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

AUDITED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

PADUCAH POWER SYSTEM
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FINANCIAL SECTION

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Electric Plant Board of the City of Paducah, Kentucky d/b/a Paducah Power System (the System), as of and for the year ended June 30, 2023, and the related notes to the financial statements which collectively comprise the Board'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 respective financial position of the System, as of June 30, 2023, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 System, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of the System as of June 30, 2022 were audited by other auditors whose report dated October 3, 2022, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System'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 and *Government 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 and *Government 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 Board'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 Board's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules related to pensions and other post-employment benefits as listed in the table of contents, respectively, 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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The accompanying 2023 Schedule of Operating Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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. The 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 2023 Schedule of Operating Expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The 2022 Schedule of Operating Expenses was subjected to the auditing procedures applied in the 2022 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2022 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 31, 2023 on our consideration of the Electric Plant Board of the City of Paducah, Kentucky'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 solely 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 the 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 the Electric Plant Board of the City of Paducah, Kentucky's internal control over financial reporting and compliance.

ATA CPAs + Advisors PLLC

Murray, KY
October 31, 2023

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, 2023 (or "FY23"). 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 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

	2023	2022
Current assets	$32,130,033	$26,304,297
Non-current assets	14,078,004	11,818,166
Capital assets	124,418,013	127,987,849
Total assets	170,626,050	166,110,312
Deferred Outflows of Resources	15,386,999	17,390,812
Current liabilities	16,516,264	18,393,058
Non-current liabilities	35,184,491	23,697,058
Long-term debt	114,834,292	121,672,219
Total liabilities	166,535,047	163,762,335
Deferred Inflows of Resources	1,826,742	4,943,354

Invested in capital assets, net of related debt	16,753,430	14,815,194
Restricted for debt service	6,015,894	5,665,715
Unrestricted net assets	(5,118,064)	(5,685,474)
TOTAL NET ASSETS	$17,651,260	$14,795,435

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 $5.8 million during FY23, including a $9.8 million increase in cash and cash reserves, and a $3 million decrease in accounts receivable. The increase in cash is mainly due to the over recovery of purchased power costs through the Power Cost Adjustment. The decrease in accounts receivable is largely attributable to a decrease in electricity sales during FY23, primarily due to the loss of several bitcoin customers.

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 increased during FY23 by $2.3 million mainly due to an increase in the Generation Maintenance Reserve account.

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. Gross capital assets increased by $3.4 million and accumulated depreciation increased by $7 million for FY23. See the table in the Capital Assets section on page 9. The net investment in capital assets decreased by $1.9 million during FY23.

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 FY23 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 over-recovery of purchased power costs increased by $9.4 million.

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 FY23, the net pension and OPEB liabilities increased by $2.1 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 FY23 was an increase of $2.9 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
MANAGEMENT'S DISCUSSION AND ANALYSIS

Paducah Power System's electric sales revenue decreased 5.5% in FY23. This is primarily the result of decreased energy sales, as mentioned above, combined with small quarterly adjustments of the Power Cost Adjustment rate.

Purchased power cost for FY23 decreased 14.5% from FY22 due to lower average cost of power from Kentucky Municipal Power Agency ("KMPA") resulting from increased revenues from sales of excess energy and output of the peaking plant.

General operating expense for FY23 increased by $1.2 million from FY22, primarily associated with increases in pension benefit accruals and insurance expense for FY23.

Generation plant expenses for FY23 increased by $3.6 million from FY22. Total peaking plant generation increased from 79,940 MWH during FY22 to 124,937 MWH during FY23, 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 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

	2023	2022	Change	% Change
Electrical sales revenue	$76,341,061	$80,808,436	$(4,467,375)	-5.5
Miscellaneous revenue	6,726,660	6,219,769	506,892	8.1
Total operating revenue	83,067,721	87,028,205	(3,960,483)	-4.6
Purchased power cost	41,297,599	48,296,744	(6,999,145)	-14.5
General operating expense	9,995,486	8,746,447	1,248,854	14.3
Generation plant expense	10,361,519	6,807,438	3,554,080	52.2
Maintenance expense	2,513,753	2,384,969	128,970	5.4
Other operating expense	11,578,310	11,574,701	3,609	.0
Non-operating expense	4,465,229	5,578,837	(1,113,608)	-20.0
Total expenses	80,211,896	83,389,136	(3,177,240)	-3.8
Changes in net position	2,855,825	3,639,069	(783,244)	
Beginning net position	14,795,435	11,156,366	3,639,069	
ENDING NET POSITION	$17,651,260	$14,795,435	$ 2,855,825	

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 the accumulation of over-recovery. Electric plant capital expenditures and debt service payments are in line with historical averages.

Overall cash balances increased by $7 million during FY22 and increased by $10 million during FY23. 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, FY23 saw increased revenues sufficient to fund current operating, capital and debt service costs as well as replenish reserve funds used to offset prior deficits.

STATEMENTS OF CASH FLOWS
Fiscal Years Ended June 30

	2023	2022
Cash Flows from Operating Activities:		
Receipts from customers	$ 95,026,357	$ 88,504,739
Payments to suppliers	(60,032,254)	(59,281,757)
Payments to employees	(6,606,190)	(6,206,012)
Net cash provided by operating activities	28,387,913	23,016,970
Cash Flows from Capital and Related Financing Activities:		
Capital expenditures	(6,362,322)	(5,116,228)
Principal payments on long-term debt	(5,495,000)	(5,230,000)
Interest payments on long-term debt	(5,405,699)	(5,783,467)
Non-utility property and other assets	(157,057)	(57,838)
Net cash used by capital and related financing activities	(17,420,078)	(16,187,533)
Cash Flows from Investing Activities:		
Investment income	1,002,646	69,235
Non-operating income	(19,898)	53,843
Net cash provided by investing activities	982,748	123,078
Net increase/(decrease) in cash and cash equivalents	11,950,583	6,952,515
Cash and cash equivalents, beginning of year	22,719,930	15,767,415
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 34,670,513**	**$ 22,719,930**

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 FY23 budget comparison and analysis is presented below but is not included in the financial statements section of the auditor's report.

FY23 revenues and operating expenses were budgeted to achieve a net gain of $3.5 million or 3.9% of revenues. Actual revenues and operating expenses achieved a net gain of $2.9 million or 3.4% of revenues. Two large variances in purchased power cost and generation expense largely offset each other and the decrease in electric sales and miscellaneous revenue. 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.

