KENTUCKY MUNICIPAL POWER AGENCY

FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2024 AND 2023

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Independent Auditor's Report

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

Opinion

We have audited the accompanying financial statements of the business-type activities of Kentucky Municipal Power Agency, as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Kentucky Municipal Power Agency, as of June 30, 2024 and 2023, and the respective changes in its financial position and cash flows thereof for the years then ended in accordance with the basis of accounting described in Note 1.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 the Kentucky Municipal Power 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 opinions.

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.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Kentucky Municipal Power 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.

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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 opinions. 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 generally accepted auditing standards 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 generally accepted auditing standards, 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 the Kentucky Municipal Power 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 the Kentucky Municipal Power 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 management's discussion and analysis on pages 4 through 8 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.

Supplementary Information

The schedule of operating expenses presented on page 28 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 operating expenses 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 9, 2024, on our consideration of the 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 the effectiveness of Kentucky Municipal Power Agency's 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 9, 2024

REQUIRED SUPPLEMENTARY INFORMATION

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, 2024 and 2023. 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

On 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 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.

The Agency's current entitlement in the Project is 7.82%. Based on the current capacity of the Project of 1,632 MW, the Agency, Paducah Power System, and Princeton Electric Plant Board are entitled to 128 MW, 107 MW, and 21 MW, respectively. 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.

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)

	2024	2023	2022	2023-2024 Dollar Change	2022-2023 Dollar Change
Current and other assets	$ 85,194	$ 81,270	$ 69,283	$ 3,924	$ 11,987
Capital assets	335,720	345,021	354,826	(9,301)	(9,805)
Total assets	420,914	426,291	424,109	(5,377)	2,182
Deferred Outflows of Resources	21,449	22,468	32,985	(1,019)	(10,517)
Revenue bonds	405,140	414,670	423,740	(9,530)	(9,070)
Other liabilities	25,428	25,242	25,513	186	(271)
Total liabilities	430,568	439,912	449,253	(9,344)	(9,341)
Deferred Inflows of Resources	33,069	35,055	37,042	(1,986)	(1,987)
Invested in capital assets, net of related debt	(79,738)	(79,720)	(70,344)	(18)	(9,376)
Restricted	8,162	7,722	7,242	440	480
Unrestricted	50,302	45,790	33,902	4,512	11,888
TOTAL NET ASSETS (DEFICIT)	$ (21,274)	$ (26,208)	$ (29,200)	$ 4,934	$ 2,992

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 a deficit, which has decreased by $7.9 million over the fiscal years 2024 and 2023.

The deficit net position of the Agency is due to the deficit balance of invested in capital assets, net of related debt. 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.

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)

	2024	2023	2022	2023-2024 Dollar Change	2022-2023 Dollar Change
Operating revenue	$ 100,156	$ 120,792	$ 111,037	$ (20,636)	$ 9,755
Non-operating revenue	2,960	1,795	373	1,165	1,422
Total revenue	103,116	122,587	111,410	(19,471)	11,177
Purchased power and other operating expense	80,258	100,553	91,383	(20,295)	9,170
Non-operating expense	17,924	19,042	19,469	(1,118)	(427)
Total expenses	98,182	119,595	110,852	(21,413)	8,743
Changes in net assets	4,934	2,992	558	1,942	2,434
Beginning net assets (deficit)	(26,208)	(29,200)	(29,758)	2,992	558
ENDING NET ASSETS (DEFICIT)	$ (21,274)	$ (26,208)	$ (29,200)	$ 4,934	$ 2,992

As shown above, total revenues exceeded total expenses for fiscal years 2024, 2023, and 2022, resulting in decreases in the net deficit. 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, which may contribute to an operating deficit for certain fiscal years.

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 2022. Thereafter, the income related to BABS has been eliminated.

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

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 coal mine and coal reserves associated with the Prairie State Project are included in other assets. At the end of fiscal year 2024, the Agency had $336 million invested in the Prairie State Project capitalized assets, as shown below.

