Kentucky Municipal Energy Agency

Independent Auditor’s Report and Financial Statements

June 30, 2020 and 2019

Kentucky Municipal Energy Agency
June 30, 2020 and 2019

Contents

BKD
CPAs & Advisors

1248 "O" Street, Suite 1040 | Lincoln, NE 68508-1461
402.473.7600 | Fax 402.473.7698 | bkd.com

Independent Auditor's Report

Board of Directors
Kentucky Municipal Energy Agency
Louisville, Kentucky

We have audited the accompanying financial statements of Kentucky Municipal Energy Agency (the Agency), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Municipal Energy Agency as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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

BKD, LLP

Lincoln, Nebraska
September 11, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Kentucky Municipal Energy Agency's ("KYMEA" or the "Agency") financial performance provides an overview of the Agency's activities for the fiscal years ended June 30, 2020, 2019 and 2018. It should be read in conjunction with the basic financial statements and the accompanying notes.

Background

KYMEA is a joint agency organized under the Interlocal Cooperation Act of the State of Kentucky. KYMEA was created to allow its Members to collaborate effectively to do all things necessary or convenient to serve the current and future electric power and energy requirements of the Members and to provide assistance to the Members related to their electric power and energy utility systems. The Agency's Members currently consist of the following Kentucky municipalities: Barbourville, Bardwell, Benham, Berea, Corbin, Falmouth, Frankfort, Madisonville, Owensboro, Paris, and Providence (the "Members").

KYMEA was created in 2015 and began supplying power to Members beginning on May 1, 2019. The Agency also incurred costs for administration, which were billed to the Members.

Summary of the Financial Statements

The financial statements, related notes to the financial statements and management's discussion and analysis provide information about KYMEA's financial position and activities.

Management's Discussion and Analysis – provides an objective and easily readable analysis of the financial activities of KYMEA based on currently known facts, decisions or conditions.

Balance Sheets – provide a summary of the assets and deferred outflows of resources, liabilities and deferred inflows of resources and net position of KYMEA, as of the Agency's fiscal year end.

Statements of Revenues, Expenses and Changes in Net Position – present the operating results of KYMEA into various categories of operating revenues and expenses, and non-operating revenues and expenses.

Statements of Cash Flows – report the cash provided by and used for operating activities, as well as other cash sources and uses.

Notes to the Financial Statements – provide additional disclosures and information that is essential to a full understanding of the data provided in the statements.

Financial Analysis

The following comparative condensed financial information summarizes the Agency's financial position, operating results and cash flows for the years ended June 30, 2020, 2019 and 2018.

Condensed Balance Sheets

	2020	2019	2018
Assets			
Current assets	$ 16,643,933	$ 15,743,430	$ 410,198
Other noncurrent assets	2,678,471	2,276,111	-
Capital assets	1,317,371	1,363,459	406,037
Total assets	$ 20,639,775	$ 19,383,000	$ 816,235
Liabilities, Deferred Inflows of Resources and Net Position			
Current liabilities	$ 8,614,537	$ 8,145,713	$ 640,561
Noncurrent liabilities	-	9,032,768	392,005
Deferred inflows of resources	70,198	-	-
Total liabilities and deferred inflows of resources	8,684,735	17,178,481	1,032,566
Net position			
Investment in capital assets	1,317,371	1,363,459	54,487
Unrestricted	10,637,669	841,060	(270,818)
Total net position	11,955,040	2,204,519	(216,331)
Total liabilities, deferred inflows of resources and net position	$ 20,639,775	$ 19,383,000	$ 816,235

Current assets increased $0.9 million from the fiscal year ending June 30, 2019 to the fiscal year ending June 30, 2020. This increase resulted from an increase in unrestricted cash from normal operations during the year. Noncurrent assets increased by $0.4 million in the same period due to an increase in collateral deposits held by regional transmission organizations.

Current assets increased $15.3 million from the fiscal year ending June 30, 2018 to the fiscal year ending June 30, 2019. This increase resulted from cash drawn from the line of credit of $7.7 million and accounts receivable from energy sales to members beginning on May 1, 2019 of $7.6 million. Noncurrent assets increased by $2.3 million in the same period due to collateral deposits held by regional transmission organizations.

Current liabilities increased $0.5 million from the fiscal year ending June 30, 2019 to the fiscal year ending June 30, 2020. This increase was related to the timing of purchased power expenses to serve the electricity needs of KYMEA's members. Noncurrent liabilities decreased by $9.0 million in the same period due to the line of credit being paid off during fiscal year 2020.

