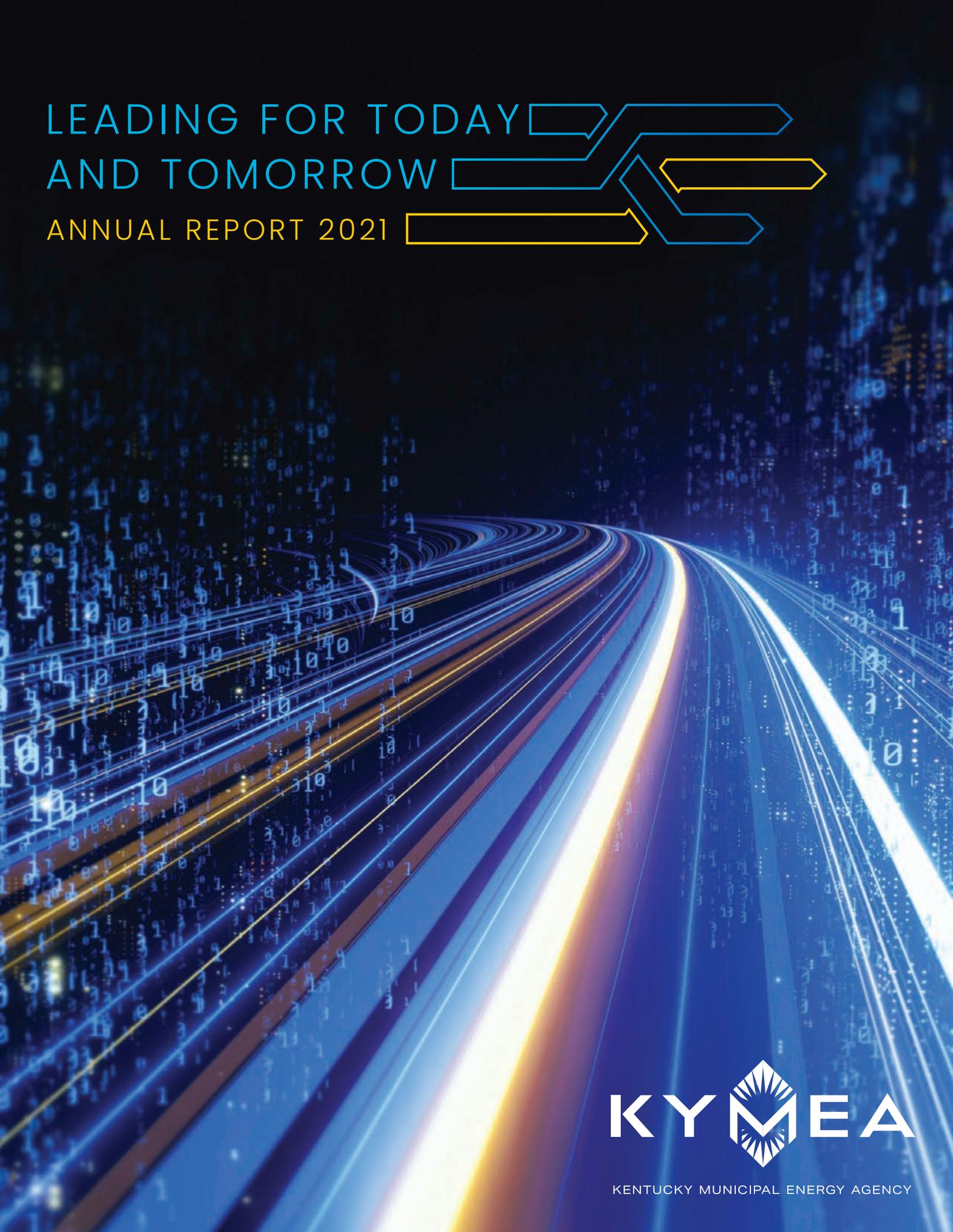


LEADING FOR TODAY  
AND TOMORROW  
ANNUAL REPORT 2021



KENTUCKY MUNICIPAL ENERGY AGENCY

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# A MESSAGE FROM OUR CEO AND BOARD CHAIR

KYMEA | ANNUAL REPORT 2021

2021 can be summed up by a single word – “Resilience.” Resilience is the capacity to recover quickly from or adjust easily to adversity or change. Since the start of the COVID-19 pandemic, the Kentucky Municipal Energy Agency (KYMEA) has navigated the challenges of the pandemic by balancing member rates, operational reliability, and financial health.

Electricity is an essential service, and it is more critical than ever to deliver competitively priced electricity to our member communities. Our priority throughout the heart of the pandemic and in dealing with its aftermath was to maintain the health and safety of the KYMEA staff while ensuring a reliable electric supply for our member communities. By every measure, 2021 was a very successful year.

## KYMEA ACHIEVEMENTS

### **FLEXIBLE OPERATIONS**

For fiscal year 2021, the KYMEA All Requirements members’ average system rate was 6¢ per kWh, a 4.6% decrease from the previous year. To combat the financial distress experienced within the KYMEA communities caused by the pandemic, KYMEA extended, for a second year, the COVID-19 Rate Relief Plan and the Member Late Payment Protection Plan. These programs shift power costs, member usage, and payment risks, typically borne by the members, to KYMEA. This type of continued response to a crisis assures customers located in a KYMEA community that the Agency is in their corner, balancing the needs of the member’s customers with the Agency’s long-term financial health.

KYMEA’s flexible purchase power agreements allow the Agency to take advantage of low market price opportunities when they present themselves. For example, during the pandemic, the value of these agreements was on full display as wholesale electricity, and natural gas prices were at their lowest levels in over a decade. Our flexible portfolio allowed

KYMEA to take advantage of low wholesale energy prices, saving KYMEA millions of dollars.

### **SOLID FINANCIAL FOUNDATION**

KYMEA is a financially strong organization with an A credit rating from Fitch Ratings. KYMEA has a \$30 million line of credit used to support project development, collateral postings, and working capital. In addition, the Agency established its 5-year financial health metrics and key performance indicators, which assist the Board and management in regularly monitoring the Agency’s overall financial well-being.

In 2021, KYMEA exceeded all financial health metric targets. The Agency completed the fiscal year with 72 days cash on hand (DCOH) and \$2.6 million in net income, which was favorable to budget by 9 DCOH and \$1.0 million in net income.

### **PLANNING FOR THE FUTURE**

In July, KYMEA published its Integrated Resource Plan



JOSH CALLIHAN | Chairman of the Board



DOUG BURESH | President & CEO

(IRP2020). IRP2020 is a comprehensive report analyzing the Agency’s current power supply and future options against risk scenarios to develop a new portfolio for the Agency’s near-term needs. IRP2020 shows KYMEA has adequate resources between member-owned generation and purchase power agreements to meet the members’ needs through 2027.

Key priorities of the IRP2020 include Reliability – Assure an ample supply of resources with transmission rights to reliably meet the members’ load requirements under extreme conditions. Stable and competitive power supply costs – Plan for and establish power supply resources to allow members to provide stable and affordable rates to their customers. Environmental stewardship – Responsibly manage the environmental impacts of KYMEA’s power supply portfolio consistent with achieving a reliable power supply portfolio and stable and competitive power supply costs.