Capital Assets at June 30
(000's)

	2024	2023	2022	2023-2024 Change	2022-2023 Change
Construction in progress	$ 3,772	$ 3,930	$ 2,971	$ (158)	$ 959
Property, plant, and equipment	469,325	467,269	466,241	2,056	1,028
Less accumulated depreciation	(137,377)	(126,178)	(114,386)	(11,199)	(11,792)
TOTAL CAPITAL ASSETS	$ 335,720	$ 345,021	$354,826	$ (9,301)	$ (9,805)

Debt Administration

The total revenue bonds outstanding (including current position) decreased to $405 million at fiscal year-end 2024 from $415 million at fiscal year-end 2023 as a result of 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 $9.5 million in revenue bonds outstanding as a current liability as of fiscal 2024 year-end as it will pay bond holders this amount in principal on September 1, 2024.

On October 23, 2020, the Agency executed an interest rate swap transaction to ensure the benefits of low interest rates in the bond market at that time would be available at the time of the Agency's prospective bond refunding issue in 2025 or 2026. This interest rate swap transaction was terminated May 16, 2023, resulting in a termination payment to KMPA of $8.8 million. KMPA plans to use these proceeds, along with certain other available funds, to lower debt service payments in the future.

Outlook

Operating performance of PSGC continues to improve, as demonstrated by equivalent availability factor (EAF), generally increasing over the life of the plant. This reduces the operating costs of PSGC and the purchased power cost of the Agency.

The Agency has also implemented a hedging program to mitigate the volatility of prices in the energy market, specifically, the energy from PSGC that is excess to the combined loads of the Agency's members. This program has not only reduced price volatility but has also produced net revenues to lower purchased power costs.

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 are expected to be reduced as a result of a combination of remarketing, defeasance and refunding during 2025 and possibly 2026.

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

	2024	2023
Current Assets:		
Cash and temporary cash investments	$ 10,612,577	$ 10,412,448
Working capital Prairie State	3,055,496	3,252,647
Other receivables	7,692,678	6,856,958
Inventory	6,247,208	5,503,354
Prepaid expenses	2,578	26,270
Total current assets	27,610,537	26,051,677
Restricted Assets:		
Principal and interest sinking fund	14,374,835	14,053,956
Reserve funds	36,689,039	10,371,277
Pledged collateral	569,818	8,478,098
Interest receivable	17,878	53,864
Prairie State reserve funds	5,932,063	22,261,039
Total restricted assets	57,583,633	55,218,234
Capital Assets:		
Construction work in progress	3,771,604	3,930,300
Property, plant, and equipment	469,325,248	467,268,965
Less accumulated depreciation	(137,376,733)	(126,177,817)
Total capital assets	335,720,119	345,021,448
Total assets	420,914,289	426,291,359

DEFERRED OUTFLOWS OF RESOURCES

	2024	2023
Deferred bond refunding amount	16,953,775	17,710,324
Unamortized debt issuance costs	3,434,718	3,636,146
Unamortized debt discounts	1,060,241	1,121,196
Total deferred outflows of resources	21,448,734	22,467,666
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 442,363,023	$ 448,759,025

See notes to financial statements.

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

	2024	2023
Operating Revenues:		
Service revenue	$ 100,155,836	$ 120,792,318
Total operating revenues	100,155,836	120,792,318
Purchased Power and Operating Expenses:		
Purchased power cost	64,281,596	84,736,714
General operating expense	15,976,123	15,816,113
Total purchased power and operating expenses	80,257,719	100,552,827
Operating income	19,898,117	20,239,491
Non-Operating Revenues (Expenses):		
Interest paid on indebtedness	(18,103,522)	(19,230,282)
Other income	5,000	-
Investment income	2,955,111	1,795,302
Federal Build America Bond’s subsidy	-	-
Net amortization discount and premium on debt	178,919	187,699
Total non-operating revenues (expenses)	(14,964,492)	(17,247,281)
Change in net position	4,933,625	2,992,210
Net position (deficit), beginning of year	(26,207,821)	(29,200,031)
NET POSITION (DEFICIT), END OF YEAR	$ (21,274,196)	$ (26,207,821)

See notes to financial statements.

