

**KENTUCKY MUNICIPAL
POWER AGENCY**

FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

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Independent Auditor's Report

To the Board of Directors of the
Kentucky Municipal Power Agency
Paducah, Kentucky

We have audited the accompanying financial statements of the Kentucky Municipal Power Agency, as of and for the years ended June 30, 2020 and 2019 and the related notes to the financial statements which 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 upon 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 respective financial position of Kentucky Municipal Power Agency, as of June 30, 2020 and 2019, and the respective changes in financial position and cash flows for the years then ended in accordance with the basis of accounting described in Note 1.

Emphasis of Matter

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of the financial reporting provisions prescribed by the Federal Energy Regulatory Commission, which is a basis of accounting other than principles generally accepted in the United States of America, to comply with the requirements of the Federal Energy Regulatory Commission. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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.

Other Information

The schedule of general operating expenses presented on page 27 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of general operating expenses presented on page 27 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2020 on our consideration of Kentucky Municipal Power Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kentucky Municipal Power Agency's internal control over financial reporting and compliance.

Williams, Williams & Lentz LLP

Paducah, Kentucky
October 2, 2020

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY MUNICIPAL POWER AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview and Background

The Kentucky Municipal Power Agency (Agency) is presenting the following discussion and analysis in order to provide an overall review of the Agency's financial activities for the fiscal years ending June 30, 2020 and 2019. We encourage readers to consider the information presented here in conjunction with the Agency's financial statements and notes to the basic financial statements to enhance their understanding of the Agency's financial performance.

This annual report includes the management's discussion and analysis report and the basic financial statements of the Agency. The financial statements of the Agency report information of the Agency using accounting methods similar to those used by the private sector. The financial statements also include notes that explain in more detail some of the information in the financial statements.

The Agency Formation

The Agency is a public agency organized under provisions of Chapter 65 of the Kentucky Revised Statutes, pursuant to an Interlocal Corporation Agreement dated February 7, 2005, and approved by the Attorney General of the Commonwealth of Kentucky on February 11, 2005. The Agency was organized for the purpose of providing municipal electric systems in the Commonwealth with an on-going source and supply of electric power.

The Agency Organization

The Agency currently is comprised of two municipal utility members, Paducah Power System and Princeton Electric Plant Board. Additional members may be added if approved by the Agency Board and its members. The Board of Directors is currently comprised of four individuals: an appointee made by the Board of Directors of Paducah Power System, an appointee made by the Board of Directors of Princeton Electric Plant Board, and the general managers of each member electric system.

Members Wholesale Power Contracts

Prior to joining the Agency, both Paducah Power System and Princeton Electric Plant Board were full requirements wholesale distribution customers of the Tennessee Valley Authority (TVA) for more than four decades. In December 2004 and January 2005, Paducah Power System and Princeton Electric Plant Board, respectively, provided TVA with a five-year written notice of their decision to terminate their Wholesale Power Contracts. Subsequent to providing TVA with said notice, Paducah Power System and Princeton Electric Plant Board determined that they would meet their baseload wholesale power requirements through respective power sales agreements with the Agency. The Agency obtains the power necessary to meet those needs primarily through its participation and ownership in the Prairie State Energy Campus.

Prairie State Project

February 5, 2005, the Agency executed a Project Development Agreement with the Prairie State Generating Company (PSGC), at the time a subsidiary of Peabody Energy. The Prairie State Project is a 1,600 MW supercritical mine mouth coal-fired generating facility and newly developed adjacent coal mine located in Southern Illinois, forty miles southeast of St. Louis, Missouri. After financial closing, the plant and coal mine became owned as tenants in common by all participants. The coal mine is estimated to contain sufficient reserves to fuel the generating plant for approximately 30 years. The Project also includes transmission upgrades and interconnection to the Ameren system which is a member of the Midcontinent Independent-Transmission System Operator, Inc. (MISO) transmission grid.

KENTUCKY MUNICIPAL POWER AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

The Agency's current entitlement in the Project is 124 MW, of which Paducah Power System is entitled to 104 MW and Princeton Electric Plant Board is entitled to 20 MW. Other participants in the Project are American Municipal Power, Inc. (AMP), Illinois Municipal Electric Agency, Indiana Municipal Power Agency, Missouri Joint Municipal Electric Utility Commission, Northern Illinois Municipal Power Agency, Prairie Power, Inc., Southern Illinois Power Cooperative, and Wabash Valley Power Association.

Construction of the Project began on October 1, 2007, under an engineering, procurement and construction (EPC) contract with Bechtel. Unit 1 of the Prairie State Project achieved provisional completion on June 6, 2012 at which time PSGC took care, custody and control. Unit 2 of the Prairie State Project achieved provisional completion on November 1, 2012 at which time PSGC took care, custody and control. Equipment and construction specifications for the Mine were issued, and construction activities on the Mine portal began in early May of 2008. As of the end of December 2012, construction activities on the Mine were substantially complete.

Required Financial Statements

The Statements of Net Position (Deficit) include the fiscal year end balances of all the Agency's assets/deferred outflows and liabilities/deferred inflows and provide information about the nature and amounts of investments and resources (assets) and the obligations to the Agency's creditors (liabilities). They also provide the basis for evaluating the capital structure of the Agency and assessing the liquidity and financial flexibility of the Agency.

All of the fiscal years' revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Position (Deficit). These statements measure the success of the Agency's operations over the reporting periods and can be used to determine whether the Agency has successfully recovered all its costs through its fees and other charges, and also assess the profitability and credit worthiness of the Agency.

The final required financial statements are the Statements of Cash Flows. These statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. Cash from operations consists of net income, adjusted for non-cash items, plus or minus changes in current assets and current liabilities. Cash from investing activities results from changes in long-term assets. Cash from financing activities results from changes in long-term liabilities, such as proceeds from issuance of bonds or payments of principal installments on outstanding bonds.

The notes to the financial statements are also an integral component of the basic financial statements.

