

LEVERAGING OUR **STRENGTHS**



2022



KENTUCKY MUNICIPAL ENERGY AGENCY

ANNUAL
REPORT

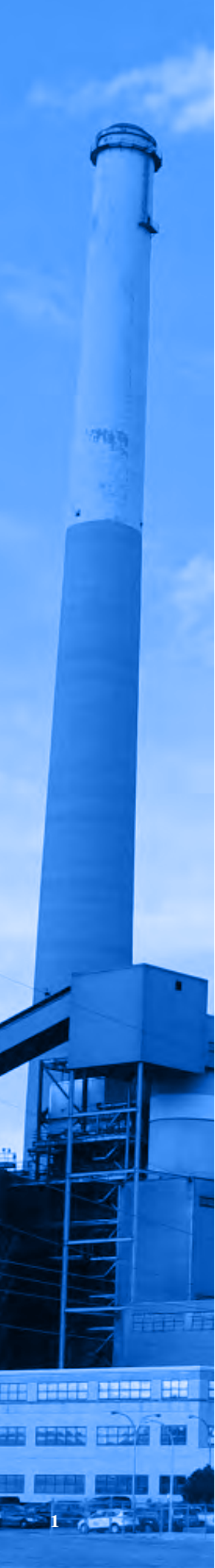


TABLE OF CONTENTS

A Message from our CEO and Board Chair3

KYMEA Team 5

Board of Directors..... 7

About KYMEA..... 9

Vision, Mission, Values..... 13

The Value of Public Power 15

KYMEA’s Future Power Mix..... 17

Western Kentucky Tornado.....19

Stress on Grid, Extreme Weather
& Capacity Warnings.....23

Community Spotlight – Corbin, KY	25
Annual Members Conference.....	29
Financials.....	31
Financial Highlights.....	32
FY 2022 Independent Auditor’s Report.....	33





A MESSAGE FROM OUR CEO AND BOARD CHAIR

LEVERAGING OUR STRENGTHS

The theme for this year's report is leveraging our strengths. In 2022, wholesale power prices whipsawed from the pandemic-era lowest prices ever to the post-pandemic highest prices ever. The 200% swing in wholesale power prices, coupled with the 40-year inflation high and the Russian invasion of Ukraine, has placed tremendous strain on the global energy markets.

KYMEA benefited from the surge in wholesale power prices by selling excess energy from the Agency's power supply portfolio into the wholesale power market. By leveraging the strength of our flexible portfolio, KYMEA was able to take advantage of the high market prices – keeping our member's rates low and stable while generating additional cash for the Agency's rate stabilization and working capital fund.

KYMEA ACHIEVEMENTS

Flexible Operations: For fiscal year 2022, the KYMEA All Requirements member's power supply demand and energy rates held steady from fiscal year 2021. When including the LG&E/KU network transmission service cost, the average system rate was 6.060¢ per kWh, which is a 1% increase from the previous year, remaining among the lowest in the country.

To combat the economic difficulties experienced within the KYMEA member communities as their customers began recovering from the pandemic, KYMEA extended, for a third consecutive year, the COVID-19 Rate Relief Plan and the Member Late Payment Protection Plan. These programs shift power costs, member usage, and payment risks, typically borne by the members, to KYMEA.

Additionally, the Agency absorbed over \$1 million of the LG&E/KU network transmission costs typically charged directly to the member communities. It is this continued type of response to a crisis that assures customers located in a KYMEA community that the Agency is in their corner, balancing

the needs of the member's customers with the Agency's long-term financial health.

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. In addition, the Agency established its 5-year financial health metrics and key performance indicators, which assist the Board and management in regularly monitoring the Agency's overall financial well-being.

In 2022, KYMEA exceeded all financial health metric targets. The Agency ended the fiscal year with \$3.82 million in net income and 75 days cash on hand (DCOH), which was favorable to target by 4 DCOH.

Energy Security: In May, the KYMEA Board approved the Agency's Emergency Operating Procedures (EOP). 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 controlled curtailments become necessary due to a lack of bulk power.

The KYMEA approach is to provide a competitive, stable, and reliable power supply. While the PPA capacity and firm transmission provide security, we are prepared to respond through the Agency’s EOP if controlled curtailments are necessary during extreme weather events.

Planning for the Future: This fall, KYMEA will begin planning for its next tranche of power supply through its next 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.

Providing competitively priced, dependable power is fundamental for our member communities. On average, KYMEA’s rates are 20% below our Kentucky wholesale competitors. Our solid financial health and competitive rates position the Agency to continue our success. We look forward to building on our accomplishments and leveraging our strengths.

“KYMEA’s 2022 average system rate was on average, 20% lower than the rates of the five other Kentucky wholesale power providers.”



JOSH CALLIHAN
Director & Chairman

DOUG BURESH
President & CEO

A handwritten signature in black ink that reads "Josh Callihan".

A handwritten signature in black ink that reads "Doug Buresh".

