



KENTUCKY MUNICIPAL ENERGY AGENCY

A large, black, lattice-structured high-voltage power line tower stands on the right side of the page, extending from the bottom to the top. Several power lines are visible, stretching from the tower towards the left across the sky. The background is a clear blue sky with a soft, hazy glow near the horizon.

EXECUTING OUR STRATEGY

Annual Report 2020



EXECUTING OUR STRATEGY





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**EXECUTING
OUR STRATEGY**



A MESSAGE FROM OUR CEO AND BOARD CHAIR

The Agency's theme for its 2020 Annual Report is "Executing our Strategy". On June 30, 2020, KYMEA completed its first 14 months of operations. By every measure, the Agency's first year has been a huge success. Our mantra is, "KYMEA's success is driven by its passion combined with efficient execution". The Agency has no shortage of passion, as the KYMEA board and staff have embraced the best-in-class culture that is the underlying DNA of our Agency. KYMEA focuses on what actions it can take to best serve its members, striving to perfect the details through well-organized execution.

KYMEA ACHIEVEMENTS

FIRST YEAR OF OPERATIONS

For its first fiscal year, the KYMEA all requirements members' average system rate was 6.287¢ per kWh, an 8% decrease from fiscal 2018 when the members were purchasing power from Kentucky Utilities. Beyond this important achievement, KYMEA paid-off the Agency's start-up debt and was able to set aside an additional 9.2% for working capital and a reserve fund. An exceptional first year which provided stable and competitive rates in a fiduciary responsible manner.

ALL REQUIREMENTS (AR) PROJECT POWER SUPPLY

KYMEA's initial power supply portfolio was designed with three key attributes: low cost, reliable and flexible. KYMEA's purchase power agreements cap its exposure to high market prices while allowing the Agency to take advantage of low market price opportunities when they present themselves. Creating a flexible portfolio that allowed KYMEA to take advantage of low energy costs while minimizing risk has proven to be a valuable contributor to its early success.

SOLID FINANCIAL FOUNDATION

KYMEA is financially strong, with an A credit rating from Fitch Ratings. KYMEA has a \$30 million line of credit that is used to support project development, collateral postings, and working capital. In 2020, the Agency established its 5-year financial health metrics and key performance indicators (KPI) which assist the board and management in constantly monitoring the Agency's overall financial well-being and targets.

PANDEMIC RESPONSE

To understand the benefits of a joint public power agency, look no further than KYMEA's response to the coronavirus pandemic. To combat the financial distress experienced within KYMEA communities, the KYMEA board adopted a COVID-19 Rate Relief Plan and a Member Late Payment Protection Plan. These programs shift power costs, member usage, and payment risks, which are typically borne by the members, to KYMEA. This type of response to a crisis helps assure business and residents in KYMEA communities that the Agency is in their corner, balancing the needs of the members' customers with the Agency's long-term financial health.



RON HERD
Chairman of the Board

DOUG BURESH
President & CEO



MEMBER COMMUNICATIONS

In 2020, KYMEA entered its 2019 Annual Report and website in the American Public Power Association (APPA) Excellence in Communications contest. KYMEA is pleased to report that the 2019 Annual Report won the Excellence in Public Power Communications and Individual Achievements Award. This is the second year in a row the Agency has won this prestigious award. Equally exciting is KYMEA received the Merit in Public Power Communications Media Award for its website. Outstanding achievements.

PLANNING FOR THE FUTURE

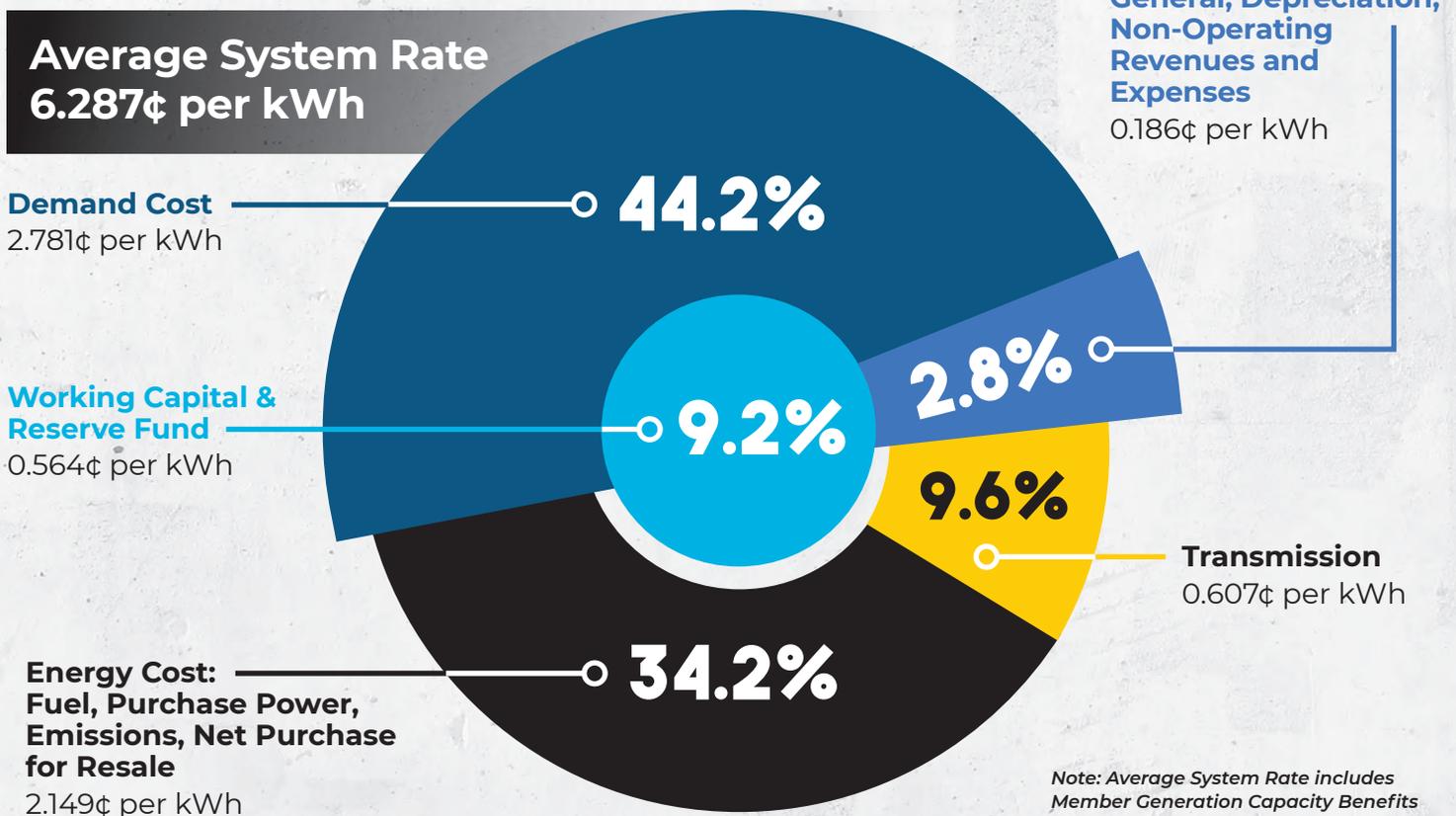
As a public agency, KYMEA works hard to balance transparency with the protection of confidential data and trade secrets in the competitive wholesale power industry. KYMEA is currently preparing its 20-year integrated resource plan (IRP). KYMEA held two video-conferenced IRP community focus group workshops to inform the public on the IRP process and invite their feedback. KYMEA posted videos, materials, and presentations of each session on its website to provide additional outreach.

WHAT IS NEXT

For fiscal year 2021, KYMEA lowered its rate an additional 4.1%, providing the all requirements members further savings.

The execution of our strategy continues to develop through innovation. The Agency is looking to expand its information technology and data transfers across the market analytics, resource planning, and finance and accounting departments, creating dashboards and other reporting tools which focus on the Agency's past, present, and projected future performance.

The Agency's execution is focused on actions that can be taken to further the goals and interests of its members. The utility sector is exposed to many risks such as fuel prices, power prices, and weather. And as we learned in 2020, the ability to adapt to low probability – high impact events such as pandemics is paramount. By focusing on the details, KYMEA expects to have another great year.





BOARD OF DIRECTORS

Kentucky Municipal Energy Agency's Board of Directors sets the policies that govern the Agency's operations. The eleven-member Board of Directors meets monthly. Each member utility appoints a Director and an Alternate Director to serve as their representative on the Board. Directors volunteer their time to represent their utility and to give their community a voice in its power supply decisions. The Board also provides direction and guidance to staff for the management, administration and regulation of KYMEA's business affairs. The Board of Directors must approve all decisions to purchase, construct, or acquire power supply needed to serve its member communities. Our Directors have faithfully served the public power needs of Kentucky for many years and the Agency relies on their experience to continue bringing the most reliable energy solutions to our commonwealth.