BUDGET VERSUS ACTUAL
Fiscal Year Ended June 30, 2023

	Actual	Budget	Variance	Percent
Revenue:				
Electric sales	$76,341,061	$82,163,882	$ (5,822,821	-7.1
Miscellaneous revenue	6,726,660	7,842,947	(1,116,287)	-14.2
Total operating revenue	83,067,721	90,006,829	(6,939,108)	-7.7
Expenses:				
Purchased power cost	41,297,599	56,367,659	(15,070,060)	- 26.7
Generation plant expense	10,361,519	1,471,169	8,890,350	604.3
General operating expense	9,995,486	8,924,007	1,071,479	12.0
Maintenance expense	2,513,753	2,492,857	20,896	.8
Other operating expense	11,578,310	11,761,661	(183,351)	-1.6
Non-operating expense	4,465,229	5,445,251	(980,022)	-18.0
Total expenses	80,211,896	86,462,604	(6,250,708)	-7.2
NET GAIN/(LOSS)	$ 2,855,825	$ 3,544,225	$ (688,400)	-19.4

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 FY23.

PADUCAH POWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

Fiscal Year Ended June 30, 2023

	Beginning Balance	Net Increase	Ending Balance
Land	$ 2,724,964	$ -	$ 2,724,964
Construction in progress	1,392,420	356,345	1,748,765
Transmission system	10,594,564	31,575	10,626,139
Distribution system	96,725,873	2,538,265	99,264,138
General plant	25,204,998	389,764	25,594,762
Generation plant	112,088,916	161,874	112,250,790
Total capital assets	248,731,735	3,477,823	252,209,558
Accumulated depreciation	(120,743,886)	(7,047,659)	(127,791,545)
NET CAPITAL ASSETS	$127,987,849	$ (3,569,836)	$124,418,013

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% 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, 2023, consisting of the 2019 and 2016A series bonds and the remaining unrefunded balance of the 2009A series bonds.

	Total	Series 2019	Series 2016A	Series 2009A
Balance at June 30, 2022	$112,985,000	$ 9,600,000	$103,375,000	$ 10,000
Decreases	5,495,000	4,655,000	840,000	-
BALANCE AT JUNE 30, 2023	$107,490,000	$ 4,945,000	$102,535,000	$ 10,000

Maturities	Principal	Interest	Total
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
2027-2038	88,705,000	24,002,363	112,707,363
TOTALS	$ 107,490,000	$38,761,563	$ 146,251,563

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 planned major maintenance expenses at the peaking plant. Therefore, debt service and capital expenditures should be 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. These purchased power costs, other than the Paducah peaking plant ownership costs, are facilitated through participation in KMPA. KMPA has two member utilities - Paducah Power System and nearby Princeton Electric Plant Board ("PEPB"). KMPA owns and finances the members' share of Prairie State Energy Campus ("PSEC"), a 1,600 MW two-unit coal-fired plant with adjacent dedicated coal mine. KMPA also facilitates wholesale power market transactions, including the sales of generating output from PSEC, market purchases to serve the load requirements of Paducah Power System, hedging and other bilateral transactions.

Other owned generating resources include hydro facilities as part of project participation with American Municipal Power ("AMP") and an allotment from Southeastern Power Agency ("SEPA"). The costs for these facilities are also billed through KMPA.

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

Resource+	MW
PSEC	104
Paducah Peaking Plant	120*
AMP and SEPA Hydro	17
TOTAL	241

* Gross ownership; does not reflect sales of 60 MW and 7 MW of capacity under agreements with KYMEA and PEPB, respectively, as discussed below.

The peak demand for Paducah Power System was 129 MW for FY23, significantly less than the amount of total owned capacity. After consideration of the peaking plant capacity sold to KYMEA and PEPB, the net capacity resources provide a reserve margin of 35% compared to the FY23 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 the 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 represents 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 was 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 during FY23 was significantly 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, and a contract with PEPB that began June 2023. KYMEA purchased 90 MW of capacity from the peaking plant through May 2023. Starting June 2023, the amount of capacity purchased by KYMEA was reduced to 60 MW, while the amount of capacity purchased by PEPB is 7 MW beginning June 2023. 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.

Transmission costs are incurred in both the MISO and the Kentucky Utilities/Louisville Gas & Electric ("KU/LGEE") balancing areas. Most 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 necessary, and that the arrangement must continue for KMPA through the terms of existing contracts. This is a favorable ruling for KMPA, subject to future attempts by KU/LGEE to protest that decision.

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 FY22 and FY23 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

Fiscal Quarter	FY23	FY22
July - September	(.00540)	(.00689)
October - December	(.01036)	(.00443)
January - March	(.01240)	(.00431)
April - June	(.01240)	(.00540)

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 conducted to establish a benchmark for future improvements. The results for the residential customers, which were like the results for commercial customers, were 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 considering 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 FY23 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 FY23 and FY22 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.

SUMMARY OF RETAIL BASE RATES

	Effective for	
	FY23	**FY22**
Residential		
Customer Charge	$16.50	$16.50
All KWH	$0.14478	$0.14478
Small Commercial		
Customer Charge	$33.00	$33.00
All KWH	$0.14947	$0.14947
Mid-Sized Commercial		
Customer Charge	$160.00	$160.00
1st 15,000 KWH	$0.14100	$0.14100
Additional KWH	$0.11218	$0.11218
1st 50 KW Demand	$0.00	$0.00
51 - 1,000 KW Demand	$17.25	$17.25
Large Commercial		
Customer Charge	$275.00	$275.00
All KWH	$0.09972	$0.09972
0-1,000 KW Demand	$16.50	$16.50
1,001-5,000 KW Demand	$16.50	$16.50
Industrial		
Customer Charge	$295.00	$295.00
All KWH	$0.08672	$0.08672
All KW Demand	$17.25	$17.25
Outdoor Lighting		
All KWH	$0.10693	$0.10693
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.

