



KENTUCKY MUNICIPAL ENERGY AGENCY

# 2023 ANNUAL REPORT





# TABLE OF CONTENTS

A Message from our CEO and Board Chair .....3

Board of Directors, Staff.....5

About KYMEA.....7

Vision, Mission, Values ..... 11

The Value of Public Power ..... 13

KYMEA’s Power Mix ..... 15

KYMEA Navigates Uncertainty ..... 19

Member Events .....21

Service Recognition.....23

Financial Statement.....29

Financial Highlights .....30

FY 2023 Independent Auditors Report .....31



**ASHWOOD SOLAR** 17



**MEMBER AWARDS** 24

**COMMUNITY SPOTLIGHT**  
**PROVIDENCE** 25





# A MESSAGE FROM OUR CEO AND BOARD CHAIR



DOUG BURESH  
President & CEO

JOSH CALLIHAN  
Director & Chairman

*Doug Buresh*

*Josh Callihan*

## NAVIGATING UNCERTAIN TIMES

Fiscal year 2023 demonstrated KYMEA's ability to effectively navigate uncertainty -- balancing competitive rates, reliability, and fiscal responsibility. At the end of a highly successful fiscal year 2022, KYMEA's unrestricted cash balance was \$21.6 million, raising the Agency's days cash on hand to 75 days. The cash balance included \$8.6 million in the rate stabilization fund. For fiscal year 2023, to address sharply rising power and fuel costs, the KYMEA Board of Directors chose to draw from the rate stabilization fund to minimize the member rate increase. Having the ability to tap our rate stabilization fund is the very reason the members created KYMEA -- to maintain low and stable rates.

## KYMEA ACHIEVEMENTS

**Operations:** For fiscal year 2023, the KYMEA All Requirements member's power supply demand and energy rates increased 3% from fiscal year 2022. The Board of Directors implemented the energy cost adjustment (ECA) to cover the rising wholesale power and fuel costs and withdrew \$7.5 million from the rate stabilization fund. The average system cost, including the member capacity credit, was 6.74¢ per kWh, which is a 11.3% increase from the previous year.

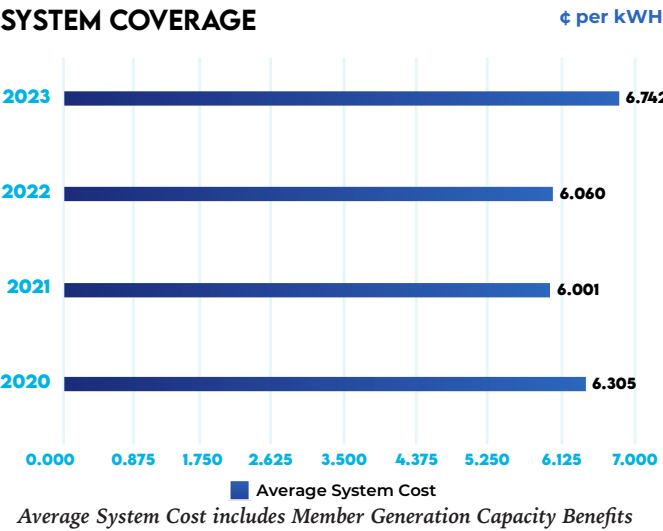
The 86 MW Ashwood Solar I Project was originally scheduled to come online December 1, 2022. Unfortunately, the entire U.S. solar industry experienced significant obstacles driven by global supply chain disruptions and the threat of new U.S. tariffs on solar panel imports from Southeast Asia. These obstacles caused massive delays and

many cancellations of U.S. solar projects. Ashwood, which will be the largest solar project in Kentucky when completed, has been delayed with a scheduled online date of Summer 2024.

**Solid Financial Foundation:** KYMEA is a financially strong organization, with an A credit rating from Fitch Ratings. KYMEA has a \$45 million line of credit that supports project development, collateral postings, and working capital. 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.

On May 18, 2023, KYMEA received a favorable FERC ruling related to the LG&E/KU depanched transmission expenses. In December of 2023, KYMEA will receive a depancking related refund of approximately \$10.2 million.

## SYSTEM COVERAGE



While KYMEA has not yet received the cash, since this refund is probable and measurable, it was included in the Independent Auditor's Report and Financial Statements. \$5.3 million of the accrued refund decreased the fiscal year 2023 operating expenses as related to the current fiscal year. The remaining \$4.9 million of the accrued refund was reported as nonoperating revenue related to the prior fiscal year.

In 2023, KYMEA exceeded all financial health metrics targets. The Agency ended the fiscal year with \$9.804 million in net income and 51 days cash on hand (DCOH) which was favorable to target by 6 DCOH.

**Energy Security:** The U.S. power industry is facing an increasingly challenging grid reliability outlook due to the rapid retirement of dispatchable fossil and nuclear generation, increased intermittent renewable energy resources, and shrinking reserve margins. To provide security and risk mitigation for our members and their customers, KYMEA has "steel-in-the-ground" purchase power agreements (PPA) with firm transmission paths. By tying our PPA capacity to tangible assets coupled with firm transmission access, KYMEA is less likely to be curtailed by grid operators in the event curtailments become necessary due to a lack of bulk power.

During Christmas 2022, Winter Storm Elliott struck. From December 23 to mid-day on December 27, Kentucky experienced sustained sub-freezing temperatures. The worst days, December 23rd and 24th, the temperatures never climbed above single digits and were often well below zero. The widespread impact of Elliott forced many of our neighboring utilities to implement unprecedented rolling customer load curtailments. While KYMEA asked our members to conserve energy, we fortunately did not have to curtail member load. Because of our "steel-in-the-ground" purchase power agreements with firm transmission paths, KYMEA was able to serve record demand in extremely difficult winter weather conditions.

**Planning for the Future:** KYMEA continues to plan for its next tranche of power supply through its Integrated Resource Plan (IRP2023). IRP2023 will analyze the Agency's current power supply and future options against risk scenarios to develop a new portfolio for the Agency's near-term needs. Key priorities of the IRP2023 include: **Reliability** -- Assure an ample supply of resources with transmission rights to reliably meet the member's 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.

We know that providing competitively priced, dependable power is fundamental for our member communities. KYMEA will continue with our mission of providing affordable and reliable energy. We look to the future with a clear vision and mission of where our organization is headed through our strategic plan and integrated resource planning efforts. Our aim is to continue building on our accomplishments as we navigate future uncertainties.