KYMEA TEAM



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
and Communications



MOLLY ROESLER
Accountant &
Financial Analyst

BOARD OF DIRECTORS



JOSH CALLIHAN | Director & Chairman
Barbourville Utility Commission
General Manager



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



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



SUSAN BISHOP | Director
City of Falmouth Utilities
Deputy Treasurer



TIM LYONS | Director
Owensboro Municipal Utilities
General Manager



JAMIE MILLER | Director
City of Paris Combined Utilities
City Manager



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



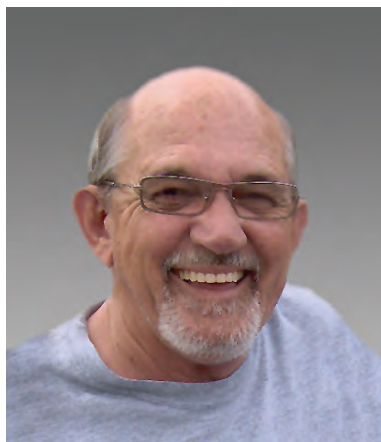
GARY ZHENG | Director & Treasurer
Frankfort Plant Board
General Manager



DOUG HAMMERS | Director
City of Providence
Utilities, Mayor



PHILIP KING | Director
Bardwell City Utilities
Mayor



CARL SHOUBE | Director
Benham Power Board
Benham Director

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: 3,238
barbourville.com



Bardwell, Kentucky
Population: 736



BENHAM

★ KENTUCKY ★

Benham, Kentucky
Population: 499



Berea

#experienceberea

Berea, Kentucky | Population: 16,001
bereaky.gov



Corbin, Kentucky | Population: 7,923
corbinutilities.com



FALMOUTH

Founded in 1793

Falmouth, Kentucky | Population: 2,244
cityoffalmouth.com

ABOUT KYMEA



*F*RANKFORT
Capital of Kentucky

Frankfort, Kentucky | Population: 28,553
fpb.cc



Madisonville
"The Best Town
on Earth"
WELCOMES YOU

Madisonville, Kentucky | Population: 19,370
madisonvillegov.com



20% average
lower rates than
other Kentucky
wholesale
suppliers



Saved
Members
\$16.8M
since 2019



Over **75,000**
Customer
Meters



OWENSBORO

only in owensboro

Owensboro, Kentucky | Population: 60,064
omu.org



11 Members



8 All
Requirement
Communities



Paris

HORSES • HISTORY • HOSPITALITY

Paris, Kentucky | Population: 10,138
paris.ky.gov



Providence, Kentucky | Population: 2,878
providenceky.com



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.



INTEGRITY

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

RESPECT

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

FISCAL 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.

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.



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

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 will publish its IRP2023 in the first quarter of 2023. Just like IRP2020, IRP2023 will present a strategy for KYMEA to meet its near-term power demand and provide a 20-year blueprint on how KYMEA can best succeed in meeting the future demand for power. The plan provides the next chapter in KYMEA's ongoing success in a continually changing industry and regulatory environment; and better positions KYMEA to meet many of the challenges facing the power sector in the coming years.

In developing IRP2023, KYMEA will enlist the help of subject matter experts and the public at large to ensure we consider a wide range of resource options and a wide breadth of plausible resource plans. The pace of change and volatility within the utility

industry is staggering. Therefore, integrated Resource Planning efforts are essential in how KYMEA broadens its view of the future in an everchanging 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.

With the expiry of KYMEA's 3-year 100 MW IMPC-Joppa coal-fired purchase power agreement in May of 2022, KYMEA purchased a 5-year 60MW slice of system from Duke Energy Indiana and 86MW of solar generation from RWE. These purchases will fill the Agency's near-term needs through 2026. KYMEA's portfolio is continually reassessed and adjusted as material changes occur in the market and/or in the needs of the Agency's member cities and customers. KYMEA will remain diligent in monitoring these situations and advise the Board of any recommended changes for their consideration.



HYDROELECTRIC

- SOUTHEASTERN POWER ADMINISTRATION (32 MW)



FOSSIL FUELS

- BIG RIVERS ELECTRIC CORPORATION (100 MW)



- CITY OF PARIS POWER PLANT (11 MW)



- PADUCAH POWER SYSTEM (90 MW)



SLICE OF SYSTEM

- DUKE ENERGY INDIANA (60 MW)



SOLAR

- ASHWOOD SOLAR I (86 MW) *Online June 2024*



WESTERN KENTUCKY **TORNADO**

Friday night December 10, 2021, tornadoes ravaged the western part of Kentucky destroying homes, businesses, and many fellow communities in what has been considered the worst devastation and loss of life in Commonwealth history. As Kentuckians, we pulled together to help our fellow communities in the wake of disaster and great loss.

KYMEA members worked with the American Public Power Association, and the Kentucky Municipal Utility Association to provide storm restoration to the hardest-hit areas. “We are shattered by the loss of life from the tornadoes that destroyed communities across Kentucky, home to many of our friends and their loved ones,” said Doug Buresh, president and chief executive officer of Kentucky Municipal Energy Agency. “We are grateful to our member communities, who fortunately avoided the brunt of the storm in their own communities and were able to send crews and materials to help restore power in the disaster-stricken areas.” Wanting to do even more to help the families and businesses, KYMEA partnered with nFront Consulting, Spiegel & McDiarmid, Forvis (formerly BKD), Rubin & Hays, and LightChange Technologies to provide \$30,000 in direct relief and contributions to the Team Western Kentucky Tornado Relief Fund. “I am so proud of our member line crews who rushed to ravaged communities to help restore electricity, as having power can be a matter of life or death,” said Josh Callihan, general manager of Barbourville Utility Commission, and KYMEA board chairman.