Not All Pictured:

Carl Shoupe

Director, Benham Power Board, Benham Director

Doug Hammers

Director, City of Providence Utilities, Mayor

MOLLY ROESLER

Accountant &
Financial Analyst

DOUG BURESH

President & CEO

ROB LEESMAN

VP of Market Analytics

MICHELLE HIXON

Director, Administrative
Services and Communications



RAMONA WILLIAMS
Director
City of Falmouth Utilities
Clerk & Treasurer

JOSH CALLIHAN
Director & Vice Chairman
Barbourville Utilities
General Manager

MIKE WITHROW
Director
City of Paris Combined Utilities
Assistant City Manager

CHRIS MELTON
Director & Secretary
City of Madisonville, Electric Department
Electric Superintendent

PHILIP KING
Director
Bardwell City Utilities
Mayor

GARY ZHENG
Director
Frankfort Plant Board
General Manager

KEVIN HOWARD
Director & Treasurer
City of Berea Municipal Utilities/
Utilities Director

RON HERD
Director & Chairman
City Utilities of Corbin
General Manager

KEVIN FRIZZELL
Director
Owensboro Municipal Utilities
General Manager



HEATHER OVERBY
VP of Finance &
Accounting/ CFO

STAFF

The Kentucky Municipal Energy Agency (KYMEA) operates under the direction of a President who serves at the pleasure of the Board of Directors. The President is the Chief Executive Officer with full responsibility for the planning, operations, and administrative affairs of KYMEA. KYMEA's senior management team has significant experience in the utility industry, with an average of over 25 years of service.



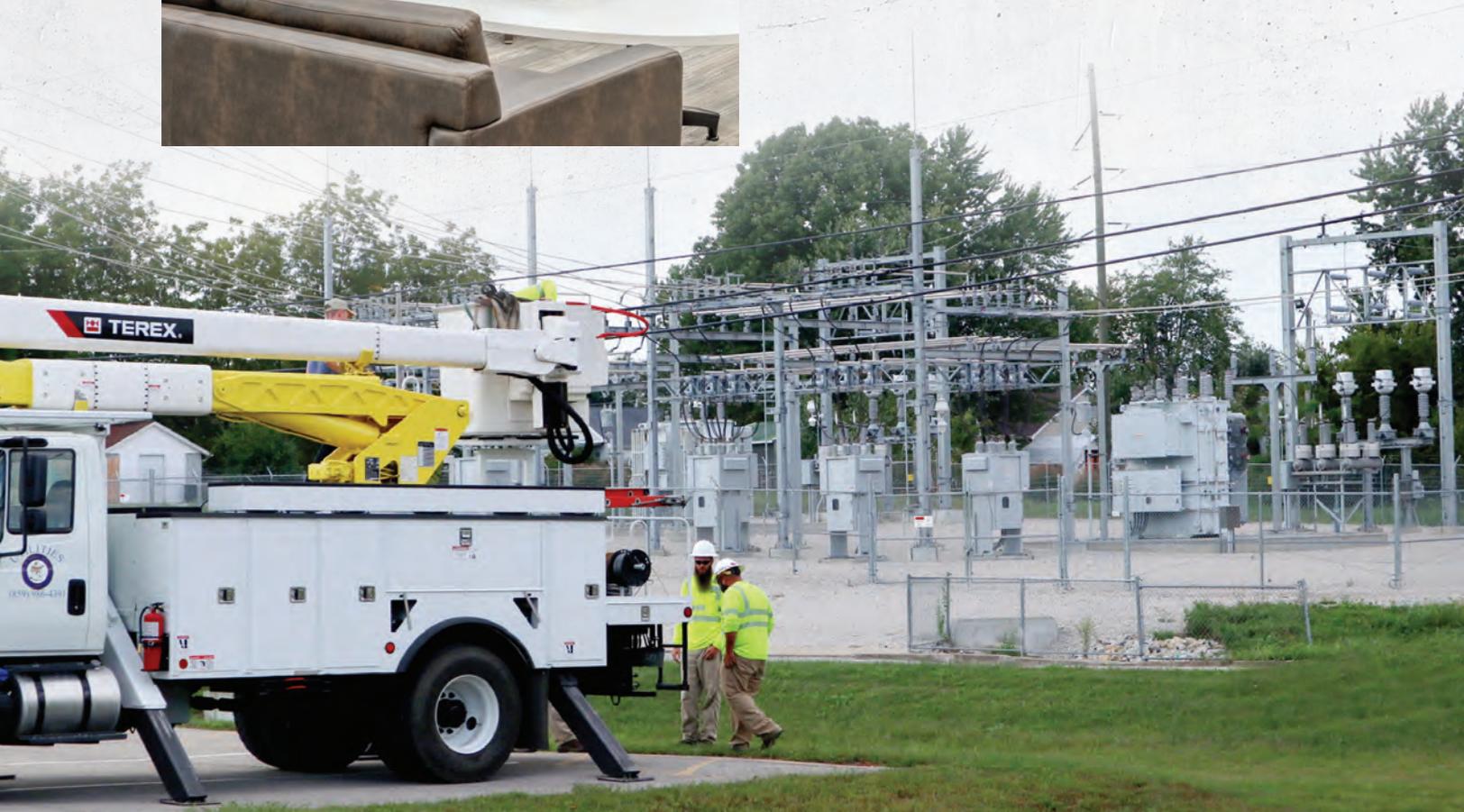
ABOUT KYMEA

KYMEA exists to serve its members. Members may choose to enter into contracts with KYMEA for power supply or other services. Members also have the flexibility to establish projects for the benefit of one or more members, such as the All Requirements Project (AR Project), which has been created to acquire power supply resources to serve the needs of eight participating all requirements members. The business model objective of KYMEA is to provide cost-effective resources and services for the benefit of its members to enable them to achieve objectives they have set for themselves more efficiently and at lower costs than they could achieve individually.



Community Based

Eleven Kentucky communities have formed the Kentucky Municipal Energy Agency to control decisions about their energy costs and to ensure reliable sources of power.



THE VALUE OF PUBLIC POWER

In 49 U.S. states, and five U.S. territories, 49 million Americans use the electricity flowing from 2,011 public power utilities. Each electricity source offers us distinct advantages. Here are the key values we enjoy as public power.

Community Owned

Communities are responsible for public power utilities, the electricity that keeps on giving and serving the Commonwealth. When a community owns public power sources, this in effect opens doors to new local jobs, supplying a meaningful charge to the local economy. The diligent utility staff works hard to light up sports games you love and illuminate grocery store aisles.



Non-Profit

Any surplus revenues pool within the community — all of which supports the population of that community. These surpluses get invested to improve systems, will be distributed among local government leaders to reinforce your community, or even impact you on a more direct level to lower your next electricity bill. No revenues ever wind up lining the pockets of outside shareholders. This public power utility is yours as much as your neighbor's.

Locally Operated

The city runs public power utilities, regulating and governing each through the city council and your board of local representatives. As a resident, your thoughts shape and fuel your community. If your agency sources public power, your voice counts in decisions made about utilities.

Low Cost

Public power utilities have unique advantages when compared to privately-owned utilities: among which includes tax-exempt financing and overall healthier credit ratings. You can come to rely on operational efficiency in a community-owned utility. Additionally, many gain access to more affordable federal hydropower, giving your community the opportunity to enjoy clean energy at a bargain price.

Responsive

Public power utilities are designed with a key focus in mind: making sure customers receive exceptional service and powerhouse beneficial value. A utility delivering electricity that citizens use daily is built to meet community-wide needs. That's why with public power comes responsible environmental stewardship, where power is examined through the lens of sustainability, trustworthy reliability, as well as robust economic development.





VISION, MISSION, VALUES



OUR VISION

We shall positively impact our communities as a trusted leader of power supply and energy related services.



OUR MISSION

Through collaboration and operational excellence, we provide reliable, affordable, and sustainable energy services to the communities we serve.



Integrity

To conduct business in an honest, transparent, just, compliant, and environmentally responsible manner by holding ourselves to high ethical and accountability standards.



Respect

Encouraging constructive dialogue that promotes a culture of inclusiveness, and recognizes our differences while valuing the perspective, talents, and experiences of others.

“We are truly building a diverse portfolio to provide more affordable power for our customers.”

Chris Melton,

*Electric Superintendent of Madisonville Utilities Department
& Chairman of the KYMEA AR Project Committee*

Keeping the lights on is the number one priority for electric utilities, and the challenge is greater than ever with threats ranging from weather to cyber attacks. We ensure that public power is within reach and effectively provided for the benefit of our members.



Fiscal Responsibility

An obligation to be accountable to the fiscal policies of the Agency with budgetary discipline and affordable rates while practicing long-term planning and prudent use of debt.



Member Focused

We are committed to listening and responding positively to our members and their customers.



Operational Excellence

We seek to achieve and maintain the highest level of excellence by performing in a productive and proficient manner, and adhering to best practices while providing a quality workforce.

STRATEGIC PRIORITIES AND GOALS

1 Financial Stability

KYMEA will provide stable and competitive rates in a fiduciarily responsible manner.

1.1 Rates: Annually establish rates that support the Agency's financial health metric and cash reserve policy.

1.2 Reserve Fund: Adopt cash reserve policy by June 30, 2020.

1.3 Financial Health Metrics: Develop financial health metrics scorecard for the Agency by June 30, 2020 and score annually thereafter.



2 Growth

KYMEA will promote organic growth within our communities and seek mutually beneficial new membership opportunities.

2.1 Communication & Education: Enhance KYMEA's brand by hosting two training and educational events annually, beginning January 1, 2020.