Current liabilities increased $7.5 million from the fiscal year ending June 30, 2018 to the fiscal year ending June 30, 2019. This increase was entirely related to purchased power expenses to serve the electricity needs of KYMEA's All Requirements members beginning on May 1, 2019.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2020	2019	2018
Operating revenues	$ 80,073,606	$ 15,488,616	$ 2,195,330
Operating expenses	70,316,505	12,968,750	2,514,447
Operating income (loss)	9,757,101	2,519,866	(319,117)
Net nonoperating revenues (expenses)	(6,580)	(99,016)	(88)
Change in net position	9,750,521	2,420,850	(319,205)
Net position - Beginning of Year	2,204,519	(216,331)	102,874
Net position - End of Year	$ 11,955,040	$ 2,204,519	$ (216,331)

During May 2019, KYMEA began providing electricity to its All Requirements member communities; therefore, the fiscal year ended June 30, 2020 contains a full twelve months of related operating revenues, as well as purchased power and production costs, related to this service and the fiscal year ended June 30, 2019 contains two months of related operating revenues, as well as purchased power and production costs, related to this service. All increases in operating revenues and operating expenses from the fiscal years ending June 30, 2018 to 2019, and June 30, 2019 to 2020 are a result of this activity.

Financing

In December 2018, the Board approved the Agency to execute a revolving line of credit agreement, expiring March 1, 2021 for advances up to $30,000,000. Advances under this agreement bear interest at thirty-five basis points (0.35%) above One Month LIBOR, and interest is payable semi-annually. The amount outstanding under this line of credit was $9,032,768 as of June 30, 2019. There were no amounts outstanding under this line of credit as of June 30, 2020.

In July 2017, the Board approved the Agency to execute a revolving line of credit agreement, expiring October 19, 2019 for advances up to $5,000,000. Advances under this agreement bear interest at two percent (2%) above One Month LIBOR, and interest is payable semi-annually. The amount outstanding under this line of credit was $392,005 as of June 30, 2018.

Capital Assets

The agency's investment in capital assets (net of accumulated depreciation) as of June 30, 2020 and 2019 totaled $1,317,371 and $1,363,459, respectively. This investment includes transportation equipment and building improvements and other equipment related to the Agency's office headquarters.

General Trends and Significant Events

KYMEA will continue to search for additional power and energy resources for its Members, which may include purchased power agreements, investments in power projects and other sources. KYMEA's goal is to establish a portfolio with renewable, coal and natural gas resources to provide more flexibility in response to market changes and future regulations.

Contact Information

This financial report is designed to provide a general overview of KYMEA's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Heather Overby, Chief Financial Officer, 1700 Eastpoint Parkway, Louisville, KY 40223, (502) 640-1304.

Kentucky Municipal Energy Agency
Balance Sheets
June 30, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash	$ 8,941,609	$ 7,755,194
Accounts receivable	7,620,246	7,977,472
Prepaid expenses and other assets	11,880	10,764
Fair value of derivative instruments	70,198	-
Total current assets	16,643,933	15,743,430
Collateral Deposit	2,678,471	2,276,111
Capital Assets, Net of Accumulated Depreciation	1,317,371	1,363,459
Total assets	$ 20,639,775	$ 19,383,000
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Accounts payable	$ 8,428,989	$ 8,001,235
Accrued liabilities	185,416	125,347
Accrued interest payable	132	19,131
Total current liabilities	8,614,537	8,145,713
Line of Credit	-	9,032,768
Deferred Inflows of Resources		
Deferred inflows from derivative instruments	70,198	-
Total liabilities and deferred inflows of resources	8,684,735	17,178,481
Net Position		
Investment in capital assets	1,317,371	1,363,459
Unrestricted	10,637,669	841,060
Total net position	11,955,040	2,204,519
Total liabilities, deferred inflows of resources and net position	$ 20,639,775	$ 19,383,000

Kentucky Municipal Energy Agency

Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2020 and 2019

	2020	2019
Operating Revenues		
Billings to members	$ 80,073,606	$ 15,488,616
Total operating revenues	80,073,606	15,488,616
Operating Expenses		
Production and purchased power	61,031,150	7,314,580
Transmission	7,401,625	2,942,783
Depreciation	176,122	79,134
Other operating expenses	1,707,608	2,632,253
Total operating expenses	70,316,505	12,968,750
Operating Income	9,757,101	2,519,866
Nonoperating Revenues (Expenses)		
Interest expense	(26,302)	(107,487)
Interest income	19,722	8,471
Total nonoperating revenues (expenses)	(6,580)	(99,016)
Change in Net Position	9,750,521	2,420,850
Net Position, Beginning of Year	2,204,519	(216,331)
Net Position, End of Year	$ 11,955,040	$ 2,204,519