Community-wide calamities — pandemics, natural disasters, cyberattacks, operational failures — inflict great stress on communities and their local utilities. While it’s nearly certain a disaster will occur sometime in the future, we can’t be certain when it will occur, which type, its severity, its impact, or its duration. Each tragedy requires a unique response, so we must prepare for everything. Fortunately, utilities have a proven track record of being very good at preparing and responding to tragedies. It’s what we do.

Some natural disasters come with several days of advance warnings, such as an ice storm, while others, such as a tornado, come with little to no advance warning. The monster tornado that destroyed Mayfield and Dawson Springs on December 10-11 traversed four states without ever lifting off the ground. The “Quad-State Tornado” carved a continuous path of nearly 166 miles through eastern Missouri, western Kentucky, southern Illinois, and the southernmost tip of Indiana.

Mayfield, Kentucky changed dramatically on December 10, 2021. Trees were violently uprooted, cars were thrown about like paper

airplanes, and mobile homes were obliterated. The candle factory, where 110 people were working, was heavily damaged. The tornado approached Mayfield from the southwest. As it hit Broadway, Fr. Eric Riley heard the St. Joseph Church bell tower crumble. The storm turned right, resulting in widespread, catastrophic damage throughout Mayfield's historic downtown. Most of the structures downtown were heavily damaged or destroyed, including the post office, city hall, and Mayfield Water & Electric System. Radar imagery indicated that the tornado debris extended up to 30,000 feet into the air. Tragically, twenty-two people lost their lives in and around Mayfield, with hundreds more injured. So much history was seemingly annihilated, forever consigned to memories and pictures.

The question on everyone's mind: How in the world could Mayfield recover from this tragedy? Kentuckians mobilize and take care of themselves and their neighbors. Before the sun had risen, help from surrounding communities was onsite. Relief agencies and individuals with recovery and restoration skills arrived to offer help. Federal and Commonwealth government representatives showed up. Utilities sent line crews to restore power, and donations and relief from across the nation poured in. Mayfield began picking itself up from that rubble. Most of the businesses previously located in downtown Mayfield found temporary locations and



WESTERN KENTUCKY **TORNADO**

got back to work. They had jobs to do. This could have easily been the story of how a beautiful small town in Kentucky was wiped out forever by Mother Nature; but, instead, it will be one of community. A community, led by smart, energetic leaders that came together to overcome a disaster. It will be bittersweet, but Mayfield is strong, and it will triumph because "the sun shines bright on my old Kentucky home."

Many KYMEA members saw very minimal damage and immediately asked how they could help their fellow utilities. KYMEA members sprung into action. The City of Bardwell provided fire trucks, tankers, and other equipment to the Cayce Fire Department who lost everything. The Owensboro Municipal Utilities sent line crews to help assist the town of Princeton. The City of Paris sent line crews to assist restoration efforts in Bowling Green and Mayfield. Line crews from the Frankfort Plant Board travelled to Princeton and Mayfield to help restoration efforts. Other KYMEA members

who were unable to provide manpower offered to deliver much-needed power supply materials. It was estimated at the time that Princeton alone had lost over 80 distribution poles and numerous transformers and other equipment to the storm. In just a matter of days, Princeton had been restored to over 95% operational. The municipalities know that they can count on each other in times like these.

To all the western Kentucky tornado responders who offered help, financial assistance, and emotional support, we offer a heartfelt "Thank You."



To all the western Kentucky
tornado responders who
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“Thank You.”



STRESS ON GRID, EXTREME WEATHER & **CAPACITY WARNINGS**

"Give me six hours to chop down a tree and I will spend the first four sharpening the axe."

Abraham Lincoln

STRESS ON THE GRID

The U.S. electric power grid, once viewed as the most stable and secure power system in the world, is in the midst of undergoing a systemic transformation as grid operators are being forced to adapt to multiple challenges. Among these challenges is an anticipated surge in electricity demand, brought on by the increase in electric vehicle usage and a new generation of intermittent renewable sources, displacing dispatchable fossil fuel generation.

These changes are coming very quickly, making it increasingly difficult for grid operators to maintain the high-reliability standard the U.S. power industry has provided for decades. The problem becomes exacerbated when coupled with extreme weather events such as searing heat or bitter cold, as the amount of

reserve generating capacity is the lowest in decades.

PREPARING AND COMMUNICATING

Following the practice of Mr. Lincoln, KYMEA has "sharpened our axe." To provide security and risk mitigation for our members and their customers, KYMEA has "steel-in-the-ground" purchase power agreements with firm transmission paths. By tying our PPAs to tangible assets coupled with firm transmission access, KYMEA is less likely to be curtailed by grid operators in the event controlled curtailments become necessary due to a lack of bulk power.

Shifting generating patterns, and a decentralized network of generating facilities and load across multiple balancing authorities, requires KYMEA to consider innovative approaches.



To prepare for the imbalance swings of the KYMEA member load coupled with future solar generation, the Agency is in the final stages of implementing a 100 MW MISO dynamic schedule. The dynamic schedule will provide telemetered real time power imbalance values. In addition, the dynamic schedule automatically adjusts power scheduled from the MISO RTO to ensure the KYMEA load inside the LG&E/KU footprint remains balanced.

The KYMEA approach is to provide a competitive, stable, and reliable power supply. While the PPAs, firm transmission, and the dynamic schedule provide security, the Agency is also prepared to respond if controlled curtailments are necessary during extreme weather events and stress on the power grid.