2.2 Membership Growth: Seek to grow membership by visiting three potential members annually over the next three years.

2.3 Member Services: KYMEA will identify and evaluate a minimum of one new member service annually for the next three years that brings value to the Agency and the communities we serve.



3 Resource Planning

The KYMEA resource planning process applies modern portfolio theory when assembling its power supply portfolio; focusing on long-term, low-cost, reliable, and sustainable supply while minimizing risk

- 3.1 Long Term Planning:** KYMEA will investigate, analyze, and report on potential resource, and transmission options as part of its 2020 Integrated Resource Plan with updates thereafter.
- 3.2 Low Cost Power Supply:** Develop wholesale rate benchmarks for the Agency by June 30, 2021 and refresh annually thereafter.
- 3.3 Risk Mitigation:** The Internal Risk Committee (IRC) and Board Risk Oversight Committee (BROC) will, at a minimum, hold quarterly meetings to assess, report on, and develop mitigation measures for the board's consideration regarding identified business, energy, and financial risks.



4 Organization

KYMEA will achieve and maintain an organizational structure that supports our vision, mission and core values.

- 4.1 Operations:** The budget committee and staff will evaluate resource needs, compare operations to industry benchmarks, and recommend necessary solutions for the board's consideration as part of the annual budget process.
- 4.2 Governance:** KYMEA will annually provide Board member orientation and materials containing information needed to fulfill their role in the organization.
- 4.3 Legislation:** Promote and support federal, state, and local legislative initiatives that benefit KYMEA and its communities through lobbying efforts by participating in a minimum of two legislative events annually.
- 4.4 Strategic Retreat:** KYMEA will facilitate an annual strategic retreat with the Board of Directors as a way to review and update the Agency's strategic plan.



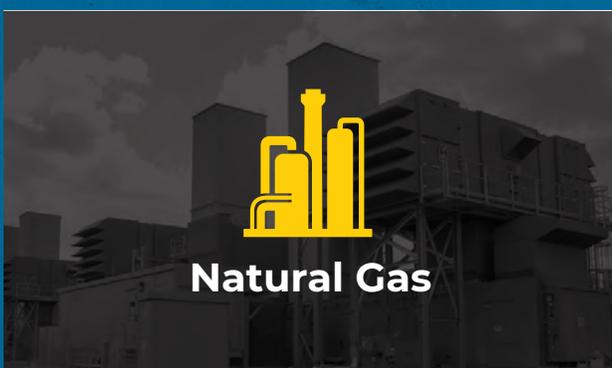
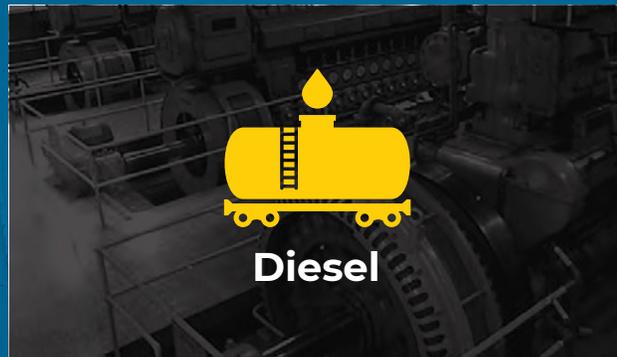
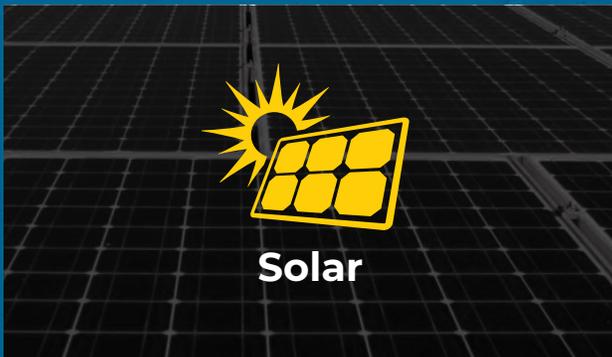
KYMEA'S POWER MIX

The electricity supplied to the Kentucky Municipal Energy Agency's All Requirements (AR) members comes from a variety of power sources including solar, natural gas, coal, and hydroelectric.

KYMEA pulled together its initial set of power supply resources to meet the AR Project needs at significant wholesale power cost savings from the cost of its previous power supply arrangement.

The Agency practices modern portfolio theory (MPT) when assembling its power supply portfolio. The idea behind MPT is to draw from a diverse set of environmentally responsible power supply resource options (fuels, technologies, sizing, timing, location, etc.), focusing on long-term, low cost, stable rates while minimizing risk. Disciplined power supply investing will ensure KYMEA's success for decades to come.

The electricity supplied to the Kentucky Municipal Energy Agency's All Requirements (AR) members comes from a variety of power sources.



**EXECUTING
OUR STRATEGY** 

POWER SUPPLY



Big Rivers Electric Corporation

Location: Centertown & Sebree, KY

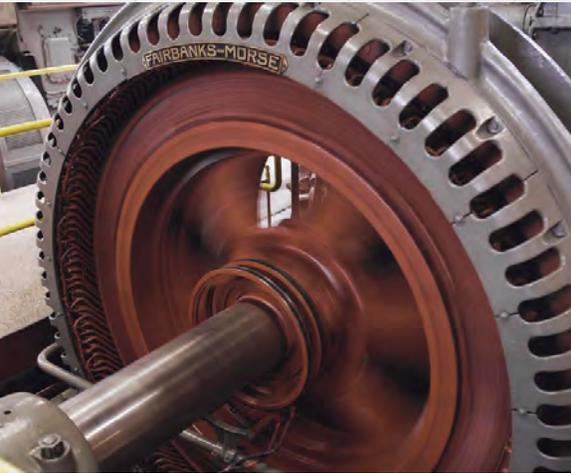
Type: Coal-fired steam plant

Environment: In 2015, Navigant recognized Wilson Station as the Runner-Up with the GKS Fossil Plant Operational Excellence Award

5/31/29
Expiration

100MW
Capacity

PPA



City of Paris Power Plant

Location: Paris, KY

Type: Diesel fuel oil-fired internal combustion plant

History: Their diesel generation power plant began operation in 1933. The #5 unit was used during World War II as a propulsion unit on a Navy Landing Ship Tank.

5/31/29
Expiration

11MW
Capacity

Member
Generation



Joppa Power Station

Location: Metropolis, IL

Type: Subcritical coal-fired steam plant

History: The first unit reached commercial operation in August 1953, and the newest unit reached commercial operation in August 1955.

5/31/22
Expiration

100MW
Capacity

PPA

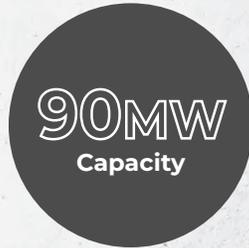
POWER SUPPLY

Paducah Power System

Location: Paducah, KY

Type: Natural gas fired combustion turbine plant

History: The power plant reached commercial operation in June 2010. PPS Power Plant No 1 consists of two 62 MW combustion turbines.

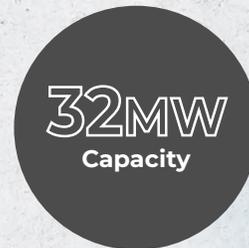


Southeastern Power Administration

Location: Kentucky and Tennessee

Type: Hydroelectric power

History: The first unit reached commercial operation in December 1948, and the newest unit reached commercial operation in November 1977.



ASHWOOD SOLAR |

ONLINE IN
2022

RWE Renewables America LLC

Location: Lyon & Caldwell County, Kentucky

Technology: Bi-facial panels, single-axis tracker, central inverters

Site: Leases executed on 1,680 acres of previously disturbed agricultural parcels that are currently row-cropped and have been in agricultural production for years.

Key Benefits:

Renewable Energy: Project will deliver clean renewable energy for approximately 9% (54MW) of KYMEA load.

Direct Jobs: Project will create approximately 200-250 local construction jobs during 9-to-12 month construction phase.

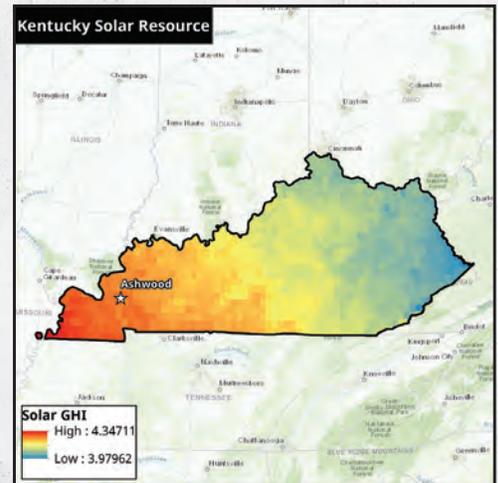
Local Tax Revenue: Project will implement local Industrial Revenue Bond ("IRB") to ensure tax revenue flows to local community.

Long Term Lease Revenue: Project will provide stable income for up to 40 years to local families participating in the project.

Indirect Impacts: Local community will benefit from the increased spending that will flow from construction activities to the local restaurants, gas stations, hotels, and other community members.

