KENTUCKY MUNICIPAL POWER AGENCY

(A DEVELOPMENT STAGE ORGANIZATION)

FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

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WILLIAMS, WILLIAMS & LENTZ, LLP
CERTIFIED PUBLIC ACCOUNTANTS
601 JEFFERSON
PADUCAH, KENTUCKY 42001

J. RICHARD WALKER
ROBERT R. ROBERTSON
C. SUZETTE CRONCH
MICHAEL F. KARNES
MARK A. THOMAS
ROGER G. HARRIS
J. DAVID BAILEY, III

G. LEON WILLIAMS, 1926-2004
H. WILLIAM LENTZ, 1925-2007
JERRY G. SEVERNS

MAILING ADDRESS
POST OFFICE BOX 2500
PADUCAH, KY 42002-2500

TELEPHONE
270-443-3643

FAX
270-444-0652

WEBSITE
wwlcpa.com

Independent Auditor's Report

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

We have audited the accompanying financial statements of the Kentucky Municipal Power Agency, as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Kentucky Municipal Power Agency's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Kentucky Municipal Power Agency, as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2011, on our consideration of Kentucky Municipal Power Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kentucky Municipal Power Agency's financial statements as a whole. The schedule of operating expenses on page 26 is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of operating expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Williams, Williams & Lentz LLP

October 19, 2011

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY MUNICIPAL POWER AGENCY
(A DEVELOPMENT STAGE ORGANIZATION)
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Kentucky Municipal Power Agency (Agency) is presenting the following discussion and analysis in order to provide an overall review of the Agency's financial activities for the fiscal years ending June 30, 2011 and 2010. We encourage readers to consider the information presented here in conjunction with the Agency's financial statements and notes to the basic financial statements to enhance their understanding of the Agency's financial performance.

Financial Highlights

- The Agency's total assets decreased $3.7 million from 2010 to 2011, while total liabilities decreased $2.5 million resulting in total net assets decreasing $1.2 million over the course of the year's operations compared to 2010. This decrease was directly related to difference between interest charged to construction and interest paid on indebtedness adjusted for the Federal Build America Bonds subsidy. The Agency will not have a debt service component in its rates to its members until the Prairie State Project begins generating electricity in FY 2012.
- The Agency had an operating gain in 2011 due to overhead charges being billed to members.

Non-operating revenues, including investment income, increased $5.9 million from 2010 to 2011. This increase is related to the settlement of an interest rate hedge in 2010 in the amount of $7.2 million offset by increased interest paid on indebtedness resulting from a full year of debt service on the 2010 bond issue.

Overview of the Financial Highlights

This annual report includes the management's discussion and analysis report, the independent auditor's report and the basic financial statements of the Agency. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Highlights

The financial statements of the Agency report information of the Agency using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statements of Net Assets (Deficit) include all the Agency's assets and liabilities and provide information about the nature and amounts of investments and resources (assets) and the obligations to the Agency's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Agency and assessing the liquidity and financial flexibility of the Agency.

All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Assets (Deficit). These statements measure the success of the Agency's operations over the past year and can be used to determine whether the Agency has successfully recovered all its costs through its fees and other charges, and also assess the profitability and credit worthiness of the Agency.

The final required financial statements are the Statements of Cash Flows. The statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period. Cash for 2011 and 2010 was provided by revenue bonds issued in May 2010 ($183.7 million) and the sale of electricity to Agency members.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements follow the Statements of Cash Flows in this report.

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
(A DEVELOPMENT STAGE ORGANIZATION)
MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the Agency

The most common financial question posed to the Agency is "How did we do financially from 2010 to 2011?" The Statements of Net Assets (Deficit) and the Statements of Revenues, Expenses, and Changes in Net Assets report information about the Agency's activities in a way that will help answer this question. These two statements report the net assets of the Agency and the changes in them. One can think of the Agency's net assets (deficit) – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Agency's net assets are one indicator of whether the financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed governmental legislation. As the Agency is a developmental stage entity, it is expected and reasonable that net assets will continue to decrease until sales of electricity from the Prairie State Project begin in 2012 and the Agency begins to bill its members for debt service on its bonds.

To begin our analysis, a summary of the Agency's Statements of Net Assets (Deficit) is presented in Table A-1.

Table A-1
Condensed Statements of Net Assets (Deficit)
(000's)

	2011	2010	2009	2010-2011 Dollar Change	2009-2010 Dollar Change
Current and other assets	$ 103,138	$ 227,624	$ 151,904	$(124,486)	$ 75,720
Capital assets	401,801	281,065	171,235	120,736	109,830
Total assets	504,939	508,689	323,139	(3,750)	185,550
Revenue bonds	494,195	494,329	309,823	(134)	184,506
Other liabilities	20,065	22,453	13,946	(2,388)	8,507
Total liabilities	514,260	516,782	323,769	(2,522)	193,013
Invested in capital assets, net of related debt	(3,078)	1,852	12,586	(4,930)	(10,734)
Restricted	-	-	-	-	-
Unrestricted	(6,243)	(9,945)	(13,216)	3702	3,271
Total Net Assets (Deficit)	$ (9,321)	$ (8,093)	$ (630)	$ (1,228)	$ (7,463)

(Continued)

Financial Analysis of the Agency

Table A-2
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(000's)

