Supplies	(120,125)	(101,222)
Prepaid Expenses	3,444	(1,438)
Other Current Assets	16,608	(31,249)
Accounts Payable	(62,522)	(98,593)
Accrued Expenses	198,913	(69,217)
Customer Deposits	109,040	123,830
Net Cash Provided (Used) by Operating Activities	\$ 2,567,175	\$ 2,648,165

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

**CITY OF TUPELO - ELECTRIC DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

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, 2021 and 2020

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, 2021 and 2020 was \$6,551,120 and \$6,292,631, 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, 2021 and 2020

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, 2021 and 2020

NOTE 3 - ELECTRIC PLANT

The following is a summary of the electric plant at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Transmission		
Land and Land Rights	\$ 31,802	\$ 31,802
Poles and Fixtures	2,076,732	1,253,039
Overhead Conductors	<u>613,787</u>	<u>613,787</u>
Total Transmission	<u>2,722,321</u>	<u>1,898,628</u>
	<u>2021</u>	<u>2020</u>
Distribution Equipment		
Land & Land Rights	\$ 180,345	\$ 180,345
Station Equipment	11,785,086	11,722,538
Poles, Towers Etc.	8,087,960	7,840,000
Overhead Conductors and Devices	5,609,730	5,497,478
Underground Conductors and Devices	1,969,903	1,964,190
Underground Conduit	4,570,376	4,374,474
Line Transformers	9,284,410	9,150,973
Service	1,254,350	1,517,516
Meters	7,576,287	7,537,022
Installations on Customer's Premises	2,553,265	2,531,050
Street Lights and Signal System	<u>4,517,965</u>	<u>4,405,159</u>
Total Distribution Equipment	<u>57,389,677</u>	<u>56,720,745</u>
General Plant		
Land and Land Rights	120,866	120,866
Structure and Improvements	1,965,551	1,953,364
Office Furniture and Equipment	82,996	81,960
Transportation Equipment	1,399,530	1,367,059
Stores Equipment	8,065	8,065
Tools, Shop and Garage Equipment	172,557	169,114
Power Operated Equipment	2,383,313	2,360,386
Communications Equipment	49,751	49,513
Miscellaneous Equipment	<u>77,358</u>	<u>76,653</u>
Total General Plant	<u>6,259,987</u>	<u>6,186,980</u>
Total Plant In Service	66,371,985	64,806,353
Construction Work In Progress	<u>2,135,145</u>	<u>1,953,979</u>
Total Plant	<u>68,507,130</u>	<u>66,760,332</u>
Less: Accumulated Depreciation	<u>35,387,934</u>	<u>33,488,753</u>
Net Electric Plant	\$ <u>33,119,196</u>	\$ <u>33,271,579</u>

CITY OF TUPELO - ELECTRIC DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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, 2021 and 2020, the amount loaned to C.S.A. by the Department was \$69,540 and \$60,314. 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, 2021 and 2020 was 1.25% and 1.25%, respectively. Interest income in the amount of \$371 and \$383 was received for years ended June 30, 2021 and 2020, 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).

**CITY OF TUPELO - ELECTRIC DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 7 - DEFINED BENEFIT PENSION PLAN - continued

PERS 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 3.00 % 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 3.00% compounded for each fiscal year thereafter.

Employee membership data related to the Plan, as of June 30, 2019 was as follows:

Inactive Members or Beneficiaries Currently Receiving Benefits	107,844
Inactive Members Assumed Eligible for a Benefit at Retirement Date	16,386
Inactive Members Assumed Not to Receive Service Retirement Benefits	57,631
Active Members	<u>150,651</u>
Total	<u><u>332,512</u></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, 2021, the City of Tupelo-Electric Department's total payroll for all employees was \$2,261,854. Total covered payroll was \$2,127,897. 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, 2021, the City of Tupelo-Electric Department reported a liability of \$6,158,132 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability 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, 2021, the City of Tupelo-Electric Department's proportion was 0.03181%.

For the year ended June 30, 2021, the City of Tupelo-Electric Department recognized pension expense of \$336,149. At June 30, 2021, 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, 2021 and 2020**

NOTE 7 - DEFINED BENEFIT PENSION PLAN - continued

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 53,453	\$ -
Changes of Assumptions	34,449	-
Changes in Proportion of Net Pension Liability	-	661,615
City Pension Contributions Subsequent to the Measurement Date	370,254	-
Net Difference Between Projected and Actual investment Earnings	252,953	-
Total	\$ 1,106,719	\$ 661,615

The \$370,254 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, 2021. 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
2022	\$ (239,382)
2023	(138,806)
2024	(33,438)
2025	90,866
Total	\$ (320,760)

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	3.00%
Salary increases	3.25 - 18.50%, average, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on 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. Mortality rates are projected generationally using the MP-2018 projection scale to account for future improvements in life expectancy.