**KYMEA'S 2023 AVERAGE SYSTEM RATE WAS ON  
AVERAGE 27% LOWER THAN THE RATES OF THE FIVE  
OTHER KENTUCKY WHOLESALE POWER PROVIDERS.**



# BOARD OF DIRECTORS



**JOSH CALLIHAN**  
 Director & Chairman  
 Barbourville Utility Commission  
 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



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



**RON HERD**  
 Director & Immediate Past Chairman  
 City Utilities of Corbin  
 General Manager



**SUSAN BISHOP**  
 Director  
 City of Falmouth Utilities  
 City Clerk/Treasurer



**TIM LYONS**  
 Director  
 Owensboro Municipal Utilities  
 General Manager



**JAMIE MILLER**  
 Director  
 City of Paris Combined Utilities  
 City Manager



**BUTCH HACKNEY**  
 Director  
 City of Providence Utilities  
 Mayor



**PHILIP KING**  
 Director  
 Bardwell City Utilities  
 Mayor



**CHRISTINA LEWIS**  
 Director  
 Benham Power Board  
 Clerk

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 local 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  
 & Communications



**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, Kentucky  
Population: 3,191  
barbourville.com



Bardwell, Kentucky  
Population: 707



Benham, Kentucky  
Population: 484



Berea, Kentucky  
Population: 16,106  
bereaky.gov



Corbin, Kentucky  
Population: 7,834  
corbinutilities.com



Falmouth, Kentucky  
Population: 2,201  
cityoffalmouth.com



Frankfort, Kentucky  
Population: 28,622  
fpb.cc



Madisonville, Kentucky  
Population: 19,192  
madisonvillegov.com





**OWENSBORO**  
*only in owensboro*  
 Owensboro, Kentucky  
 Population: 60,168  
 omu.org



*Paris*  
 HORSES • HISTORY • HOSPITALITY  
 Paris, Kentucky  
 Population: 10,122  
 paris.ky.gov



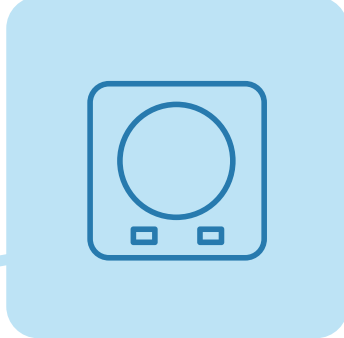
**PROVIDENCE**  
 KENTUCKY  
 Providence, Kentucky  
 Population: 2,754  
 providenceky.com



**27%**  
 Average lower rates than five  
 other Kentucky wholesale  
 suppliers



Saved Members  
**\$29.9M**  
 since 2019



Over  
**75,000**  
 Customer Meters



**11**  
 Members



**8**  
 All Requirement  
 Communities



# 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.



## 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.



## OUR VALUES

### RESPECT

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

### FISCAL RESPONSIBILITIES

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.

### INTEGRITY

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

### 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.



# THE VALUE OF 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.

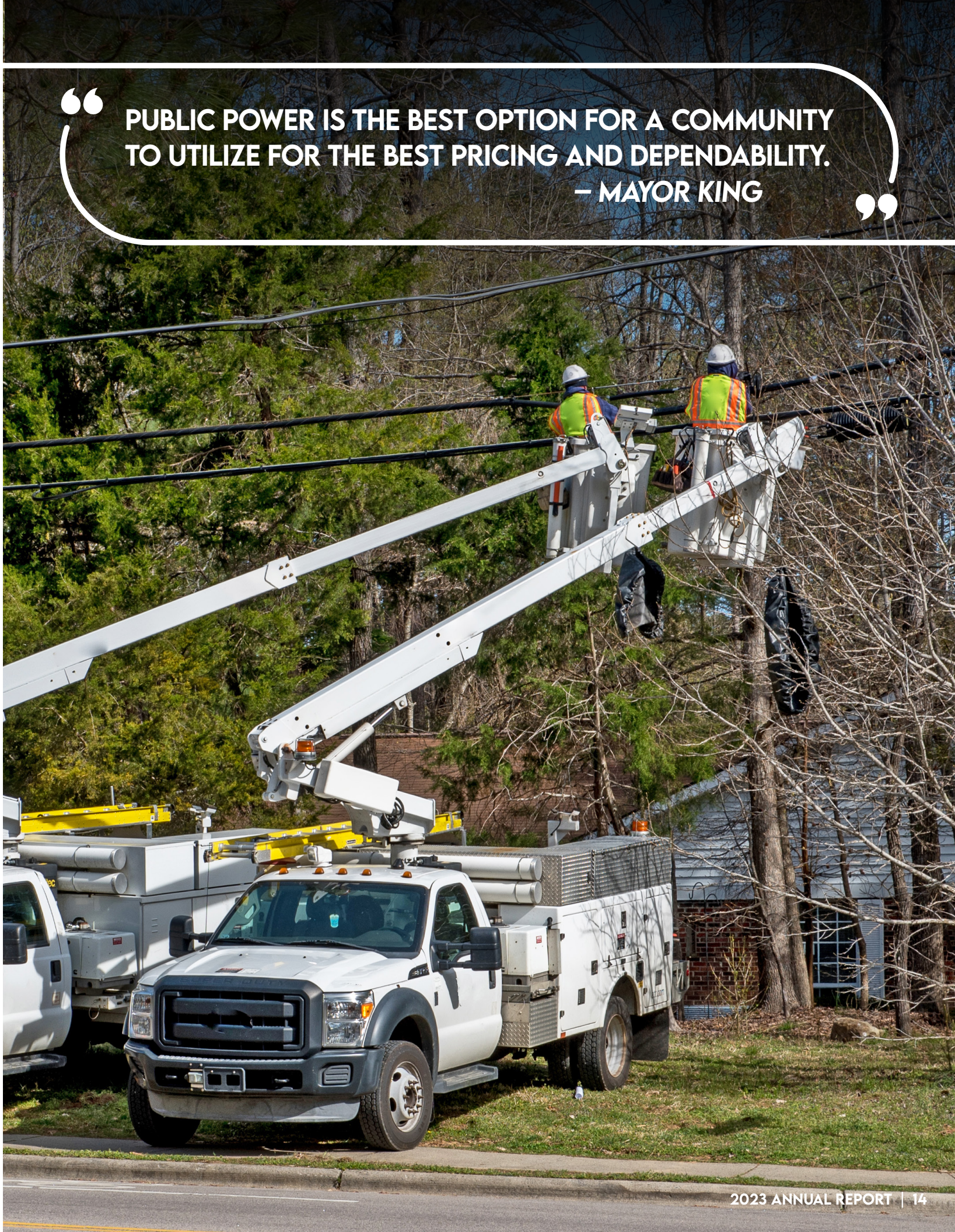
## LOW COST

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.

“PUBLIC POWER IS THE BEST OPTION FOR A COMMUNITY TO UTILIZE FOR THE BEST PRICING AND DEPENDABILITY.”  
— MAYOR KING





# 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.

KYMEA plans to release its IRP2023 by the first quarter of 2024. Similar to IRP2020, the plan will outline how KYMEA can meet its short-term power needs, as well as provide a 20-year strategy for success in the future. The plan represents the next step in KYMEA's success story, which has been marked by the ability to adapt to an ever-changing industry and regulatory landscape, and will help KYMEA tackle the challenges that the power sector is expected to face in the years to come.

KYMEA will seek the support of experts and stakeholders at large to develop IRP2023. This will ensure that a wide range of resource options and plans are considered. The utility industry is rapidly evolving, making integrated resource planning efforts crucial in broadening KYMEA's 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 diversity of KYMEA’s existing portfolio of contracts in terms of counterparty, type, location, and contract term is an intentional risk mitigation consideration of KYMEA’s power supply planning efforts.