Special Considerations:

- RWE intends to use native seeding as part of its erosion control plan.
- Decommissioning Bond will be put in place to ensure land is restored at end of project life.
- RWE to pursue local partnerships with colleges and universities to support Science, Technology, Engineering and Math (STEM) programs.





ELECTRIC VEHICLE CHARGING STATIONS

Government incentives coupled with battery technology improvements have stimulated an increase in electric vehicle (EV) demand across the country. The Energy Information Administration (EIA) expects EV sales to reach an all-time high of 18% of new passenger vehicle sales by 2050. This is encouraging for many, as electrification of the transportation industry transpires, it is also expected to lead in reducing of emissions. The U.S. Department of Energy's National Renewable Energy Laboratory (NREL) conducted an energy use study that predicted the transportation sector will achieve one of the highest growths in load by 2050.

Government agencies, car services, delivery trucks, and entire bus fleets are considering making the commitment to predominately electric vehicles. Public Power utilities can help fleet operators as they make this switch by not only being prepared but providing support and expertise to customers throughout the process.

EVs are more of an asset than many realize. EVs may provide value to the grid by absorbing excess generation from renewable energy resources, curtailing charging during peak hours, and even providing the grid back-up power when needed.



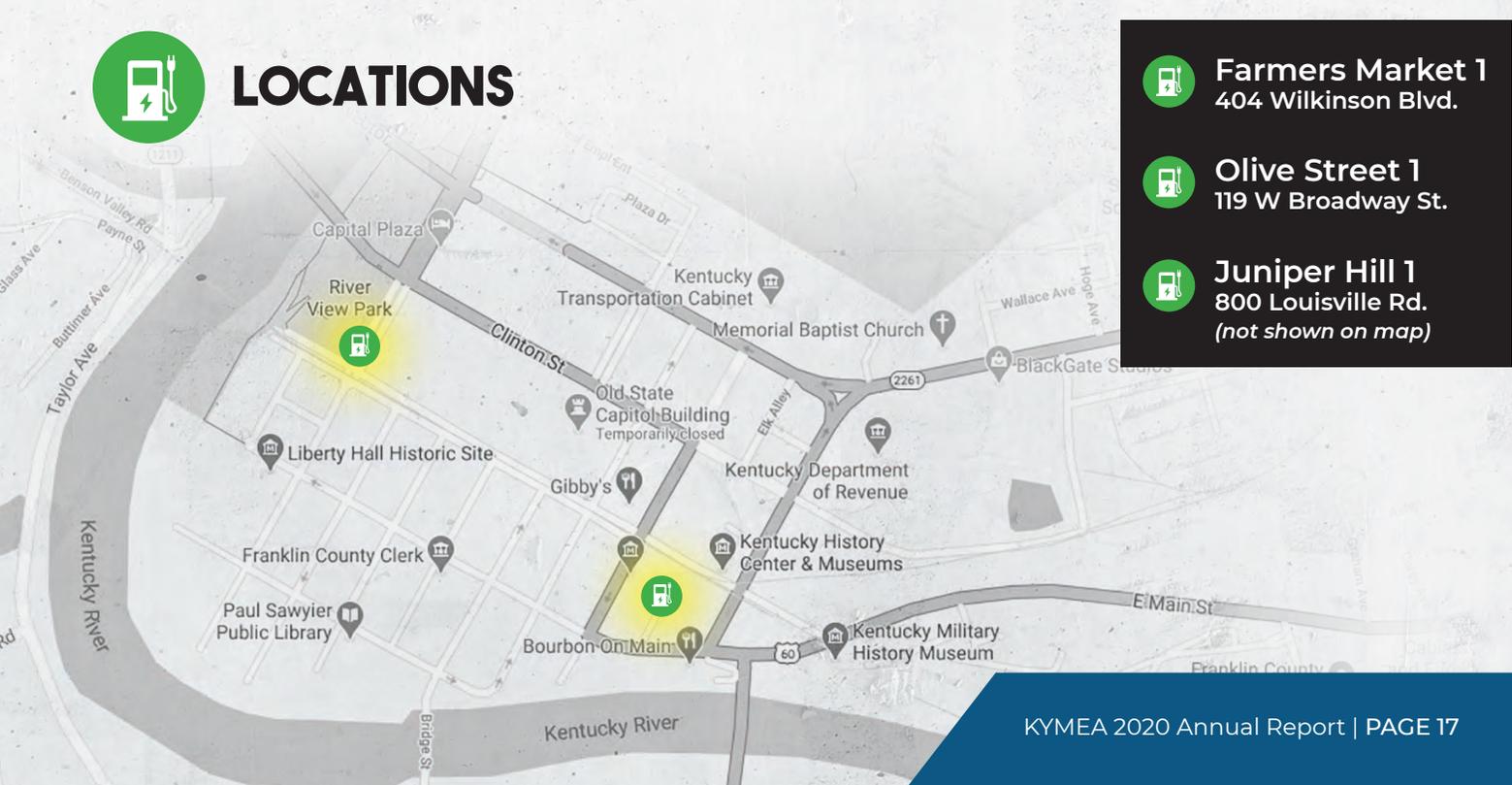


Gary Zheng, General Manager of the Frankfort Plant Board.

As demand for electric vehicles increases in the market, KYMEA members are preparing for how to meet their customer's needs. The Frankfort Plant Board (FPB) is leading by example and has tackled this challenge with ease. FPB invested in their community by providing several charging stations near the downtown area. Not only do these locations allow for the community to charge their vehicle as they visit downtown for business, shopping, eating, or visiting the park; the charging stations are provided free of charge from the City of Frankfort. Parking and charging for an hour or two can provide as much as 50 miles of range which is more than enough for everyday driving needs. It's a fantastic way to draw tourism and economic growth to Frankfort's charming downtown atmosphere. Find more information on FPB's EV charging station locations at <https://www.chargepoint.com>.



LOCATIONS



Farmers Market 1
404 Wilkinson Blvd.



Olive Street 1
119 W Broadway St.



Juniper Hill 1
800 Louisville Rd.
(not shown on map)

LEGISLATIVE RALLY

On February 24-26th, 2020 more than 500 Public Power leaders from across the nation gathered in Washington DC to advocate for public power utilities. The American Public Power Association held its annual Legislative Rally, which gives leaders education, resources, and vital connections to make an impact on the federal level.

Since 1940, the American Public Power Association (APPA) has been the voice of not-for-profit, public power utilities that power more than 2,000 cities in the United States. They are advocating for Kentucky Municipal Energy Agency (KYMEA) and other public power utilities every day. APPA works very hard to protect the interest of over 49 million customers that are powered by municipal electric systems and their employees.

The association held several pre-rally seminars to educate public power leaders on critical legislation and regulations at the federal level, such as efforts to reduce carbon dioxide emissions, maintaining tax-exempt financing for public power utility infrastructure, and public power's exemption to regulate pole attachments. Industry colleagues also shared insight on how to effectively advocate at the local and federal level.

The rally allowed KYMEA Directors, Mayors, and community leaders to sit down with U.S. Senators and Congressmen to inform them and their staff on issues that affect their local utilities and communities. Senate and Congressional leaders



were eager to listen to KYMEA members and understand the impact that energy policies at the federal level have on KYMEA communities.

APPA's former President and CEO, Sue Kelly, was right when she said, "Congress needs to hear the voice of the public power community! This is your opportunity to influence policymakers who can make a difference...you are in the best position to talk to Congress about the direct impact of federal actions at the local level."

Your regular communication with your representatives and senators throughout the year, including participation in our annual Legislative Rally, is a big part of why the American Public Power Association's federal advocacy efforts are so effective. These efforts educate federal lawmakers on how policies impact their constituents back home and which policies require the most urgent attention."

Desmarie Waterhouse
American Public Power Association





A YEAR OF CHALLENGES: COVID-19

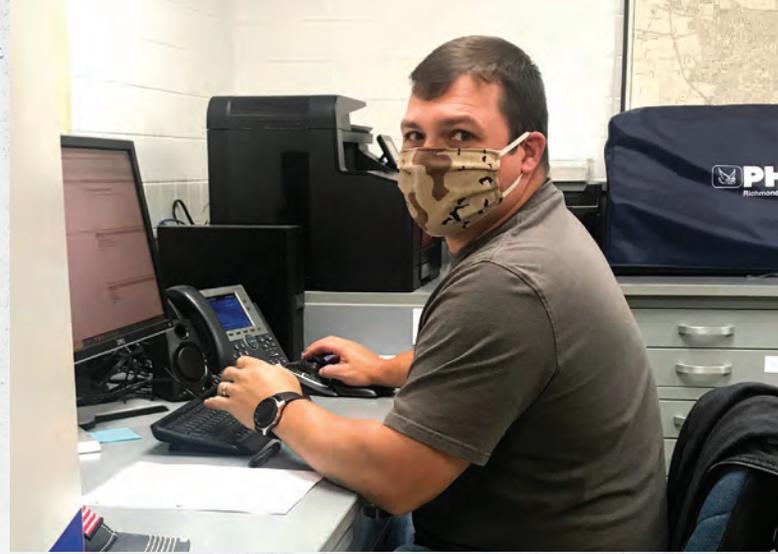
COVID-19 threw everyone for a loop in 2020, and it seemed for a few months that life as we knew it had come to an abrupt halt. While many aspects of our lives did come to a pause, one thing that never changed was the continuation of stellar services by the amazing men and women at our members' utilities. Amid a worldwide pandemic, our communities didn't miss a beat to maintain the excellent service their customers know and love. Utilities worked hard to adapt

normal working environments to protect their customers and employees. Utility offices were closed, homes transformed into offices, and staff members were equipped with technology to continue to provide essential services.