To ensure the community was involved in the IRP process, KYMEA held two video-conferenced IRP community focus group workshops to inform the public on the process, inviting the public to share their feedback. KYMEA posted videos, materials, and presentations of each session on its website to provide additional viewing opportunities.

**ADDRESSING RISK**

KYMEA reinforced its cybersecurity with increased layers of security and redundancy. In addition, the Agency is studying the February 2021 Polar Vortex, which produced blackouts and financial ruin in the SPP and ERCOT RTOs. The changing U.S. resource mix, which is rapidly becoming more reliant on

natural gas and intermittent renewables, adds new levels of market risk that KYMEA continues to address and manage.

**WHAT IS NEXT FOR 2022**

For the fiscal year 2022, KYMEA is holding its rates steady, while absorbing nearly \$1 million dollars of LG&E/KU network transmission costs that are normally charged directly to the member communities.

While the 2020 COVID-19 lockdowns and reduced load produced energy prices at their lowest level in over a decade, the 2021 reopening of the world economy has produced a boomerang effect. Supply chain bottlenecks and disruptions, hyperinflation, and increased world energy demand have pushed power and natural gas prices to new heights. Fortunately, KYMEA’s flexible purchase power agreements cap our exposure to high market prices and present opportunities for additional revenue in the wholesale electricity market.

**We know that providing competitively priced, dependable power is fundamental for our member communities. KYMEA will continue with our mission of providing affordable, reliable energy. We look ahead with a clear vision of the future of our organization through our strategic plan and integrated resource planning efforts. Let’s keep building on our accomplishments.**

*Josh Callihan Doug Buresh*

# BOARD OF DIRECTORS



**JOSH CALLIHAN** | Director & Chairman  
Barbourville Utility Commission  
General Manager



**RON HERD** | Director & Former Chairman  
City Utilities of Corbin  
General Manager



**CHRIS MELTON** | Director & Vice Chairman  
City of Madisonville, Electric Department  
Electric Superintendent



**KEVIN HOWARD** | Director & Secretary  
City of Berea Municipal Utilities  
Utilities Director



**DOUG HAMMERS** | Director  
City of Providence  
Utilities, Mayor



**PHILIP KING** | Director  
Bardwell City Utilities  
Mayor



**CARL SHOUBE** | Director  
Benham Power Board  
Benham Director



**RAMONA WILLIAMS** | Director  
City of Falmouth Utilities  
Clerk & Treasurer

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. KYMEA 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 the Commonwealth.

# STAFF



**DOUG BURESH**  
President & CEO



**HEATHER OVERBY**  
VP of Finance &  
Accounting/CFO



**ROB LEESMAN**  
VP of Market Analytics



**MICHELLE HIXON** | Director,  
Administrative Services  
and Communications



**GARY ZHENG** | Director & Treasurer  
Frankfort Plant Board  
General Manager



**KEVIN FRIZZELL** | Director  
Owensboro Municipal Utilities  
General Manager



**MIKE WITHROW** | Director  
City of Paris Combined Utilities  
Assistant City Manager



**MOLLY ROESLER**  
Accountant &  
Financial Analyst

# 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.



## BARBOURVILLE

Barbourville, Kentucky  
Population: 3,165  
barbourville.com



## BARDWELL

Bardwell, Kentucky  
Population: 723



## BENHAM

Benham, Kentucky  
Population: 500

## PUBLIC POWER UTILITIES ARE:

- Not for profit
- Community-owned
- Locally controlled



**Berea**  
#experiencebera

### BEREA

Berea, Kentucky  
Population: 15,844  
[bera.ky.gov](http://bera.ky.gov)



### CORBIN

Corbin, Kentucky  
Population: 7,304  
[corbinutilities.com](http://corbinutilities.com)

**FALMOUTH**  
Founded in 1793

### FALMOUTH

Falmouth, Kentucky  
Population: 2,139  
[cityoffalmouth.com](http://cityoffalmouth.com)



# FRANKFORT

Capital of Kentucky

## FRANKFORT

Frankfort, Kentucky  
Population: 25,527  
fpb.cc



# Madisonville

"The Best Town on Earth"

WELCOMES YOU

## MADISONVILLE

Madisonville, Kentucky  
Population: 19,591  
madisonvillegov.com



# OWENSBORO

only in owensboro

## OWENSBORO

Owensboro, Kentucky  
Population: 59,643  
omu.org



*Paris*

HORSES • HISTORY • HOSPITALITY

**PARIS**

Paris, Kentucky  
 Population: 8,553  
[paris.ky.gov](http://paris.ky.gov)



*PROVIDENCE*  
 KENTUCKY

**PROVIDENCE**

Providence, Kentucky  
 Population: 2,981  
[providenceky.com](http://providenceky.com)

**PUBLIC POWER STATS AND FACTS**



**NOT FOR PROFIT**



**COMMUNITY-OWNED**



**LOCALLY CONTROLLED**

One in seven Americans are served by a public power utility. More than 2,000 communities – in 49 states and 5 U.S. territories – have a public power utility.

As a whole, public power utilities have lower rates than other types of electric utilities.

- Residential customers of public power utilities pay 11% less than customers of investor-owned utilities
- Public power utilities generate more than \$60 billion in annual revenue and invest more than \$2 billion annually directly back into the community.
  - Payments in lieu of taxes
  - Providing hometown jobs
  - Offering free or reduced cost electric services
  - Supporting local causes and charities

# VISION, MISSION, VALUES

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.



## 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.



## 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.



### 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.



### 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.

# NEW BOARD CHAIRMAN

KYMEA's Board of Directors Chairman, Ron Herd, has served as the Agency's Chairman since 2015. During his service and the Agency's formative years, he provided tremendous leadership and direction. On May 27th, the Board of Directors honored former Chairman Herd's years of service with a diamond plaque. Thank you, Ron, for your dedication and service to KYMEA!

Former Chairman Herd passed the gavel to a new chairman, but not a new Director. Josh Callihan, General Manager of Barbourville Utility Commission, has also served the Agency as the Vice Chairman since its inception in 2015. The Agency and its Directors are looking forward to the leadership, enthusiasm, and years of experience Chairman Callihan will bring in his new role.

## THANKS TO RON HERD

As a fellow founding member of KYMEA, I want to thank Ron Herd for his exceptional leadership while serving as our Board Chairman since 2015. Ron's years of experience and understanding of board functions have been instrumental in the growth and success of KYMEA.

Through his experience and knowledge, Ron has been a steady leader for KYMEA from our earliest beginnings with the formation of our Agency until now; delivering cost-effective power to our members through a diverse portfolio.



## PASSING THE GAVEL TO A NEW KYMEA CHAIRMAN

**Josh Callihan** (Left)

*General Manager, Barbourville Utility Commission*

**Ron Herd** (Right)

*General Manager, City Utility Commission of Corbin*

# COVID-19 DEMAND RECOVERY

During the pandemic, a balance was drawn between the health of individuals and the health of the economy. In Kentucky, there has been an ebb and flow of the temporary closing of businesses and schools to slow the spread of the virus coupled with the reopening of these facilities to limit the devastating impact on the economy. The temporary closing of businesses and schools and the shift to remote offices has had a significant impact on KYMEA's loads.