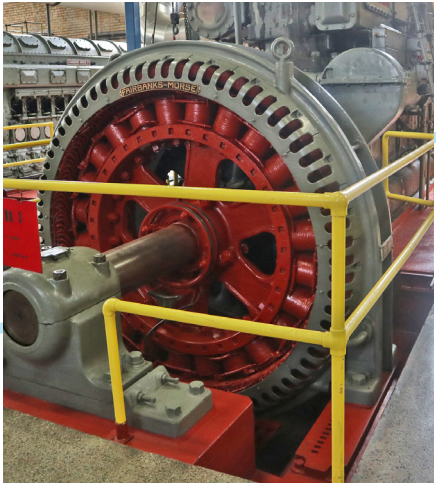
In August 2023, KYMEA issued requests for proposals (RFPs) for reciprocating internal combustion engines and energy and capacity to fill the void in the All Requirements portfolio starting in 2027. The aim of the RFPs is to provide a range of resource options that could benefit the members. KYMEA regularly reassesses and adjusts its portfolio in response to market changes and the evolving needs of its member cities and customers. KYMEA management will continue to monitor the situation and provide recommendations to the Board for their consideration.



Duke Energy Indiana  
60 MW



Big Rivers Electric Corporation  
100 MW



City of Paris Power Plant  
11 MW



Paducah Power System  
60 MW



**HYDROELECTRIC**  
Southeastern Power Administration  
32 MW



**SOLAR (UNDER CONSTRUCTION)**  
Ashwood Solar 1  
86 MW



# ASHWOOD SOLAR

RWE representatives, KYMEA staff, mayors, city administrators, and representatives from across the Commonwealth of Kentucky met together to celebrate a momentous milestone in the Commonwealth and for the Kentucky Municipal Energy Agency (KYMEA).

The Ashwood Solar I Project (Ashwood) is located in Lyon County, just south of Fredonia, near Eddyville and Kutawa. It sits on some of the most beautiful farmland near the New Bethel Baptist Church.

It was a warm and humid morning on Wednesday, July 26th. As the attendees turned off U.S. Highway 641 towards the cornfield, they could easily spot the white tent peaks that marked the location of the new Ashwood solar site. Since there was nothing but green fields and pastures for miles in every direction, the New Bethel Baptist Church kindly allowed the guests to use their parking lot. Upon arrival, the guests were greeted by a bouquet of balloons and a

warm Southern smile from Billy Joe Durroh, the church and cemetery groundskeeper.

Billy Joe was a refreshing presence. He was thrilled to see the group arrive to commemorate a new chapter for the Agency and the Commonwealth. Ashwood, which is the most significant solar project in Kentucky to have broken ground so far, is a remarkable achievement that the Agency is extremely proud of.

Guests, staff, local officials, and landowners gathered together for the first time in person. It was a delightful opportunity to get to know one another and listen to tales of the past from the beautiful surrounding farmlands. One gentleman proudly exclaimed, “I am honored to leave a legacy of clean energy for my family and future generations” The group sat on white chairs under a tent, surrounded by corn fields, with only a small gravel drive and the beginnings of a clearing for a switchyard and substation.

Looking back in 2015, the eight All Requirements members of the Kentucky Municipal Energy Agency made a bold decision to take control of their power supply portfolio. This is the first step to providing renewable energy access to their communities. Prior to that, the group had been buying wholesale power from Kentucky Utilities (KU). By May 1, 2019, when the Agency went live, the group had put together a diversified portfolio that could adapt to various market conditions and risks.

Looking back, they were brilliant with their initial portfolio, and sure enough, it was just what they needed to weather a global pandemic, polar vortex, winter storm Elliot, and several extreme heat conditions.

The Ashwood Solar I Project was born from a desire to provide renewable energy to Agency communities. Ashwood will commence its operations on June 1, 2024, in Lyon County, Kentucky.



The plant will generate 86 megawatts of zero-emissions energy through more than 226,000 solar panels.

The KYMEA directors deserve recognition for their pioneering role in promoting clean energy. This project is the first of its kind in the Commonwealth and has set precedence for renewable energy in Kentucky. We take pride in this accomplishment!

KYMEA has a bright future and the members continue to keep their ratepayers’ interest front and center as they continue to develop their energy portfolio for the future.



86  
MWac



178,547  
MWh



9-12 months  
to construct

- Bi-facial Fixed-tilt panels
- 407 shipping containers
- 6,442 whole pallets
- 226,747 panels
- 26 inverters
- Supply 13,167 households with green energy
- 200-250 local construction jobs
- 40 years of community tax revenue benefit



# NAVIGATING UNCERTAINTY

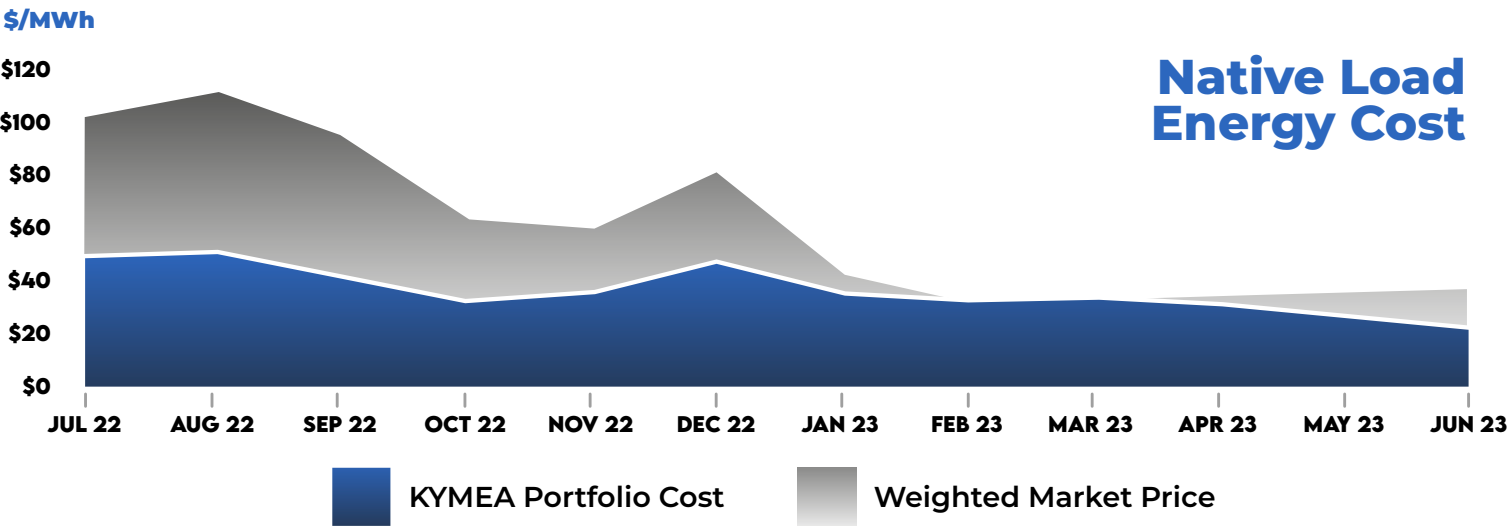
Since KYMEA began supplying All Requirements services to its members in May of 2019, we have seen a great deal of volatility in power markets for a myriad of reasons. We have seen a continuation of transitioning from coal to natural gas, increases in renewable energy supply, a global pandemic caused by Covid-19, supply chain constraints, high inflation, Russia invading Ukraine and two winter storms that brought about vulnerabilities to the energy infrastructure.

