

**ELECTRIC PLANT BOARD OF THE
CITY OF PADUCAH, KENTUCKY D/B/A
PADUCAH POWER SYSTEM**

FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020

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Independent Auditor's Report

To the Members of the Electric Plant Board
of the City of Paducah
Paducah, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Electric Plant Board of the City of Paducah, Kentucky, d/b/a Paducah Power System, a component unit of the City of Paducah, Kentucky, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the System'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 principles 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 the business-type activities of Paducah Power System, as of June 30, 2021 and 2020, 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 11 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 operating expenses presented on pages 39 and 40 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 September 28, 2021, on our consideration of Paducah Power System'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 Paducah Power System'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 Paducah Power System's internal control over financial reporting and compliance.

Williams, Williams & Lentz LLP

Paducah, Kentucky
September 28, 2021

REQUIRED SUPPLEMENTARY INFORMATION

**PADUCAH POWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

OVERVIEW

As the management of Paducah Power System, we offer readers of the electric system's financial statements this narrative overview and analysis of the company's financial performance during fiscal year ended June 30, 2021 (or "FY21"). Comparisons are available on several financial and supplemental statements throughout this analysis.

This annual report includes the management's discussion and analysis report, the independent auditor's report, and the basic financial statements of the Electric Plant Board of the City of Paducah, Kentucky, doing business as Paducah Power System (or the "System"). The financial statements also include the notes thereto that provide more detailed information relating to the financial statements.

REQUIRED FINANCIAL STATEMENTS

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

The Statement of Net Position includes all the utility's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the utility and assessing the liquidity and financial flexibility of the utility.

All the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the utility's operations over the past year and can be used to determine whether the utility has successfully recovered all of its costs through electric rate tariffs and other miscellaneous charges, profitability, and credit worthiness.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and summarizes the change in the cash balance during the reporting period.

NET POSITION

**CONDENSED STATEMENTS OF NET POSITION
As of the fiscal years ended June 30**

	<u>2021</u>	<u>2020</u>
Current assets	\$ 15,629,865	\$ 18,166,895
Non-current assets	11,896,922	12,150,968
Capital assets	<u>132,798,773</u>	<u>137,629,441</u>
Total assets	<u>160,325,560</u>	<u>167,947,304</u>
Deferred Outflows of Resources	<u>19,327,898</u>	<u>20,056,440</u>
Current liabilities	15,738,674	15,476,029
Non-current liabilities	22,982,144	20,194,718
Long-term debt	<u>128,230,146</u>	<u>134,523,073</u>
Total liabilities	<u>166,950,964</u>	<u>170,193,820</u>
Deferred Inflows of Resources	<u>1,546,128</u>	<u>2,002,266</u>
Invested in capital assets, net of related debt	14,383,044	14,225,639
Restricted for debt service	5,400,197	5,287,273
Unrestricted net assets	<u>(8,626,875)</u>	<u>(3,705,254)</u>
TOTAL NET ASSETS	<u>\$ 11,156,366</u>	<u>\$ 15,807,658</u>

PADUCAH POWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

A summary of Paducah Power System's Statements of Net Position is presented in the table above and discussed below.

Current assets represent items such as cash and temporary investments, accounts receivable, materials and supplies, prepaid expenses, accrued interest receivable, and rents receivable. Current assets decreased by approximately \$2.5 million during FY21, including a \$3.0 million reduction in cash and cash reserves. The decrease in cash is largely attributable to a decline in electricity sales during FY21 due to the coronavirus ("COVID-19") pandemic.

Non-current assets include restricted funds, such as bond sinking funds, and other non-current assets, including a Rate Stabilization Fund, unamortized debt discounts, unamortized research and development, and conservation loan receivables. These accounts decreased during FY21 by \$254 thousand.

Capital assets include land, transmission system, distribution system, general plant, generation plant, and construction work in progress, net of accumulated depreciation. The decrease in capital assets is the result of depreciation of the peaking plant, high pressure gas line and associated substation/transmission upgrades. Capital expenditures were \$5.1 million and depreciation expenses were \$10.0 million for FY21. The net investment in capital assets decreased by \$4.8 million during FY21.

Deferred outflows of resources include the net unamortized balance of items related to the 2016A and 2019 Refunding Revenue Bonds issuances and deferred outflows and contributions associated with postemployment benefits.

Current liabilities represent items such as accounts payable, customer deposits, accrued taxes, interest payments, balance of the bank line-of-credit and the current portion of any long-term debts. Paducah Power System currently has a \$5 million line-of-credit with Banterra Bank. The balance on the bank line-of-credit throughout FY21 was \$0.

Non-current liabilities primarily consist of long-term debt, pension-related liabilities and a regulatory liability associated with the cumulative over-recovery of purchased power costs. Long-term debt represents the long-term portion of revenue bonds, net of unamortized discounts and advanced refunding deferred charges. Outstanding revenue bonds are discussed further below. The long-term debt balance will decrease as the bonds are repaid.

The pension liability consists of Paducah Power System's proportionate share of the net pension and other post-employment benefits ("OPEB") liability of the County Employees' Retirement System ("CERS"), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky Retirement System. During FY21, the net pension and OPEB liabilities increased by \$2.8 million.

Net position is broken down into three major categories: Net investment in capital assets, Restricted for debt service, and Unrestricted net position. The total change in net position for FY21 was a decrease of \$4.7 million.

REVENUES, EXPENSES AND CHANGES IN NET POSITION

This section includes a discussion of Paducah Power System's Condensed Statements of Revenues, Expenses, and Changes in Net Position, which is presented further below.

Paducah Power System's electric sales revenue decreased 3.7% in FY21. This is primarily the result of reduced energy sales due to COVID-19, combined with no change in base rates and only small quarterly adjustments of the Power Cost Adjustment rate.

Purchased power cost for FY21 decreased slightly from FY20 due to higher average cost of power from Kentucky Municipal Power Agency ("KMPA"), offset by lower energy purchases resulting from decreased sales.

General operating expense for FY21 increased by \$485 thousand from FY20, primarily associated with pension benefit accruals for FY21.

PADUCAH POWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

Generation plant expenses for FY21 decreased by \$361 thousand from FY20. Total peaking plant generation decreased from 34,457 MWH during FY20 to 22,920 MWH during FY21 as Paducah Power System operates this plant to take advantage of lower natural gas prices during certain market conditions in order to lower the cost of purchased power for the System and our power sales contract counterparty, the Kentucky Municipal Energy Agency ("KYMEA").

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For Fiscal Years Ended June 30

	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>% Change</u>
Electrical sales revenue	\$73,028,760	\$70,456,181	\$ 2,572,579	3.7%
Miscellaneous revenue	<u>7,280,313</u>	<u>10,944,346</u>	<u>(3,664,033)</u>	<u>-33.5%</u>
Total operating revenue	<u>80,309,073</u>	<u>81,400,527</u>	<u>(1,091,454)</u>	<u>-1.3%</u>
Purchased power cost	53,023,167	53,340,403	(317,236)	-.6%
General operating expense	10,542,614	10,057,328	485,286	4.8%
Generation plant expense	1,879,572	2,240,654	(361,082)	-16.1%
Maintenance expense	1,968,063	2,113,169	(145,106)	-6.9%
Other operating expense	11,606,657	11,672,487	(65,830)	-.6%
Non-operating expense	<u>5,940,292</u>	<u>5,936,871</u>	<u>3,421</u>	<u>.1%</u>
Total expenses	<u>84,960,365</u>	<u>85,360,912</u>	<u>(400,547)</u>	<u>-.5%</u>
Changes in net position	(4,651,292)	(3,960,385)	(690,907)	
Beginning net position	<u>15,807,658</u>	<u>19,768,043</u>	<u>(3,960,385)</u>	
ENDING NET POSITION	<u>\$11,156,366</u>	<u>\$15,807,658</u>	<u>\$(4,651,292)</u>	

CASH FLOWS

The Statements of Cash Flows show what impact the utility's activities had on cash and cash equivalents. This financial statement can often reflect the liquidity situation of the utility. If a trend of decreasing cash balances over a period of years occurs without any additional capital funding or change in revenues and expenses, the entity may become unable to meet its short-term obligations to creditors. Increases in cash over a one-year time frame may be nothing more than financing of a capital project that will be constructed over a period of years. A scenario of decreasing cash position may occur if an entity self-funds a capital asset that is anticipated to generate returns in future periods thereby increasing cash flows.

A summary of Paducah Power System's Statements of Cash Flows is presented below.

Receipts from customers increased, even though electricity sales declined by 2.5%, as a result of increases in the power cost adjustment rate during FY21, consistent with the increase in payments to suppliers reflecting the higher cost of purchased power from KMPA. Electric plant capital expenditures are historically in the \$4 to \$6 million range per year.

Overall cash balances decreased by \$5.3 million during FY20 and by \$2.8 million during FY21. These shortfalls were somewhat anticipated by management due to inadequate rate levels and Paducah Power System has absorbed these cash decreases with withdrawals from reserve funds. The decline in sales due to the pandemic exacerbated the situation. During FY21, Paducah Power System conducted a cost of service and rate study, resulting in proposed rates adopted by the Board effective July 2021 that are designed to recover sufficient revenues to fund projected operating, capital and debt service costs as well as replenish reserve funds.

PADUCAH POWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

STATEMENTS OF CASH FLOWS
Fiscal Years Ended June 30

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ 80,839,630	\$ 76,061,367
Payments to suppliers	(61,705,603)	(58,326,021)
Payments to employees	<u>(5,809,113)</u>	<u>(6,124,701)</u>
Net cash provided by operating activities	<u>13,324,914</u>	<u>11,610,645</u>
Cash Flows from Capital and Related Financing Activities:		
Capital expenditures	(5,120,907)	(5,787,088)
Principal payments on long-term debt	(4,975,000)	(26,505,000)
Interest payments on long-term debt	(6,047,305)	(6,306,031)
Long-term debt bonds issued	-	21,582,424
Deferred gain on bond refunding	-	548,690
Write off of defeased bond cost	-	(546,505)
Bond issuance cost	-	(299,609)
Non-utility property and other assets	<u>(39,872)</u>	<u>8,836</u>
Net cash used by capital and related financing activities	<u>(16,183,084)</u>	<u>(17,304,283)</u>
Cash Flows from Investing Activities:		
Investment income	39,357	364,817
Non-operating income	<u>(19,060)</u>	<u>(21,107)</u>
Net cash provided by investing activities	<u>20,297</u>	<u>343,710</u>
Net increase/(decrease) in cash and cash equivalents	(2,837,873)	(5,349,928)
Cash and cash equivalents, beginning of year	<u>15,057,571</u>	<u>20,407,499</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 12,219,698</u>	<u>\$ 15,057,571</u>

BUDGETARY HIGHLIGHTS

Paducah Power System adopts a current year Operating Budget and a Three-Year Capital Plan annually. The Operating Budget includes projected operating and non-operating revenues and expenses. For budgeting purposes, the net amount of revenues and expenses is intended to be at or near zero. The utility's budget remains in effect the entire year but may be revised throughout the year as major assumptions or conditions change. A FY21 budget comparison and analysis is presented below, but is not included in the financial statements section of the auditor's report.