PADUCAH POWER SYSTEM
STATEMENT OF NET POSITION
June 30,

Current Assets	**2023**	**2022**
Cash and cash equivalents	$ 9,522,067	$ 3,298,959
Cash reserves	14,060,001	10,530,000
Trade receivables, net	7,000,453	10,185,465
Receivable from MuniNet Fiber Agency	628	628
Materials and supplies, at average cost	1,407,600	1,193,382
Prepaid expenses	19,750	976,329
Rent receivable	119,534	119,534
Total current assets	32,130,033	26,304,297
Non-current Assets		
Restricted assets:		
Sinking fund	6,015,894	5,665,715
Total restricted assets	6,015,894	5,665,715
Utility plant:		
Land	2,724,964	2,724,964
Transmission system	10,626,139	10,594,564
Distribution system	99,264,138	96,725,873
General plant	25,594,762	25,204,998
Generation plant	112,250,790	112,088,916
Construction work in progress	1,748,765	1,392,420
Less: accumulated depreciation	(127,791,545)	(120,743,886)
Total utility plant	124,418,013	127,987,849
Other assets:		
Investment in CSA	22,527	23,368
Investment in Meridian Cooperative	207,179	210,733
Investment in MuniNet Fiber Agency	667,833	603,455
Unamortized debt discount	1,405,814	1,519,654
Regulatory assets	5,072,551	3,225,256
Other miscellaneous assets	302,759	172,911
Unemployment trust fund	31,520	29,846
Unamortized reasearch and develpments costs hydro	351,927	367,228
Total other assets	8,062,110	6,152,451
Total non-current assets	138,496,017	139,806,015
Total assets	170,626,050	166,110,312
Deferred outflows of resources		
Deferred outflows related to pension and OPEB	3,848,104	4,915,903
Deferred savings on bond refunding	11,538,895	12,474,909
Total deferred outflows of resources	15,386,999	17,390,812

The accompanying notes are an integral part of these financial statements.

PADUCAH POWER SYSTEM
STATEMENT OF NET POSITION
June 30,

Current Liabilities	**2023**	**2022**
Accounts payable	5,919,346	7,688,884
Customer deposits	917,735	1,504,580
Accrued taxes and equivalents	918,184	927,777
Accrued interest	1,376,667	1,432,017
Other accrued liabilities	1,609,332	1,344,800
Bonds payable	5,775,000	5,495,000
Total current liabilities	16,516,264	18,393,058
Non-current liabilities		
Bonds payable	114,834,292	121,672,219
Other unearned revenues	275,662	285,843
Other regulatory liabilities	14,256,275	4,895,806
Net pension liability	16,224,147	14,240,442
Net OPEB liability	4,428,407	4,274,967
Total non-current liabilities	150,018,783	145,369,277
Total liabilities	166,535,047	163,762,335
Deferred inflows of resources		
Deferred inflows related to pension and OPEB	1,826,742	4,943,354
Total deferred inflows of resources	1,826,742	4,943,354
Net position		
Net investment in capital assets	16,753,430	14,815,194
Restricted for		
Debt service	6,015,894	5,665,715
Unrestricted	(5,118,064)	(5,685,474)
Total net position	**$ 17,651,260**	**14,795,435**

The accompanying notes are an integral part of these financial statements.

PADUCAH POWER SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30,

	2023	2022
Operating revenues		
Charges for services:		
Residential	$ 31,279,338	$ 32,973,708
Large lighting and power	33,124,443	35,571,292
Small lighting and power	9,107,337	9,504,972
Street and outdoor	2,829,943	2,758,464
Total charges for services	76,341,061	80,808,436
Miscellaneous revenues		
Forfeited discounts	418,227	430,151
Service revenue	3,163,813	3,102,118
Regulatory credits	(9,360,469)	(5,545,936)
Other electric revenue	12,505,089	8,233,436
Total miscellaneous revenues	6,726,660	6,219,769
Total operating revenues	83,067,721	87,028,205
Purchased power and operating expenses		
Purchased power	41,297,599	48,296,744
General operating expenses	9,995,486	8,746,447
Generation plant expense	10,361,519	6,807,438
Maintenance expenses	2,513,753	2,384,969
Other operating expenses	11,578,310	11,574,701
Total operating expenses	75,746,667	77,810,299
Operating income	7,321,054	9,217,906
Non-operating revenues (expenses)		
Investment income	1,002,646	69,235
Interest expense	(5,461,049)	(5,714,989)
Amortization expense	(2,228)	(2,228)
Non-operating income	(4,598)	69,145
Total non-operating revenues (expenses)	(4,465,229)	(5,578,837)
Change in net position	**2,855,825**	**3,639,069**
Net position, beginning of year	14,795,435	11,156,366
Net position, end of year	$ 17,651,260	14,795,435

The accompanying notes are an integral part of these financial statements.

PADUCAH POWER SYSTEM
STATEMENT OF CASH FLOWS
For the Year Ended June 30,

Cash flows from operating activities	**2023**	**2022**
Cash received from customers	$ 95,026,357	$88,504,739
Cash paid to suppliers	(60,032,254)	(59,281,757)
Cash paid to employees	(6,606,190)	(6,206,012)
Net cash provided by operating activities	28,387,913	23,016,970
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(6,362,322)	(5,116,228)
Principal paid on capital debt	(5,495,000)	(5,230,000)
Interest paid on capital debt	(5,405,699)	(5,783,467)
Non-utility property and other assets	(157,057)	(57,838)
Net cash provided by capital and related financing activities	(17,420,078)	(16,187,533)
Cash flows from investing activities		
Investment income	1,002,646	69,235
Non-operating income (expense)	(19,898)	53,843
Net cash used by investing activities	982,748	123,078
Net increase in cash and cash equivalents	**11,950,583**	**6,952,515**
Cash and cash equivalents at beginning of year	22,719,930	15,767,415
Cash and cash equivalents at end of year	**$ 34,670,513**	**$22,719,930**
Cash and cash equivalents are included on the Statement of Net Position under the following captions		
Cash and cash equivalents	$ 28,654,619	$17,054,215
Restricted cash equivalents	6,015,894	5,665,715
Total cash and cash equivalents	$ 34,670,513	$22,719,930
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 7,321,054	$ 9,217,906
Adjustment to reconcile operating income to net cash provided by operating activities		
Depreciation expense	9,932,158	9,927,151
(Increase) decrease in certain assets		
Receivables - customers	3,185,012	(3,392,935)
Deferred outflows related to pension and OPEB	1,067,799	1,001,072
Inventory	(214,218)	(149,083)
Prepaid expenses	956,579	(121,935)
Rent receivable	-	(1,020)
Other miscellaneous assets	(129,848)	(34,190)
Increase (decrease) in certain liabilities		
Acccounts payable	(1,769,538)	1,625,201
Accrued taxes and equivalents	(9,593)	825,340
Customer deposits	(586,845)	(25,317)
Change in regulatory liability	9,360,469	4,895,806
Deferred inflows-pension/OPEB	(3,116,612)	3,397,226
Pension liability	1,983,705	(3,014,647)
OPEB liability	153,440	(1,155,830)
Other current and accrued liabilities	264,532	32,639
Other miscellaneous liabilities	(10,181)	(10,414)
Net cash provided by operating activities	$ 28,387,913	$23,016,970
Noncash Noncapital Financing Activities		
Amortization of bond issue and discounts costs	$ 2,228	$ 2,228

The accompanying notes are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting 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.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to what is being measured and basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the time of related cash flows.

Enterprise funds are proprietary funds that are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs are financed through user charges.