Pertinent planning has never been more critical for energy suppliers as we will continue to see susceptibility instances in the future. This planning is at the center of KYMEA’s mission statement, “Through collaboration and operational excellence, we provide reliable, affordable, and sustainable energy services to the communities we serve.” It’s the foundation for prudent utility planning and every provider of energy services will echo the same sentiment in some shape or form. Since KYMEA’s inception, the planning philosophy has centered around least regrets. Establish a diverse supply portfolio to weather bumps in the road. KYMEA uses hedging tools such as financial power and gas contracts to lock in future pricing for market exposures. KYMEA also utilizes financial transmission rights to hedge transmission congestion risks. As seen in the figure below, KYMEA’s native load energy cost versus the market for FY 22/23 that planning mantra has served the members well.

KYMEA will continue to pursue a diverse portfolio for future needs. Currently KYMEA is in the process of its 2023 IRP which will address these needs. Recommendations will be based upon resource(s) that are attractive financially, reliable, deliverable and flange up with the existing portfolio. KYMEA will determine



this path by issuance of RFPs to hone in on what options exist. Planners can utilize market data to determine cost estimates for resource options, but until pen is put to paper, this data is just that, an estimate.



“SINCE KYMEA’S INCEPTION, THE PLANNING PHILOSOPHY HAS CENTERED AROUND LEAST REGRETS. ESTABLISH A DIVERSE SUPPLY PORTFOLIO TO WEATHER BUMPS IN THE ROAD.”



# MEMBER EVENTS

It is highly beneficial for agencies like KYMEA to provide member events and training opportunities. By hosting such opportunities, KYMEA not only enhances the knowledge and capabilities of its member municipalities, but also strengthens its relationships, reputation, and overall effectiveness in serving its members and the community.



## ANNUAL MEMBERS CONFERENCE

On May 18th, KYMEA members, power supply partners, and other stakeholders gathered in Louisville for KYMEA’s Annual Members Conference.

The Annual Members Conference is held annually and provides members with educational sessions taught by industry experts where attendees may earn continuing education credits and the opportunity to work with other professionals in the power and municipal utility industry.

The Agency provided a full day of educational sessions with an impressive panel of industry experts speaking on topics concerning market activities, public financing, and utility management. An evening networking event with experts, members, and utility partners followed the sessions. The group met in its board room for the Agency’s Annual Meeting on Friday morning, followed by a Strategic Planning session.

## GOLF OUTING

Golf was the perfect way to kick off the Annual Members Conference events. It was a wonderful day of networking and relaxation for KYMEA members and partners! Events like a round of golf can be an excellent way to foster camaraderie and build relationships among members and sponsors. The Presenting Sponsorships from Rubin and Hays, Spiegel McDiarmid, and nFront Consulting contributed to the success of the day. These types of gatherings provide an opportunity for informal discussions, sharing of ideas, and strengthening connections within the energy industry. The weather was perfect and everyone had an enjoyable time.



## BOARD RETREAT

The board retreat is done in collaboration with the Annual Conference each year. It offers the directors time to review the four strategic priorities outlined in the Strategic Plan: financial stability, growth, resource planning, and organization. Besides being a break from routine meetings, an annual retreat was outlined as a priority in the Strategic Plan. It is an essential practice for fostering strategic thinking, building a cohesive and effective board, and ensuring that KYMEA is well-equipped to fulfill its mission and serve its members effectively.



## KY CHAMBER MEETINGS

The KY Chamber events are more ways the Agency brings its members together. We provide several opportunities throughout the year to participate in chamber events as a group. Attending Kentucky Chamber meetings can provide KYMEA members with a wide range of benefits, including networking opportunities, access to information and resources, a voice in policy advocacy, and a platform for community engagement and collaboration. It’s a valuable way to stay connected with the broader business community in Kentucky and contribute to the Agency’s mission and goals.

## CYBERSECURITY TRAINING

The Agency has partnered with LightChange Technologies to bring cyber awareness training to our members and their employees annually. We hosted our first hybrid training event on March 15, 2023. Since it was a hybrid event, we had utility personnel join both virtually and in person. Cyber awareness training is an essential investment for KYMEA to protect its critical infrastructure, data, and reputation, as well as to meet regulatory requirements. By educating its members on cybersecurity best practices, KYMEA can help its members reduce the risk of cyberattacks and enhance the overall security of their systems.





# SERVICE RECOGNITION

Over the past year, the Agency experienced a significant change with the retirement of two board members who had served for over 30 years each at their utilities. Kevin Frizzell and Vent Foster played a crucial role in the formation of the Agency and will be missed.

Kevin retired as the general manager of Owensboro Municipal Utility (OMU) in the summer of 2022. He had been at OMU since 1990 where he started as the utility’s technical service manager at the Elmer Smith coal-fired station. In 2008 he was named director of power production where he managed the Elmer Smith Station and over 100 employees. Kevin has served as OMU’s general manager since December 20, 2018. Kevin played a key role in the Agency’s governance and provided years of valuable expertise and experience as a director on KYMEA’s Board.

Vent retired as Frankfort Plant Board’s (FPB) chief operating officer in the summer of 2023. He began his full-time career as FPB’s distribution engineer in 1999 and later moved to the electric operations department, where he served as the foreman of the electric substation and metering department. Throughout his tenure at FPB, Vent was promoted several times, eventually becoming the assistant general manager over electric, water, and support services in 2012. In 2019, he was named FPB’s chief operating officer. Vent played a vital role in the development of the KYMEA and served on its board since 2015.

After many years of dedicated service to the Agency and your utility, we wish you a happy retirement!



KEVIN FRIZZELL



VENT FOSTER

# MEMBER AWARDS

The American Public Power Association (APPA) annually awards the Safety Award of Excellence to utilities for their exemplary commitment to safe operating practices throughout the previous year. The 2022 awards followed a rigorous evaluation process that involved 283 utilities from across the nation. Entries were categorized based on their worker-hours, and rankings were determined by assessing their incident-free records and overall safety program and culture during the year.

A utility’s incidence rate was calculated by considering the number of work-related reportable injuries or illnesses and the total worker-hours in 2022, in accordance with the Occupational Safety and Health Administration (OSHA) standards.

May 2, 2023, Jim Boyd, Chair of APPA’s Safety Committee and Electric Operations Safety Manager at Tacoma Power in Washington, announced the awards and emphasized the importance of safety as the foremost concern for all utility employees in their daily tasks. He commended the honored utilities for their dedication to fostering a safety-centric culture in service to their communities.

Madisonville Electric Department and the Frankfort Plant Board, Safety Award recipients, should be commended for their commitment to a culture of safety in their utility.