Actual electric sales revenues were under budget and general operating expenses were over budget due primarily to the effects of COVID-19. For budgeting purposes, Paducah Power System assumes that the peaking plant does not run during the budget year, except for minor maintenance testing. However, this plant will be dispatched to take advantage of market sales opportunities. This results in the variance in generation plant expense shown in the table below.

PADUCAH POWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

BUDGET VERSUS ACTUAL
Fiscal Year Ended June 30, 2021

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>Percent</u>
Revenue:				
Electric sales	\$73,028,760	\$74,202,856	\$(1,174,096)	-1.6%
Miscellaneous revenue	<u>5,261,857</u>	<u>4,796,595</u>	<u>465,262</u>	9.7%
Total operating revenue	<u>78,290,617</u>	<u>78,999,451</u>	<u>(708,834)</u>	-.9%
Expenses:				
Purchased power cost	53,023,167	53,836,811	(813,644)	-1.5%
Generation plant expense	1,879,572	1,313,220	566,352	43.1%
General operating expense	10,542,614	8,224,903	2,317,711	28.2%
Maintenance expense	1,968,063	2,066,478	(98,415)	-4.8%
Other operating expense	11,606,657	11,065,145	541,512	4.9%
Non-operating expense	<u>3,921,836</u>	<u>2,947,525</u>	<u>974,311</u>	33.1%
Total expenses	<u>82,941,909</u>	<u>79,454,082</u>	<u>3,487,827</u>	4.4%
NET GAIN/(LOSS)	<u>\$(4,651,292)</u>	<u>\$ (454,631)</u>	<u>\$(4,196,661)</u>	

CAPITAL ASSETS

The electric industry is a very capital-intensive business. Transmission and distribution assets typically include, but are not limited to, poles, towers, overhead conductors, underground conductors, underground conduit, line transformers, service wire, meters, street lighting, security lighting, and substation equipment. Examples of general plant items include office, maintenance and warehouse buildings, office furniture and equipment, communication equipment, electrical system control equipment, tools and equipment, vehicles, heavy equipment and bucket trucks. Construction in progress represents mostly capital construction projects which are not currently completed.

Almost half of the balance of capital assets is generation plant, representing the peaking plant constructed in 2009. Since this is a relatively new plant, this contributes significantly to the large annual depreciation expense that exceeds the annual capital additions, resulting in a decrease in the net value of capital assets.

Following is a summary of the capital assets and the net changes (additions less retirements) that occurred during FY21.

CAPITAL ASSETS
Fiscal Year Ended June 30, 2021

	<u>Beginning Balance</u>	<u>Net Increase</u>	<u>Ending Balance</u>
Land	\$ 2,636,429	\$ 44,350	\$ 2,680,779
Construction in progress	1,216,947	365,131	1,582,078
Transmission system	10,544,461	20,686	10,565,147
Distribution system	94,031,665	1,750,996	95,782,661
General plant	23,942,137	496,762	24,438,899
Generation plant	<u>112,088,916</u>	-	<u>112,088,916</u>
Total capital assets	244,460,555	2,677,925	247,138,480
Accumulated depreciation	<u>106,831,114</u>	<u>7,508,594</u>	<u>114,339,708</u>
NET CAPITAL ASSETS	<u>\$137,629,441</u>	<u>\$(4,830,669)</u>	<u>\$132,798,772</u>

**PADUCAH POWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

DEBT ADMINISTRATION

Paducah Power System has issued several series of revenue bonds, either for construction of capital assets or to refund other outstanding bond issues. Paducah Power System maintains sinking funds in an amount determined by the bond covenants to cover future debt service payments.

In January 2009, Paducah Power System issued \$161.7 million and \$8.5 million in special revenue bonds with interest rates between 3.00% and 5.25%. Proceeds from the 2009 issues were used to construct the peaking plant, high pressure gas lines, and associated substation/transmission upgrades. In June 2016, Paducah Power System issued \$103.4 million in revenue refunding bonds with an interest rate of 5.00% in order to advance refund \$106.9 million of the 2009 revenue bonds.

In September 2019, Paducah Power System issued \$19,805,000 of Series 2019 refunding revenue bonds in order to refund \$26,505,000 principal amount, or substantially all of the remaining outstanding, of Series 2009A bonds.

Below is a summary of debt service requirements for bonds outstanding as of June 30 2021, consisting of the 2019 and 2016A series bonds and the remaining unrefunded balance of the 2009A series bonds.

	<u>Total</u>	<u>Series 2019</u>	<u>Series 2016A</u>	<u>Series 2009A</u>
Balance at June 30, 2020	<u>\$123,190,000</u>	<u>\$ 19,805,000</u>	<u>\$103,375,000</u>	<u>\$ 10,000</u>
Decreases	<u>(4,975,000)</u>	<u>(4,975,000)</u>	-	-
BALANCE AT JUNE 30, 2021	<u>\$118,215,000</u>	<u>\$ 14,830,000</u>	<u>\$103,375,000</u>	<u>\$ 10,000</u>
<u>Maturities</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2022	\$ 5,230,000	\$ 5,780,025	\$ 11,010,025	
2023	5,495,000	5,511,900	11,006,900	
2024	5,775,000	5,230,150	11,005,150	
2025-2037	<u>101,715,000</u>	<u>33,541,413</u>	<u>135,256,413</u>	
TOTALS	<u>\$118,215,000</u>	<u>\$ 50,063,488</u>	<u>\$168,278,488</u>	

FINANCIAL OUTLOOK AND ELECTRIC RATE CHANGES

As demonstrated above, the cash flows from operations are primarily used for debt service payments and capital expenditures. As shown immediately above, the annual debt service requirements will be stable going forward, with no significant financing need on the horizon, other than refinancing existing debt. Capital expenditures are expected to be funded from operations at less than \$6 million per year. Also, generation maintenance reserves are budgeted to mitigate the impact of future unplanned expenses at the peaking plant. Therefore, debt service and capital expenditures should be fairly stable going forward.

After a planned reduction in the Power Cost Adjustment ("PCA") fund balance during FY19 and an unplanned reduction in FY20, the PCA will be set in FY21 to recover the required reserve balances and actual and projected power costs on a leveled basis. Thereafter, the quarterly adjustments to the PCA should minimize the net cash flows from operations.

In addition to operating cash, Paducah Power System maintains a cash reserve and a \$5 million line of credit. The line of credit has not been drawn on in several years because operating cash has provided excess liquidity. However, the cash reserve of \$11 million was reduced by \$2 million during FY20, and by \$4 million during FY21 to provide additional operating cash. This draw on the cash reserve indicates a need for a base rate adjustment and, as mentioned above, a rate study was conducted during FY21 with adjusted rates effective beginning in FY22.

**PADUCAH POWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Purchased power costs consist primarily of generation plant ownership costs, transmission costs, energy market sales and purchases, and bilateral transactions for the sale of excess capacity and energy. Generation plant ownership, other than the Paducah peaking plant, is facilitated through participation in KMPA. KMPA has two member utilities - Paducah Power System and nearby Princeton Electric Plant Board. KMPA owns and finances the members' share of Prairie State Energy Campus ("PSEC"), a 1,600 MW two-unit coal-fired plant with adjacent dedicated coal mine. KMPA also facilitates wholesale power market transactions, including the sales of generating output from PSEC, market purchases to serve the load requirements of Paducah Power System, hedging and other bilateral transactions.

Other owned generating resources include hydro facilities as part of project participation with American Municipal Power ("AMP") and an allotment from Southeastern Power Agency ("SEPA").

In summary, the generating capacity owned by Paducah Power System, directly or indirectly, is as follows:

<u>Resource</u>	<u>MW</u>
PSEC	104
Paducah Peaking Plant	120*
AMP and SEPA Hydro	<u>17</u>
TOTAL	<u>241</u>

* Gross ownership; does not reflect sale of 90 MW of capacity under agreement with KYMEA as discussed below.

The peak demand for Paducah Power System was 128 MW for FY21, significantly less than the amount of total owned capacity. However, after consideration of the peaking plant capacity sold to KYMEA, the net capacity resources compared to the FY21 peak demand provide a reserve margin of 18%, comparable to industry averages.

The cost of purchased power is influenced by the revenues from the sale of excess capacity and energy from PSEC. The energy produced by PSEC is liquidated in the Midcontinent Independent System Operator ("MISO") market. The energy required to meet electric system load is also purchased in the MISO market but at a different node. The price differential between the node where PSEC energy is sold and the node where KMPA purchases its power from the market is referred to as transmission congestion and adds to the cost of purchased power. Because these two prices tend to be correlated, Paducah Power System is somewhat protected from market price variations. However, the quantity of generation sold is generally greater than the quantity of energy purchased.

PSEC first came online in 2012 and performance and output from the plant has improved over time as startup issues related to plant have been resolved. This factor and other operational changes going forward should result in stable or increased energy sales from PSEC. The revenue from the sale of excess PSEC capacity is currently depressed as the MISO capacity auction prices are near all-time lows. When the existing oversupply of generating capacity in the MISO market gets reduced by increased demand or reduced capacity, the price of capacity should increase to more reasonable levels, allowing for greater cost recovery on capacity sales from PSEC.

The Paducah peaking plant provides additional capacity, some of which has been sold to offset purchased power costs under a contract with KYMEA that began May 2019. Under the terms of this contract, KYMEA will purchase 90 MW of capacity from the peaking plant through May 2023. Starting June 2023, the amount of capacity purchased by KYMEA will be reduced to 60 MW. The peaking plant is generally operated at certain peak times when the cost of market power is greater than the marginal cost to run the units.

Transmission costs are incurred in both the MISO and the Kentucky Utilities/Louisville Gas & Electric ("KU/LGEE") balancing areas. The majority of the MISO transmission costs are reimbursed by KU/LGEE under a "de-pancaking" rate agreement, with a net result that primarily the KU/LGEE transmission costs are included in purchased power costs. KU/LGEE recently filed a request at FERC to eliminate this de-pancaking agreement. KMPA and others filed protests. FERC has ruled that the de-pancaking arrangement is no longer necessary but that the arrangement must continue for KMPA through a 10-year transition period. KU/LGEE has filed a protest to that decision. If KU/LGEE is successful, the cost of transmission for the utility could increase by several million dollars per year, which would be passed on to retail customers through the PCA.