	2011	2010	2009	2010-2011 Dollar Change	2009-2010 Dollar Change
Operating revenue	$ 79,770	$ 38,337	$ -	$ 41,433	$ 38,337
Non-operating revenue	24,761	16,826	16,346	7,935	480
Total revenue	104,531	55,163	16,346	49,368	38,817
Other operating expense	79,653	38,514	1,113	41,139	37,401
Non-operating expense	26,106	24,112	15,885	1,993	8,227
Total expenses	105,759	62,626	16,998	43,132	45,628
Changes in net assets	(1,228)	(7,463)	(652)	6,236	(6,811)
Beginning net assets (deficit)	(8,093)	(630)	22	(7,463)	(652)
Ending net assets (deficit)	$ (9,321)	$ (8,093)	$ (630)	$ (1,227)	$ (7,463)

While the Statements of Net Assets (Deficit) show net assets (deficit) of the Agency, the Statements of Revenues, Expenses, and Changes in Net Assets (Deficit) provide answers as to the nature and source of these changes. As illustrated in Table A-2, there was a negative change in net assets for 2011, 2010, and 2009.

The Agency had operating revenues in only fiscal years 2011 and 2010 due to the fact that its members began purchasing power from the Agency in December 2009. Electricity sold to members is currently obtained through contracts with generation suppliers. The Agency will continue as a developmental stage entity until the Prairie State Generation Project completes the construction phase.

Non-operating revenues represent investment income from the 2007 and 2010 revenue bond funds and interest charged to construction resulting from the 2007 and 2010 bond issues as well as income relating to the Federal Build America Bond (BABS) subsidy. The Agency is entitled to a payment of 35% of interest expense relating to the BABS portion of the 2010 bond issue from the United States Government. Income related to the BABS subsidy was $2.7 million and $256 thousand in 2011 and 2010, respectively. Contributions from Paducah Power System and the Princeton Electric Plant Board represent additional income in 2009. Paducah Power System donated all labor for administrative duties performed for the Agency during 2009.

Other operating expenses increased in 2011 and 2010 due to the inception of contracts to purchase electricity from generation suppliers in order to provide electricity for sale to the Agency's members, beginning in December 2009.

Non-Operating Expenses increased dramatically from 2009 to 2010 due to unwinding of an interest rate hedge which cost the Agency $7.3 million. 2011 saw the first full year of interest paid on indebtedness related to the May 2010 bond issue. This amount increased $9.2 million from 2010 to 2011.

(Continued)

Capital Assets

At the end of 2011, the Agency had $402 million invested in capital assets. There was an increase in capital assets from 2009 to 2010 of $109.8 million. There was an increase in capital assets from 2010 to 2011 of $120.7 million; thus, a grand total increase of $230.5 million was seen from 2009 to 2011. Capital assets are entirely comprised of construction in progress related to the Prairie State Energy Campus Project.

The Capital Assets comparison between 2011, 2010, and 2009, is shown in Table A-3.

Table A-3
Capital Assets
(000's)

	2011	2010	2009	2010-2011 Dollar Change	2009-2010 Dollar Change
Construction in progress	$ 401,801	$ 281,065	$ 171,235	$120,736	$ 109,830

Debt Administration

The revenue bonds outstanding increased from $308 million in 2009 to $491 million at June 30, 2011, due to the issuance of $183.7 million in revenue bonds in May 2010. The bonds are secured by revenues from power sales agreements with Paducah Power System and Princeton Electric Plant Board.

Economic Factors and Other Information

The Agency Formation

The Agency is a joint public agency organized under provisions of Chapter 65 of the Kentucky Revised Statutes, pursuant to an Interlocal Corporation Agreement dated February 7, 2005, and approved by the Attorney General of the Commonwealth of Kentucky on February 11, 2005. The Agency was organized for the purpose of providing municipal electric systems in the Commonwealth with an on-going source and supply of electric power to meet the demands for growth of power consumption. The formation of the Agency is designed for members to undertake financings on a project basis only.

The Agency Organization

The Agency currently is comprised of two municipal utility members, Paducah Power System and Princeton Electric Plant Board. Additional members may be added if approved by the Agency Board and its members. The Board of Directors is currently comprised of four individuals: the chairman of Paducah Power System, the chairman of Princeton Electric Plant Board, and both electric systems' general managers.

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Economic Factors and Other Information

Members Wholesale Power Contracts

Both Paducah Power System and Princeton Electric Plant Board were full requirements wholesale distribution customers of the Tennessee Valley Authority (TVA) beginning in 1962. In December 2004 and January 2005, Paducah Power System and Princeton Electric Plant Board, respectively, provided TVA with a five-year written notice of their decision to terminate their Wholesale Power Contracts. Since providing TVA with said notice, Paducah Power System and Princeton Electric Plant Board have determined that they will meet their baseload wholesale power requirements through a power sales agreement with the Agency. The Agency will obtain the power necessary to meet those needs through its participation and ownership in the Prairie State Energy Campus.

Prairie State Project

February 5, 2005, the Agency executed a Project Development Agreement with the Prairie State Generating Company (PSGC), at the time a subsidiary of Peabody Energy. The Prairie State Project is a 1600 MW supercritical mine mouth coal generating facility and newly developed adjacent coal mine located in Southern Illinois, forty miles southeast of St. Louis, Missouri. After financial closing, the plant and coal mine became owned as tenants in common by all participants. The coal mine is estimated to contain sufficient reserves to fuel the generating plant for at least 30 years. The Project also includes transmission upgrades and interconnection to the Ameren system which is a member of the Midwest Independent-Transmission System Operator (MISO) transmission grid.