The solution is preparation and communication. KYMEA developed Emergency Operating Procedures, which

outlines the plan to follow in the event of a power emergency. The plan details the coordinated action between the grid operators, KYMEA, and the KYMEA members.

There are four levels of emergency operating conditions. Each condition is initiated by the grid operator and communicated to KYMEA. KYMEA, in turn, communicates the required action to our member communities. The levels vary from a public appeal for energy conservation to relieve stress on the grid to more dramatic actions such as temporary, controlled load shedding should the grid experience insufficient power supply and/or transmission capabilities. While these conditions are not expected, it is prudent that KYMEA, and our members, are prepared to respond.

NERC – Reliability Outlook

“We’ve been seeing a progression of riskier outlooks for the electric grid for the last four or five years ...we’re having what we would call a disorderly retirement of older generation, which is happening too quickly.”

Jim Robb, President and CEO, North American Electric Reliability Corporation (NERC) (June 2022)

MISO Reliability Imperative – Market Redefinition

“Market Redefinition means we need to consider the broad and transformative implications of the rapidly changing risk profile in MISO. This is driving our agenda to re-think the methods by which we assess reliability risk in the planning and operating horizons and the ways in which our markets incent and ensure availability and flexibility.”

Richard Doying, Executive Vice President of Market & Grid Strategy, Midcontinent Independent System Operator (MISO) (September 2021)

COMMUNITY SPOTLIGHT

CORBIN, KENTUCKY

Situated at the foothills of the Appalachian Mountains and by the shores of Laurel Lake, Corbin, KY is uniquely positioned between Knoxville, TN and Lexington, KY. Originally settled as Lynn Camp Station by the Europeans in the early 1800s, the first railroad tracks were laid in the area around 1883. In 1885 it was discovered that both Cummins and Lynn Camp were already in use as names for Kentucky post offices and the town was asked to select another name. The name 'Corbin' was chosen after the Reverend James Corbin Floyd, a local minister, and the town was officially formed in 1905. With the hard work of many of Corbin's earliest settlers, as well as Mr. Nelson Cummins, the "father" of Corbin, the

small town was on track to become one of Kentucky's most interesting cities.

According to Mayor Suzie Razmus, "Corbin has a challenge that is unique to most cities. We are located in two counties and border a third. We are the largest city in Whitley and Knox counties, but we are not a county seat. These challenging issues of logistics have created a community of strong willed, optimistic and progressive people who challenge the status quo and expect results and forward movement." Located off of I-75 exits 25 and 29, the town sits among the pristine beauty of the Daniel Boone National Forest.



An 'outdoorsman's paradise,' Corbin is the perfect destination for an outdoor adventure. Cumberland Falls State Resort Park has 17 miles of hiking trails that wind through the park. It is known for its nature trails, white water rafting, fishing, and horseback riding, in addition to its scenic beauty and natural wildlife. Amidst this scenic beauty, the 'Niagara of the South,' Cumberland Falls' 125-foot curtain of water drops 60 feet, causing a mist on the boulders in the gorge below. Thanks to the combination of steep gorge walls and clear night skies, it is the site of the only regular 'moonbows' existing in the Western Hemisphere. After much debate with the Kentucky Senate, Cumberland Falls was officially declared a state park and opened on September 7, 1931.

Don't let Corbin's 'small town' vibe fool you. Famous for being the birthplace of Kentucky Fried Chicken and the home of Colonel Harland Sanders, you can still visit the original Sander's Cafe and stroll through the Colonel's 'secret herb recipe garden.' Sanders' Court, opened in 1937 as a gas station, and later expanded to include a motel and a cafe. During the Great Depression, the Colonel was proud to offer travelers a hot meal at his own dining table and a bed to sleep in on their journey along US Route 25. Colonel Sanders owned and operated this location until selling it in 1956, and before it was added to the National Register of Historic Places in 1990.

The recent opening of The Mint Gaming Hall Cumberland has added horse racing and betting to the long list of things to do in Corbin. Ron Winchell and Marc





COMMUNITY SPOTLIGHT

CORBIN, KENTUCKY

Falcone are managing partners opening up Cumberland Run and Cumberland Mint this fall, which will bring the first horse track in Eastern Kentucky since Thunder Ridge. It is expected to have 450 horse racing terminals, as well as an on-site restaurant by January 2023.

An already booming town, located within 600 miles of 51% of the retail sales markets in the United States, Corbin has a progressive economic development business plan in place. With acts like Travis Tritt, Judas Priest and ZZ Top, the 100,000 square foot Corbin Arena brings a whole new crowd to this southern Kentucky city. This arena is not the only home to musical acts in Corbin. Every

year, a late summer celebration called NIBROC Festival happens which includes an array of musical entertainment, arts & crafts, as well as many delicious food vendors. For those who don't know, NIBROC is actually Corbin spelled backwards. The festival takes place each year in August.

With the massive development of the city, Corbin continues to take deep care of its citizens. Ron Herd, General Manager of the Corbin City Utility Commission, manages the electric distribution system, water treatment and distribution systems, as well as the sanitary sewage treatment and collection systems for the city of Corbin. After providing tremendous leadership and direction on KYMEA's Board of Directors, Herd



was awarded a diamond plaque on May 27, 2021, upon completion of his third term as KYMEA’s Board Chair. There is no one more overjoyed to serve this growing city than Mayor Suzie Razmus. Mayor Razmus, who considers being Mayor of Corbin as one of her life’s greatest honors says, “We are proud of Ron Herd and the City Utilities Commission, who serve our community faithfully and efficiently through challenging times. We are blessed with low utility rates and arguably the best water you’ve ever drank!”