**KENTUCKY MUNICIPAL POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Analysis of the Agency

A summary of the Agency's Statements of Net Position (Deficit) is presented in the table below.

| Statements of Net Position (Deficit) | | | | | |
|--|--------------------|--------------------|--------------------|--|--|
| (000's) | | | | | |
| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2019-2020 Dollar Change</u> | <u>2018-2019 Dollar Change</u> |
| Current and other assets | \$ 62,039 | \$ 63,281 | \$ 60,007 | \$ (1,242) | \$ 3,274 |
| Capital assets | <u>375,027</u> | <u>384,557</u> | <u>395,642</u> | <u>(9,530)</u> | <u>(11,085)</u> |
| Total assets | <u>437,066</u> | <u>447,838</u> | <u>455,649</u> | <u>(10,772)</u> | <u>(7,811)</u> |
| Deferred Outflows of Resources | <u>36,380</u> | <u>30,837</u> | <u>32,382</u> | <u>5,543</u> | <u>(1,545)</u> |
| Revenue bonds | 440,570 | 461,355 | 468,790 | (20,785) | (7,435) |
| Other liabilities | <u>21,981</u> | <u>21,626</u> | <u>20,583</u> | <u>355</u> | <u>1,043</u> |
| Total liabilities | <u>462,551</u> | <u>482,981</u> | <u>489,373</u> | <u>(20,430)</u> | <u>(6,392)</u> |
| Deferred Inflows of Resources | <u>41,014</u> | <u>26,527</u> | <u>27,912</u> | <u>14,487</u> | <u>(1,385)</u> |
| Invested in capital assets, net of related debt | (66,535) | (64,805) | (61,245) | (1,730) | (3,560) |
| Restricted | 6,798 | 5,449 | 5,270 | 1,349 | 179 |
| Unrestricted | <u>29,619</u> | <u>28,524</u> | <u>26,721</u> | <u>1,095</u> | <u>1,803</u> |
| Total Net Assets (Deficit) | <u>\$ (30,118)</u> | <u>\$ (30,832)</u> | <u>\$ (29,254)</u> | <u>\$ 714</u> | <u>\$ (1,578)</u> |

In the Statement of Net Position, the net position of the Agency is summarized into three categories - restricted assets, unrestricted assets and invested in capital assets, net of related debt. As shown above, the net position of the Agency has been an increasing deficit over the fiscal years 2020 and 2019.

The deficit net position of the Agency is due to the deficit balance of invested in capital assets, net of related debt. This deficit component of net position also increased by \$1.7 million during fiscal year 2020. As discussed above, the Agency's assets consist primarily of the Prairie State Project that commenced operation in 2012. The Agency's ownership share in the cost of construction of these assets was financed primarily from the issuance of revenue bonds. However, the principal amounts of these revenue bonds are greater than the proceeds for construction since the bond proceeds must also fund required reserve amounts and issuance costs. Therefore, the liabilities for revenue bonds are greater than the asset balances associated with the Prairie State Project, resulting in a deficit net position. In the early years of the asset and bond lives, this deficit may be increased by the difference in the annual depreciation of the capital assets compared to the amortization of the bond principal. Generally, depreciation expenses are equal annual amounts over the life of the Project while annual debt service payments consist of declining interest expenses but increasing principal installments over the life of the bonds. So the net deficit is increased by, among other things, the amount that depreciation expense exceeds principal amortization.

The increase in the Agency's deficit net position for fiscal year 2020 due to the net investment in capital assets, as discussed above, was partially offset by a \$1.3 million increase in restricted net position and a \$1.1 million increase in unrestricted net position.

**KENTUCKY MUNICIPAL POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

While the Statements of Net Position (Deficit) present the various components of net position (deficit), the results of operations for the fiscal years produce the annual change in net position, as demonstrated in the Agency's Statements of Revenues, Expenses, and Changes in Net Position (Deficit), a summary of which is presented below.

**Statements of Revenues, Expenses, and
Changes in Net Position (Deficit)
Fiscal Years Ended June 30
(000's)**

| | <u>2020</u> | <u>2019</u> | <u>2017</u> | <u>2019-2020 Dollar Change</u> | <u>2018-2019 Dollar Change</u> |
|--|--------------------|--------------------|--------------------|--|--|
| Operating revenue | \$ 91,795 | \$ 94,112 | \$ 84,103 | \$ (2,317) | \$ 10,009 |
| Non-operating revenue | <u>1,290</u> | <u>3,383</u> | <u>3,139</u> | <u>(2,093)</u> | <u>244</u> |
| Total revenue | <u>93,085</u> | <u>97,495</u> | <u>87,242</u> | <u>(4,410)</u> | <u>10,253</u> |
| Purchased power and other operating expense | 71,504 | 74,783 | 68,221 | (3,279) | 6,562 |
| Non-operating expense | <u>20,867</u> | <u>24,290</u> | <u>24,078</u> | <u>(3,423)</u> | <u>212</u> |
| Total expenses | <u>92,371</u> | <u>99,073</u> | <u>92,299</u> | <u>(6,702)</u> | <u>6,774</u> |
| Changes in net assets | 714 | (1,578) | (5,057) | 2,292 | 3,479 |
| Beginning net assets (deficit) | <u>(30,832)</u> | <u>(29,254)</u> | <u>(24,197)</u> | <u>(1,578)</u> | <u>(5,057)</u> |
| Ending net assets (deficit) | <u>\$ (30,118)</u> | <u>\$ (30,832)</u> | <u>\$ (29,254)</u> | <u>\$ 714</u> | <u>\$ (1,578)</u> |

As shown above, total revenues exceeded total expenses for fiscal year 2020, resulting in a decrease in the net deficit. For fiscal years 2019 and 2018, total expenses exceed total revenue for each fiscal year, resulting in an increasing balance of the net deficit as of each fiscal year end. Operating revenue consists primarily of billings to members to recover the revenue requirements of the Agency, which differs from the total expenses. For example, revenue requirements include annual principal installments and capital expenditures, which are not included in expenses, and expenses include depreciation and amortization, which are not included in revenue requirements. As discussed above, depreciation expenses on the Prairie State Project are generally expected to be greater than the principal installments on the associated bonds during the early years of the Project's life, contributing to the operating deficit for those fiscal years shown.

Non-operating revenues represent investment income from the revenue bond funds as well as subsidy income relating to the Federal Build America Bond (BABS). The outstanding BABS were substantially refunded as part of the Agency's bond issue during fiscal year 2020. Thereafter, the income related to BABS will be eliminated.

Non-operating expenses are comprised mainly of interest paid on outstanding revenue bond issues.

**KENTUCKY MUNICIPAL POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Capital Assets

Capital assets consist of assets related to completed construction of the generating plant at the Prairie State Project. The capitalized costs of the Mine and coal reserves associated with the Prairie State Project are included in other assets. At the end of fiscal year 2020, the Agency had \$375 million invested in the Prairie State Project capitalized assets, as shown below.

| Capital Assets at June 30 | | | | | |
|----------------------------------|--------------------|--------------------|--------------------|-------------------------|-------------------------|
| (000's) | | | | | |
| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2019-2020</u> | <u>2018-2019</u> |
| | | | | <u>Change</u> | <u>Change</u> |
| Construction in progress | \$ 2,802 | \$ 815 | \$ 1,193 | \$ 1,987 | \$ (378) |
| Property, plant, and equipment | 462,502 | 461,973 | 464,654 | 529 | (2,681) |
| Less accumulated depreciation | <u>(90,276)</u> | <u>(78,231)</u> | <u>(70,205)</u> | <u>(12,045)</u> | <u>(8,026)</u> |
| Total capital assets | <u>\$ 375,027</u> | <u>\$384,557</u> | <u>\$395,642</u> | <u>\$ (9,530)</u> | <u>\$ (11,085)</u> |

Debt Administration

The total revenue bonds outstanding (including current position) decreased to \$449 million at fiscal yearend 2020 from \$469 million at fiscal yearend 2019 as a result of the refunding and maturing of bonds relating to the Prairie State Project. The bonds are payable from the sale of electric power to Paducah Power System and Princeton Electric Plant Board pursuant to "take or pay" power sales agreements. The term of the power sales agreements coincides with the term of the Agency's outstanding revenue bonds. The Agency recognized \$8.1 million in revenue bonds outstanding as a current liability as of fiscal 2020 yearend as it will pay bond holders this amount in principal on September 1, 2020.

