

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

FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021

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Independent Auditor's Report

Board of Directors
Electric Plant Board of the City of Paducah
Paducah, Kentucky

Opinion

We have audited the accompanying financial statements of the business-type activities of Electric Plant Board of the City of Paducah, d/b/a Paducah Power System, a component unit of the City of Paducah, Kentucky, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Electric Plant Board of the City of Paducah, as of June 30, 2022 and 2021, and the respective changes in its financial position and cash flows thereof for the years then ended in accordance with the basis of accounting described in Note 1.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Electric Plant Board of the City of Paducah, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis of Accounting

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Electric Plant Board of the City of Paducah's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Electric Plant Board of the City of Paducah's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Electric Plant Board of the City of Paducah's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 12 and schedules of employer's proportionate share of the net pension liability and the net postemployment benefits other than pension liability, and employer contributions information on pages 36 through 39 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

The schedule of operating expenses presented on pages 40 and 41 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of operating expenses is fairly stated in all material respects in relation to the basic financial statements as a whole.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2022, on our consideration of the Electric Plant Board of the City of Paducah'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 Electric Plant Board of the City of Paducah'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 Electric Plant Board of the City of Paducah's internal control over financial reporting and compliance.

Williams, Williams & Lentz

Paducah, Kentucky
October 3, 2022



WILLIAMS
WILLIAMS
& LENTZ

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, 2022 (or "FY22"). 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>2022</u>	<u>2021</u>
Current assets	26,304,297	\$ 15,629,865
Non-current assets	11,818,166	11,896,922
Capital assets	<u>127,987,849</u>	<u>132,798,773</u>
Total assets	<u>166,110,312</u>	<u>160,325,560</u>
Deferred Outflows of Resources	<u>17,390,812</u>	<u>19,327,898</u>
Current liabilities	18,393,058	15,738,674
Non-current liabilities	23,697,058	22,982,144
Long-term debt	<u>121,672,219</u>	<u>128,230,146</u>
Total liabilities	<u>163,762,335</u>	<u>166,950,964</u>
Deferred Inflows of Resources	<u>4,943,354</u>	<u>1,546,128</u>
Invested in capital assets, net of related debt	14,815,194	14,383,044
Restricted for debt service	5,665,715	5,400,197
Unrestricted net assets	<u>(5,685,474)</u>	<u>(8,626,875)</u>
TOTAL NET ASSETS	<u>\$ 14,795,435</u>	<u>\$ 11,156,366</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 increased by approximately \$10.7 million during FY22, including a \$7 million increase in cash and cash reserves. The increase in cash is largely attributable to an increase in electricity sales during FY22 due to recovery from the coronavirus (“COVID-19”) pandemic and planned replenishment of emergency reserve funds.

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 FY22 by \$78 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 \$9.9 million for FY22. The net investment in capital assets decreased by \$4.8 million during FY22.

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 FY22 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 FY22, the net pension and OPEB liabilities decreased by \$4.2 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 FY22 was an increase of \$3.6 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 increased 10.7% in FY22. This is primarily the result of increased energy sales due to recovery from COVID-19, combined with an increase in base rates and only small quarterly adjustments of the Power Cost Adjustment rate.

Purchased power cost for FY22 decreased 8.9% from FY21 due to lower average cost of power from Kentucky Municipal Power Agency (“KMPA”) resulting from increased revenues from sales of excess energy.

General operating expense for FY22 decreased by \$1.8 million from FY21, primarily associated with pension benefit accruals for FY22.

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

Generation plant expenses for FY22 increased by \$4.9 million from FY21. Total peaking plant generation increased from 22,920 MWH during FY21 to 79,940 MWH during FY22, primarily due to increased energy offtake from our power sales contract counterparty, the Kentucky Municipal Energy Agency ("KYMEA"). Paducah Power System operates the retained balance of 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.

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

	<u>2022</u>	<u>2021</u>	<u>Change</u>	<u>% Change</u>
Electrical sales revenue	80,808,436	\$73,028,760	7,779,676	10.7
Miscellaneous revenue	<u>6,219,769</u>	<u>7,280,313</u>	<u>(1,060,544)</u>	<u>-14.6</u>
Total operating revenue	<u>87,028,205</u>	<u>80,309,073</u>	<u>6,719,132</u>	<u>8.4</u>
Purchased power cost	48,296,744	53,023,167	(4,726,423)	-8.9
General operating expense	8,746,447	10,542,614	(1,796,167)	-17.0
Generation plant expense	6,807,438	1,879,572	4,927,866	262.2
Maintenance expense	2,384,969	1,968,063	416,906	21.2
Other operating expense	11,574,701	11,606,657	(31,956)	-.3
Non-operating expense	<u>5,578,837</u>	<u>5,940,292</u>	<u>(361,455)</u>	<u>-6.1</u>
Total expenses	<u>83,389,136</u>	<u>84,960,365</u>	<u>(1,571,229)</u>	<u>-1.8</u>
Changes in net position	3,639,069	(4,651,292)	8,290,361	
Beginning net position	<u>11,156,366</u>	<u>15,807,658</u>	<u>(4,651,292)</u>	
ENDING NET POSITION	<u>\$14,795,435</u>	<u>\$11,156,366</u>	<u>3,639,069</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 due to an increase in base rates and an increase in electricity sales. Electric plant capital expenditures and debt service payments are in line with historical averages.