The Agency's current entitlement in the Project is 124 MW, of which Paducah Power System is entitled to 104 MW and Princeton Electric Plant Board is entitled to 20 MW. Other participants in the Project are American Municipal Power, Inc., Illinois Municipal Electric Agency, Indiana Municipal Power Agency, Missouri Joint Municipal Electric Utility Commission, Northern Illinois Municipal Power Agency, Prairie Power, Inc., Southern Illinois Power Cooperative, and Lively Grove Energy Partners, LLC, a wholly-owned subsidiary of Peabody Energy Corporation.

Bechtel was issued Full Notice to Proceed on October 1, 2007. As of the end of August 2011, PSGC reported that, for activities related solely to Bechtel's Amended Engineering, Procurement and Construction (EPC) Contract, engineering efforts are approximately 98.4 percent complete, construction activities are approximately 89.9 percent complete, and overall efforts are approximately 89.6 percent complete, all of which are on schedule. Unit 1 of the Prairie State Project is guaranteed by Bechtel to be substantially complete by December 6, 2011; and, Unit 2 of the Prairie State Project is guaranteed by Bechtel to be substantially complete by August 1, 2012.

Equipment and construction specifications for the Mine have been issued; and, construction activities on the Mine portal began in early May of 2008. As of the end of August 2011, approximately 85 percent of construction activities on the Mine had been completed, which is within schedule. Approximately 98 percent of the expected total equipment and contract costs of the Mine had been committed to in the form of either actual purchases or signed commitments for equipment, materials and supplies, and construction services with fixed prices.

The Agency's share of the estimated costs to complete the construction and equipping of the project, including the Mine, as of the end of August 2011, is approximately $43.4 million.

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Agency Contact Information

The financial report is designed to provide creditors with a general overview of Kentucky Municipal Power Agency's finances. Anyone having questions regarding this report, or desiring additional information may contact David R. Clark, General Manager, Kentucky Municipal Power Agency, P.O. Box 0180, Paducah, KY 42002-0180 or by telephone at 270.575.4000 or by email at dclark@paducahpower.com.

BASIC FINANCIAL STATEMENTS

KENTUCKY MUNICIPAL POWER AGENCY
(A DEVELOPMENT STAGE ORGANIZATION)
STATEMENTS OF NET ASSETS (DEFICIT)
JUNE 30

ASSETS

	2011	2010
Current Assets:		
Cash and temporary cash investments	$ 5,693,370	$ 3,347,908
Accounts receivable	1,457,735	1,190,997
Other receivables	5,903,248	6,986,909
Prepaid expenses	2,959	2,842
Total current assets	13,057,312	11,528,656
Restricted assets:		
Project fund	45,461,897	163,961,667
Reserve fund	35,526,461	34,093,069
Pledged collateral	2,500,000	11,000,000
Interest receivable	764,996	979,614
Total restricted assets	84,253,354	210,034,350
Capital assets:		
Construction work in progress	401,801,023	281,065,179
Total capital assets	401,801,023	281,065,179
Deferred debits and other assets:		
Unamortized debt issuance costs	5,827,378	6,060,564
Total deferred debits and other assets	5,827,378	6,060,564
Total noncurrent assets	491,881,755	497,160,093
Total assets	$504,939,067	$508,688,749

See notes to financial statements.

LIABILITIES

Current Liabilities:	**2011**	**2010**
Accounts payable	$ 10,636,815	$ 16,063,617
Other payables	760,266	150,759
Current liabilities payable from restricted assets:		
Accrued interest	8,668,271	6,238,988
Total current liabilities	20,065,352	22,453,364
Noncurrent Liabilities:		
Long-term debts:		
Bonds held by public	491,440,000	491,440,000
Unamortized debt discounts	(2,476,424)	(2,583,547)
Unamortized debt premium	5,230,893	5,472,396
Total noncurrent liabilities	494,194,469	494,328,849
Total liabilities	514,259,821	516,782,213

NET ASSETS (DEFICIT)

Invested in capital assets, net of related debt	(3,077,710)	1,851,630
Unrestricted - net (deficit)	(6,243,044)	(9,945,094)
TOTAL NET ASSETS (DEFICIT)	$ (9,320,754)	$ (8,093,464)

KENTUCKY MUNICIPAL POWER AGENCY
(A DEVELOPMENT STAGE ORGANIZATION)
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS (DEFICIT)
YEARS ENDED JUNE 30

	2011	2010
Operating Revenues:		
Service revenue	$79,770,113	$38,336,711
Total operating revenues	79,770,113	38,336,711
Purchased Power and Operating Expenses:		
Purchased power cost	79,064,422	37,766,032
General operating expense	588,649	747,850
Total purchased power and operating expenses	79,653,071	38,513,882
Operating income (loss)	117,042	(177,171)
Nonoperating Revenues (Expenses):		
Interest paid on indebtedness	(26,004,812)	(16,796,137)
Investment income	2,788,630	4,053,938
Federal Build America Bond's subsidy	2,716,877	256,594
Interest charged to construction	19,255,778	12,515,510
Net amortization discount and premium on debt	(100,805)	(53,459)
Hedge settlement expense	-	(7,263,000)
Total nonoperating revenues (expenses)	(1,344,332)	(7,286,554)
Change in net assets	(1,227,290)	(7,463,725)
Net assets (deficit), beginning of year	(8,093,464)	(629,739)
NET ASSETS (DEFICIT), END OF YEAR	$ (9,320,754)	$ (8,093,464)

See notes to financial statements.