Outlook

Notwithstanding actions taken by the Agency to reduce or stabilize costs to its members, the annual debt service requirements on the Agency's bonds outstanding as of fiscal year end 2019 would have increased by approximately \$4.4 million for fiscal year 2021. On September 11, 2019, the Agency issued refunding revenue bonds that resulted in debt service restructuring that eliminated this upcoming increase.

In addition, the Agency actively pursues opportunities to reduce or stabilize costs to its members through bilateral and market sales of excess capacity and energy associated with the Prairie State Project.

Agency Contact Information

The financial report is designed to provide creditors with a general overview of Kentucky Municipal Power Agency's finances. Anyone having questions regarding this report, or desiring additional information may contact Doug Handley, Chief Financial Officer, Kentucky Municipal Power Agency, P.O. Box 180, Paducah, KY 42002-0180 or by telephone at 270.575.4035 or by email at dhandley@paducahpower.com.

BASIC FINANCIAL STATEMENTS

KENTUCKY MUNICIPAL POWER AGENCY
STATEMENTS OF NET POSITION (DEFICIT)
JUNE 30

ASSETS

| | 2020 | 2019 |
|-------------------------------------|--------------|--------------|
| Current Assets: | | |
| Cash and temporary cash investments | \$ 7,489,309 | \$ 8,784,764 |
| Accounts receivable | - | 849,476 |
| Working capital Prairie State | 2,433,440 | 2,050,339 |
| Other receivables | 6,319,195 | 5,963,997 |
| Inventory | 5,107,075 | 4,872,735 |
| Prepaid expenses | 16,539 | 10,711 |
| | <hr/> | <hr/> |
| Total current assets | 21,365,558 | 22,532,022 |
| | <hr/> | <hr/> |
| Restricted Assets: | | |
| Principal and interest sinking fund | 13,395,874 | 13,349,528 |
| Redemption fund | - | - |
| Reserve fund | 10,293,267 | 14,011,025 |
| Pledged collateral | 4,791,614 | 4,655,081 |
| Interest receivable | 30,824 | 59,216 |
| Regulatory asset | - | - |
| Prairie State reserve funds | 12,715,366 | 10,401,582 |
| | <hr/> | <hr/> |
| Total restricted assets | 41,226,945 | 42,476,432 |
| | <hr/> | <hr/> |
| Capital Assets: | | |
| Construction work in progress | 2,801,619 | 815,213 |
| Property, plant, and equipment | 462,501,595 | 461,973,361 |
| Less accumulated depreciation | (90,275,774) | (78,231,033) |
| | <hr/> | <hr/> |
| Total capital assets | 375,027,440 | 384,557,541 |
| | <hr/> | <hr/> |
| Total assets | 437,619,943 | 449,565,995 |
| | <hr/> | <hr/> |

DEFERRED OUTFLOWS OF RESOURCES

| | | |
|--------------------------------------|------------|------------|
| Deferred bond refunding gain | 30,835,355 | 24,063,693 |
| Unamortized debt issuance costs | 4,240,432 | 5,446,960 |
| Unamortized debt discounts | 1,304,060 | 1,326,637 |
| | <hr/> | <hr/> |
| Total deferred outflows of resources | 36,379,847 | 30,837,290 |
| | <hr/> | <hr/> |

See notes to financial statements.

LIABILITIES

| | <u>2020</u> | <u>2019</u> |
|---|--------------------|--------------------|
| Current Liabilities: | | |
| Accounts payable | \$ 3,668,608 | \$ 3,436,856 |
| Bonds held by public-current portion | 8,060,000 | 7,435,000 |
| Other payables | 3,623,355 | 2,793,915 |
| Current liabilities payable from restricted assets: | | |
| Accrued interest | <u>6,628,810</u> | <u>7,959,768</u> |
| Total current liabilities | <u>21,980,773</u> | <u>21,625,539</u> |
| | | |
| Noncurrent Liabilities: | | |
| Other regulatory liabilities | 553,052 | 1,727,525 |
| Long-term debts: | | |
| Bonds held by public | <u>440,570,000</u> | <u>461,355,000</u> |
| Total noncurrent liabilities | <u>441,123,052</u> | <u>463,082,525</u> |
| | | |
| Total liabilities | <u>463,103,825</u> | <u>484,708,064</u> |

DEFERRED INFLOWS OF RESOURCES

| | | |
|--------------------------|-------------------|-------------------|
| Unamortized debt premium | <u>41,014,008</u> | <u>26,527,457</u> |
|--------------------------|-------------------|-------------------|

NET POSITION

| | | |
|----------------------------------|-------------------------------|-------------------------------|
| Net investment in capital assets | (66,534,520) | (64,804,793) |
| Restricted for debt service | 6,797,888 | 5,448,976 |
| Unrestricted - net | <u>29,618,589</u> | <u>28,523,581</u> |
| TOTAL NET POSITION (DEFICIT) | <u><u>\$ (30,118,043)</u></u> | <u><u>\$ (30,832,236)</u></u> |

KENTUCKY MUNICIPAL POWER AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION (DEFICIT)
YEARS ENDED JUNE 30

| | 2020 | 2019 |
|--|------------------------------|------------------------------|
| Operating Revenues: | | |
| Service revenue | <u>\$ 91,795,165</u> | <u>\$ 94,111,964</u> |
| Total operating revenues | <u>91,795,165</u> | <u>94,111,964</u> |
| Purchased Power and Operating Expenses: | | |
| Purchased power cost | 55,509,489 | 59,219,347 |
| General operating expense | <u>15,994,285</u> | <u>15,563,724</u> |
| Total purchased power and operating expenses | <u>71,503,774</u> | <u>74,783,071</u> |
| Operating income | <u>20,291,391</u> | <u>19,328,893</u> |
| Nonoperating Revenues (Expenses): | | |
| Interest paid on indebtedness | (20,869,406) | (24,021,792) |
| Investment income | 723,202 | 836,081 |
| Federal Build America Bond's subsidy | 566,771 | 2,546,619 |
| Net amortization discount and premium on debt | <u>2,235</u> | <u>(267,781)</u> |
| Total nonoperating revenues (expenses) | <u>(19,577,198)</u> | <u>(20,906,873)</u> |
| Change in net position | 714,193 | (1,577,980) |
| Net position (deficit), beginning of year | <u>(30,832,236)</u> | <u>(29,254,256)</u> |
| NET POSITION (DEFICIT), END OF YEAR | <u><u>\$(30,118,043)</u></u> | <u><u>\$(30,832,236)</u></u> |

See notes to financial statements.