## **FOR FISCAL YEAR 2021 (JULY 2020 THROUGH JUNE 2021), KYMEA'S LOADS WERE APPROXIMATELY 10% UNDER BUDGET.**

It is unclear how much of the lost load KYMEA experienced during the pandemic is going to be permanent load destruction. In December 2020, the U.S. Food and Drug Administration issued an emergency use authorization for two COVID-19 vaccines. The FDA approved the Pfizer-BioNTech COVID-19 Vaccine on August 23, 2021.

States are rapidly distributing the vaccine; however, herd immunity is not expected to occur until sometime in 2022. Using the herd immunity estimate as a guide, KYMEA is projecting its load to recover by April 2022. KYMEA does not expect significant load destruction; however, it is likely that home offices and working remotely will become more prevalent which will likely cause a shift in usage behavior that may slow the recovery.



# IRP2020 ROADMAP

KYMEA identified through least-regrets planning a near-term action plan that represented a balance of low cost, low risk, and flexibility to meet the members' near-term resource needs. The near-term Action Plan outlines the specific activities to implement.

- Reduce PPS Peaking Capacity
- Additional MISO Point-to-Point Transmission/LKE NITS
- DEI Capacity and Energy PPA
- RWE Ashwood Solar I Project
- Dynamic Schedule
- Enterprise Risk Management



Power Green Kentucky gives members' retail customers the option to request up to 100% green energy. The green energy is sourced from the Ashwood Solar I Project and SEPA Hydro. When a member's customer participates in the program, KYMEA allocates that portion of its renewable portfolio to the customer who purchased the Green Power. KYMEA charges the member for the green power; and the member, in turn, charges the retail customer.



## NEW MEMBER SERVICES

### TVPPA

KYMEA members have access to monthly industry training, certification, and safety programs at a reduced rate.

### CYBERSECURITY SUPPORT

Provide economies of scale for cybersecurity assistance and collaboration to KYMEA members.

### POWER CONSERVATION ALERT PROGRAM (PCA)

The PCA program is to notify customers of KYMEA's request for voluntary power conservation measures.



Drive Green Kentucky is a program to support and encourage the advancement of electric vehicle (EV) use in our member communities. KYMEA's partnership with members, businesses, community leaders, and automakers will contribute to a reduction in emissions, make Kentucky's roads EV friendly, and bring additional revenue to local communities.



## BATTERY DEMONSTRATION PROJECT

Generally, grid-scale batteries are either paired with a generating resource, such as a solar facility, or placed on the transmission and distribution system, such as at substations. Utilizing batteries for grid-scale operation potentially provides benefits for KYMEA, but there is much to learn before making this type of investment. As part of the long-term action plan, KYMEA will investigate opportunities for battery demonstration projects paired with the Ashwood Solar I facility.



## SEEM

SEEM is an automated platform that connects energy buyers and sellers to achieve cost savings by facilitating efficient bilateral intra-hour energy transactions utilizing available (unsubscribed) transmission capability.

KYMEA developed and analyzed 4 long-term power supply plans combined with nine scenarios as part of IRP2020. The Agency also analyzed two completely carbon-free plans, which included storage and did not rely on fossil generation. KYMEA's long-term focus is on the next tranche of resource and transmission needs beginning in 2027. The Agency's next IRP, which will likely be published in 2024, will continue addressing those needs.

In addition to long-term power supply and transmission planning, KYMEA is also investigating the following long-term action items

- New Member Services
  - TVPPA
  - Member Cybersecurity Support
  - Power Conservation Alert Program (PCA)
- SEEM
- Power Green Kentucky
- Battery Demonstration Project
- Drive Green Kentucky

# KYMEA'S FUTURE POWER MIX

The KYMEA business model is to provide cost-effective resources for the benefit of its member communities to enable them to achieve objectives they have set for themselves more efficiently and at lower costs than they could achieve individually. The Agency balances competitive wholesale power rates with strong fiscal responsibility and operational excellence.

In July of 2021, KYMEA published its IRP2020. IRP2020 developed a strategy for KYMEA to meet its near-term power demand and provides a 20-year blueprint on how KYMEA can best succeed in meeting the future demand for power. The plan provides the next chapter in KYMEA's ongoing success in a continually changing industry and regulatory environment; and better positions KYMEA to

meet many of the challenges facing the power sector in the coming years.

In developing IRP2020, KYMEA enlisted the help of subject matter experts and the public at large to ensure we considered a wide range of resource options and a wide breadth of plausible resource plans. Today, the pace of change within the utility industry is staggering. Therefore, integrated Resource Planning efforts are essential in how KYMEA broadens its view of the future in an ever-changing world.

KYMEA's existing power supply portfolio includes contracts under which KYMEA purchases power from multiple resources over various periods of time. The

## COAL FIRED/NATURAL GAS

- BIG RIVERS ELECTRIC CORPORATION (100 MW)
- JOPPA POWER STATION (100 MW)
- PADUCAH POWER SYSTEM (90 MW)
- CITY OF PARIS POWER PLANT (11 MW)

## HYDROELECTRIC

- SOUTHEASTERN POWER ADMINISTRATION (32 MW)



diversity of KYMEA's existing portfolio of contracts in terms of counterparty, type, location, and contract term was an intentional risk mitigation consideration of KYMEA's past power supply planning efforts.

At the end of May of 2022, the 3-year 100 MW IMPC-Joppa coal-fired purchase power agreement expires. To meet its expected near-term needs through 2026, the Joppa capacity and energy will be replaced with a 20-year 86 MW purchase of solar generation from RWE and a 5-year 60 MW slice of system purchase from Duke Energy-Indiana. KYMEA's portfolio is continually reassessed and adjusted as material changes occur in the market and/or in the needs of the Agency's member cities and customers. KYMEA will remain diligent in monitoring these situations and advise the Board of any recommended changes for their consideration.

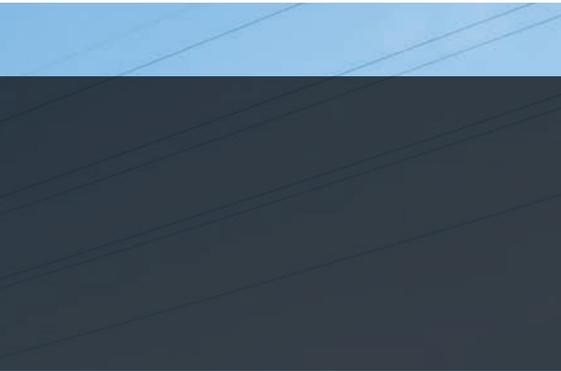
## KYMEA GOES GREEN!

As we transition our power supply portfolio, the Agency is increasing its non-carbon emitting resources from 4.4% to 19.4% of the overall energy needs. The future mix will consist of the existing 32 MW of hydroelectric generation from the Southeastern Power Administration (SEPA), and the future 86 MW of solar generation from the Ashwood Solar I facility.

With the additional solar generation, KYMEA's carbon intensity will drop to 1,400 pounds per megawatt-hour from its current 1,875 pounds per megawatt-hour. This represents a 25% reduction in carbon intensity. KYMEA's carbon output is continually reassessed and adjusted in response to federal and state policies as well as the needs of the Agency's member cities and customers.