Whether you find yourself attending next summer’s NIBROC Festival, experiencing a show at the Corbin Arena, betting at The Mint Gaming Hall or exploring Cumberland Falls, you are sure to find a city rich with history. As Mayor Suzie Razmus says, “We hope you get the chance to visit us soon because – Corbin loves Company!”



SUZIE RAMUS
Mayor



RON HERD
General Manager of the Corbin City
Utilities Commission





ANNUAL MEMBERS CONFERENCE

KYMEA kicked off its 2022 Annual Members Conference on May 19th, starting with the Annual Board Meeting, followed by a Strategic Planning Session.

Towards the end of the Board meeting, Josh Callihan, Chairman of the Board of Directors, honored retiree Kevin Frizzell and awarded him for his service to the Agency. Kevin has served as a Board member for over 4 years and played a critical role during the Agency's formation in 2015.

In September 2019 KYMEA hosted its first Strategic Planning session. During that session, KYMEA Directors established the Agency's vision, mission, and core values. They also developed four key priority categories; Financial Stability, Growth, Resource Planning, and Organization. Along with each strategic priority, several goals were established to accomplish the priority.

Each year the Agency meets to review the goals and spend time aligning and updating the goals to the Agency's current needs. In 2021 the Agency published a Strategic Plan Update which can be viewed on the website at [KYMEA.org](https://www.kynea.org).

As May 2022 marks the third full year that the Agency has operated as the wholesale electric supplier for eight All Requirements communities, the sessions began on Friday morning with a "Year in Review" presentation by Doug Buresh, President and CEO of KYMEA.

Next up was Andy Whitesitt, Senior Vice President & Chief Business Development

Officer for ACES. This session was eye-opening as Andy provided a review of the markets which are in a state of uncertainty Andy hasn't seen in the course of his career. The session highlighted fundamentals impacting price volatility around the country and also how the continued development of renewable generation is impacting the industry and markets.

KYMEA invited Dennis Pidherny, Managing Director – Public Finance and Andrew DeStefano, Director – US Public Finance from Fitch Ratings to speak on the topic of Rating Agencies: Outlook for Public Power. The pair discussed inflation, affordability, environmental regulation, and ESG and how these issues could impact credit quality at KYMEA and entities across the utility and energy sector.

KYMEA welcomed for the first time to the Annual Conference, Charles Aull, Senior Policy Analyst at the Kentucky Chamber. Charles discussed Kentucky's unique geographical location, business-friendly environment, and low cost of living and how it positions Kentucky for economic growth. He analyzed some challenges in reaching our full economic potential and addressed the evolving economic landscape, as well as steps utilities can take to help move Kentucky forward.

Heather Overby, KYMEA's VP of Finance & Accounting and CFO along with Rob Leesman, VP of Market Analytics gave a presentation on how KYMEA uses hedging to manage market volatility in order to keep rates stable for the

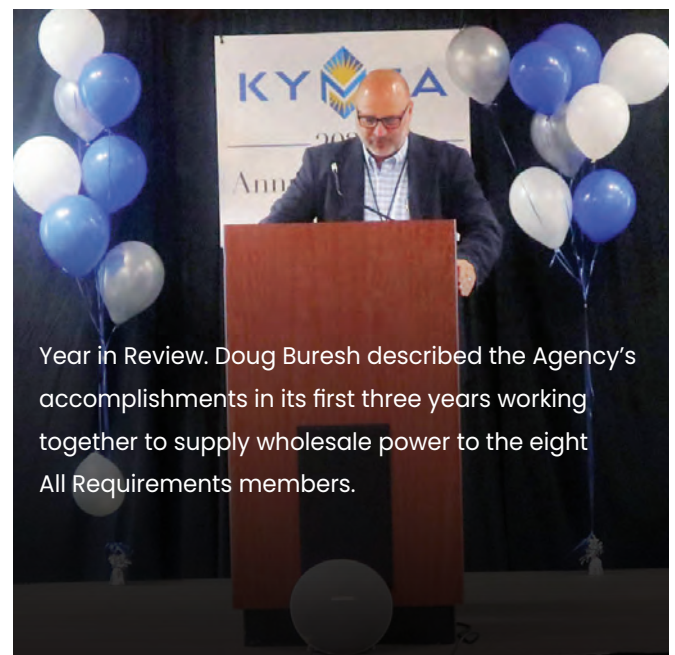


members. They explained risks that are inherent in RTO and non-RTO energy markets. Heather and Rob reviewed the Agency's speculation-free hedging methodology and internal controls in place to protect the Agency, as well as tools that hedging provides to lower market risk. The session ended with an opportunity for participants to put what they learned to practice in an interactive hedging contest. Congratulations to Ron Herd, KYMEA Director from Corbin and Russ Pogue, Manager of Member Relations at Big Rivers Electric Corporation for choosing the most profitable heading strategy and winning the game.

Sessions ended on Friday afternoon with Scott Cochenour, Vice President of Utility Services from Wesco. Scott delivered a presentation on the Current Supply Chain State and Actions that Will Drive Results.