KENTUCKY MUNICIPAL POWER AGENCY
(A DEVELOPMENT STAGE ORGANIZATION)
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

	2011	2010
Cash Flows from Operating Activities:		
Receipts from customers	$ 80,587,036	$ 30,706,909
Payments to suppliers	(84,273,050)	(30,841,305)
Payments to employees	(197,433)	(125,820)
Net cash used by operating activities	(3,883,447)	(260,216)
Cash Flows from Capital and Related Financing Activities:		
Capital expenditures	(101,480,066)	(97,315,011)
Proceeds from issuance of long-term debt	-	183,730,000
Interest payments on long-term debt	(23,575,529)	(15,835,723)
Federal Build America Bond's subsidy	2,716,877	256,594
Bond issuance costs	-	(2,054,291)
Payment of interest rate hedge	-	(7,263,000)
Net cash provided (used) by capital and related financing activities	(122,338,718)	61,518,569
Cash Flows from Investing Activities:		
Purchases of investments	(26,270,296)	(279,773,451)
Proceeds from sale of investments	151,627,085	217,046,405
Investment income	3,003,248	5,060,055
Net cash provided (used) by investing activities	128,360,037	(57,666,991)
Net increase in cash and cash equivalents	2,137,872	3,591,362
Cash and cash equivalents, beginning of year	16,125,125	12,533,763
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 18,262,997	$ 16,125,125

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
(A DEVELOPMENT STAGE ORGANIZATION)
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities:	**2011**	**2010**
Operating income (loss)	$ 117,042	$ (177,171)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	(266,738)	(1,190,997)
Other accounts receivable	1,083,661	(6,985,993)
Prepaid expenses	(117)	(96)
Other assets	-	547,188
Accounts payable	(5,426,802)	7,396,094
Other current and accrued liabilities	609,507	150,759
NET CASH USED BY OPERATING ACTIVITIES	$ (3,883,447)	$ (260,216)
Schedule of Noncash Financing Activities:		
Amortization of bond issue and discount costs	$ (100,805)	$ (53,459)
Abandonment of capital asset project	-	(550,842)
Interest charged to construction	19,255,778	12,515,510

See notes to financial statements.

Note 1 - Summary of Significant Accounting Policies:

Entity

The Agency is a joint public agency formed by municipal utilities, and is organized under provisions of Chapter 65 of the Kentucky Revised Statutes, pursuant to an Interlocal Cooperation Agreement dated February 7, 2005. The two members of the Agency are Paducah Electric Plant Board (Paducah Power System), a municipal utility of Paducah, Kentucky, and Princeton Electric Plant Board (Princeton Electric), a municipal utility of Princeton, Kentucky. The Agency was created to supply municipal electric systems in the Commonwealth of Kentucky with an ongoing source and supply of electric power to meet their current requirements and demands for future growth in electric power. Additional members may be added if approved by the Agency's Board of Directors and members. The Agency is governed by a four-person Board of Directors consisting of the General Manager of Paducah Power System, the Chairman of the Board of Paducah Power System, the General Manager of Princeton Electric, and the Chairman of the Board of Princeton Electric.

The Agency is acquiring, constructing, developing, and equipping an undivided interest in a "mine mouth", pulverized coal-fueled power generating facility on a site in Washington, Randolph, and St. Clair Counties, Illinois, (Prairie State Energy Campus) for the purpose of providing wholesale baseload power to its members, Paducah Power System and Princeton Electric. The Agency is not regulated. The rates to be charged to Paducah Power System and Princeton Electric will be set by the Board through operating and power agreements.

The Agency is a development stage organization. As of June 30, 2011, electricity production has not started. The Agency expects to begin production during fiscal year 2012.

Measurement Focus, Basis of Accounting and Basis of Presentation

The financial statements of the Agency are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. This requires the accrual basis of accounting for proprietary entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

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 amounts of assets and liabilities and disclosure of contingent assets and liabilities 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.

(Continued)

Note 1 - Summary of Significant Accounting Policies:

Deposits and Investments

For purposes of the statement of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition.

Investment of Agency funds is restricted by bond indentures. Investments are limited to:

a. Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, if delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian. These investments may be accomplished through repurchase agreements reached with sources including, but not limited to, national or state banks chartered in Kentucky.

b. Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency, including, but not limited to:
   1. United States Treasury,
   2. Export-Import Bank of the United States,
   3. Farmers Home Administration,
   4. Government National Mortgage Corporation, and
   5. Merchant Marine bonds.

c. Obligations of any corporation of the United States government, including but not limited to:
   1. Federal Home Loan Mortgage Corporation,
   2. Federal Farm Credit Banks,
   3. Bank for Cooperatives,
   4. Federal Intermediate Credit Banks,
   5. Federal Land Banks,
   6. Federal Home Loan Banks,
   7. Federal National Mortgage Association, and
   8. Tennessee Valley Authority.

d. Certificates of deposit or other interest bearing accounts issued by any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4).

e. Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one (1) of the three (3) highest categories by a nationally recognized rating agency.

f. Bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency.

g. Commercial paper rated in the highest category by a nationally recognized rating agency.

h. Bonds or certificates of indebtedness of the State and of its agencies and instrumentalities.

i. Securities issued by a state or local government, or any instrumentality or agency thereof, in the United States, and rate in one (1) of the three (3) highest categories by a nationally recognized rating agency.

