

## OFFICIAL STATEMENT

**NEW ISSUE  
BOOK ENTRY**

**RATINGS: Moody's: "Aa3" (negative outlook) - AGM (as defined herein), Underlying: "A3"  
Standard & Poor's: "AAA" (negative outlook) - AGM (as defined herein), Underlying: "A-"  
See "RATINGS" herein.**

*In the opinion of Bond Counsel, based upon laws, regulations, rulings and decisions, and assuming continuing compliance with certain covenants made by the Corporation, interest on the Series 2010A Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, upon the conditions and subject to the limitations set forth herein under the caption "TAX EXEMPTION." Receipt of interest on the Series 2010A Bonds may result in other federal income tax consequences to certain holders of the Series 2010A Bonds. In the opinion of Bond Counsel, interest on the Series 2010A Bonds, the Series 2010B Bonds and the Series 2010C Bonds is also exempt from income tax by the Commonwealth of Kentucky, and the Series 2010A Bonds, the Series 2010B Bonds and the Series 2010C Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.*



### KENTUCKY MUNICIPAL POWER AGENCY

**\$53,600,000**  
**Tax-Exempt Power System Revenue Bonds**  
**(Prairie State Project), Series 2010A**

**\$122,405,000**  
**Taxable (Build America Bonds - Direct Pay)**  
**Power System Revenue Bonds**  
**(Prairie State Project), Series 2010B**

**\$7,725,000**  
**Taxable Power System Revenue Bonds**  
**(Prairie State Project), Series 2010C**

**Dated Date: Date of Issuance**

**Due: As set forth herein on the inside front cover**

The Bonds will bear interest payable semiannually on March 1 and September 1 of each year (each an "Interest Payment Date"), commencing September 1, 2010, as determined in accordance with the Trust Indenture dated as of April 1, 2010 (the "Indenture"), between the Kentucky Municipal Power Agency ("KMPA") and U.S. Bank National Association, Louisville, Kentucky, as trustee (the "Trustee"). Interest is payable by check mailed to the registered owners of the Bonds at their addresses appearing on the registration books kept by the Trustee as of the applicable record date preceding each Interest Payment Date. The Bonds are to be delivered in fully registered form in the authorized denominations described in the Indenture.

The Bonds are issued initially under a book-entry only system, registered in the name of CEDE & CO., as registered bondowner and nominee for The Depository Trust Company ("DTC"). DTC will act as securities depository for the Bonds. Individual purchasers of Book-Entry Interests in the Bonds will not receive certificates representing their interest in the Bonds.

The scheduled payment of the principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.)



THE BONDS ARE SUBJECT TO MANDATORY, OPTIONAL AND EXTRAORDINARY OPTIONAL REDEMPTION PRIOR TO MATURITY AS DESCRIBED HEREIN. THE BONDS ARE LIMITED OBLIGATIONS OF KMPA AND ARE PAYABLE SOLELY OUT OF REVENUES, FUNDS AND ASSETS OF THE TRUST ESTATE PLEDGED UNDER THE INDENTURE. KMPA DOES NOT HAVE ANY TAXING POWER. THIS OFFICIAL STATEMENT AND THE APPENDICES ATTACHED HERETO SHOULD BE READ IN THEIR ENTIRETY.

NEITHER THE COMMONWEALTH OF KENTUCKY, NOR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN KMPA, NOR ANY MEMBER OF KMPA SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OF KENTUCKY OR ANY POLITICAL SUBDIVISION THEREOF OR ANY MEMBER OF KMPA IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS.

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**FOR MATURITIES, INTEREST RATES AND PRICES OR YIELDS, SEE THE INSIDE COVER**

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The Bonds are offered when, as and if issued by KMPA and accepted by the Underwriters, subject to the approval of legality and tax exemption by Rubin & Hays, Bond Counsel, Louisville, Kentucky. Certain legal matters will be passed on for KMPA by its counsel, McMurtry & Livingston, PLLC, Paducah, Kentucky and B. Todd Wetzel, Esq., Princeton, Kentucky, and for the Underwriter by its counsel, Rubin & Hays, Louisville, Kentucky. This Official Statement is deemed final for the purposes of SEC Rule 15c2-12(b)(1). Delivery of the Bonds is expected on or about May 27, 2010.

**J.J.B. HILLIARD, W.L. LYONS, LLC**

**Edward D. Jones & Co., L.P.**  
**Morgan Keegan & Company, Inc.**

**J.P. Morgan**  
**Raymond James & Associates, Inc.**

**Wells Fargo Securities**

## MATURITY SCHEDULE

**\$53,600,000**

### KENTUCKY MUNICIPAL POWER AGENCY TAX-EXEMPT POWER SYSTEM REVENUE BONDS (PRAIRIE STATE PROJECT), SERIES 2010A

CUSIP <b>491501</b>	September 1	<u>Amount</u>	Interest <u>Rate</u>	<u>Yield</u>	CUSIP <b>491501</b>	September 1	<u>Amount</u>	Interest <u>Rate</u>	<u>Yield</u>
	<u>Year of Maturity</u>					<u>Year of Maturity</u>			
CA8	2013	\$3,365,000	2.000%	1.800%	CK6	2018	\$3,640,000	3.250%	3.530%
CB6	2014	3,440,000	2.100%	2.250%	CL4	2019	975,000	3.750%	3.730%
CC4	2015	555,000	3.000%	2.650%	CM2	2019	3,120,000	3.500%	3.730%
CD2	2015	2,980,000	4.000%	2.650%	CN0	2020	1,785,000	4.000%	3.900%
CE0	2016	3,545,000	3.000%	3.070%	CP5	2020	3,800,000	5.000%	3.900%
CF7	2016	1,745,000	4.000%	3.070%	CQ3	2021	5,860,000	5.000%	4.000% c
CG5	2017	745,000	3.500%	3.330%	CR1	2022	6,160,000	5.000%	4.020% c
CH3	2017	3,090,000	3.000%	3.330%	CS9	2023	5,455,000	5.000%	4.060% c
CJ9	2018	315,000	3.500%	3.530%	CT7	2024	3,025,000	4.000%	4.200%

c - Priced to call

**\$122,405,000**

### KENTUCKY MUNICIPAL POWER AGENCY TAXABLE (BUILD AMERICA BONDS - DIRECT PAY) POWER SYSTEM REVENUE BONDS (PRAIRIE STATE PROJECT), SERIES 2010B

**\$51,365,000 Series 2010B Serial Bonds**

CUSIP <b>491501</b>	September 1	<u>Amount</u>	Interest <u>Rate</u>	<u>Price</u>	CUSIP <b>491501</b>	September 1	<u>Amount</u>	Interest <u>Rate</u>	<u>Price</u>
	<u>Year of Maturity</u>					<u>Year of Maturity</u>			
CU4	2023	\$1,015,000	5.560%	100	CY6	2027	\$7,590,000	6.140%	100
CV2	2024	3,730,000	5.760%	100	CZ3	2028	7,905,000	6.240%	100
CW0	2025	7,020,000	5.910%	100	DA7	2029	8,230,000	6.290%	100
CX8	2026	7,295,000	6.040%	100	DB5	2030	8,580,000	6.390%	100

**\$71,040,000 Series 2010B Term Bonds**

\$71,040,000 - 6.490% - Term Bonds Due September 1, 2037 - Price 100 - CUSIP# 491501 DC3

**\$7,725,000**

### KENTUCKY MUNICIPAL POWER AGENCY TAXABLE POWER SYSTEM REVENUE BONDS (PRAIRIE STATE PROJECT), SERIES 2010C

CUSIP <b>491501</b>	September 1	<u>Amount</u>	Interest <u>Rate</u>	<u>Price</u>	CUSIP <b>491501</b>	September 1	<u>Amount</u>	Interest <u>Rate</u>	<u>Price</u>
	<u>Year of Maturity</u>					<u>Year of Maturity</u>			
DD1	2013	\$ 990,000	2.470%	100	DH2	2017	\$1,140,000	4.370%	100
DE9	2014	1,010,000	3.020%	100	DJ8	2018	1,190,000	4.820%	100
DF6	2015	1,050,000	3.430%	100	DK5	2019	1,255,000	5.060%	100
DG4	2016	1,090,000	3.980%	100					

## **REGARDING USE OF THIS OFFICIAL STATEMENT**

No dealer, salesperson or any other person has been authorized by KMPA or the Underwriters to give any information or to make any representations, other than the information and representations contained in this Official Statement, in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon as having been authorized by KMPA or the Underwriters. The information in this Official Statement has been furnished by KMPA, the Members and other sources which are considered to be reliable, but is not guaranteed as to accuracy or completeness. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion in this Official Statement are subject to change without notice and neither the delivery of this Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of KMPA or the Members since the date of this Official Statement.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY THE BONDS, NOR SHALL THERE BE ANY SALE OF ANY OF THE BONDS BY OR TO ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH OFFER, SOLICITATION OR SALE.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. A number of important factors affecting KMPA's business and financial results could cause actual results to differ materially from those stated in the forward-looking statements. This Official Statement includes the front cover page immediately preceding this page and all Appendices hereto.

Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "Bond Insurance" and "Appendix I - Specimen Municipal Bond Insurance Policy".

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## **OFFICIAL STATEMENT**

### **KENTUCKY MUNICIPAL POWER AGENCY**

**\$53,600,000**

**Tax-Exempt Power System Revenue Bonds  
(Prairie State Project), Series 2010A**

**\$122,405,000**

**Taxable (Build America Bonds - Direct Pay)  
Power System Revenue Bonds  
(Prairie State Project), Series 2010B**

**\$7,725,000**

**Taxable Power System Revenue Bonds  
(Prairie State Project), Series 2010C**

### **INTRODUCTION**

This Official Statement, which includes the cover page and appendices, sets forth certain information relating to the issuance by the Kentucky Municipal Power Agency ("KMPA") in the aggregate principal amount of (i) \$53,600,000 of its Tax-Exempt Power System Revenue Bonds (Prairie State Project), Series 2010A (the "Series 2010A Bonds"), (ii) \$122,405,000 of its Taxable (Build America Bonds - Direct Pay) Power System Revenue Bonds (Prairie State Project), Series 2010B (the "Series 2010B Bonds") and (iii) \$7,725,000 of its Taxable Power System Revenue Bonds (Prairie State Project), Series 2010C (the "Series 2010C Bonds") [hereinafter the Series 2010A Bonds, the Series 2010B Bonds and the Series 2010C Bonds may be collectively referred to as the "Bonds"].

The Bonds are being issued under authority of Chapters 65 and 96 of the Kentucky Revised Statutes (the "Act") and a Resolution of KMPA, and will be issued pursuant to and secured by a Trust Indenture, dated as of April 1, 2010 (the "Indenture") between KMPA and U.S. Bank National Association, Louisville, Kentucky (the "Trustee").

The American Recovery and Reinvestment Act of 2009 (the "Recovery Act") authorizes the Issuer to issue taxable bonds known as "Build America Bonds" to finance capital expenditures for which it could issue tax-exempt bonds and to elect to receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on such taxable bonds if the Issuer so designates such bonds. The Issuer has made an irrevocable election to designate the Series 2010B Bonds as "Build America Bonds" under Section 54AA of the Code and such Series 2010B Bonds shall be "qualified bonds" pursuant to Section 54AA(g) of the Code so that the Issuer will receive a refundable credit under Section 6431 of the Code equal to 35% of the stated interest paid on the Series 2010B Bonds.

The proceeds of the Bonds are to be used to (i) finance the completion of the acquisition, construction, development and equipping of an undivided interest in a mine mouth, pulverized coal-fueled power generating facility on a site in Washington, Randolph and St. Clair Counties, Illinois to be owned by KMPA (the "Project"); (ii) fund interest during construction; (iii) fund a debt service reserve; (vi) provide working capital for KMPA; and (v) pay the costs of issuance of the Bonds.

THE BONDS ARE LIMITED OBLIGATIONS OF KMPA AND ARE PAYABLE SOLELY OUT OF THE REVENUES, FUNDS AND OTHER ASSETS OF THE TRUST ESTATE PLEDGED UNDER THE INDENTURE. KMPA DOES NOT HAVE ANY TAXING POWER.

NEITHER THE COMMONWEALTH OF KENTUCKY, NOR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN KMPA, NOR ANY MEMBER SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OF KENTUCKY OR ANY POLITICAL SUBDIVISION THEREOF OR ANY MEMBER IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS.

Brief descriptions of the security for the Bonds, KMPA and the Project are included in this Official Statement. THIS OFFICIAL STATEMENT AND ITS APPENDICES SHOULD BE READ IN THEIR ENTIRETY. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Indenture and the Power Sales Agreements are qualified in their entirety by reference to such documents, and references herein to the Bonds are qualified in their entirety by reference to the forms thereof included in the Indenture, and the information with respect thereto in the aforementioned documents, copies of all of which are available for inspection in the principal corporate trust office of the Trustee. Capitalized terms used herein shall have the meanings specified in the Indenture and the Power Sales Agreements unless otherwise indicated.

## **KENTUCKY MUNICIPAL POWER AGENCY**

### **General**

KMPA is a joint public agency duly organized under provisions of Chapter 65 of the Kentucky Revised Statutes pursuant to an Interlocal Cooperation Agreement dated February 7, 2005 (the "Interlocal Agreement") entered into by KMPA's founding members, the Electric Plant Board of the City of Paducah, Kentucky d/b/a Paducah Power System ("Paducah Electric") and the Electric Plant Board of the City of Princeton, Kentucky ("Princeton Electric"), both of which are municipal utilities located in the Commonwealth of Kentucky. Presently, Paducah Electric and Princeton Electric are the only two members of KMPA (the "Members"). However, it is anticipated that additional municipal utilities may request and may become members of KMPA in the future.

KMPA was organized for the purpose of providing municipal electric systems in the Commonwealth of Kentucky with an ongoing source and supply of electric power to meet their current requirements and anticipated growth in power consumption within the systems. Municipal electric systems must find new energy sources to supply the demands of their customers while maintaining a cost efficient operation of such facilities and energy sources. In forming KMPA, the Members determined that mutual advantage would be obtained from the coordinated planning, construction and operation of new energy facilities, and joint purchases, sales and exchanges of electric power.

KMPA, on behalf of its Members, coordinates planning, construction and operation of joint electric power supply projects and any and all facilities, including all equipment, structures,



machinery, and tangible and intangible property, real and personal, required for the generation or transmission of electrical energy, including any fuel supply or source useful for such a project.

Pursuant to Chapters 65 and 96 of the Kentucky Revised Statutes, KMPA is authorized and empowered to issue bonds to defray the costs of acquiring, constructing and equipping electric generation facilities such as the Project. From time to time, KMPA may issue future series of notes or bonds to provide for the completion of the Project and for additional projects to benefit its Members.

## **Governance**

The governing body of KMPA is a Board of Directors (the "Board") composed of two directors designated by each KMPA Member, one of whom is required to be the chief executive officer, or equivalent thereto, of the Member. Three members of the Board of KMPA constitute a quorum for the transaction of business. The Board directs the business and affairs of KMPA. The Interlocal Cooperation Agreement under which KMPA was created and operates provides that each director shall have one vote. KMPA's officers and directors are as follows:

Ray McLennan	Chairman
Rickie W. Williams	Vice Chairman
John Humphries	Treasurer
David Clark	Secretary and Assistant Treasurer

*Ray McLennan* has served as Chairman of KMPA's Board since February 2005. He has been a director of the Electric Plant Board of the City of Paducah since February, 1996 and for the last six years has served as its Chairman. Mr. McLennan retired from the Internal Revenue Service after 29 years as a Revenue Agent. He served on a public/private advisory board that improved liaison issues between taxpayers and the Internal Revenue Service. As an employee of the Internal Revenue Service, Mr. McLennan won numerous awards including the United States Treasury's highest career service award, the distinguished Albert Gallatin Award. Mr. McLennan attended the University of Louisville, the University of Kentucky and Murray State University. He currently owns and operates McLennan Tax Service with offices in Paducah and Louisville, Kentucky. Mr. McLennan has served seven years on the American Public Power Association's Advisory Board of Directors.

*Rickie W. Williams* has served as Vice Chairman of KMPA's Board since February 2005. He was appointed to the Princeton Electric Plant Board of Directors in 1991, and was elected Chairman in 1996. Mr. Williams is a practicing Certified Public Accountant having performed audits and financial consulting for utilities. He is a member of the Kentucky Society of CPAs and the AICPA. He has served on the Kentucky Society of Certified Public Accountants Board of Directors, received the Society's William A. Hifner, Jr. outstanding chapter president award, is a director of First Southern National Bank, Princeton Kentucky, and has served as past president and board member of several local and civic organizations. Mr. Williams has over 25 years experience in taxation, cash management and financial consulting. He is a licensed Series 6 and 63 registered representative. He received a Bachelor's degree in accounting from Murray State University in 1978.