Enterprise Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The Board's principal operating revenues are charges for services to customers. Operating expenses include the cost of providing power, including administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. 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.

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%.

D. Deposits 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.

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

E. Joint Venture

Under authorization of KRS Section 65.210 - 65.300, the Electric Plant Board of the City of Murray, Kentucky joined the Electric Plant Board of the City of Paducah, Kentucky, and the Electric Plant Board of the City of Mayfield, Kentucky to establish and operate a Joint Public Agency known as the MuniNet Fiber Agency. The Agency was formed to undertake the financing, acquiring, constructing, managing, operating, utilizing and owning, either with or without other municipal electric utilities or groups of utilities, of any fiber network project or projects and any and all facilities, including all equipment, structures, machinery, and tangible and intangible property, real and personal, useful for such a project. The board's net investment is reported in the Board's balance sheet, using the cost method. The Board's investment in MuniNet Fiber Agency was $667,833 and $603,455 at June 30, 2023 and 2022, respectively. Complete financial statements for the MuniNet Fiber Agency can be obtained from the Board's finance department.

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 town 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 operation 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 ere 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 Series 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 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 KPMA'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 extraordinary expenses of the Project, and (v) pay the costs of issuance related to the Series 2010A, Series 2010B, and Series 2010C bonds.

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 $41,297,599 and $48,296,744 during the fiscal years ending June 30, 2023 and 2022, respectively. Of these amounts, $5,159,127 and $5,898,185 were payable to KMPA as of June 30, 2023 and 2022, 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, 2023. Complete financial statements for KMPA can be obtained from the System's Accounting Department, P.O. Box 180, Paducah, Kentucky 42002-0180.

F. Materials and Supplies

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

G. Receivables

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. 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, 2023 and 2022, receivables of $48,618 and $69,597 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. The allowance for uncollectible accounts was $34,406 and $36,358 as of June 30, 2023 and 2022, respectively.

H. Restricted Assets

Some of the System's assets have certain constraints that have been placed on how they can be used. Restricted assets are cash or other assets whose use in whole or in part is restricted for specific purposes bound by legal requirements, contractual agreements or enabling legislation.

I. Long-term Debt

The System has issued revenue bonds to finance the expansion of the facilities. The outstanding balances for each of these long-term obligations are reported as liabilities on the statement of net position. The amount of the obligation that is due within one year is shown as a current liability and the balance as a non-current liability.

The difference between the carrying amount of the bonds that have been refunded and their reacquisition price is also recognized as a deferred charge on the Board's accounting records. This amount which represents the loss on the transaction is amortized using the straight-line method over the shorter of the life of the new debt or the life of the old debt had it not been refunded. Bond discounts are reported net of current and long-term debt.

J. 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.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The System reports pension-related items other post-employment benefit related items and deferred losses on refunding are in this category.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The System records pension-related items and other post-employment benefit related items as deferred inflow of resources.

L. Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation and the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the System or through external restrictions imposed by creditors, grantors or laws or regulations of other governmental entities. All other net position that does not meet the definition of "restricted" or "net investment in capital assets".

Sometimes the System will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the System's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

M. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles and a prescribed regulatory basis of accounting require management to make estimates and assumptions that affect reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

N. Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement Board Non-Hazardous (CERS) and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. 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.

O. Other Post-Employment Benefits (OPEB)

For the purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Employees Retirement Board Non-Hazardous (CERS) and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the CERS. 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.

P. 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.

Q. Effect of New Accounting Standards

In May of 2020, the Governmental Accounting Standards Board issued GASB Statement No. 96 related to Subscription-Based Information Technology Arrangements. This Statement improves accounting and financial reporting by state and local governments for SBITAs and is effective for fiscal years beginning after June 15, 2022. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain SBITA assets and liabilities for SBITA that previously were recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for SBITA accounting based on the foundational principle that SBITA are financings of the right to use an underlying subscription based asset. This implementation resulted in no impact on the current year or prior year financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILTY

A. Budgetary Information

The System approves annual operating budgets for the managerial control of expenditures and for the monitoring of cash flows during the fiscal year. These managerial budgets that are prepared for operations each year are not adopted by the Board of Directors as legally imposed restrictions on expenditures. Basically, the operating budgets provide management with a tool for estimating and monitoring cash flows in each fiscal period. Accordingly, budgetary comparisons are not presented in the accompanying financial statements.

NOTE 3 - DETAILED NOTES ON ACCOUNTS

A. Cash and Cash Equivalents

The System maintained deposits of public funds with depository institutions insured by FDIC as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institutions should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

Cash and cash equivalents consist of cash, certificates of deposit and short-term investments.

Custodial credit risk – deposits

This is the risk that in the event of a bank failure, the System's deposits may not be returned. As stipulated by KRS 41.230(4), all deposits are collateralized with eligible securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. The Board does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4).

At June 30, 2023 and 2022, the carrying amounts of the System's deposits were $28,875,454 and $22,719,930, and the bank balances were $28,795,424 and 22,797,103. At June 30, 2023 and 2022, the System's full bank balance was covered by FDIC coverage through a sweep account service provided by the System's financial institution.

Investments

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 2023 and 2022, the System invested $64,378 and $57,191, respectively, as a member in MuniNet Fiber Agency and this combined amount $667,833 is reflected as an investment on the System's Statement of Net Position at June 30, 2023. The System purchases inventory for MuniNet Fiber Agency and bills for the inventory when it is used. The receivable from MuniNet Fiber Agency was $628 and $628 as of June 30, 2023 and 2022, respectively.

The System has patronage equity in Meridian Cooperative (formerly SEDC) from the years 2001, 2002, 2003 and 2004. During the year, the System received a non-cash patronage allocation of $1,269, which was added to the investment amount. The System also received patronage refunds in cash during the year totaling $4,823, which decreased the investment amount.