(Continued)

Note 1 - Summary of Significant Accounting Policies:

Deposits and Investments

j. Shares of mutual funds, each of which have the following characteristics:
   1. The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;
   2. The management company of the investment company shall have been in operation for at least five (5) years; and
   3. All of the securities in the mutual fund shall be investments in any one or more of the investments described above.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values of investments may have changed significantly since year end.

Prepayments

This balance represents a prepayment of insurance which will benefit future operations of the Agency.

Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified.

Capital Assets

Capital assets are generally defined by the Agency as assets with an initial, individual cost of more than $1,000 and an estimated useful life in excess of one year.

Capital assets of the Agency are recorded at cost or the fair market value at the time of contribution to the Agency. Major outlays for utility plants are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed, net of interest earned on invested proceeds over the same period. Capital assets in service will be depreciated over their estimated useful lives using the straight-line method of depreciation.

Long-term Obligations

Long-term debt and other obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Gains or losses on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Revenues and Expenses

The Agency distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Agency's principal ongoing operations. The operating revenues of the Agency are the charges to members for sales and services. It is anticipated that the Agency will begin the supply of electricity to Paducah and Princeton on commercial operations of the Prairie State Energy Campus in December 2011.

(Continued)

Note 1 - Summary of Significant Accounting Policies:

Revenues and Expenses

Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Comparative Data

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Note 2 - Deposits and Investments:

The investment policies of the Agency are governed by the State statute. In general, this requires that all deposits and investments, not covered by FDIC insurance, are to be collateralized. For the years ended June 30, 2011 and 2010, the Agency's operating and investment accounts were fully collateralized as required by State statute.

The fair value of cash and investments as of June 30 is disclosed as follows:

	2011	2010
Checking and savings	$ 16,704,082	$ 15,350,733
Mutual funds-money market	1,558,915	774,392
Commercial paper	22,427,714	22,425,245
Repurchase agreement	48,491,017	173,852,274
TOTAL CASH AND INVESTMENTS	$ 89,181,728	$ 212,402,644

Deposits

The financial institution balances of the Agency's deposits were $89,596,408 for the year ended June 30, 2011. The book balance was $89,181,728. Of the various financial institution balances at June 30, 2011, $500,000 was insured by federal depository insurance, and the remaining balance of $89,096,408 was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The remaining balance of $89,096,408 was uninsured and collateralized by U.S. Treasury pooled investments not held in the Agency's name.

The financial institution balances of the Agency's deposits were $212,878,708 for the year ended June 30, 2010. The book balance was $212,402,644. Of the various financial institution balances at June 30, 2010, $500,000 was insured by federal depository insurance, and the remaining balance of $212,378,708 was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The remaining balance of $212,378,708 was uninsured and collateralized by U.S. Treasury pooled investments not held in the Agency's name.

As of June 30, 2011 and 2010, $2,250,000 and $10,750,000 of the Agency's bank balances were known to be individually exposed to custodial credit risk at Citibank, N.A.

(Continued)

Note 2 - Deposits and Investments:

Credit Risk

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations.

As of June 30, 2011 and 2010, the Agency's investments were rated as follows:

Investment Type	Standard & Poors
Mutual funds-money market	Not rated
Commercial paper	A
Repurchase agreement	A

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

As of June 30, 2011, the Agency's investment portfolio was concentrated as follows:

Issuer	Investment Type	Percentage of Portfolio
Intesa Funding, LLC	Commercial paper	29%
Visionary Funding, LLC	Commercial paper	2%
Bayerische Landesbank	Repurchase agreement	67%

As of June 30, 2010, the Agency's investment portfolio was concentrated as follows:

Issuer	Investment Type	Percentage of Portfolio
TSL USA Inc	Commercial paper	11%
Bayerische Landesbank	Repurchase agreement	88%

Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment.

As of June 30, 2011, the Agency's investments were as follows:

		Maturity (In Years)		
Investment Type	Fair Value	Less than 1 Year	1 - 5 Years	6 - 10 Years
Mutual funds-money market	$ 1,558,915	$ 1,558,915	$ -	$ -
Commercial paper	22,427,714	22,427,714	-	-
Repurchase agreement	48,491,017	-	48,491,017	-
TOTALS	$ 72,477,646	$23,986,629	$ 48,491,017	$ -

(Continued)

Note 2 - Deposits and Investments:

Interest Rate Risk

As of June 30, 2010, the Agency's investments were as follows:

Investment Type	Fair Value	Maturity (In Years) Less than 1 Year	1 - 5 Years	6 - 10 Years
Mutual funds- money market	$ 774,392	$ 774,392	$ -	$ -
Commercial paper	22,425,245	22,425,245	-	-
Repurchase agreement	173,852,274	-	173,852,274	-
TOTALS	$197,051,911	$23,199,637	$173,852,274	$ -

Note 3 - Restricted Assets:

Certain proceeds of the Agency's debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the statements of net assets because their use is limited by applicable bond covenants and energy trading contracts. The following accounts are reported as restricted assets:

Project Fund - Used to report revenue bond proceeds restricted for use in construction and working capital.

Reserve Fund - Used to report resources set aside to make up potential future deficiencies in the future redemption amount.

Pledged Collateral - Used to report collateral called to make up potential future deficiencies in energy trading contracts.

Restricted assets represent mandatory segregations of assets required by the long-term debt agreements and energy trading contracts.