Over the past couple of years, the effects of the pandemic have hit supply chains in ways we've never seen before. The utility and energy industries were no exception. KYMEA's Directors have experienced the challenges firsthand. They have seen lead times on transformers more than triple and costs double. Scott explained how Wesco has been dealing with the challenges and creative steps they and others have taken to relieve the stress of long lead times and help manage the supply chain challenges for their customers.

This year's conference was a success! Attendees were glad to be together in person and enjoyed networking with other attendees and partners. We are always very thankful for the sponsors who make this event possible year after year.



Year in Review. Doug Buresh described the Agency's accomplishments in its first three years working together to supply wholesale power to the eight All Requirements members.



FINANCIALS

2022 REPORTS

KYMEA's keen 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 to a strategy of purchasing power supplies to meet AR 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 AR 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

generally accepted accounting principles in 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 generally accepted auditing principles 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

This past year was an outstanding one for KYMEA which produced very positive financial results for its members during the fiscal year 2022. 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 taking advantage of its lucrative purchase power agreements and by selling excess power not needed to serve its members into the power market. The increase in operating revenues from the previous fiscal year reflects this off-system sales activity.

Operating expenses also increased from 2021 to 2022. The majority of this increase occurred as a result of maximizing the Agency's purchase power agreements. Additionally, LG&E-KU reimbursed less point-to-point transmission charges in the

Midcontinent Independent System Operator area than in the previous year.

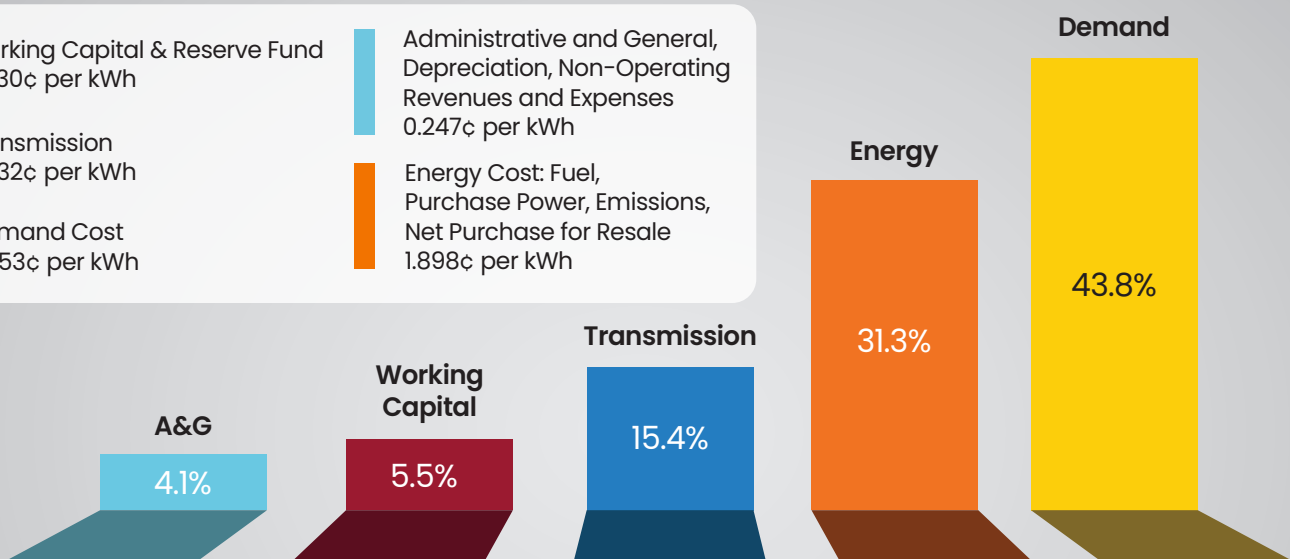
KYMEA's average system wholesale rate of 6.06 cents per kilowatt-hour is among the lowest in the industry. We believe we are well positioned to continue our momentum, and we are extremely proud of the opportunity to provide low cost, reliable energy to our members while maintaining a financially healthy Agency.

	2021	2022
Financial Results	(\$ in thousands)	(\$ in thousands)
Operating Revenue	\$85,191	\$109,348
Operating Expenses	\$82,750	\$105,372
Non-Operating Expenses	-\$65	-\$153
Net Income	\$2,376	\$3,823

TOTAL COST (\$ in thousands)			1,216,411 MWh
Labels	Cost	Percent	¢ per kWh
Demand Cost	32,277	43.8	2.653
Energy Cost	23,089	31.3	1.898
Trans Cost	11,332	15.4	0.932
Working Capital	4,019	5.5	0.330
A&G Cost	2,999	4.1	0.247
	73,716	100	6.060

Average System Rate includes Member Generation Capacity Benefits

Working Capital & Reserve Fund 0.330¢ per kWh	Administrative and General, Depreciation, Non-Operating Revenues and Expenses 0.247¢ per kWh
Transmission 0.932¢ per kWh	Energy Cost: Fuel, Purchase Power, Emissions, Net Purchase for Resale 1.898¢ per kWh
Demand Cost 2.653¢ per kWh	



Kentucky Municipal Energy Agency

Independent Auditor's Report and Financial Statements

June 30, 2022

Kentucky Municipal Energy Agency

June 30, 2022

Contents

Independent Auditor's Report..... 1

Management's Discussion and Analysis 3

Financial Statements

Balance Sheet 7

Statement of Revenues, Expenses and Changes in Net Position..... 8

Statement of Cash Flows 9

Notes to Financial Statements 10

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, 2022, 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, 2022, 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, 2022, Kentucky Municipal Energy Agency adopted Governmental Accounting Standards Board Statement No. 87, *Leases*. 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 these 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 twelve 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
August 23, 2022

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, 2022. 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, 2022 and 2021.