Overall cash balances decreased by \$3.0 million during FY21 and increased by \$7 million during FY22. These shortfalls up through FY21 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. As a result, FY22 saw increased revenues sufficient to fund current operating, capital and debt service costs as well as replenish reserve funds used to offset prior deficits.

PADUCAH POWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

STATEMENTS OF CASH FLOWS
Fiscal Years Ended June 30

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ 95,198,478	\$ 80,839,630
Payments to suppliers	(65,653,035)	(61,705,603)
Payments to employees	<u>(6,206,012)</u>	<u>(5,809,113)</u>
Net cash provided by operating activities	<u>23,339,431</u>	<u>13,324,914</u>
Cash Flows from Capital and Related Financing Activities:		
Capital expenditures	(5,116,228)	(5,120,907)
Principal payments on long-term debt	(5,230,000)	(4,975,000)
Interest payments on long-term debt	(5,783,467)	(6,047,305)
Long-term debt bonds issued	-	-
Deferred gain on bond refunding	-	-
Write off of defeased bond cost	-	-
Bond issuance cost	-	-
Non-utility property and other assets	<u>(57,838)</u>	<u>(39,872)</u>
Net cash used by capital and related financing activities	<u>(16,187,533)</u>	<u>(16,183,084)</u>
Cash Flows from Investing Activities:		
Investment income	69,235	39,357
Non-operating income	<u>53,843</u>	<u>(19,060)</u>
Net cash provided by investing activities	<u>123,078</u>	<u>20,297</u>
Net increase/(decrease) in cash and cash equivalents	7,274,976	(2,837,873)
Cash and cash equivalents, beginning of year	<u>12,219,698</u>	<u>15,057,571</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 19,494,674</u>	<u>\$ 12,219,698</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 FY22 budget comparison and analysis is presented below but is not included in the financial statements section of the auditor's report.

Actual FY22 revenues and operating expenses were very close to the budget. Two large variances in purchased power cost and generation expense largely offset each other. 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 was dispatched to a greater extent than in prior years as required by our contract with KYMEA and to take advantage of market sales opportunities. This results in the variance in generation plant expense shown in the table below. This is also responsible for much of the decrease in purchased power expense shown in the table below.

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

**BUDGET VERSUS ACTUAL
Fiscal Year Ended June 30, 2022**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>Percent</u>
Revenue:				
Electric sales	\$80,808,436	80,744,240	64,196	.08
Miscellaneous revenue	<u>6,219,769</u>	<u>6,133,621</u>	<u>86,148</u>	1.40
Total operating revenue	<u>87,028,205</u>	<u>86,877,861</u>	<u>150,344</u>	.17
Expenses:				
Purchased power cost	48,296,744	53,898,973	(5,602,229)	-10.4
Generation plant expense	6,807,438	1,339,312	5,468,126	408.3
General operating expense	8,746,447	8,421,469	324,978	3.9
Maintenance expense	2,384,969	2,107,808	277,161	13.1
Other operating expense	11,574,701	11,195,670	379,031	3.4
Non-operating expense	<u>5,578,837</u>	<u>5,787,518</u>	<u>(208,681)</u>	-3.6
Total expenses	<u>83,389,136</u>	<u>82,750,750</u>	<u>638,386</u>	.8
NET GAIN/(LOSS)	<u>\$ 3,639,069</u>	<u>\$ 4,127,111</u>	<u>\$ (488,042)</u>	-11.8

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 FY22.

**CAPITAL ASSETS
Fiscal Year Ended June 30, 2022**

	<u>Beginning Balance</u>	<u>Net Increase</u>	<u>Ending Balance</u>
Land	\$ 2,680,779	\$ 44,185	\$ 2,724,964
Construction in progress	1,582,078	(189,658)	1,392,420
Transmission system	10,565,147	29,417	10,594,564
Distribution system	95,782,661	943,212	96,725,873
General plant	24,438,899	766,099	25,204,998
Generation plant	<u>112,088,916</u>	-	<u>112,088,916</u>
Total capital assets	247,138,480	1,593,255	248,731,735
Accumulated depreciation	<u>(114,339,708)</u>	<u>(6,404,178)</u>	<u>(120,743,886)</u>
NET CAPITAL ASSETS	<u>\$132,798,772</u>	<u>\$ (4,810,923)</u>	<u>\$127,987,849</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 2022, 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, 2021	<u>\$118,215,000</u>	<u>\$ 14,830,000</u>	<u>\$103,375,000</u>	<u>\$ 10,000</u>
Decreases	<u>5,230,000</u>	<u>5,230,000</u>	-	-
BALANCE AT JUNE 30, 2022	<u>\$112,985,000</u>	<u>\$ 9,600,000</u>	<u>\$103,375,000</u>	<u>\$ 10,000</u>
<u>Maturities</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
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	
2026-2038	<u>95,370,000</u>	<u>28,604,263</u>	<u>123,974,263</u>	
TOTALS	<u>\$112,985,000</u>	<u>\$ 44,273,463</u>	<u>\$157,258,463</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.

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.

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

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 129 MW for FY22, significantly less than the amount of total owned capacity. However, after consideration of the peaking plant capacity sold to KYMEA, the net capacity resources is comparable to the FY22 peak demand.

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. 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. Also, 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.