The following calculation supports the amount of restricted net assets:

	2011	2010
Restricted assets:		
Project fund	$ 45,461,897	$ 163,961,667
Reserve fund	35,526,461	34,093,069
Pledged collateral	2,500,000	11,000,000
Accrued interest receivable	764,996	979,614
Less: restricted assets not funded by revenues:		
Project fund	(45,461,897)	(163,961,667)
Reserve fund	(35,526,461)	(34,093,069)
Pledged collateral	(2,500,000)	(11,000,000)
Current liabilities payable from restricted assets	(8,668,271)	(6,238,988)
TOTAL RESTRICTED NET ASSETS AS CALCULATED	$ (7,903,275)	$ (5,259,374)

(Continued)

Note 3 - Restricted Assets:

GASB does not allow the presentation of negative restricted net assets. The deficiency in restricted net assets is netted against unrestricted net assets in 2011 and 2010.

Note 4 - Capital Assets:

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Construction in progress	$281,065,179	$120,735,844	$ -	$401,801,023
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	$281,065,179	$120,735,844	$ -	$401,801,023

Capital assets activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Construction in progress	$171,234,658	$110,381,363	$ 550,842	$281,065,179
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	$171,234,658	$110,381,363	$ 550,842	$281,065,179

The $550,842 decrease is related to research for a hydro-electric project that was abandoned during fiscal year 2010.

Note 5 - Accounts Payable:

The elements comprising accounts payable are as follows:

	2011	2010
Due for purchased power	$ 5,820,294	$ 5,785,744
Accounts payable, general	4,816,521	10,277,873
TOTAL ACCOUNTS PAYABLE	$10,636,815	$16,063,617

(Continued)

Note 6 - Long-Term Indebtedness:

Bonds

The following revenue bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 6/30/11
9/20/07	Finance Prairie State and working capital needs	9/1/42	4.00-5.25%	$ 291,065,000	$ 291,065,000
9/20/07	Finance Prairie State and working capital needs	9/1/16	5.34-5.46%	16,645,000	16,645,000
5/27/10	Finance Prairie State and working capital needs	9/1/24	2.00-4.00%	53,600,000	53,600,000
5/27/10	Finance Prairie State and working capital needs	9/1/37	5.56-6.39%	122,405,000	122,405,000
5/27/10	Finance Prairie State and working capital needs	9/1/19	2.47-5.06%	7,725,000	7,725,000
	TOTALS			$ 491,440,000	$ 491,440,000

Total bond service to maturity:

Maturities	Principal	Interest	Subsidized Interest	Total
2012	$ -	$ 26,004,811	$ (2,716,876)	$ 23,287,935
2013	-	26,004,811	(2,716,876)	23,287,935
2014	8,805,000	25,844,308	(2,716,876)	31,932,432
2015	9,135,000	25,510,689	(2,716,876)	31,928,813
2016	9,525,000	25,122,171	(2,716,877)	31,930,294
2017-2021	56,110,000	118,421,417	(13,584,384)	160,947,033
2022-2026	69,415,000	103,170,727	(13,349,605)	159,236,122
2027-2031	87,750,000	81,797,447	(10,319,408)	159,228,039
2032-2036	110,615,000	54,005,030	(5,393,620)	159,226,410
2037-2041	101,930,000	22,278,473	(508,760)	123,699,713
2042-2043	38,155,000	2,029,519	-	40,184,519
TOTALS	$ 491,440,000	$ 510,189,403	$ (56,740,158)	$ 944,889,245

For the years ended June 30, 2011 and 2010, bonds payable totaling $494,194,469 and $494,328,849, are recorded net of $(2,476,424) and $(2,583,547), of unamortized bond discount and $5,230,893 and $5,472,396, of unamortized bond premium, respectively.

In May 2010, the Agency issued $122,405,000 in Taxable (Build America Bonds – Direct Pay) Power System Revenue Bonds. The Agency will receive a subsidy payment from the federal government equal to thirty-five percent of each interest payment on the Build America Bonds.

All revenues received by the Agency through Power Sales Agreements net of specified monthly project costs, in addition to all funds held by the Trustee under the terms of the bond agreement, are pledged as security of the above revenue bonds until the bonds are defeased. Total pledged funds for the years ended June 30, 2011 and 2010, as defined are $83,488,358 and $209,054,736, respectively. The term of the

(Continued)

Note 6 - Long-Term Indebtedness:

Bonds

commitment is 35 years or until the bonds are defeased. Annual principal and interest payments are expected to require 100% of net revenues over the term of the commitment. The Agency is a developmental stage organization as of June 30, 2011, as construction of the Prairie State Project continues. During fiscal year 2010, the Agency began providing its members purchased power through power sales agreements with various vendors. Interest paid for the years ended June 30, 2011 and 2010, was $26,004,812 and $16,796,137, respectively. No principal payments were made in the years ended June 30, 2011 and 2010.

Long-term obligation activity for the year ended June 30, 2011, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	$ 491,440,000	$ -	$ -	$ 491,440,000	$ -
Unamortized debt discount	(2,583,547)	-	(107,123)	(2,476,424)	-
Unamortized debt premium	5,472,396	-	241,503	5,230,893	-
TOTALS	$ 494,328,849	$ -	$ 134,380	$ 494,194,469	$ -

Long-term obligation activity for the year ended June 30, 2010, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	$ 307,710,000	$183,730,000	$ -	$ 491,440,000	$ -
Unamortized debt discount	(1,666,668)	(979,583)	(62,704)	(2,583,547)	-
Unamortized debt premium	3,779,344	1,817,632	124,580	5,472,396	-
TOTALS	$ 309,822,676	$184,568,049	$ 61,876	$ 494,328,849	$ -

Bond Covenant Disclosures

The following information is provided in compliance with the resolution creating the 2007 A and B revenue bonds and the 2010 A, B, and C revenue bonds:

Insurance

The Agency is exposed to various risks of loss related to torts, theft of, damage to, or destructions of assets, errors and omissions, workers compensation, and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded coverage in any of the last three years.