KENTUCKY MUNICIPAL POWER AGENCY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

| | 2020 | 2019 |
|--|-----------------------------|----------------------------|
| Cash Flows from Operating Activities: | | |
| Receipts from customers | \$ 91,114,970 | \$94,115,389 |
| Payments to suppliers | (57,965,450) | (62,169,524) |
| Payments to employees | (951,073) | (872,801) |
| Net cash provided by operating activities | <u>32,198,447</u> | <u>31,073,064</u> |
| Cash Flows from Capital and Related Financing Activities: | | |
| Capital expenditures | (2,687,667) | (978,642) |
| Long-term bond issuance cost | (1,590,485) | - |
| Deferred cost long-term bonds | (6,211,727) | - |
| Proceeds from issuance of bonds | 152,559,480 | - |
| Principal payments made on bonds | (155,920,000) | (7,130,000) |
| Interest payments on long-term debt | (22,200,364) | (23,848,910) |
| Federal Build America Bond's subsidy | 566,771 | 2,546,619 |
| Net cash used by capital and related financing activities | <u>(35,483,992)</u> | <u>(29,410,933)</u> |
| Cash Flows from Investing Activities: | | |
| Purchases of investments | (2,309,337) | (4,051,956) |
| Proceeds from sale of investments | - | - |
| Investment income | 751,594 | 913,572 |
| Net cash used by investing activities | <u>(1,557,743)</u> | <u>(3,138,384)</u> |
| Net decrease in cash and cash equivalents | (4,843,288) | (1,476,253) |
| Cash and cash equivalents, beginning of year | <u>36,160,295</u> | <u>37,636,548</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u><u>\$ 31,317,007</u></u> | <u><u>\$36,160,295</u></u> |

KENTUCKY MUNICIPAL POWER AGENCY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

| | <u>2020</u> | <u>2019</u> |
|---|-----------------------------|----------------------------|
| Reconciliation of Operating Income to Net | | |
| Cash Provided by Operating Activities: | | |
| Operating income | \$ 20,291,391 | \$19,328,893 |
| Depreciation expense | 12,217,768 | 12,063,060 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 849,476 | (10,394) |
| Other accounts receivable | (355,198) | 13,819 |
| Prepaid expenses | (5,828) | 53,273 |
| Other assets | (617,441) | (717,484) |
| Accounts payable | 231,752 | (754,697) |
| Change in regulatory liability | (1,174,473) | (115,027) |
| Other current and accrued liabilities | 761,000 | 1,211,621 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u><u>\$ 32,198,447</u></u> | <u><u>\$31,073,064</u></u> |
| Schedule of Noncash Financing Activities: | | |
| Amortization of bond issue and discount costs | \$ 2,235 | \$ (267,781) |

See notes to financial statements.

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies:

Entity

The Agency is a joint public agency formed by municipal utilities and is organized under provisions of Chapter 65 of the Kentucky Revised Statutes, pursuant to an Interlocal Cooperation Agreement dated February 7, 2005. The two members of the Agency are Paducah Electric Plant Board (Paducah Power System), a municipal utility of Paducah, Kentucky, and Princeton Electric Plant Board (Princeton Electric), a municipal utility of Princeton, Kentucky. The Agency was created to supply municipal electric systems in the Commonwealth of Kentucky with an ongoing source and supply of electric power to meet their current requirements and demands for future growth in electric power. Additional members may be added if approved by the Agency's Board of Directors and members. The Agency is governed by a four-person Board of Directors consisting of the General Manager of Paducah Power System, an appointee of the Board of Paducah Power System, the General Manager of Princeton Electric, and an appointee of the Board of Princeton Electric.

The Agency acquired an undivided interest in a "mine mouth", pulverized coal-fueled power generating facility on a site in Washington, Randolph, and St. Clair Counties, Illinois, (Prairie State Energy Campus) for the purpose of providing wholesale base load power to its members, Paducah Power System and Princeton Electric. The rates to be charged to Paducah Power System and Princeton Electric will be set by the Board through operating and power agreements.

Measurement Focus, Basis of Accounting and Basis of Presentation

The financial statements of the Agency are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. This requires the accrual basis of accounting for proprietary entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial statements of the Agency are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and the principles established by the Federal Energy Regulatory Commission (FERC). The Agency applies all relevant Governmental Accounting Standards Board (GASB) pronouncements unless they conflict with or contradict FERC policies, in which case, FERC prevails.

The major accounting differences between GAAP and FERC are as follows:

- The Agency accounts for changes in plant in accordance with FERC accounting principles. Plant additions are recorded at cost less any contributions received, and gains and losses from plant retirements are charged to accumulated depreciation. Under GAAP accounting principles, plant additions are recorded at historical cost, contributions for plant additions are recognized as nonoperating revenue, and gains and losses from plant retirements are recognized in the income statement.
- The Agency accounts for revenues in accordance with FERC accounting principles. Revenues are recognized under cycle billing and the cost of purchased power reflects costs through the last day of each reporting period. Accordingly, no accrual for unbilled revenues would be reflected in the financial statements. Under GAAP accounting principles, revenues and expenses are recognized as incurred. Accordingly, an accrual for unbilled revenues would be reflected in the financial statements.

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Continued):

Deposits and Investments

For purposes of the statement of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition.

Investment of Agency funds is restricted by bond indentures. Investments are limited to:

- a. Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, if delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian. These investments may be accomplished through repurchase agreements reached with sources including, but not limited to, national or state banks chartered in Kentucky.
- b. Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency, including, but not limited to:
 1. United States Treasury,
 2. Export-Import Bank of the United States,
 3. Farmers Home Administration,
 4. Government National Mortgage Corporation, and
 5. Merchant Marine bonds.
- c. Obligations of any corporation of the United States government, including but not limited to:
 1. Federal Home Loan Mortgage Corporation,
 2. Federal Farm Credit Banks,
 3. Bank for Cooperatives,
 4. Federal Intermediate Credit Banks,
 5. Federal Land Banks,
 6. Federal Home Loan Banks,
 7. Federal National Mortgage Association, and
 8. Tennessee Valley Authority.
- d. Certificates of deposit or other interest bearing accounts issued by any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity, or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4).
- e. Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one (1) of the three (3) highest categories by a nationally recognized rating agency.
- f. Bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency.
- g. Commercial paper rated in the highest category by a nationally recognized rating agency.
- h. Bonds or certificates of indebtedness of the State and of its agencies and instrumentalities.
- i. Securities issued by a state or local government, or any instrumentality or agency thereof, in the United States, and rate in one (1) of the three (3) highest categories by a nationally recognized rating agency.

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Continued):

Deposits and Investments (Continued)

- j. Shares of mutual funds, each of which have the following characteristics:
 - 1. The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;
 - 2. The management company of the investment company shall have been in operation for at least five (5) years; and
 - 3. All of the securities in the mutual fund shall be investments in any one or more of the investments described above.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values of investments may have changed significantly since year end.

