



KENTUCKY MUNICIPAL ENERGY AGENCY

OUT OF THE GATE

ANNUAL REPORT 2019





**“AND
WE’RE
OFF”**

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A MESSAGE FROM OUR CEO AND CHAIR

The Agency's theme for the 2019 Annual Report is "Out of the Gate". As Kentucky horse racing enthusiasts well know, a starting gate is used to line up the horses to ensure the racers all start at the same time. When the doors fly open, the race is on, and the horses are out of the gate.

At the stroke of midnight on May 1, 2019, the doors flew open for the Kentucky Municipal Energy Agency, and it began delivering power to its member communities. To continue the racing metaphor, KYMEA is off to a fast start. In its first year of operation, the Agency has achieved: 1) Substantially lower rates to members than from their previous supplier, 2) Establishment of a rate stabilization fund to keep rates stable in the future, and 3) Becoming debt-free in its first year of operation.

KYMEA ACHIEVEMENTS

Go Live: After years of planning and preparation, KYMEA began deliveries from its new power supply portfolio on May 1, 2019. The "Go-Live" beginning of the new operations marks a major milestone for our member communities.

All Requirements (AR) Project Power Supply: KYMEA's initial power supply portfolio was designed with three key attributes: low cost, reliable, and flexible. KYMEA's purchase power agreements cap our exposure to high market prices while allowing the Agency to take advantage of low market price opportunities when they present themselves. Creating a flexible portfolio that is low cost while minimizing risk has proven to be a valuable contributor to our early success.



The Agency's AR Project members' all-in costs decreased 8% from fiscal 2018 when the members were purchasing power from Kentucky Utilities. Not only are the members enjoying an immediate 8% rate reduction, but they've also been able to set aside an additional 8% in a rate stabilization fund. Truly a terrific start.

Solid Financial Foundation: KYMEA is a financially strong organization, with an A credit rating from Fitch Ratings. The Agency's most recent independent audit was conducted by BKD LLP, CPAs & Advisors. KYMEA has a \$30 million line of credit that is available to support project development, collateral postings, and working capital.

Strategic Plan: In KYMEA's inaugural 5-Year Strategic Plan, its members set forth their vision for the Agency: "We shall positively impact our communities as a trusted leader of power supply and energy-related services." This establishes the Agency's destination. The Agency's mission – "Through collaboration and operational excellence, we provide reliable, affordable, and sustainable energy services to the communities we serve" – is the means by which it will reach its destination. Having a clearly articulated vision and mission has enabled KYMEA to develop a strategic plan that is our road map for success. The strategic plan provides direction and focus by including specific goals and measurements of success.

Member Communications: As the nation's newest joint public Agency, KYMEA undertook four member communications initiatives. The first was to create KYMEA's logo and begin building our brand. The second was to create a website to establish the Agency's presence and allow stakeholders to learn more about KYMEA. The third was to create KYMEA's first annual report to provide information on the Agency. And the fourth was to create videos to succinctly tell KYMEA's story of who we are and what we do.

In 2019, KYMEA entered the 2018 Annual Report and the KYMEA Communities Video in the American Public Power Association (APPA) Excellence in Communications contest. We are delighted that the 2018 Annual Report won the Excellence in Public Power Communications and Individual Achievements Award Category C, and the KYMEA Communities Video won the Excellence in Public Power Communications Video Award Category C.

KYMEA's LONG-TERM FOCUS

While 2019 was a very successful year, much work lies ahead as the Agency and its members continue to plan for their power supply future with the goal of parlaying early victories into even greater long-term success. KYMEA has had a terrific beginning, but there's no time to let up. KYMEA is focused on continuing to be the preferred wholesale power provider in Kentucky through collaboration and operational excellence; providing reliable, affordable, and sustainable energy services to the communities we serve. Returning to the horse racing metaphor, KYMEA fully appreciates that an early lead is not what defines success. Our focus is on producing outstanding results both now and far into the future. That's the measure of a champion.