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

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	**2024**	**2023**
Operating income	$ 19,898,117	$ 20,239,491
Depreciation expense	11,829,587	12,166,869
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Other accounts receivable	(830,720)	203,930
Prepaid expenses	23,692	(2,716)
Other assets	(743,854)	(83,963)
Accounts payable	(148,638)	(1,135,671)
Change in regulatory liability	-	-
Other current and accrued liabilities	249,939	177,259
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 30,278,123	$ 31,565,199
Schedule of Non-Cash Financing Activities:		
Amortization of bond issue and discount costs	$ 857,381	$ 188,605

See 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 provide 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 non-operating 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)

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 are 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 rated in one (1) of the three (3) highest categories by a nationally recognized rating agency.

(Continued)

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)

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 non-operating 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.

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 non-operating revenues and expenses.

Subsequent Events

Subsequent events were evaluated through October 9, 2024, which is the date the financial statements were available to be issued.

(Continued)

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, 2024 and 2023, 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:

	2024	2023
Checking and savings	$43,267,223	$40,991,606
Mutual funds-money market	14,374,835	14,053,956
Guaranteed investment security	4	4
Repurchase agreement	10,407,675	10,367,768
TOTAL CASH AND INVESTMENTS	$68,049,737	$65,413,334

Deposits

The financial institution balances of the Agency's deposits were $68,057,396 for the year ended June 30, 2024. The book balance was $68,049,737. Of the various financial institution balances at June 30, 2024, $500,000 was insured by federal depository insurance, and the remaining balance of $67,549,737 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 $67,549,737 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 $65,422,211 for the year ended June 30, 2023. The book balance was $65,413,334. Of the various financial institution balances at June 30, 2023, $250,000 was insured by federal depository insurance, and the remaining balance of $65,163,334 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 $65,163,334 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, 2024 and 2023, the Agency's investments were rated as follows:

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

(Continued)

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, 2024, the Agency's investment portfolio was concentrated as follows:

Issuer	Investment Type	Percentage of Portfolio
Regions collateralized sweep account	Money market	0.98%
Bayerische Landesbank	Guaranteed investment certificate	0.00%
Regions Bank	Repurchase agreement	99.02%

As of June 30, 2023, the Agency's investment portfolio was concentrated as follows:

Issuer	Investment Type	Percentage of Portfolio
Regions collateralized sweep account	Money market	0.37%
Bayerische Landesbank	Guaranteed investment certificate	0.00%
Regions Bank	Repurchase agreement	99.63%

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, 2024, the Agency's investments were as follows:

		Maturity (In Years)		
Investment Type	Fair Value	Less than 1 Year	1 - 5 Years	6 - 10 Years
Mutual funds-money market	$ 242,552	$ 242,552	$ -	$ -
Guaranteed investment certificates	4	4	-	-
Repurchase agreement	24,539,958	24,539,958	-	-
TOTALS	$ 24,782,514	$ 24,782,514	$ -	$ -

(Continued)

Note 2 - Deposits and Investments (Continued):

Interest Rate Risk (Continued)

As of June 30, 2023, the Agency's investments were as follows:

		Maturity (In Years)		
Investment Type	**Fair Value**	**Less than 1 Year**	**1 - 5 Years**	**6 - 10 Years**
Mutual funds-money market	$ 90,736	$ 90,736	$ -	$ -
Guaranteed investment certificates	4	4	-	-
Repurchase agreement	24,330,984	24,330,984	-	-
TOTALS	$ 24,421,724	$ 24,421,724	$ -	$ -

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:

	2024	2023
Restricted assets:		
Sinking and reserve funds	$ 24,897,424	$ 24,425,233
Accrued interest receivable	22,878	53,864
Less: restricted assets not funded by revenues:		
Reserve fund	(10,522,589)	(10,371,277)
Current liabilities payable from restricted assets	(6,234,969)	(6,386,136)
TOTAL RESTRICTED NET POSITION AS CALCULATED	$ 8,162,744	$ 7,721,684

(Continued)

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 2024 and 2023.