Receivables

Receivables consist of all revenues earned at year-end and not yet received.

Inventories

Inventories are valued at cost. Inventory consists of the Agency's portion of materials and supplies held for use by Prairie State Generating Company, LLC.

Prepayments

This balance represents a prepayment of insurance which will benefit future operations of the Agency.

Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified.

Capital Assets

Capital assets are generally defined by the Agency as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

Capital assets of the Agency are recorded at cost or the fair market value at the time of contribution to the Agency. Major outlays for utility plants are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed, net of interest earned on invested proceeds over the same period. Capital assets in service are depreciated over their estimated useful lives using the straight-line method of depreciation.

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Continued):

Long-Term Obligations

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes them as outflows of resources or inflows of resources. In addition, the statement changes the method of reporting debt issuance costs. Prior to implementation of GASB Statement No. 65, the Agency reported debt issuance costs as deferred charges which were capitalized and amortized over the life of the related debt. Under GASB Statement No. 65, debt issuance costs for unregulated operations are to be recognized as an expense in the period incurred. However, GASB 65 provides an exception for regulated operations to allow certain incurred costs related to regulated activities, such as debt issuance costs, to be reported as a regulatory asset. Because the Agency meets the criteria of a ratemaking entity under the regulated operations provisions of GASB Statement No. 62, the Agency's debt issuance costs are capitalized and are shown as costs recoverable from future billings on the statement of net position. GASB Statement No. 65 also required the Agency to reclassify the deferred gain or loss on refunding from long-term debt to deferred inflows of resources and deferred outflows of resources, respectively, on the balance sheets for 2017.

Regulated Operations, Revenues and Expenses

Rates for the Agency's regulated operations are established and approved by the Board of Directors. The Agency applies the regulated operations provisions of GASB Statement No. 62, which provide for the deferral of expenses which are expected to be recovered through customer rates over some future period (costs recoverable from future billings) and reductions in earnings to cover future expenditures (reductions of future billings). Costs recoverable from future billings are primarily comprised of charges incurred in relation to the Agency's bond issuances and costs incurred by the Agency for initial payments made on long-term capacity contracts. These costs are being amortized in future rate periods when such costs are included in the revenue requirements to establish electric rates.

The Agency distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Agency's principal ongoing operations. The operating revenues of the Agency are the charges to members for sales and services. The Agency began the supply of electricity to Paducah and Princeton on commercial operations of the Prairie State Energy Campus in June 2012.

Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Reclassification

Certain reclassifications have been made to the 2019 financial statements to make them conform to the 2020 presentation.

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 2 - Deposits and Investments:

The investment policies of the Agency are governed by the State statute. In general, this requires that all deposits and investments, not covered by FDIC insurance, are to be collateralized. For the years ended June 30, 2020 and 2019, the Agency's operating and investment accounts were fully collateralized as required by State statute.

The fair value of cash and investments as of June 30 is disclosed as follows:

| | <u>2020</u> | <u>2019</u> |
|--------------------------------|-------------------------|-------------------------|
| Checking and savings | \$24,474,209 | \$23,253,922 |
| Mutual funds-money market | 10,446,891 | 2,453,101 |
| Guaranteed investment security | 4 | 4 |
| Repurchase agreement | <u>13,394,902</u> | <u>24,922,430</u> |
| TOTAL CASH AND INVESTMENTS | <u>\$48,316,006</u> | <u>\$50,629,457</u> |

Deposits

The financial institution balances of the Agency's deposits were \$48,316,006 for the year ended June 30, 2020. The book balance was \$48,316,006. Of the various financial institution balances at June 30, 2020, \$250,000 was insured by federal depository insurance, and the remaining balance of \$48,066,006 was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The remaining balance of \$48,066,006 was uninsured and collateralized by U.S. Treasury pooled investments not held in the Agency's name.

The financial institution balances of the Agency's deposits were \$50,832,204 for the year ended June 30, 2019. The book balance was \$50,629,457. Of the various financial institution balances at June 30, 2019, \$250,000 was insured by federal depository insurance, and the remaining balance of \$50,582,204 was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The remaining balance of \$50,582,204 was uninsured and collateralized by U.S. Treasury pooled investments not held in the Agency's name.

Credit Risk

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations.

As of June 30, 2020 and 2019, the Agency's investments were rated as follows:

| <u>Investment Type</u> | <u>Standard & Poors</u> |
|------------------------------------|-----------------------------|
| Mutual funds-money market | Not Rated |
| Guaranteed investment certificates | Not Rated |
| Commercial paper | A |
| Repurchase agreement | A |

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 2 - Deposits and Investments (Continued):

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

As of June 30, 2020, the Agency's investment portfolio was concentrated as follows:

| <u>Issuer</u> | <u>Investment Type</u> | <u>Percentage of Portfolio</u> |
|--------------------------------------|-----------------------------------|--------------------------------|
| Regions collateralized sweep account | Money market | -% |
| Bayerische Landesbank | Guaranteed investment certificate | -% |
| | Repurchase agreement | -% |

As of June 30, 2019, the Agency's investment portfolio was concentrated as follows:

| <u>Issuer</u> | <u>Investment Type</u> | <u>Percentage of Portfolio</u> |
|--------------------------------------|-----------------------------------|--------------------------------|
| Regions collateralized sweep account | Money market | 9% |
| Bayerische Landesbank | Guaranteed investment certificate | -% |
| Regions Bank | Repurchase agreement | 91% |

Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment.

Fair Value Measurement - The Agency's investments are measured and reported at fair value and classified according to the following hierarchy:

Level 1 - Investments reflect prices quoted in active markets.

Level 2 - Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.

Level 3 - Investments reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk. Securities classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor.

All of the Agency's investments are Level 1 investments.

As of June 30, 2020, the Agency's investments were as follows:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Maturity (In Years)</u> | | |
|------------------------------------|----------------------|-----------------------------|--------------------|---------------------|
| | | <u>Less than 1 Year</u> | <u>1 - 5 Years</u> | <u>6 - 10 Years</u> |
| Mutual funds-money market | \$ 10,446,891 | \$ 10,446,891 | \$ - | \$ - |
| Guaranteed investment certificates | 4 | 4 | - | - |
| Repurchase agreement | <u>13,394,902</u> | <u>13,394,902</u> | - | - |
| TOTALS | <u>\$ 23,841,797</u> | <u>\$ 23,841,797</u> | <u>\$ -</u> | <u>\$ -</u> |

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 2 - Deposits and Investments (Continued):

Interest Rate Risk (Continued)

As of June 30, 2019, the Agency's investments were as follows:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Maturity (In Years)</u> | | |
|------------------------------------|----------------------|-----------------------------|--------------------|---------------------|
| | | <u>Less than 1 Year</u> | <u>1 - 5 Years</u> | <u>6 - 10 Years</u> |
| Mutual funds-money market | \$ 2,453,101 | \$ 2,453,101 | \$ - | \$ - |
| Guaranteed investment certificates | 4 | 4 | - | - |
| Repurchase agreement | <u>24,922,430</u> | <u>22,922,430</u> | <u>-</u> | <u>-</u> |
| TOTALS | <u>\$ 27,375,535</u> | <u>\$ 27,375,535</u> | <u>\$ -</u> | <u>\$ -</u> |

Note 3 - Restricted Assets:

Certain proceeds of the Agency's debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the statements of net position because their use is limited by applicable bond covenants and energy trading contracts. The following accounts are reported as restricted assets:

- Project Fund - Used to report revenue bond proceeds restricted for use in construction and working capital.
- Reserve Fund - Used to report resources set aside to make up potential future deficiencies in the future redemption amount.
- Pledged Collateral - Used to report collateral called to make up potential future deficiencies in energy trading contracts.