Kentucky Municipal Energy Agency
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows From Operating Activities		
Receipts from members	$ 80,430,832	$ 7,851,449
Payments to service providers and others	(68,786,310)	(4,480,061)
Payments to employees	(867,366)	(917,210)
Collateral deposit remittances	(402,360)	(2,276,111)
Net cash provided by operating activities	10,374,796	178,067
Cash Flows From Noncapital Financing Activities		
Advances from line of credit	37,000,000	11,445,933
Payments on line of credit	(46,032,768)	(2,805,170)
Interest payments	(45,301)	-
Net cash provided by (used in) noncapital financing activities	(9,078,069)	8,640,763
Cash Flows From Capital and Related Financing Activities		
Purchase of capital assets	(130,034)	(1,043,902)
Interest payments	-	(89,647)
Net cash used in capital and related financing activities	(130,034)	(1,133,549)
Cash Flows From Investing Activities		
Interest income	19,722	8,471
Net cash provided by investing activities	19,722	8,471
Net Increase in Cash	1,186,415	7,693,752
Cash, Beginning of Year	7,755,194	61,442
Cash, End of Year	$ 8,941,609	$ 7,755,194
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 9,757,101	$ 2,519,866
Depreciation	176,122	79,134
Changes in operating assets and liabilities		
Accounts receivable	357,226	(7,637,167)
Prepaid expenses and other assets	(1,116)	(2,313)
Fair value of derivative instruments	(70,198)	-
Collateral deposit	(402,360)	(2,276,111)
Accounts payable	427,754	7,395,734
Accrued expenses	60,069	98,924
Deferred inflows from derivative instruments	70,198	-
Net cash provided by operating activities	$ 10,374,796	$ 178,067

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Kentucky Municipal Energy Agency ("KYMEA" or the "Agency") is a joint agency organized under the Interlocal Cooperation Act of the State of Kentucky. KYMEA was formed in 2015 to allow its Members to collaborate effectively to do all things necessary or convenient to serve the current and future electric power and energy requirements of the Members and to provide assistance to the Members related to their electric power and energy utility systems. The Agency's Members currently consist of the following Kentucky municipalities: Barbourville, Bardwell, Benham, Berea, Corbin, Falmouth, Frankfort, Madisonville, Owensboro, Paris, and Providence (the "Members").

Eight of the eleven Members have entered into All Requirements Power Sales Contracts ("Contracts"). Under the Contracts, these eight members will purchase all power and energy needed to meet their respective retail requirements, beginning May 1, 2019, and the Contracts also obligate these members to provide revenue sufficient to allow the Agency to meet its obligations, including those related to power purchases, administration and prospective debt issuance.

KYMEA's Board of Directors (the "Board") is comprised of representatives from each of the Members. The Board directs and makes all significant decisions relating to the operations of the Agency.

Reporting Entity

In evaluating how to define the Agency for financial reporting purposes, management has considered all potential component units for which financial accountability may exist. The determination of financial accountability includes consideration of a number of criteria, including: (1) the Agency's ability to appoint a voting majority of another entity's governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on the Agency and (3) the entity's fiscal dependency on the Agency. Based upon the above criteria, KYMEA has determined that it has no reportable component units.

Basis of Presentation

KYMEA's activities are accounted for on the economic resources measurement focus and use the accrual basis of accounting. KYMEA's accounting records are maintained in accordance with accounting principles generally accepted in the United States of America for regulated utilities and generally follow the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). KYMEA prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported balance sheet amounts and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable are stated at the amount billed to the Members. Accounts receivable are due immediately upon issuance of the invoice, which is ordinarily 20 days after the end of the prior month. Management does not believe an allowance for doubtful accounts is necessary at June 30, 2020 and 2019.

Collateral Deposit

KYMEA is a transmission dependent utility of both the Midcontinent Independent System Operator (MISO) and PJM Interconnection LLC (PJM), regional transmission organizations whose purpose is to ensure the reliability of their respective integrated, regional electrical transmission systems, to facilitate a regional wholesale marketplace, to provide non-discriminatory access to the transmission system and to maintain and improve electric system reliability.

The collateral deposit represents funds remitted to these organizations as a form of financial assurance to secure the Agency's performance under the terms and conditions of the respective MISO or PJM Tariffs related to the purchase of transmission service, market services, ancillary services, and related products or services.