The cost of purchased power is also 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 typically 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. The revenue from the sale of excess PSEC energy is currently enhanced by historically high market energy rates, resulting in lower power costs for KMPA.

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. While KYMEA has recently called on the plant for more energy than historically, the peaking plant is generally operated at peak times when the cost of market power is greater than the marginal cost to run the units.

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

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.

The Board of Directors voted to implement 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. 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 four fiscal years. This allows for a closer and more timely matching of revenues with purchased power costs. Therefore, the quarterly adjustments to the PCA should minimize the net cash flows from operations.

The levels of PCA in effect during each quarter of FY21 and FY22 are shown in the table below. As part of the rate adjustments effective July 1, 2021, a larger proportion of purchased power costs are recovered from base rates, resulting in smaller PCA rates beginning in the first quarter of FY22.

QUARTERLY PCA RATES - \$/kWh

<u>Fiscal Quarter</u>	<u>FY22</u>	<u>FY21</u>
July - September	(.00689)	0.01332
October - December	(.00443)	0.01915
January - March	(.00431)	0.02305
April - June	(.00540)	0.02305

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.

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. However, a cash reserve of \$11 million was reduced by \$2 million in FY20 and an additional \$4 million during FY21. These draws on the cash reserve indicated 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. As a result, a total of \$5.5 million was transferred into the reserve account in FY22 as part of a multi-year plan to replenish the cash reserves depleted by the prior deficiency in base rate revenues.

A summary of the retail base rates in effect for FY22 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.

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

SUMMARY OF RETAIL BASE RATES

	Effective for	
	FY22	FY21
<u>Residential</u>		
Customer Charge	\$16.50	\$14.75
All KWH	\$0.14478	\$0.11153
<u>Small Commercial</u>		
Customer Charge	\$33.00	\$22.00
All KWH	\$0.14947	\$0.12217
<u>Mid-Sized Commercial</u>		
Customer Charge	\$160.00	\$115.00
1 st 15,000 KWH	\$0.14100	\$0.11938
Additional KWH	\$0.11218	\$0.09086
1 st 50 KW Demand	\$0.00	\$0.00
51 - 1,000 KW Demand	\$17.25	\$16.49
<u>Large Commercial</u>		
Customer Charge	\$275.00	\$275.00
All KWH	\$0.09972	\$0.06736
0-1,000 KW Demand	\$16.50	\$15.25
1,001-5,000 KW Demand	\$16.50	\$17.62
<u>Industrial</u>		
Customer Charge	\$295.00	\$275.00
All KWH	\$0.08672	\$0.05257
All KW Demand	\$17.25	\$18.38
<u>Outdoor Lighting</u>		
All KWH	\$0.10693	\$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

Current Assets:	2022	2021
Cash and temporary cash investments	\$ 3,298,959	\$ 1,819,501
Cash reserves	10,530,000	5,000,000
Accounts receivable - net of allowance for doubtful accounts of 36,358 in 2022 and \$32,647 in 2021	10,185,465	6,792,529
Receivable from MuniNet Fiber Agency	628	628
Materials and supplies	1,193,382	1,044,299
Prepaid expenses	976,329	854,394
Rent receivable	119,534	118,514
	<hr/>	<hr/>
Total current assets	26,304,297	15,629,865
	<hr/>	<hr/>
Non-Current Assets:		
Restricted assets:		
Sinking fund	5,665,715	5,400,197
	<hr/>	<hr/>
Total restricted assets	5,665,715	5,400,197
	<hr/>	<hr/>
Utility plant:		
Land	2,724,964	2,680,779
Transmission system	10,594,564	10,565,147
Distribution system	96,725,873	95,782,661
General plant	25,204,998	24,438,899
Generation plant	112,088,916	112,088,916
Construction work in progress	1,392,420	1,582,078
Less accumulated depreciation	(120,743,886)	(114,339,708)
	<hr/>	<hr/>
Total utility plant	127,987,849	132,798,772
	<hr/>	<hr/>
Other Assets:		
Investment in CSA	23,368	24,199
Investment in SEDC	210,733	193,954
Investment in MuniNet Fiber Agency	603,455	546,264
Unamortized debt discount	1,519,654	1,633,494
Regulatory assets	3,225,256	3,547,718
Other miscellaneous assets	172,911	138,721
Unemployment trust fund	29,846	29,846
Unamortized research and development cost hydro	367,228	382,529
	<hr/>	<hr/>
Total other assets	6,152,451	6,496,725
	<hr/>	<hr/>
Total non-current assets	139,806,015	144,695,694
	<hr/>	<hr/>
Total assets	166,110,312	160,325,559

DEFERRED OUTFLOWS OF RESOURCES

Deferred savings on bond refunding	12,474,909	13,410,923
Deferred pension plan outflows	971,402	2,119,392
Deferred pension plan contributions	1,313,813	1,101,063
Deferred postemployment benefits other than pensions outflows	2,131,316	2,417,376
Deferred postemployment benefits other than pensions contributions	499,372	279,144
	<hr/>	<hr/>
Total deferred outflows	17,390,812	19,327,898

See notes to financial statements.