RON HERD
Chairman of the Board



DOUG BURESH
President & CEO



LEADERBOARD:

Board of Directors

GARY ZHENG : Director Frankfort Plant Board General Manager	JOSH CALLIHAN : Director & Vice Chairman Barbourville Utilities General Manager	MIKE WITHROW : Director City of Paris Combined Utilities Assistant City Manager	CHRIS MELTON : Director & Secretary City of Madisonville, Electric Department Electric Superintendent	PHILIP KING : Director Bardwell City Utilities Mayor	CARL SHOUBE : Director Benham Power Board Benham Director NOT PICTURED
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NOT PICTURED DOUG HAMMERS Director City of Providence Utilities Mayor	RAMONA WILLIAMS Director City of Falmouth Utilities Clerk & Treasurer	KEVIN HOWARD Director & Treasurer City of Berea Municipal Utilities Utilities Director	RON HERD Director & Chairman City Utilities of Corbin General Manager	KEVIN FRIZZELL Director Owensboro Municipal Utilities General Manager
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Kentucky Municipal Energy Agency’s Board of Directors sets the policies that governs the Agency’s operations. The eleven-member Board of Directors meets monthly. Each member utility appoints a Director and an Alternate Director to serve as their representative on the Board. Directors volunteer their time to represent their utility and to give their community a voice in its power supply decisions. The Board also provides direction and guidance to staff for the management, administration and regulation of KYMEA’s business affairs. The Board of Directors must approve all decisions to purchase, construct, or acquire power supply needed to serve its member communities. Our Directors have faithfully served the public power needs of Kentucky for many years and the Agency relies on their experience to continue bringing the most reliable energy solutions to our commonwealth.

VISION, MISSION AND VALUES

VISION

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

MISSION

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

VALUES



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.



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



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.



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.

STRATEGIC PLAN



1

FINANCIAL STABILITY

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

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

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

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

2

GROWTH

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

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

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

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





3

RESOURCE PLANNING

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

Long-Term Planning: KYMEA will investigate, analyze, and report on potential resource and transmission options as part of its 2020 IRP with updates thereafter.

Low-Cost Power Supply: Develop wholesale rate benchmarks for the Agency by June 30, 2021 and refresh annually thereafter.

Risk Mitigation: The IRC and BROCC will, at a minimum, hold quarterly meetings to assess, report on, and develop mitigation measures for the board's consideration regarding identified business, energy, and financial risks.

4

ORGANIZATION

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

Operations: The budget committee and staff will evaluate resource needs, compare operations to industry benchmarks, and recommend necessary solutions for the board's consideration as part of the annual budget process.

Governance: KYMEA will provide Board Member orientation and materials containing information needed to fulfill their role in the organization.

Legislation: Promote and support federal, state, and local legislative initiatives that benefit KYMEA and its communities through lobbying efforts by participating in a minimum of two legislative events annually.

Strategic Retreat: KYMEA will facilitate an annual strategic retreat with the Board of Directors as a way to review and update the Agency's strategic plan.

MANAGEMENT TEAM

The Kentucky Municipal Energy Agency (KYMEA) operates under the direction of a President who serves at the pleasure of the Board of Directors. The President is the Chief Executive Officer with full responsibility for planning, operations, and the administrative affairs of KYMEA. KYMEA's senior management team has significant experience in the utility industry, with an average of over 23 years of service.

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.

MICHELLE HIXON :
Director, Administrative
Services and Communications :

DOUG BURESH :
President & CEO :

ROB LEESMAN :
VP of Market Analytics :

HEATHER OVERBY :
VP of Finance &
Accounting/ CFO :



POST POSITIONS: Communities

Eleven Kentucky communities — large and small — have formed the Kentucky Municipal Energy Agency to collaborate in making decisions about their communities' energy costs and ensure reliable sources of power.

The Kentucky Municipal Energy Agency was established under a Kentucky Interlocal Cooperation Agreement to offer wholesale electric power generation, transmission and other services to the municipal utilities of its member communities – Barbourville, Bardwell, Benham, Berea, Corbin, Falmouth, Frankfort, Madisonville, Owensboro, Paris, and Providence.