On April 23, 2020, KYMEA took a step further to assess what the Agency could do to alleviate from members and their customer's additional financial stress related to the pandemic. The Directors took a proactive step and passed the Rate Relief Plan (RRP) and the Late Payment Protection Plan (LPPP). The RRP shifted power costs and member usage risks, which are typically borne by the members, to KYMEA. The shift provided certainty to KYMEA members that power bill rates would remain stable while members' customers were trying to reopen and rebound from economic hardship. The LPPP was also passed to give the Agency



Impact
to KYMEA



permission to negotiate late payment fees for members who are experiencing difficulty paying their power bill due to the pandemic's financial stress.

The Agency's steps to invest in the financial recovery and overall well-being of its members' customers is a testament to the relationship of Public Power agencies and its member communities. As a not-for-profit agency, KYMEA has no shareholders to satisfy, and its sole focus is on the customers. Our hats are off to the great men and women in our communities who have worked so hard during the pandemic to keep the lights on!



54

KYMEA Staff worked from home for 54 days.



97

Attended 97+ virtual meetings



\$\$\$\$

KYMEA COVID-19 Rate Relief Plan saved members \$



COMMUNITY SPOTLIGHT

The sun gently dabbles the rolling, verdant mountains that make up the complexion of southeastern Kentucky. There, quietly nestled amid its peaks, lies the town of Barbourville. Established in 1812, its storied past includes historic affairs ranging from Civil War skirmishes to the state's pioneer heritage. However, its rich history is also riddled with natural disasters that have shaped both the landscape and economy of this small, Appalachian community. Its wildly beautiful surroundings, while picturesque, come with consequence. Its location on the Cumberland River coupled with the enclosing, steep slopes make the town conducive to flooding; and, Barbourville has seen its fair share of Mother Nature's most powerful force. Since 1929, Barbourville has seen 11 major floods. But, despite being small, the town's resolve and subsequent, post-disaster solutions have been mighty, recovering stronger every time.

These remarkable recoveries have been thanks to the strong leaders within the Barbourville Utility Commission whose visceral passion for their community has created, implemented, and solidified plans that help protect its citizens and mitigate such disasters. The Utility Commission provides electric, water, and telecommunications to the town and, since its inception in 1938, has only had three general managers: Jack Wharton, Randell Young, and Josh Callihan. All three have fought for their community, keeping it safe and providing incredible, low costs services such as clean water, electric services, cable TV, and robust fiber communications; this is unheard of in small communities. The Utility Commission also has the unique responsibility of managing the town's flood control system. While all general managers have been instrumental in the facility's success, engineer, Randell Young, managed its largest flood which struck Barbourville in 1977.

"The '46 flood caused people to really perk up and consider building a levee," Young said. So, in 1953, construction began on a wall. More than 20,000 ft of levee and floodwall was built in places where there had once been drain pipes. However, just prior to its completion, another flood hit the town. Since the levee wasn't finished, water made its



Torrential rain fell from April 2-5, 1977 causing devastating flooding across southeastern Kentucky and adjacent areas of southern West Virginia, southwestern Virginia, and parts of Tennessee. Fifteen Kentucky counties were declared disaster areas.

Barbourville, KY

*Barbourville Levee Pictures
Flood of April 6, 1977*

way into the town of 3,700. Approximately 80% of the city was inundated to depths as much as 10 ft, and about 200 families were evacuated. More than \$1 million in damage occurred to residential, commercial, and municipal properties. "That would be the last flood to make it in," Young added with a hint of pride.

"Between '55 and '77, there were a lot of floods, so I just knew something had to be done," Young noted. Those floods caused concern among community residents, so Young asked the Mayor and City for help. He wanted to devise an evacuation plan and to build the levee 10 ft higher to protect against future floods. They first reached out to the Army Corps of Engineers thinking that they would help. However, they had never created such a plan. Young then turned inward, asking the community for help, instead. The Utility Commission sent out letters asking for assistance, and around 12 entities showed up, mainly hospitals, nursing homes, and the Boy Scouts. "The Boy Scouts painted the poles red and green designating different evacuation routes," Young recalled. In addition to flood walls, gates and pump stations were also built to protect the city. As the Barbourville community was creating its plan, the Army Corps of

continued



Barbourville Utilities monitors and manages the community's flood wall, complying with federal regulations for inspection and offering public monitoring of Cumberland River levels.

The wall was built following the 1977 flood to protect the city from damage. Torrential rain fell that year, causing floods across southeast Kentucky that killed 10 people. Though the city of Barbourville was evacuated as a precaution, sandbag enforced levees protected the town and held back water.

COMMUNITY SPOTLIGHT

Engineers reached out and decided that they would put it in their mission to help with flood mitigation plans. The evacuation plan was finally finished in September 1976.

Then, the day came – April 2, 1977 – when torrential rain equated a flooded river, and Young’s taller wall and evacuation plan would be put to the test. “A Flood Emergency was declared, so we put it into service that day. It all happened very quickly. The weather service, fire department and sheriff’s department all educated their people on what their roles would be, and we got everyone out of town,” Young said. There were some residents, however, who stuck around to help. “One man’s duty was to keep sandbagging the levee. That’s what he did all day long,” Young recalled. “How many times do you see a cement truck filled with sand getting a police escort?” Young laughed. That day, in addition to providing basic utilities, Young monitored the flood level. He even broadcasted radio warnings and updated residents of impending flood dangers. Young said that the day went “surprisingly well.” No water made it into the town, despite the 45.9’ crest being 3’ higher than the previous levee. After a successful plan execution, the Army Corps of Engineers held a celebration dinner at Pine Mountain State Park. Young, his wife, mom, stepdad, and mother-in-law were the Guests of Honor. Unbeknownst to Young, he was also being honored at the event. “I was awarded a certificate and received a ‘Patriotic Civilian’ pin,” he humbly recalled. “It was one of the proudest moments of my life.”

Decades later, in 1995, the levee was raised to 55.’ At the dedication, the theme was “Never Again.” “That theme concerned me. Mother Nature has her own plans,” Young joked. One fact is certain: Josh Callihan, Barbourville Utility Commission’s current General Manager, had some big shoes to fill when Young retired. Josh’s grit, determination, and foresight have continued to provide the exceptional leadership that Barbourville was accustomed to, and you can be confident that future floods will remain at bay, leaving Barbourville unscathed by Mother Nature’s most powerful element.



Born in 1948, Randell Young grew up hearing about the historic 1946 flood that ravaged Barbourville. The natural disaster evidently influenced his career choice and trajectory, leading him to general manager of the Barbourville Utility Commission – a title he held for 35 years until he passed the torch to Josh Callihan in 2008.

1977 Flood Facts

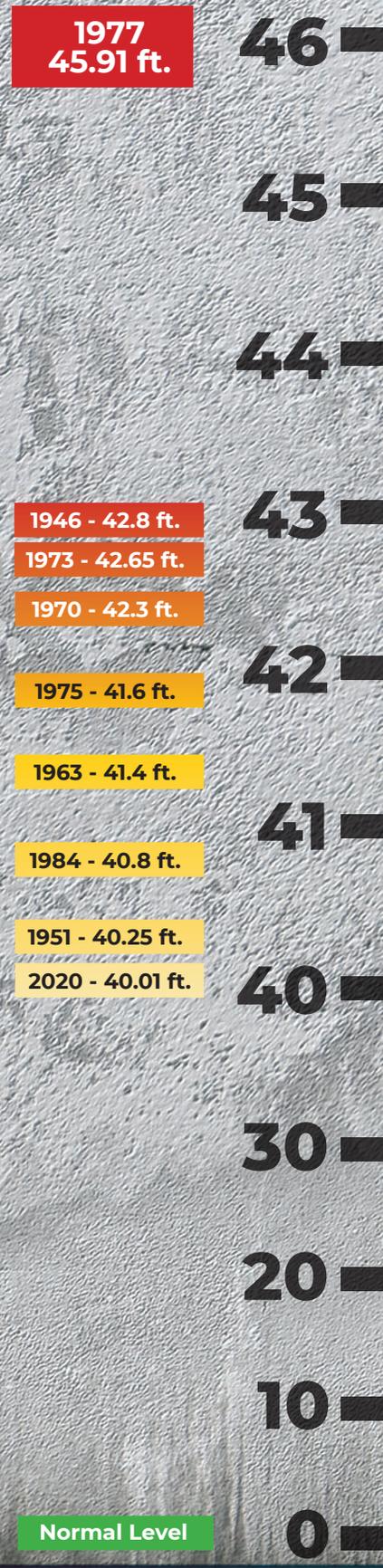
The city of Barboursville's flood wall was raised 10 feet following the flood of 1977.

- Although the city was evacuated, sandbag enforced levees held back the water from coming into the town.
- News broadcasters stayed on until around 2 am, informing people about the flood and helping find loved ones.

Around 2/3 of the 3,000 people who lived in Barboursville had their homes damaged by the flood waters.