### SOLAR

- ASHWOOD SOLAR I (86 MW)  
*Expected to be online December 2022*



# NEW INITIATIVES

In 2019 KYMEA established the organizational structure for the Agency. A Vision, Mission, and Core Values were developed and implemented. The Board, along with staff, identified key initiatives providing high-level direction for the next five years for the Agency. The Strategic Plan is a living document and critical tool for communicating the Agency's future direction. The 2019 Strategic Plan laid out four strategic priorities with corresponding goals for each.

KYMEA's strategic planning is a continual process to develop strategies and action steps to adapt to an ever-changing industry. The Agency's forward-thinking and flexible approach allows KYMEA to flex to a wide range of challenges that may be presented. The 2021 Strategic Planning Update includes additional initiatives that will enable KYMEA to stay ahead of the curve and remain a leader in renewable initiatives.



## RENEWABLE ENERGY

As part of its Integrated Resource Plan, KYMEA will continue to investigate opportunities for renewable energy while maintaining reliable power at competitive and stable rates as part of a diversified power supply portfolio.



## DEMAND-SIDE MANAGEMENT

As part of its Integrated Resource Plan, KYMEA will assist members as requested in their pursuit of cost-effective energy efficiency and demand response programs.



# POLAR VORTEX PREPARING FOR THE UNEXPECTED

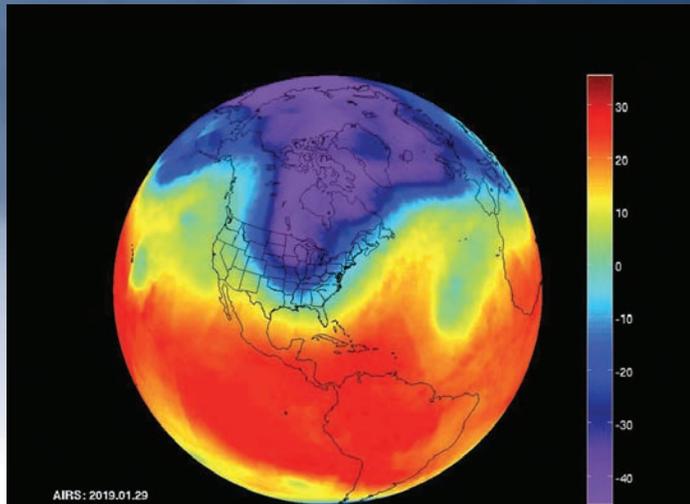
When low-probability events become reality, municipal utilities that survive know how to meet a wildcard's high-impact challenges. Facing sudden stratospheric shifts in flux, the nation is paying serious attention to polar vortices — wildcards that could be detrimental to an energy player's competitive position. Without proper preparation, power grids crumble under the conditions of a deep freeze.

The Arctic polar vortex surrounds the North Pole 10 to 30 miles above the surface. Problems ensue when it weakens, breaking loose. Activating stratospheric upheaval, a massive band of winds like a polar vortex is likely to trigger dramatic change. We must be adaptive in the face of the unexpected.

During a teeth-chattering polar vortex, communities crank up their thermostats, hot water, and must-have electrical devices, zapping electricity by the megawatts; far above everyday usage. HVAC systems throughout the U.S. run on

high, all while power grids confront extreme windchill levels. It's the worst time for outages. This is when communities most need to be able to trust in public power.

This is why KYMEA is getting ready in advance. We want to be primed to reliably serve resources to the public; no matter the season, no matter its wildcards. KYMEA's diversified power portfolio and innovative strategies help us build up for any turning points, come what may. Our public power sources best serve Kentucky when our energy options become resilient.



## POWER TO NAVIGATE A CHANGING WORLD

A polar vortex event didn't always put the utility industry on alert; but the world around us is evolving. Coal and nuclear energy resources are waning. Our nation's reliance on natural gas and renewable energy is surging; and along with it, the impact of polar vortices has vaulted.

Just because a wildcard's probability is low doesn't make its ramifications any less formidable. About every other year, the Arctic polar vortex can be pushed off the pole or split into two. When one hits, it can take networks down with it. New power resiliency will look like a grid that's able to take on the North Pole's coldest air unleashed.



# COMMUNITY SPOTLIGHT – PARIS, KY

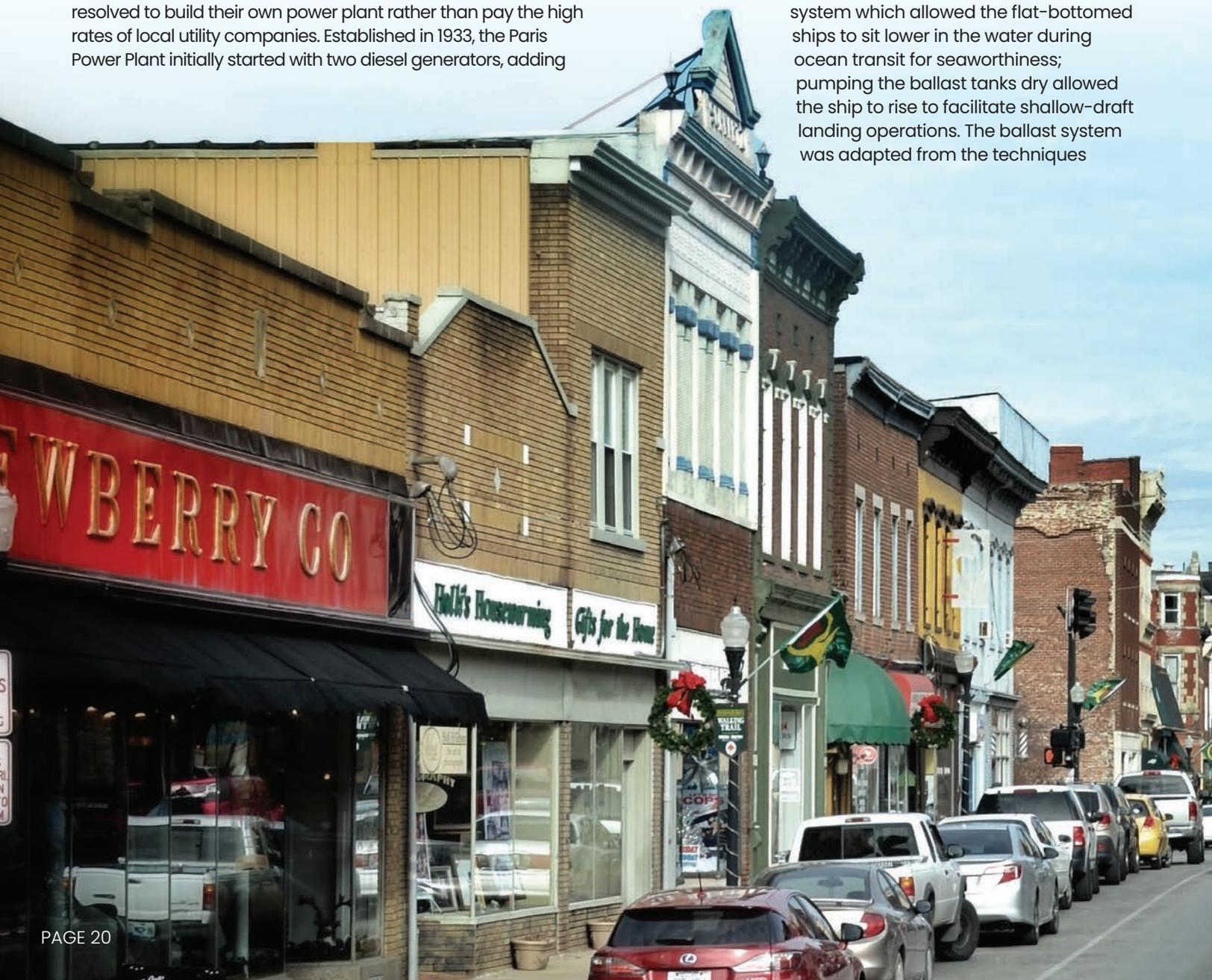
Positioned among the tranquil landscapes and rolling pastures of the Kentucky Bluegrass region, Paris, Kentucky is known as the Thoroughbred Capital of the World. Settled in 1776, Paris was formally established as the city of Hopewell in 1789. A year later, the city was renamed after the capital of France to honor the French assistance during the American Revolution. Left largely untouched by the hustle and bustle of modern day, the town's historic charm is something the people are able to hold onto. Putting businesses and restaurants in some of the old buildings, the architecture and narrow streets of the downtown area provide a unique contrast to the revitalization that has taken place over the years. The seat of Bourbon County, the town is a strong, close knit community mostly known for its farms and horse farming industry. Sitting just beyond the Paris Power Plant, nearby Claiborne Farm is the final resting place of famed thoroughbred Secretariat.