BARBOURVILLE

Barbourville Utilities
Population: 3,165



BARDWELL

Bardwell City Utilities
Population: 723



BENHAM

Benham Power Board
Population: 500



BEREA

City of Berea Municipal Utilities
Population: 15,844



CORBIN

City Utilities of Corbin
Population: 7,304



FALMOUTH

City of Falmouth Utilities
Population: 2,139



FRANKFORT

Frankfort Plant Board
Population: 25,527



MADISONVILLE

City of Madisonville, Electric Department
Population: 19,591



OWENSBORO

Owensboro Municipal Utilities
Population: 59,643



PARIS

City of Paris Combined Utilities
Population: 8,553



PROVIDENCE

City of Providence Utility Office
Population: 2,981

ACROSS THE BOARD: Power Resources



COAL

Big Rivers Electric
Corporation
Capacity: 100 MW
Location: Centertown, KY
& Sebree, KY



SOLAR

Ashwood Solar I
Capacity: 54 MW
Location: Lyon County, KY



DIESEL

City Of Paris
Capacity: 11 MW
Location: Paris, KY



● **BARDWELL**

● **PROVIDENCE**

● **MADISONVILLE**

● **OWENSBORO**



NATURAL GAS

Paducah Power System
Capacity: 90 MW
Location: Paducah, KY



HYDROPOWER

Southeastern Power Administration
Capacity: 32 MW
Location: Multiple Dams across KY



COAL

JOPPA Power Station
Capacity: 100 MW
Location: Metropolis, IL



COMMUNITY OF UNITY

Beating the Odds

In Western Kentucky, northwest of the center of Carlisle County, lies a quiet town by the name of Bardwell. Small towns offer their residents unique benefits: lower stress, a slower pace, and a more intimate sense of community. This tight bond among its resilient neighbors had a major impact on the response efforts after a series of devastating events hit their town over the course of four years.

In 2007, just four months after Mayor Philip King was appointed Mayor of Bardwell, Kentucky, the Carlisle County courthouse burned to the ground. The fire was set by an arsonist intent on destroying evidence in the sheriff's office. Despite the tragedy of the day, the community banded together. Residents supplied food, water, and coffee for all the firefighters working this fire for almost 12 hours.

Hurricane Ike arrived in Bardwell in late 2008, turning the town into what looked like a war zone. Mayor Philip King immediately gave Pastor Bice direction to turn the church into a shelter, and Bice went to work, assembling members and volunteers. All city employees and the volunteer fire department responded, restoring power to the entire town within 48 hours.

The 2009 ice storm reached Bardwell on the evening of January 26th. Bardwell city employees

worked 16-18 hours straight doing whatever necessary to restore power to the town. Even though Bardwell received a great amount of help, the city was without power for three and a half days, and citizens in the rural county were without power for 19 days. Once power was restored, the county citizens were able to come to town for water, food, hot showers, and other necessities.

This turned out to be an educational experience for local government officials. Without the local churches, restaurants, volunteers, and farmers, Bardwell would have suffered.

In May of 2009, historical amounts of rain flooded downtown Bardwell in a span of two days. Damage to City Hall alone exceeded \$30,000, and many records were lost to water damage. Mayor Philip King said, "I knew we had a big problem when dumpsters began floating by City Hall like boats heading downriver." The city of Bardwell was able to get a FEMA Declaration signed to cover the damages from the flood. After many years of back-to-back natural disasters, Mayor Philip King thought Bardwell needed a slogan that could illustrate the city's perseverance and grit. He asked one of the local school's English teachers if her class could come up with something.

BARDWELL, KY

“It is amazing what a community can do when they unite to help their fellow citizens,” said Mayor Philip King. “I feel we are truly blessed to live in a community that cares about their neighbors, friends, and family. I can honestly say that our slogan ‘A Community of Unity’ is such a true statement for Bardwell.”

Sophomore Blake Anderson suggested: “Community of Unity.” He was inspired by the goodwill and generosity that the community expressed during the ice storm, recalling how even strangers lent hands, checked in on neighbors, and distributed water, food, and fuel. The slogan summarizes how close-knit and caring the community of Bardwell truly is. Blake was recognized in 2010 with a plaque for his creative contribution to the city.

In 2011, an F1/F2 tornado ripped through the heart of Bardwell, causing moderate to severe damage to the town’s electric system, homes, apartments, and Bardwell Baptist Church. Power was swiftly restored, bringing everyone back to power within 24 hours.

Once again, ‘A Community of Unity’ came together to clean up debris and to conduct emergency repairs to homes, apartments, and the church.



COURTHOUSE FIRE OF 2007

Bardwell Fire Department worked for twelve hours fighting the fire that ended up burning the Carlisle Courthouse to the ground. An unbreakable community bond was established.