**PADUCAH POWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The largest component of purchased power costs is the fixed costs of PSEC ownership, consisting of the debt service requirements from KMPA bonds and the non-variable operating expenses associated with the plant. As mentioned above, PSEC operational statistics have been improving and are expected to result in performance competitive with the industry. However, PSEC is a relatively new plant and the cost to construct was significantly higher than the average of other similar plants already on-line. Therefore, the debt service on the bonds issued by KMPA to fund construction represent a significant burden on the utility.

In March 2015, in conjunction with the Series 2015A refunding bonds issue, KMPA effectively restructured debt service requirements for its members through advance refunding certain outstanding bonds, use of bond insurance to release some debt service reserve funds and establishment of a debt service stabilization fund. This resulted in lower debt service for the utility through FY20. The increase in debt service that would have started in FY21 has been mitigated through a refunding bond issue in FY20. As a result of the Series 2019A and Series 2020A (Forward Delivery) bond issues in September 2019, KMPA debt service requirements will remain at current levels through FY27.

During FY18, Paducah Power System completed an extensive strategic planning process. As a result, a vision statement, long-term goals and short-term action items were established. As part of a goal to provide excellent customer service, a customer survey was performed to establish a benchmark for future improvements. The results for the residential customers, which was similar to the results for commercial customers, was compared to a national residential customer survey benchmark for public power utilities. In that comparison, Paducah Power System outscored the national benchmark in seven out of eight categories. The lone exception, which was the area of rates, is understandable in light of the relatively high levels but still scored better than expected.

The Board of Directors voted to implement certain recommended rate increases in November 2012, April 2013 and April 2014. Included in the Board action was the implementation of a PCA clause beginning in November 2014. The PCA is intended to account for any difference (plus or minus) in the actual power cost and the power cost included in the base retail rates. Since that time, base rates have remained stable and the PCA has been decreased several times. Starting in FY19, the Board of Directors has implemented a policy of quarterly adjustments to the PCA rather than the annual fiscal year adjustments for the prior 4 fiscal years. This allows for a closer and more timely matching of revenues with purchased power costs.

As mentioned above, \$2 million was transferred from cash reserves to operating cash in FY20. Another \$2 million was budgeted for transfer in FY21, but a total of \$4 million was transferred in FY21 to offset a deficiency in base rate revenues. As a result, Paducah Power System performed a rate study during FY21, resulting in approved rate adjustments effective at July 1, 2021.

The levels of PCA in effect during each quarter of FY19, FY20 and FY21 are shown in the table below. A summary of the current retail base rates, which were also in effect for FY19, FY20, and FY21 is shown on the table at the end of this section. Effective July 1, 2021, base rates were increased to recover the operating shortfall discussed above, to replenish reserve funds, and to recover a larger proportion of purchased power cost from base rates. As a result of the larger base rate component for power cost recovery, the PCA for the first quarter of FY22 was a credit of \$0.00689 per kWh.

QUARTERLY PCA RATES - \$/kWh

<u>Fiscal Quarter</u>	<u>FY21</u>	<u>FY20</u>	<u>FY19</u>
July - September	0.01332	0.00727	0.00997
October - December	0.01915	0.01245	0.00881
January - March	0.02305	0.01186	0.01052
April - June	0.02305	0.01332	0.01301

PADUCAH POWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF RETAIL BASE RATES
Effective for FY21 and FY20

Residential

Customer Charge	\$ 14.75
All KWH	\$ 0.11153

Small Commercial

Customer Charge	\$ 22.00
All KWH	\$ 0.12217

Mid-Sized Commercial

Customer Charge	\$115.00
1 st 15,000 KWH	\$ 0.13529
Additional KWH	\$ 0.09086
1 st 50 KW Demand	\$ 0.00
51 - 1,000 KW Demand	\$ 16.49

Large Commercial

Customer Charge	\$275.00
All KWH	\$ 0.06736
0 - 1,000 KW Demand	\$ 15.25
1,001 - 5,000 KW Demand	\$ 17.62

Industrial

Customer Charge	\$275.00
All KWH	\$ 0.05270
All KW Demand	\$ 18.38

Outdoor Lighting

All KWH	\$ 0.08425
Customer Charge	Depends on type and size of light

CONTACTING THE PADUCAH POWER SYSTEM FINANCIAL MANAGER

This financial report is designed to provide customers and creditors with a general overview of Paducah Power System's finances and to demonstrate the utility's accountability for the money it receives. If you have questions concerning this report or need additional financial information, please contact Doug Handley, Director of Finance, Power Supply and Rates at Paducah Power System, P.O. Box 180, Paducah, KY 42002-0180.

BASIC FINANCIAL STATEMENTS

PADUCAH POWER SYSTEM
STATEMENTS OF NET POSITION
JUNE 30

ASSETS

	2021	2020
Current Assets:		
Cash and temporary cash investments	\$ 1,819,501	\$ 770,298
Cash reserves	5,000,000	9,000,000
Accounts receivable - net of allowance for doubtful accounts of \$32,647 in 2021 and \$32,144 in 2020	6,792,529	6,406,570
Receivable from MuniNet Fiber Agency	628	628
Materials and supplies	1,044,299	1,113,851
Prepaid expenses	854,394	767,002
Accrued interest receivable	-	91
Rent receivable	118,514	108,455
Total current assets	15,629,865	18,166,895
Non-Current Assets:		
Restricted assets:		
Sinking fund	5,400,197	5,287,273
Total restricted assets	5,400,197	5,287,273
Utility plant:		
Land	2,680,779	2,636,429
Transmission system	10,565,147	10,544,461
Distribution system	95,782,661	94,031,665
General plant	24,438,899	23,942,137
Generation plant	112,088,916	112,088,916
Construction work in progress	1,582,078	1,216,947
Less accumulated depreciation	(114,339,707)	(106,831,114)
Total utility plant	132,798,773	137,629,441
Other Assets:		
Investment in CSA	24,199	25,019
Investment in SEDC	193,954	182,549
Investment in MuniNet Fiber Agency	546,264	502,478
Unamortized debt discount	1,633,494	1,747,334
Regulatory assets	3,547,718	3,870,138
Other miscellaneous assets	138,721	109,303
Unemployment trust fund	29,846	29,044
Unamortized research and development cost hydro	382,529	397,830
Total other assets	6,496,725	6,863,695
Total non-current assets	144,695,695	149,780,409
Total assets	160,325,560	167,947,304

DEFERRED OUTFLOWS OF RESOURCES

Deferred savings on bond refunding	13,410,923	14,346,937
Deferred pension plan outflows	2,119,392	2,893,227
Deferred pension plan contributions	1,101,063	1,112,184
Deferred postemployment benefits other than pensions outflows	2,417,376	1,347,382
Deferred postemployment benefits other than pensions contributions	279,144	356,710
Total deferred outflows	19,327,898	20,056,440

See notes to financial statements.

LIABILITIES

	2021	2020
Current Liabilities:		
Accounts payable	\$ 6,063,683	\$ 6,111,319
Customer deposits	679,240	703,835
Accrued taxes and equivalents	953,094	974,433
Accrued interest	1,500,496	1,574,231
Other current and accrued liabilities	1,312,161	1,137,211
Bonds payable	5,230,000	4,975,000
Total current liabilities	<u>15,738,674</u>	<u>15,476,029</u>
Non-Current Liabilities:		
Long-term debts:		
Bonds held by public	128,230,146	134,523,073
Other unearned revenues	296,258	304,427
Other regulatory liabilities	-	-
Net pension liability	17,255,089	16,052,221
Net postemployment benefits other than pension liability	5,430,797	3,838,070
Total noncurrent liabilities	<u>151,212,290</u>	<u>154,717,791</u>
Total liabilities	<u>166,950,964</u>	<u>170,193,820</u>

DEFERRED INFLOWS OF RESOURCES

Deferred pension plan inflows	427,125	634,733
Deferred postemployment benefits other than pensions inflows	1,119,003	1,367,533
Total deferred inflows	<u>1,546,128</u>	<u>2,002,266</u>

NET POSITION

Net investment in capital assets	14,383,044	14,225,639
Restricted for:		
Debt service	5,400,197	5,287,273
Unrestricted - net position	<u>(8,626,875)</u>	<u>(3,705,254)</u>
TOTAL NET POSITION	<u>\$ 11,156,366</u>	<u>\$ 15,807,658</u>

PADUCAH POWER SYSTEM
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
YEARS ENDED JUNE 30

	<u>2021</u>	<u>2020</u>
Operating Revenues:		
Charges for services:		
Residential	\$30,463,318	\$28,874,707
Large lighting and power	32,349,554	31,581,054
Small lighting and power	8,550,448	8,397,638
Street and outdoor	1,665,440	1,602,782
	<u>73,028,760</u>	<u>70,456,181</u>
Total charges for services		
Miscellaneous:		
Forfeited discounts	186,802	302,401
Service revenue	2,879,037	2,754,404
Regulatory credits	(650,089)	2,677,837
Other electric revenue	4,864,563	5,209,704
	<u>7,280,313</u>	<u>10,944,346</u>
Total miscellaneous		
Total operating revenues	<u>80,309,073</u>	<u>81,400,527</u>
Purchased Power and Operating Expenses:		
Purchased power cost	53,023,167	53,340,403
General operating expense	10,542,614	10,057,328
Generation plant expense	1,879,572	2,240,654
Maintenance expense	1,968,063	2,113,169
Other operating expense	11,606,657	11,672,487
	<u>79,020,073</u>	<u>79,424,041</u>
Total purchased power and operating expenses		
Operating income	<u>1,289,000</u>	<u>1,976,486</u>
Non-Operating Revenues (Expenses):		
Interest paid on indebtedness	(5,973,570)	(6,273,826)
Investment income	39,266	358,062
Net amortization discount and premium on debt	(2,228)	(19,101)
Non-operating income	(3,760)	(2,006)
	<u>(5,940,292)</u>	<u>(5,936,871)</u>
Total non-operating revenues (expenses)		
Change in net position	<u>(4,651,292)</u>	<u>(3,960,385)</u>
Net position, beginning	<u>15,807,658</u>	<u>19,768,043</u>
NET POSITION, ENDING	<u>\$11,156,366</u>	<u>\$15,807,658</u>

See notes to financial statements.