Restricted assets represent mandatory segregation of assets required by the long-term debt agreements and energy trading contracts.

The following calculation supports the amount of restricted net position:

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Restricted assets: | | |
| Sinking and reserve funds | \$ 23,689,141 | \$ 27,360,553 |
| Accrued interest receivable | 30,824 | 59,216 |
| Less: restricted assets not funded by revenues: | | |
| Reserve fund | (10,293,267) | (14,011,025) |
| Current liabilities payable from restricted assets | <u>(6,628,810)</u> | <u>(7,959,768)</u> |
| TOTAL RESTRICTED NET POSITION AS CALCULATED | <u>\$ 6,797,888</u> | <u>\$ 5,448,976</u> |

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 3 - Restricted Assets (Continued):

GASB does not allow the presentation of negative restricted net position. The deficiency in restricted net position is netted against unrestricted net position in 2020 and 2019.

Note 4 - Capital Assets:

Capital asset activity for the year ended June 30, 2020, was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------------------|----------------------------|-----------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 2,450,173 | \$ - | \$ - | \$ 2,450,173 |
| Construction in progress | <u>815,213</u> | <u>1,986,406</u> | <u>-</u> | <u>2,801,619</u> |
| TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED | <u>\$ 3,265,386</u> | <u>\$ 1,986,406</u> | <u>\$ -</u> | <u>\$ 5,251,792</u> |
| Capital Assets Being Depreciated Or Depleted: | | | | |
| Coal reserves | \$ 5,540,277 | \$ - | \$ (216,356) | \$ 5,323,921 |
| Non-utility property | 18,788,252 | 233,370 | - | 19,021,622 |
| Structures and improvements | 41,109,763 | 28,189 | - | 41,137,952 |
| Equipment | <u>394,084,897</u> | <u>483,031</u> | <u>-</u> | <u>394,567,927</u> |
| Total capital assets being depreciated | 459,523,188 | 744,590 | (216,356) | 460,051,422 |
| Less accumulated depreciation | <u>78,231,033</u> | <u>12,044,741</u> | <u>-</u> | <u>90,275,774</u> |
| Total capital assets being depreciated, net | <u>381,292,155</u> | <u>(11,300,151)</u> | <u>(216,356)</u> | <u>369,775,647</u> |
| TOTAL CAPITAL ASSETS, NET | <u>\$384,557,541</u> | <u>\$ (9,313,745)</u> | <u>\$ (216,356)</u> | <u>\$375,027,440</u> |

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 4 - Capital Assets (Continued):

Capital asset activity for the year ended June 30, 2019, was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------------------|----------------------------|-----------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 2,881,220 | \$ - | \$ (431,047) | \$ 2,450,173 |
| Construction in progress | <u>1,192,682</u> | <u>-</u> | <u>(377,469)</u> | <u>815,213</u> |
| TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED | <u>\$ 4,073,902</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,265,386</u> |
| Capital Assets Being Depreciated Or Depleted: | | | | |
| Land rights | \$ 2,505,415 | \$ - | \$ (2,505,415) | \$ - |
| Coal reserves | 5,746,809 | - | (206,531) | 5,540,277 |
| Non-utility property | 18,707,897 | 80,534 | - | 18,788,251 |
| Structures and improvements | 41,338,679 | - | (228,916) | 41,109,762 |
| Equipment | <u>393,476,638</u> | <u>611,259</u> | <u>-</u> | <u>394,084,897</u> |
| Total capital assets being depreciated | 461,772,437 | 691,613 | (2,940,862) | 459,523,188 |
| Less accumulated depreciation | <u>70,204,380</u> | <u>12,063,060</u> | <u>(4,036,407)</u> | <u>78,231,033</u> |
| Total capital assets being depreciated, net | <u>391,568,057</u> | <u>(11,371,447)</u> | <u>1,095,545</u> | <u>381,292,155</u> |
| TOTAL CAPITAL ASSETS, NET | <u>\$395,641,959</u> | <u>\$(11,371,447)</u> | <u>\$ 1,095,545</u> | <u>\$384,557,541</u> |

Note 5 - Accounts Payable:

The elements comprising accounts payable are as follows:

| | <u>2020</u> | <u>2019</u> |
|-------------------------------|---------------------------|---------------------------|
| Due for purchased power | \$3,624,691 | \$3,432,321 |
| Accounts payable, general | <u>43,917</u> | <u>4,535</u> |
| TOTAL ACCOUNTS PAYABLE | <u>\$3,668,608</u> | <u>\$3,436,856</u> |

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 6 - Long-Term Indebtedness:

Notes Payable

The following revenue bond anticipation notes have been issued:

Bonds

The following revenue bonds have been issued:

| <u>Date</u> | <u>Purpose</u> | <u>Final Maturity</u> | <u>Interest Rate</u> | <u>Original Amount</u> | <u>Outstanding Amount 6/30/20</u> |
|-------------|---|---------------------------|--------------------------|----------------------------|---|
| 9/20/07 | Finance Prairie State and working capital needs | 9/1/42 | 4.00-5.25% | \$291,065,000 | \$ - |
| 5/27/10 | Finance Prairie State and working capital needs | 9/1/24 | 2.00-4.00% | 53,600,000 | - |
| 5/27/10 | Finance Prairie State and working capital needs | 9/1/37 | 5.56-6.39% | 122,405,000 | 5,000 |
| 5/27/10 | Finance Prairie State and working capital needs | 9/1/19 | 2.47-5.06% | 7,725,000 | - |
| 4/02/15 | 2007 Revenue Refunding | 9/1/42 | 5.00% | 210,600,000 | 204,645,000 |
| 6/01/15 | Finance Prairie State and working capital needs | 9/1/42 | Floating | 36,035,000 | - |
| 4/01/16 | 2007 Revenue Refunding | 9/1/36 | 5.00% | 71,235,000 | 71,235,000 |
| 4/01/18 | Prairie State Revenue Refunding Bonds 2015B | 9/1/42 | 3.45% | 36,985,000 | 36,985,000 |
| 9/11/19 | Prairie State Revenue Refunding | 9/1/45 | 3-5.00% | 115,550,000 | 115,550,000 |
| 9/11/19 | Prairie State Revenue Refunding | 9/1/35 | 5% | <u>20,210,000</u> | <u>20,210,000</u> |
| TOTALS | | | | <u>\$965,410,000</u> | <u>\$448,630,000</u> |

For the years ended June 30, 2020 and 2019, bonds payable totaling \$488,339,947 and \$493,990,821, are recorded net of \$(1,304,060) and \$(1,326,637) of unamortized bond discount and \$41,014,008 and \$26,527,457 of unamortized bond premium, respectively.