HURRICANE IKE IN 2008

Category 4 Hurricane moves across the Ohio Valley causing extensive damage to trees, homes, and businesses. One of the worst wind storms to ever hit Kentucky, with total damage rising to over 30 billion dollars in the U.S.



ICE STORM OF 2009

One of the worst natural disasters in the Commonwealth’s history. School’s closed, power was out for over a week, and multiple deaths were reported across the Commonwealth of Kentucky.



FLOODS OF 2009

Thunderstorms and record-breaking heavy rains caused flooding; severe damage to Bardwell. Five inches of rain fell in 90 minutes, and rainfall rates up to an astounding 8.8 inches per hour were reported.



TORNADO OF 2011

As tornadoes were reported across the US, an F1/F2 Tornado ripped through the heart of Bardwell causing scattered damage. It was later reported to be one of the largest tornado outbreaks in the history of the United States.

TIMELINE



>2016

July - August 2016: Eight members enter into All Requirements Power Sales Contracts with KYMEA. The Agency completes the assembly of an initial portfolio of resources consisting of purchase power agreements with Big Rivers Electric Corporation, Illinois Power Marketing Company, and Paducah Power System.



September 2016: The City of Berea (Berea) asks to join KYMEA and the Interlocal Cooperation Agreement is amended to add Berea as its eleventh member. Berea enters into a Transmission Service Agreement with KYMEA.

>2015

September 2015: The Cities of Bardwell, Falmouth, Madisonville, Paris, and Providence, the Frankfort Plant Board, the Barbourville Utility Commission, the Benham Power Board, the Corbin City Utilities Commission, and Owensboro Municipal Utilities enter into an Interlocal Cooperation Agreement forming KYMEA. The Agency's Bylaws are adopted on September 24, 2015.



>2017



May 2017: Deliveries of electricity to the Benham Power Board and the City of Paris begin using transmission service procured on its behalf by KYMEA.

>2017

December 2017 - April

2018: The City of Paris and KYMEA agree to enter into an agreement to utilize the Paris diesel generation as part of the Agency's AR Project power supply portfolio. The all requirements members enter into agreements for KYMEA to integrate their entitlements to hydroelectric power from the Southeastern Power Administration as part of the AR Project power supply portfolio.



>2018

January 2018: KYMEA hires its first president and CEO. Mr. Buresh has worked in the power industry for the past three decades concentrating in the areas of integrated resource planning, strategic planning, market price forecasting, fuel procurement, risk assessment, and public policy.

Doug holds a Bachelor of Science in Electrical Engineering from the University of Nebraska, a Master of Science in Electrical Engineering from Kansas State University, and a Master of Business Administration from Rockhurst University. Doug is a licensed professional engineer in the states of Indiana and Missouri.

August 2018: The Agency executes a 20-year agreement with MAP® Energy and Open Road Renewables for 62.5% of the output of the 86MW Ashwood Solar I power plant as part of the Agency's AR Project power supply portfolio. The plant is scheduled to go into service in late 2022.

September 2018: KYMEA contracted with the Alliance for Cooperative Energy Services Power Marketing LLC (ACES), a nationally-recognized wholesale energy trading and risk management company headquartered in Carmel, Indiana. ACES currently serves as KYMEA's energy services partner and provide 24 hr, 7 days per week operational support.



>2018

November 14, 2018: The Agency opens permanent offices in Louisville, Kentucky. The excitement was electric on November 14, when more than 100 statewide officials and supporters gathered in Louisville to celebrate the official opening of the permanent offices of the Kentucky Municipal Energy Agency (KYMEA).

The event featured a ribbon cutting, a reception, and tours of the facility including the Market Analytics Center.



>2018

October 2018: KYMEA staff and the Hatfield Media film crew traveled the Commonwealth of Kentucky to shoot video footage for what would turn out to be the KYMEA “Our Communities” and “Who We Are” videos. These videos would highlight our great commonwealth and specifically the great communities we serve.

KYMEA worked with Kinetic Strategic Design, from Somerset, Kentucky to successfully launch its first website.



>2019

March 2019: KYMEA published its first KYMEA Power Post. The quarterly publication is intended to keep our communities involved with what’s going on at the Agency. It also serves as an educational tool and highlights festivals and events happening in our local communities.