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, 2021 and 2020**

NOTE 7 - DEFINED BENEFIT PENSION PLAN - continued

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2014 to June 30, 2018. The experience report is dated April 2, 2019.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	27.00 %	4.90 %
International Equity	22.00	4.75
Global Equity	12.00	5.00
Debt Securities	20.00	0.50
Real Estate	10.00	4.00
Private Equity	8.00	6.25
Cash Equivalents	1.00	0.00
Total	100.00 %	

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent. 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:

	<u>Discount Rate</u>	<u>Electric Department's Proportionate Share of Net Pension Liability</u>
1% Decrease	6.75%	\$ 7,970,945
Current Discount Rate	7.75%	6,158,132
1% Increase	8.75%	4,661,832

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, 2021 and 2020**

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:

	Balances			Balances
	July 1,	Additions	Reductions	June 30,
Special Obligation Bonds	\$ 5,160,000	\$ -	\$ 305,000	\$ 4,855,000
Premium	627,225	-	-	627,225
Amortization of Premium	(83,630)	(48,784)	-	(132,414)
	<u>\$ 5,703,595</u>	<u>\$ (48,784)</u>	<u>\$ 305,000</u>	<u>\$ 5,349,811</u>

The annual debt service requirements to maturity are as follows:

Fiscal Year			
Ending			
June 30,	Principal	Interest	Total
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	370,000	176,500	546,500
2027-2031	2,145,000	585,750	2,730,750
2032-2033	1,015,000	76,750	1,091,750
Total	<u>\$ 4,855,000</u>	<u>\$ 1,694,200</u>	<u>\$ 6,549,200</u>

NOTE 9 - ECONOMIC DEPENDENCY

Sales to one major customer during the years ended June 30, 2021 and 2020 totaled approximately \$5,689,113 and \$5,496,558, respectively. This represented approximately 10.8% and 10.5% of the Department's total revenues for the years ended June 30, 2021 and 2020, respectively.

CITY OF TUPELO - ELECTRIC DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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, 2021 and 2020, consist of the following:

	2021	2020
Due From Municipality		
General Fund	\$ -	\$ -
Water and Sewer Fund	376	-
Total	\$ 376	\$ -
 Due To Municipality		
Solid Waste Management	\$ 1,424	\$ 18,449
Water and Sewer Fund	7,779	64,832
Total	\$ 9,203	\$ 83,281

CITY OF TUPELO - ELECTRIC DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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, 2021 and 2020, 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 14, 2021, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TUPELO - ELECTRIC DEPARTMENT

Schedule of the Department's Proportionate

Share of the Net Pension Liability

For the seven years ended June 30, 2021

	<u>2021</u>		<u>2020</u>		<u>2019</u>		<u>2018</u>		<u>2017</u>		<u>2016</u>		<u>2015</u>	
Department's proportion of net pension liability (%)	0.031810	%	0.032781	%	0.032642	%	0.031707	%	0.030491	%	0.030470	%	0.032011	%
Department's proportionate share of net pension liability	\$ 6,158,132		\$ 5,766,823		\$ 5,429,391		\$ 5,270,811		\$ 5,446,490		\$ 4,560,118		\$ 3,580,761	
Department's covered payroll	\$ 2,127,897		\$ 2,118,167		\$ 2,104,997		\$ 2,065,238		\$ 2,074,070		\$ 1,967,778		\$ 1,903,784	
Department's proportionate share of net pension liability as a % of its covered payroll	289.40	%	272.26	%	257.93	%	255.22	%	262.60	%	231.74	%	188.09	%
Plan fiduciary net position as a % of total pension liability	58.97	%	61.59	%	62.54	%	61.49	%	57.47	%	61.70	%	67.21	%

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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.

Draft Copy

CITY OF TUPELO - ELECTRIC DEPARTMENT
Schedule of the Department's Contributions
For the eight years ended June 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contributions	\$ 370,254	\$ 368,561	\$ 331,537	\$ 325,275	\$ 326,666	\$ 309,925	\$ 299,846	\$ 308,146
Actual contributions	\$ 370,254	\$ 368,561	\$ 331,537	\$ 325,275	\$ 326,666	\$ 309,925	\$ 299,846	\$ 308,146
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Department's covered payroll	\$ 2,127,897	\$ 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	17.40 %	15.75 %	15.75 %	15.75 %	15.75 %	15.75 %	15.75 %

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Contribution percentage rate went from 15.75% to 17.40% as of July 1, 2019.
The accompanying notes to the Required Supplementary Information are an integral part of this schedule.
Schedule is intended to show information for 10 years. Additional years will be available as they become available.

Draft Copy

CITY OF TUPELO – ELECTRIC DEPARTMENT
Notes to the Required Supplementary Information
For the year ended June 30, 2021

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, 2021

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



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

Honorable 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 - Electric Department as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Tupelo - Electric Department's basic financial statements, and have issued our report thereon dated October 14, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Tupelo - 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 - Electric Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Tupelo - 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 - 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.

Jarrell Group, PLLC

Jarrell Group, PLLC
Tupelo, Mississippi
October 14, 2021