## KYMEA MEMBERS EARNED APPA SAFETY AWARDS

**Madisonville Electric Department**  
Safety Award of Excellence, Second Place, Group C (30,000 to 59,999 worker-hours of exposure)

**Frankfort Plant Board**  
Safety Award of Excellence, Honorable Mention, Group E (110,000 to 249,999 worker-hours of exposure)



# COMMUNITY SPOTLIGHT - PROVIDENCE

Nestled in the picturesque landscapes of Western Kentucky, is a charming and close-knit community that embodies the essence of Southern hospitality. Within Western Kentucky’s rolling hills, lush green fields, and a gentle river winding nearby, lies Providence, a quaint town with a resilient spirit. The town’s history is interwoven with the region’s coal mining heritage, and remnants of this past can still be glimpsed in the architecture and artifacts. For generations, Providence thrived on the coal mining industry, but as the mines gradually closed their doors, the community faced formidable challenges. Yet, through adversity, Providence found a way to preserve its identity and look to a brighter future.

Situated within Webster County, Providence lies within the Illinois Coal Basin, where coal mining served as a significant economic driver for not only Webster County but also the neighboring regions. Each June, Providence plays host to the annual Coal Festival, a celebration of the city’s rich coal mining heritage and the dedicated miners who have contributed to its history. The festival boasts a lineup of games, rides, beauty contests, and live entertainment for all to enjoy. Coal served as the cornerstone of Providence’s economy, laying the foundation for its prosperity and growth over the years. Providence’s mining dates back to the late 19th century when the discovery of vast coal reserves in the region sparked a rush of prosperity. The town quickly became a bustling hub for coal production, attracting miners from near and far. Families put down roots, and as coal mining flourished, so did Providence. During this era, the economy boomed, and its population swelled. Mining companies played a central role in the town’s development, establishing schools, churches, and businesses.

One enduring symbol of Providence’s mining history is a mural adorning the facade of its local bank. In 1954 local artist Ella Porter depicted the toil and triumph of coal miners. Porter captured the essence of Providence’s identity, showcasing miners descending into the earth, their pickaxes and shovels in hand, as a locomotive

transports coal from the mines. The mural not only pays tribute to the hardworking men and women who fueled Providence’s growth but also commemorates the challenges they faced underground.

Despite the prosperity brought by mining, Providence would eventually encounter the harsh reality of economic shifts. As demand for coal waned and mechanization reduced the need for manual labor, mines began to close; this downturn in the industry hit Providence hard. Families that had relied on coal mining for their livelihoods suddenly found themselves facing uncertainty. Unemployment soared and businesses struggled to stay afloat. Many families were forced to leave town in search of new opportunities, leaving behind empty houses and shuttered storefronts. Amidst these circumstances, Providence had the option to



“In 2015 Providence signed the Interlocal Agreement and All Requirements Contract allowing them to buy all of their power from KYMEA on May 1, 2019”  
– Michelle Hixon, KYMEA





resign, but instead, the city assumed a pivotal role in bringing KYMEA into existence.

“In 2015 Providence signed the interlocal agreement and All Requirements Contract and began buying power from KYMEA. On May 1, 2019, KYMEA began supplying Providence with all of its power.” Michelle Hixon, KYMEA

While coal mines may be receding from the nation’s collective consciousness, a statue in Providence, Kentucky stands as a poignant reminder of the community’s deep-rooted connection to this industry. A statue is situated within a park that was established in 1990 to pay tribute to the town’s rich mining heritage. In close proximity to the statue, one can find a collection of plaques bearing testament to the past, including a time capsule scheduled for unveiling in

2040, a literary work entitled “Portrait of a Coal Miner,” a list of generous donors, and commemorations of the town’s 100th and 150th anniversaries. Notably, the statue itself was crafted by the skilled hands of Steve Shields.

Adjoining the statue, one can observe the 100th (1840-1940) and 150th (1840-1990) commemorative anniversary plaques perched atop nearby hills. Directly behind the statue, a bench serves as a dedicated memorial to those who tragically lost their lives in the Duvin Mine explosion of 1939. Additionally, a time capsule was interred alongside the statue in September 1990, with plans to unveil its contents in the year 2040. Explaining the significance of this hometown statue, Hill elaborates, “This statue stands as a heartfelt tribute to our coal miners and the enduring coal mining community. We take immense pride in this historical

roadside attraction and are gratified to know that people from afar journey to witness it and immerse themselves in its rich history.” Over time, Providence managed to bounce back from the challenges posed by the decline of the mining industry. While the scars of economic hardship remained, they served as a testament to the town’s resilience and determination. The mural on the bank, once a symbol of Providence’s mining history, now stood as a symbol of its ability to adapt and overcome adversity.

In 2019, crowds gathered along South Broadway where the railroad tracks intersect near downtown to patiently await the passage of the final coal train from Dotiki Mine. Friday, August 16, the last coal train went through the city, marking the end of a remarkable five-decade-long journey. For the close-knit community, especially Providence, the train symbolized not just

another coal shipment but rather half a century of the mine’s profound impact. Emotions ran high with heartwarming nostalgia and bittersweet farewells of the coal mining era.

Providence’s story is one of transformation, from a coal mining town facing economic decline to a community that has embraced change and found new avenues for growth. Through it all, the people of Providence have remained steadfast in their commitment to their town and its future. As visitors stroll through the streets of Providence, taking in the sights of the mining heritage park and the vibrant mural on the bank, they are reminded of the town’s rich history and the challenges it has overcome. Providence, Kentucky is a shining example of how a community can adapt and thrive in the face of adversity, holding onto its heritage while embracing a brighter tomorrow.





# FINANCIALS

## 2023 REPORTS

KYMEA’S continued focus on operational excellence and business fundamentals has resulted in a financially strong Agency which maintains it’s A credit rating from Fitch Ratings. Among other financial metrics, KYMEA places strong emphasis on its Days Cash on Hand, Leverage, Fixed Coverage, and Debt Service Coverage ratios. In order to support the Agency’s strategic directives, management reports these statistics on a monthly basis to the Board of Directors.

As KYMEA’s Board of Directors has elected a strategy of purchasing power supplies to meet All Requirements Project Member needs, KYMEA has not constructed power generation assets and, therefore, does not have any long-term debt associated with construction or other activities. Power purchase agreement expenses are recovered from the All Requirements Project Members each month, with liquidity provided by staggered payment dates. KYMEA’s financial position is further supported by a \$45 million line of credit and cash reserves which provide much needed cash liquidity in the event of unforeseen weather, transmission grid, or power market events.

KYMEA management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentations 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.

KYMEA’s 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 Agency’s internal control structure. The Board of Directors directly engages with the independent auditors.