The Agency is covered under the following insurance polices at June 30, 2011:

Type	Coverage	Expiration
General & Public Officials Liability	$10,000,000	01/17/2012

(Continued)

Note 7 - Net Assets:

GASB No. 34 requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings, that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definitions of "restricted" or "invested in capital assets, net of related debt".

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

The following calculation supports the Agency's net assets invested in capital assets, net of related debt:

	2011	2010
Construction work in progress	$ 401,801,023	$ 281,065,179
Less: Capital related debt		
Long-term portion of capital related debt	(491,440,000)	(491,440,000)
Unamortized bond issuance cost	5,827,378	6,060,564
Unamortized debt discount	2,476,424	2,583,547
Unamortized debt premium	(5,230,893)	(5,472,396)
Sub-totals	(488,367,091)	(488,268,285)
Add: Unspent debt proceeds		
Project fund	45,461,897	163,961,667
Reserve fund	35,526,461	34,093,069
Pledged collateral	2,500,000	11,000,000
Sub-totals	83,488,358	209,054,736
TOTAL NET ASSETS INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	$ (3,077,710)	$ 1,851,630

(Continued)

Note 8 - Commitments and Contingencies:

Prairie State Energy Campus

In February 2005, the Agency joined several other entities in the development of the Prairie State Energy Campus, a 1600 MW twin unit, coal-fired electric generating facility to be located in Washington, St. Claire, and Randolph counties, Illinois (the "Prairie State Project"). In addition to the generation station, the Prairie State Project includes coal reserves, a coal mine, a coal combustion waste disposal facility, and other ancillary support equipment. The Prairie State Project is being developed by the Prairie State Generating Company, LLC ("PSGC"), initially a wholly-owned subsidiary of Peabody Energy Corporation and now controlled by the nine owners.

Since entering the project, the Agency has increased its participation from an initial 80 MW level to its present 124 MW share. After financial closing of the transaction, the Agency's share translated into a 7.82% undivided ownership interest as a tenant-in-common with the other project participants. The other joint owners in the Prairie State Project are the American Municipal Power, Illinois Municipal Electric Agency, the Indiana Municipal Power Agency, the Missouri Public Utility Alliance, The Northern Illinois Municipal Power Agency, Prairie Power, Inc. (formerly known as Soyland Power Cooperative, Inc.), Lively Grove Energy Partners, LLC, a wholly-owned indirect subsidiary of Peabody Energy Corporations ("Peabody Energy"), and Southern Illinois Power Cooperative.

Pursuant to the terms of the Project Development Agreement dated February 5, 2005, the Fee Agreement of the same date, and the Al Fee Agreement dated August 31, 2006, the Agency paid certain fees for the right to participate in the Prairie State Project and ultimately own its share of the coal reserves and other project assets at financial close. On June 19, 2007, the Agency executed, amended, and restated versions of the Project Development Agreement, the Fee Agreement, and the Al Fee Agreement. The amended agreements memorialized certain changes in the various percentage ownership interests of the participants in the Project and certain changes regarding the manner in which the Project will be developed. The Agency is also obligated under the agreements to pay its proportionate share of all ongoing costs and expenses associated with the Prairie State Project. The Agency's cost for participation in the project total $17.2 million.

In July 2010, the Agency and other owners entered into an agreement with Bechtel Corporation ("Bechtel") to convert the original, cost reimbursable EPC Agreement for the Prairie State Project to a lump sum turn-key EPC Agreement. This agreement provides the owners with a cap on future cost increases and transfers cost and schedule risk from the owners to Bechtel. The guaranteed substantial completion dates under the new EPC Contract are December 6, 2011, for Unit 1 and August 1, 2012, for Unit 2. An additional financing cost is anticipated to be around $130 million in total, of which the Agency's portion is approximately $10.16 million (based on 7.82% ownership interest).

Since the Prairie State Project is not complete, the Agency has entered in Power Sales Agreements described below in order to provide power to its members.

Power Sales Agreement

The Boards of Paducah Power System and Princeton Electric authorized a Power Sales Agreement with the Agency on July 23, 2007. The Power Sales Agreement is a take or pay agreement that stipulates the Paducah Power System and Princeton Electric will take all power from the Agency which the Agency receives from the Prairie State Project. Paducah Power System's share of the energy is 83.7% and Princeton Electric's is 16.3%.

(Continued)

Note 8 - Commitments and Contingencies:

Power Sales Agreement

Each party to the Power Sales Agreement agrees to a step up of 20% additional power in the case that the other party to the agreement defaults on its commitment. This effectively means that Paducah Power System agrees, if necessary, to commit to take all power from the Agency since Princeton Electric's share of power is less than 20% of the project.