The Paris Diesel Generation began when the 'city fathers' resolved to build their own power plant rather than pay the high rates of local utility companies. Established in 1933, the Paris Power Plant initially started with two diesel generators, adding

a third later that same year. During World War II, the fifth unit became the sole generator used – a propulsion unit helping a Navy Landing Ship Tank vessel. Once decommissioned, the Navy ship's engine was sent back and reconditioned to be used as a generating unit, which the city of Paris purchased in 1949 for use in the municipal power plant.

An ocean-going ship capable of shore to shore delivery of tanks, amphibious assault vehicles, and troops, the Landing Ship Tank program was developed in response to a need for armored infantry divisions for invasions by sea. England's failed invasion at Dunkirk prompted Prime Minister Winston Churchill to request that the United States design a ship that was large enough to traverse an ocean, but with provisions to quickly and efficiently unload armored vehicles and personnel on an unimproved beach. The resulting ship design proved to be among the most successful in Naval history.

Designed with an innovative ballast system which allowed the flat-bottomed ships to sit lower in the water during ocean transit for seaworthiness; pumping the ballast tanks dry allowed the ship to rise to facilitate shallow-draft landing operations. The ballast system was adapted from the techniques

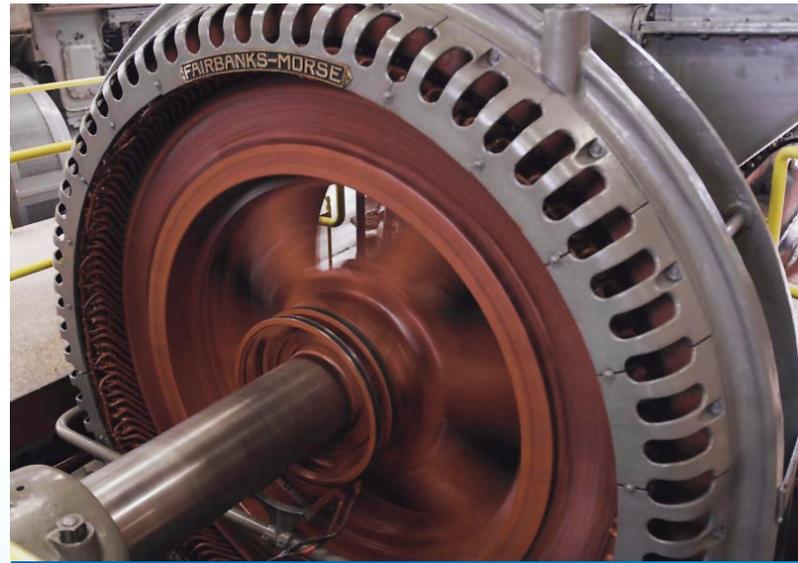


used by fleet submarines. Submitted by John C. Niedermair in November of 1941, the sketch he made for the first LST became the design for more than 1,000 LSTs. After a few alterations, the final length was 328 ft, a 50 ft. beam, and a draft of 3 ft. 9 ½ in. The ship was able to ride higher in the water when in landing trim.

A high priority during the war, LSTs were the second-largest shipbuilding initiative in the history of mankind. Construction had commenced before tests were even completed on the LST. Built in a variety of "Cornfield Navy" shipyards, in unlikely locales, such as: Seneca, Ill.; Evansville and Jeffersonville, Ind.; and Pittsburgh and Ambridge, Penn., the Navy was forced to modify bridges through a "Ferry Command" to bring the LSTs to the oceans. About 670 LSTs were constructed inland, while many other LSTs were built in existing Navy yards. In total, 18 shipyards produced more than 1,000 LSTs in three years, a remarkable feat by any reckoning.

To serve the customers on its distribution system, the city of Paris ran on mostly diesel and natural gas until 1967, when a pipeline was damaged during a construction project in town. Striking a deal with Kentucky Utilities (KU), the Paris Plant served as a peaking station for KU as long as KU supplied the city's power supply needs. This agreement lasted for over 40 years. In 2015, Paris joined with other Kentucky municipals to