April 2019: As part of the preparations for a successful Go Live event, KYMEA and Fred Haddad from nFront Consulting, along with ACES Power Marketing representatives Keith Pope, Andy Schoettle, and Jonathan Harder met with each of KYMEA’s power supply partners to discuss operation specifics before power delivery commenced on May 1, 2019.





May 2019: On May 1, a new electric power era began for eight communities that are members of the KYMEA. After decades of purchasing electricity from Kentucky Utilities Company, the Frankfort Plant Board and the municipal electric utilities of Barbourville, Bardwell, Corbin, Falmouth, Madisonville, Paris, and Providence are now being served by KYMEA, the Agency they created to obtain lower-cost, reliable electricity for their communities.

KYMEA members from across the state of Kentucky gathered in Louisville on May 21-23rd to attend our Annual Meeting events. The staff put together an impressive panel of speakers and topics for its inaugural Annual Meeting Event week.



>2019

June 2019: KYMEA's management team and Board of Directors began working with Tim Blodgett from Hometown Connections to develop a Strategic Plan. Strategic planning is the tool to position the Agency to assist our members in successfully serving our communities in the years to come. As we worked through the process, we developed our vision, mission, and core values. These steps are important as the Agency moves forward to communicate the principles, beliefs, and philosophy that will shape its future.



CHOMPING AT THE BIT

In preparation for May 1, 2019, all energies were focused on making sure that KYMEA could balance supply and demand once the transition occurred. Power supplies were in place, the energy service partner (ACES) had been selected, necessary transmission paths had been procured, metering had been established and the checks and balances were in place to make for a successful transition. So what's been going on since that day in the MAC?

Beyond the daily planning, the primary focus in the Market Analytics Center has been to:

FINE TUNE THE PORTFOLIO OPTIMIZATION

KYMEA worked hand in hand with ACES to become familiar with how KYMEA loads behaved while getting acclimated to the load forecasting provided by Itron. Itron was selected as the short-term load forecasting service and replaced the historical internal model that was used initially. A good forecast allows ACES to submit schedules day-ahead with minimal changes necessary in the real-time. Our goal is to balance load and supply in the most economical way possible.

COORDINATION

Daily procedures were put in place and tested, but the lack of historical data created a tremendous challenge. A great deal of time was spent in coordinating between KYMEA, ACES, BREX, PPS, SEPA, LG&E, PJM and MISO. The IPMC contract did not begin until June 1, 2019 and because of that KYMEA utilized the PJM market to make up deficiencies.

GENERATE REPORTS

Reporting drives the input for the monthly billing to members and is the record for tying out imbalance totals with LG&E and KU. Data collection also allows KYMEA to incorporate data into the PME displays and develop new displays, which provides KYMEA and ACES access to easily monitor real-time operations.



RECONCILIATION

Once May rolled off, staff was able to dig into the details to score how things had gone. Things were tweaked, especially with the IPMC contract beginning in June, but the basic framework had been in place for a successful operation. KYMEA will continue to back test results to make sure that balancing continues in the most efficient way possible while adhering to the scheduling rules and provisions of the PPAs and markets.

ENHANCE REAL-TIME DISPLAYS

When KYMEA chose Schneider's PME as its meter system, one of the largest advantages was how data could be pulled from the server to develop real-time displays. The challenge was getting the data into the system. We were able to get this data exchange in place between KYMEA and ACES in mid-September. A few changes are still necessary, but effectively real-time reporting is now possible. This reporting shows hourly loads, schedules, pricing and imbalance.

ESTABLISH A BACK-UP SYSTEM OFF SITE

KYMEA has worked with PME and Strategic Communications to develop a Meter Data backup server. This server will run in parallel with the primary and will push output to a secondary site so that if the primary server were to have a problem, the secondary server would house the data and produce a seamless transfer of data in the event of a failover.

RESOURCE PLANNING

Beyond dealing with current operations, the big push in the MAC is to perform resource planning for the future, both short-term and long-term. This is being done via the EnCompass model from Anchor Power Solutions. Staff will be able to use this for budgeting scenarios, budget projections as well and long-term integrated resource planning.