LIABILITIES

	<u>2022</u>	<u>2021</u>
Current Liabilities:		
Accounts payable	\$ 7,688,884	\$ 6,063,682
Customer deposits	1,504,580	679,240
Accrued taxes and equivalents	927,777	953,094
Accrued interest	1,432,017	1,500,496
Other current and accrued liabilities	1,344,800	1,312,161
Bonds payable	5,495,000	5,230,000
Total current liabilities	<u>18,393,058</u>	<u>15,738,673</u>
Non-Current Liabilities:		
Long-term debts:		
Bonds held by public	121,672,219	128,230,146
Other unearned revenues	285,843	296,258
Other regulatory liabilities	4,895,806	-
Net pension liability	14,240,442	17,255,089
Net postemployment benefits other than pension liability	4,274,967	5,430,797
Total non-current liabilities	<u>145,369,277</u>	<u>151,212,290</u>
Total liabilities	<u>163,762,335</u>	<u>166,950,963</u>

DEFERRED INFLOWS OF RESOURCES

Deferred pension plan inflows	2,692,805	427,125
Deferred postemployment benefits other than pensions inflows	2,250,549	1,119,003
Total deferred inflows	<u>4,943,354</u>	<u>1,546,128</u>

NET POSITION

Net investment in capital assets	14,815,194	14,383,044
Restricted for:		
Debt service	5,665,715	5,400,197
Unrestricted - net position	<u>(5,685,474)</u>	<u>(8,626,875)</u>
TOTAL NET POSITION	<u>\$ 14,795,435</u>	<u>\$ 11,156,366</u>

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

Operating Revenues:	<u>2022</u>	<u>2021</u>
Charges for services:		
Residential	\$ 32,973,708	\$ 30,463,318
Large lighting and power	35,571,292	32,349,554
Small lighting and power	9,504,972	8,550,448
Street and outdoor	<u>2,758,464</u>	<u>1,665,440</u>
 Total charges for services	 <u>80,808,436</u>	 <u>73,028,760</u>
 Miscellaneous:		
Forfeited discounts	430,151	186,802
Service revenue	3,102,118	2,879,037
Regulatory credits	(5,545,936)	(650,089)
Other electric revenue	<u>8,233,436</u>	<u>4,864,563</u>
 Total miscellaneous	 <u>6,219,769</u>	 <u>7,280,313</u>
 Total operating revenues	 <u>87,028,205</u>	 <u>80,309,073</u>
 Purchased Power and Operating Expenses:		
Purchased power cost	48,296,744	53,023,167
General operating expense	8,746,447	10,542,614
Generation plant expense	6,807,438	1,879,572
Maintenance expense	2,384,969	1,968,063
Other operating expense	<u>11,574,701</u>	<u>11,606,657</u>
 Total purchased power and operating expenses	 <u>77,810,299</u>	 <u>79,020,073</u>
 Operating income	 <u>9,217,906</u>	 <u>1,289,000</u>
 Non-Operating Revenues (Expenses):		
Interest paid on indebtedness	(5,714,989)	(5,973,570)
Investment income	69,235	39,266
Net amortization discount and premium on debt	(2,228)	(2,228)
Non-operating income	<u>69,145</u>	<u>(3,760)</u>
 Total non-operating revenues (expenses)	 <u>(5,578,837)</u>	 <u>(5,940,292)</u>
 Change in net position	 <u>3,639,069</u>	 <u>(4,651,292)</u>
 Net position, beginning	 <u>11,156,366</u>	 <u>15,807,658</u>
 NET POSITION, ENDING	 <u><u>\$ 14,795,435</u></u>	 <u><u>\$ 11,156,366</u></u>

See notes to financial statements.

PADUCAH POWER SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ 95,198,478	\$ 80,839,630
Payments to suppliers	(65,653,035)	(61,705,603)
Payments to employees	(6,206,012)	(5,809,113)
Net cash provided by operating activities	<u>23,339,431</u>	<u>13,324,914</u>
Cash Flows from Capital and Related Financing Activities:		
Capital expenditures	(5,116,228)	(5,120,907)
Principal payments on long-term debt	(5,230,000)	(4,975,000)
Interest payments on long-term debt	(5,783,467)	(6,047,305)
Non-utility property and other assets	(57,838)	(39,872)
Net cash used by capital and related financing activities	<u>(16,187,533)</u>	<u>(16,183,084)</u>
Cash Flows from Investing Activities:		
Investment income	69,235	39,357
Non-operating income	53,843	(19,060)
Net cash provided by investing activities	<u>123,078</u>	<u>20,297</u>
Net increase (decrease) in cash and cash equivalents	7,274,976	(2,837,873)
Cash and cash equivalents, beginning of year	<u>12,219,698</u>	<u>15,057,571</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 19,494,674</u></u>	<u><u>\$ 12,219,698</u></u>

(Continued)