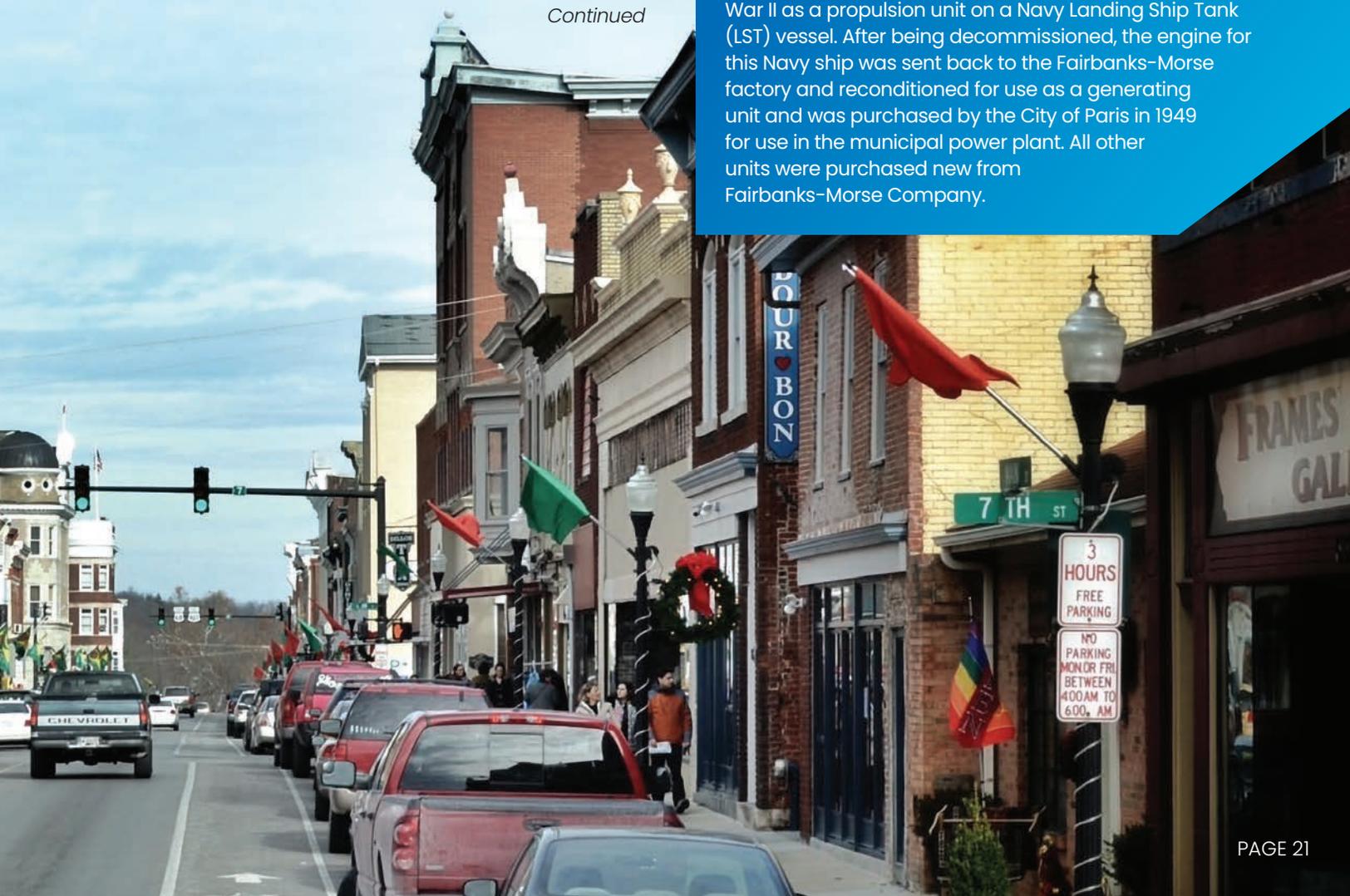
*Continued*



## PARIS POWER PLANT

Their diesel generation power plant and distribution system began operation in 1933 and started with two Fairbanks-Morse 525 HP diesel generating units and a third (1050 HP) unit added in 1934. Additional units were added over the years with a total of seven units now in operation. Some of the units were dual fuel (gas/diesel) but now the generation is powered by diesel.

The #5 unit was the only generator used during World War II as a propulsion unit on a Navy Landing Ship Tank (LST) vessel. After being decommissioned, the engine for this Navy ship was sent back to the Fairbanks-Morse factory and reconditioned for use as a generating unit and was purchased by the City of Paris in 1949 for use in the municipal power plant. All other units were purchased new from Fairbanks-Morse Company.



## COMMUNITY SPOTLIGHT – PARIS, KY

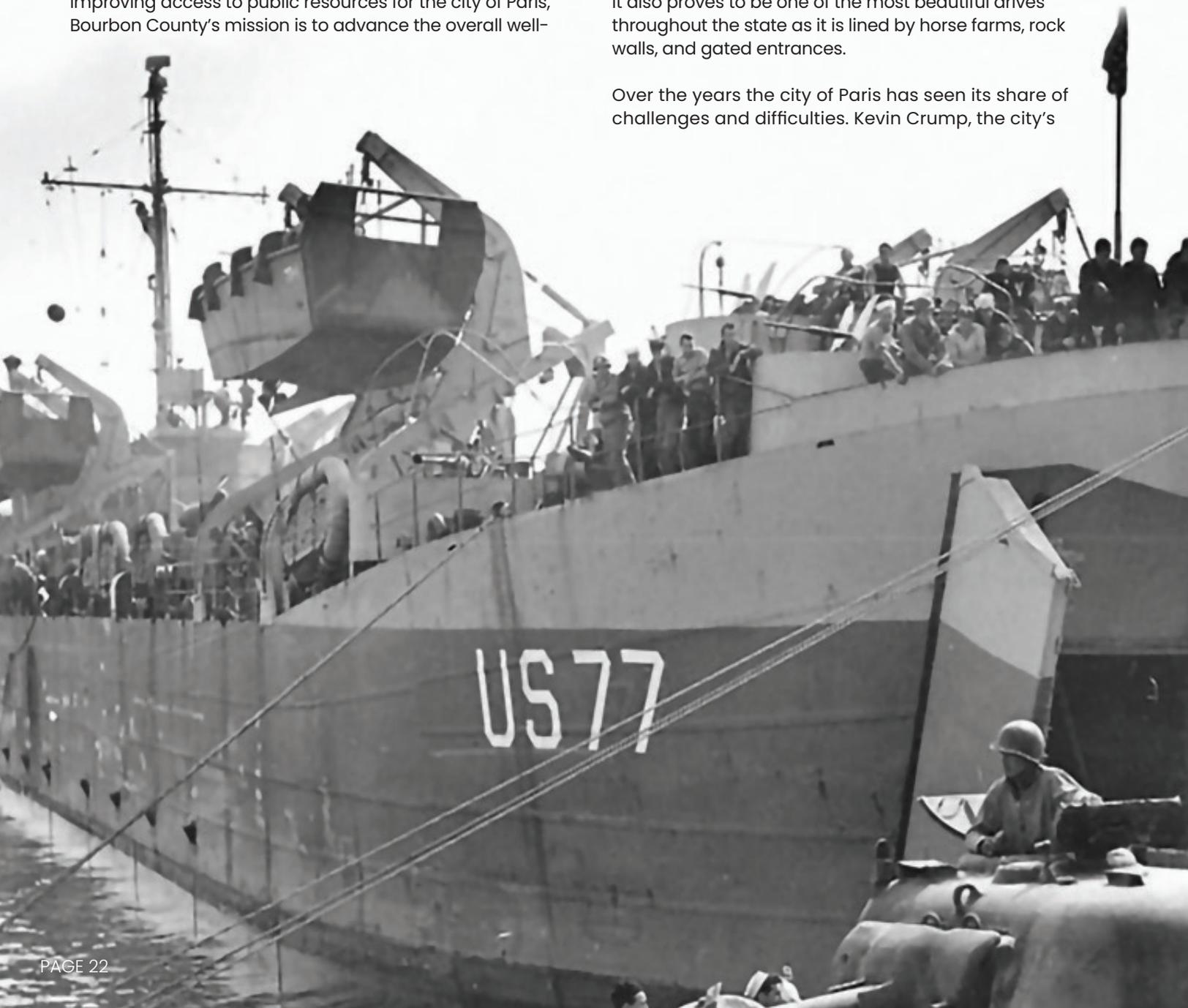
form KYMEA to provide its power supply needs. The city of Paris and KYMEA entered into a member-owned generation power supply contract for 11 megawatts (MW) of capacity and energy from the Paris Power Plant.