AND WE'RE OFF

At the stroke of midnight on May 1, a new electric power era began for the eight municipal members of the Kentucky Municipal Energy Agency (KYMEA). After decades of purchasing electricity from Kentucky Utilities Company, the Frankfort Plant Board and the municipal electric utilities of Barbourville, Bardwell, Corbin, Falmouth, Madisonville, Paris, and Providence are now being served by KYMEA, the Agency they created to obtain lower-cost, reliable electricity for their communities. The switch to using KYMEA power supply portfolio occurred without so much as a blink in the lights in the thousands of homes served by the members. This beginning of new operations marks a major milestone for the communities and their new power supply Agency.

The event represents an important step toward achieving KYMEA's municipal members' goal of having greater control over their own power supply while reducing the costs. KYMEA offers wholesale electric power supply, transmission, power dispatch and planning services to the municipal utilities of its eleven member communities.

KYMEA assembled the initial set of power supply resources to meet its eight All Requirements Project members' needs at significant wholesale power cost savings compared to their previous power supply arrangement. The Agency practices modern portfolio theory (MPT) when developing its power supply portfolio. The MPT concept draws from a diverse set of environmentally responsible power supply resource options and focuses on maintaining long-term, stable rates while minimizing risk. This disciplined planning will help ensure that KYMEA's members benefit from embarking on this new era for many years to come.

The Agency has achieved a diverse power supply portfolio, comprising natural gas-fueled power from Paducah Power System, hydropower from the Southeastern Power Administration, coal-fueled power from Big Rivers Electric Corporation and Illinois Power Marketing Company, diesel generation from the City of Paris, and solar power from E.ON Climate and Renewables. The KYMEA members have worked hard to create an Agency that will benefit communities across Kentucky and create development opportunities for many future decades.

“By working together, member municipal electric systems could reliably provide power and related services to their customers on a more economical basis than could be provided independently or through other providers.”



AND DOWN THE STRETCH THEY COME Annual Meeting

KYMEA members from across the Commonwealth gathered in Louisville on May 21-23 to attend the Annual Meeting events. Although it was not KYMEA's first Annual meeting, it was the first of its kind. The staff put together an impressive panel of speakers and topics for the 2019 inaugural Annual Meeting Event week.

ABOUT PUBLIC POWER - Ursula Schryver

Ursula gave an overview of public power from a national perspective; discussed the issues facing the utility industry and public power; highlighted the resources available through the American Public Power Association and shared how utilities and agencies across the country are utilizing these resources.

MARKET VOLATILITY - Andy Whitesitt

A discussion on natural gas and power market volatility, past, present and future. We took a look at the trends in pricing of natural gas and power markets specific to KYMEA's region with highlights of the fundamentals impacting price volatility from around the country.

HEDGING: WHAT, WHY, AND HOW? - Heather Overby & Rob Leesman

KYMEA manages energy market volatility to keep member rates stable. KYMEA staff explained the risks inherent in RTO and non-RTO energy markets, the Agency's speculation-free hedging methodology, the tools hedging provides to lower market risk, and the internal controls in place around the hedging program.

PUBLIC FINANCE - Mark Rawlings & Kelly Mrsic

Mark and Kelly gave a comprehensive but concise overview of municipal bonds with a particular focus on public power, covering a wide range of topics including a basic introduction to what municipal bonds are, how the markets work, various types of bonds/financing instruments, and the process for securing financing from start to finish.

STRATEGIC PLANNING INTRODUCTION - Tim Blodgett

Change is the only constant factor that the electric industry is experiencing today. Tim walked attendees through the why, what, and how of strategic planning, which is the process that enables utilities and agencies to create a shared purpose and define a roadmap to the future they want to create.



**“The strength of the team
is each individual member.
The strength of each
member is the team.”
- Phil Jackson**



WINNER'S CIRCLE

Excellence in Public Power Communications Awards

Awarded 1st place in Category C for both Print and Digital/Video

As the newest Joint Agency in the nation, there was one question that was heard many times over. "Who is KYMEA and what does it actually do?" KYMEA wanted to create a video that would tell the story of the public power municipal electric systems that make up the Kentucky Municipal Energy Agency, and how the Agency is bringing value to its member communities. The goal in designing KYMEA's first published annual report was to give members and other Kentucky municipals an idea of the history, startup activities, and financial condition of the Agency.