Note 4 - Capital Assets:

Capital asset activity for the year ended June 30, 2024, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets not Being Depreciated:				
Land	$ 2,450,173	$ -	$ -	$ 2,450,173
Construction in progress	3,930,300	-	(158,696)	3,771,604
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	$ 6,380,473	$ -	$ (158,696)	$ 6,221,777
Capital Assets Being Depreciated or Depleted:				
Coal reserves	$ 4,688,879	$ -	$ (224,480)	$ 4,464,399
Non-utility property	20,468,668	2,371,029	-	22,839,697
Structures and improvements	41,892,732	-	(103,509)	41,789,223
Equipment	397,768,514	13,241	-	397,781,755
Total capital assets being depreciated	464,818,793	2,384,270	(327,989)	466,875,074
Less accumulated depreciation	126,177,818	11,605,093	406,178	137,376,733
Total capital assets being depreciated, net	338,640,975	(9,220,823)	(78,189)	39,498,341
TOTAL CAPITAL ASSETS, NET	$345,021,448	$ (9,220,823)	$ (80,507)	$335,720,118

(Continued)

Note 4 - Capital Assets (Continued):

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets not Being Depreciated:				
Land	$ 2,450,173	$ -	$ -	$ 2,450,173
Construction in progress	2,971,375	958,925	-	3,930,300
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	$ 5,421,548	$ 958,925	$ -	$ 6,380,473
Capital Assets Being Depreciated or Depleted:				
Coal reserves	$ 4,901,698	$ -	$ (212,819)	$ 4,688,879
Non-utility property	20,061,976	406,692	-	20,468,668
Structures and improvements	41,892,732	-	-	41,892,732
Equipment	396,934,058	1,190,096	(355,640)	397,768,514
Total capital assets being depreciated	463,790,464	1,596,788	(568,459)	464,818,793
Less accumulated depreciation	114,386,105	12,147,353	(355,640)	(126,177,818)
Total capital assets being depreciated, net	349,404,359	(10,550,565)	(212,819)	338,640,975
TOTAL CAPITAL ASSETS, NET	$354,825,907	$ (9,591,640)	$ (212,819)	$345,021,448

Note 5 - Accounts Payable:

The elements comprising accounts payable are as follows:

	2024	2023
Due for purchased power	$ 4,514,542	$ 4,665,379
Accounts payable, general	37,631	35,432
TOTAL ACCOUNTS PAYABLE	$ 4,552,173	$ 4,700,811

(Continued)

Note 6 - Long-Term Indebtedness:

Bonds

The following revenue bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 6/30/24
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	175,540,000
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	3.00-5.00%	115,550,000	115,550,000
9/11/19	Prairie State Revenue Refunding	9/1/35	5.00%	20,210,000	15,355,000
	TOTALS			$965,410,000	$414,670,000

For the years ended June 30, 2024 and 2023, bonds payable totaling $446,678,918 and $457,674,175, are recorded net of $(1,060,241) and $(1,121,196) of unamortized bond discount and $33,069,159 and $35,055,371 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 35.00% of each interest payment on the Build America Bonds.

(Continued)

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, 2024 and 2023, as defined, are $24,911,110 and $24,585,211, respectively. The term of the commitment is 32 years or until the bonds are defeased. Annual principal and interest payments are expected to require 100.00% of net revenues over the term of the commitment. Interest paid for the years ended June 30, 2024 and 2023, was $18,933,150 and $19,086,532, respectively.

Changes in Long-Term Debt and Maturities

Long-term obligation activity for the year ended June 30, 2024, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	$423,740,000	$ -	$ 9,070,000	$414,670,000	$ 9,070,000
Unamortized debt discount	(1,121,196)	-	(60,955)	(1,060,241)	-
Unamortized debt premium	35,055,371	-	1,986,212	33,069,159	-
TOTALS	$457,674,175	$ -	$ 10,995,257	$446,678,918	$ 9,070,000

Long-term obligation activity for the year ended June 30, 2023, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	$432,365,000	$ -	$ 8,625,000	$423,740,000	$ 9,070,000
Unamortized debt discount	(1,182,150)	-	(60,954)	(1,121,196)	-
Unamortized debt premium	37,041,583	-	1,986,212	35,055,371	-
TOTALS	$468,224,433	$ -	$ 10,550,258	$457,674,175	$ 9,070,000

Advance Refundings

During the current year, the Agency liquidated their interest rate hedge holdings as part of an overall bond refunding strategy. The gain has been recorded as a deferred bond refunding amount in the deferred outflows of resources on the statements of net position.