PADUCAH POWER SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

Reconciliation of Operating Income to Net	<u>2022</u>	<u>2021</u>
Cash Provided by Operating Activities:		
Operating income	\$ 9,217,906	\$ 1,289,000
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	9,927,151	9,951,575
Changes in assets and liabilities:		
Accounts receivable	(3,392,935)	(385,959)
Net change in regulatory asset	322,461	322,420
Deferred outflows of resources	1,001,072	(207,472)
Materials and supplies	(149,083)	69,552
Prepaid expenses	(121,935)	(87,392)
Rent receivable	(1,020)	(10,059)
Other miscellaneous assets	(34,190)	(29,418)
Accounts payable	1,625,201	(47,637)
Customer deposits	825,340	(24,595)
Accrued taxes and equivalents	(25,317)	(21,339)
Change in regulatory liability	4,895,806	-
Deferred inflows of resources	3,397,226	(456,138)
Net pension liability	(3,014,647)	1,202,868
Net OPEB liability	(1,155,830)	1,592,727
Other current and accrued liabilities	32,639	174,950
Other miscellaneous liabilities	(10,414)	(8,169)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 23,339,431</u>	<u>\$ 13,324,914</u>
Supplemental Disclosure of Non-Cash Financing Activities:		
Amortization of bond issue and discount costs	<u>\$ 2,228</u>	<u>\$ 2,228</u>
Supplemental Disclosure of Cash Paid For:		
Interest	<u>\$ 5,783,467</u>	<u>\$ 6,047,305</u>

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, KPPA 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, 2022 and 2021, receivables of \$69,597 and \$168,945 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 Pension

For purposes of measuring the net pension liability, the net Postemployment Benefits Other Than Pension (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 October 3, 2022, 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, 2022 and 2021, 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 \$22,797,103 for the year ended June 30, 2022. The book balance was \$22,719,930 including \$2,900 of petty cash. Of the various financial institution balances at June 30, 2022, \$500,000 was insured by federal depository insurance, and the remaining balance of \$22,297,103 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 \$22,797,103 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 \$15,063,673 for the year ended June 30, 2021. The book balance was \$15,767,416 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.

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>2022</u>	<u>2021</u>
Sinking Fund:		
Money Market Fund	\$5,665,715	\$5,400,197
Total sinking fund	<u>5,665,715</u>	<u>5,400,197</u>
TOTAL RESTRICTED INVESTMENTS	<u>\$5,665,715</u>	<u>\$5,400,197</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 2022 and 2021, the System invested \$57,191 and \$43,516, respectively, as a member in MuniNet Fiber Agency and this combined amount of \$603,455 is reflected as an investment on the System's Statement of Net Position at June 30, 2022. 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 \$682 as of June 30, 2022 and 2021, respectively.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 3 - Capital Assets:

Capital assets activity for the year ended June 30, 2022, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 2,680,779	\$ 44,185	\$ -	\$ 2,724,964
Construction in progress	<u>1,582,078</u>	<u>(189,658)</u>	<u>-</u>	<u>1,392,420</u>
Total capital assets not being depreciated	<u>4,262,857</u>	<u>(145,473)</u>	<u>-</u>	<u>4,117,384</u>
Capital Assets Being Depreciated:				
Transmission system	10,565,147	51,132	(21,715)	10,594,564
Distribution system	95,782,661	3,812,258	(2,869,046)	96,725,873
General plant	24,438,899	788,852	(22,753)	25,204,998
Generation plant	<u>112,088,916</u>	<u>-</u>	<u>-</u>	<u>112,088,916</u>
Total capital assets being depreciated	242,875,623	4,652,242	(2,913,514)	244,614,351
Less accumulated depreciation	<u>114,339,708</u>	<u>9,927,151</u>	<u>(3,522,973)</u>	<u>120,743,886</u>
Total capital assets being depreciated, net	<u>128,535,915</u>	<u>(5,274,909)</u>	<u>(609,459)</u>	<u>123,870,465</u>
TOTAL CAPITAL ASSETS, NET	<u>\$132,798,772</u>	<u>\$(5,420,382)</u>	<u>\$ (609,459)</u>	<u>\$127,987,849</u>

Depreciation expense totaled \$9,927,151 for the fiscal year ended June 30, 2022.

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	(1,931,181)	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.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 4 - Accounts Payable:

The elements comprising accounts payable are as follows:

	<u>2022</u>	<u>2021</u>
Due to KMPA for purchased power	\$5,898,185	\$4,499,307
Accounts payable, general	1,790,699	1,564,375
 TOTAL ACCOUNTS PAYABLE	 \$7,688,884	 \$6,063,682

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.

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, 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</u>
Increases	\$ -	\$ -	\$ -	\$ -
Decreases	<u>5,230,000</u>	<u>5,230,000</u>	<u>-</u>	<u>-</u>
BALANCE AT JUNE 30, 2022	<u>\$112,985,000</u>	<u>\$ 9,600,000</u>	<u>\$103,375,000</u>	<u>\$ 10,000</u>
Balance due in one year	<u>\$ 5,495,000</u>	<u>\$ 4,655,000</u>	<u>\$ 840,000</u>	<u>\$ -</u>

Total bond service to maturity:

<u>Maturities</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	7,010,000	4,260,025	11,270,025
2028-2032	40,820,000	15,525,125	56,345,125
2033-2038	<u>40,875,000</u>	<u>4,217,213</u>	<u>45,092,213</u>
TOTALS	<u>\$112,985,000</u>	<u>\$ 44,273,463</u>	<u>\$157,258,463</u>

For the years ended June 30, 2022 and 2021, bonds payable totaling \$127,167,219 and \$133,460,146, respectively, are recorded net of \$289,047 and \$310,400, respectively, in unamortized bond discount and advance refunding deferred charges; as well as premiums of \$14,471,266 and \$15,555,546.

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 Public Pensions Authority (KPPA). 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 Public Pensions Authority 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 Public Pensions Authority 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 Public Pensions Authority. 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 Public Pensions Authority.