PADUCAH POWER SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ 80,839,630	\$ 76,061,367
Payments to suppliers	(61,705,603)	(58,326,021)
Payments to employees	(5,809,113)	(6,124,701)
	<u>13,324,914</u>	<u>11,610,645</u>
Cash Flows from Capital and Related Financing Activities:		
Capital expenditures	(5,120,907)	(5,787,088)
Principal payments on long-term debt	(4,975,000)	(26,505,000)
Interest payments on long-term debt	(6,047,305)	(6,306,031)
Long-term debt bonds issued	-	21,582,424
Deferred gain on bond refunding	-	548,690
Write off of defeased bond cost	-	(546,505)
Bond issuance cost	-	(299,609)
Non-utility property and other assets	(39,872)	8,836
	<u>(16,183,084)</u>	<u>(17,304,283)</u>
Cash Flows from Investing Activities:		
Investment income	39,357	364,817
Non-operating income	(19,060)	(21,107)
	<u>20,297</u>	<u>343,710</u>
Net (decrease) in cash and cash equivalents	(2,837,873)	(5,349,928)
Cash and cash equivalents, beginning of year	<u>15,057,571</u>	<u>20,407,499</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 12,219,698</u></u>	<u><u>\$ 15,057,571</u></u>

(Continued)

PADUCAH POWER SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

	2021	2020
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities:		
Operating income	\$ 1,289,000	\$ 1,976,486
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	9,951,575	9,924,287
Amortization of debt discounts and expenses	-	3,800
Changes in assets and liabilities:		
Accounts receivable	(385,959)	351,573
Net change in regulatory asset	322,420	(1,627,888)
Deferred outflows of resources	(207,472)	(818,046)
Interest receivable	-	-
Materials and supplies	69,552	(82,810)
Prepaid expenses	(87,392)	(8,798)
Rent receivable	(10,059)	-
Other miscellaneous assets	(29,418)	(77,821)
Accounts payable	(47,637)	368,705
Customer deposits	(24,595)	9,259
Accrued taxes and equivalents	(21,339)	(16,648)
Change in regulatory liability	-	(1,377,618)
Deferred inflows of resources	(456,138)	289,880
Net Pension liability	1,202,868	2,721,763
Net OPEB liability	1,592,727	(47,942)
Other current and accrued liabilities	174,950	33,130
Other miscellaneous liabilities	(8,169)	(10,667)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 13,324,914	\$ 11,610,645
Supplemental Disclosure of Non-Cash Financing Activities:		
Amortization of bond issue and discount costs	\$ 2,228	\$ 19,101
Supplemental Disclosure of Cash Paid For:		
Interest	\$ 5,973,570	\$ 6,306,031

See notes to financial statements.

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies:

Entity

The Electric Plant Board of the City of Paducah, Kentucky, d/b/a Paducah Power System (the System) is a municipal electric corporation organized and existing pursuant to the Little TVA Act, KRS 96.550-96-901. The System is governed by a five-person board, the members of which are appointed by the mayor subject to the approval of the city commission of Paducah, Kentucky. The System provides electrical service to consumers within the city limits of Paducah, Kentucky, and portions of McCracken County, Kentucky, beyond the city limits. The System maintains its records in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. As the System is a distinct corporate entity from the City of Paducah, Kentucky, the accompanying financial statements present only the financial position, results of operations, and cash flows of the System.

The financial statements of the System are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and the principles established by the Federal Energy Regulatory Commission (FERC). The System 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 System 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 System accounts for revenues and purchased power 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.

Revenue and Expense Recognition

The System utilizes cycle billing. At the end of each accounting period, revenue from electric service which has been rendered since the latest date of each cycle meter reading is not reflected in the current period operations. All operating expenses are recorded under the accrual method of accounting.

Operating Revenues and Expenses

Operating revenues consist primarily of charges to customers for the sale of power. Operating expenses consist of the cost of providing power, including administrative expenses. All other revenues and expenses are classified as non-operating.

Utility Plant

Changes in plant are accounted for at cost. Prior to July 1, 1974, contributions toward the construction of electric plant were accounted for through accumulated depreciation. After that date, the installed costs of electric plant additions are reduced by contributions. Acquired property is recorded at original cost to the person first devoting it to public service, and any difference (acquisition adjustment) between purchase price and the original cost less depreciation requirement at the date of acquisition is written off to expense over a period of 20 years.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

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

Utility Plant (Continued)

Maintenance, repairs, and minor renewals are expensed as incurred. When units are retired, the original cost of plant items is deducted from the plant assets and respective allowances for depreciation are reduced by the original cost of the plant, plus removal costs, less the salvage value. Accordingly, gains and losses from plant retirements are charged to accumulated depreciation.

The original cost of limited life property, less estimated net salvage, is depreciated by the straight-line method over the estimated useful service lives using composite rates developed from depreciation studies by the Tennessee Valley Authority. Annual depreciation rates range from 2.00% to 20.00%.

Other Property and Investments

A sinking fund is maintained with the bond paying agent to meet current interest and principal requirements. Bond discount and issue costs are amortized over the term of the bond using the straight-line method. Other funds are invested and utilized for specific purposes. The utilization of these funds is restricted in accordance with various bond covenants.

Receivables and Credit Policies

Accounts receivable are uncollateralized customer obligations due under normal trade terms requiring payment within 20 days from the invoice mailing date. Unpaid accounts receivable with invoice mailing dates over 20 days old are subject to a 5.00% penalty on the outstanding balance. Customer disconnections were postponed during the COVID-19 pandemic; management believes when the pandemic is over, they will be able to collect most of the past due receivables over time. Customers are subject to disconnection after 30 days past invoice mailing date. Reconnections are subject to collection and reconnect fees.

Accounts receivable are stated at amounts billed to the customer plus any accrued penalties. Customer account balances with invoices dated over 60 days old are considered delinquent and subject to write-off. As of June 30, 2021 and 2020, receivables of \$168,945 and \$223,161 were over 60 days old.

Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amount of accounts receivable is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews accounts receivable balances that exceed 60 days from invoice date and based on an assessment of current credit worthiness, estimates the portion, if any, of the balance that will not be collected. Additionally, for the remaining aggregate accounts, management establishes a general allowance based on historical averages.

Investments

All investments are stated at cost which approximates fair market value.

Materials and Supplies

The inventory of materials and supplies is stated at average cost.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

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

Net Position

Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation, and unpaid debt financing.
- b. Restricted net position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - All other net position that does not meet the definition of "restricted" or "net investment in capital assets".

Use of Estimates

The preparation of financial statements in conformity with a prescribed regulatory basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Compensated Absences

Employees of the System are entitled to paid vacations, sick days, and other time off depending on job classification, length of service, and other factors and, accordingly, the System has recorded the accrual in the accompanying financial statements.

Deferred Outflows and Deferred Inflows

Deferred outflow of resources represents a consumption of net position by the System that is applicable to a future reporting period and will not be recognized as an outflow of resources (expenditure/expense) until that time. Deferred inflow of resources represents an acquisition of net position by the System that is applicable to a future reporting period and will not be recognized as an inflow of resources (revenue) until that time.

The system reports deferred inflows and outflows of resources with respect to their participation in the County Employee Retirement System as discussed further in Note 7, and bond refundings.

Pensions and Postemployment Benefits Other Than Pensions

For purposes of measuring the net pension liability, the net postemployment benefits other than pensions (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, pension expense, and OPEB expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from the plans' fiduciary net position has been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Concentration of Credit Risk

The System's accounts receivable result primarily from credit extended to residents and businesses in its service area in Paducah, Kentucky. The System has experienced losses on such accounts and, accordingly, maintains an allowance for doubtful accounts. This balance is maintained at a level considered appropriate by management based on historical industrial trends.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

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

Subsequent Events

Subsequent events were evaluated through September 28, 2021, which is the date the financial statements were available to be issued.

Note 2 - Deposits and Investments:

The investment policies of the System 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, 2021 and 2020, the System's operating and investment accounts were fully collateralized as required by State statute.

Deposits

The financial institution balances of the System's deposits were \$15,063,673 for the year ended June 30, 2021. The book balance was \$15,117,285 including \$2,900 of petty cash. Of the various financial institution balances at June 30, 2021, \$500,000 was insured by federal depository insurance, and the remaining balance of \$14,563,673 was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The remaining balance of \$14,563,673 was uninsured and collateralized by U.S. Treasury pooled investments not held in the System's name.

The financial institution balances of the System's deposits were \$17,699,513 for the year ended June 30, 2020. The book balance was \$17,627,489 including \$2,900 of petty cash. Of the various financial institution balances at June 30, 2020, \$500,000 was insured by federal depository insurance, and the remaining balance of \$17,199,513 was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The remaining balance of \$17,199,513 was uninsured and collateralized by U.S. Treasury pooled investments not held in the System's name.

Investments

The cost of these investments approximates fair value; therefore, only the cost basis as of June 30 is disclosed as follows:

Restricted Investments:	<u>2021</u>	<u>2020</u>
Sinking Fund:		
Money Market Fund	<u>\$5,400,197</u>	<u>\$5,287,273</u>
Total sinking fund	<u>5,400,197</u>	<u>5,287,273</u>
TOTAL RESTRICTED INVESTMENTS	<u>\$5,400,197</u>	<u>\$5,287,273</u>

The System's investment in CSA (Central Services Association, a former associated organization) reflects the System's proportionate share of CSA's excess revenues over expenses to help finance a new headquarters and reengineering software costs. Cash distributions net of accrued interest from the former associated organization reduce the investment account.

During fiscal year 2021 and 2020, the System invested \$43,516 and \$10,119, respectively, as a member in MuniNet Fiber Agency and this combined amount of \$546,264 is reflected as an investment on the System's Statement of Net Position at June 30, 2021. The System purchases inventory for MuniNet Fiber Agency and bills for the inventory when it is used. The receivable from MuniNet Fiber Agency was \$682 and \$1,110 as of June 30, 2021 and 2020, respectively.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 3 - Capital Assets:

Capital assets activity for the year ended June 30, 2021, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 2,636,429	\$ 44,350	\$ -	\$ 2,680,779
Construction in progress	<u>1,216,947</u>	<u>365,131</u>	<u>-</u>	<u>1,582,078</u>
Total capital assets not being depreciated	<u>3,853,376</u>	<u>409,481</u>	<u>-</u>	<u>4,262,857</u>
Capital Assets Being Depreciated:				
Transmission system	10,544,461	37,441	(16,755)	10,565,147
Distribution system	94,031,665	3,611,019	(1,860,023)	95,782,661
General plant	23,942,137	552,165	(55,403)	24,438,899
Generation plant	<u>112,088,916</u>	<u>-</u>	<u>-</u>	<u>112,088,916</u>
Total capital assets being depreciated	240,607,179	4,200,625	(1,931,281)	242,875,623
Less accumulated depreciation	<u>106,831,114</u>	<u>9,951,575</u>	<u>(2,442,981)</u>	<u>114,339,708</u>
Total capital assets being depreciated, net	<u>133,776,065</u>	<u>(5,750,950)</u>	<u>(510,800)</u>	<u>128,535,915</u>
TOTAL CAPITAL ASSETS, NET	<u>\$137,629,441</u>	<u>\$(5,341,469)</u>	<u>\$ (510,800)</u>	<u>\$132,798,772</u>

Depreciation expense totaled \$9,951,575 for the fiscal year ended June 30, 2021.