*John A. Humphries* has served as KMPA's Treasurer since February 2005. He was named General Manager of Princeton Electric effective December 1998. Prior to joining Princeton Electric, Mr. Humphries was employed in the public power industry for more than twenty seven years with the Tennessee Valley Authority ("TVA"). Mr. Humphries has designed, constructed, and operated electric power systems, and has administered rates and contracts for wholesale and retail customers with the TVA. Mr. Humphries has taken leadership positions with the Tennessee Valley Public Power Association by serving on its board. He has also taken a leadership role with the American Public Power Association, as a leader in the development of the nationally recognized reliability program, Reliable Public Power Provider (RP3), received the APPA Preston Kramer Award for community service, and served as a member of the Membership Committee. He serves as a Prairie State Generating Campus Board of Director Alternate representing KMPA, serves as a member of the PSGC Legislative Committee, and as a member of the MISO Interface Committee. He serves as a American Municipal Power ("AMP") Director representing Kentucky and West Virginia and the Hydro Committee of AMP. He serves as a board member of the Lake Barkley Partnership and economic development agency for Princeton, Kentucky. He serves as a Director of the Princeton Trail of Tears Commission and Princeton Rotary Club. Mr. Humphries is a registered Professional Engineer in Kentucky and Tennessee, as well as a Certified Energy Manager with the Association of Energy Engineers. Mr. Humphries received a Bachelor of Science degree in Electrical Engineering from the University of Kentucky and a Master of Science degree in Engineering Administration from the University of Tennessee. In September 2006, Mr. Humphries was designated as the Assistant General Manager of KMPA.

*David Clark* has served as Secretary and Assistant Treasurer of KMPA since February 2005. He has been General Manager of Paducah Electric for seven years. He has over 40 years experience with investor-owned, cooperative, and municipal utilities and for the last 25 years has served as a general manager. Mr. Clark is a graduate of the University of Florida where he earned a Bachelor's Degree in Electrical Engineering. Mr. Clark was subsequently employed at Florida Power and Light Company ("FPL") in Miami, serving in a variety of positions which included 6 ½ years in the Engineering Department and approximately 6½ years in the Sales Department of the company where he was an account executive handling some of the company's largest and more sensitive accounts. After 13 years with FPL, Mr. Clark joined the Fayetteville, Tennessee Electric System as Director of Engineering and Operations. After three years in this position, Mr. Clark was selected as the General Manager of the Coosa Valley Electric Cooperative in Talladega, Alabama and later served for five years as the General Manager of the Carthage, Missouri Water and Electric Plant where he was responsible for power purchase, generation, distribution, water, and waste water activities of the city. He also served five years as the General Manager of the Suwannee Valley Electric Cooperative at Live Oak, Florida and while serving in this position was instrumental in having the cooperative enter the Direct Broadcast Satellite (DBS) business. After successfully developing this subsidiary, Mr. Clark moved to the Tennessee Valley Electric Cooperative in Savannah, Tennessee where he served as General Manager for four years. He was then briefly employed as Electric Director of the City of Lebanon, Ohio where he managed power production, distribution, and telecommunication activities. In August 2000, Mr. Clark was appointed General Manager of Paducah Electric. Mr. Clark is a registered professional engineer in four states and a graduate of the American Public Power Association's Executive Development Program and the Tennessee Valley Public Power Association's Executive Development Program. Mr. Clark currently serves as a board member of the Greater Paducah Economic Development Council and the Paducah Area Chamber of Commerce. In September 2006, Mr. Clark was named General Manager of KMPA.

## **Management and Administration**

KMPA's General Manager, Assistant General Manager and Chief Financial Officer serve as the management team for KMPA. KMPA's Chief Financial Officer is Heather Overby.

*Heather Overby* has served as the Chief Financial Officer for KMPA since November, 2009. She has over 12 years experience with electric municipal utilities. Ms. Overby is a graduate of Transylvania University, where she earned a Bachelor's Degree in Business Administration with an Emphasis in Accounting and Finance, and a graduate of Regis University where she earned a Master's Degree in Business Administration with an Emphasis in Finance and Accounting. Ms. Overby is a Certified Public Accountant, having formerly been employed as an auditor with Deloitte Touche Tohmatsu. She is a member of the Kentucky Society of CPAs and the AICPA. Ms. Overby currently serves as a Vice-Chairman on the American Public Power Association Business and Finance Conference Planning Committee and as a member of the Accounting Advisory Committee for South Eastern Data Cooperation, which provides electric utility billing and accounting software. She also serves as a board member for several local charitable organizations.

Baker Tilly Virchow Krause LLP, has audited the financial statements of KMPA since its creation in 2005. In addition, the auditor has assisted KMPA in establishing its internal accounting system. R. W. Beck, Inc., consulting engineers, has provided various services to KMPA since 2005 and to its Members prior to that time, and has been providing direct Project oversight and monitoring on behalf of KMPA.

KMPA will continue to rely on this team of outside experts to augment its management and operations functions and Project monitoring support to its Members through commercial operation of the Project and thereafter, as needed. KMPA's operating budget reflects the continued use of these qualified outside resources for various functions. KMPA will continue to rely on outside expertise until its internal operations and membership levels justify the establishment of additional permanent positions within KMPA and qualified staff are hired.

## **Financial Statements and Management's Discussion and Analysis**

KMPA's audited financial statements and management's discussion and analysis for the years ended June 30, 2009 and 2008 are included as Appendix C hereto. KMPA files annual information with the Electronic Municipal Market Access system (*see*, DISCLOSURE COMPLIANCE herein). Such information will also be available by contacting KMPA at 1500 Broadway, Paducah, Kentucky 42001 or by telephone at (270) 408-5020.

## **THE MEMBERS**

### **General**

The Members, Paducah Electric and Princeton Electric, are each located in the western portion of the Commonwealth of Kentucky, and are located on the northern fringe of the territory historically served by TVA. Paducah Electric and Princeton Electric were created in 1945 and 1958, respectively, and are each governed by a five-member Electric Plant Board. Members of the Electric

Plant Boards serve staggered four-year terms and are appointed by the mayors and approved by the City Commissions of the respective communities in which they serve. However, the Electric Plant Boards are separate and distinct political subdivisions of the Commonwealth of Kentucky and act independently of their respective City governments.

## **Power Supply**

From the early 1960's until just recently, the Members were full requirements wholesale distribution customers of TVA. During the almost five decades that the TVA Wholesale Power Contracts were in force, TVA supplied all of the Members' power and energy requirements in excess of relatively small allotments of power received by each Member from federally-owned facilities through the Southeastern Power Administration ("SEPA"). Consequently, neither Member had the need to construct or acquire any other generating or contractual power supply resources for serving its power and energy requirements. Each Member's Wholesale Power Contract with TVA was terminable upon five years notice prior to termination and on December 14, 2004 Paducah Electric provided TVA with notice of termination of its Wholesale Power Contract effective December 21, 2009. Princeton Electric followed suit the next month giving notice to TVA that it would terminate its Wholesale Power Contract effective January 25, 2010.

The events leading up to each Member's decision to terminate its Wholesale Power Contract with TVA began in 2003, when R.W. Beck, Inc. ("R.W. Beck") was retained by the Members to prepare the first of several power supply feasibility studies for each Member. Said feasibility studies investigated and analyzed alternative power supply strategies available to the Members for the period of 2010 and beyond. The results of these studies indicated that there were considerable economic benefits to be derived by the Members through the procurement of and ownership in long term baseload electric generating resources, combined with the development of local peaking generation resources within the Members' respective electric systems, and supplemented with opportunistic purchases and sales of electric power and energy within the regional marketplace.

Based upon the feasibility studies, the Members determined that mutual advantage would be derived from the coordinated planning, construction and operation of new energy facilities and joint purchases, sales and exchanges of electric power and energy. KMPA was subsequently organized by the Members on February 7, 2005 in order to acquire an interest in the development of the Project, to provide for additional services necessary to implement the programs and procedures required to obtain the long-term benefits indicated by the initial power supply studies and to manage the operations of the Members' resource portfolios.

In anticipation of its Members' need for power upon termination of their Wholesale Power Contracts with TVA, KMPA in 2008 purchased blocks or strips of electric capacity and energy of varying sizes from certain electric power suppliers. These power purchases are sufficient to cover the estimated capacity and energy needs of both Members through 2011. KMPA has also acquired on behalf of its Members options to purchase certain additional strips of power through 2014. These options may be exercised on a day-ahead basis at a price tied to a MISO price index. All of KMPA's power purchase transactions are considered "firm" obligations in that they are backed by liquidated damages provisions in the event of non-delivery. Upon the termination of each Member's TVA Wholesale Power Contract, KMPA began providing all of the Member's wholesale electric service requirements.

In order to receive delivery from KMPA of power and energy purchased on its behalf or generated by the Project, each Member has constructed a new physical interconnection from its distribution system to the nearby 161 kV transmission system of Louisville Gas & Electric/Kentucky Utilities ("LG&E/KU"). KMPA has a network integration transmission service agreement in place with LG&E/KU which facilitates the provision of the transmission services required by its Members. Each Member also has in place an agreement with TVA for the provision of emergency back-up power across the TVA transmission system in the event of disruption of service over the LG&E/KU transmission grid.

The following sections provide historical power and energy requirements, customer data, and projections of power and energy requirements at the wholesale level for each Member.

### **Paducah Electric**

The Paducah Electric system consists of approximately 22,500 total customers. Approximately 18,700, or 83%, are residential customers, approximately 3,320, or 15%, are small and large commercial customers, and the remaining 2% are classified as "other" customers.

The following table shows the actual non-coincident peak demand and energy requirements for Paducah Electric for the five fiscal year period of 2005 through 2009 as prepared by Paducah Electric, based on actual sales data.

#### **PADUCAH ELECTRIC HISTORICAL POWER AND ENERGY REQUIREMENTS (FISCAL YEAR SALES)**

Calendar <u>Year</u>	Peak Demand <u>(MW)</u>	Percent <u>Growth</u>	Energy Requirements <u>(MWh)</u>	Percent <u>Growth</u>
2005	154.0	-	586,742	-
2006	158.0	2.6%	626,750	6.8%
2007	154.0	-2.5%	621,481	-0.8%
2008	159.0	3.2%	657,178	5.7%
2009	150.0	-5.7%	606,178	-7.8%

Peak demand and energy requirements vary from year to year because of various factors, including weather and economic conditions. For example, a catastrophic ice storm in early 2009 accounts for the significant reduction in energy sales for that year.

The following table shows the projected non-coincident peak demand and energy requirements for Paducah Electric for the ten fiscal year period 2011 through 2020 on a purchase basis, including distribution system losses, as prepared by R. W. Beck, using historical values, projected number of customers and known customer additions, customer usage assumptions and normal weather conditions.

PADUCAH ELECTRIC  
PROJECTED POWER AND ENERGY REQUIREMENTS  
(WHOLESALE PURCHASE BASIS)

Calendar <u>Year</u>	Peak Demand <u>(MW)</u>	Percent <u>Growth</u>	Energy Requirements <u>(MWh)</u>	Percent <u>Growth</u>
2011	160.0	-	673,600	-
2012	163.7	2.3%	689,100	2.3%
2013	166.0	1.4%	698,900	1.4%
2014	168.4	1.4%	708,750	1.4%
2015	170.7	1.4%	718,800	1.4%
2016	173.2	1.4%	729,000	1.4%
2017	175.6	1.4%	739,300	1.4%
2018	178.1	1.4%	749,700	1.4%
2019	180.6	1.4%	760,300	1.4%
2020	183.2	1.4%	771,100	1.4%

The changes in Paducah Electric's demand and energy requirements from year to year reflect the net effects of population growth and economic growth experienced by Paducah Electric's customers, incremental and decremental load impacts, and the relative effects of actual weather conditions that vary from typical or normal conditions.

**Princeton Electric**

The Princeton Electric system consists of approximately 3,930 total customers. Approximately 3,125, or 80%, are residential customers, approximately 715, or 18%, are small and large commercial customers, 78, or 2% are industrial customers and the remaining less than 1% are classified as "other" customers.

The following table shows the actual non-coincident peak demand and energy requirements for Princeton Electric for the five fiscal year period of 2005 through 2009 as prepared by Princeton Electric based on actual sales data.

PRINCETON ELECTRIC  
HISTORICAL POWER AND ENERGY REQUIREMENTS  
(FISCAL YEAR SALES)

Calendar <u>Year</u>	Peak Demand <u>(MW)</u>	Percent <u>Growth</u>	Energy Requirements <u>(MWh)</u>	Percent <u>Growth</u>
2005	23.7	-	104,569	-
2006	24.1	1.7%	108,185	3.5%
2007	25.6	6.2%	109,138	0.9%
2008	26.7	4.3%	112,943	3.5%
2009	24.8	-7.1%	106,534	-5.7%

Peak demand and energy requirements vary from year to year because of various factors, including weather and economic conditions. For example, a catastrophic ice storm in early 2009 accounts for the significant reduction in energy sales for that year.

The following table shows the projected non-coincident peak demand and energy requirements for Princeton Electric for the ten fiscal year period 2011 through 2020 on a purchase basis, including distribution system losses, as prepared by R. W. Beck, using historical values, projected number of customers and known customer additions, customer usage assumptions and normal weather conditions.

PRINCETON ELECTRIC  
PROJECTED POWER AND ENERGY REQUIREMENTS  
(WHOLESALE PURCHASE BASIS)

Calendar <u>Year</u>	Peak Demand <u>(MW)</u>	Percent <u>Growth</u>	Energy Requirements <u>(MWh)</u>	Percent <u>Growth</u>
2011	28.5	-	125,500	-
2012	32.4	13.8%	148,200	18.0%
2013	32.7	0.8%	149,300	0.8%
2014	32.9	0.8%	150,400	0.8%
2015	33.2	0.8%	151,500	0.8%
2016	33.4	0.8%	152,700	0.8%
2017	33.7	0.8%	153,800	0.8%
2018	33.9	0.8%	155,000	0.8%
2019	34.2	0.8%	156,320	0.8%
2020	34.4	0.8%	157,400	0.8%

The changes in Princeton Electric's demand and energy requirements in 2012 reflect a planned expansion by a larger industrial customer, and thereafter from year to year reflect the net effects of population growth and economic growth experienced by Princeton Electric's customers, incremental and decremental load impacts, and the relative effects of actual weather conditions that vary from typical or normal conditions.

The respective service area of each Member includes most of the respective city and a portion of the county beyond the city limits. Retail electric service in areas adjoining the service areas of the Members is provided by investor-owned utilities or rural electric cooperatives which, in some instances, also serve a limited number of customers within the corporate limits of the Members' respective cities. Although the service area of neither Member is regulated by the Kentucky Public Service Commission, Kentucky law protects the territory being served by each Member from competition by another retail electric utility.

See Appendix A, "Engineering Report and Feasibility Study for the Prairie State Project relating to the Kentucky Municipal Power Agency and its Members" prepared by R.W. Beck. In addition, Appendix D provides pertinent operating and financial information for the Members and Appendix G provides general demographic and economic data regarding the areas where the Members provide their respective service. Paducah Electric's audited financial statements and management's discussion and analysis for the years ended June 30, 2009 and 2008 are included as

Appendix E hereto. Princeton Electric's audited financial statements and management's discussion and analysis for the years ended June 30, 2009 and 2008 are included as Appendix F hereto.

### **Power Sales Agreements**

Both Members have approved respective Power Sales Agreements (the "Power Sales Agreements") with KMPA to purchase a portion of their respective electrical requirements from KMPA's share of the electric power and energy to be generated by the Project. At the present time Paducah Electric is entitled to purchase 83.9% of KMPA's share of the Project and Princeton Electric is entitled to purchase the remaining 16.1%. Each of the Power Sales Agreements is a "take or pay" agreement under which each Member has agreed to pay for its portion of KMPA's share of the Project at rates sufficient to enable KMPA to recover all of its costs incurred with respect to the Project. The Members are obligated to pay for their respective portions of the Project whether or not the Project is complete, operable, or operating and whether or not the Project's output is suspended, interrupted, interfered with, reduced, curtailed or terminated in whole or in part.

From time to time, in the event that one or both of the Members do not require the full entitlement of their respective shares of the Project's output, KMPA will make an effort to sell such unused power and energy in the energy marketplace. However, KMPA is not obligated, except to its Members, to sell power and energy under long-term or forward contracts, and any failure of KMPA to sell such power and energy in the energy marketplace shall not relieve the obligations of the Members to pay for their respective portions of the cost of the Project, including debt service on the Bonds.