B. Restricted Funds

Restricted funds of the System consisted of cash, certificates of deposit and cash equivalents (investments with maturities of three months or less) and are summarized as follows:

	June 30, 2023	June 30, 2022
Bond sinking funds	$ 6,015,894	$ 5,665,715
Total restricted cash	$ 6,015,894	$ 5,665,715

C. Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
Nondepreciable				
Land	$ 2,724,964	$ -	$ -	$ 2,724,964
Construction in progress	1,392,420	356,345	-	1,748,765
Total nondepreciable	4,117,384	356,345	-	4,473,729
Depreciable				
Transmission system	10,594,564	60,856	29,281	10,626,139
Distribution system	96,725,873	4,354,598	1,816,333	99,264,138
General plant	25,204,998	666,965	277,201	25,594,762
Generation plant	112,088,916	161,874	-	112,250,790
Total depreciable	244,614,351	5,244,293	2,122,815	247,735,829
Less accumulated depreciation	120,743,886	9,932,158	2,884,499	127,791,545
Total capital assets being depreciated, net	123,870,465	(4,687,865)	(761,684)	119,944,284
Capital assets, net	$ 127,987,849	$ (4,331,520)	$ (761,684)	$124,418,013

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

	Beginning Balance	Additions	Deletions	Ending Balance
Nondepreciable				
Land	$ 2,680,779	$ 44,185	$ -	$ 2,724,964
Construction in progress	1,582,078	-	189,658	1,392,420
Total nondepreciable	4,262,857	44,185	189,658	4,117,384
Depreciable				
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	112,088,916	-	-	112,088,916
Total depreciable	242,875,623	4,652,242	2,913,514	244,614,351
Less accumulated depreciation	114,339,708	9,927,151	3,522,973	120,743,886
Total capital assets being depreciated, net	128,535,915	(5,274,909)	(609,459)	123,870,465
Capital assets, net	$ 132,798,772	$ (5,230,724)	$ (419,801)	$127,987,849

Depreciation expense amounted to $9,685,268 and $9,676,866 for the fiscal year ended June 30, 2023 and 2022, respectively. Additionally, transportation expense depreciation charged to clearing for the fiscal years ending June 30, 2023 and 2022 were $246,890 and $250,285, respectively.

D. Accounts Payable

The elements comprising accounts payable are as follows:

	2023	2022
Accounts payable		
Due to KMPA for purchased power	$ 5,159,127	$ 5,898,185
Accounts payable, general	760,219	1,790,699
Total accounts payable	$ 5,919,346	$ 7,688,884

E. Bonds payable transactions

On January 20, 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 $3,105,000 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 5.25%, which were secured by a pledge on 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 the e 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 are considered defeased, and the System has removed the liability from its Statement of Net Position.

Changes in outstanding bonds:

Bond Series	Balance at July 1, 2022	Increases	Decreases	Balance at June 30, 2023	Due in One Year
2009A	$ 10,000	$ -	$ -	$ 10,000	$ -
2016	103,375,000	-	840,000	102,535,000	830,000
2019	9,600,000	-	4,655,000	4,945,000	4,945,000
	$ 112,985,000	$ -	$ 5,495,000	$ 107,490,000	$ 5,775,000

Bond Series	Balance at July 1, 2021	Increases	Decreases	Balance at June 30, 2022	Due in One Year
2009A	$ 10,000	$ -	$ -	$ 10,000	$ -
2016	103,375,000	-	-	103,375,000	840,000
2019	14,830,000	-	5,230,000	9,600,000	4,655,000
	$ 118,215,000	$ -	$ 5,230,000	$ 112,985,000	$ 5,495,000

Bonds payable at June 30, 2023 are summarized as follows:

	2023	**2022**
2009A Electric Plant Board Revenue Bonds, dated January 29, 2009, due in annual installments through 2035, bearing an interest rate of 5.00%.	$ 10,000	$ 10,000
2016A Electric Plant Board Refunding Revenue Bonds, dated January 1, 2016, due in annual installments through October 1, 2035, bearing an interest rate of 2.00%.	102,535,000	103,375,000
2019 Electric Plant Board Revenue Bonds, dated September 1, 2019 due in annual installments through October 1, 2023 bearing an interest rate of 5.00%.	4,945,000	9,600,000
Total bonds payable	107,490,000	112,985,000
Add (less) deferred amounts:		
Unamortized premiums	13,386,986	14,471,266
Unamortized discounts	(267,694)	(289,047)
Less current portion due	(5,775,000)	(5,495,000)
Long-term portion bonds payable	$ 114,834,292	$ 121,672,219

The annual payments due for bonds are as follows:

Fiscal Year	Principal	Interest	Total
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	7,370,000	3,900,525	11,270,525
2029-2033	42,910,000	13,431,875	56,341,875
2034-2038	31,415,000	2,409,938	33,824,938
	$ 107,490,000	$ 38,761,563	$ 146,251,563

The Utility complied with all significant debt covenants and restrictions as set forth in the bond agreements.

The bonds payable contain provisions that in the event of default, the lender can exercise one or more of the following options: (1) Make all or any of the outstanding bonds payable balance and accrued interest immediately due, (2) Use any remedy allowed by state or federal law.

The System currently has a $5 million line of credit with Banterra Bank. The balance of the line of credit was $0 at June 30, 2023 and 2022.

F. 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. None of these lease agreements meet the qualifications of a lease under the provisions of GASB No. 87.

The System's rental expense was $129,551 and $130,103 and rental income was $2,742,502 and $2,666,196 for the fiscal years ended June 30, 2023 and 2022, 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.

G. 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.

NOTE 4 – OTHER INFORMATION

A. Pension Plan
General Information about the Pension Plan

Plan description – All eligible System employees participate in the County Employees' Retirement Board (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the CERS Board of Trustees. CERS consists of two plans – Non-hazardous and Hazardous. System employees participate in the Non-Hazardous plan only. Kentucky Public Pensions Authority issues a publicly available financial report that includes financial statements and supplementary information for CERS. That report can be obtained at https://kyret.ky.gov.

Benefits provided – CERS provides retirement, death and disability benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Kentucky Revised Statute 61.645 assigns the authority to establish and amend benefit provisions to the CERS Board of Trustees.

Cost of Living Adjustment (COLA): Prior to July 1, 2009, COLAs were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year not to exceed 5% in any plan year. After July 1, 2009, the COLAs were limited to 1.50%. No COLA has been granted since July 1, 2011.

Contributions – Tier 1 plan members, who began participating prior to September 1, 2008, are required to contribute 5% of their annual creditable compensation. These members are classified in the Tier 1 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest.

Tier 2 plan members, who began participating on, or after September 1, 2008, and before January 1, 2014, are required to contribute 6% of their annual creditable compensation, while 1% of these contributions are deposited to an account created for the payment of health insurance benefits under 25 USC Section 401(h) in the Pension Fund. These members are classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest, however, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

Tier 3 plan members, who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5% of their annual creditable compensation, and an additional 1% to the health insurance fund (401(h) account) which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Kentucky Retirement Board of Trustees based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Interest is paid into the Tier 3 member's account. The account currently earns 4% interest credit on the member's account balance as of June 30 of the previous year. The member's account may be credited with additional interest if the board's five-year Geometric Average Net Investment Return (GANIR) exceeded 4%. If the member was actively employed and participating in the fiscal year, and if the board's GANIR for the previous five years exceeds 4%, then the member's account will be credited with 75% of the amount of the returns over 4% on the account balance as of June 30 of the previous year (Upside Sharing Interest). The Upside Sharing Interest is credited to both the member contribution balance and Employer Pay Credit Balance.