Condensed Balance Sheets

	2022	2021
Assets		
Current assets	\$ 30,518,180	\$ 22,074,918
Other noncurrent assets	3,490,394	3,189,845
Capital and lease assets	2,717,308	1,251,916
Total assets	<u>\$ 36,725,882</u>	<u>\$ 26,516,679</u>
Liabilities, Deferred Inflows of Resources and Net Position		
Current liabilities	\$ 16,825,820	\$ 12,034,571
Noncurrent liabilities	1,642,456	160,402
Total liabilities and deferred inflows of resources	<u>18,468,276</u>	<u>12,194,973</u>
Net position		
Net investment in capital assets	1,136,344	1,251,916
Unrestricted	17,121,262	13,069,790
Total net position	<u>18,257,606</u>	<u>14,321,706</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 36,725,882</u>	<u>\$ 26,516,679</u>

Current assets increased \$8.4 million from the fiscal year ending June 30, 2021, to the fiscal year ending June 30, 2022. This increase resulted from an increase in unrestricted cash from normal operations during the year. Noncurrent assets increased by \$0.3 million in the same period due to an increase in collateral deposits held by regional transmission organizations. Capital and lease assets increased \$1.6 million due to implementation of GASB 87, *Leases*. This pronouncement requires recognition of assets and liabilities for certain leases. KYMEA's lease of office space falls under these requirements. Prior year amounts have not been restated for the adoption of GASB 87.

Current liabilities increased \$4.8 million from the fiscal year ending June 30, 2021, to the fiscal year ending June 30, 2022. This increase was related to the timing of purchased power expenses to serve the electricity needs of KYMEA's members. Noncurrent liabilities increased \$1.5 million during the same period due to implementation of GASB Statement 87 referenced in the above paragraph.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2022	2021
Operating revenues	\$ 109,408,434	\$ 76,549,177
Operating expenses	<u>105,379,944</u>	<u>74,176,694</u>
Operating income	<u>4,028,490</u>	<u>2,372,483</u>
Net nonoperating revenues (expenses)	<u>(92,590)</u>	<u>(5,817)</u>
Change in net position	<u>3,935,900</u>	<u>2,366,666</u>
Net position - Beginning of Year	<u>14,321,706</u>	<u>11,955,040</u>
Net position - End of Year	<u><u>\$ 18,257,606</u></u>	<u><u>\$ 14,321,706</u></u>

Operating revenues increased \$32.9 million from the fiscal year ending June 30, 2021, to the fiscal year ending June 30, 2022. This increase is a result of a change in accounting treatment where sales of electricity to non-KYMEA members is now recognized as operating revenue. KYMEA sold energy into the Midcontinent Independent System Operator (MISO) Regional Transmission Organization (RTO) market during both periods. Previously, these energy sales were netted against operating expenses based on how the activity was handled within the MISO RTO market. The change of recognition of these transactions results in a truer picture of KYMEA financial activity.

Operating expenses increased \$31.3 million from the fiscal year ending June 30, 2021, to the fiscal year ending June 30, 2022. \$4 million of this increase is a result of higher transmission expenses related to changes in the Louisville Gas and Electric Company and Kentucky Utilities Company (LG&E-KU) de-pancaking agreement. LG&E-KU reimbursed less point-to-point transmission charges in the Midcontinent Independent System Operator area than in the previous year. Additionally, KYMEA purchased power expenses increased \$26.9 million during this period due to the change in accounting treatment of non-member sales revenue discussed in the previous paragraph.

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. This agreement replaces the existing revolving line of credit agreement in the amount of \$30,000,000 previously in place. There were no amounts outstanding under either line of credit as of June 30, 2021, or June 30, 2022.

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, 2022

Assets

Current Assets

Cash	\$ 21,644,545
Accounts receivable	8,871,209
Prepaid expenses and other assets	2,426
Total current assets	<u>30,518,180</u>

Noncurrent Assets

Collateral deposit	3,490,394
Lease assets, net of accumulated amortization	1,559,856
Capital assets, net of accumulated depreciation	<u>1,157,452</u>
Total noncurrent assets	<u>6,207,702</u>
Total assets	<u>\$ 36,725,882</u>

Liabilities, Deferred Inflows of Resources and Net Position

Current Liabilities

Accounts payable	\$ 16,646,727
Accrued liabilities	48,622
Accrued interest payable	9,531
Current portion of lease liabilities	120,940
Total current liabilities	<u>16,825,820</u>

Noncurrent Liabilities

Compensated absences	182,432
Lease liabilities, net	1,460,024
Total noncurrent liabilities	<u>1,642,456</u>
Total liabilities	<u>18,468,276</u>

Net Position

Net investment in capital assets	1,136,344
Unrestricted	17,121,262
Total net position	<u>18,257,606</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 36,725,882</u>

Kentucky Municipal Energy Agency

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2022

Operating Revenues	
Billings	\$ 109,408,434
	<u>109,408,434</u>
Operating Expenses	
Production and purchased power	90,223,608
Transmission	12,952,273
Depreciation and amortization	327,930
Other operating expenses	1,876,133
	<u>105,379,944</u>
Operating Income	<u>4,028,490</u>
Nonoperating Revenues (Expenses)	
Interest expense	(101,828)
Interest income	9,238
	<u>(92,590)</u>
Change in Net Position	<u>3,935,900</u>
Net Position, Beginning of Year	<u>14,321,706</u>
Net Position, End of Year	<u><u>\$ 18,257,606</u></u>