The Kentucky Public Pensions Authority 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 Public Pensions Authority
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 26.95% for the year ended June 30, 2022. The required contribution rate for fiscal years ending June 30, 2021 and 2020 was 24.06%. 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, 2022, the pension plan and insurance fund portions were 21.17% and 5.78%, respectively. These percentages were 19.30% and 4.76% for fiscal years ended June 30, 2021 and 2020. The pension contributions for fiscal years ended June 30, 2022, 2021, and 2020 were \$1,313,813, \$1,101,063, and \$1,112,184, respectively. The insurance contributions (excluding the implicit subsidy) for fiscal years ended June 30, 2022, 2021, and 2020 were \$358,708, \$271,557, and \$274,300, respectively. The actuarially determined contribution requirements of plan members and the System are established and may be amended by the KPPA 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, 2022 and 2021, the System reported a liability of \$14,240,442 and \$17,255,089, respectively, for its proportionate share of the net pension liability. The net pension liability at June 30, 2022 and 2021 was measured as of June 30, 2021 and 2020, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as June 30, 2020 and 2019, respectively. For the June 30, 2021 measurement, the total pension liability was rolled-forward from the actuarial valuation date of June 30, 2020 to the plan's fiscal year ending June 30, 2021 using generally accepted actuarial principles. 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. 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, 2022 and 2021, the System's proportion was 0.223352% and 0.224971%.

As a result of its requirement to contribute to CERS pension fund, Paducah Power System recognized pension expense of \$1,500,086 and \$2,881,279 for the years ended June 30, 2022 and 2021, respectively. At June 30, 2022, the System reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirement 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	\$ 552,434	\$2,450,446
Difference between expected and actual experience	163,524	138,213
Changes of assumptions	191,124	-
Change in proportion and differences between employer contributions and proportionate share of contributions	64,321	104,146
Contributions subsequent to the measurement date	<u>1,313,813</u>	<u>-</u>
TOTALS	<u>\$2,285,216</u>	<u>\$2,692,805</u>

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>

(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 \$1,313,813 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, 2023. 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 June 30	
2023	\$ (215,906)
2024	(482,748)
2025	(428,389)
2026	(594,359)

The net pension liability as of June 30, 2022, is based on the June 30, 2020 actuarial valuation as rolled-forward to the plan's fiscal year-end of June 30, 2021 using generally accepted actuarial principles. 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. 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 (3.07 years and 3.14 years for June 30, 2021 and June 30, 2020, respectively).

Actuarial assumptions. The total pension liability, net pension liability, and sensitivity information for the actuarial valuation as of June 30, 2021 was based on an actuarial valuation date of June 30, 2020. The total pension liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principles. An actuarial experience study was conducted for the five-year period July 1, 2013 to June 30, 2018. Subsequent to the actuarial valuation date (June 30, 2020), but prior to the measurement date, the KPPA 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, 2021 (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, 2021 and 2020 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 non-disabled 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.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 7 - Employee Benefits (Continued):

County Employees' Retirement System Pension Fund (Continued)

Senate Bill 169 increased the disability benefits for qualified members who become “totally and permanently disabled” as a result of a duty-related disability. The minimum disability benefit increased from 25.00% of the member’s monthly final rate of pay to 75.00% of the member’s monthly average pay. The insurance premium for the member, the member’s spouse, and the member’s dependent children shall also be paid in full by the System. For non-hazardous members to be eligible for this benefit, they must be working in a position that could be certified as a hazardous position. 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, 2021 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty Credit/High Yield	15.00%	2.80%
Core Bonds	10.00%	0.00%
Cash Equivalent	1.50%	(0.60)%
Real Estate	10.00%	5.40%
Real Return	<u>10.00%</u>	4.55%
Total	100.00%	

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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>	

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, 2021 and 2020. 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 KPPA contributes the actuarially determined employer contribution rate each future year calculated in accordance with the current funding policy, as most recently revised by House Bill 8. This includes the phase-in provisions from House Bill 362 as well as the provisions which limits the increases to the employer contribution rates to 12.00% over the prior fiscal year through June 30, 2028. 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	\$18,264,042	\$14,240,442	\$10,911,007

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

Payables to the pension plan. At June 30, 2022 and 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 pension liability.

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

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB. At June 30, 2022 and 2021, the System reported a liability of \$4,274,967 and \$5,430,796, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability at June 30, 2022 and 2021 was measured as of June 30, 2021 and 2020, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020 and 2019, respectively. For the June 30, 2021 measurement, the total OPEB liability was rolled-forward from the actuarial valuation date of June 30, 2020 to the plan's fiscal year ending June 30, 2021 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, 2019 to the plan's fiscal year ending June 30, 2020 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, 2022 and 2021, the System's proportion was .223300% and 0.224906%.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 7 - Employee Benefits (Continued):

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

The fully-insured premiums KPPA 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 expense of \$564,650 and \$756,609 for the years ended June 30, 2022 and 2021, respectively. At June 30, 2022, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net differences between projected and actual earnings on OPEB plan investments	\$ 215,385	\$ 884,145
Difference between expected and actual experience	672,240	1,276,363
Changes of assumptions	1,133,375	3,975
Change in proportion and differences between employer contributions and proportionate share of contributions	110,316	86,066
Contributions subsequent to the measurement date	499,372	-
TOTALS	\$2,630,688	\$2,250,549

At June 30, 2021, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
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	404,840	-
TOTALS	\$2,696,520	\$1,088,389

Deferred outflows of resources related to OPEB, in the amount of \$499,372 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, 2023. 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>	
2023	\$ 119,508
2024	17,852
2025	(2,634)
2026	(253,959)

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 7 - Employee Benefits (Continued):

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

The net OPEB liability as of June 30, 2022 is based on the June 30, 2020 actuarial valuation as rolled-forward to the plan's fiscal year end of June 30, 2021 using generally accepted actuarial principles. 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. 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 (4.92 years and 4.94 years for June 30, 2021 and June 30, 2020, respectively).