The System is required to contribute at an actuarially determined rate. As of June 30, 2023, the System's required contribution rates was 23.40% of annual covered payroll. The contribution requirements of plan members and the System are established and may be amended by the CERS Board of Trustees. Contributions to CERS from the System were $1,545,919 for the year ended June 30, 2023.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2023, the System reported a liability of $16,224,147 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of June 30, 2021 and rolled forward using generally accepted actuarial principles. The System's proportion of the collective net pension liability was based on a projection of the Board's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2022, the System's proportion was 0.224431% an increase of 0.001079% from its proportion measured as of June 30, 2021.

For the year ended June 30, 2023, the System recognized pension expense of $1,333,403. At June 30, 2023, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 17,346	$ 144,483
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	415,928	-
Changes in proportion and differences between System contributions and proportionate share of contributions	84,377	30,538
Contributions subsequent to the measurement date	1,545,919	-
	$ 2,063,570	$ 175,021

Of the total reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the System's pension expense as follows:

Year ended June 30:	
2024	$(17,899)
2025	35,975
2026	(136,338)
2027	460,892
	$ 342,630

Actuarial assumptions: The Kentucky Retirement Boards Board of Trustees has adopted no new actuarial assumptions since June 30, 2021. Additionally, there have been no plan provision changes that would materially impact the total pension liability since June 30, 2012. The total pension liability as of June 30, 2022, was determined using the following updated assumptions:

Inflation	2.30%
Payroll growth rate	2.00%
Salary increases	3.30 to 10.30%, varies by service for non-hazardous
Investment rate of return	6.25%

The mortality table used for active members was a PUB-2010 General Mortality table, for the Non-Hazardous Board, and PUB-2010 Public Safety Mortality table for the Hazardous Board, projected with the ultimate rates from the MP-2014 improvement scale using a base year of 2010. The mortality table used for healthy retired members was a board-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 2020. The mortality table used for the disabled members was PUB-2010 Disable Mortality table, with a 4-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.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rates 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. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the table below. The current long-term inflation assumption is 2.30% per annum.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	**60.00%**	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Fixed Income	**20.00%**	
Core Bonds	10.00%	0.28%
Speciality Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Inflation Protected	**20.00%**	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Expected Real Return	**100%**	**4.28%**
Long Term Inflation Assumption		**2.30%**
Expected Nominal Return for Portfolio		**6.58%**

Discount rate: The projection of cash flows used to determine the discount rate of 6.25% assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in statute as last amended by House Bill 362 (passed in 2018). The discount rate determination does not use a municipal bond rate.

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

	1% Decrease	Current Discount Rate	1% Increase
CERS	5.25%	6.25%	7.25%
Board's proportionate share of net pension liability	$20,278,171	$16,224,147	$12,871,133

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.

B. Other Postemployment Benefit Plan
County Employees Retirement Board Non-Hazardous (CERS)

Plan description – In addition to the pension benefits described above, Kentucky Public Pensions Authority provides postemployment healthcare benefits through the Kentucky Retirement Boards

Insurance Trust Fund (Insurance Fund), a cost-sharing, multiple-employer defined benefit plan. The Insurance Fund was established by KRS 61.701 to provide hospital and medical insurance for those receiving benefits from the Kentucky Employees' Retirement Board (KERS), the County Employees' Retirement Board (CERS), and the State Police Retirement Board (SPRS). The responsibility for the general administration and operation of the Insurance Fund is vested with the KRS and CERS Boards of Trustees.

Benefits provided – The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the fiscal year ended June 30, 2022 (the date of the latest available information), insurance premiums withheld from benefit payments for members of CERS were $24.0 million and $3.7 million for non-hazardous and hazardous employees, respectively. For the fiscal year ended June 30, 2021, insurance premiums withheld from benefit payments for members of CERS were $24.3 million and $3.3 million for non-hazardous and hazardous employees, respectively. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous employees killed in the line of duty.

The amount of contributions paid by the Insurance Fund is based on years of service. For employees participating prior to July 1, 2003, years of service and respective percentages of the maximum contributions are shown below:

Less than 4 years	0%
4-9 years	25%
10-14 years	50%
15-19 years	75%
20 or more years	100%

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for those who began participating on or after July 1, 2003. Once employees reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003 earn $10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives $10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 16.652, 61.692, and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

Contributions – The System is required to contribute at an actuarially determined rate. As of June 30, 2023, the System's required contribution rate was 3.39% (non-hazardous) and 6.78% (hazardous) of annual covered payroll. The contribution requirements of plan members and the System are established and may be amended by the CERS Board of Trustees. Contributions to the Insurance Fund from the System were $223,879 (not including implicit subsidies reported in the amount of $159,662) for the year ended June 30, 2023. As described in the Pension note above, Tier 2 and Tier 3 employees contribute 1% of their annual creditable compensation to the Insurance Fund, Tier 1 employees are not required to contribute.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs – At June 30, 2023, the System reported a liability of $4,428,407 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the collective net OPEB was determined by an actuarial valuation as of June 30, 2021 and rolled-forward using generally accepted actuarial principles. The System's proportion of the collective net OPEB liability was based on a projection of the System's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2022, the System's proportion was 0.224392% an increase of 0.001092% from the prior year.

For the year ended June 30, 2023, the System recognized OPEB expense of $686,972. At June 30, 2023, 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
Differences between expected and actual experience	$ 445,756	$ 1,015,536
Changes of assumptions	700,383	577,112
Net difference between projected and actual earnings on pension plan investments	179,738	-
Changes in proportion and differences between System contributions and proportionate share of contributions	75,116	59,073
Contributions subsequent to the Measurement date	223,879	-
Implicit subsidy	159,662	-
	$ 1,784,534	$ 1,651,721

Of the total amount reported as deferred outflows of resources resulting from the System's contributions subsequent to the measurement date and implicit subsidy will be recognized as a reduction of the collective net OPEB liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follow:

Year ended June 30:	
2024	$ 7,025
2025	(13,519)
2026	(266,041)
2027	21,807
	$ (250,728)

Actuarial methods and assumptions: The total OPEB liability as of June 30, 2022, was determined using the following updated assumptions:

Inflation rate	2.30%
Payroll growth rate	2.00%

Salary increases	3.30 to 10.30%, varies by service for non-hazardous
Investment rate of return	6.25%
Healthcare trend rates	
Pre-65	Initial trend starting at 6.20% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Post-65	Initial trend starting at 9.00% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

The single discount rates used to calculate the total OPEB liability within each plan changed since the prior year. The assumed increase in future healthcare costs, or trend assumption, was reviewed during the June 30, 2021, valuation process and was updated to better reflect the plan's anticipated long-term healthcare costs. There were no other material assumption changes.