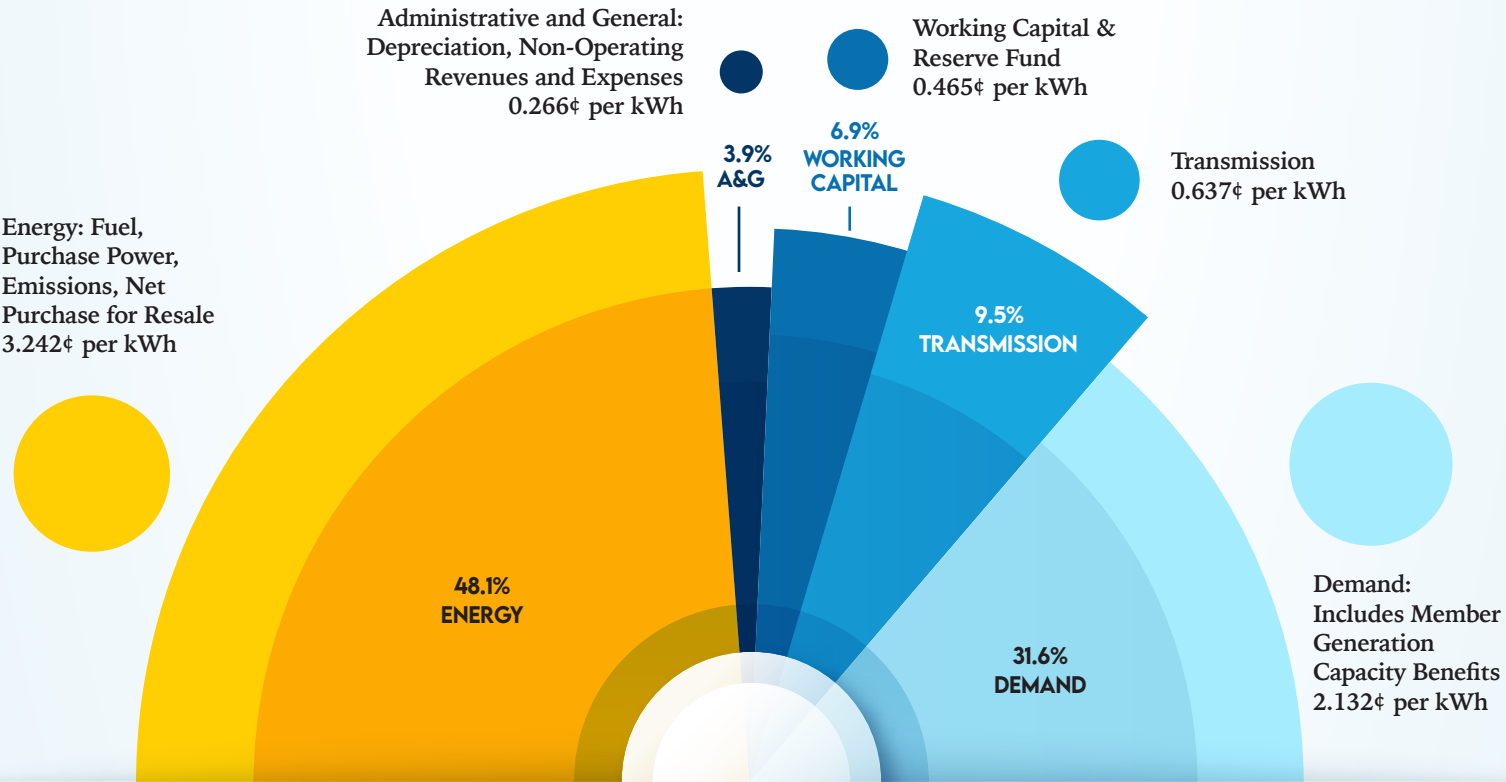
# FINANCIAL HIGHLIGHTS

For a fourth consecutive year, each year of operation, KYMEA produced extremely positive financial results for its members during the fiscal year 2023. Operating revenues, which are derived from sales to members, exceeded operating expenses, most of which are related to purchasing power and provided a substantial net income for the Agency. KYMEA was able to maintain the low rates charged to its members by focusing on what we do best: forecasting, planning, and analyzing. This approach allows the Agency to be nimble in order to take advantage of opportunities and mitigate risks while strongly advocating for our members and setting rates appropriately.

KYMEA’s average system wholesale cost is among the lowest in Kentucky and in the industry. We believe we are well positioned to continue our momentum, and we are extremely proud of the opportunity to provide low cost, reliable energy to our members while maintaining a financially healthy Agency.

TOTAL COST (\$ in thousands)		1,191,059 MWh	
Labels	Cost	Percent	¢ per kWh
Demand Cost	25,394	31.6%	2.132
Energy Cost	38,613	48.1%	3.242
Trans Cost	7,589	9.5%	0.637
Working Capitol	5,539	6.9%	0.465
A&G Cost	3,166	3.9%	0.266
	80,301	100%	6.742
Average System Cost includes Member Generation Capacity Benefits			

	2022	2023
Financial Results	(\$ in thousands)	(\$ in thousands)
Operating Revenue	\$109,348	\$107,330
Operating Expenses	\$105,372	\$102,781
Non-Operating Expenses	-\$153	\$5,254
Net Income	\$3,823	\$9,804





# Kentucky Municipal Energy Agency

## Independent Auditor’s Report and Financial Statements

June 30, 2023

Kentucky Municipal Energy Agency  
June 30, 2023

**Contents**

Independent Auditor’s Report..... 1

Management’s Discussion and Analysis ..... 3

**Financial Statements**

Balance Sheet ..... 6

Statement of Revenues, Expenses and Changes in Net Position..... 7

Statement of Cash Flows ..... 8

Notes to Financial Statements ..... 9



Independent Auditor’s Report

Board of Directors  
Kentucky Municipal Energy Agency  
Louisville, Kentucky

Opinion

We have audited the financial statements of Kentucky Municipal Energy Agency, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Agency’s basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Municipal Energy Agency, as of June 30, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Kentucky Municipal Energy Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2023, Kentucky Municipal Energy Agency adopted Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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 and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Kentucky Municipal Energy Agency’s ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher

than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Kentucky Municipal Energy Agency’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kentucky Municipal Energy Agency’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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.

FORVIS,LLP

Lincoln, Nebraska  
September 11, 2023



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 year ended June 30, 2023. 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 Commonwealth 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 Sheet** – provides 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.

**Statement of Revenues, Expenses and Changes in Net Position** – presents the operating results of KYMEA into various categories of operating revenues and expenses, and nonoperating revenues and expenses.

**Statement of Cash Flows** – reports 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, 2023 and 2022.

Condensed Balance Sheets

	2023	2022
Assets		
Current assets	\$ 31,671,663	\$ 30,518,180
Other noncurrent assets	4,789,823	3,490,394
Capital, lease, and subscription assets	3,244,182	2,717,308
Total assets	\$ 39,705,668	\$ 36,725,882
Liabilities and Net Position		
Current liabilities	\$ 9,667,626	\$ 16,825,820
Noncurrent liabilities	1,976,836	1,642,456
Total liabilities	11,644,462	18,468,276
Net position		
Net investment in capital assets	1,280,194	1,136,344
Unrestricted	26,781,012	17,121,262
Total net position	28,061,206	18,257,606
Total liabilities and net position	\$ 39,705,668	\$ 36,725,882

Current assets increased \$1.2 million from the fiscal year ending June 30, 2022, to the fiscal year ending June 30, 2023. This increase resulted from a decrease in unrestricted cash from normal operations during the year offset by an increase in accounts receivable related to timing of the Louisville Gas and Electric Company and Kentucky Utilities Company (LG&E-KU) depancaked transmission rate ruling. Noncurrent assets increased by \$1.3 million in the same period due to an increase in collateral deposits held by regional transmission organizations. Capital, lease, and subscription assets increased \$0.5 million due to implementation of GASB 96, *Subscription-Based Information Technology Arrangements*. This pronouncement requires recognition of assets and liabilities for certain subscription-based information technology arrangements. Prior year amounts have not been restated for the adoption of GASB 96.