- In the early seventies, Barboursville devised two programs to help citizens prepare for destructive flood events: the Flood Emergency Evacuation Plan and the Apple Grove Flood Mitigation Program.
- More than 400 volunteers helped sandbag the flood wall.
- The cost of developing the Flood Evacuation Plan was around \$12,000, with about a \$1,000 annual cost to maintain equipment and supplies.

Around 11,000 sandbags were used.





GIVING BACK

KYMEA staff and the Frankfort Plant Board (FPB) joined together in a community outreach to serve a holiday meal at the Access Soup Kitchen & Men's Shelter downtown Frankfort, KY. It was the Agency's first year to serve what hopes to be a joyous holiday tradition for many years to come. During what should be the "most wonderful time of the year," many are filled with heartbreak, regret, and loneliness. At this time, we were blessed to be able to start this tradition of paying it forward in our communities.

Access has been serving the community of Frankfort since 1984. Its mission is to provide at least one nutritious meal

seven days a week to low-income and disadvantaged individuals, and to provide temporary shelter for men. Lunch is served daily by a community of volunteers, and it was our privilege to partner as a volunteer this year.

Volunteering gave staff an opportunity to get to know folks in the community, and to connect with people that will positively impact our lives and provide a unique perspective to life. Helping the community allowed our team to step out of their comfort zone, make ourselves available to help those who needed it, grow as individuals, and to understand those around us better. It was worth the time to support a

Holiday Outreach in



worthy cause, and it certainly enriched our lives as much as the people we were serving.

KYMEA was blessed to partner with Gary Zheng, the FPB General Manager, and his team during this year's event. Without volunteers, the Access Soup Kitchen & Men's Shelter would not be able to provide essential meals and services to the Frankfort community.



Frankfort Kentucky





FINANCIALS

KYMEA is a financially strong organization, with an A credit rating from Fitch Ratings. KYMEA has a \$30 million line of credit that is used to support project development, collateral postings, and working capital. KYMEA's financial profile is expected to be modest through the foreseeable future, given an initial strategy of purchasing power supplies to meet AR Project Members needs. All of KYMEA's power procurement expenses will be recovered from the AR Project Members on a monthly basis, with liquidity provided by staggered payment dates, a prospective line of credit and cash reserves as they accumulate. No long-term debt is anticipated at this time.

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

KYMEA's independent auditor's responsibility is to express an opinion on the financial statements based on its audit. The recent audit was conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require the auditor to plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements.

The Board of Directors, who are not employees of KYMEA, periodically meet with the independent auditors and management to discuss the audit scope, audit results and any recommendations to improve the internal control structure. The Board of Directors directly engages the independent auditors.

2020 Reports



**EXECUTING
OUR STRATEGY**

Kentucky Municipal Energy Agency

June 30, 2020 and 2019

Contents

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Independent Auditor's Report

Board of Directors
Kentucky Municipal Energy Agency
Louisville, Kentucky

We have audited the accompanying financial statements of Kentucky Municipal Energy Agency (the Agency), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Municipal Energy Agency as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our 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.

BKD, LLP

Lincoln, Nebraska
September 11, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Kentucky Municipal Energy Agency's ("KYMEA" or the "Agency") financial performance provides an overview of the Agency's activities for the fiscal years ended June 30, 2020, 2019 and 2018. It should be read in conjunction with the basic financial statements and the accompanying notes.

Background

KYMEA is a joint agency organized under the Interlocal Cooperation Act of the State of Kentucky. KYMEA was created to allow its Members to collaborate effectively to do all things necessary or convenient to serve the current and future electric power and energy requirements of the Members and to provide assistance to the Members related to their electric power and energy utility systems. The Agency's Members currently consist of the following Kentucky municipalities: Barbourville, Bardwell, Benham, Berea, Corbin, Falmouth, Frankfort, Madisonville, Owensboro, Paris, and Providence (the "Members").

KYMEA was created in 2015 and began supplying power to Members beginning on May 1, 2019. The Agency also incurred costs for administration, which were billed to the Members.

Summary of the Financial Statements

The financial statements, related notes to the financial statements and management's discussion and analysis provide information about KYMEA's financial position and activities.

Management's Discussion and Analysis – provides an objective and easily readable analysis of the financial activities of KYMEA based on currently known facts, decisions or conditions.

Balance Sheets – provide a summary of the assets and deferred outflows of resources, liabilities and deferred inflows of resources and net position of KYMEA, as of the Agency's fiscal year end.

Statements of Revenues, Expenses and Changes in Net Position – present the operating results of KYMEA into various categories of operating revenues and expenses, and non-operating revenues and expenses.

Statements of Cash Flows – report the cash provided by and used for operating activities, as well as other cash sources and uses.

Notes to the Financial Statements – provide additional disclosures and information that is essential to a full understanding of the data provided in the statements.

Financial Analysis

The following comparative condensed financial information summarizes the Agency's financial position, operating results and cash flows for the years ended June 30, 2020, 2019 and 2018.

Condensed Balance Sheets

| | 2020 | 2019 | 2018 |
|--|----------------------|----------------------|-------------------|
| Assets | | | |
| Current assets | \$ 16,643,933 | \$ 15,743,430 | \$ 410,198 |
| Other noncurrent assets | 2,678,471 | 2,276,111 | - |
| Capital assets | 1,317,371 | 1,363,459 | 406,037 |
| Total assets | <u>\$ 20,639,775</u> | <u>\$ 19,383,000</u> | <u>\$ 816,235</u> |
| Liabilities, Deferred Inflows of Resources and Net Position | | | |
| Current liabilities | \$ 8,614,537 | \$ 8,145,713 | \$ 640,561 |
| Noncurrent liabilities | - | 9,032,768 | 392,005 |
| Deferred inflows of resources | 70,198 | - | - |
| Total liabilities and deferred inflows of resources | <u>8,684,735</u> | <u>17,178,481</u> | <u>1,032,566</u> |
| Net position | | | |
| Investment in capital assets | 1,317,371 | 1,363,459 | 54,487 |
| Unrestricted | 10,637,669 | 841,060 | (270,818) |
| Total net position | <u>11,955,040</u> | <u>2,204,519</u> | <u>(216,331)</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 20,639,775</u> | <u>\$ 19,383,000</u> | <u>\$ 816,235</u> |

Current assets increased \$0.9 million from the fiscal year ending June 30, 2019 to the fiscal year ending June 30, 2020. This increase resulted from an increase in unrestricted cash from normal operations during the year. Noncurrent assets increased by \$0.4 million in the same period due to an increase in collateral deposits held by regional transmission organizations.

Current assets increased \$15.3 million from the fiscal year ending June 30, 2018 to the fiscal year ending June 30, 2019. This increase resulted from cash drawn from the line of credit of \$7.7 million and accounts receivable from energy sales to members beginning on May 1, 2019 of \$7.6 million. Noncurrent assets increased by \$2.3 million in the same period due to collateral deposits held by regional transmission organizations.

Current liabilities increased \$0.5 million from the fiscal year ending June 30, 2019 to the fiscal year ending June 30, 2020. This increase was related to the timing of purchased power expenses to serve the electricity needs of KYMEA's members. Noncurrent liabilities decreased by \$9.0 million in the same period due to the line of credit being paid off during fiscal year 2020.

Current liabilities increased \$7.5 million from the fiscal year ending June 30, 2018 to the fiscal year ending June 30, 2019. This increase was entirely related to purchased power expenses to serve the electricity needs of KYMEA's All Requirements members beginning on May 1, 2019.

Condensed Statements of Revenues, Expenses and Changes in Net Position

| | 2020 | 2019 | 2018 |
|--------------------------------------|---------------|---------------|--------------|
| Operating revenues | \$ 80,073,606 | \$ 15,488,616 | \$ 2,195,330 |
| Operating expenses | 70,316,505 | 12,968,750 | 2,514,447 |
| Operating income (loss) | 9,757,101 | 2,519,866 | (319,117) |
| Net nonoperating revenues (expenses) | (6,580) | (99,016) | (88) |
| Change in net position | 9,750,521 | 2,420,850 | (319,205) |
| Net position - Beginning of Year | 2,204,519 | (216,331) | 102,874 |
| Net position - End of Year | \$ 11,955,040 | \$ 2,204,519 | \$ (216,331) |

During May 2019, KYMEA began providing electricity to its All Requirements member communities; therefore, the fiscal year ended June 30, 2020 contains a full twelve months of related operating revenues, as well as purchased power and production costs, related to this service and the fiscal year ended June 30, 2019 contains two months of related operating revenues, as well as purchased power and production costs, related to this service. All increases in operating revenues and operating expenses from the fiscal years ending June 30, 2018 to 2019, and June 30, 2019 to 2020 are a result of this activity.

Financing

In December 2018, the Board approved the Agency to execute a revolving line of credit agreement, expiring March 1, 2021 for advances up to \$30,000,000. Advances under this agreement bear interest at thirty-five basis points (0.35%) above One Month LIBOR, and interest is payable semi-annually. The amount outstanding under this line of credit was \$9,032,768 as of June 30, 2019. There were no amounts outstanding under this line of credit as of June 30, 2020.