Capital assets 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	\$ 2,634,929	\$ 1,500	\$ -	\$ 2,636,429
Construction in progress	<u>1,617,263</u>	<u>-</u>	<u>(400,316)</u>	<u>1,216,947</u>
Total capital assets not being depreciated	<u>4,252,192</u>	<u>1,500</u>	<u>(400,316)</u>	<u>3,853,376</u>
Capital Assets Being Depreciated:				
Transmission system	10,548,257	10,422	(14,218)	10,544,461
Distribution system	91,792,935	3,317,866	(1,079,136)	94,031,665
General plant	22,376,228	1,737,061	(171,152)	23,942,137
Generation plant	<u>112,088,916</u>	<u>-</u>	<u>-</u>	<u>112,088,916</u>
Total capital assets being depreciated	236,806,336	5,065,349	(1,264,506)	240,607,179
Less accumulated depreciation	<u>99,291,888</u>	<u>9,906,173</u>	<u>(2,366,947)</u>	<u>106,831,114</u>
Total capital assets being depreciated, net	<u>137,514,448</u>	<u>(4,840,824)</u>	<u>1,102,141</u>	<u>133,776,065</u>
TOTAL CAPITAL ASSETS, NET	<u>\$141,766,640</u>	<u>\$(4,839,324)</u>	<u>\$ 702,125</u>	<u>\$137,629,441</u>

Depreciation expense totaled \$9,906,173 for the fiscal year ended June 30, 2020.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 4 - Accounts Payable:

The elements comprising accounts payable are as follows:

	2021	2020
Due to KMPA for purchased power	\$4,499,307	\$4,611,695
Accounts payable, general	1,564,374	1,499,623
TOTAL ACCOUNTS PAYABLE	\$6,063,681	\$6,111,318

Note 5 - Long-Term Indebtedness:

Bonds

On January 29, 2009, the System issued \$161,730,000 of exempt special revenue bonds (Series 2009A) and \$8,525,000 of taxable special revenue bonds (Series 2009B) with interest rates between 3.00% and 5.25%, which are secured by a second pledge on the net revenues of the System. The System issued the bonds to finance construction of a peaking plant to provide electric service to the community during times of peak energy consumption.

On October 14, 2010, the System issued \$3,015,000 in revenue refunding bonds with interest rates between 0.60% and 2.20%. The System issued the bonds to advance refund \$3,045,000 of the outstanding series 2001 revenue bonds with interest rates between 3.00% and 4.25% which were secured by a first pledge of the net revenues of the System. The System used the net proceeds along with other resources to purchase State and Local Government Series Securities, which matured on January 1, 2011. The remaining principal outstanding and accumulated interest payable for the series 2001 revenue bonds were paid in full on January 1, 2011, the call date for the series 2001 revenue bonds. This portion of the series 2001 revenue bonds is considered defeased, and the System has removed the liability from its Statement of Net Position.

On June 23, 2016, the system issued \$103,375,000 in advance refunding revenue bonds with an interest rate of 5.00%. The System issued the bonds to advance refund \$106,910,000 of the outstanding series 2009 revenue refunding bonds with interest rates between 3.00% and 5.25%, which were secured by a pledge on the net revenues of the System. The proceeds from these Securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 2009 series bonds maturing on or after 2024. As a result, that portion of the 2009 series bonds is considered defeased, and the System has removed the liability from its Statement of Net Position.

On September 11, 2019 the System issued \$19,805,000 in advance series 2019 refunding revenue bonds with an interest rate of 5.00%. The System issued the bonds to advance refund \$26,505,000 of the outstanding series 2009 revenue refunding bonds with interest rates between 3.00% and 5.25%, which were secured by a pledge on the net revenues of the System. The proceeds from these Securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 2009 series bonds maturing before 2024. As a result, that portion of the 2009 series bonds is considered defeased, and the System has removed the liability from its Statement of Net Position.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 5 - Long-Term Indebtedness (Continued):

Bonds (Continued)

Changes in outstanding bonds:

	<u>Total Series</u>	<u>Series 2019</u>	<u>Series 2016</u>	<u>Series 2009A</u>
BALANCE AT JUNE 30, 2019	<u>\$129,890,000</u>	<u>\$ -</u>	<u>\$103,375,000</u>	<u>\$ 26,515,000</u>
Increases	\$ 19,805,000	\$19,805,000	\$ -	\$ -
Decreases	<u>26,505,000</u>	<u>-</u>	<u>-</u>	<u>26,505,000</u>
 BALANCE AT JUNE 30, 2020	 <u>\$123,190,000</u>	 <u>\$19,805,000</u>	 <u>\$103,375,000</u>	 <u>\$ 10,000</u>
Increases	\$ -	\$ -	\$ -	\$ -
Decreases	<u>4,975,000</u>	<u>4,975,000</u>	<u>-</u>	<u>-</u>
 BALANCE AT JUNE 30, 2021	 <u>\$118,215,000</u>	 <u>\$14,830,000</u>	 <u>\$103,375,000</u>	 <u>\$ 10,000,000</u>
 Balance due in one year	 <u>\$ 5,230,000</u>	 <u>\$ 5,230,000</u>	 <u>\$ -</u>	 <u>\$ -</u>

Total bond service to maturity:

<u>Maturities</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 5,230,000	\$ 5,780,025	\$ 11,010,025
2023	5,495,000	5,511,900	11,006,900
2024	5,775,000	5,230,150	11,005,150
2025	6,345,000	4,927,150	11,272,150
2026	6,665,000	4,601,900	11,266,900
2027-2031	38,830,000	17,516,375	56,346,375
2032-2036	<u>49,875,000</u>	<u>6,495,988</u>	<u>56,370,988</u>
 TOTALS	 <u>\$118,215,000</u>	 <u>\$ 50,063,488</u>	 <u>\$168,278,488</u>

For the years ended June 30, 2021 and 2020, bonds payable totaling \$133,460,146 and \$139,450,692, respectively, are recorded net of \$310,400 and \$379,134, respectively, in unamortized bond discount and advance refunding deferred charges; as well as premiums of \$15,555,546 and \$16,639,826.

Note 6 - Tax Equivalents:

Kentucky Revised Statutes provides that the System pay tax equivalents. Taxes are paid to several local taxing authorities on property values. Income taxes are not levied against the System due to its municipal nature.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 7 - Employee Benefits:

County Employees' Retirement System Pension and Insurance Funds

Plan Descriptions and benefits provided. Employees of the System participate in the County Employees' Retirement System (CERS), a cost-sharing, multiple-employer, defined benefit pension plan, which is administered by the Kentucky Retirement Systems (KRS). The plan covers all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, agency, county, city, school board, and any other eligible local agencies electing to participate. The System does not have any employees participating in hazardous duty positions. CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost of living (COLA) adjustments are provided at the discretion of the State legislature. Under the provisions of Kentucky Revised Section 61.645, the Board of Trustees of Kentucky Retirement Systems provides for the establishment of the system, and benefit amendments are authorized by the State legislature.

The CERS also provides other post-employment benefits through the Kentucky Retirement Systems Insurance Fund (insurance fund), which was established to provide hospital and medical insurance for members receiving benefits from CERS. The insurance fund is a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the Kentucky Retirement Systems. The insurance fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The amount of contribution paid by the insurance fund is based upon years of service. All participants enrolled in CERS are automatically enrolled in both the insurance fund and the pension fund. Information regarding the insurance fund is contained in the financial statements of the Kentucky Retirement Systems.

The Kentucky Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained by writing or calling the plan:

Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, KY 40601-6124
(502) 564-4646.

Contributions. Contribution rates are established by the Kentucky Revised Statutes. Non-hazardous plan members who began participating prior to September 1, 2008 are required to contribute 5.00% of their annual creditable compensation. Plan members who began participating on or after September 1, 2008 and before January 1, 2014 are required to contribute an additional 1.00% for retirement health insurance coverage. Plan members who began participating on or after January 1, 2014 are required to contribute to the Cash Balance Plan which is a hybrid plan with characteristics of both a defined benefit plan and a defined contribution plan. Members in the Cash Balance Plan are required to contribute at the same rates as plan members who began participating on or after September 1, 2008. The employer contribution plan rate for non-hazardous plan members was 24.06% for the year ended June 30, 2021. The required contribution rates for fiscal years ending June 30, 2020 and 2019 were 24.06% and 21.48%, respectively. The required contribution rates are made up of a portion that is attributed to the insurance fund and a portion attributed to the pension fund. For fiscal year ended June 30, 2021, the pension plan portion and the insurance fund portions were 19.30% and 4.76%. These percentages were 19.30% and 4.76% for fiscal year ended June 30, 2020 and 16.22% and 5.26% for fiscal year ended June 30, 2019, respectively. The pension contributions for fiscal years ended June 30, 2021, 2020, and 2019 were \$1,101,063, \$1,112,184, and \$933,856, respectively. The insurance contributions (excluding the implicit subsidy) for fiscal years ended June 30, 2021, 2020, and 2019 were \$271,557, \$274,300, and \$302,841, respectively. The actuarially determined contribution requirements of plan members and the System are established and may be amended by the KRS Board of Trustees.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 7 - Employee Benefits (Continued):

County Employees' Retirement System Pension Fund

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. At June 30, 2021 and 2020, the System reported a liability of \$17,255,089 and \$16,052,221, respectively, for its proportionate share of the net pension liability. The net pension liability at June 30, 2021 and 2020 was measured as of June 30, 2020 and 2019, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as June 30, 2019 and 2018, respectively. For the June 30, 2020 measurement, the total pension liability was rolled-forward from the actuarial valuation date of June 30, 2019 to the plan's fiscal year ending June 30, 2020 using generally accepted actuarial principles. For the June 30, 2019 measurement, the total pension liability was rolled-forward from the actuarial valuation date of June 30, 2018 to the plan's fiscal year ending June 30, 2019 using generally accepted actuarial principles. The System's proportion of the net pension liability was based on a projection of the System's share of contributions to the pension plan relative to the total contributions of all participating employers, actuarially determined. At June 30, 2021 and 2020, the System's proportion was 0.224971% and 0.228240%.