Current liabilities decreased \$7.2 million from the fiscal year ending June 30, 2022, to the fiscal year ending June 30, 2023. This decrease was related to the timing of purchased power expenses to serve the electricity needs of KYMEA’s members. Noncurrent liabilities increased \$0.3 million during the same period due to implementation of GASB Statement 96 referenced in the above paragraph.



Condensed Statements of Revenues, Expenses and Changes in Net Position

	2023	2022
Operating revenues	\$ 107,329,886	\$ 109,408,434
Operating expenses	102,780,696	105,379,944
Operating income	4,549,190	4,028,490
Net nonoperating revenues (expenses)	5,254,410	(92,590)
Change in net position	9,803,600	3,935,900
Net position - Beginning of Year	18,257,606	14,321,706
Net position - End of Year	\$ 28,061,206	\$ 18,257,606

Operating revenues decreased \$2.1 million from the fiscal year ending June 30, 2022, to the fiscal year ending June 30, 2023. This decrease is a result of KYMEA’s decreased long position where it is able to sell electricity through its power purchase agreements in excess of its load. KYMEA sells this electricity in the Midcontinent Independent System Operator open market (off-system sales). Both KYMEA’s long position and the sales price per MWh decreased during the fiscal year ending June 30, 2023.

Operating expenses decreased \$2.6 million from the fiscal year ending June 30, 2022, to the fiscal year ending June 30, 2023. During 2023, the Agency received favorable ruling related to the depancaked transmission expenses related to changes in the Louisville Gas and Electric Company and Kentucky Utilities Company (LG&E-KU) de-pancaking settlement totaling approximately \$10.2 million. \$5.3 million of this settlement decreased current year operating expenses while the remaining \$4.9 million was related to depancaked charges in prior periods reported as nonoperating revenue in 2023.

Financing

In February 2022, the Agency executed a revolving line of credit agreement for advances up to \$45,000,000. Advances under this agreement bear interest at the Bloomberg Short-term Yield Index, and interest is payable semi-annually. There were no amounts outstanding under the line of credit as of June 30, 2022, or June 30, 2023.

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 Sheet  
June 30, 2023

Assets

Current Assets

Cash	\$ 14,176,034
Accounts receivable	17,493,072
Prepaid expenses and other assets	2,557
Total current assets	31,671,663

Noncurrent Assets

Collateral deposit	4,789,823
Lease assets, net of accumulated amortization	1,421,279
Subscription assets, net of accumulated amortization	485,704
Capital assets, net of accumulated depreciation	1,337,199
Total noncurrent assets	8,034,005
Total assets	\$ 39,705,668

Liabilities and Net Position

Current Liabilities

Accounts payable	\$ 9,424,234
Accrued liabilities	34,096
Accrued interest payable	9,375
Current portion of lease liabilities	98,213
Current portion of subscription liabilities	101,708
Total current liabilities	9,667,626

Noncurrent Liabilities

Compensated absences	212,769
Lease liabilities, net	1,373,116
Subscription liabilities, net	390,951
Total noncurrent liabilities	1,976,836
Total liabilities	11,644,462

Net Position

Net investment in capital assets	1,280,194
Unrestricted	26,781,012
Total net position	28,061,206
Total liabilities and net position	\$ 39,705,668



**Kentucky Municipal Energy Agency**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Year Ended June 30, 2023**

<b>Operating Revenues</b>	
Billings	<u>\$ 107,329,886</u>
Total operating revenues	<u>107,329,886</u>
<b>Operating Expenses</b>	
Production and purchased power	90,222,643
Transmission	9,873,220
Depreciation and amortization	461,703
Other operating expenses	<u>2,223,130</u>
Total operating expenses	<u>102,780,696</u>
<b>Operating Income</b>	<u>4,549,190</u>
<b>Nonoperating Revenues (Expenses)</b>	
Interest expense	(122,016)
Interest income	450,777
Regulatory settlement	<u>4,925,649</u>
Total nonoperating revenues	<u>5,254,410</u>
<b>Change in Net Position</b>	<u>9,803,600</u>
<b>Net Position, Beginning of Year</b>	<u>18,257,606</u>
<b>Net Position, End of Year</b>	<u><u>\$ 28,061,206</u></u>

**Kentucky Municipal Energy Agency**  
**Statement of Cash Flows**  
**Year Ended June 30, 2023**

<b>Cash Flows From Operating Activities</b>	
Receipts	\$ 108,925,449
Payments to service providers and others	(113,654,089)
Payments to employees	(1,163,494)
Collateral deposit remittances	<u>(1,299,429)</u>
Net cash used in operating activities	<u>(7,191,563)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Interest payments	(122,172)
Principal paid on lease liability	(109,635)
Principal paid on subscription liability	(98,467)
Purchase of capital assets	<u>(397,451)</u>
Net cash used in capital and related financing activities	<u>(727,725)</u>
<b>Cash Flows From Investing Activities</b>	
Interest income	<u>450,777</u>
Net cash provided by investing activities	<u>450,777</u>
<b>Net Decrease in Cash</b>	(7,468,511)
<b>Cash, Beginning of Year</b>	<u>21,644,545</u>
<b>Cash, End of Year</b>	<u><u>\$ 14,176,034</u></u>
<b>Reconciliation of Operating Income to Net Cash Used In Operating Activities</b>	
Operating income	\$ 4,549,190
Depreciation and amortization	461,703
Changes in operating assets and liabilities	
Accounts receivable	(3,696,214)
Prepaid expenses and other assets	(131)
Collateral deposit	(1,299,429)
Accounts payable	(7,222,493)
Accrued liabilities	<u>15,811</u>
Net cash used in operating activities	<u><u>\$ (7,191,563)</u></u>



Kentucky Municipal Energy Agency
Notes to Financial Statements
June 30, 2023

Kentucky Municipal Energy Agency
Notes to Financial Statements
June 30, 2023

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 Commonwealth 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).

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, 2023.

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

Lease Assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the lease asset into service. Lease assts are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.



Kentucky Municipal Energy Agency  
Notes to Financial Statements  
June 30, 2023

Kentucky Municipal Energy Agency  
Notes to Financial Statements  
June 30, 2023

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

Subscription Assets

Subscription assets are initially recorded at the initial measurement of the subscription liability, plus subscription payments made at or before the commencement of the subscription-based information technology arrangement (SBITA) term, less any SBITA vendor incentives received from the SBITA vendor at or before the commencement of the SBITA term, plus capitalizable initial implementation costs. Subscription assets are amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying IT asset.

Capital, Lease, and Subscription Asset Impairment

KYMEA evaluates capital, lease, and subscription assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital, lease, or subscription asset has occurred. If a capital, lease, or subscription asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

No asset impairment was recognized during the year ended June 30, 2023.

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.