Capital Assets

Capital assets are stated at cost less accumulated depreciation. Depreciation is charged to expense on the straight-line basis over the estimated useful life of each asset. The following estimated useful lives are being used by the Agency:

Building improvements	15 years
Equipment	5 - 10 years

Compensated Absences

Agency policies permit employees to accumulate vacation, personal time and sick leave benefits that may be realized as paid time off or as a cash payment upon retirement. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absences are computed using the regular pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Net Position Classification

Net position is required to be classified into three components – investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Investment in capital assets- This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, if applicable.

***Restricted* -** This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), contributors, or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The Agency has no net position that meets the restricted definition at June 30, 2020 and 2019.

***Unrestricted* -** This component of net position consists of the net amount of assets and liabilities that do not meet the definition of “restricted” or “investment in capital assets.”

Classification of Revenues and Expenses

Operating revenues and expenses are defined as revenues and expenses directly related to, or incurred in support of, the future procurement and distribution of power and energy to KYMEA’s Members. Operating revenues currently include billings to Members to cover Agency administration costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Derivative Instruments

Derivative instruments are utilized by the Agency to manage market risk and reduce exposure resulting from fluctuations in prices of power and energy. These instruments include commodity swap agreements. Additional information regarding these instruments is shown in Note 5.

Income Taxes

KYMEA, as a unit of local government of the State of Kentucky, is exempt from federal and state income taxes.

Adoption of Accounting Standards

At the beginning of the year ended June 30, 2020, the Agency adopted GASB Statement No. 84, *Fiduciary Activities* and paragraphs 4 and 5 of GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. Adoption of GASB No. 84 and GASB No. 97 had no effect on the Agency’s financial statements.

Note 2: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposit may not be returned to it. The Agency's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance, bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Kentucky, bonds of any city, county, school district or special road district of the State of Kentucky or a surety bond having an aggregate value at least equal to the amount of the deposits.

The Federal Deposit Insurance Corporation (FDIC) insures transaction accounts for government deposits up to $250,000 per official custodian at each covered institution. At June 30, 2020 and 2019, the carrying amount of the Agency's deposits were $8,941,609 and $7,755,194 and the bank balances were $8,942,109 and $7,771,133, respectively. At June 30, 2020 the Agency's deposits exceeded FDIC coverage and collateral held by approximately $8,692,109.

Note 3: Capital Assets

Capital asset activity for the years ended June 30, 2020 and 2019 was as follows:

	July 1, 2019	Increase	Decrease	Transfers	June 30, 2020
Equipment	$ 1,191,078	$ 130,034	$ -	$ -	$ 1,321,112
Building improvements	253,638	-	-	-	253,638
Less: accumulated depreciation	(81,257)	(176,122)	-	-	(257,379)
Totals	$ 1,363,459	$ (46,088)	$ -	$ -	$ 1,317,371

	July 1, 2018	Increase	Decrease	Transfers	June 30, 2019
Construction work in progress	$ 372,498	$ 1,036,556	$ -	$ (1,409,054)	$ -
Equipment	35,662	-	-	1,155,416	1,191,078
Building improvements	-	-	-	253,638	253,638
Less: accumulated depreciation	(2,123)	(79,134)	-	-	(81,257)
Totals	$ 406,037	$ 957,422	$ -	$ -	$ 1,363,459

Note 4: Line of Credit

In March 2019, the Agency executed a revolving line of credit agreement, expiring March 1, 2020 for advances up to $30,000,000. This agreement was later extended to March 1, 2021. Advances under this agreement bear interest at thirty-five basis points (0.35%) above One Month LIBOR, and interest is payable semi-annually. The amount outstanding under this line of credit was $0 and $9,032,768 as of June 30, 2020 and June 30, 2019, respectively. This agreement is collateralized by substantially all assets of the Agency and secured by a pledge of the revenues from the Agency's Contracts with the Members.

Note 5: Derivative Instruments

Objectives and Terms of Derivative Instruments

The Agency has entered into commodity swaps to hedge changes in cash flows and reduce exposure due to fluctuations in the market price of energy. These commodity swaps are considered derivative instruments under the provisions of GASB Codification Section D40, *Derivative Instruments*. The fair value of the commodity swaps are based on actual settlements at June 30, 2020.

<u>*Cash Flow Hedges*</u> – Cash flow hedges are derivative instruments associated with a hedgeable item that significantly reduce an identified financial risk by substantially offsetting changes in cash flows or fair values of the hedgeable item. At June 30, 2020, the positive fair value of commodity swaps considered cash flow hedges is classified as a current asset on the balance sheet, with an offsetting deferred inflow of resources for the same amount. The change in fair value of cash flow hedges was an increase of $70,198 for 2020. The change in fair value is reflected within deferred inflows from derivative instruments in 2020.