Kentucky Municipal Energy Agency

Statement of Cash Flows

Year Ended June 30, 2022

Cash Flows From Operating Activities	
Receipts	\$ 108,178,288
Payments to service providers and others	(99,218,801)
Payments to employees	(1,138,611)
Collateral deposit remittances	(300,549)
	<u>7,520,327</u>
Net cash provided by operating activities	<u>7,520,327</u>
Cash Flows From Noncapital Financing Activities	
Interest payments	(105,568)
	<u>(105,568)</u>
Net cash used in noncapital financing activities	<u>(105,568)</u>
Cash Flows From Capital and Related Financing Activities	
Principal paid on lease liability	(117,546)
Purchase of capital assets	(94,812)
	<u>(212,358)</u>
Net cash used in capital and related financing activities	<u>(212,358)</u>
Cash Flows From Investing Activities	
Interest income	9,238
	<u>9,238</u>
Net cash provided by investing activities	<u>9,238</u>
Net Increase in Cash	7,211,639
Cash, Beginning of Year	<u>14,432,906</u>
Cash, End of Year	<u><u>\$ 21,644,545</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 4,028,490
Depreciation and amortization	327,930
Changes in operating assets and liabilities	
Accounts receivable	(1,230,146)
Prepaid expenses and other assets	(1,477)
Collateral deposit	(300,549)
Accounts payable	4,711,627
Accrued liabilities	(15,548)
	<u>\$ 7,520,327</u>
Supplemental Noncash Activities	
Lease obligations incurred for lease assets	\$ 1,698,510

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2022

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).

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2022

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, 2022.

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 assets 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, 2022

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

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, 2022:

Beginning Balance	Additions	Deductions	Ending Balance
<u>\$ 160,402</u>	<u>95,254</u>	<u>(73,224)</u>	<u>\$ 182,432</u>

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, 2022.

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.

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2022

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

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, 2022, the Agency adopted GASB Statement No. 87, *Leases*. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on the contract. The implementation of this statement resulted in the recognition of a lease asset and lease liability of \$1,698,510 for lessee contracts at July 1, 2021. This guidance also requires restatement of the beginning balance of net position at July 1, 2021, however, the Agency did not restate the beginning balance of net position because there was no effect on net position at July 1, 2021.

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. At June 30, 2022, the carrying amount of the Agency's deposits were \$21,644,545 and the bank balances were \$21,669,770. At June 30, 2022, the Agency's deposits exceeded FDIC coverage by \$20,669,770.

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2022

Note 3: Capital and Lease Assets

Capital and lease asset activity for the year ended June 30, 2022 was as follows:

	July 1, 2021, as restated	Increase	Decrease	Transfers	June 30, 2022
Work in progress	\$ 104,330	\$ 78,177	\$ -	\$ -	\$ 182,507
Equipment	1,331,233	16,635	-	-	1,347,868
Building improvements	260,238	-	-	-	260,238
Lease asset	1,698,510	-	-	-	1,698,510
Less:					
Accumulated depreciation	(443,885)	(189,276)	-	-	(633,161)
Accumulated amortization	-	(138,654)	-	-	(138,654)
Totals	<u>\$ 2,950,426</u>	<u>\$ (233,118)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,717,308</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. The total amount This agreement was later extended to February 1, 2023 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, 2022. 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: Lease Liabilities

The Agency leases office space, the terms of which expire in September 2023 with two additional 60-month renewal options. The total amount of the lease asset was \$1,698,510 with associated accumulated amortization of \$138,654 as of June 30, 2022. The lease asset is being amortized over 147 months, the remaining lease term at adoption of GASB 87. 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, 2022. Lease payments made during 2022 totaled \$164,426 (\$117,546 principal and \$46,880 interest at 2.85%).

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2022

Note 5: Lease Liabilities - Continued

The following table summarizes the future lease principal and interest payments as of June 30, 2022.

Year Ending June,	Total to Be Paid	Principal	Interest
2023	\$ 164,426	\$ 120,940	\$ 43,486
2024	164,427	124,433	39,994
2025	164,426	128,025	36,401
2026	164,426	131,722	32,704
2027	164,426	135,526	28,900
2028-2032	822,130	738,638	83,492
2033-2034	205,533	201,680	3,853
	<u>\$ 1,849,794</u>	<u>\$ 1,580,964</u>	<u>\$ 268,830</u>

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 \$89,311 were made for the fiscal year ended June 30, 2022.

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 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

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2022

Note 7: Commitments - Continued

Purchased Power Agreements - Continued

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 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.

KYMEA and its Members are in a dispute with LG&E-KU regarding pancaked transmission rates. On August 5, 2022, FERC as the regulatory agency determined that LG&E-KU was entitled to relief from de-pancaked transmission customers. Upon appeal to the DC Circuit Court of Appeals, the Court vacated the existing FERC order and remanded the case back to FERC for additional fact determinations and revised orders.



KENTUCKY MUNICIPAL ENERGY AGENCY
1700 Eastpoint Parkway, Suite 220 | Louisville, Kentucky 40223
TEL: 502.242.5635 | www.kymea.org