As a result of its requirement to contribute to CERS pension fund, Paducah Power System recognized pension expenses of \$2,881,279 and \$3,161,452 for the years ended June 30, 2021 and 2020, respectively. At June 30, 2021, the System reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirements to contribute to CERS:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between projected and actual earnings on pension plan investments	\$ 747,950	\$ 316,163
Difference between expected and actual experience	430,287	-
Changes of assumptions	673,782	-
Change in proportion and differences between employer contributions and proportionate share of contributions	267,374	110,962
Contributions subsequent to the measurement date	<u>1,101,063</u>	<u>-</u>
TOTALS	<u>\$3,220,456</u>	<u>\$ 427,125</u>

At June 30, 2020, the System reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirements to contribute to CERS:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between projected and actual earnings on pension plan investments	\$ 308,140	\$ 566,908
Difference between expected and actual experience	409,861	67,825
Changes of assumptions	1,624,667	-
Change in proportion and differences between employer contributions and proportionate share of contributions	550,560	-
Contributions subsequent to the measurement date	<u>1,112,184</u>	<u>-</u>
TOTALS	<u>\$4,005,412</u>	<u>\$ 634,733</u>

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 7 - Employee Benefits (Continued):

County Employees' Retirement System Pension Fund (Continued)

Deferred outflows of resources in the amount of \$1,101,063 related to pensions resulting from the System's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending	
<u>June 30</u>	
2022	\$846,938
2023	470,274
2024	201,640
2025	173,416

The net pension liability as of June 30, 2021, is based on the June 30, 2019 actuarial valuation as rolled-forward to the plan's fiscal year end of June 30, 2020 using generally accepted actuarial principles. The net pension liability as of June 30, 2020, is based on the June 30, 2018 actuarial valuation as rolled-forward to the plan's fiscal year end of June 30, 2019 using generally accepted actuarial principles. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period. Deferred outflows and inflows related to differences between expected and actual experience, changes of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions are amortized over a period that represents the weighted average of the remaining service life of active and inactive members of the plan (3.14 years and 3.40 years for June 30, 2020 and June 30, 2019, respectively).

Actuarial assumptions. The total pension liability, net pension liability, and sensitivity information for the actuarial valuation as of June 30, 2020 was based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles. An actuarial experience study was conducted for the five-year period July 1, 2014 to June 30, 2018. Subsequent to the actuarial valuation date (June 30, 2019), but prior to the measurement date, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. The Board did not update any actuarial assumptions in performing the actuarial valuation as of June 30, 2020 (a complete list of actuarial assumptions is listed in the Required Supplementary Information section of this report). A partial list of assumptions from the actuarial valuation dates of June 30, 2020 and 2019 are as follows:

Inflation	2.30%
Salary increases, average, including inflation	3.30% to 10.30%, varies by service
Investment rate of return, net of pension plan investment expense including inflation	6.25%
Payroll growth rate	2.00%

Mortality - The mortality table used for active members is PUB-2010 General Mortality Table projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2010. For healthy retired members and beneficiaries, the mortality table used is a system-specific mortality table based on mortality experience from 2014-2018, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019. For disabled members, the mortality table used is PUB-2010 Disabled Mortality Table, with a four-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 7 - Employee Benefits (Continued):

County Employees' Retirement System Pension Fund (Continued)

Senate Bill 249 changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

Additionally, House Bill 271 removed provisions that reduce the monthly payment to a surviving spouse of a member whose death was due to a duty-related injury upon remarriage of the spouse. It also increased benefits for a very small number of surviving spouses and dependent children who did not elect the in line of duty or duty-related benefit. This did not have a material (or measurable) impact on the liability of the plans and therefore, the total pension liability was not adjusted to reflect this legislation.

The long-term expected rate of return on plan assets was determined by using a building block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. For the June 30, 2020 actuarial calculation, the target allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Core Bonds	13.50%	-0.25%
Cash Equivalent	1.00%	-0.75%
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	<u>15.00%</u>	3.95%
Total	<u>100.00%</u>	

For the June 30, 2019 actuarial calculation, the target allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Core Bonds	13.50%	1.35%
Cash Equivalent	1.00%	0.20%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	<u>15.00%</u>	4.10%
Total	<u>100.00%</u>	

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 7 - Employee Benefits (Continued):

County Employees' Retirement System Pension Fund (Continued)

Discount rate. The discount rate used to measure the total pension liability was 6.25% at June 30, 2020 and 2019. The discount rate determination does not use a municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the actuarially determined contribution rate of projected compensation over a 30 year (closed) amortization period of the unfunded actuarial accrued liability. The projection of cash flows includes an assumption regarding actual employer contributions made each future year. The future contributions are projected assuming each participating employer in KRS contributes the actuarially determined employer contribution rate each future year calculated in accordance with the current funding policy, as most recently revised by Senate Bill 249. This includes the phase-in provisions from House Bill 362 as well as the provisions which kept contributions level from fiscal year ending 2021. Once the unfunded actuarial accrued liability is fully amortized, the employer will only contribute the normal cost rate and the administrative expense rate on the close payroll for existing members.

Sensitivity of the System's proportionate share of the net pension liability to changes in the discount rate. The following presents the System's proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the System's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	1.00% Decrease 5.25%	Current Discount 6.25%	1.00% Increase 7.25%
Paducah Power System's proportionate share of the net pension liability	\$21,279,280	\$17,255,089	\$13,922,907

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems financial report.

Payables to the pension plan. At June 30, 2021 and 2020, the financial statements include no payables to CERS. These are legally required contributions to the plan. These amounts are not accounted for in the net pension liability.

County Employees' Retirement System Insurance Fund - Postemployment Benefits Other Than Pensions (OPEB)

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB. At June 30, 2021 and 2020, the System reported a liability of \$5,430,796 and \$3,838,070, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability at June 30, 2021 and 2020 was measured as of June 30, 2020 and 2019, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019 and 2018, respectively. For the June 30, 2021 measurement, the total OPEB liability was rolled-forward from the actuarial valuation date of June 30, 2019 to the plan's fiscal year ending June 30, 2020 using generally accepted actuarial principles. For the June 30, 2020 measurement, the total OPEB liability was rolled-forward from the actuarial valuation date of June 30, 2018 to the plan's fiscal year ending June 30, 2019 using generally accepted actuarial principles. The System's proportion of the net OPEB liability was based on a projection of the System's share of contributions to the OPEB plan relative to the total contributions of all participating employers, actuarially determined. At June 30, 2021 and 2020, the System's proportion was 0.224906% and 0.228191%.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 7 - Employee Benefits (Continued):

County Employees' Retirement System Insurance Fund - Postemployment Benefits Other Than Pensions (OPEB) (Continued)

The fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB 75 requires that the liability associated with this implicit subsidy be included in the calculation of the total OPEB liability.

As a result of its requirement to contribute to the CERS insurance fund, the System recognized OPEB expenses of \$756,609 and \$457,112 for the years ended June 30, 2021 and 2020, respectively. At June 30, 2021, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between projected and actual earnings on OPEB plan investments	\$ 291,322	\$ 110,815
Difference between expected and actual experience	907,372	908,081
Changes of assumptions	944,637	5,744
Change in proportion and differences between employer contributions and proportionate share of contributions	148,349	63,749
Contributions subsequent to the measurement date	<u>404,840</u>	<u>-</u>
TOTALS	<u>\$2,696,520</u>	<u>\$1,088,389</u>

At June 30, 2020, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between projected and actual earnings on OPEB plan investments	\$ 25,281	\$ 195,751
Difference between expected and actual experience	-	1,158,034
Changes of assumptions	1,135,720	7,595
Change in proportion and differences between employer contributions and proportionate share of contributions	186,381	6,153
Contributions subsequent to the measurement date	<u>356,710</u>	<u>-</u>
TOTALS	<u>\$1,704,092</u>	<u>\$1,367,533</u>

Deferred outflows of resources related to OPEB, in the amount of \$404,840 related to OPEB resulting from the System's contributions subsequent to the measurement date and before the end of the fiscal year will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30</u>	
2022	\$318,790
2023	372,209
2024	269,812
2025	249,241
Thereafter	(6,761)

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 7 - Employee Benefits (Continued):

County Employees' Retirement System Insurance Fund - Postemployment Benefits Other Than Pensions (OPEB) (Continued)

The net OPEB liability as of June 30, 2021 is based on the June 30, 2019 actuarial valuation as rolled-forward to the plan's fiscal year end of June 30, 2020 using generally accepted actuarial principles. The net OPEB liability as of June 30, 2020 is based on the June 30, 2018 actuarial valuation as rolled-forward to the plan's fiscal year end of June 30, 2019 using generally accepted actuarial principles. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period. Deferred outflows and inflows related to differences between expected and actual experience, changes of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions are amortized over a period that represents the weighted average of the remaining service life of active and inactive members of the plan (4.94 years and 6.27 years for June 30, 2020 and June 30, 2019, respectively).

Actuarial assumptions. The total OPEB liability, net OPEB liability, and sensitivity information for the actuarial valuation as of June 30, 2020 was based on an actuarial valuation date of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles. An actuarial experience study was conducted for the five-year period July 1, 2014 to June 30, 2018. Subsequent to the actuarial valuation date (June 30, 2019), but prior to the measurement date, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review and the 2019 actuarial experience study, the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2020 (a complete list of actuarial assumptions is listed in the Required Supplementary Information section of this report):

Inflation	2.30%
Salary increases, average, including inflation	3.30% to 10.30%, varies by service
Investment rate of return, net of OPEB plan investment expense, including inflation	6.25%
Payroll growth rate	2.00%
Municipal bond index rate	
Prior measurement date	3.13%
Measurement date	2.45%
Single equivalent interest rate (discount rate), net of OPEB plan investment expense, including inflation	
Prior measurement date	5.68%
Measurement date	5.34%

Healthcare cost trend rates - Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years (Pre-65). Initial trend rate starting at 2.90% at January 1, 2022, increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years (Post-65).