The Agency has entered into transactions for the purchase of blocks or strips of electric capacity and energy of varying sizes with a number of electric power suppliers. These strips of purchased power cover periods of varying lengths between December 2009 and December 2011. Each of the transactions was entered into within the framework of an EEI Master Power Purchase & Sale Agreement ("Master Agreement") between the Agency and the power supplier. The Agency purchased around the clock (7 x 24) strips of power from Macquarie Energy, LLC, formerly Integrys Energy Services, Inc. ("Macquarie"), the AEP Operating Companies ("AEP"), and Ameren Energy Marketing Company on March 19, 2008, June 9, 2008, and October 17, 2008, respectively. A 5 x 16 strip was locked in with AEP on March 19, 2008, and a 2 x 16 was purchased from Macquarie on January 24, 2008. The weighted average price of the power purchased in these five transactions was $57.59/MWh for delivery to the Cinergy Hub of the Midwest Independent Transmission System Operator ("MISO"). The weighted average price does not include the cost of transmitting the power to the Agency's members, the Electric Plant Board's of the Cities of Paducah and Princeton, Kentucky (the "Members") from the Cinergy Hub.

All of the Agency's power purchase transactions are considered "firm" obligations in that they are backed by provisions requiring the payment of liquidated damages in the event of non-delivery, as is standard in the EEI Master Power Purchase & Sale Agreement; however, seller's failure to deliver is not considered an event of default.

Under the Master Agreements for each of the above-referenced purchases, either party may call for collateral to be posted by the other when the calling party is "in the money" based on a mark-to-market calculation. The effect is that the Agency can be required to post collateral whenever the market value of the transactions entered into pursuant to a particular Master Agreement drops far enough below the contract price. Each Master Agreement establishes a collateral threshold for the Agency against which the cumulative mark-to-market value of the transactions entered to is measured on each day of the life of the contract. On days when the collateral threshold is exceeded, a party that is in the money may require the other to provide some acceptable form of performance assurance such as cash collateral, appropriate guaranties, and/or a letter of credit. The Agency's Members have executed guaranty agreements that can be called upon to satisfy all or a portion of the performance assurance requirements in certain instances. A party that is "in the money" may make a collateral call even if its counter-party is not in default and there is no substantial concern about the counter-party's creditworthiness. The collateral thresholds applicable to the Agency under the Master Agreements have been termed "very generous" by the Agency's power supply consultant, Fellon-McCord & Associates, and are expected to permit the Agency to operate without having to provide unduly burdensome performance assurances.

The Agency has also procured from Macquarie options to purchase certain 5 x 16 strips of power for the period December 2009 through December 2014. The options may be exercised on a day ahead basis at a price that is a certain dollar amount above a MISO index price. These options were acquired on June 9, 2008 and November 25, 2008. Due to power supply needs, the Agency exercised these options during fiscal year 2010.

As of June 30, 2011, the Agency made a collateral call totaling $2,500,000 with AEP under the various Master Agreements. As of June 30, 2010, there was a collateral call totaling $11,000,000 with AEP. These amounts are shown as restricted on the statement of net assets.

(Continued)

Note 8 - Commitments and Contingencies:

Existing Contract Commitments

The Agency has open contracts for approximately $48.2 million for the Prairie State Project. As of June 30, 2011, approximately $352 million has been expended.

Claims and Judgments

From time to time, the Agency is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the Agency's legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Agency's financial position or results of operations.

Note 9 - Disclosures Regarding the Statement of Cash Flows:

Accounting Policy

For purposes of the Statement of Cash Flows, cash and cash investments include all highly liquid debt instruments with maturities of three months or less.

The composition of cash and cash investments at June 30, 2011 and 2010, is as follows:

	2011	2010
Cash and temporary cash investments	$ 5,693,370	$ 3,347,908
Restricted cash and short-term investments:		
Project and reserve funds and pledged collateral	12,569,627	12,777,217
TOTAL CASH AND CASH INVESTMENTS	$18,262,997	$16,125,125

Note 10 - Subsequent Events:

The Agency did not have any subsequent events through October 19, 2011, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended June 30, 2011.

SUPPLEMENTARY INFORMATION

KENTUCKY MUNICIPAL POWER AGENCY
(A DEVELOPMENT STAGE ORGANIZATION)
OPERATING EXPENSES
YEARS ENDED JUNE 30

General Operating Expenses:	2011	2010
Administrative and general:		
Salaries	$197,433	$125,820
Office supplies and expense	58,727	60,596
Outside services employment	326,689	555,818
Insurance	5,800	5,616
Total administrative and general	588,649	747,850
TOTAL GENERAL OPERATING EXPENSES	$588,649	$747,850

WILLIAMS, WILLIAMS & LENTZ, LLP
CERTIFIED PUBLIC ACCOUNTANTS
601 JEFFERSON
PADUCAH, KENTUCKY 42001

J. RICHARD WALKER
ROBERT R. ROBERTSON
C. SUZETTE CRONCH
MICHAEL F. KARNES
MARK A. THOMAS
ROGER G. HARRIS
J. DAVID BAILEY, III

G. LEON WILLIAMS, 1926-2004
H. WILLIAM LENTZ, 1925-2007
JERRY G. SEVERNS

MAILING ADDRESS
POST OFFICE BOX 2500
PADUCAH, KY 42002-2500

TELEPHONE
270-443-3643

FAX
270-444-0652

WEBSITE
wwlcpa.com

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*

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

We have audited the financial statements of Kentucky Municipal Power Agency as of and for the year ended June 30, 2011, and have issued our report thereon dated October 19, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kentucky Municipal Power Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kentucky Municipal Power Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Kentucky Municipal Power Agency's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kentucky Municipal Power Agency's financial statements are free of 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*.

This report is intended solely for the information and use of management, the Board of Directors, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Williams, Williams Lentz LLP

October 19, 2011