Actuarial assumptions. The total OPEB liability, net OPEB liability, and sensitivity information for the actuarial valuation as of June 30, 2021 was based on an actuarial valuation date of June 30, 2020. The total OPEB liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principles. An actuarial experience study was conducted for the five-year period July 1, 2013 to June 30, 2018. Subsequent to the actuarial valuation date (June 30, 2020), but prior to the measurement date, the KPPA Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review and the 2020 actuarial experience study, the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2021 (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	2.45%
Measurement date	1.92%
Single equivalent interest rate (discount rate), net of OPEB plan investment expense, including inflation	
Prior measurement date	5.34%
Measurement date	5.20%

Healthcare cost trend rates - Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years (Pre-65). Initial trend rate starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 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 Pension (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 non-disabled 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 169 increased the disability benefits for qualified members who become "totally and permanently disabled" as a result of a duty-related disability. The minimum disability benefit increased from 25.00% of the member's monthly final rate of pay to 75.00% of the member's monthly average pay. The insurance premium for the member, the member's spouse, and the member's dependent children shall also be paid in full by the System. For non-hazardous members to be eligible for this benefit, they must be working in a position that could be certified as a hazardous position. 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, 2021 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty Credit/High Yield	15.00%	2.80%
Core Bonds	10.00%	0.00%
Cash Equivalent	1.50%	(0.60)%
Real Estate	10.00%	5.40%
Real Return	<u>10.00%</u>	4.55%
Total	100.00%	

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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>	

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 7 - Employee Benefits (Continued):

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

Discount rate. The discount rate used to measure the total OPEB liability was 5.20% and 5.34% at June 30, 2021 and 2020, 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 KPPA contributes the actuarially determined employer contribution rate each future year calculated in accordance with the current funding policy, as most recently revised by House Bill 8. This includes the phase-in provisions from House Bill 362 as well as the provisions which limits the increases to the employer contribution rates to 12.00% over the prior fiscal year through June 30, 2028. The cost associated with the implicit employer subsidy was not included in the calculation of the KPPA's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the KPPA'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 5.20% 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 1.92%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2021. 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 5.20%, 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 (4.20%) or 1-percentage-point higher (6.20%) than the current discount rate:

	<u>1.00%</u> <u>Decrease</u> <u>4.20%</u>	<u>Current</u> <u>Discount</u> <u>5.20%</u>	<u>1.00%</u> <u>Increase</u> <u>6.20%</u>
The System's proportionate share of the net OPEB liability	\$5,869,497	\$4,274,967	\$2,966,390

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:

	<u>1.00%</u> <u>Decrease</u>	<u>Current</u> <u>Trend Rate</u>	<u>1.00%</u> <u>Increase</u>
The System's proportionate share of the net OPEB liability	\$3,077,468	\$4,274,967	\$5,720,366

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

Payables to the OPEB plan. At June 30, 2022, 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, 2022, three prior employees were receiving healthcare benefits. Post-retirement healthcare benefits totaled approximately \$5,000 for the year ended June 30, 2022.

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.

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 \$130,103 and \$133,898, and rental income was \$2,666,196 and \$2,520,771 for the fiscal years ended June 30, 2022 and 2021, 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 \$48,296,744 and \$53,023,167 during the fiscal years ending June 30, 2022 and 2021, respectively. Of these amounts, \$5,898,185 and \$4,499,307 were payable to KMPA as of June 30, 2022 and 2021, 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, 2022. 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 is as follows:

	<u>2022</u>	<u>2021</u>
Cash and temporary cash investments	\$17,054,215	\$ 9,717,088
Restricted cash and short-term investments:		
Sinking and Depreciation Funds	<u>5,665,715</u>	<u>5,400,197</u>
TOTAL CASH AND CASH INVESTMENTS	<u>\$22,719,930</u>	<u>\$15,117,285</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>2022</u>	<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)	0.223352%	0.224971%	0.228240%	0.218880%	0.212356%	0.207550%	0.193466%	0.200828%
Employer's proportionate share of the net pension liability (asset)	\$ 14,240,442	\$ 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	\$ 5,704,989	\$ 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	249.61%	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)	57.33%	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 10-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, 2022, is based on the June 30, 2020 actuarial valuation as rolled forward to the plan's fiscal year end of June 30, 2021 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, 2020
Experience study:	July 1, 2013 - June 30, 2018 for 2020 through 2022; 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 non-disabled 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:	None.
Changes of benefit terms:	Increase in the disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or as a result of a duty-related disability. The minimum disability benefit increased from 25.00% of the member's monthly final rate of pay to 75.00%.
Changes of assumptions:	None.

NOTE: This schedule is based on the last measurement date of the net pension liability.