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.

(Continued)

Note 6 - Long-Term Indebtedness (Continued):

Advance Refundings (Continued)

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.

The defeased bonds still outstanding are shown below:

Outstanding 2007A Revenue Bonds	$258,290,000
Outstanding 2010 Revenue Bonds	$137,040,000

Maturities	Principal	Interest	Total
2025	$ 9,530,000	$ 18,466,657	$ 27,996,657
2026	10,020,000	17,977,907	27,997,907
2027	12,385,000	17,417,782	29,802,782
2028	13,015,000	16,782,782	29,797,782
2029	13,685,000	16,115,282	29,800,282
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	22,193,462	147,878,462
2045-2046	47,915,000	1,935,700	49,850,700
TOTALS	$414,670,000	$227,401,517	$642,071,517

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, 2024:

Type	Coverage	Expiration
General & Public Officials Liability	$10,000,000	January 2025

(Continued)

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.

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:

	2024	2023
Property, plant, and equipment	$ 469,325,248	$ 467,268,965
Less accumulated depreciation	(137,376,733)	(126,177,817)
Working capital and collateral Prairie State	3,069,182	3,412,625
Construction work in progress	3,771,604	3,930,300
Sub-totals	338,789,301	348,434,073
Less: Capital related debt		
Bonds held by public	(414,670,000)	(423,740,000)
Deferred refunding amount	16,275,313	17,710,324
Unamortized bond issuance cost	3,434,718	3,636,146
Asset retirement obligation	(2,080,696)	(2,197,991)
Unamortized debt discount	1,060,241	1,121,196
Unamortized debt premium	(33,069,159)	(35,055,371)
Sub-totals	(429,049,583)	(438,525,696)
Add: Unspent debt proceeds		
Reserve fund	10,522,589	10,371,277
Sub-totals	10,522,589	10,371,277
TOTAL NET INVESTMENT IN CAPITAL ASSETS	$ (79,737,693)	$ (79,720,346)

(Continued)

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 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 was 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.

Since entering the Prairie State Project, the Agency has increased its participation from an initial 5.06% level to its present 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.

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 83.89% and Princeton Electric's is 16.11%.

Each party to the Power Sales Agreement agrees to a step up of 20.00% 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 20.00% of the project.

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 reasonably possible that such litigation could have a material adverse effect on the Agency's financial position or results of operations.

(Continued)

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, is as follows:

	2024	2023
Cash and temporary cash investments	$10,612,577	$10,412,448
Restricted cash and short-term investments:		
Project and reserve funds and pledged collateral	24,897,424	24,421,724
TOTAL CASH AND CASH INVESTMENTS	$35,510,001	$34,834,172

SUPPLEMENTARY INFORMATION

KENTUCKY MUNICIPAL POWER AGENCY
GENERAL OPERATING EXPENSES
YEARS ENDED JUNE 30

General Operating Expenses:	**2024**	**2023**
Administrative and general:		
Payroll	$ 911,294	$ 855,903
Office supplies and expense	408,600	458,368
Outside services employment	1,319,093	1,162,317
Depreciation	11,605,093	11,952,059
Depletion	224,494	214,810
Insurance	754,795	648,249
Injuries and damages	534,824	316,090
General plant maintenance	219,931	208,317
Total administrative and general	15,978,124	15,816,113
TOTAL GENERAL OPERATING EXPENSES	$15,978,124	$15,816,113

WILLIAMS WILLIAMS & LENTZ
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2024, 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 9, 2024.

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*.

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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 9, 2024