Located in central Kentucky, the Paris Power Plant is an 11.9 MW distillate fuel oil-fired power plant consisting of seven internal combustion turbines. With a total of seven units now in operation, its first unit reached commercial operation in December of 1934, followed by its most recent in December of 1974. The units range in size from 0.7 MW to 3.1 MW. Well-maintained and generating as efficiently as the day they were put in, the plant considers themselves ahead of the game, not having to start from ground zero like so many others.

Improving access to public resources for the city of Paris, Bourbon County's mission is to advance the overall well-

being of the community by promoting its economic, cultural, social, and educational aspects. The county has a Joint Planning Commission of 14 members that represent the community of the city of Paris along with unincorporated parts of Bourbon County. Reviewing commercial and industrial development plans, major subdivision plans, zoning text and map amendments, in addition to overseeing long-range planning initiatives, they try to bring in as much economic development into the city as possible, for the sake of Paris. One of the ways they have sought to do this was by reconstructing Paris Pike, the corridor between Bourbon and Fayette counties. A plan that originated in 1933, it came to fruition 60 years later in 1993, when they expanded the long and narrow two lane road to four lanes. One of the most expensive highways, it also proves to be one of the most beautiful drives throughout the state as it is lined by horse farms, rock walls, and gated entrances.

Over the years the city of Paris has seen its share of challenges and difficulties. Kevin Crump, the city's



Retired Water and Power Plant Superintendent, worked for the city of Paris from 1975-2015. Well known in the community, he volunteers at the local church and has a catering business on the side. Kevin says one of his biggest challenges has been keeping things going when there is a major disaster. Recalling a time in 1997 when all of the generators in the distribution system were flooded due to storm related damages, he says that's when "It's important to have a good work force to help you get back up and running."

One of those people is Mike Withrow, Director for the city of Paris. According to Kevin, Mike "IS" the city of Paris, and says the folks in Paris are lucky to have someone like him. Starting out in the city's police and fire departments, Withrow worked his way up through the ranks to become the city's Fire Chief. Upon his retirement from the Fire Department, Withrow continued his service to the city as Assistant City Manager. Both Kevin and Mike have served as Directors on the KYMEA Board since 2015 and were instrumental in developing the Agency from the ground up.

Kevin says that the communication between the city of Paris and the people at KYMEA is what makes their partnership work so well. One of the biggest benefits of the partnership for the community of Paris is the better rates. "They have the interest of the municipal clients in mind, rather than the stockholders. We think our citizens are the stockholders and they reap the benefits," Kevin says. "When the rates are lower, the individual doesn't have to pay as much for power, which allows them to give back to the community in other ways."

Laying the groundwork years ago, municipalities were already meeting to discuss opportunities for the future. Making system improvements has enabled the Paris Power Plant to offer their services more efficiently, with better rates. The community of the city of Paris is proud of the resources and services KYMEA has been able to provide as they aspire to bring about innovation, sustainability, recreational, and educational prospects.

## POSITIONING PARIS FOR POWER

Kevin Crump, the city's Retired Water and Power Plant Superintendent, worked for the city of Paris from 1975-2015. Well known in the community, he volunteers at the local church and has a catering business on the side. Mike Withrow started out in the city's police and fire departments, working his way up through the ranks to become the city's Fire Chief. Upon his retirement from the Fire Department, Withrow continued his service to the city as Assistant City Manager. Both Kevin and Mike have served as Directors on the KYMEA Board since 2015 and were instrumental in developing the Agency from the ground up.



MIKE WITHROW



KEVIN CRUMP

# LEGISLATIVE RALLY

In 2020, hundreds of leaders in public power, including KYMEA and Kentucky Municipal Utility Association (KMUA) joined together with the American Public Power Association (APPA) in Washington D.C. to do their part in advocating for or against federal policies that may impact their constituents. Those who gathered and made their voices heard were unaware of where the next 18 months would take them as a utility, a country, and a world. In February 2021, the same leaders joined together again for APPA's Virtual Legislative Rally in Zoom meetings and an event that looked very different from years past, but with renewed excitement and passion for

making a difference in advocating for public power communities and their retail customers. Virtual meetings are the new face of advocacy.

Throughout the pandemic, APPA has maintained its strong voice for not-for-profit, public power utilities. APPA's 80 years of expertise advocating for hundreds of public power communities in Washington D.C. and across the country played a critical role the past 18 months as utilities were met with COVID-19 challenges and millions of dollars in customer arrearages. While advocates have relied upon phone calls and virtual meetings, they have continued staying on top of critical issues impacting