In May 2010, the Agency issued \$122,405,000 in Taxable (Build America Bonds - Direct Pay) Power System Revenue Bonds. The Agency will receive a subsidy payment from the federal government equal to approximately 35% of each interest payment on the Build America Bonds.

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 6 - Long-Term Indebtedness (Continued):

Bonds (Continued)

All revenues received by the Agency through Power Sales Agreements net of specified monthly project costs, in addition to all funds held by the Trustee under the terms of the bond agreement, are pledged as security of the above revenue bonds until the bonds are defeased. Total pledged funds for the years ended June 30, 2020 and 2019, as defined are \$24,197,126 and \$27,948,058, respectively. The term of the commitment is 33 years or until the bonds are defeased. Annual principal and interest payments are expected to require 100% of net revenues over the term of the commitment. Interest paid for the years ended June 30, 2020 and 2019, was \$22,200,364 and \$23,848,911, respectively.

Changes in Long-term Debt and Maturities

Long-term obligation activity for the year ended June 30, 2020, is as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|------------------------------|------------------------------|-----------------------------|-----------------------------|-----------------------------|--------------------------------|
| Revenue bonds | \$468,790,000 | \$135,760,000 | \$155,920,000 | \$448,630,000 | \$ 8,060,000 |
| Unamortized debt discount | (1,326,636) | 567,599 | (590,175) | (1,304,060) | - |
| Unamortized debt premium | <u>26,527,458</u> | <u>16,799,481</u> | <u>2,312,929</u> | <u>41,014,008</u> | - |
| TOTALS | <u>\$493,990,822</u> | <u>\$151,991,882</u> | <u>\$157,642,754</u> | <u>\$488,339,950</u> | <u>\$ -</u> |

Long-term obligation activity for the year ended June 30, 2019, is as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|------------------------------|------------------------------|--------------------|----------------------------|-----------------------------|--------------------------------|
| Revenue bonds | \$475,920,000 | \$ - | \$ 7,130,000 | \$468,790,000 | \$ 7,435,000 |
| Unamortized debt discount | (1,411,895) | - | (85,259) | (1,326,637) | - |
| Unamortized debt premium | <u>27,911,785</u> | - | <u>1,384,327</u> | <u>26,527,458</u> | - |
| TOTALS | <u>\$502,419,890</u> | <u>\$ -</u> | <u>\$ 8,429,068</u> | <u>\$493,990,821</u> | <u>\$ 7,435,000</u> |

Advance Refundings:

During fiscal year 2020, the Agency issued \$135,760,000 Power System Revenue Refunding Bonds (Prairie State Project) Series 2019A and 2020A. Of the proceeds, \$154,679,326 has been deposited into an irrevocable trust to provide for the future debt service payments on certain maturities of the Revenue Bonds, Series 2010, maturing at various dates from 2020 through 2037. As a result, the refunded portion of the bonds is considered defeased and the escrowed assets and liability for the bonds have been removed from the financial statements.

During fiscal year 2016, the Agency issued \$71,235,000 Power System Revenue Refunding Bonds (Prairie State Project) Series 2015A and 2015B. Of the proceeds, \$82,833,200 has been deposited into an irrevocable trust to provide for the future debt service payments on certain maturities of the Revenue Bonds, Series 2007A, maturing at various dates from 2017 through 2042. As a result, the refunded portion of the bonds is considered defeased and the escrowed assets and liability for the bonds have been removed from the financial statements.

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 6 - Long-Term Indebtedness (Continued):

Advance Refundings (Continued):

The defeased bonds still outstanding are shown below:

| | |
|---------------------------------|----------------------|
| Outstanding 2007A Revenue Bonds | <u>\$289,110,000</u> |
| Outstanding 2010 Revenue Bonds | <u>\$148,485,000</u> |

| <u>Maturities</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------|--------------------------|--------------------------|--------------------------|
| 2021 | \$ 8,060,000 | \$ 19,943,168 | \$ 28,003,168 |
| 2022 | 8,205,000 | 19,794,782 | 27,999,782 |
| 2023 | 8,625,000 | 19,374,032 | 27,999,032 |
| 2024 | 9,070,000 | 18,931,657 | 28,001,657 |
| 2025-2029 | 58,635,000 | 86,760,410 | 145,395,410 |
| 2030-2034 | 79,670,000 | 69,327,010 | 148,997,010 |
| 2035-2039 | 102,765,000 | 47,184,935 | 149,949,935 |
| 2040-2044 | 125,685,000 | 22,193,463 | 147,878,463 |
| 2045-2046 | <u>47,915,000</u> | <u>1,935,700</u> | <u>49,850,700</u> |
| TOTALS | <u>\$448,630,000</u> | <u>\$305,445,157</u> | <u>\$754,075,157</u> |

Bond Covenant Disclosures

The following information is provided in compliance with the resolution creating the 2007 A and B revenue bonds, 2010 A, B and C revenue bonds, and the 2017 A and B revenue bonds.

Insurance

The Agency is exposed to various risks of loss related to torts, theft of, damage to, or destructions of assets, errors and omissions, workers compensation, and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded coverage in any of the last three years.

The Agency is covered under the following insurance policies at June 30, 2019:

| <u>Type</u> | <u>Coverage</u> | <u>Expiration</u> |
|--------------------------------------|-----------------|-------------------|
| General & Public Officials Liability | \$10,000,000 | January 2019 |

Note 7 - Net Position:

GASB No. 34 requires the classification of net assets 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, including restricted capital assets, net of accumulated depreciation and 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 there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 7 - Net Position (Continued):

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), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - This component of net position consists of net position that does not meet the definitions of "restricted" or "net investment in capital assets".