HEATHER OVERBY
VP of Finance &
Accounting/ CFO

CHUCK ROGERS
Chief Technology Officer
Hatfield Media

MORGAN FLETCHER
Graphic Designer
Hatfield Media

ASHLEY SHADBURNE
Director of Marketing
Hatfield Media

MICHELLE HIXON
Director, Administrative
Services and Communications

ISAAC HARRISON
Video Producer
Hatfield Media

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

Kentucky Municipal Energy Agency

Independent Auditor's Report and Financial Statements

June 30, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, and the changes in financial position and 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 19, 2019

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, 2019, 2018 and 2017. 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. During 2019, 2018 and 2017, the Agency 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, liabilities 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 such as interest income.

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, 2019, 2018 and 2017.

Condensed Balance Sheets

	2019	2018	2017
Assets			
Current assets	\$ 15,743,430	\$ 410,198	\$ 564,113
Other noncurrent assets	2,276,111	-	259,746
Capital assets	1,363,459	406,037	-
Total assets	<u>\$ 19,383,000</u>	<u>\$ 816,235</u>	<u>\$ 823,859</u>
Liabilities and Net Position			
Current liabilities	\$ 8,145,713	\$ 640,561	\$ 720,985
Noncurrent liabilities	9,032,768	392,005	-
Total liabilities	<u>17,178,481</u>	<u>1,032,566</u>	<u>720,985</u>
Net position			
Net investment in capital assets	1,363,459	54,487	-
Restricted	-	-	259,746
Unrestricted	841,060	(270,818)	(156,872)
Total net position	<u>2,204,519</u>	<u>(216,331)</u>	<u>102,874</u>
Total liabilities and net position	<u>\$ 19,383,000</u>	<u>\$ 816,235</u>	<u>\$ 823,859</u>

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 \$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

	2019	2018	2017
Operating revenues	\$ 15,488,616	\$ 2,195,330	\$ 1,690,811
Operating expenses	12,968,750	2,514,447	1,647,967
Operating income (loss)	2,519,866	(319,117)	42,844
Net nonoperating revenues (expenses)	(99,016)	(88)	132
Change in net position	2,420,850	(319,205)	42,976
Net position - Beginning of Year	(216,331)	102,874	59,898
Net position - End of Year	\$ 2,204,519	\$ (216,331)	\$ 102,874

During May 2019, KYMEA began providing electricity to its All Requirements member communities; therefore, 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 and 2019 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, 2020 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.

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, 2019 and 2018 totaled \$1,363,459 and \$406,037, 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, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash	\$ 7,755,194	\$ 61,442
Accounts receivable	7,977,472	340,305
Prepaid expenses	10,764	8,451
Total current assets	15,743,430	410,198
Collateral Deposit	2,276,111	-
Capital Assets, Net of Accumulated Depreciation	1,363,459	406,037
Total assets	\$ 19,383,000	\$ 816,235
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 8,001,235	\$ 612,847
Accrued liabilities	125,347	26,423
Accrued interest payable	19,131	1,291
Total current liabilities	8,145,713	640,561
Line of Credit	9,032,768	392,005
Total liabilities	17,178,481	1,032,566
Net Position		
Net investment in capital assets	1,363,459	54,487
Unrestricted	841,060	(270,818)
Total net position	2,204,519	(216,331)
Total liabilities and net position	\$ 19,383,000	\$ 816,235

Kentucky Municipal Energy Agency
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Revenues		
Billings to members	\$ 15,488,616	\$ 2,195,330
Total operating revenues	<u>15,488,616</u>	<u>2,195,330</u>
Operating Expenses		
Production and purchased power	7,314,580	-
Transmission	2,942,783	420,596
Depreciation	79,134	2,123
Other operating expenses	<u>2,632,253</u>	<u>2,091,728</u>
Total operating expenses	<u>12,968,750</u>	<u>2,514,447</u>
Operating Income (Loss)	<u>2,519,866</u>	<u>(319,117)</u>
Nonoperating Revenues (Expenses)		
Interest expense	(107,487)	(255)
Interest income	<u>8,471</u>	<u>167</u>
Total nonoperating revenues (expenses)	<u>(99,016)</u>	<u>(88)</u>
Change in Net Position	<u>2,420,850</u>	<u>(319,205)</u>
Net Position, Beginning of Year	<u>(216,331)</u>	<u>102,874</u>
Net Position, End of Year	<u><u>\$ 2,204,519</u></u>	<u><u>\$ (216,331)</u></u>