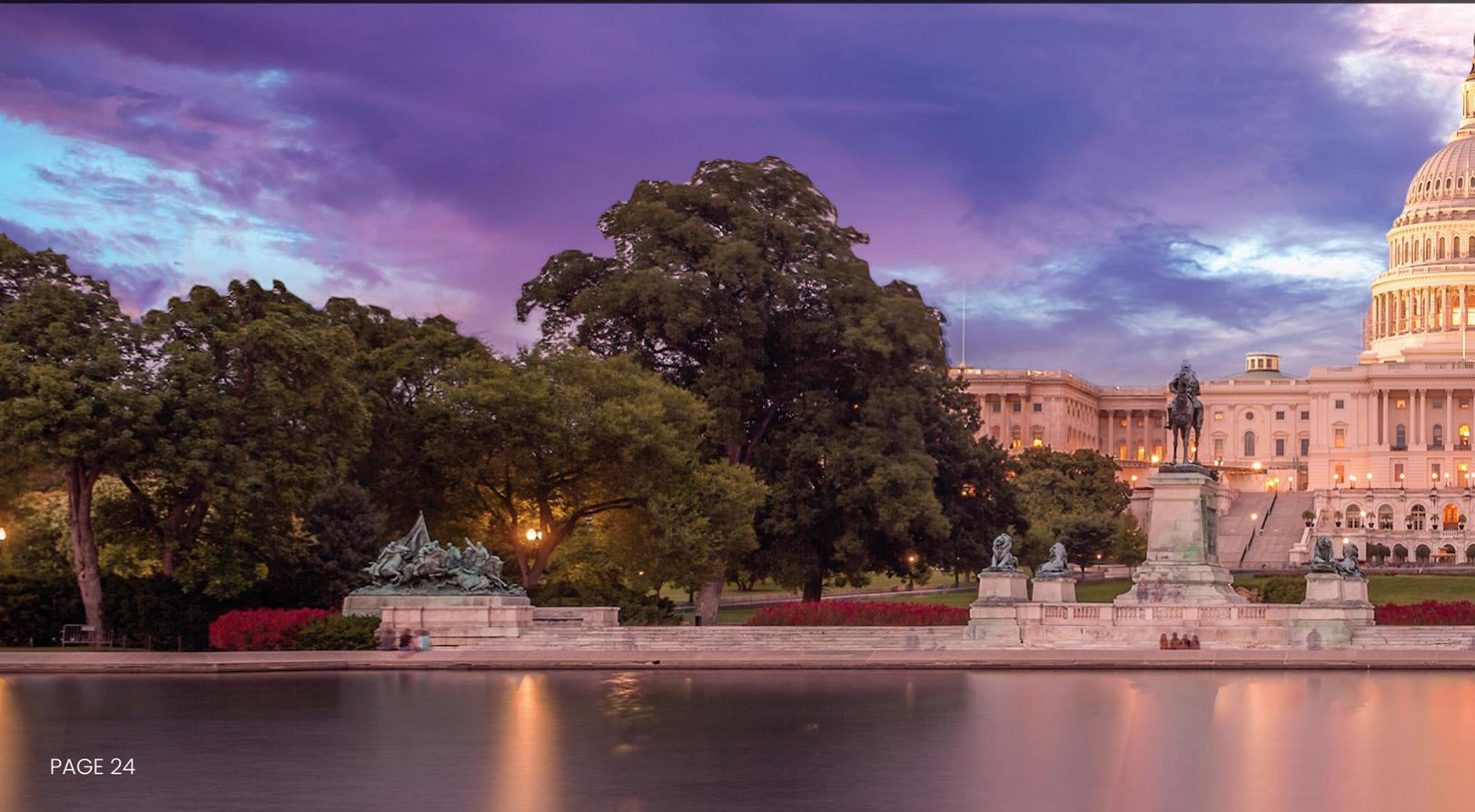
## VIRTUAL RALLY



U.S. REPRESENTATIVE JAMES COMER



U.S. REPRESENTATIVE ANDY BARR



their members. Throughout the pandemic, APPA faithfully provided resources, education, advocacy, and support on all fronts affecting the industry.

KYMEA works together with APPA, KMUA, Kentucky League of Cities (KLC), and the Kentucky Chamber of Commerce as well as community leaders to advocate on behalf of KYMEA members' needs. Public power utilities and policymakers can only benefit from working together as we have many of the same constituents and many of the same concerns.



U.S. REPRESENTATIVE BRETT GUTHRIE

## WE ARE STRONGER TOGETHER

As a long-time executive director and lobbyist, I rely upon grassroots' ability to stop, move or ameliorate legislation. Our strength lies not in the purse or donations to operations, as we are prohibited from making political donations. Municipal influence is found in the strength of the collective voices of our members.

The members of the Kentucky Municipal Utilities Association and the Kentucky Municipal Energy Agency working together can be just as strong as the lobbyist with checkbooks and deep pockets.

### **Annette DuPont-Ewing**

*Executive Director, Kentucky Municipal Utilities Association (KMUA)*



# FINANCIAL HIGHLIGHTS

KYMEA has produced very positive financial results for its members during its first two fiscal years of operations. Operating revenues, which are derived from sales to members, exceeded operating expenses, most of which are related to purchasing power, in both years and provided a substantial net income for the Agency. KYMEA was able to lower its rates to its members by approximately 4.6% from 2020 to 2021. This rate decrease reduced operating revenues \$3.5 million from the 2020 fiscal year. A decline in demand and energy necessary to serve the All Requirements member communities also contributed to the lower revenue. In addition, COVID-19 and milder summer weather required less energy to serve the energy needs of KYMEA members.

In contrast, operating expenses increased \$3.6 million from 2020 to 2021. \$1.4 million of this increase is a result of higher transmission expenses related to a 10.4% increase LG&E-KU's network transmission rates coupled with a decrease in the amount LG&E-KU reimburses KYMEA for point-to-point transmission charges in the Midcontinent Independent System Operator area. Additionally, KYMEA purchase power expenses increased \$2.2 million during this period.

KYMEA's average system wholesale rate of 6.001 cents per kilowatt-hour is among the lowest in the industry. We are extremely proud of the opportunity to provide low cost, reliable energy to our members while maintaining a financially healthy agency.

	2021	2020
Financial Results	(\$ in thousands)	(\$ in thousands)
Operating Revenue	\$76,549	\$80,074
Operating Expenses	\$74,176	\$70,316
Non-Operating Expenses	\$6	\$7
Net Income	\$2,367	\$9,751

44.3%

# AVERAGE SYSTEM RATE 6.001¢ PER KWH

Average System Rate includes Member  
Generation Capacity Benefits.

37.9%

10.6%

3.7%

3.6%

Working Capital  
& Reserve Fund  
0.214¢ per kWh

Administrative and General,  
Depreciation, Non-Operating  
Revenues and Expenses  
0.221¢ per kWh

Transmission  
0.633¢ per kWh

Energy Cost: Fuel, Purchase  
Power, Emissions, Net  
Purchase for Resale  
2.272¢ per kWh

Demand Cost  
2.661¢ per kWh

## TOTAL COST (\$ in thousands)

1,215,733 MWh

Labels	Cost	Percent	Cents / kWh
Demand Cost	\$32,353	44.3%	2.661
Energy Cost	\$27,848	37.9%	2.272
Trans Cost	\$7,791	10.6%	0.633
A&G Cost (Cents / kWh)	\$2,603	3.7%	0.221
Working Capital	\$2,364	3.6%	0.214
	\$72,958	100%	6.001

# FINANCIALS

## 2021 REPORTS

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 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.

# **Kentucky Municipal Energy Agency**

Independent Auditor's Report and Financial Statements

June 30, 2020 and 2019

**Kentucky Municipal Energy Agency**  
**June 30, 2020 and 2019**

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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
<b>Assets</b>			
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>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>			
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**

	<b>2020</b>	<b>2019</b>	<b>2018</b>
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

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

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

	<b>2020</b>	<b>2019</b>
<b>Operating Revenues</b>		
Billings to members	\$ 80,073,606	\$ 15,488,616
Total operating revenues	80,073,606	15,488,616
<b>Operating Expenses</b>		
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	1,707,608	2,632,253
Total operating expenses	70,316,505	12,968,750
<b>Operating Income</b>	9,757,101	2,519,866
<b>Nonoperating Revenues (Expenses)</b>		
Interest expense	(26,302)	(107,487)
Interest income	19,722	8,471
Total nonoperating revenues (expenses)	(6,580)	(99,016)
<b>Change in Net Position</b>	9,750,521	2,420,850
<b>Net Position, Beginning of Year</b>	2,204,519	(216,331)
<b>Net Position, End of Year</b>	\$ 11,955,040	\$ 2,204,519

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

	<b>2020</b>	<b>2019</b>
<b>Cash Flows From Operating Activities</b>		
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>
<b>Cash Flows From Noncapital Financing Activities</b>		
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>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Purchase of capital assets	(130,034)	(1,043,902)
Interest payments	-	(89,647)
	<u>(130,034)</u>	<u>(1,133,549)</u>
<b>Cash Flows From Investing Activities</b>		
Interest income	19,722	8,471
	<u>19,722</u>	<u>8,471</u>
<b>Net Increase in Cash</b>	1,186,415	7,693,752
<b>Cash, Beginning of Year</b>	<u>7,755,194</u>	<u>61,442</u>
<b>Cash, End of Year</b>	<u>\$ 8,941,609</u>	<u>\$ 7,755,194</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
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**  
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**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.

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**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:

	<b>July 1, 2019</b>	<b>Increase</b>	<b>Decrease</b>	<b>Transfers</b>	<b>June 30, 2020</b>
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>

	<b>July 1, 2018</b>	<b>Increase</b>	<b>Decrease</b>	<b>Transfers</b>	<b>June 30, 2019</b>
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>

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**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
<b>Cash Flow Hedges:</b>				
		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

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**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.

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**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.





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