### **Supplemental Power Purchases**

Though there is no contractual obligation for a Member to purchase all of its power and energy requirements through KMPA, Paducah Electric and Princeton Electric anticipate that KMPA will supply a portion of their respective power requirements beyond those produced by the Project through a portfolio of power purchase agreements with investor-owned utilities and power marketers. These agreements will enable KMPA to furnish the Members' intermediate electrical needs and provide back-up power and energy arrangements in the event that output of the Project is interrupted. As previously noted, KMPA already has put in place a number of power purchase agreements for the provision of a bridge power supply to the Members during the period from the expiration of their TVA power contracts until the Project commences commercial operation. KMPA provides these power supply services to its Members under respective Partial Requirements Power Sales Agreements entered into by KMPA with each of its Members in December 2009. The Partial Requirements Power Sales Agreement provides a framework under which a Member can acquire from KMPA not only a portion of its power supply needs, but also a number of other energy-related services.

### **Additional Power Supply Resources of the Members**

Paducah Electric is nearing completion of construction and testing of a gas-fired combustion turbine peaking facility located within its system and adjacent to one of its existing 69 KV substations. The peaking plant consists of two new Pratt & Whitney Power Systems FT8-3 Swift Pac combustion turbine packages and all necessary ancillary equipment. Each of the peaking plant's



two generators has a nominal capacity of 62 MW. The total capability of the peaking units will be approximately 110 MW at expected peak summer ambient temperatures. The combustion turbine generating plant is proceeding on schedule for substantial completion in May 2010.

Princeton Electric is not anticipating developing a peaking facility at this time.

See Appendix A, "Engineering Report and Feasibility Study for the Prairie State Project relating to the Kentucky Municipal Power Agency and its Members" prepared by R.W. Beck.

## **SECURITY FOR THE BONDS**

### **Pledge Under the Indenture**

The Bonds are limited obligations of KMPA payable, on a parity basis with KMPA's outstanding (i) Power System Revenue Bonds (Prairie State Project), Series 2007A (the "Series 2007A Bonds") and (ii) Taxable Power System Revenue Bonds (Prairie State Project), Series 2007B (the "Series 2007B Bonds") solely from and secured, to the extent and as provided in the Indenture, by a pledge to the Trustee for the benefit of the Bondowners of the following (the "Trust Estate"):

(1) All Revenues and all of KMPA's rights, title and interest in and to the Power Sales Agreements, including, but without limiting the generality of the foregoing, KMPA's rights, title, and interest in and to the Revenues and the present and continuing right to make claim for, collect and receive any of the money, income, revenues, issues, profits and other amounts payable or receivable thereunder, to bring actions and proceedings thereunder or for the enforcement thereof, and to do any and all things which KMPA or any other person is or may become entitled to do under the Power Sales Agreements, but reserving, however, to KMPA its Retained Rights.

(2) All rights, title and interest of KMPA, if any, whether now or hereafter in effect, respecting:

(A) KMPA's undivided fee interest in the Project;

(B) the right of KMPA to receive power generated by the Project;

(C) all choses in action and all choses in possession now or hereafter existing to the benefit of or arising from the benefit of KMPA with respect to the Bonds (except for KMPA's Retained Rights); and

(D) all proceeds of all the foregoing.

(3) All funds and accounts established under the Indenture and the investments thereof, if any, and money, securities and obligations therein (subject to disbursements from any such fund or account upon the conditions set forth in the Indenture); and

(4) All money and securities from time to time held by the Trustee under the terms of the Indenture and any and all other real or personal property of every name and nature by delivery

or by writing of any kind pledged or assigned as and for additional security under the Indenture, by KMPA or by anyone in its behalf or with its written consent, to the Trustee.

### **Power Sales Agreements**

Payments received by KMPA pursuant to the Power Sales Agreements are designed to permit KMPA to provide sufficient moneys to the Trustee to make the required principal and interest payments, when due, on the Bonds, including the possible redemption of Bonds prior to maturity.

Each Power Sales Agreement may be terminated earlier if all Bonds issued under the Indenture have been paid or provision for such payment has been made pursuant to the Indenture and all contractual obligations entered into by KMPA for the generation, purchase, transmission or transformation of power and energy have been terminated and provision has been made for the payment of any residual costs.

Pursuant to the Power Sales Agreements, KMPA shall establish such rates and charges which shall be billed to each Member, based on the Member's Entitlement Percentage, on a monthly basis, or such other period as determined by KMPA, in order to provide KMPA with sufficient revenues to pay its Monthly Project Costs. "Monthly Project Costs" shall mean all of KMPA's costs as offset by credits and revenues, resulting from the ownership, fueling, operation, maintenance and termination, retirement from service or decommissioning of, and necessary repairs, renewals, replacements and additions to, the Project, including, but not limited to, costs as offset by credits and revenues related to the transmission, interconnection and deliverability of the Project and all MISO Prairie State Charges. The Monthly Project Costs include, without limitation, debt service on the Bonds, deposits required to be made into the Funds established under the Indenture and such additional amounts as are necessary to satisfy any debt service coverage requirement in the Indenture.

### **Rate Covenant and Coverage**

KMPA has agreed under the Indenture that, while any of the Bonds authorized thereunder remain outstanding and unpaid, the rates charged and collected under the Power Sales Agreements for the sale of power produced by the Project shall be fixed, maintained and, if necessary, adjusted from time to time, to be sufficient, so as to produce, based upon the audited financial statements of KMPA relating to the Project, in each Fiscal Year, a Debt Service Coverage Ratio equal to at least 1.10:1 (the "Rate Coverage"); and that the rates prevailing at any time will not be reduced except upon the basis of a statement of an Independent Engineer, after necessary investigation, that in its opinion the Rate Coverage will not thereby be reduced below such level.

The Trustee may draw funds from the Reserve Fund (the "Reserve Fund") of KMPA to pay the principal of, and/or the interest on, the Bonds in the event Revenues received by KMPA under the Power Sales Agreements are insufficient to pay bondholders.

See Appendix H, "Definitions and Summary of Certain Provisions of the Indenture and the Form of Power Sales Agreement" for a description of the various Funds and Accounts and other provisions of the Indenture.

## **THE BONDS**

### **Description of the Bonds**

The Bonds will accrue interest from the date of issuance and will mature on September 1 in each of the years set forth on the inside front cover of this Official Statement. The Bonds will bear interest at the interest rate set forth on the inside front cover of this Official Statement payable semiannually on March 1 and September 1 of each year, commencing on September 1, 2010, until maturity or redemption.

Interest on the Bonds shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

The Bonds will be issued in fully registered form in the denomination of \$5,000 or any integral multiple of \$5,000 ("Authorized Denominations").

### **Payment of Bonds**

The principal of and premium, if any, and interest on the Bonds are payable in any coin or currency of the United States of America. U.S. Bank National Association has been appointed Trustee and Paying Agent for the Bonds (the "Trustee"). The principal of and premium, if any, on the Bonds will be paid upon surrender thereof at the corporate trust office of the Trustee in Louisville, Kentucky.

Interest on each Bond shall be paid by check mailed on the Interest Payment Date to the Person who is the Owner thereof as shown on the Bond Register as of 5:00 p.m., Eastern Time, on the applicable Record Date, at the address of the Owner as it appears on the Record Date on the Bond Register. At the direction of an Owner of \$1,000,000 or more of the Bonds, payments of interest shall be made by electronic transfer by the Trustee in immediately available funds to an account in the United States designated in writing by such Owner to the Trustee not less than five days prior to the Interest Payment Date.

**THE BONDS ARE LIMITED OBLIGATIONS OF KMPA AND ARE PAYABLE SOLELY OUT OF THE REVENUES, FUNDS AND OTHER ASSETS OF THE TRUST ESTATE PLEDGED UNDER THE INDENTURE. KMPA DOES NOT HAVE ANY TAXING POWER.**

**NEITHER THE COMMONWEALTH OF KENTUCKY, NOR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN KMPA, NOR ANY MEMBER OF KMPA SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OF KENTUCKY OR ANY POLITICAL SUBDIVISION THEREOF OR ANY MEMBER OF KMPA IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS.**

## **Registration, Transfer and Exchange**

The Trustee shall maintain books (the "Bond Register") for the registration and for the transfer of the Bonds.

Upon surrender for registration of transfer of any Bond at the principal office of the Trustee, the Trustee shall authenticate and shall deliver a new Bond or Bonds in the same aggregate principal amount as the Bond surrendered. No transfer of any Bond shall be binding upon the Trustee unless made at such office and shown on the Bond Register. Unless and until the Trustee notifies the Bondowners in writing of any change of Trustee or of any change of the principal office thereof, the Trustee's principal office shall be One Financial Square, Louisville, Kentucky 40202, Attention: Corporate Trust Administration.

The Trustee shall not be required to exchange or transfer any Bond or portion thereof which has been called for redemption.

## **Book-Entry Only System**

The Bonds initially will be issued solely in book-entry form to be held in the book-entry only system maintained by The Depository Trust Company ("DTC"), New York, New York. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of Bonds and, except as otherwise provided therein with respect to Beneficial Owners (as defined below) of Beneficial Ownership Interests (as defined below), Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Bonds under the Indenture.

**The following information about the book-entry only system applicable to the Bonds has been supplied by DTC. KMPA, the Trustee and the Underwriter make no representations, warranties or guarantees with respect to its accuracy or completeness.**

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities

brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' (collectively, "Participants") records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to KMPA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from KMPA or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Trustee, or KMPA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of KMPA or Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to KMPA or Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

KMPA may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that KMPA believes to be reliable, but KMPA makes no warranties or representations regarding the accuracy thereof.

## **Redemption of the Bonds**

*Optional Redemption.* The Series 2010A Bonds and the Series 2010B Bonds maturing on and prior to September 1, 2020, shall not be subject to redemption prior to maturity. The Series 2010A Bonds and the Series 2010B Bonds maturing on or after September 1, 2021, are subject to redemption, in whole or in part, by KMPA prior to their stated maturities, at any time falling on or after September 1, 2020 (less than all Bonds of a single maturity to be selected in such manner as the Registrar may determine) at a redemption price equal to 100% of the principal amount of the respective Series 2010A Bonds or Series 2010B Bonds called for redemption, plus unpaid interest accrued to the date of redemption.

The Series 2010C Bonds shall not be subject to optional redemption prior to maturity as described in the preceding paragraph. The Series 2010C Bonds may, however, be subject to redemption prior to maturity under the circumstances described below.

*Extraordinary Optional Redemption.* Prior to September 1, 2020, the Series 2010B Bonds are also subject to redemption prior to their maturity, at the option of KMPA, as a whole or in part, on any date prior to their maturity, upon the occurrence of an Extraordinary Event, at a redemption price equal to the greatest of (i) 100% of the principal amount of the Series 2010B Bonds to be redeemed; (ii) the initial offering price of the Series 2010B Bonds, as shown on the inside front cover page of this Official Statement; or (iii) the sum of the present values of the remaining scheduled payments of principal of and interest on the Series 2010B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2010B Bonds are to be redeemed, discounted to the date on which the Series 2010B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at a discount rate equal to the Comparable Treasury Yield, plus 100 basis points; plus, in each case, accrued interest on the Series 2010B Bonds to be redeemed to the redemption date.

The term "Comparable Treasury Issue" means the Treasury Department security selected by the Independent Banking Institution as having a maturity comparable to the remaining term to maturity of the Series 2010B Bond being redeemed that would be used, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term to maturity of the Series 2010B Bond being redeemed.

The term "Comparable Treasury Price" means, with respect to any date on which a Series 2010B Bond or portion thereof is being redeemed, either (i) the average of five Reference Treasury Dealer quotations for the date fixed for redemption, after excluding the highest and lowest such quotations, and (ii) if the Independent Banking Institution is unable to obtain five such quotations, the average of the quotations that are obtained. The quotations shall be the average, as determined by the Independent Banking Institution, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of principal amounts) quoted in writing to the Independent Banking Institution, at 5:00 p.m. New York City time on the third Business Day preceding the date fixed for redemption.

The term "Comparable Treasury Yield" means the yield which represents the weekly average yield to maturity for the preceding week appearing in the most recently published statistical release designated "H.15(519) Selected Interest Rates" under the heading "Treasury Constant Maturities," or any successor publication selected by the Independent Banking Institution that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded Treasury Department securities adjusted to constant maturity, for the maturity corresponding to the remaining term to maturity of the Series 2010B Bond being redeemed. The Comparable Treasury Yield shall be determined as of the third Business Day immediately preceding the applicable date fixed for redemption. If the H.15(519) statistical release sets forth a weekly average yield for Treasury Department securities that have a constant maturity that is the same as the remaining term to maturity of the Series 2010B Bond being redeemed, then the Comparable Treasury Yield shall be equal to such weekly average yield. In all other cases, the Comparable Treasury Yield shall be calculated by interpolation on a straight-line basis, between the weekly average yields on the Treasury Department securities that have a constant maturity (i) closest to and

greater than the remaining term to maturity of the Series 2010B Bond being redeemed; and (ii) closest to and less than the remaining term to maturity of the Series 2010B Bond being redeemed. Any weekly average yields calculated by interpolation shall be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward. If, and only if, weekly average yields for Treasury Department securities for the preceding week are not available in the H.15(519) statistical release or any successor publication, then the Comparable Treasury Yield shall be the rate of interest per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price as of the date fixed for redemption.

The term "Extraordinary Event" means a determination by KMPA that KMPA is ineligible to receive the direct cash subsidy payment from the Treasury Department equal to 35% of the amount of interest paid on the Series 2010B Bonds as provided in Sections 54AA and 6431 of the Code as they exist on the date of issuance, which ineligibility is the result of (i) an amendment of Section 54AA or Section 6431 of the Code as such Sections exist on the date of issuance; (ii) the promulgation or publication of any regulation, procedure, rule or guidance by the Internal Revenue Service or the Treasury Department with respect to Section 54AA or Section 6431 of the Code; or (iii) any other determination by the Internal Revenue Service or the Treasury Department, which determination is not the result of any act or omission by KMPA.

The term "Independent Banking Institution" means an investment banking institution of national standing which is a primary United States government securities dealer in the United States designated by KMPA (which may be one of the Original Purchasers). If KMPA fails to appoint an Independent Banking Institution at least 45 days prior to the date fixed for redemption, or if the Independent Banking Institution appointed by KMPA is unwilling or unable to determine the Comparable Treasury Yield, the Comparable Treasury Yield shall be determined by an Independent Banking Institution designated by the Trustee.

The term "Original Purchaser" means the Underwriters of the Series 2010B Bonds.

The term "Reference Treasury Dealer" means a primary United States Government securities dealer in the United States appointed by KMPA and reasonably acceptable to the Independent Banking Institution (which may be the Original Purchaser). If KMPA fails to select the Reference Treasury Dealers within a reasonable period of time, the Trustee will select the Reference Treasury Dealers in consultation with KMPA.

Notwithstanding the foregoing, the Bonds shall be subject to redemption with funds at the option and direction of KMPA, as a whole or in part, at par plus accrued interest to the redemption date, on the 95th day after the date the Trustee receives written notice of the occurrence of any of the following events:

- (a) the Project shall have been substantially damaged or destroyed to such extent that, in the opinion of KMPA filed with the Trustee, it is not practicable or economically feasible to rebuild, repair or restore the damaged property within a reasonable period of time and KMPA will be prevented from carrying out its normal operations for a period of at least six months, or



- (b) a portion of the Project shall have been substantially damaged or destroyed to such extent that, in the opinion of KMPA filed with the Trustee, it is not practicable or economically feasible to rebuild, repair or restore that portion of the Project so damaged; provided, however, that the Bonds called for redemption pursuant to this subparagraph shall not be redeemed in whole but shall be redeemed in part with the amount of funds remaining from the receipt of any insurance proceeds, after the costs of any such rebuilds, repairs or restorations that in the opinion of KMPA filed with the Trustee, are determined to be economically feasible and shall have been made, or
- (c) title to or the temporary use of all or substantially all of the Project (i) shall be taken under a valid and lawful exercise of the power of eminent domain or (ii) shall be denied by the failure of any license, permit or other form of approval to be issued by a governmental authority such as results, or is likely to result (in the reasonable opinion of KMPA), in KMPA being thereby prevented from (y) carrying out its normal operations at the Project for a period of at least six consecutive months or (z) selling power or energy generated by the Project at levels which in the opinion of KMPA and confirmed by an Independent Consultant, make all or a portion of the Project not economically feasible.

*Mandatory Redemption.* The Bonds are subject to mandatory redemption prior to maturity at a redemption price equal to the principal amount to be redeemed plus accrued interest thereon to the date of redemption, at any time, in whole or in part by lot, to the extent necessary in accordance with written instructions from Bond Counsel to effect compliance with the requirements of the Code.

The Series 2010B Bonds due September 1, 2037 shall be subject to mandatory sinking fund redemption prior to maturity (said Bonds to be selected in such manner as the Trustee may determine) at a redemption price of 100% of the principal amount thereof to be redeemed, plus interest accrued to the redemption date, on September 1 in the years and in the principal amounts as follows:

<u>September 1</u>	<u>Principal Amount</u>
2031	\$ 8,945,000
2032	9,330,000
2033	9,730,000
2034	10,150,000
2035	10,590,000
2036	11,045,000
2037	11,250,000

*Notice and Effect of Call for Redemption.* The Trustee shall give notice of redemption by first class mail, postage prepaid, mailed not less than 25 nor more than 45 days prior to the

redemption date to each Owner of Bonds to be redeemed or tendered at the address of such Owner appearing in the Bond Register, and also to such other Persons as KMPA shall deem appropriate.