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

	<u>2022</u>	<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	\$1,313,813	\$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>1,313,813</u>	<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>\$ -</u>	<u>\$ (2,110)</u>	<u>\$ -</u>
Employer's covered payroll	<u>\$6,206,012</u>	<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	21.17%	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 10-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.

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Employer's proportion of the net OPEB liability (asset)	0.223300%	0.224906%	0.228191%	0.218871%	0.212356%
Employer's proportionate share of the net OPEB liability (asset)	\$ 4,274,967	\$ 5,430,796	\$ 3,838,070	\$ 3,886,012	\$ 4,269,082
Employer's covered-employee payroll	\$ 5,704,989	\$ 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	74.93%	94.24%	66.66%	71.63%	82.57%
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	62.91%	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, 2022, is based on the June 30, 2020 actuarial valuation as rolled forward to the plan's fiscal year end of June 30, 2021 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, 2020
Experience study:	July 1, 2013 - June 30, 2018 for 2020 through 2022; 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 non-disabled 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 6.30% at January 1, 2023 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years (Pre-65). Initial trend starting at 6.30% at January 1, 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years (Post-65).
Changes in plan provisions:	None.
Changes of benefit terms:	Increase in the disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or as a result of a duty-related disability. The minimum disability benefit increased from 25.00% of the member's monthly final rate of pay to 75.00%.
Changes of assumptions:	The single discount rate for non-hazardous changed from 5.34% to 5.20%. The municipal bond rate decreased from 2.45% to 1.92%.

NOTE: This schedule is based on the last measurement date of the net OPEB liability.

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 358,708	\$ 271,557	\$ 274,300	\$ 302,841	\$ 254,971	\$ 244,557
Contributions in relation to the contractually required contribution	<u>358,708</u>	<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>	<u>\$ -</u>
Employer's covered-employee payroll	<u>\$ 6,206,012</u>	<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	5.78%	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 10-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.

SUPPLEMENTARY INFORMATION

PADUCAH POWER SYSTEM
OPERATING EXPENSES
YEARS ENDED JUNE 30

General Operating Expenses:	<u>2022</u>	<u>2021</u>
Transmission:		
Supervision and engineering	\$ 13,309	\$ 10,901
Rent	13,615	14,295
	<u>26,924</u>	<u>25,196</u>
Distribution expense:		
Supervision and engineering	258,671	292,442
Station expense	56,260	33,076
Overhead line expense	399,034	426,051
Underground line expense	89,911	77,446
Street lighting and signal expense	1,687	6,528
Meter expense	471,799	447,536
Customer installations expense	106,227	107,773
Miscellaneous	1,110,398	887,581
Rent/lease/purchase	130,103	133,898
	<u>2,624,090</u>	<u>2,412,331</u>
Customer account expense:		
Meter reading expense	79,810	72,178
Customer records and collections	1,544,179	1,532,952
Uncollectible accounts	124,809	234,319
	<u>1,748,798</u>	<u>1,839,449</u>
Sales expense:		
Demonstration and selling	269,367	243,482
Advertising	119,456	93,938
	<u>388,823</u>	<u>337,420</u>
Administrative and general:		
Salaries	1,130,964	1,123,564
Office supplies and expense	755,542	766,992
Outside services employment	143,849	168,168
Property insurance	705,376	619,715
Company use of electricity	(308,801)	(299,431)
Miscellaneous and general expense	1,530,882	3,549,210
	<u>3,957,812</u>	<u>5,928,218</u>
TOTAL GENERAL OPERATING EXPENSES	<u><u>\$ 8,746,447</u></u>	<u><u>\$ 10,542,614</u></u>

PADUCAH POWER SYSTEM
OPERATING EXPENSES
YEARS ENDED JUNE 30

	<u>2022</u>	<u>2021</u>
Generation Plant Expense:		
Generation expense	\$ 1,456,081	\$ 1,168,897
Generation fuel	5,351,357	710,675
TOTAL GENERATION PLANT EXPENSE	<u>\$ 6,807,438</u>	<u>\$ 1,879,572</u>
Maintenance Expense:		
Transmission:		
Supervision and engineering	\$ 13,331	\$ 11,156
Total transmission	<u>13,331</u>	<u>11,156</u>
Distribution:		
Supervision and engineering	55,175	47,656
Maintenance of station equipment	788,695	661,049
Maintenance of overhead lines	1,275,980	1,086,244
Maintenance of underground lines	55,924	78,887
Maintenance of line transformers	(15,034)	(10,026)
Street lighting and signals	451	-
Maintenance of meters	12,384	14,139
Maintenance of miscellaneous plant	359	-
Total distribution	<u>2,173,934</u>	<u>1,877,949</u>
Administrative and general	<u>197,704</u>	<u>78,958</u>
TOTAL MAINTENANCE EXPENSE	<u>\$ 2,384,969</u>	<u>\$ 1,968,063</u>
Other Operating Expenses:		
Depreciation	\$ 9,676,866	\$ 9,653,831
Taxes and equivalents	<u>1,897,835</u>	<u>1,952,826</u>
TOTAL OTHER OPERATING EXPENSES	<u>\$ 11,574,701</u>	<u>\$ 11,606,657</u>



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

To the 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, 2022 and 2021, 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 October 3, 2022.

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.

Williams, Williams & Lentz LLP

Paducah, Kentucky
October 3, 2022