The following is a summary of compensated absence transactions of the Agency for the year ended June 30, 2023:

Beginning Balance	Additions	Deductions	Ending Balance
\$ 182,432	\$ 124,062	\$ (93,725)	\$ 212,769

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 – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

**Net 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, 2023.

**Unrestricted -** This component of net position consists of the net amount of assets and liabilities that do not meet the definition of “restricted” or “net 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 and off-system energy sales. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Income Taxes

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

Adoption of Accounting Standards

During the year ended June 30, 2023, the Agency adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement requires recognition of certain subscription assets and liabilities that previously were classified as operating expenses and recognized as outflows of resources based on the contracts. The implementation of this statement resulted in the recognition of a subscription asset and subscription liability of \$591,126 for contracts at July 1, 2022. This guidance also requires restatement of the beginning balance of net position at July 1, 2022, however, the Agency did not restate the beginning balance of net position because there was no effect on net position at July 1, 2022.



**Kentucky Municipal Energy Agency**  
**Notes to Financial Statements**  
**June 30, 2023**

**Kentucky Municipal Energy Agency**  
**Notes to Financial Statements**  
**June 30, 2023**

**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 does not have a policy regarding custodial credit risk.

The Federal Deposit Insurance Corporation (FDIC) insures transaction accounts for government deposits up to \$250,000 per official custodian at each covered institution. Additionally, the Agency’s deposits at June 30, 2023 are invested through the Insured Cash Sweep ® (ICS) service, whereby funds are placed with other ICS Network members by the Agency’s primary financial institution in increments less than \$250,000.

**Note 3: Capital, Lease, and Subscription Assets**

Capital, lease, and subscription asset activity for the year ended June 30, 2023 was as follows:

	July 1, 2022 as restated	Increase	Decrease	Transfers	June 30, 2023
Work in progress	\$ 182,507	\$ 432,669	\$ (18,118)	\$ (272,608)	\$ 324,450
Equipment	1,347,868	-	(60,314)	272,608	1,560,162
Building improvements	260,238	-	-	-	260,238
Lease asset - building	1,698,510	-	-	-	1,698,510
Subscription asset - software	591,126	-	-	-	591,126
Less:					
Accumulated depreciation	(633,161)	(217,704)	43,214	-	(807,651)
Accumulated lease amortization	(138,654)	(138,577)	-	-	(277,231)
Accumulated subscription amortization	-	(105,422)	-	-	(105,422)
Totals	<u>\$ 3,308,434</u>	<u>\$ (29,034)</u>	<u>\$ (35,218)</u>	<u>\$ -</u>	<u>\$ 3,244,182</u>

**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 February 1, 2024 with the maximum advance amount increasing to \$45,000,000. Advances under this agreement bear interest at the Bloomberg Short-Term Bank Yield Index, and interest is payable semi-annually. There were no amounts outstanding under this line of credit as of June 30, 2023. 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: Long-Term Obligations**

The follow is a schedule of long-term obligation transactions for the Agency for the year ended June 30, 2023:

	July 1, 2022 as restated	Increase	Decrease	June 30, 2023	Due Within One Year
Lease liability	\$ 1,580,964	\$ -	\$ (109,635)	\$ 1,471,329	\$ 98,213
Subscription liability	<u>591,126</u>	<u>-</u>	<u>(98,467)</u>	<u>492,659</u>	<u>101,708</u>
Totals	<u>\$ 2,172,090</u>	<u>\$ -</u>	<u>\$ (208,102)</u>	<u>\$ 1,963,988</u>	<u>\$ 199,921</u>

**Note 6: Lease Liabilities**

The Agency leases office space, the terms of which expire in September 2028 with one additional 60-month renewal option. The total amount of the lease asset was \$1,698,510 with associated accumulated amortization of \$277,231 as of June 30, 2023. The lease asset is being amortized on a straight-line basis over the remaining lease term. There were no payments recorded in the current period that were not included in the measurement of the lease liability, no commitments prior to the commencement of the lease contracts, and no lease impairments as of June 30, 2023. Lease payments made during 2023 totaled \$164,426 (\$109,635 principal and \$54,791 interest at 4.98%).

The following table summarizes the future lease principal and interest payments as of June 30, 2023.

	Total to Be Paid	Principal	Interest
Year Ending June,			
2024	\$ 169,294	\$ 98,213	\$ 71,081
2025	182,275	116,457	65,818
2026	186,061	126,337	59,724
2027	186,062	132,775	53,287
2028	186,061	139,540	46,521
2029-2033	930,306	811,875	118,431
2034	<u>46,451</u>	<u>46,132</u>	<u>319</u>
	<u>\$ 1,886,510</u>	<u>\$ 1,471,329</u>	<u>\$ 415,181</u>



Kentucky Municipal Energy Agency  
Notes to Financial Statements  
June 30, 2023

Kentucky Municipal Energy Agency  
Notes to Financial Statements  
June 30, 2023

Note 7: Subscription Liabilities

The Agency has various subscription-based information technology arrangements (SBITAs), the terms of which expire in various years through 2028. The total amount of subscription assets were \$591,126 with associated accumulated amortization of \$105,422 as of June 30, 2023. The subscription assets are being amortized over the remaining terms of the agreements at adoption of GASB 96. There were no payments recorded in the current period that were not included in the measurement of the subscription liability, no commitments prior to the commencement of the contracts, and no impairments as of June 30, 2023. Subscription payments made during 2023 totaled \$108,971 (\$98,467 principal and \$10,505 interest at 1.94%).

The following is a schedule by year of payments under the SBITAs as of June 30, 2023:

Year Ending June,	Total to Be Paid	Principal	Interest
2024	\$ 110,269	\$ 101,708	\$ 8,561
2025	110,269	103,699	6,570
2026	110,270	105,729	4,541
2027	110,269	107,798	2,471
2028	<u>74,191</u>	<u>73,725</u>	<u>466</u>
	<u>\$ 515,268</u>	<u>\$ 492,659</u>	<u>\$ 22,609</u>

Note 8: 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 \$92,842 were made for the fiscal year ended June 30, 2023.

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 9: 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 five-year contract with Duke Energy Indiana, LLC for an initial nomination of 30 MW, with a one-time increase to 60 MW, of capacity from Duke Energy Indiana’s system. 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 100% of the capacity from Ashwood Solar I, LLC upon Commercial Operation, for a period of 20 years. RWE has advised the Agency it will be unable to meet the commercial operation date of December 1, 2022, the Agency anticipates the commercial operation date to be delayed to the Spring of 2024.

Note 10: 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 four preceding years.

On May 18, 2023, KYMEA received favorable ruling related to the depancaked transmission expenses related to changes in the LG&E-KU de-pancaking settlement totaling approximately \$10.2 million. \$5.3 million of this settlement decreased current year operating expenses while the remaining \$4.9 million was related to depancaked charges in prior periods reported as nonoperating revenue in 2023.

Note 11: Subsequent Event

On August 25, 2023, the Frankfort Plant Board (FPB) provided notice to KYMEA to terminate the All Requirements Power Sales Contract (AR Contract). The effective date of the termination is June 1, 2029. The AR Contract explicitly addresses a member's termination and the exiting member's continuing obligations for costs that derive from commitments made by KYMEA prior to the termination of the AR Contract. Management has studied FPB's AR Contract termination and identified no adverse effects to the Agency or to the remaining AR Contract members.





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