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 7 - Employee Benefits (Continued):

County Employees' Retirement System Insurance Fund - Postemployment Benefits Other Than Pensions (OPEB) (Continued)

The mortality table used for active members is PUB-2010 General Mortality Table projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For healthy retired members and beneficiaries, the mortality table used is a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019. For disabled members, the mortality table used is PUB-2010 Disabled Mortality Table, with a four-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

Senate Bill 249 changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

The long-term expected rate of return on plan assets was determined by using a building block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. For the June 30, 2020 actuarial calculation, the target allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Core Bonds	13.50%	-0.25%
Cash Equivalent	1.00%	-0.75%
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	<u>15.00%</u>	3.95%
Total	<u>100.00%</u>	

For the June 30, 2019 actuarial calculation, the target allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Core Bonds	13.50%	1.35%
Cash Equivalent	1.00%	0.20%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	<u>15.00%</u>	4.10%
Total	<u>100.00%</u>	

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 7 - Employee Benefits (Continued):

County Employees' Retirement System Insurance Fund - Postemployment Benefits Other Than Pensions (OPEB) (Continued)

Discount rate. The discount rate used to measure the total OPEB liability was 5.34% and 5.68% at June 30, 2020 and 2019, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the actuarially determined contribution rate of projected compensation over 30-year (closed) amortization period of the unfunded actuarial accrued liability. The projection of cash flows includes an assumption regarding actual employer contributions made each future year. The future contributions are projected assuming each participating employer in KRS contributes the actuarially determined employer contribution rate each future year calculated in accordance with the current funding policy, as most recently revised by Senate Bill 249. This includes the phase-in provisions from House Bill 362 as well as the provisions which kept contributions level from fiscal year ending 2021. The cost associated with the implicit employer subsidy was not included in the calculation of the KRS's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the KRS's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments from the retirement system, as a result, the Municipal Bond Index Rate was used in the determination of the single equivalent interest rate. There was a change in the Municipal Bond Index Rate from the prior measurement date to the measurement date, so as required under GASB 75, the single equivalent interest rate of 5.34% is based on the expected rate of return at the measurement date of 6.25% and was calculated using the Municipal Bond Index Rate as of the measurement date of 2.45%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2020. This change in the discount rate is considered a change in actuarial assumptions or other inputs under GASB 75.

Sensitivity of the System's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the System's proportionate share of the net OPEB liability calculated using the discount rate of 5.34%, as well as what the System's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.34%) or 1-percentage-point higher (6.34%) than the current discount rate:

	1.00% Decrease 4.34%	Current Discount 5.34%	1.00% Increase 6.34%
The System's proportionate share of the net OPEB liability	\$ 6,976,979	\$ 5,430,796	\$ 4,160,865

Sensitivity of the System's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the System's proportionate share of the net OPEB liability, as well as what the System's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1.00% Decrease	Current Trend Rate	1.00% Increase
The System's proportionate share of the net OPEB liability	\$ 4,204,793	\$ 5,430,796	\$ 6,918,579

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems financial report.

Payables to the OPEB plan. At June 30, 2021, the financial statements include no payables to CERS. These are legally required contributions to the plan. These amounts are not accounted for in the net OPEB liability.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 7 - Employee Benefits (Continued):

Other Post-Retirement Healthcare Benefits

In addition to the pension benefits described in Note 7, the System provides post-retirement healthcare benefits to employees who retired prior to the System's participation in the County Employee's Retirement System. The System pays 50.00% of the premiums for the employees for life. These benefits are financed on a pay-as-you-go basis.

For the year ended June 30, 2021, three prior employees were receiving healthcare benefits. Post-retirement healthcare benefits totaled approximately \$5,000 for the year ended June 30, 2021.

For the year ended June 30, 2020, three prior employees were receiving healthcare benefits. Post-retirement healthcare benefits totaled approximately \$5,000 for the year ended June 30, 2020.

Note 8 - Leases:

The System has a joint rental agreement with AT&T/Bellsouth to share poles during the year. The contract is negotiated annually and rent paid or received from South Central Bell depends on amounts owed or due annually or semi-annually, respectively. In addition, the System has pole attachment agreements with other telecommunications and electric companies which are negotiated annually. The System also leases bandwidth from FiberNet, their fiber optic network.

The System's rental expense was \$133,898 and \$119,325, and rental income was \$2,520,771 and \$2,414,197 for the fiscal years ended June 30, 2021 and 2020, respectively. Rental expense is reflected in general operating expense, and rental income is reflected in service revenue in the Statement of Revenues, Expenses, and Changes in Net Position.

Note 9 - Commitments:

As described further in Note 11, the System entered into a financing agreement with Kentucky Municipal Power Agency as of June 30, 2005.

Note 10 - Insurance and Related Activities:

The System is exposed to various forms of loss of assets associated with the risk of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The System has purchased certain policies which are retrospectively rated including workmen's compensation insurance.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 11 - Joint Venture:

The System in conjunction with the Electric Plant Board of the City of Princeton, Kentucky (Princeton), is a member of the Kentucky Municipal Power Agency (KMPA), a joint venture formed in 2005 by an Interlocal Agreement entered into by the System and Princeton pursuant to the Kentucky Interlocal Cooperation Act. KMPA was formed to permit the System and Princeton to participate, along with a number of other public, cooperative, and private participants, in the development and ownership of the Prairie State Energy Campus (Project). The Project is a mine-mouth pulverized coal-fueled power generating facility in Washington and St. Clair Counties in Illinois with a nominal net output of approximately 800 MW for each of its two units.

On September 28, 2007, KMPA purchased a 7.82% interest in the Prairie State Project. KMPA owns its interest in the Project as a tenant in common along with the other Project participants. At the closing, KMPA acquired not only an interest in the equipment and intangible property, such as permits, comprising the Project, but also its proportional share of the coal reserves surrounding the Prairie State plant. The coal reserves are estimated to be sufficient to fuel the plant's operations for at least 30 years. At the closing, KMPA also entered into a Participation Agreement with the other Project participants under which KMPA is responsible for its proportional share of the construction costs of the generating plant, waste disposal site, and associated coal mine.

KMPA on September 20, 2007, issued its tax-exempt Power System Revenue Bonds (Prairie State Project), Series 2007A, in the amount of \$291,065,000, and its Taxable Power System Revenue Bonds (Prairie State Project), Series 2007B, in the amount of \$16,645,000. The proceeds of these bonds were used primarily to fund the purchase of KMPA's interest in the Project and KMPA's share of the ongoing Project construction costs. The remaining proceeds of the Series 2007A and Series 2007B bonds were used or will be used to (i) pay the costs of certain transmission facilities applicable to the interconnection of the Project to the regional bulk transmission grid, (ii) retire indebtedness (including KMPA Bond Anticipation Notes (Prairie State Project) Series 2005, Series 2005B, and Series 2006 in the respective amounts of \$3 million, \$1.5 million, and \$8.4 million) issued to pay pre-closing Project development costs, (iii) fully fund the Debt Service Reserve Requirement, as defined in the Trust Indenture for the 2007A and Series 2007B bond issues, and capitalize a portion of the interest due on those bonds, (iv) make deposits into funds to provide working capital and into the Capital Improvement Fund to provide for extraordinary expenses of the Project, and (v) pay the costs of issuance related to the Series 2007A and Series 2007B bonds.

On September 1, 2007, KMPA and the System entered a Power Sales Agreement under which the System is responsible for 83.89% of KMPA's share of the Prairie State Project's construction costs and operation/maintenance expenses. The System is likewise entitled to 83.89% of KMPA's share of the electric power and energy produced by the plant. The Power Sales Agreement is a "take or pay" contract under which the System must pay its proportional share of the costs of the Prairie State Project regardless of how much power and energy, if any, is produced by the Prairie State generating plant. The Power Sales Contract also contains a step-up provision under which the System could be required to pay the Project costs associated with Princeton's 16.11% of KMPA's interest in the Project in the event of a default by Princeton under its Power Sales Contract with KMPA. In the event of such a default by Princeton, the System would be entitled to receive Princeton's 16.11% of the generating plant's output associated with KMPA's interest in the Project.

On May 27, 2010, KMPA issued its tax-exempt Power System Revenue Bonds (Prairie State Project), Series 2010A, in the amount of \$53,600,000, its taxable (Build America Bonds-Direct Pay) Power System Revenue Bonds (Prairie State Project), Series 2010B, in the amount of \$122,405,000, and its taxable Power System Revenue Bonds (Prairie State Project), Series 2010C, in the amount of \$7,725,000. The proceeds of these bonds were used primarily to fund the ongoing Project construction costs. The remaining proceeds of the Series 2010A, Series 2010B, and Series 2010C bonds were used or will be used to (i) finance the completion of the acquisition, construction, development, and equipping of KMPA's undivided interest in the Project, (ii) settle KMPA's Qualified Hedge which locked in interest rates in 2007 with Deutsche Bank; the hedge settlement amount was \$7,263,000, (iii) fully fund the Debt Service Reserve Requirement, as defined in the Trust Indenture for the Series 2010A, Series 2010B, and Series 2010C bond issues, and capitalize a portion of the interest due on those bonds, (iv) make deposits into funds to provide working capital and into the Capital Improvement Fund to provide for extraordinary expenses of the Project, and (v) pay the costs of issuance related to the Series 2010A, Series 2010B, and Series 2010C bonds.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 11 - Joint Venture (Continued):

During fiscal year 2010, the System and the Electric Plant Board of Princeton, Kentucky entered into a Partial Requirements Sales Agreement with KMPA. Under this agreement, KMPA began purchasing power for sale to the System and Princeton. Unit 1 of the Prairie State generating plant came on-line in June 2012 and Unit 2 in December 2012.

The System began buying purchased power from KMPA in December 2009. The System purchased power from KMPA in the amounts of \$53,023,167 and \$53,340,403 during the fiscal years ending June 30, 2021 and 2020, respectively. Of these amounts, \$4,499,307 and \$4,611,695 were payable to KMPA as of June 30, 2021 and 2020, respectively.

The System and the Electric Plant Board of Princeton, Kentucky do not have any equity interest in the joint venture; therefore, no equity interest has been reflected in the System's financial statements at June 30, 2021. Complete financial statements for KMPA can be obtained from the System's Accounting Department, P.O. Box 180, Paducah, Kentucky 42002-0180.

Note 12 - 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, 2021 and 2020, is as follows:

	2021	2020
Cash and temporary cash investments	\$ 9,717,088	\$12,340,216
Restricted cash and short-term investments:		
Sinking and Depreciation Funds	5,400,197	5,287,273
TOTAL CASH AND CASH INVESTMENTS	\$15,117,285	\$17,627,489

REQUIRED SUPPLEMENTARY INFORMATION

PADUCAH POWER SYSTEM
SCHEDULE OF THE EMPLOYER'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
COUNTY EMPLOYEES' RETIREMENT SYSTEM (CERS)
LAST SEVEN FISCAL YEARS*

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.224971%	0.228240%	0.218880%	0.212356%	0.207550%	0.193466%	0.200828%
Employer's proportionate share of the net pension liability (asset)	\$17,255,089	\$16,052,221	\$13,330,458	\$12,429,850	\$10,218,988	\$8,318,121	\$6,515,620
Employer's covered payroll	\$ 5,762,609	\$ 5,757,434	\$ 5,424,906	\$ 5,170,346	\$ 4,950,959	\$4,513,829	\$4,607,316
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	299.43%	278.81%	245.73%	240.41%	206.40%	184.28%	141.42%
Plan fiduciary net position as a percentage of the total pension liability (asset)	47.81%	50.45%	53.54%	53.30%	55.50%	59.97%	66.80%

* The amounts presented for each fiscal year were determined as of June 30. Until a full ten-year trend is compiled, governments will present information only for those years for which information is available.