Kentucky Municipal Energy Agency

Statements of Cash Flows

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Receipts from members	\$ 7,851,449	\$ 2,069,048
Payments to service providers and others	(4,480,061)	(2,340,891)
Payments to employees	(917,210)	(261,467)
Collateral deposit receipts (remittances)	<u>(2,276,111)</u>	<u>259,746</u>
Net cash provided by (used in) operating activities	<u>178,067</u>	<u>(273,564)</u>
Noncapital Financing Activities		
Advances from line of credit	11,445,933	147,801
Payments on line of credit	<u>(2,805,170)</u>	<u>(100,000)</u>
Net cash provided by noncapital financing activities	<u>8,640,763</u>	<u>47,801</u>
Capital and Related Financing Activities		
Advances from line of credit	-	344,204
Purchase of capital assets	(1,043,902)	(400,814)
Interest payments	<u>(89,647)</u>	<u>1,036</u>
Net cash used in capital and related financing activities	<u>(1,133,549)</u>	<u>(55,574)</u>
Investing Activities		
Interest income	<u>8,471</u>	<u>167</u>
Net cash provided by investing activities	<u>8,471</u>	<u>167</u>
Net Increase (Decrease) in Cash	7,693,752	(281,170)
Cash, Beginning of Year	<u>61,442</u>	<u>342,612</u>
Cash, End of Year	<u><u>\$ 7,755,194</u></u>	<u><u>\$ 61,442</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in)		
Operating Activities		
Operating income (loss)	\$ 2,519,866	\$ (319,117)
Depreciation	79,134	2,123
Changes in operating assets and liabilities		
Accounts receivable	(7,637,167)	(126,282)
Prepaid expenses	(2,313)	(973)
Collateral deposit	(2,276,111)	259,746
Accounts payable	7,395,734	(115,484)
Accrued expenses	<u>98,924</u>	<u>26,423</u>
Net cash provided by (used in) operating activities	<u><u>\$ 178,067</u></u>	<u><u>\$ (273,564)</u></u>
Supplemental Noncash Activities		
Capital asset acquisitions included in accounts payable	\$ -	\$ 7,346

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2019 and 2018

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, 2019 and 2018

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 amounts of assets and liabilities and disclosure of contingent assets and liabilities 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, 2019 and 2018.

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.

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2019 and 2018

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

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.

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.

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, 2019 and 2018.

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.”

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2019 and 2018

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

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.

Income Taxes

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

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 financial statements presentation. These reclassifications had no effect on the change in net position.

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, 2019 and 2018, the carrying amount of the Agency's deposits were \$7,755,194 and \$61,442 and the bank balances were \$7,771,133 and \$152,716, respectively. At June 30, 2019 the Agency's deposits exceeded FDIC coverage and collateral held by approximately \$7,521,133.

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2019 and 2018

Note 3: Capital Assets

Capital asset activity for the years ended June 30, 2019 and 2018 was as follows:

	July 1, 2018	Increase	Decrease	Transfers	June 30, 2019
Construction work in progress	\$ 372,498	\$ 1,036,556	\$ -	\$ (1,409,054)	\$ -
Equipment	35,662	-	-	1,155,416	1,191,078
Building improvements	-	-	-	253,638	253,638
Less: accumulated depreciation	(2,123)	(79,134)	-	-	(81,257)
Totals	<u>\$ 406,037</u>	<u>\$ 957,422</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,363,459</u>
	July 1, 2017	Increase	Decrease	Transfers	June 30, 2018
Construction work in progress	\$ -	\$ 372,498	\$ -	\$ -	\$ 372,498
Equipment	-	35,662	-	-	35,662
Less: accumulated depreciation	-	(2,123)	-	-	(2,123)
Totals	<u>\$ -</u>	<u>\$ 406,037</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 406,037</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. 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. 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.

In October 2017, the Agency executed 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.

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2019 and 2018

Note 5: 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, 2019 and recorded rent expense of \$146,490 for the year ended June 30, 2019.

Future minimum lease payments at June 30, 2019 were:

2020	\$ 154,938
2021	161,041
2022	162,754
2023	162,754
2024	40,688

Note 6: 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 \$74,747 and \$14,286 were made for the fiscal years ended June 30, 2019 and 2018, respectively.

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.

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2019 and 2018

Note 7: 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 8: 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.



KENTUCKY MUNICIPAL ENERGY AGENCY

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