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

The following calculation supports the Agency's net investment in capital assets:

| | <u>2020</u> | <u>2019</u> |
|---|-------------------------------|-------------------------------|
| Property, plant, and equipment | \$ 462,501,594 | \$ 461,973,361 |
| Less accumulated depreciation | (90,275,774) | (78,231,033) |
| Working capital and collateral Prairie State | 2,801,619 | 815,213 |
| Construction work in progress | <u>2,941,425</u> | <u>2,637,844</u> |
| Sub-totals | <u>377,968,864</u> | <u>387,195,385</u> |
| Less: Capital related debt | | |
| Bonds held by public | (448,630,000) | (468,790,000) |
| Deferred refunding gain | 30,835,355 | 24,063,693 |
| Unamortized bond issuance cost | 4,240,432 | 5,446,960 |
| Asset retirement obligation | (1,532,490) | (1,531,036) |
| Unamortized debt discount | 1,304,060 | 1,326,637 |
| Unamortized debt premium | <u>(41,014,008)</u> | <u>(26,527,457)</u> |
| Sub-totals | <u>(454,796,651)</u> | <u>(466,011,203)</u> |
| Add: Unspent debt proceeds | | |
| Reserve fund | <u>10,293,267</u> | <u>14,011,025</u> |
| Sub-totals | <u>10,293,267</u> | <u>14,011,025</u> |
| TOTAL NET INVESTMENT IN CAPITAL ASSETS | <u>\$ (66,534,520)</u> | <u>\$ (64,804,793)</u> |

Note 8 - Commitments and Contingencies:

Prairie State Energy Campus

In February 2005, the Agency joined several other entities in the development of the Prairie State Energy Campus, a 1600 MW twin unit, coal-fired electric generating facility to be located in Washington, St. Claire, and Randolph counties, Illinois (the "Prairie State Project"). In addition to the generation station, the Prairie State Project includes coal reserves, a coal mine, a coal combustion waste disposal facility, and other ancillary support equipment. The Prairie State Project is being developed by the Prairie State Generating Company, LLC ("PSGC"), initially a wholly-owned subsidiary of Peabody Energy Corporation and now controlled by the nine owners.

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 8 - Commitments and Contingencies (Continued):

Prairie State Energy Campus (Continued)

Since entering the project, the Agency has increased its participation from an initial 80 MW level to its present 124 MW share. After financial closing of the transaction, the Agency's share translated into a 7.82% undivided ownership interest as a tenant-in-common with the other project participants. The other joint owners in the Prairie State Project are the American Municipal Power, Illinois Municipal Electric Agency, the Indiana Municipal Power Agency, the Missouri Public Utility Alliance, The Northern Illinois Municipal Power Agency, Prairie Power, Inc. (formerly known as Soyland Power Cooperative, Inc.), Lively Grove Energy Partners, LLC, a wholly-owned indirect subsidiary of Peabody Energy Corporations ("Peabody Energy"), and Southern Illinois Power Cooperative.

Pursuant to the terms of the Project Development Agreement dated February 5, 2005, the Fee Agreement of the same date, and the AI Fee Agreement dated August 31, 2006, the Agency paid certain fees for the right to participate in the Prairie State Project and ultimately own its share of the coal reserves and other project assets at financial close. On June 19, 2007, the Agency executed, amended, and restated versions of the Project Development Agreement, the Fee Agreement, and the AI Fee Agreement. The amended agreements memorialized certain changes in the various percentage ownership interests of the participants in the Project and certain changes regarding the manner in which the Project will be developed. The Agency is also obligated under the agreements to pay its proportionate share of all ongoing costs and expenses associated with the Prairie State Project. The Agency's cost for participation in the project totals \$17.2 million.

In July 2010, the owners entered into an agreement with Bechtel Corporation ("Bechtel") to convert the original, cost reimbursable EPC Agreement for the Prairie State Project to a lump sum turn-key EPC Agreement. This agreement provides the owners with a cap on future cost increases, and transfers cost and schedule risk from the owners to Bechtel. Provisional completion of Unit 1 was achieved on June 6, 2012, at which time Prairie State Generating Company took care, custody, and control of the unit. Provisional completion of Unit 2 was achieved on November 1, 2012, at which time Prairie State Generating Company took care, custody, and control of the unit.

The Agency has entered in Power Sales Agreements described below in order to provide additional power to its members.

Power Sales Agreement

The Boards of Paducah Power System and Princeton Electric authorized a Power Sales Agreement with the Agency on July 23, 2007. The Power Sales Agreement is a take or pay agreement that stipulates that Paducah Power System and Princeton Electric will take all power from the Agency which the Agency receives from the Prairie State Project. Paducah Power System's share of the energy is 83.87% and Princeton Electric's is 16.13%.

Each party to the Power Sales Agreement agrees to a step up of 20% additional power in the case that the other party to the agreement defaults on its commitment. This effectively means that Paducah Power System agrees, if necessary, to commit to take all power from the Agency since Princeton Electric's share of power is less than 20% of the project.

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 8 - Commitments and Contingencies (Continued):

Claims and Judgments

From time to time, the Agency is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the Agency's legal counsel, that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Agency's financial position or results of operations.

Note 9 - Disclosures Regarding the Statement of Cash Flows:

Accounting Policy

For purposes of the Statement of Cash Flows, cash and cash investments include all highly liquid debt instruments with maturities of three months or less.

The composition of cash and cash investments at June 30, 2020 and 2019, is as follows:

| | <u>2020</u> | <u>2019</u> |
|--|--------------------------------|--------------------------------|
| Cash and temporary cash investments | \$ 7,775,213 | \$ 8,784,764 |
| Restricted cash and short-term investments: | | |
| Project and reserve funds and pledged collateral | <u>23,541,794</u> | <u>27,375,531</u> |
| TOTAL CASH AND CASH INVESTMENTS | <u>\$31,317,007</u> | <u>\$36,160,295</u> |

SUPPLEMENTARY INFORMATION

KENTUCKY MUNICIPAL POWER AGENCY
GENERAL OPERATING EXPENSES
YEARS ENDED JUNE 30

| General Operating Expenses: | <u>2020</u> | <u>2019</u> |
|---|--------------------------------|--------------------------------|
| Administrative and general: | | |
| Payroll | \$ 951,073 | \$ 872,801 |
| Office supplies and expense | 666,913 | 615,874 |
| Outside services employment | 1,244,265 | 1,300,685 |
| Depreciation | 12,217,768 | 12,036,030 |
| Depletion | 218,508 | 139,612 |
| Insurance | 336,185 | 271,076 |
| Injuries and damages | 168,932 | 153,971 |
| General plant maintenance | <u>190,641</u> | <u>173,674</u> |
| Total administrative and general | <u>15,994,285</u> | <u>15,563,723</u> |
| TOTAL GENERAL OPERATING EXPENSES | <u><u>\$15,994,285</u></u> | <u><u>\$15,563,723</u></u> |



WILLIAMS WILLIAMS & LENTZ

CERTIFIED PUBLIC ACCOUNTANTS

J. David Bailey, III
Roger G. Harris
Michael F. Karnes
Mark A. Thomas
Ashley C. Grooms
Kelly D. Scruggs
Benjamin D. Teer

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Kentucky Municipal Power Agency
Paducah, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Kentucky Municipal Power Agency as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Kentucky Municipal Power Agency's basic financial statements, and have issued our report thereon dated October 2, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kentucky Municipal Power Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kentucky Municipal Power Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of Kentucky Municipal Power Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kentucky Municipal Power Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Williams, Williams & Lentz LLP

Paducah, Kentucky
October 2, 2020



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