In July 2017, the Board approved the Agency to execute a revolving line of credit agreement, expiring October 19, 2019 for advances up to \$5,000,000. Advances under this agreement bear interest at two percent (2%) above One Month LIBOR, and interest is payable semi-annually. The amount outstanding under this line of credit was \$392,005 as of June 30, 2018.

Capital Assets

The agency's investment in capital assets (net of accumulated depreciation) as of June 30, 2020 and 2019 totaled \$1,317,371 and \$1,363,459, respectively. This investment includes transportation equipment and building improvements and other equipment related to the Agency's office headquarters.

General Trends and Significant Events

KYMEA will continue to search for additional power and energy resources for its Members, which may include purchased power agreements, investments in power projects and other sources. KYMEA's goal is to establish a portfolio with renewable, coal and natural gas resources to provide more flexibility in response to market changes and future regulations.

Contact Information

This financial report is designed to provide a general overview of KYMEA's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Heather Overby, Chief Financial Officer, 1700 Eastpoint Parkway, Louisville, KY 40223, (502) 640-1304.

Kentucky Municipal Energy Agency

Balance Sheets

June 30, 2020 and 2019

| | 2020 | 2019 |
|--|---------------|---------------|
| Assets | | |
| Current Assets | | |
| Cash | \$ 8,941,609 | \$ 7,755,194 |
| Accounts receivable | 7,620,246 | 7,977,472 |
| Prepaid expenses and other assets | 11,880 | 10,764 |
| Fair value of derivative instruments | 70,198 | - |
| Total current assets | 16,643,933 | 15,743,430 |
| Collateral Deposit | 2,678,471 | 2,276,111 |
| Capital Assets, Net of Accumulated Depreciation | 1,317,371 | 1,363,459 |
| Total assets | \$ 20,639,775 | \$ 19,383,000 |
| Liabilities, Deferred Inflows of Resources and Net Position | | |
| Current Liabilities | | |
| Accounts payable | \$ 8,428,989 | \$ 8,001,235 |
| Accrued liabilities | 185,416 | 125,347 |
| Accrued interest payable | 132 | 19,131 |
| Total current liabilities | 8,614,537 | 8,145,713 |
| Line of Credit | - | 9,032,768 |
| Deferred Inflows of Resources | | |
| Deferred inflows from derivative instruments | 70,198 | - |
| Total liabilities and deferred inflows of resources | 8,684,735 | 17,178,481 |
| Net Position | | |
| Investment in capital assets | 1,317,371 | 1,363,459 |
| Unrestricted | 10,637,669 | 841,060 |
| Total net position | 11,955,040 | 2,204,519 |
| Total liabilities, deferred inflows of resources and net position | \$ 20,639,775 | \$ 19,383,000 |

Kentucky Municipal Energy Agency
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2020 and 2019

| | 2020 | 2019 |
|---|-----------------------------|----------------------------|
| Operating Revenues | | |
| Billings to members | <u>\$ 80,073,606</u> | <u>\$ 15,488,616</u> |
| Total operating revenues | <u>80,073,606</u> | <u>15,488,616</u> |
| Operating Expenses | | |
| Production and purchased power | 61,031,150 | 7,314,580 |
| Transmission | 7,401,625 | 2,942,783 |
| Depreciation | 176,122 | 79,134 |
| Other operating expenses | <u>1,707,608</u> | <u>2,632,253</u> |
| Total operating expenses | <u>70,316,505</u> | <u>12,968,750</u> |
| Operating Income | <u>9,757,101</u> | <u>2,519,866</u> |
| Nonoperating Revenues (Expenses) | | |
| Interest expense | (26,302) | (107,487) |
| Interest income | <u>19,722</u> | <u>8,471</u> |
| Total nonoperating revenues (expenses) | <u>(6,580)</u> | <u>(99,016)</u> |
| Change in Net Position | <u>9,750,521</u> | <u>2,420,850</u> |
| Net Position, Beginning of Year | <u>2,204,519</u> | <u>(216,331)</u> |
| Net Position, End of Year | <u><u>\$ 11,955,040</u></u> | <u><u>\$ 2,204,519</u></u> |

Kentucky Municipal Energy Agency
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|---------------------|
| Cash Flows From Operating Activities | | |
| Receipts from members | \$ 80,430,832 | \$ 7,851,449 |
| Payments to service providers and others | (68,786,310) | (4,480,061) |
| Payments to employees | (867,366) | (917,210) |
| Collateral deposit remittances | (402,360) | (2,276,111) |
| | <u>10,374,796</u> | <u>178,067</u> |
| Cash Flows From Noncapital Financing Activities | | |
| Advances from line of credit | 37,000,000 | 11,445,933 |
| Payments on line of credit | (46,032,768) | (2,805,170) |
| Interest payments | (45,301) | - |
| | <u>(9,078,069)</u> | <u>8,640,763</u> |
| Cash Flows From Capital and Related Financing Activities | | |
| Purchase of capital assets | (130,034) | (1,043,902) |
| Interest payments | - | (89,647) |
| | <u>(130,034)</u> | <u>(1,133,549)</u> |
| Cash Flows From Investing Activities | | |
| Interest income | 19,722 | 8,471 |
| | <u>19,722</u> | <u>8,471</u> |
| Net Increase in Cash | 1,186,415 | 7,693,752 |
| Cash, Beginning of Year | <u>7,755,194</u> | <u>61,442</u> |
| Cash, End of Year | <u>\$ 8,941,609</u> | <u>\$ 7,755,194</u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | | |
| Operating income | \$ 9,757,101 | \$ 2,519,866 |
| Depreciation | 176,122 | 79,134 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 357,226 | (7,637,167) |
| Prepaid expenses and other assets | (1,116) | (2,313) |
| Fair value of derivative instruments | (70,198) | - |
| Collateral deposit | (402,360) | (2,276,111) |
| Accounts payable | 427,754 | 7,395,734 |
| Accrued expenses | 60,069 | 98,924 |
| Deferred inflows from derivative instruments | 70,198 | - |
| | <u>\$ 10,374,796</u> | <u>\$ 178,067</u> |

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2020 and 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Kentucky Municipal Energy Agency (“KYMEA” or the “Agency”) is a joint agency organized under the Interlocal Cooperation Act of the State of Kentucky. KYMEA was formed in 2015 to allow its Members to collaborate effectively to do all things necessary or convenient to serve the current and future electric power and energy requirements of the Members and to provide assistance to the Members related to their electric power and energy utility systems. The Agency’s Members currently consist of the following Kentucky municipalities: Barbourville, Bardwell, Benham, Berea, Corbin, Falmouth, Frankfort, Madisonville, Owensboro, Paris, and Providence (the “Members”).

Eight of the eleven Members have entered into All Requirements Power Sales Contracts (“Contracts”). Under the Contracts, these eight members will purchase all power and energy needed to meet their respective retail requirements, beginning May 1, 2019, and the Contracts also obligate these members to provide revenue sufficient to allow the Agency to meet its obligations, including those related to power purchases, administration and prospective debt issuance.

KYMEA’s Board of Directors (the “Board”) is comprised of representatives from each of the Members. The Board directs and makes all significant decisions relating to the operations of the Agency.

Reporting Entity

In evaluating how to define the Agency for financial reporting purposes, management has considered all potential component units for which financial accountability may exist. The determination of financial accountability includes consideration of a number of criteria, including: (1) the Agency’s ability to appoint a voting majority of another entity’s governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on the Agency and (3) the entity’s fiscal dependency on the Agency. Based upon the above criteria, KYMEA has determined that it has no reportable component units.

Basis of Presentation

KYMEA’s activities are accounted for on the economic resources measurement focus and use the accrual basis of accounting. KYMEA’s accounting records are maintained in accordance with accounting principles generally accepted in the United States of America for regulated utilities and generally follow the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). KYMEA prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2020 and 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Estimates

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

Accounts Receivable

Accounts receivable are stated at the amount billed to the Members. Accounts receivable are due immediately upon issuance of the invoice, which is ordinarily 20 days after the end of the prior month. Management does not believe an allowance for doubtful accounts is necessary at June 30, 2020 and 2019.

Collateral Deposit

KYMEA is a transmission dependent utility of both the Midcontinent Independent System Operator (MISO) and PJM Interconnection LLC (PJM), regional transmission organizations whose purpose is to ensure the reliability of their respective integrated, regional electrical transmission systems, to facilitate a regional wholesale marketplace, to provide non-discriminatory access to the transmission system and to maintain and improve electric system reliability.

The collateral deposit represents funds remitted to these organizations as a form of financial assurance to secure the Agency's performance under the terms and conditions of the respective MISO or PJM Tariffs related to the purchase of transmission service, market services, ancillary services, and related products or services.

Capital Assets

Capital assets are stated at cost less accumulated depreciation. Depreciation is charged to expense on the straight-line basis over the estimated useful life of each asset. The following estimated useful lives are being used by the Agency:

| | |
|-----------------------|--------------|
| Building improvements | 15 years |
| Equipment | 5 - 10 years |

Compensated Absences

Agency policies permit employees to accumulate vacation, personal time and sick leave benefits that may be realized as paid time off or as a cash payment upon retirement. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absences are computed using the regular pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2020 and 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Net Position Classification

Net position is required to be classified into three components – investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

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

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), contributors, or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The Agency has no net position that meets the restricted definition at June 30, 2020 and 2019.