Neither the failure of any Owner to receive notice mailed as provided herein nor any defect in notice so mailed shall affect the validity of the proceedings for redemption or mandatory tender in accordance with the Indenture.

All notices of redemption tender shall state:

- (i) the redemption date;
- (ii) the redemption price (including premium, if any);
- (iii) the name of the Bonds to be redeemed, the principal amount of Bonds to be redeemed, and, if less than all Outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed;
- (iv) the reason for the redemption;
- (v) that on the redemption date, the redemption price, as appropriate, of each such Bond will become due and payable, that interest on each such Bond shall cease to accrue on and after such date, and that each such Bond will be deemed to have been redeemed;
- (vi) the place or places where such Bonds must be surrendered for payment of the redemption price thereof; and
- (vii) such additional information as KMPA or the Trustee shall deem appropriate.

Notice of redemption having been given as aforesaid, the Bonds so to be redeemed shall become due and payable on the redemption date at the redemption price specified, and on and after such date (unless KMPA shall default in the payment of the redemption price) such Bonds shall cease to bear interest. Upon surrender of any such Bond for redemption in accordance with such notice, such Bond shall be paid at the redemption price thereof.

*No Interest After Redemption Date.* Notice of redemption having been given as provided in the Indenture, the Bonds or portions thereof designated for redemption shall become due and payable on the date fixed for redemption and, unless KMPA defaults in the payment of the principal thereof, such Bonds or portions thereof shall cease to bear interest from and after the date fixed for redemption whether or not such Bonds are presented and surrendered for payment on such date. If any Bond or portion thereof called for redemption is not so paid upon presentation and surrender thereof for redemption, such Bond or portion thereof shall continue to bear interest at the rate set forth thereon until paid or until due provision is made for the payment of same.

## Parity Bonds

The Bonds shall not be entitled to priority one over the other in the application and pledge of the Revenues, regardless of the time or times of their issuance, it being the intention that there shall be no priority among the Bonds, regardless of the fact that they may be actually issued and delivered at different times, and provided further that the lien and security of and for any bonds or obligations hereafter issued that are payable from the Revenues of the Project shall, except as set out herein, be subject to the priority of the Bonds as may from time to time be outstanding; provided, KMPA hereby reserves the right and privilege of issuing (i) Completion Indebtedness and/or (ii) any additional bonds from time to time in order to pay the cost of acquiring, whether by purchase or construction of extensions, renovations, improvements and/or betterments to the Project, or for any other lawful purpose of KMPA (the "Parity Bonds"). When issued, any Parity Bonds shall be payable from the Revenues of the Project ranking on a parity with the Bonds. Parity Bonds, other than the Completion Indebtedness, may be issued by KMPA only upon compliance with the following conditions and restrictions:

- (a) that before any Parity Bonds may be issued there shall have been procured and filed with the Secretary of KMPA a statement by an Independent Engineer, reciting the opinion, based upon necessary investigation, that on an annual basis the Debt Service Coverage Ratio based upon (i) the Net Revenues of the Issuer's Project share, including the then contemplated extensions, improvements, renovations and betterments throughout the life of the Bonds and (ii) the Maximum Annual Debt Service on the Outstanding Bonds and the Parity Bonds then proposed to be issued, will, from and after the fifth year after the Parity Bonds are issued, be equal to at least 1.20:1;
- (b) that KMPA reserves the right, exercisable by supplemental indenture, to prescribe additional and more restrictive conditions for the issuance of such additional Parity Bonds, and upon issuance of Parity Bonds in compliance therewith such additional and more restrictive conditions shall be applicable to all such Parity Bonds as may thereafter be issued;
- (c) at the time of issuance of such Parity Bonds, the supplemental indenture (and/or other appropriate document) of KMPA authorizing such Parity Bonds shall contain a provision requiring the funding, completion of the funding, or additional funding of the Reserve Fund with cash and/or a surety bond;
- (d) that if the Parity Bonds are to bear interest at a fixed rate, the interest payment dates for any such additional Parity Bonds shall be semiannually on the same dates as the Outstanding Bonds; and
- (e) that the principal maturities of such additional Parity Bonds shall be on an Interest Payment Date.

The Net Revenues of said contemplated extensions, improvements, renovations and betterments shall not be included as aforesaid, unless, at the time it is proposed to issue any such Parity

Bonds, either (i) a written contract or contracts shall have been entered into for the immediate acquisition of any such betterments, improvements, renovations or extensions to be acquired and for the construction of substantially all of any such extensions, improvements, renovations or betterments to be constructed through application of any of the proceeds of such additional Parity Bonds; or (ii) a certificate shall have been made and filed with the Secretary of KMPA by an Independent Engineer meeting the qualifications prescribed in the Indenture, stating that in his, her or their opinion certain described extensions, improvements, renovations, betterments or constructions are needed, that the nature thereof is such that construction can be accomplished more economically or more expeditiously by purchasing materials and utilizing labor or personnel employed directly by KMPA, and that the estimated costs thereof can be paid in full from the proceeds of the Parity Bonds proposed to be issued, as supplemented by any other funds then available.

The additional Parity Bonds and other obligations, the issuance of which is restricted by the Indenture, shall be understood to mean Parity Bonds and obligations payable from the Revenues of the Project on a parity with the Outstanding Bonds and shall not be deemed to include bonds or other obligations subsequently issued, the lien and security of which are subordinate and subject to the prior and superior lien and security of the Outstanding Bonds.

Nothing in the Indenture is intended or shall be construed as a restriction upon the ordinary refunding of any of the Bonds herein authorized and/or Outstanding Bonds, if such refunding does not operate to increase in any year the aggregate debt service requirements of the Outstanding Bonds proposed to be refunded.

## **BOND INSURANCE**

The following information is not intended to be a complete description of the Municipal Bond Insurance Policy to be issued in connection with the Bonds. Reference is made to Appendix I for a specimen of the Municipal Bond Insurance Policy of Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance, Inc.).

### **Bond Insurance Policy**

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AMG") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as Appendix I to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

**Assured Municipal Guaranty Corp. (formerly known as Financial Security Assurance, Inc.)**

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

On July 1, 2009, AGL acquired the financial guaranty operations of Holdings from Dexia SA ("Dexia"). In connection with such acquisition, Holdings' financial products operations were separated from its financial guaranty operations and retained by Dexia. For more information regarding the acquisition by AGL of the financial guaranty operations of Holdings, see Item 1.01 of the Current Report on Form 8-K filed by AGL with the Securities and Exchange Commission (the "SEC") on July 8, 2009.

Effective November 9, 2009, Financial Security Assurance Inc. changed its name to Assured Guaranty Municipal Corp.

AGM's financial strength is rated "AAA" (negative outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's"). On February 24, 2010, Fitch, Inc. ("Fitch"), at the request of AGL, withdrew its "AA" (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

*Recent Developments - Ratings.* On May 17, 2010, S&P published a Research Update in which it affirmed its "AAA" counterparty credit and financial strength ratings on AGM. At the same time, S&P continued its negative outlook on AGM. Reference is made to the Research Update, a copy of which is available at [www.standardandpoors.com](http://www.standardandpoors.com), for the complete text of S&P's comments.

In a press release dated February 24, 2010, Fitch announced that, at the request of AGL, it had withdrawn the "AA" (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Reference is made to the press release, a copy of which is available at [www.fitchratings.com](http://www.fitchratings.com), for the complete text of Fitch's comments.

On December 18, 2009, Moody's issued a press release stating that it had affirmed the "Aa3" insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at [www.moody.com](http://www.moody.com), for the complete text of Moody's comments.

There can be no assurance as to any further ratings action that Moody's or S&P may take with respect to AGM.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was filed by AGL with the SEC on March 1, 2010, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010. Effective July 31, 2009, Holdings is no longer subject to the reporting requirements of the Securities and Exchange Act of 1934, as amended (the "Exchange Act").

*Capitalization of AGM.* At March 31, 2010, AGM's consolidated policyholders' surplus and contingency reserves were approximately \$2,220,015,145 and its total net unearned premium reserve was approximately \$2,228,912,193 in accordance with statutory accounting principles.

*Incorporation of Certain Documents by Reference.* Portions of the following documents filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) The Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (which was filed by AGL with the SEC on March 1, 2010); and
- (ii) The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010.

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.): 31 West 52<sup>nd</sup> Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)" or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously

included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE".

## **PRAIRIE STATE ENERGY CAMPUS PROJECT**

### **General**

On February 7, 2005, the KMPA Board of Directors approved participation in the construction and operation of the Prairie State Energy Campus Project. KMPA will use the output of the Project to provide the baseload portion of the power and energy needed by its Members. Upon financial closing, KMPA acquired a 7.82% undivided interest in the Project which is equivalent to approximately 124 MW.

The Project is a mine-mouth, pulverized coal-fired generating station under construction in Washington and Randolph Counties in southwest Illinois. The Project includes adjacent coal reserves and all associated mine, rail, water, coal combustion waste storage and ancillary support. The generating station will consist of two supercritical units with a nominal net output capacity of 800 MW each. The plant design incorporates state-of-the-art emissions control technology consistent with other plants that have been successfully permitted. The Project is being developed by Prairie State Generating Company ("PSGC"). PSGC originated as a wholly-owned subsidiary of Peabody Energy. Peabody Energy is the world's largest private-sector coal company, with 2008 sales of 256 million tons of coal and \$6.6 billion in revenues.

Pursuant to an Amended and Restated Project Development Agreement, dated as of June 19, 2007 and certain similar and ancillary agreements (collectively the "Development Agreement"), PSGC sold undivided interests in the Project to KMPA; American Municipal Power, Inc. ("AMP"); the Northern Illinois Municipal Power Agency ("NIMPA"); the Illinois Municipal Power Agency ("IMEA"); the Indiana Municipal Power Agency ("IMPA"); Lively Grove Energy Partners, LLC, ("Lively Grove Energy"), currently a wholly-owned indirect subsidiary of Peabody Energy; the Missouri Joint Municipal Electric Commission ("MJMEUC"); Prairie Power, Inc., formerly Soyland Power Cooperative, Inc. ("PPI"); and Southern Illinois Power Cooperative ("SIPC") [collectively, the "Project Owners"]. The sale of the undivided interests, except the AMP undivided interest, occurred on October 1, 2007. The sale of the AMP undivided interest occurred in the first half of 2008. At the closings, the co-owners executed a Project Participation Agreement (the "Participation Agreement"). Peabody Energy has guaranteed the obligations of Lively Grove Energy under the Development Agreement, as well as certain obligations of PSGC under the Development Agreement.

The Participation Agreement governs the construction and operation of the Project. The Participation Agreement provides for the Project to be constructed and operated by one or more non-profit companies, which shall be owned by the Project Owners on a basis that is proportionate to their interests in the Project. On October 1, 2007, ownership of PSGC was transferred to Prairie State Management Company, an Indiana not-for-profit corporation of which the Project Owners are the members. All licenses, permits and regulatory approvals relating to the Project are held or controlled by PSGC.

Each Project Owner's percentage ownership interest in the Project is shown in the table below.

<b><u>Owner</u></b>	<b><u>Ownership Interest</u></b>
AMP	23.3%
IMEA	15.2%
IMPA	12.6%
MJMEUC	12.3%
PPI	8.2%
SIPC	7.9%
KMPA	7.8%
NIMPA	7.6%
Lively Grove Energy	<u>5.1%</u>
Total	100.0%

Paducah Electric and Princeton Electric are contractually obligated to purchase from KMPA 104 MW and 20 MW, respectively, of ownership entitlement from KMPA's share of 124 MW of the Project's contractual capability. The actual net electrical capacity of the Project will be determined upon completion of the two generating units, and KMPA will be entitled to 7.82 percent of that amount.

Lively Grove Energy will sell a significant portion of its interest in the Project either directly or through the execution of long-term power purchase agreements. Certain Project agreements require that Lively Grove Energy, or another affiliate of Peabody Energy, retain an aggregate undivided ownership interest of at least five percent, until at least the fifth anniversary of the Project's substantial completion date, unless such minimum ownership interest is waived by a majority of the non-Peabody affiliate owners or other conditions related to mine operations have been met. Peabody Energy has guaranteed the obligations of Lively Grove Energy under the Participation Agreement pursuant to Guarantees dated as of June 19, 2007.



## **Project Site**

The site on which the Project is located, excluding the initial coal combustion waste ("CCW") disposal site, covers in excess of 4,500 acres either currently owned, under option for purchase, or planned to be purchased by PSGC. This total acreage includes approximately 2,100 acres for the electric generating portion of the Project (the "Generating Facility") and its buffer zone and primary access route, approximately 840 acres for a future CCW disposal site in closer proximity to the Generating Facility, approximately 700 acres for potential additional mine access facilities and associated buffer zones and corridors, and the remainder for land to provide the acreage necessary to support these facilities and provide adequate buffers, rights of way, and access to the Project's facilities.

## **Electric Generating Facility**

The Generating Facility will consist of two supercritical coal-fired generating units with an expected nominal net capability of 800 MW each. The plant design incorporates state-of-the-art emissions control technology consistent with other plants that have been successfully permitted in the recent past.

The steam generators, or boilers, are Babcock and Wilcox Company supercritical, pulverized coal-fired, sliding pressure, balanced draft units with membrane furnace wall construction, superheaters, reheaters, and economizers, designed to accommodate the use of the Project coal reserves. Natural gas will be used for startup and flame stabilization. The steam generators will be designed to continuously deliver steam flow as required to produce a unit net output of approximately 800 MW each, and will deliver main steam at approximately 3,800 psia and 1,055°F at the superheater outlet, with reheat steam at approximately 1,055°F at the reheater outlet.

The steam turbine-generators were manufactured by Toshiba International Corporation, and have a nominal rated capacity of 900 MW at an exhaust pressure of 3.0 inches of mercury. Each steam turbine will be a 3,600 rpm, extraction condensing, reheat type unit using approximately 3,700 psi, 1,050 °F/1,053 °F throttle steam and eight stages of steam extraction for feedwater heating and feedwater pump supply. Each steam turbine is designed for continuous operation and will be located in an enclosed structure with a bridge crane within the enclosure. The electric generators will be rated at 1,020 kVa and will be direct-driven, two-pole, synchronous, 3,600 rpm, 60 Hz, primary hydrogen-cooled machines with secondary water cooling.

Steam exiting the turbines will be condensed by a two-shell, single pressure, water-cooled, surface condenser with stainless steel tubes. Circulating water from mechanical draft cooling towers will be used as cooling water. The circulating water system for each generating unit will include three 33-percent-capacity circulating water pumps, and one auxiliary 100-percent-capacity cooling water pump.

## **Fuel**

The Generating Facility is located adjacent to underground coal reserves owned by the Project Owners that have been estimated by PSGC as sufficient to supply all the coal needs for the Project for approximately 30 years of full load operations, provided all planned reserves are accessible and able to be mined as planned by PSGC. The estimated quantity of coal contained in the dedicated coal reserves was confirmed by Skelly and Loy in an independent mine study commissioned by certain of the Project Owners dated August 2007, which was updated by Skelly and Loy in an addendum letter report, dated April 24, 2008, and in November 5, 2008 responses to inquiries made to Skelly and Loy. The Project Owners acquired their proportionate undivided interests in the coal reserves at their respective closings. There are also additional coal reserves adjacent to the Project that may be acquired in the future. Due to the proximity of the coal reserves to the Generating Facility, the Project will not rely on any outside source of transportation for fuel deliveries.

The Mine plan for the Project, developed and submitted by PSGC in 2007, includes a room and pillar design with a single portal for access to the underground reserves in the southeastern portion of those reserves (the "Mine Plan"). Plans for the addition of a second mine portal or other access facilities in the northern portion of the available coal reserves are being considered for a future date to provide additional manpower access and facilitate coal deliveries to the Generating Facility. PSGC would move forward to add a second mine portal or other access facilities if they are determined to be economically and operationally advantageous.

All permits required to construct and operate the Mine portal have been issued. Skelly and Loy indicated that the use of a single portal is considered standard or normal practice for existing and new Illinois Basin coal mines and should be adequate to supply the Project with sufficient fuel from the coal reserves.