Senate Bill 209 passed during the 2022 legislative session and increased the insurance dollar contribution for members hired on or after July 1, 2003, by $5 for each year of service a member attains over certain thresholds, depending on a member's retirement eligibility requirement. This increase in the insurance dollar contribution does not increase by 1.5% annually and is only payable for non-Medicare retirees. Additionally, it is only payable when the member's applicable insurance fund is at least 90% funded. The increase is first payable January 1, 2023. Senate Bill 2090 also allows members receiving the insurance dollar contribution to participate in a medical insurance reimbursement plan that would provide the reimbursement of premiums for health plans other than those administered by KPPA.

The total OPEB liability as of June 30, 2022, is determined using these updated benefit provisions. There were no other material plan provision changes.
The long-term expected rate of return 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. The target allocation and best estimates or arithmetic real rate of return for each major asset class are summarized in the table below. The current long-term inflation assumption is 2.30% per annum.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	**60.00%**	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Fixed Income	**20.00%**	
Core Bonds	10.00%	0.28%
Speciality Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Inflation Protected	**20.00%**	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Expected Real Return	**100%**	**4.28%**
Long Term Inflation Assumption		**2.30%**
Expected Nominal Return for Portfolio		**6.58%**

The fully-insured premiums Kentucky Public Pensions Authority pays for the CERS Health Insurance 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.

Discount rate: Single discount rate of 5.70% was used to measure the total OPEB liability as of June 30, 2022. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.69%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2022. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of current plan members. However, the cost associated with the implicit employer subsidy was not included in the calculation of the board's actuarially determined contributions, and any cost associated with the implicit subsidy will not be paid out of the board's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the Systems proportionate share of the collective net OPEB liability to changes in the discount rate: The following presents the System's proportionate share of the collective net OPEB liability calculated using the discount rate of 5.70%, as well as what the Board's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.70%) or one percentage point higher (6.70%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	4.70%	5.70%	6.70%
System's proportionate share of net OPEB liability	$5,920,073	$4,428,407	$3,195,295

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
System's proportionate share of net OPEB liability	$3,292,422	$4,428,407	$5,792,510

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 statements.

D. Commitments

As described further in Note 1E, the System entered into a financing agreement with Kentucky Municipal Power Agency as of June 30, 2005.

E. 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.

F. Subsequent Events

Management has evaluated subsequent events through October 31, 2023, the date which the financial statements were available to be issued.

G. Reclassification

Certain comparative figures have been reclassified to conform to the current year presentation.

REQUIRED SUPPLEMENTARY INFORMATION

PADUCAH POWER SYSTEM
SCHEDULE OF THE EMPLOYER'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Fiscal Years Ending June 30

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Board's proportion of the net pension liability (asset)	0.224431%	0.223352%	0.224971%	0.228240%	0.218880%	0.212356%	0.207550%	0.193466%	0.200828%
Board's proportionate share of the net pension liability (asset)	$ 16,224,147	$ 14,240,442	$ 17,255,089	$ 16,052,221	$ 13,330,458	$ 12,429,850	$ 10,218,988	$ 8,318,121	$ 6,515,620
Board's covered-employee payroll	$ 6,206,012	$ 5,704,989	$ 5,762,609	$ 5,757,434	$ 5,424,906	$ 5,170,346	$ 4,950,959	$ 4,513,829	$ 4,607,316
Board's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	261.43%	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	52.42%	57.33%	47.81%	50.45%	53.54%	53.30%	55.50%	59.97%	66.80%

The amounts presented were determined as of June 30 of the prior fiscal eyar.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future until 10 years of information is available.

PADUCAH POWER SYSTEM
SCHEDULE OF EMPLOYER'S CONTRIBUTIONS
County Employee's Retirement System
Fiscal Years Ending June 30

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	$ 1,545,919	$ 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	(1,545,919)	(1,313,813)	(1,101,063)	(1,112,184)	(933,856)	(785,526)	(721,263)	(614,909)	(577,623)	(633,045)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (2,110)	$ -
Board's covered employee payroll	$ 6,606,190	$ 6,206,012	$ 5,704,989	$ 5,762,609	$ 5,757,434	$ 5,424,906	$ 5,170,346	$ 4,950,959	$ 4,513,829	$ 4,607,316
Contributions as a percentage of covered-employee payroll	23.40%	21.17%	19.30%	19.30%	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future until 10 years of information is available.

PADUCAH POWER SYSTEM
SCHEDULE OF THE EMPLOYER'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Fiscal Years Ending June 30

	2022	2021	2020	2019	2018	2017
Board's proportion of the net OPEB liability (asset)	0.224392%	0.223300%	0.224906%	0.228191%	0.218871%	0.212356%
Board's proportionare share of the net OPEB liability (asset)	$ 4,428,407	$ 4,274,967	$ 5,430,796	$ 3,838,070	$ 3,886,012	$ 4,269,082
Board's covered-employee payroll	$ 6,206,012	$ 5,704,989	$ 5,762,609	$ 5,757,434	$ 5,424,904	$ 5,710,346
Board's proportionare share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	71.36%	74.93%	94.24%	66.66%	71.63%	82.57%
Plan fiduciary net position as a percentage of the total OPEB liability	60.95%	62.91%	51.67%	60.44%	57.62%	52.40%

The amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future until 10 years of information is available.

PADUCAH POWER SYSTEM
SCHEDULE OF THE EMPLOYER'S OPEB CONTRIBUTIONS
County Employee's Retirement System
Fiscal Years Ending June 30

	2023	2022	2021	2020	2019	2018	2017
Contractually required contribution	$ 223,879	$ 358,708	$ 271,557	$ 274,300	$ 302,841	$ 254,971	$ 244,557
Contributions in relation to the contractually required contribution	(223,879)	(358,708)	(271,557)	(274,300)	(302,841)	(254,971)	(244,557)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Board's covered employee payroll	$ 6,606,190	$ 6,206,012	$ 5,704,989	$ 5,762,609	$ 5,757,434	$ 5,424,906	$ 5,170,346
Contributions as a percentage of covered-employee payroll	3.39%	5.78%	4.76%	4.76%	5.26%	4.70%	4.73%

This is a 10-year schedule. However, the inforamtion in this schedule is not requried to be presented retroactively. Years will be added to this schedule in the future until 10 years of information is available.