Unrestricted - This component of net position consists of the net amount of assets and liabilities that do not meet the definition of “restricted” or “investment in capital assets.”

Classification of Revenues and Expenses

Operating revenues and expenses are defined as revenues and expenses directly related to, or incurred in support of, the future procurement and distribution of power and energy to KYMEA’s Members. Operating revenues currently include billings to Members to cover Agency administration costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Derivative Instruments

Derivative instruments are utilized by the Agency to manage market risk and reduce exposure resulting from fluctuations in prices of power and energy. These instruments include commodity swap agreements. Additional information regarding these instruments is shown in Note 5.

Income Taxes

KYMEA, as a unit of local government of the State of Kentucky, is exempt from federal and state income taxes.

Adoption of Accounting Standards

At the beginning of the year ended June 30, 2020, the Agency adopted GASB Statement No. 84, *Fiduciary Activities* and paragraphs 4 and 5 of GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. Adoption of GASB No. 84 and GASB No. 97 had no effect on the Agency’s financial statements.

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2020 and 2019

Note 2: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposit may not be returned to it. The Agency's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance, bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Kentucky, bonds of any city, county, school district or special road district of the State of Kentucky or a surety bond having an aggregate value at least equal to the amount of the deposits.

The Federal Deposit Insurance Corporation (FDIC) insures transaction accounts for government deposits up to \$250,000 per official custodian at each covered institution. At June 30, 2020 and 2019, the carrying amount of the Agency's deposits were \$8,941,609 and \$7,755,194 and the bank balances were \$8,942,109 and \$7,771,133, respectively. At June 30, 2020 the Agency's deposits exceeded FDIC coverage and collateral held by approximately \$8,692,109.

Note 3: Capital Assets

Capital asset activity for the years ended June 30, 2020 and 2019 was as follows:

| | July 1, 2019 | Increase | Decrease | Transfers | June 30, 2020 |
|--------------------------------|---------------------|--------------------|-------------|-------------|---------------------|
| Equipment | \$ 1,191,078 | \$ 130,034 | \$ - | \$ - | \$ 1,321,112 |
| Building improvements | 253,638 | - | - | - | 253,638 |
| Less: accumulated depreciation | (81,257) | (176,122) | - | - | (257,379) |
| Totals | <u>\$ 1,363,459</u> | <u>\$ (46,088)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,317,371</u> |

| | July 1, 2018 | Increase | Decrease | Transfers | June 30, 2019 |
|--------------------------------|-------------------|-------------------|-------------|----------------|---------------------|
| Construction work in progress | \$ 372,498 | \$ 1,036,556 | \$ - | \$ (1,409,054) | \$ - |
| Equipment | 35,662 | - | - | 1,155,416 | 1,191,078 |
| Building improvements | - | - | - | 253,638 | 253,638 |
| Less: accumulated depreciation | (2,123) | (79,134) | - | - | (81,257) |
| Totals | <u>\$ 406,037</u> | <u>\$ 957,422</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,363,459</u> |

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2020 and 2019

Note 4: Line of Credit

In March 2019, the Agency executed a revolving line of credit agreement, expiring March 1, 2020 for advances up to \$30,000,000. This agreement was later extended to March 1, 2021. Advances under this agreement bear interest at thirty-five basis points (0.35%) above One Month LIBOR, and interest is payable semi-annually. The amount outstanding under this line of credit was \$0 and \$9,032,768 as of June 30, 2020 and June 30, 2019, respectively. This agreement is collateralized by substantially all assets of the Agency and secured by a pledge of the revenues from the Agency's Contracts with the Members.

Note 5: Derivative Instruments

Objectives and Terms of Derivative Instruments

The Agency has entered into commodity swaps to hedge changes in cash flows and reduce exposure due to fluctuations in the market price of energy. These commodity swaps are considered derivative instruments under the provisions of GASB Codification Section D40, *Derivative Instruments*. The fair value of the commodity swaps are based on actual settlements at June 30, 2020.

Cash Flow Hedges – Cash flow hedges are derivative instruments associated with a hedgeable item that significantly reduce an identified financial risk by substantially offsetting changes in cash flows or fair values of the hedgeable item. At June 30, 2020, the positive fair value of commodity swaps considered cash flow hedges is classified as a current asset on the balance sheet, with an offsetting deferred inflow of resources for the same amount. The change in fair value of cash flow hedges was an increase of \$70,198 for 2020. The change in fair value is reflected within deferred inflows from derivative instruments in 2020.

During 2020, the Agency had pay-fixed, receive variable commodity swaps with a national energy corporation. The Agency pays the predetermined fixed price and the counterparty pays the variable price, which is based on the Indiana Hub Day-Ahead settlement price for the contractual hour. As of June 30, 2020, the counterparty was rated A- by Standard & Poor's and Baa1 by Moody's Investors Service.

The fair value of the Agency's derivative instruments at June 30, 2020 is \$70,198.

A summary of objectives and terms of the Agency's derivative instruments at June 30, 2020, (all contracts are structured with a quantity of 19,600 MWh per contract) follows:

| Notional Amount | Trade Date | Effective Date | Termination Date | Fixed Price per MWh |
|--------------------------|------------|-----------------|------------------|---------------------|
| Cash Flow Hedges: | | | | |
| | | Hourly starting | Hourly through | |
| 19,600 MWh | 6/15/2020 | 7/1/2020 | 8/31/2020 | \$ 19.70 |
| 19,600 MWh | 6/26/2020 | 7/1/2020 | 8/31/2020 | \$ 18.50 |

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2020 and 2019

Note 5: Derivative Instruments – Continued

Objectives and Terms of Derivative Instruments – Continued

Credit Risk – Credit risk is the risk that an issuer or other counterparty to a transaction will not fulfill its obligations. At June 30, 2020, for the swaps with a positive fair value, the Agency was exposed to credit risk in the amount of the fair value of the swaps. The Agency reduces its exposure to credit risk by requiring the counterparty to maintain credit ratings as defined in contract documents.

Termination Risk – The Agency or the counterparties may terminate the swaps if either party fails to perform as outlined in the terms of the contracts. If a swap agreement is terminated, each party will make the calculations on its part, and will provide to the other party a statement showing relevant quotations and specifying any amount payable according to the applicable swap agreements.

Basis Risk – The Agency is exposed to basis risk on the swaps because the variable payments on the commodity swaps are based on the Indiana Hub Day-Ahead pricing point, which is different than the pricing point used by the Agency to purchase power. The basis difference can vary depending on the geographical location of the pricing point.

Note 6: Operating Leases

The Agency has entered into a noncancellable operating lease for office space expiring in fiscal year 2024. The lease contains two renewal options for 60 months each. The Agency took occupancy of the office space on August 1, 2018 and recorded rent expense of \$163,587 and \$146,490 for the years ended June 30, 2020 and 2019, respectively.

Future minimum lease payments at June 30, 2020 were:

| | | |
|------|----|---------|
| 2021 | \$ | 162,695 |
| 2022 | | 164,426 |
| 2023 | | 164,426 |
| 2024 | | 41,107 |

Note 7: Retirement Plans

The Agency offers all employees a deferred compensation plan, created in accordance with Internal Revenue Code Section 457 (“457 Plan”). The 457 Plan permits employees to defer a portion of their salary until termination, retirement or death.

The Agency also sponsors a defined contribution retirement savings plan, created in accordance with Internal Revenue Code Section 401(a). All full-time employees are eligible to participate in this plan. The Agency contributes 10% of base wages to eligible employees. Eligible employees are those that contribute a minimum of 3% to the 457 Plan. Employer contributions of \$72,032 and \$74,747 were made for the fiscal years ended June 30, 2020 and 2019, respectively.

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2020 and 2019

Note 7: Retirement Plans - Continued

Assets and liabilities of the retirement plans are not included in the Agency's financial statements as all assets are held and managed by a third-party administrator and the retirement plans are not considered to be component units of the Agency under the applicable accounting guidance.

Note 8: Commitments

Purchased Power Agreements

KYMEA expects to supply nearly all of its power requirements through a portfolio of purchased power agreements. The Agency currently has three purchased power agreements in effect, with varying terms, to supply its power requirements beginning May 1, 2019. The first agreement is a 10 year arrangement with Big Rivers Electric Corporation (BREC) for 100 megawatts (MW) of firm base load capacity from BREC's portfolio of owned resources. The second agreement is a three year contract with Illinois Power Marketing Company (IPMC) for 100 MW of capacity from IPMC's 500MW Joppa Power Station, which consists of three coal-fired generating units. The final agreement provides for an initial nomination of 90 MW of peaking capacity from Paducah Power System.

KYMEA has also entered into an agreement to purchase 62.5% of the capacity from Ashwood Solar I, LLC upon Commercial Operation, for a period of 20 years. KYMEA expects to start receiving energy from Ashwood Solar I, LLC in 2022.

Note 9: Risk Management

KYMEA is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries to agents and others; and natural disasters. The Agency carries commercial insurance, subject to certain limits and deductibles, to reduce the financial impact for claims arising from such matters. Claims have not exceeded this commercial coverage in any of the three preceding years.

Note 10: Subsequent Event

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Agency. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.



EXECUTING OUR STRATEGY

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