Notes to Schedule

The total pension liability and net pension liability as of June 30, 2021, is based on the June 30, 2019 actuarial valuation as rolled forward to the plan's fiscal year end of June 30, 2020 using generally accepted actuarial principles. The financial reporting actuarial valuation used the following actuarial methods and assumptions, applied to all prior periods included in the measurement.

Valuation date:	June 30, 2019
Experience study:	July 1, 2013 - June 30, 2018 for 2020 and 2021; July 1, 2008 - June 30, 2013 for prior years
Actuarial cost method:	Entry age normal
Amortization method:	Level percentage of payroll
Amortization period:	30 years
Asset valuation method:	20.00% of the difference between the market value of assets and the expected actuarial value of assets is recognized each year
Inflation:	2.30%
Payroll growth:	2.00%
Salary increase:	3.30% to 10.30%, varies by service
Investment rate of return:	6.25%, net of pension plan investment expense, including inflation
Mortality:	For active members: PUB-2010 General Mortality Table projected with ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For healthy retired members and beneficiaries: System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019. For disabled members: PUB-2010 Disabled Mortality Table with a four-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
Changes of plan provisions:	The funding period for amortization of the unfunded liability was changed to 30 years as of the June 30, 2019 valuation. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases.
Changes of benefit terms:	Reduction in monthly payment to surviving spouses of a member whose death was due to an in line of duty injury upon remarriage of the surviving spouse. Increased benefits for a very small number of surviving spouses and dependent children who did not elect the in line of duty or duty-related benefit.
Changes of assumptions:	None.

NOTE: This schedule is based on the last measurement date of the net pension liability.
See accompanying notes to the basic financial statements.

PADUCAH POWER SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM (CERS)
LAST EIGHT FISCAL YEARS*

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 1,101,063	\$ 1,112,184	\$ 933,856	\$ 785,526	\$ 721,263	\$ 614,909	\$ 575,513	\$ 633,045
Contributions in relation to the contractually required contribution	<u>1,101,063</u>	<u>1,112,184</u>	<u>933,856</u>	<u>785,526</u>	<u>721,263</u>	<u>614,909</u>	<u>577,623</u>	<u>633,045</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,110)</u>	<u>\$ -</u>
Employer's covered payroll	<u>\$ 5,704,989</u>	<u>\$ 5,762,609</u>	<u>\$ 5,757,434</u>	<u>\$ 5,424,906</u>	<u>\$ 5,170,346</u>	<u>\$ 4,950,959</u>	<u>\$ 4,513,829</u>	<u>\$ 4,607,316</u>
Contributions as a percentage of covered payroll	19.30%	19.30%	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%

* The amounts presented for each fiscal year were determined as of June 30. Until a full ten-year trend is compiled, governments will present information only for those years for which information is available.

NOTE: This schedule is determined as of the employer's most recent fiscal year-end. See accompanying notes to the basic financial statements.

PADUCAH POWER SYSTEM
SCHEDULE OF THE EMPLOYER'S PROPORTIONATE SHARE OF THE
NET POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) LIABILITY
COUNTY EMPLOYEES' RETIREMENT SYSTEM (CERS) INSURANCE FUND
LAST FOUR FISCAL YEARS*

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Employer's proportion of the net OPEB liability (asset)	0.224906%	0.228191%	0.218871%	0.212356%
Employer's proportionate share of the net OPEB liability (asset)	\$ 5,430,796	\$ 3,838,070	\$ 3,886,012	\$ 4,269,082
Employer's covered-employee payroll	\$ 5,762,609	\$ 5,757,434	\$ 5,424,906	\$ 5,170,346
Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	94.24%	66.66%	71.63%	82.57%
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	51.67%	60.44%	57.62%	52.40%

* The amounts presented for each fiscal year were determined as of June 30. Until a full 10-year trend is compiled, governments will present information only for those years for which information is available.

Notes to Schedule

The total OPEB liability and net OPEB liability as of June 30, 2021, is based on the June 30, 2019 actuarial valuation as rolled-forward to the plan's fiscal year end of June 30, 2020 using generally accepted actuarial principles. The financial reporting actuarial valuation used the following actuarial methods and assumptions, applied to all prior periods included in the measurement.

Valuation date:	June 30, 2019
Experience study:	July 1, 2013 - June 30, 2018 for 2020 and 2021; July 1, 2008 - June 30, 2013 for prior years
Actuarial cost method:	Entry age normal
Amortization method:	Level percentage of payroll
Amortization period:	30 years
Asset valuation method:	20.00% of the difference between the market value of assets and the expected actuarial value of assets is recognized each year
Inflation:	2.30%
Payroll growth:	2.00%
Salary increase:	3.30% to 10.30%, varies by service
Investment rate of return:	6.25%, net of OPEB plan investment expense, including inflation
Mortality:	For active members: PUB-2010 General Mortality Table projected with ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For healthy retired members and beneficiaries: System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019. For disabled members: PUB-2010 Disabled Mortality Table with a four-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
Healthcare trend rates:	Initial trend starting at 6.40% at January 1, 2022 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years (Pre-65). Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years (Post-65).
Changes in plan provisions:	The funding period for amortization of the unfunded liability was changed to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases.
Changes of benefit terms:	None.
Changes of assumptions:	The single discount rate for non-hazardous changed from 5.68% to 5.34%. The municipal bond rate decreased from 3.13% to 2.45%. Actuarial data reflects the anticipated savings from the repeal of the "Cadillac Tax" and "Health Insurer Fee", which occurred in December 2019. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11.00% to reflect the repeal of the Health Insurer Fee.

NOTE: This schedule is based on the last measurement date of the net OPEB liability.
See accompanying notes to the basic financial statements.

PADUCAH POWER SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
NET POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) LIABILITY
COUNTY EMPLOYEES' RETIREMENT SYSTEM (CERS) INSURANCE FUND
LAST FIVE FISCAL YEARS*

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 271,557	\$ 274,300	\$ 302,841	\$ 254,971	\$ 244,557
Contributions in relation to the contractually required contribution	<u>271,557</u>	<u>274,300</u>	<u>302,841</u>	<u>254,971</u>	<u>244,557</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered-employee payroll	<u>\$ 5,704,989</u>	<u>\$ 5,762,609</u>	<u>\$ 5,757,434</u>	<u>\$ 5,424,906</u>	<u>\$ 5,170,346</u>
Contributions as a percentage of covered-employee payroll	4.76%	4.76%	5.26%	4.70%	4.73%

* The amounts presented for each fiscal year were determined as of June 30. Until a full ten-year trend is compiled, governments will present information only for those years for which information is available.

NOTE: This schedule is determined as of the employer's most recent fiscal year-end. Contractually required contributions do not include the expected implicit subsidy included in the calculation of the net OPEB liability. See accompanying notes to the basic financial statements.

SUPPLEMENTARY INFORMATION

PADUCAH POWER SYSTEM
OPERATING EXPENSES
YEARS ENDED JUNE 30

General Operating Expenses:	<u>2021</u>	<u>2020</u>
Transmission:		
Supervision and engineering	\$ 10,901	\$ 12,381
Rent	14,295	7,542
	<u>25,196</u>	<u>19,923</u>
Distribution expense:		
Supervision and engineering	292,442	278,781
Station expense	33,076	52,135
Overhead line expense	426,051	409,450
Underground line expense	77,446	83,782
Street lighting and signal expense	6,528	28,889
Meter expense	447,536	518,240
Customer installations expense	107,773	130,123
Miscellaneous	887,581	879,080
Rent/lease/purchase	133,898	119,325
	<u>2,412,331</u>	<u>2,499,805</u>
Customer account expense:		
Meter reading expense	72,178	111,568
Customer records and collections	1,532,952	1,501,601
Uncollectible accounts	234,319	48,297
	<u>1,839,449</u>	<u>1,661,466</u>
Sales expense:		
Demonstration and selling	243,482	255,539
Advertising	93,938	88,255
	<u>337,420</u>	<u>343,794</u>
Administrative and general:		
Salaries	1,123,564	1,085,511
Office supplies and expense	766,992	780,231
Outside services employment	168,168	157,452
Property insurance	619,715	532,069
Company use of electricity	(299,431)	(287,684)
Miscellaneous and general expense	3,549,210	3,264,760
	<u>5,928,218</u>	<u>5,532,339</u>
TOTAL GENERAL OPERATING EXPENSES	<u><u>\$ 10,542,614</u></u>	<u><u>\$ 10,057,327</u></u>

PADUCAH POWER SYSTEM
OPERATING EXPENSES
YEARS ENDED JUNE 30

	<u>2021</u>	<u>2020</u>
Generation Plant Expense:		
Generation expense	\$ 1,168,897	\$ 1,266,687
Generation fuel	710,675	973,967
TOTAL GENERATION PLANT EXPENSE	<u>\$ 1,879,572</u>	<u>\$ 2,240,654</u>
Maintenance Expense:		
Transmission:		
Supervision and engineering	\$ 11,156	\$ 11,507
Total transmission	<u>11,156</u>	<u>11,507</u>
Distribution:		
Supervision and engineering	47,656	49,945
Maintenance of station equipment	661,049	636,298
Maintenance of overhead lines	1,086,244	1,202,033
Maintenance of underground lines	78,887	81,008
Maintenance of line transformers	(10,026)	(35,747)
Street lighting and signals	-	18
Maintenance of meters	14,139	11,818
Maintenance of miscellaneous plant	-	18
Total distribution	<u>1,877,949</u>	<u>1,945,391</u>
Administrative and general	<u>78,958</u>	<u>156,271</u>
TOTAL MAINTENANCE EXPENSE	<u>\$ 1,968,063</u>	<u>\$ 2,113,169</u>
Other Operating Expenses:		
Depreciation	\$ 9,653,831	\$ 9,610,648
Taxes and equivalents	<u>1,952,826</u>	<u>2,061,839</u>
TOTAL OTHER OPERATING EXPENSES	<u>\$ 11,606,657</u>	<u>\$ 11,672,487</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 Members of the Electric Plant Board
of the City of Paducah
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 Electric Plant Board of the City of Paducah, Kentucky, d/b/a Paducah Power System as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Paducah Power System's basic financial statements, and have issued our report thereon dated September 28, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Paducah Power System'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 Paducah Power System's internal control. Accordingly, we do not express an opinion on the effectiveness of Paducah Power System'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 Paducah Power System'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.



Paducah, Kentucky
September 28, 2021