At various times in 2008 and 2009, the Mine Safety and Health Administration ("MSHA"), the Federal entity responsible for the approval of the Mine Plan, as well as the Mine's ongoing construction and operational monitoring and compliance, required various modifications to the original Mine Plan submitted by PSGC in 2007. PSGC believes such modifications may not reflect sound, safe and efficient mining practices. After unsuccessful attempts at negotiation by PSGC, MSHA effectively imposed in August 2009 the use of a revised plan that included certain major modifications to underground mining techniques. PSGC accepted this revised plan in order to continue Mine development, but simultaneously objected to many of the mining revisions that would be imposed by the revised plan to support Project operations. Thereafter, on September 17, 2009, MSHA issued two citations. The citations were "technical" in nature as MSHA and PSGC agreed in advance that they were to be issued, and there is no immediate jeopardy to continued Mine development under the revised plan. Subsequently, PSGC entered into discussions with MSHA seeking a reasonable and amicable resolution to the differences in the two plans, which proved unsuccessful. The issuance of the citations allowed PSGC to pursue litigation through the administrative appeals process established by the Federal Mine Safety and Health Review Commission, the body responsible for the adjudication of disputes arising under the Federal Mine

Safety and Health Act of 1977, as amended. PSGC subsequently pursued litigation in an attempt to force a return to the mining techniques contained in the original Mine Plan, which PSGC believes are more appropriate for the Mine's specific characteristics. Hearings were held on February 9, 2010, and the Judge's decision is not expected until early summer of 2010.

If PSGC is unsuccessful in returning to the original Mine Plan, or at a minimum, a compromise plan which contains reasonable and supportable requirements that would allow efficient operations without compromising safety, PSGC reports that the projected capital costs of the Mine development and the annual per ton operating costs of the Mine would be higher than those assumed. Further, the amount of recoverable coal reserves available to the Project would be lower than originally expected and may not be sufficient to provide fuel for baseload operations for a full 30-year economic life of the Project. There are, however, additional coal reserves, adjacent to the existing Project coal reserves that could be acquired in the future.

The Project design includes rail access to accommodate certain amounts of coal purchases from third parties in the event of an extended mine disruption, as well as to facilitate the delivery of limestone and major pieces of equipment and for the disposal of CCW.

PSGC has signed a technical services agreement with Peabody Energy for Mine construction management oversight and a technical services agreement with Peabody Energy to support the Mine operation and maintenance. Peabody Energy operates other mines in the vicinity of the Project utilizing the same coal seam as the Project's coal reserves.

Coal will be delivered to the Generating Facility at a rate of 2,600 tons per hour ("tph") from the adjacent mine. The coal handling system will be sized to transport 24 hours worth of Design Coal from the mine storage to the Generating Facility storage pile in 10 hours. Reclaimed coal will be conveyed by the coal pile reclaim conveyor(s) at 2,600 tph to surge bins. Space has been allocated for an inactive coal storage pile that will accommodate approximately 60 days of full load operation under normal operational conditions, and an active coal storage pile that will accommodate approximately 10 days of full load operation under normal operational conditions.

Natural gas will be supplied through a new approximately 6-mile long pipeline, completed in December 2009, interconnecting the Generating Facility to the Ameren gas distribution system.

## **Air Quality Controls**

Flue gas exiting the steam generator will pass through air quality control system ("AQCS") equipment designed and furnished by Siemens Power Generation, Inc. The Project is designed to meet best available air pollution control technology. The air pollution control technology consists of (i) low nitrous oxide ("NO<sub>x</sub>") burners; (ii) a selective catalytic reduction system for NO<sub>x</sub> control; (iii) an activated carbon injection system for mercury control; (iv) a hydrated lime injection system for hydrofluoric acid removal; (v) dry electrostatic precipitators for particulate control; (vi) wet flue gas desulfurization systems ("FGD") for sulfur dioxide ("SO<sub>2</sub>") control; and (vii) wet ESPs for aerosol control. Similar individual emission control devices are operating in commercial

environments today. The Generating Facility design is intended to comply with all emissions regulations and permit conditions, including all state and federal regulations.

The Project is expected to have a carbon dioxide (CO<sub>2</sub>) emissions rate that is around 15 percent below those of existing coal plants of comparable capacity. The Project's design and grounds make it amenable to the addition of equipment and technology for the capture and/or further reduction of CO<sub>2</sub>, if required by future regulations.

## **Water**

Water for the Project will be supplied from the Kaskaskia River, with the withdrawal located approximately 15 miles west of the Project site. The Project's water withdrawal permit allows PSGC to withdraw up to 30 million gallons per day ("MGD") from the Kaskaskia River for a period extending through September 2042. The water withdrawal permit includes a withdrawal restriction that protects the Kaskaskia River during low flow conditions. If the river flow drops below certain levels, PSGC will either rely on water stored in an on-site raw water pond or purchase additional water pursuant to a water purchase agreement with the Illinois Department of Natural Resources ("IDNR"). The raw water pond has a 30-day storage capacity. The agreement with the IDNR is a 40-year agreement that allows PSGC to purchase water stored at the Carlyle and Shelbyville lakes in Illinois. If needed, water would be released into the Kaskaskia River and could be withdrawn by PSGC at a rate of up to approximately 15 MGD.

## **Coal Combustion Waste Disposal**

CCW will consist of fly ash, bottom ash, FGD waste, and reject materials from the Mine breakers. All CCW generated by the Project will be transported via rail to the Jordan Grove Mine site, which is a new disposal site under development approximately nine miles southwest of the Generating Facility. The Jordan Grove Mine site is a closed surface mine that has partially depleted its reserves and contains approximately 1,060 acres. All permits necessary for cell development and construction have been issued.

The Jordan Grove Mine site has a permitted disposal life of 23 years for the total CCW expected to be generated by the Project. The site is currently owned by an affiliate of Peabody Energy, and the Project Owners have exercised an option to purchase the land needed for the Jordan Grove Mine site. The land and disposal facilities at the Jordan Grove Mine site are expected by PSGC to be conveyed to the Project Owners before the production of CCW from the Project.

PSGC has begun construction of the initial disposal cells at the Jordan Grove Mine site. Based on assumed CCW and surface characteristics, initial cell design activities revealed certain disposal height limitations and unforeseen site conditions and obstructions that will reduce the expected available disposal life of the Jordan Grove Mine site without additional capital expenditures to remediate these conditions. As of the date of this Report, PSGC estimates that the initial development plan for the Jordan Grove Mine site will likely result in approximately 12 to 14 years of CCW disposal capability, which is less than the permitted disposal life.

PSGC will continue to review remediation strategies to extend the disposal capability of the Jordan Grove Mine site further, and consistent with its CCW Plan approved in January 2007, is evaluating an additional CCW disposal site for future use that would be located closer to the Generating Facility and would presumably be capable of disposing of all CCW generated by the Generating Facility for a minimum of 30 years beyond the period of disposal at the Jordan Grove Mine site. PSGC projects that the development of such additional disposal facility could result in annual savings on CCW disposal costs of approximately 40 to 50 percent compared to the current annual CCW disposal estimate at the Jordan Grove Mine site, but may deplete the recoverable coal reserves available to the Project by one to two years of expected use. No permitting activities for such an additional disposal option have begun.

PSGC has engaged Headwaters Resources, Inc. to develop and operate the Jordan Grove Mine site CCW disposal facility at the direction of PSGC for at least the near term period of Project operations.

### **EPC Contractor**

On October 14, 2006, PSGC and Bechtel Power Corporation ("Bechtel") signed an exclusive Letter of Intent ("LOI") under which Bechtel defined the scope and technical requirements of the Project and the parties established the terms and conditions for negotiation of a Target Price Engineering, Procurement and Construction contract (the "TPEPC Contract"). Bechtel also specified, bid, evaluated and developed purchase orders for the award of the boiler, steam turbine, air quality control system and certain balance of plant equipment. PSGC and Bechtel signed the TPEPC Contract on June 19, 2007 and PSGC simultaneously issued a Limited Notice to Proceed ("LNTP") to Bechtel.

Bechtel is a global engineering, construction and project management company with more than a century of experience on complex projects in challenging locations. Bechtel is a privately owned company with headquarters in San Francisco, 40 offices around the world and nearly 40,000 employees. The company had revenues of \$20.5 billion in 2006. Bechtel has constructed or is in the process of constructing several thousand megawatts of coal fired generating facilities. The TPEPC Contract requires Bechtel to manage the construction of the generating station to a target price and schedule. The target price and schedule may be adjusted pursuant to the terms of the TPEPC Contract. The TPEPC Contract includes incentives for early completion and an all-in cost that is below the target price as well as liquidated damages in the event the generating facility portion of the Project is substantially delayed or the target price plus a negotiated band is exceeded. Full Notice to Proceed ("FNTP") was issued in October of 2007.

PSGC has awarded a number of contracts with various equipment vendors for the supply of the steam generators, AQCS equipment and steam turbine generators. The purchase orders include guaranteed dates for major milestones, guaranteed performance criteria and liquidated damages for failure to meet the completion and performance guarantees. The major equipment vendors include, Toshiba International Corporation for the turbine generator; Siemens Power Generation, Inc. for the

air quality control equipment; and Babcock and Wilcox Company for the steam generator. Bechtel administers all of the contracts on behalf of PSGC.

## **Permits**

PSGC has identified the key permits and approvals required from various federal, state, and local agencies necessary to construct and operate the Project. PSGC has obtained all of the permits required for construction of the Project. Certain of the permits and approvals that will be required for operation have not yet been obtained and certain of the permits/approvals will require renewal. PSGC has advised the Project Owners that (i) it will apply for needed permits and approvals and for renewal of expired permits and approvals when required and (ii) it expects that all permits and approvals will be timely received.

## **Electrical Interconnection**

The Project's Generating Facility will be directly interconnected to Midwest Independent System Operator ("MISO") regional transmission grid through four new 345-kV electrical interconnections to the Ameren/IP system. The Generating Facility will be connected through 27-kV to 345-kV generator step-up transformers to a new Project switchyard, which will be connected to a new Ameren Services Company ("Ameren") switchyard (the "Ameren Switchyard") via 345-kV overhead tie lines. Pursuant to studies conducted by MISO, network upgrades to the regional transmission system are required beyond the Ameren Switchyard to accommodate the interconnection of the Project.

The construction of the Ameren Switchyard and all necessary transmission upgrades are being undertaken by Ameren pursuant to the terms of a Large Generator Interconnection Agreement (the "LGIA") and a Facilities Construction Agreement ("FCA") that were originally entered into among PSGC, MISO, and Ameren to facilitate PSGC's original 1,500 MW interconnection request for the Project. Subsequently, PSGC requested an increase in the capacity to be interconnected to the MISO system (from 1,500 MW to 1,650 MW), and MISO undertook the necessary studies to determine the impact of interconnecting an additional 150 MW and subsequently approved the request subject to certain minor modifications to the required network upgrades.

The Ameren Switchyard has been completed and placed into operation. A Certificate of Convenience and Necessity for construction of the transmission upgrades was granted to Ameren by the State of Illinois in May 2007. As of the end of February 2010, all of the permits and easements needed by Ameren to complete construction of the transmission upgrades have been obtained. The transmission upgrades are expected to be completed by October 2010, which supports the targeted commercial operation date of September 2011 for Unit 1 of the Generating Facility.

## **Plant Operation and Maintenance**

In accordance with the Participation Agreement, PSGC is responsible for managing the construction and operation of the Project. As of the end of March 2010, PSGC had filled a total of

112 permanent staff positions, including PSGC's key management positions of President and Chief Executive Officer, Senior Vice President - Power Block, Senior Vice President of Power Operations, Vice President of Generation, Vice President - Mining, Director of Finance and Administration, and Director of Human Resources.

PSGC takes direction from the Management Committee, which was established by the Project Owners pursuant to the Participation Agreement. The Project Owners have delegated authority to the Management Committee for overall direction and oversight of all activities, budgets, contracts, financial arrangements, staffing and other functions relating to the Project. The Management Committee is comprised of one representative of each Project Owner, with pro-rata voting based on the respective ownership interest of each Project Owner. The officers of the Management Committee include Chairman, Vice Chairman, Secretary, and Treasurer.

### **Construction Status**

Construction on the Project began in October, 2007. As of the end of April 2010, PSGC reported that, for activities related solely to the TPEPC Contract, engineering efforts are approximately 92 percent complete, construction activities are approximately 43 percent complete, and overall efforts are approximately 45 percent complete. Engineering efforts are on schedule, and the overall construction and project completion are behind the target schedule by approximately 3 percent.

Unit 1 of the Project was targeted by PSGC to be substantially complete, as per the TPEPC Contract, by August 1, 2011, and Unit 2 of the Project is targeted by PSGC to be substantially complete by May 1, 2012. Bechtel currently reports that they expect Unit 1 to be delayed up to three months, but that Unit 2 is on schedule, although opportunities may exist and are being pursued to return to the original schedule for completion of Unit 1. The primary reasons Bechtel cites for the delays are abnormal rainfall experienced during two months in 2008 and 2009, and issues related to the erection of the Unit 1 boiler encountered in mid and late 2009 and early 2010.

### **Project Budget and Projected Energy Cost**

The estimated total cost for the Project is approximately \$4.661 billion. This number includes the TPEPC costs, the cost for the developing the mine, transmission upgrades, coal reserves and land acquisition, project management, construction management and other costs. KMPA estimates its share of the cost, including finance charges will be approximately \$531.679 million.

### **Future Capital Expenditures**

KMPA anticipates that it will be assessed, from time to time, for its share of future capital expenditures, renovations and improvements for the Project. The projected capital expenditures are expected to be of a normal recurring nature. Although KMPA will be setting aside revenues to provide for the payment of such capital expenditures, renovations and improvements, sufficient funds may not be available. Thus, at the present time, KMPA anticipates funding most or all of any

capital expenditures, renovations and improvements to the Project through the issuance of Parity Bonds.

## **PLAN OF FINANCING**

### **General**

The proceeds of the Bonds are to be used to (i) finance the completion of the acquisition, construction, development and equipping of KMPA's undivided interest in the Project; (ii) fund interest during construction; (iii) fund a debt service reserve; (iv) provide working capital for KMPA; and (v) pay the costs of issuance of the Bonds.

### **Sources and Uses**

The following is a summary of the sources of funds, and the uses of such funds in connection with the plan of financing:

#### **Sources of Funds:**

Principal amount of the Bonds	\$183,730,000
Reoffering premium	1,817,632
Other funds	<u>3,031,055</u>
Total Sources of Funds	<u><u>\$188,578,687</u></u>

#### **Uses of Funds:**

Project and related costs	\$170,283,914
Reserve Fund	11,539,832
Operating Fund	2,873,298
Underwriters' Discount	979,583
Bond Insurance Premium	1,872,869
Costs of Issuance	<u>1,029,191</u>
Total Uses of Funds	<u><u>\$188,578,687</u></u>

## **CERTAIN RISKS ASSOCIATED WITH THE BONDS**

*The following is a discussion of certain risks that could affect payments to be made with respect to the Bonds. Such discussion is not, and is not intended to be, exhaustive and should be read in conjunction with all other parts of this Official Statement and should not be considered as a complete description of all risks that could affect such payments. Prospective purchasers of the Bonds should analyze carefully the information contained in this Official Statement, including the*



*Appendices hereto, and additional information in the form of the complete documents summarized herein and in Appendix H, copies of which are available as described herein.*

1. *Security for the Bonds.* The Bonds are limited obligations of KMPA payable exclusively out of the revenues received by KMPA under the Power Sales Agreements and, in certain circumstances, Bond proceeds and income from the temporary investment thereof. The Bonds are secured by a pledge by KMPA of the Trust Estate to the Trustee in favor of the Bondowners in accordance with the Indenture. A brief description of the Trust Estate is contained in Appendix H.

2. *Default under a Power Sales Agreement.* No representation or assurance can be made that KMPA will receive the revenues under the Power Sales Agreements.

3. *Limitation on Enforcement of Remedies.* Enforcement of the remedies under the Indenture and any Power Sales Agreement may be limited or restricted by laws relating to bankruptcy and insolvency, and rights of creditors under application of general principles of equity, and may be substantially delayed in the event of litigation or statutory remedy procedures. All legal opinions delivered in connection with the Bonds relating to the enforceability contain an exception relating to the limitations which may be imposed by bankruptcy and insolvency laws, and the rights of creditors under general principles of equity.

4. *Suitability of Investment.* An investment in the Bonds involves a certain degree of risk. The interest rate borne by the Bonds is intended to compensate the investor for assuming this element of risk. Prospective investors should carefully examine this Official Statement, including the Appendices hereto, and assess their ability to bear the economic risk of such an investment and determine whether or not the Bonds are an appropriate investment for them.

5. *Legislative and Regulatory Issues Affecting the Electric Utility Industry.* The electric utility industry in general has become increasingly competitive and uncertain due to regulatory changes and wholesale and retail market developments. Electric utilities are subject to changing federal, state and local statutory and regulatory requirements of licensing and siting of facilities, safety and security, air and water quality, land use and environmental factors. Moreover, the industry is affected by public concerns regarding potential health effects from electric and magnetic fields associated with power lines, home appliances and other sources, and emissions and pollution caused by the burning of fossil fuels.