During 2020, the Agency had pay-fixed, receive variable commodity swaps with a national energy corporation. The Agency pays the predetermined fixed price and the counterparty pays the variable price, which is based on the Indiana Hub Day-Ahead settlement price for the contractual hour. As of June 30, 2020, the counterparty was rated A- by Standard & Poor's and Baa1 by Moody's Investors Service.

The fair value of the Agency's derivative instruments at June 30, 2020 is $70,198.

A summary of objectives and terms of the Agency's derivative instruments at June 30, 2020, (all contracts are structured with a quantity of 19,600 MWh per contract) follows:

Notional Amount	Trade Date	Effective Date	Termination Date	Fixed Price per MWh
Cash Flow Hedges:				
		Hourly starting	Hourly through	
19,600 MWh	6/15/2020	7/1/2020	8/31/2020	$ 19.70
19,600 MWh	6/26/2020	7/1/2020	8/31/2020	$ 18.50

Note 5: Derivative Instruments – Continued

Objectives and Terms of Derivative Instruments – Continued

Credit Risk – Credit risk is the risk that an issuer or other counterparty to a transaction will not fulfill its obligations. At June 30, 2020, for the swaps with a positive fair value, the Agency was exposed to credit risk in the amount of the fair value of the swaps. The Agency reduces its exposure to credit risk by requiring the counterparty to maintain credit ratings as defined in contract documents.

Termination Risk – The Agency or the counterparties may terminate the swaps if either party fails to perform as outlined in the terms of the contracts. If a swap agreement is terminated, each party will make the calculations on its part, and will provide to the other party a statement showing relevant quotations and specifying any amount payable according to the applicable swap agreements.

Basis Risk – The Agency is exposed to basis risk on the swaps because the variable payments on the commodity swaps are based on the Indiana Hub Day-Ahead pricing point, which is different than the pricing point used by the Agency to purchase power. The basis difference can vary depending on the geographical location of the pricing point.

Note 6: Operating Leases

The Agency has entered into a noncancellable operating lease for office space expiring in fiscal year 2024. The lease contains two renewal options for 60 months each. The Agency took occupancy of the office space on August 1, 2018 and recorded rent expense of $163,587 and $146,490 for the years ended June 30, 2020 and 2019, respectively.

Future minimum lease payments at June 30, 2020 were:

2021	$ 162,695
2022	164,426
2023	164,426
2024	41,107

Note 7: Retirement Plans

The Agency offers all employees a deferred compensation plan, created in accordance with Internal Revenue Code Section 457 (“457 Plan”). The 457 Plan permits employees to defer a portion of their salary until termination, retirement or death.

The Agency also sponsors a defined contribution retirement savings plan, created in accordance with Internal Revenue Code Section 401(a). All full-time employees are eligible to participate in this plan. The Agency contributes 10% of base wages to eligible employees. Eligible employees are those that contribute a minimum of 3% to the 457 Plan. Employer contributions of $72,032 and $74,747 were made for the fiscal years ended June 30, 2020 and 2019, respectively.

Note 7: Retirement Plans - Continued

Assets and liabilities of the retirement plans are not included in the Agency's financial statements as all assets are held and managed by a third-party administrator and the retirement plans are not considered to be component units of the Agency under the applicable accounting guidance.

Note 8: Commitments

Purchased Power Agreements

KYMEA expects to supply nearly all of its power requirements through a portfolio of purchased power agreements. The Agency currently has three purchased power agreements in effect, with varying terms, to supply its power requirements beginning May 1, 2019. The first agreement is a 10 year arrangement with Big Rivers Electric Corporation (BREC) for 100 megawatts (MW) of firm base load capacity from BREC's portfolio of owned resources. The second agreement is a three year contract with Illinois Power Marketing Company (IPMC) for 100 MW of capacity from IPMC's 500MW Joppa Power Station, which consists of three coal-fired generating units. The final agreement provides for an initial nomination of 90 MW of peaking capacity from Paducah Power System.

KYMEA has also entered into an agreement to purchase 62.5% of the capacity from Ashwood Solar I, LLC upon Commercial Operation, for a period of 20 years. KYMEA expects to start receiving energy from Ashwood Solar I, LLC in 2022.

Note 9: Risk Management

KYMEA is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries to agents and others; and natural disasters. The Agency carries commercial insurance, subject to certain limits and deductibles, to reduce the financial impact for claims arising from such matters. Claims have not exceeded this commercial coverage in any of the three preceding years.

Note 10: Subsequent Event

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Agency. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.