Pension Plan

Changes of benefit terms: During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final pay rate to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of member's final pay to 50% of average pay for one child, 65% over average pay for two children, of 75% of average pay for three children. The Total Pension Liability beginning June 30, 2018 is determined using these updated benefit provisions.

Changes of assumptions: In the June 30, 2019, 2017 and 2015 actuarial valuations, the following changes in actuarial assumptions were made:

	June 30, 2019	June 30, 2017	June 30, 2015	June 30, 2014
Inflation	2.30%	2.30%	3.25%	3.50%
Payroll Growth	2.00%	0.75%	0.75%	1.00%
Salary Increases	3.30% to 10.30%	3.05%	4.00%	4.50%
Investment Rate of Return	6.25%	6.25%	7.50%	7.75%

In the June 30, 2020 actuarial valuation, the mortality table used for active members was a PUB-2010 General Mortality table, for the Non-Hazardous Board, and PUB-2010 Public Safety Mortality table for the Hazardous Board, projected with the ultimate rates from the MP-2014 improvement scale using a base year of 2010. The mortality table used for healthy retired members was a board-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 2020. The mortality table used for the disabled members was PUB-2010 Disable Mortality table, with a 4-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.

Beginning with the June 30, 2015 actuarial valuation, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

For periods prior to the June 30, 2015 actuarial valuation, the rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years was used for the period after disability retirement

Other Post-Employment Benefits

Changes of benefit terms: Senate Bill 209 passed during the 2022 legislative session and increased the insurance dollar contribution for members hired on or after July 1, 2003, by $5 for each year of service a member attains over certain thresholds, depending on a member's retirement eligibility requirement. This increase in the insurance dollar contribution does not increase by 1.5% annually and is only payable for non-Medicare retirees. Additionally, it is only payable when the member's applicable insurance fund is at least 90% funded. The increase is first payable January 1, 2023. Senate Bill 2090 also allows members receiving the insurance dollar contribution to participate in a medical insurance reimbursement plan that would provide the reimbursement of premiums for health plans other than those administered by KPPA. The total OPEB liability as of June 30, 2022, is determined using these updated benefit provisions.

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The Total OPEB Liability beginning June 30, 2018 is determined using these updated benefit provisions.

Changes of assumptions: In the June 30, 2019 actuarial valuation, the following changes in actuarial assumptions were made:

	June 30, 2019	June 30, 2017
Inflation	2.30%	2.30%
Payroll Growth	2.00%	0.75%
Salary Increases	3.30% to 10.30%	3.05%
Investment Rate of Return	6.25%	6.25%

In the June 30, 2019 actuarial valuation, the mortality table used for active members was a PUB-2010 General Mortality table, for the Non-Hazardous Board, and PUB-2010 Public Safety Mortality table for the Hazardous Board, projected with the ultimate rates from the MP-2014 improvement scale using a base year of 2010. The mortality table used for healthy retired members was a board-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. The mortality table used for the disabled members was PUB-2010 Disable Mortality table, with a 4-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. Beginning with the June 30, 2017 actuarial valuation, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

SUPPLEMENTARY INFORMATION SECTION

PADUCAH POWER SYSTEM
SCHEDULE OF OPERATING EXPENSES
For the Year Ended June 30,

	2023	2022
Transmission Expense		
Supervision and engineering	$ 14,008	$ 13,309
Operating expense	14,559	13,615
Total Transmission Expense	28,567	26,924
Distribution Expense		
Supervision and engineering	290,106	258,671
Station expense	64,707	56,260
Overhead line expense	453,008	399,034
Underground line expense	98,754	89,911
Street lighting and signal expense	8,350	1,687
Meter expense	533,249	471,799
Customer installation expense	113,405	106,227
Miscellaneous	1,189,155	1,110,398
Rent/lease/purchase	129,551	130,103
Total distribution expense	2,880,285	2,624,090
Customer account expense		
Meter reading expense	87,221	79,810
Customer records and collection expense	1,735,604	1,544,179
Uncollectible amounts	244,369	124,809
Total customer account expense	2,067,194	1,748,798
Sales Expense		
Demonstration and selling	305,158	269,367
Advertising	95,153	119,456
Total sales expense	400,311	388,823
Administrative and General Expense		
Salaries	1,187,258	1,130,964
Office supplies and expense	799,705	755,542
Outside services employed	165,971	143,849
Property insurance	796,587	705,376
Company use of electricity	(304,720)	(308,801)
Miscellaneous and general expense	1,974,328	1,530,882
Total administrative and general expenses	4,619,129	3,957,812
Total general operating expenses	**$ 9,995,486**	**$ 8,746,447**

See independent auditor's report.

PADUCAH POWER SYSTEM
SCHEDULE OF OPERATING EXPENSES
For the Year Ended June 30,

	2023	2022
General Plant Expense		
Generation expense	$ 2,016,345	$ 1,456,081
Generation fuel	8,345,174	5,351,357
Total generation plant expense	**$ 10,361,519**	**$ 6,807,438**
Maintenance Expense		
Transmission:		
Supervision and engineering	$ 14,176	$ 13,331
Total tranmission	14,176	13,331
Distribution:		
Supervision and engineering	63,098	55,175
Maintenance of station equipment	768,414	788,695
Maintenance of overhead lines	1,428,595	1,275,980
Maintenance of underground lines	46,474	55,924
Maintenance of line transformers	37,865	(15,034)
Street lights and signals	(13,253)	451
Maintenance of meters	11,962	12,384
Maintenance of miscellaneous plant	460	359
Total distribution	2,343,615	2,173,934
Administrative and general	155,962	197,704
Total maintenance expense	**$ 2,513,753**	**$ 2,384,969**
Other Operating Expense		
Depreciation	$ 9,685,268	$ 9,676,866
Taxes and equivalents	1,893,042	1,897,835
Total other operating expenses	**$ 11,578,310**	**$ 11,574,701**

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

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

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

We have audited, in accordance with the 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 the Electric Plant Board of the City of Paducah, Kentucky, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Electric Plant Board of the City of Paducah, Kentucky's basic financial statements and have issued our report thereon October 31, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Electric Plant Board of the City of Paducah, Kentucky's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Electric Plant Board of the city of Paducah, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the Electric Plant Board of the City of Paducah, Kentucky'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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. 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 or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Electric Plant Board of the City of Paducah, Kentucky'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*.

In addition, we noted other matters involving internal control and its operations that we reported to management of System in a separate letter dated October 31, 2023.

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.

ATA CPAs + Advisors PLLC

Murray, KY
October 31, 2023

FINDINGS – FINANCIAL STATEMENT AUDIT

No findings reported.

PADUCAH POWER SYSTEM
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2023

FINDINGS – FINANCIAL STATEMENT AUDIT

No findings reported.