Various factors have a profound effect on the financial condition of electric utilities. These factors, among others, include: (a) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, (b) changes resulting from conservation and demand-side management programs, (c) changes resulting from a national energy policy, (d) effects of competition from other electric utilities and new methods of, and new facilities for, producing low-cost electricity, (e) the repeal of certain federal statutes that would have the effect of increasing the competition among utilities, (f) increased competition from independent power producers, marketers, and brokers, (g) "self-generation" by certain industrial and commercial

customers, (h) issues relating to the ability to issue tax-exempt debt, (i) effects of inflation on the operating and maintenance costs of an electric utility and its facilities, (j) changes in projected future load requirements, (k) increases in costs and uncertain availability of capital, (l) shifts in the availability and relative costs of different fuels (including the cost of natural gas), (m) fluctuations in the price of energy purchased on the open market, (n) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity, (o) other legislative changes, voter initiatives, referenda and statewide propositions, (p) effects of the changes in the economy, (q) effects of possible manipulation of the electric markets, and (r) natural disasters or other physical calamity, including, but not limited to, earthquakes.

Any of these factors could have an effect on the financial condition of any electric utility, including KMPA and its Members. KMPA cannot predict the effect such factors will have on KMPA's business operation and financial condition, or the business operation and financial condition of its Members.

## **TAX MATTERS**

Based upon certain covenants, representations and certifications of KMPA, which Bond Counsel has not independently verified, and assuming continuing compliance therewith, as set forth below, in the opinion of Bond Counsel interest on the Series 2010A Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative tax on individuals and corporations under existing laws, regulations, rulings and decisions in effect on the date of delivery of the Bonds.

The Internal Revenue Code of 1986, as amended (the "Code"), requires that KMPA comply on an ongoing basis with certain obligations in order for the Series 2010A Bonds not to be used in such a manner that would cause the Series 2010A Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and for the interest on the Series 2010A Bonds to be and remain excludable from gross income for federal income tax purposes. Failure to meet those obligations could result in the interest on the Series 2010A Bonds becoming subject to federal income taxation, retroactive to the date of the Series 2010A Bonds. KMPA has covenanted to comply with all such obligations.

Bond Counsel has not opined on any other federal income tax consequences arising for holders of the Series 2010A Bonds. Interest on the Series 2010A Bonds will be includable in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States. In addition, the Code disallows certain federal income tax deductions of certain financial institutions and property and casualty insurance companies which acquire the Series 2010A Bonds.

**Interest on the Series 2010B Bonds and the Series 2010C Bonds is included in gross income for federal income tax purposes.**

## **Certain Federal Income Tax Consequences**

The following is a discussion of certain federal tax matters under the Code. This discussion does not purport to deal with all aspects of federal taxation that may be relevant to particular Bondowners. Prospective Bondowners, particularly those who may be subject to special rules, are advised to consult their own tax advisor regarding potential consequences arising under the laws of any state or other taxing jurisdiction.

*Financial Institutions.* The Code denies banks, thrift institutions and other financial institutions a deduction for 100% of their interest expense allocable to tax-exempt obligations, such as the Series 2010A Bonds, acquired after August 7, 1986.

*Borrowed Funds.* The Code provides that interest paid on funds borrowed to purchase or carry tax-exempt obligations during a tax year is not deductible. In addition, under rules used by the Internal Revenue Service for determining when borrowed funds are considered used for the purposes of purchasing or when carrying particular assets, the purchase of obligations may be considered to have been made with borrowed funds even though the borrowed funds are not directly traceable to the purchases of such obligations.

*Property and Casualty Insurance Companies.* The deduction for loss reserves for property and casualty insurance companies is reduced by 15% of the sum of certain items, including the interest received on tax-exempt bonds, such as the Series 2010A Bonds.

*Social Security and Railroad Retirement Benefits.* The Code also requires recipients of certain Social Security or Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest that is exempt from federal income tax.

*Branch Profits Tax.* Certain foreign corporations doing business in the United States may be subject to a branch profits tax on their effectively connected earnings and profits, including tax-exempt interest on obligations such as the Series 2010A Bonds.

*S Corporations.* Certain S corporations that have subchapter C earnings and profits at the close of a taxable year and gross receipts more than 25% of which are passive investment income, which includes interest on tax-exempt obligations, such as the Series 2010A Bonds, may be subject to a tax on excess net passive income.

## **Kentucky Tax Exemption**

Kentucky, like many other states, generally taxes interest on obligations of governmental entities in other states. Under present law, the Bonds are exempt from ad valorem taxation and interest thereon is exempt from income taxation by the Commonwealth of Kentucky and any political subdivisions thereof.

Prior to any purchase of the Bonds, prospective purchasers of the Bonds are advised to consult their own tax advisors as to the impact of the Code upon their acquisition, holding or disposition of the Bonds.

### **Original Issue Discount**

The Bonds having a yield that is higher than the interest rate (as shown on the cover page hereof) are being offered and sold to the public at an original issue discount ("OID") from the amounts payable at maturity thereon (the "Discount Bonds"). OID is the excess of the stated redemption price of a bond at maturity (the face amount) over the "issue price" of such bond. The issue price is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each bond will accrue over the term of the bond, and for the Discount Bonds, the amount of accretion will be based on a single rate of interest, compounded semiannually (the "yield to maturity"). The amount of OID that accrues during each semi-annual period will do so ratably over that period on a daily basis. With respect to an initial purchaser of a Discount Bond at its issue price, the portion of OID that accrues during the period that such purchaser owns the Discount Bond is added to such purchaser's tax basis for purposes of determining gain or loss at the maturity, redemption, sale or other disposition of that Discount Bond and thus, in practical effect, is treated as stated interest.

### **Original Issue Premium**

Certain of the Bonds (the "Premium Bonds") may be offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. If a U.S. owner purchases a Premium Bond, that owner will be considered to have purchased such a Premium Bond with "amortizable bond premium" equal in amount to such excess. The U.S. owner may elect, in accordance with the applicable provisions of Section 171 of the Code, to amortize that premium as an offset to the interest payments on the Premium Bond using a constant yield to maturity method over the remaining term of the Premium Bond (or, if required by applicable Treasury Regulations, to an earlier call date). Pursuant to Section 67(b)(11) of the Code, the amortization of that premium is not considered a miscellaneous itemized deduction. Any amortization of bond premium will reduce the basis of the Premium Bond pursuant to Section 1016(a)(5) of the Code.

Owners of Discount or Premium Bonds (or book entry interests in them) should consult their own tax advisors as to the determination for federal tax purposes of the amount of OID or amortizable bond premium properly accruable in any period with respect to the Discount or Premium Bonds and as to other federal tax consequences and the treatment of OID and amortizable bond premium for purposes of state or local taxes on (or based on) income.

## **Backup Withholding**

General information reporting requirements will apply to payments of principal and interest made on a Bond and the proceeds of the sale of a Bond to non-corporate holders of the Bonds, and "backup withholding" at a rate of 28% will apply to such payments if the owner fails to provide an accurate taxpayer identification number in the manner required or fails to report all interest required to be shown on its federal income tax returns. A beneficial owner of a Bond that is a U.S. owner can obtain complete exemption from backup withholding by providing a properly completed IRS Form W-9 (Request for Taxpayer Identification Number and Certification).

## **Nonresident Owners**

Under the Code, interest and OID on any Bond whose beneficial owner is a nonresident alien, foreign corporation or other non-United States person ("Nonresident") are generally not subject to United States income tax or withholding tax (including backup withholding) if the Nonresident provides the payor of interest on the Bonds with an appropriate statement as to its status as a Nonresident. This statement can be made on IRS Form W-8BEN or a successor form. If, however, the Nonresident conducts a trade or business in the United States and the interest or OID on the Bonds held by the Nonresident is effectively connected with such trade or business, that interest or OID will be subject to United States income tax but will generally not be subject to United States withholding tax (including backup withholding).

## **Circular 230**

THE FOREGOING DISCUSSION OF TAX MATTERS WAS NOT INTENDED OR WRITTEN BY BOND COUNSEL TO BE USED, AND IT CANNOT BE USED, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON AN OWNER OF THE BONDS. THE FOREGOING DISCUSSION OF TAX MATTERS WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE BONDS. EACH PROSPECTIVE OWNER OF THE BONDS SHOULD SEEK ADVICE BASED ON THE PROSPECTIVE OWNER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

## **LEGAL MATTERS**

Legal matters incident to the authorization, issuance and sale and delivery of the Bonds are subject to the approving opinion of Rubin & Hays, Louisville, Kentucky, Bond Counsel. The proposed form of the approving opinion of Bond Counsel is set forth in Appendix J. In addition Bond Counsel intends to render an opinion regarding the Power Sales Agreements in the proposed form set forth in Appendix K. Certain legal matters will be passed upon for KMPA by its counsel, McMurtry & Livingston, PLLC, Paducah, Kentucky and B. Todd Wetzel, Esq., Princeton, Kentucky and for the Underwriter by its counsel, Rubin & Hays, Louisville, Kentucky.

## **LITIGATION**

No litigation is pending or, to the knowledge of KMPA, threatened in any court (i) to restrain or enjoin the issuance or delivery of the Bonds, or the collection of revenues pledged or to be pledged to pay the principal of and interest on the Bonds or (ii) in any way contesting or affecting the validity of the Bonds, the Indenture or the Power Sales Agreements, or the power to collect and pledge the revenues to pay the Bonds, or contesting the power or authority of KMPA to issue the Bonds.

KMPA will deliver a certificate at closing to the effect that there is no action, suit or proceedings known to be pending or threatened restraining or enjoining the execution or delivery of the Bonds or the Indenture or in any way contesting or affecting the validity of the foregoing.

## **DISCLOSURE COMPLIANCE**

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), KMPA has agreed to provide or cause to be provided through a designated agent (the "Agent"), in a timely manner, to the Electronic Municipal Market Access system ("EMMA") at <http://www.emma.msrb.org>, notice of the occurrence of any of the following events with respect to the Bonds, if such event is material:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinion or events affecting the tax-exempt status of the Bonds;
- (g) modifications to rights of the Bondholders;
- (h) Bond calls;
- (i) defeasances;
- (j) release, substitution or sale of property securing repayment of the Bonds; and/or
- (k) rating changes.

KMPA may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if KMPA determines that such other event is material with respect to the Bonds, but KMPA does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above.

KMPA also agrees to provide to EMMA in accordance with the Rule, its Annual Financial Report (the "Annual Report") which contains certain annual financial data of the Project and its participants. The financial data shall be available on or before 180 days after the end of each Fiscal Year (June 30), beginning with the Fiscal Year ending June 30, 2010.

If KMPA is unable to provide to EMMA an Annual Report by the date required in the Indenture, then KMPA shall send a notice to EMMA notifying it of the inability, at that time, to file the Annual Report.

If KMPA's fiscal year changes, then KMPA shall send a notice of such change to EMMA. If such change will result in KMPA's fiscal year ending on a date later than the ending date prior to such change, KMPA shall provide notice of such change to EMMA on or prior to the deadline for filing the Annual Report in effect when KMPA operated under its prior fiscal year. Such notice may be provided to EMMA along with the Annual Report, provided that it is filed at or prior to the deadline described above.

As of the execution of the Indenture, KMPA is and shall be in compliance with the reporting requirements of the Rule for all undertakings for which they are an "obligated person" as defined in the Rule.

Financial information regarding KMPA can be obtained from the Chief Financial Officer of KMPA, 1500 Broadway, Paducah, Kentucky 42001.

The obligations of KMPA described above will remain in effect only for such period that (i) the Bonds are outstanding in accordance with their terms and (ii) KMPA remains an "obligated person" with respect to the Bonds within the meaning of the Rule. KMPA reserves the right to terminate its obligation to provide notices of material events, as set forth above, if and when KMPA no longer remains an "obligated person" with respect to the Bonds within the meaning of the Rule. KMPA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the Bondholders (including holders of beneficial interests in the Bonds).

The requirements for disclosure, provided in the Continuing Disclosure Certificate (the "Disclosure Certificate"), may be amended, if KMPA receives an opinion of independent legal counsel to the effect that:

- (i) such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, a change in law or a change in the types of activities in which KMPA is engaged;
- (ii) the amendment would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (iii) such amendment does not materially impair the interests of the Bondholders.

In the event of a failure of KMPA to comply with the disclosure requirements set forth in the Disclosure Certificate, any Bondholder may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause KMPA to comply

with its obligations under the Disclosure Certificate. A default in compliance with the disclosure requirements under the Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under the Disclosure Certificate in the event of any failure of KMPA to comply with the disclosure requirements shall be an action to compel performance.

## **RATINGS**

The Bonds are expected to be assigned a rating of "Aa3" (negative outlook) by Moody's Investors Service ("Moody's") and "AAA" (negative outlook) by Standard & Poor's Rating Group ("Standard & Poor's") based upon the insurance commitment secured from Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.). In addition, Moody's has assigned the rating of "A3" and Standard & Poor's has assigned the rating of "A-" to the Bonds based upon the underlying credit of the Issuer in the proposed Project. This rating reflects only the views of Moody's and Standard & Poor's, respectively, and any explanation of the significance of this rating must be obtained from Moody's and Standard & Poor's. There is no assurance that this rating will continue for any given period of time or that it will not be revised or withdrawn entirely if, in the judgment of Moody's and Standard & Poor's, as the case may be, circumstances so warrant. Bondowners or prospective Bondowners should contact the Underwriter for information on the then current ratings, if any, on the Bonds.

## **INDEPENDENT AUDITORS**

The financial statements of KMPA, as of and for the years ended June 30, 2009 and 2008, included in this Official Statement in Appendix C have been audited by Baker Tilly Virchow Krause LLP, independent auditors, as stated in their report appearing herein.

## **UNDERWRITING**

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase all, but not less than all, of the Bonds from KMPA at a purchase price equal to (i) \$55,131,855.61 for the Series 2010A Bonds, which represents the aggregate principal amount of the Series 2010A Bonds, plus the original issue premium, less original issue discount, less the Underwriter's discount; (ii) \$121,752,380.42 for the Series 2010B Bonds, which represents the aggregate principal amount of the Series 2010B Bonds, less the Underwriter's discount; and (iii) \$7,683,813.07 for the Series 2010C Bonds, which represents the aggregate principal amount of the Series 2010C Bonds, plus the original issue premium, less original issue discount, less the Underwriter's discount. The Underwriters are committed to purchase all of the Bonds if any are purchased. The initial public offering prices may be changed from time to time by the Underwriters.

Wells Fargo Securities is the trade name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.



## MISCELLANEOUS

The references herein to the Act, the Indenture, as supplemented and amended, and the Power Sales Agreements are brief outlines of certain provisions thereof and do not purport to be complete. For full and complete statements of the provisions thereof, reference is made to the Act, the Indenture, as supplemented and amended, and the Power Sales Agreements. Copies of such documents are on file at the offices of the Underwriter and at the office of the Trustee.

The agreement of KMPA with the Bondowners is fully set forth in the Indenture, and neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement with the purchaser of the Bonds. Statements made in this Official Statement involving estimates, projections or matters of opinion, whether or not expressly so stated, are intended merely as such and not as representations of act.

The Cover Page hereof and the Appendices hereto are integral parts of this Official Statement and must be read together with all of the foregoing statements.

### **KENTUCKY MUNICIPAL POWER AGENCY**

By     */s/ Ray McLennan*  
          Chairman

Attest:

By     */s/ David R. Clark*  
          Secretary

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## **APPENDIX A**

### **KENTUCKY MUNICIPAL POWER AGENCY POWER SYSTEM REVENUE BONDS, SERIES 2010**

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**Engineering Report and Feasibility Study for the Prairie State Project  
Relating to the Kentucky Municipal Power Agency and its Members  
(See Appendix A-1 of the report for projected debt service coverage levels)**

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An SAIC Company

May 5, 2010

APPENDIX A

Board of Directors  
Kentucky Municipal Power Agency  
1500 Broadway  
Paducah, Kentucky 42002-0180

Members of the Board of Directors:

Subject: *Consulting Engineer's Report  
Kentucky Municipal Power Agency  
Prairie State Energy Campus Project*

Presented herewith is a summary of our studies, investigations and analyses with respect to the proposed issuance by the Kentucky Municipal Power Agency ("KMPA" or "Agency") of its Tax Exempt Revenue Bonds Series 2010A (the "2010A Bonds"), its Taxable Build America Bonds Series 2010B (the "2010B Bonds"), and its Taxable Revenue Bonds Series 2010C (the "2010C Bonds"), collectively the "Series 2010 Bonds" in accordance with its Trust Indenture, dated as of April 1, 2010, as supplemented (the "Trust Indenture"), as more fully explained in the Official Statement to which this report ("Report") is attached. The 2010A Bonds, 2010B Bonds and 2010C Bonds are being issued primarily for the purpose of financing the remainder of the Project Costs, as defined in the Trust Indenture, of KMPA's initial power supply project, a 7.82 percent undivided ownership interest as a tenant in common with American Municipal Power, Inc. ("AMP"), the Illinois Municipal Electric Agency ("IMEA"), Indiana Municipal Power Agency ("IMPA"), Missouri Joint Municipal Electric Utility Commission ("MJMEUC"), Northern Illinois Municipal Power Agency ("NIMPA"), Prairie Power, Inc. ("PPI," formerly Soyland Power Cooperative, Inc.), Southern Illinois Power Cooperative ("SIPC"), and Lively Grove Energy Partners, LLC ("Lively Grove Energy"), a wholly-owned indirect subsidiary of Peabody Energy Corporation ("Peabody Energy"), in the 1,600 MW (nominal rating) Prairie State Energy Campus, a twin unit coal-fired electric generating facility, coal mine, coal combustion waste disposal facility and other ancillary support equipment located in Washington, St. Clair and Randolph Counties, Illinois (collectively, the "Project"). KMPA issued its initial Power System Revenue Bonds ("2007A Bonds" and "2007B Bonds", and collectively the "Series 2007 Bonds") in September 2007 in the aggregate amount of \$307,710,000 to provide funding for the initial construction activities of the Project, which bonds are currently outstanding.

The remaining proceeds of the Series 2010 Bonds will be used to: (i) fully fund the remaining Debt Service Reserve Requirement, as defined in the Trust Indenture, not provided by proceed from the Series 2007 Bonds, (ii) capitalize a portion of the interest due on the Series 2010 Bonds, (iii) capitalize a portion of the interest due on the Series 2007 Bonds, (iv) provide working capital, (v) pay the costs of issuance related to the Series 2010 Bonds, and (vi) retire a financial interest rate hedge entered into in 2008.

KMPA issued the Series 2007 Bonds, and is issuing the Series 2010 Bonds primarily to provide generating capacity to supply the baseload portion of the projected power and energy requirements of its

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two member electric systems, the Electric Plant Board of the City of Paducah, Kentucky, doing business as Paducah Power System ("PPS") and the Electric Plant Board of the City of Princeton, Kentucky ("PEPB") (referred to herein individually as "Member" and collectively as "Members"), which have executed long-term Power Sales Agreements with KMPA, as amended or modified (the "Power Sales Agreements"). Wholesale electric service to the Members under the Power Sales Agreements will commence on the commercial operation date of the first electric generating unit at the Project.

This Report summarizes the results of our investigations and analyses up to the date of this Report. Changed conditions occurring or becoming known after such date could affect the material presented herein to the extent of such changes. Nothing contained in this Report is intended to indicate conditions with respect to safety or security regarding the Project or to conformance with agreements, codes, permits, rules or regulations of any party having jurisdiction with respect to the construction, operation, and maintenance of the Project, which matters are outside the scope and purposes of this Report.

As used in this Report, the capitalization of any word or term not normally capitalized indicates that such word or term shall have the meaning assigned to it in the particular agreement or other document discussed. References to and descriptions of such agreements or documents in this Report represent our understanding of certain general principles thereof, but do not purport to be complete and are qualified in their entirety by reference to such agreements or documents.

## KENTUCKY MUNICIPAL POWER AGENCY

### INTRODUCTION

KMPA is an organization of two municipal electric systems located within the Commonwealth of Kentucky. KMPA was created under provisions of Chapter 65 of the Kentucky Revised Statutes, pursuant to an Interlocal Cooperation Agreement dated February 7, 2005 between the Members.

KMPA was organized for the purpose of providing municipal electric systems in Kentucky with opportunities for new, reliable, economical and low-risk sources of electric power and energy. Pursuant to Chapters 65 and 96 of the Kentucky Revised Statutes, KMPA is authorized and empowered to own and operate electric generation and transmission facilities within and without the Commonwealth of Kentucky to acquire and construct generation and transmission projects or participate in projects with private utilities, generation and transmission cooperatives and others and to issue bonds to defray the costs of acquiring, constructing and equipping electric generation facilities such as the Project.

KMPA may elect to invite other municipal electric systems in Kentucky to join the Agency in the future in order to allow for greater opportunities and economies of scale in future power supply resource acquisitions and operations. No such new members will be participants in the Project unless such participation is authorized and approved by the Members.

KMPA, on behalf of its Members, coordinates planning, constructing and operating of joint electric power supply projects and any and all related facilities, including all equipment, structures, machinery, and tangible and intangible property, real and personal, required for the generation or transmission of electrical energy, including any fuel supply or source useful for such a project. In planning for and

procuring resources for its Member systems' long-term power supply needs, KMPA and its Members have focused their efforts on developing resources and initiatives that:

1. Maintain sufficient reserve generating capacity to meet applicable regional and prudent utility practice criteria.
2. Provide balanced diversity with regard to the number, type and fuel sources of resources used to supply its Members' demand and energy requirements.
3. Provide for asset ownership opportunities by KMPA and/or its Members.
4. Represent the lowest risk to KMPA and its Members, which would include fossil fueled resources with state-of-the-art environmental controls, hydroelectric facilities, and renewable resources.
5. Develop and implement risk management programs intended to mitigate the risks associated with the Members' power supply resources and operations within the regional marketplace.

#### **KMPA'S PARTICIPATION IN THE PROJECT**

Since the early 1960's, the Members were full requirements wholesale distribution customers of the Tennessee Valley Authority ("TVA"). TVA supplied all of the Members' power and energy requirements in excess of relatively small allotments of power received by each Member from federally-owned facilities administered by the Southeastern Power Administration ("SEPA").

In response to increasing wholesale costs from TVA, the Members recognized that they needed to (i) identify new and diverse energy sources to supply the growing demands of their customers and (ii) acquire and maintain control over the cost efficient operations of such new facilities and energy sources in order to provide stable and economical rates to their retail customers. In 2003, R. W. Beck, Inc. ("Consulting Engineer") was retained by the Members to prepare power supply feasibility studies for each Member. Said feasibility studies investigated alternative power supply strategies available to the Members for the period of 2010 and beyond. The results of these studies indicated that there were economic benefits available to the Members through the procurement of and ownership in long-term baseload electric generating resources, when combined with the development of local peaking generation resources within the Members' respective electric systems and supplemented with opportunistic purchases and sales of electric power and energy within the regional marketplace.

As a result of these efforts, the Members took steps to participate in the Project, and the Consulting Engineer was further retained to provide necessary services for such participation. On December 14, 2004, PPS provided the required five-year written notice of termination of its Wholesale Power Contract with TVA, effective December 21, 2009. On January 25, 2005, PEPB similarly provided the required five-year written notice of termination of its Wholesale Power Contract with TVA, effective January 25, 2010. KMPA was subsequently organized in order to acquire an interest in the Project and to provide for additional services necessary to obtain the benefits indicated by the initial studies.

On February 5, 2005, KMPA executed a Project Development Agreement ("Development Agreement") with the Prairie State Generating Company ("PSGC"), a subsidiary of Peabody Energy, and other entities that had an interest in obtaining ownership interests in the Project, formalizing KMPA's participation in the development of the Project. The initial Project Development Agreement contained an ownership allocation for KMPA of 5.06 percent, or 80 MW, solely intended for baseload service to PPS.

On August 31, 2006, KMPA executed an Additional Interest Fee Agreement with PSGC, MJMEUC and Soyland Power Cooperative, Inc. for an additional entitlement share of 1.77 percent of the Project, or 28 MW. This additional amount was intended to provide 18 MW of baseload capacity for PEPB from the Project as well as to increase the baseload entitlement of PPS to a total entitlement of 90 MW.

In June 2007, KMPA further increased its entitlement share in the Project to its current level of 7.82 percent, or approximately 124 MW. This final increase was due to changes in load growth projections for each Member, increases in market energy prices, and the contractual ability for KMPA to purchase an additional entitlement from PSGC at a favorable price due to the withdrawal from the Project of another entity. PPS has subscribed to 104 MW of KMPA's contractual Project entitlement, or approximately 83.9 percent, and PEPB has subscribed to the remaining 20 MW, or approximately 16.1 percent. The expected Project capability available to each Member may differ from the contractual capability subscribed to by each Member, based on the actual net demonstrated capability of the Project from year to year compared to the contractual capacity of 1,582 MW as defined in the Development Agreement.

Participation in the Project represents the first such generation project undertaken by KMPA and by either Member.

#### **KMPA'S MEMBERS**

The Members are located in the western portion of the Commonwealth of Kentucky on the northern fringe of the statutory electric service territory of TVA. PPS and PEPB were created in 1945 and 1958, respectively, and are each governed by a five-member board of directors. Members of the board of directors are appointed by the mayor and approved by the governing body of the respective municipalities they were created to serve. However, both PPS and PEPB are separate and distinct political subdivisions of the Commonwealth of Kentucky and act independently of their respective city governments.

A necessity for each Member to participate in the Project through KMPA was the construction of new physical interconnections of each Member's distribution system to the 161 kV transmission system of Louisville Gas and Electric Company/Kentucky Utilities Company ("LG&E/KU"). The new physical interconnections were completed in late 2009 pursuant to an agreement for network integrated transmission service between KMPA and LG&E/KU and are owned by the Members, up to the point of interconnection with LG&E/KU. Each Member is currently supplied its full requirements of capacity and energy by KMPA at a delivery voltage of 161 kV.

#### ***Paducah Power System***

The PPS electric system consists of approximately 22,500 total customers. Approximately 18,700, or 83 percent are residential, approximately 3,320, or 15 percent are small and large commercial, and the remaining 2 percent are classified as "other." The following table shows the actual peak demand and energy requirements for PPS for the five fiscal year period, ending June 30 of each year 2005 through 2009 as prepared by PPS, based on actual sales data.



**PPS HISTORICAL POWER AND ENERGY REQUIREMENTS  
(FISCAL YEAR SALES)**

<b>Fiscal Year</b>	<b>Peak Demand (MW)</b>	<b>Percent Growth</b>	<b>Energy Requirements (MWh)</b>	<b>Percent Growth</b>
2005	154.0	-	586,742	-
2006	158.0	2.6	626,750	6.8
2007	154.0	-2.5	621,481	-0.8
2008	159.0	3.2	657,178	5.7
2009	150.0	-5.7	606,178	-7.8

Peak demand and energy requirements vary from year to year because of various factors, including weather and economic conditions.

The following table shows the projected peak demand and energy requirements for PPS for the ten fiscal year period 2011 through 2020 on a purchase basis, including distribution system losses, as prepared by the Consulting Engineer, based on historical values, projected number of customers and known customer additions, customer usage assumptions, and normal weather conditions.

**PPS PROJECTED POWER AND ENERGY REQUIREMENTS  
(WHOLESALE PURCHASE BASIS)**

<b>Fiscal Year</b>	<b>Peak Demand (MW)</b>	<b>Percent Growth</b>	<b>Energy Requirements (MWh)</b>	<b>Percent Growth</b>
2011	160.0	-	673,600	-
2012	163.7	2.3	689,100	2.3
2013	166.0	1.4	698,900	1.4
2014	168.4	1.4	708,750	1.4
2015	170.7	1.4	718,800	1.4
2016	173.2	1.4	729,000	1.4
2017	175.6	1.4	739,300	1.4
2018	178.1	1.4	749,700	1.4
2019	180.6	1.4	760,300	1.4
2020	183.2	1.4	771,100	1.4

The changes in PPS's demand and energy requirements from year to year reflect the net effects of population and economic growth experienced by PPS's customers, incremental and decremental load impacts, and the relative effects of actual weather conditions that may vary from normal conditions.

***Princeton Electric Plant Board***

The PEPB electric system consists of approximately 3,930 total customers. Approximately 3,125, or 80 percent are residential, approximately 715, or 18 percent are small and large commercial, 78, or 2 percent are industrial and the remaining less than 1 percent are classified as "other." The following table shows the actual non-coincident peak demand and energy requirements for PEPB for the five fiscal year period, ending June 30 of each year 2005 through 2009 as prepared by PEPB based on actual sales data.

**PEPB HISTORICAL POWER AND ENERGY REQUIREMENTS  
(FISCAL YEAR SALES)**

<b>Fiscal Year</b>	<b>Peak Demand (MW)</b>	<b>Percent Growth</b>	<b>Energy Requirements (MWh)</b>	<b>Percent Growth</b>
2005	23.7	-	104,569	-
2006	24.1	1.7	108,185	3.5
2007	25.6	6.2	109,138	0.9
2008	26.7	4.3	112,943	3.5
2009	24.8	-7.1	106,534	-5.7

Peak demand and energy requirements vary from year to year because of various factors, including weather and economic conditions.

The following table shows the projected peak demand and energy requirements for PEPB for the ten fiscal year period 2011 through 2020 on a purchase basis, including distribution system losses, as prepared by the Consulting Engineer, based on historical values, projected number of customers and known customer additions, customer usage assumptions, and normal weather conditions.

**PEPB PROJECTED POWER AND ENERGY REQUIREMENTS  
(WHOLESALE PURCHASE BASIS)**

<b>Fiscal Year</b>	<b>Peak Demand (MW)</b>	<b>Percent Growth</b>	<b>Energy Requirements (MWh)</b>	<b>Percent Growth</b>
2011	28.5	-	125,500	-
2012 <sup>(1)</sup>	32.4	13.8	148,200	18.0
2013	32.7	0.8	149,300	0.8
2014	32.9	0.8	150,400	0.8
2015	33.2	0.8	151,500	0.8
2016	33.4	0.8	152,700	0.8
2017	33.7	0.8	153,800	0.8
2018	33.9	0.8	155,000	0.8
2019	34.2	0.8%	156,320	0.8%
2020	34.4	0.8%	157,400	0.8%

(1) The changes in PEPB's demand and energy requirements in 2012 reflect a planned expansion by a large industrial customer, and thereafter reflect the effects of changes in population and economic conditions experienced by PEPB's customers, incremental and decremental load impacts, and the relative effects of actual weather conditions that may vary from normal conditions.

During fiscal year 2009, both PPS and PEPB were impacted considerably by the effects of Hurricane Ike in September 2008 and by the effects of a severe ice storm in January 2009. These rare natural disasters resulted in lengthy power and business disruptions, and affected energy sales to their customers accordingly.

## PROJECT OWNERSHIP

PSGC originated as a wholly owned subsidiary of Peabody Energy, which began development of the Project in 2001. After the Project Closing Date of October 1, 2007, PSGC became a subsidiary of Prairie State Management Company, an Indiana not-for-profit corporation. Pursuant to an amended and restated Development Agreement, dated June 19, 2007, and certain similar agreements executed at later dates, PSGC sold the right to purchase an undivided interest in the Project to KMPA, AMP, IMEA, IMPA, MJMEUC, NIMPA, PPI, SIPC and Lively Grove Energy (collectively, the "Project Owners").

Each Project Owner's percentage ownership in the Project is shown in the following table. Ownership interests are based on a net guaranteed contractual minimum Project capability of 1,582 MW.

<u>Project Owner</u>	<u>Ownership Interest - %</u>	<u>Ownership Capability - MW</u>
AMP	23.3	368
IMEA	15.2	240
IMPA	12.6	200
MJMEUC	12.3	195
PPI	8.2	130
SIPC	7.9	125
KMPA	7.8	124
NIMPA	7.6	120
Lively Grove Energy	<u>5.1</u>	<u>80</u>
Total	100.0	1,582

PPS and PEPB are contractually obligated to purchase from KMPA 104 MW and 20 MW, respectively, of ownership entitlement from KMPA's share of 124 MW of the Project's contractual capability. The actual net electrical capacity of the Project will be determined upon completion of the two generating units, and KMPA will be entitled to 7.82 percent of that amount.

Lively Grove Energy expects to sell its interest in the Project either directly or through the execution of long-term power purchase agreements. Certain Project agreements require that Peabody Energy and/or its affiliates retain a minimum interest of 5% for the first five years following the substantial completion date of the Project. Under certain circumstances the minimum participation requirement may be waived as provided in the agreements.

A brief description of the Project Owners, other than KMPA and Lively Grove Energy follows.

- AMP is an Ohio municipal nonprofit corporation formed in 1971 that serves various portions of the total power and energy requirements of 128 municipal electric systems, 82 of which are located throughout the State of Ohio, and 46 of which are located in the States of Michigan and West Virginia and the Commonwealths of Kentucky, Virginia and Pennsylvania. AMP supplies power and energy and other services on both a full-requirements and on a project type power supply basis to various members, at the request of the individual municipal members.
- IMEA is a municipal joint action agency established in 1984 and will eventually provide full-requirements total power and energy services to 32 municipal electric systems and one rural electric membership cooperative located throughout the State of Illinois.

- IMPA is a municipal joint action agency established in 1980 and provides full-requirements power and energy services to 52 municipal electric systems located throughout the State of Indiana.
- MJMEUC is a municipal joint action agency established in 1979 which serves 58 municipal electric systems located throughout the State of Missouri on either a project or full requirements power and energy power supply basis.
- NIMPA is a municipal joint action agency established in 2004 which will serve the baseload power and energy requirements of three municipal electric systems located in the northern portion of the State of Illinois.
- PPI is a member-owned not for profit electric generation and transmission cooperative which serves various portions of the total power and energy requirements of 10 rural electric membership cooperatives located in the central portion of the State of Illinois.
- SIPC is a member-owned not for profit electric generation and transmission cooperative which serves various portions of the total power and energy requirements of six rural electric membership cooperatives located in the southern portion of the State of Illinois.

Collectively, KMPA and the other seven public power entities described above currently serve all or a portion of the power and energy requirements of a total estimated population in excess of 2.5 million people located in nine states.

## PROJECT AGREEMENTS

The Project was developed and is being constructed pursuant to numerous agreements executed between PSGC and the Project Owners.

The Development Agreement was entered into on February 9, 2005 by and between PSGC and certain of the Project Owners. PSGC and the Project Owners amended and restated the original Development Agreement effective June 19, 2007. The Development Agreement required each Project Owner to pay its proportionate share of all Project development, equipment acquisition and other relevant Project costs. Each party to the Development Agreement acknowledged its intent to establish one or more Indiana non-profit mutual benefit corporations which would (a) act as agent for and provide services to each of the Project Owners in connection with the construction and operation of the Project, (b) hold the membership interests in PSGC after the Project closing, and (c) possibly own assets and have employees.

The Participation Agreement governs the construction and operation of the Project. The Participation Agreement provides for the Project to be constructed and operated by one or more non-profit companies, which shall be owned by the Project Owners on a basis proportionate to their ownership interests in the Project. On the Project Closing Date, ownership of PSGC transferred to the Project Owners and PSGC became a non-profit project company. All licenses, permits and regulatory approvals relating to the Project are now held or controlled by PSGC. The term of the Participation Agreement commenced on the Project Closing Date and will continue until the plant and coal mine have been retired from service. A decision by the Project Owners Management Committee to retire the plant and mine from service can

only be made by a supermajority vote of at least 75% of the ownership interests of the Project Owners. However, the mine will not be retired from service unless the plant is retired from service or the continued operation of the mine will not economically generate recoverable coal for use by the plant.

The Project Owners entered into the Project Management Agreement with PSGC and Prairie State Energy Campus Management, Inc. ("PSECM") for the operation of the Project. Pursuant to the Project Management Agreement, PSGC will serve as the entity through which PSECM directly (and the Project Owners indirectly) can implement its decisions with respect to the Project.

At the Project Closing Date, the Project Owners purchased an undivided interest in the Project pursuant to an Amended and Restated Asset Purchase Agreement dated as of June 19, 2007 and executed the Participation Agreement.

The Mine Construction Management Agreement and Mine Technical Services Agreement Term Sheets summarize the concepts and principles pursuant to which an affiliate of Peabody Energy has been engaged to provide construction management services for construction of the portal, slope and all supporting facilities for the mine designated as the Lively Grove Mine ("Mine"), and will provide technical services in connection with the operation and maintenance of the Mine, including with respect to the design, permitting, mining, hauling, blending, quality, productivity, budgets, schedules and other services needed to supply coal from such mine to the electric generating portion of the Project.

The CCW Disposal Site Construction Management Agreement and CCW Disposal Site Technical Services Agreement Term Sheets establishes the concepts and principles pursuant to which Peabody Energy, either directly or through an affiliate, has been engaged to provide technical services in connection with engineering, permitting, contract administration, procurement, construction management, land acquisition, public relations, government relations, community relations, and other activities associated with development and construction of the CCW Disposal Facilities, and will provide technical services in connection with the operation and maintenance of the CCW disposal facilities.

## **PROJECT DESCRIPTION**

The Project consists of a coal-fired electric generating station and adjacent coal mine, coal combustion waste storage and disposal facility, rail and water delivery facilities, and ancillary support equipment located in Washington, St. Clair and Randolph Counties in southwest Illinois.

### **PROJECT SITE**

The site on which the Project is located, excluding the initial CCW disposal site, covers in excess of 4,500 acres either currently owned, under option for purchase, or planned to be purchased by PSGC. This total acreage includes approximately 2,100 acres for the Generating Facility and its buffer zone and primary access route, approximately 840 acres for a future CCW disposal site in closer proximity to the Generating Facility, approximately 700 acres for potential additional Mine access facilities and associated buffer zones and corridors, and the remainder for land to provide the acreage necessary to support these facilities and provide adequate buffers, rights of way, and access to the Project's facilities.



## ELECTRIC GENERATING FACILITY

The electric generating portion of the Project (the "Generating Facility") will consist of two supercritical coal-fired generating units with an expected nominal net capability of 800 MW each. The plant design will incorporate state-of-the-art emissions control technology consistent with other plants that have been successfully permitted in the recent past.

The steam generators, or boilers, are Babcock and Wilcox Company supercritical, pulverized coal-fired, sliding pressure, balanced draft units with membrane furnace wall construction, superheaters, reheaters, and economizers, designed to accommodate the use of the Project coal reserves. Natural gas or propane will be used for startup and flame stabilization. The steam generators will be designed to continuously deliver steam flow as required to produce a unit net output of approximately 800 MW each, and will deliver main steam at approximately 3,800 psia and 1,055°F at the superheater outlet, with reheat steam at approximately 1,055°F at the reheater outlet.

Flue gas exiting the steam generator will pass through air quality control system ("AQCS") equipment designed and furnished by Siemens Power Generation, Inc. The Project is designed to meet best available air pollution control technology. The air pollution control technology will consist of (i) low nitrous oxide ("NO<sub>x</sub>") burners; (ii) a selective catalytic reduction system for NO<sub>x</sub> control; (iii) an activated carbon injection system for mercury control; (iv) a hydrated lime injection system for hydrofluoric acid removal; (v) dry electrostatic precipitators for particulate control; (vi) wet flue gas desulfurization systems ("FGD") for sulfur dioxide ("SO<sub>2</sub>") control; and (vii) wet ESPs for aerosol control. Similar individual emission control devices are operating in commercial environments today. The Generating Facility design is intended to comply with all emissions regulations and permit conditions, including all state and federal regulations.

The steam turbine-generators will be supplied by Toshiba International Corporation, and have a nominal rated capacity of 900 MW at an exhaust pressure of 3.0 inches of mercury. Each steam turbine will be a 3,600 rpm, extraction condensing, reheat type unit using approximately 3,700 psia, 1,050 °F/1,053 °F throttle steam and eight stages of steam extraction for feedwater heating and feedwater pump supply. Each steam turbine will be designed for continuous operation and will be located in an enclosed structure with a bridge crane within the enclosure. The electric generators will be rated at 1,020 MVA and will be direct-driven, two-pole, synchronous, 3,600 rpm, 60 Hz, primary hydrogen-cooled machines with secondary water cooling.

Purchase contracts between PSGC and Siemens Power Generation, Inc. for the AQCS equipment and between PSGC and Toshiba International Corporation for the steam turbine generators were executed in June 2007. A purchase contract between PSGC and The Babcock & Wilcox Company for the steam generators was executed in July 2007. Each of these purchase contracts contains guarantees for delivery and performance from each respective equipment supplier and provisions for liquidated damages.

Steam exiting the turbines will be condensed by a two-shell, single pressure, water-cooled, surface condenser with stainless steel tubes. Circulating water from mechanical draft cooling towers will be used as cooling water. The circulating water system for each generating unit will include three 33-percent-capacity circulating water pumps, and one auxiliary 100-percent-capacity cooling water pump.

Water for the Project will be supplied from the Kaskaskia River, with the withdrawal located approximately 15 miles west of the Project site. The Project's water withdrawal permit allows PSGC to withdraw up to 30 million gallons per day ("MGD") from the Kaskaskia River for a period extending through September 2042. The water withdrawal permit includes a withdrawal restriction that protects the Kaskaskia River during low flow conditions. If the river flow drops below certain levels, PSGC will either rely on water stored in an on-site raw water pond or purchase additional water pursuant to a water purchase agreement with the Illinois Department of Natural Resources ("IDNR"). The raw water pond has a 30-day storage capacity. The agreement with the IDNR is a 40-year agreement that allows PSGC to purchase water stored at the Carlyle and Shelbyville lakes in Illinois. If needed, water would be released into the Kaskaskia River and could be withdrawn by PSGC at a rate of up to approximately 15 MGD.

Coal will be delivered to the Generating Facility at a rate of 2,600 tons per hour ("tph") from the adjacent mine. The coal handling system will be sized to transport 24 hours worth of Design Coal from the mine storage to the Generating Facility storage pile in 10 hours. Reclaimed coal will be conveyed by the coal pile reclaim conveyor(s) at 2,600 tph to surge bins. Space has been allocated for an inactive coal storage pile that will accommodate approximately 60 days of full load operation under normal operational conditions, and an active coal storage pile that will accommodate approximately 10 days of full load operation under normal operational conditions.

Natural gas will be supplied through a new approximately 6-mile long pipeline, completed in December 2009, interconnecting the Generating Facility to the Ameren gas distribution system.

Bottom and fly ash will be collected and combined with the FGD waste and conveyed to the CCW storage area.

Wastewater produced from the Generating Facility, including boiler blowdown, cooling tower blowdown, and wastewater treatment effluent, will normally be reused in the ash handling and FGD systems.

#### **TPEPC CONTRACT**

On October 14, 2006, PSGC and Bechtel Power Corporation ("Bechtel") signed an exclusive Letter of Intent under which Bechtel defined the scope and technical requirements of the Generating Facility and the parties established the terms and conditions for negotiation of a Target Price Engineering, Procurement and Construction Agreement (the "TPEPC Contract"). Bechtel also specified, bid, evaluated and developed purchase orders for the award of the boiler, steam turbine, air quality control systems and certain balance of plant equipment. PSGC and Bechtel executed the TPEPC Contract on June 19, 2007 and PSGC simultaneously issued a Limited Notice to Proceed to Bechtel.

The TPEPC Contract contains a target price of \$2.9 billion, which includes base and incentive fees.

Bechtel is a global engineering, construction and project management company with more than a century of experience on complex projects. Bechtel is a privately owned company with headquarters in San Francisco, 40 offices around the world and nearly 50,000 employees. The company reported revenues of \$31.4 billion in 2008, and has constructed or is in the process of constructing several thousand MW of coal-fired generating facilities worldwide. The TPEPC Contract requires Bechtel to manage the construction of the Generating Facility to a target price and schedule, each of which may be adjusted pursuant to the terms of the TPEPC Contract. The TPEPC Contract includes incentives for early

completion, incentives for an all-in cost for the facilities and equipment comprising the TPEPC Contract that is below the target price, and liquidated damages in the event the Generating Facility portion of the Project is substantially delayed or the target price plus a negotiated band is exceeded.

#### COAL MINE

The Generating Facility will be located adjacent to underground coal reserves currently owned by the Project Owners that have been estimated by PSGC as sufficient to supply all the coal needs for the Project for at least 30 years of full load operations, provided all planned reserves are accessible and able to be mined as planned by PSGC. The estimated quantity of coal contained in the dedicated coal reserves was confirmed by Skelly and Loy in an independent mine study commissioned by certain of the Project Owners dated August 2007, which was updated by Skelly and Loy in an addendum letter report, dated April 24, 2008, and in November 5, 2008 responses to inquiries made to Skelly and Loy in support of this Report. The Project Owners acquired their proportionate undivided interests in the coal reserves at their respective closings. There are also additional coal reserves adjacent to the Project that may be acquired in the future. Due to the proximity of the coal reserves to the Generating Facility, the Project will not rely on any outside source of transportation for fuel deliveries.

The Mine plan for the Project, developed and submitted by PSGC in 2007, includes a room and pillar design with a single portal for access to the underground reserves in the southeastern portion of those reserves (the "Mine Plan"). Plans for the addition of a second mine portal or other access facilities in the northern portion of the available coal reserves are being considered for a future date to provide additional manpower access and facilitate coal deliveries to the Generating Facility. PSGC would move forward to add a second mine portal or other access facilities if they are determined to be economically feasible.

All permits required to construct and operate the Mine portal have been issued. Skelly and Loy indicated that the use of a single portal is considered standard or normal practice for existing and new Illinois Basin coal mines and should be adequate to supply the Project with sufficient fuel from the coal reserves.

At various times in 2008 and 2009, the Mine Safety and Health Administration ("MSHA"), the Federal entity responsible for the approval of the Mine Plan, as well as the Mine's ongoing construction and operational monitoring and compliance, required various modifications to the original Mine Plan submitted by PSGC in 2007. PSGC believes such modifications may not reflect sound, safe and efficient mining practices. After unsuccessful attempts at negotiation by PSGC, MSHA effectively imposed in August 2009 the use of a revised plan that included certain major modifications to underground mining techniques. PSGC accepted this revised plan in order to continue Mine development, but simultaneously objected to many of the mining revisions that would be imposed by the revised plan to support Project operations. Thereafter, on September 17, 2009, MSHA issued two citations. The citations were "technical" in nature as MSHA and PSGC agreed in advance that they were to be issued, and there is no immediate jeopardy to continued Mine development under the revised plan due to such issuances. Subsequently, PSGC entered into discussions with MSHA seeking a reasonable and amicable resolution to the differences in the two plans, which proved unsuccessful. The issuance of the citations allowed PSGC to pursue litigation through the administrative appeals process established by the Federal Mine Safety and Health Review Commission, the body responsible for the adjudication of disputes arising under the Federal Mine Safety and Health Act of 1977, as amended. PSGC subsequently pursued litigation in an attempt to force a return to the mining techniques contained in the original Mine Plan,



which PSGC believes are more appropriate for the Mine's specific characteristics. Hearings were held on February 9, 2010, and the final court decision is not expected until early summer of 2010.

If PSGC is unsuccessful in returning to the original Mine Plan, or at a minimum, a compromise plan which contains reasonable and supportable requirements that would allow efficient operations without compromising safety, PSGC reports that the projected capital costs of the Mine development and the annual per ton operating costs of the Mine would be higher than those assumed in the Projected Operating Results herein. Further, the amount of recoverable coal reserves available to the Project would be lower than originally expected and may not be sufficient to provide fuel for baseload operations for a full 30-year economic life of the Project. There are, however, additional coal reserves, adjacent to the existing Project coal reserves that could be acquired in the future.

The Project design includes rail access to accommodate certain amounts of coal purchases from third parties in the event of an extended mine disruption, as well as to facilitate the delivery of limestone and major pieces of equipment and for the disposal of CCW.

PSGC has signed a technical services agreement with Peabody Energy for Mine construction management oversight and a technical services agreement with Peabody Energy to support the Mine operation and maintenance. Peabody Energy is the world's largest private-sector coal company, with 2008 sales of 256 million tons of coal and \$6.6 billion in revenues, and operates other mines in the vicinity of the Project utilizing the same coal seam as the Project's coal reserves.

#### **COAL COMBUSTION WASTE DISPOSAL FACILITIES**

CCW will consist of fly ash, bottom ash, FGD waste, and reject materials from the Mine breakers. All CCW generated by the Project will be transported via rail to the Jordan Grove Mine site, which is a new disposal site under development and is located approximately nine miles southwest of the Generating Facility. The Jordan Grove Mine site is a closed surface mine that has partially depleted its reserves and contains approximately 1,060 acres. All permits necessary for cell development and construction have been issued.

The Jordan Grove Mine site has a permitted disposal life of 23 years for the total CCW expected to be generated by the Project. The site is currently owned by an affiliate of Peabody Energy, and the Project Owners have exercised an option to purchase the land needed for the Jordan Grove Mine site. The land and disposal facilities at the Jordan Grove Mine site are expected by PSGC to be conveyed to the Project Owners before the production of CCW from the Project.

PSGC has begun construction of the initial disposal cells at the Jordan Grove Mine site. Based on assumed CCW and surface characteristics, initial cell design activities revealed certain disposal height limitations and unforeseen site conditions and obstructions that will reduce the expected available disposal life of the Jordan Grove Mine site without additional capital expenditures to remediate these conditions. As of the date of this Report, PSGC estimates that the initial development plan for the Jordan Grove Mine site will likely result in approximately 12 to 14 years of CCW disposal capability, which is less than the permitted disposal life.

PSGC will continue to review remediation strategies to extend the disposal capability of the Jordan Grove Mine site further, and consistent with its CCW Plan approved in January 2007, is evaluating an additional

CCW disposal site for future use that would be located closer to the Generating Facility and would presumably be capable of disposing of all CCW generated by the Generating Facility for a minimum of 30 years beyond the period of disposal at the Jordan Grove Mine site. PSGC projects that the development of such additional disposal facility could result in annual savings on CCW disposal costs of approximately 40 to 50 percent compared to the current annual CCW disposal estimate at the Jordan Grove Mine site, but may deplete the recoverable coal reserves available to the Project by one to two years of expected use. No permitting activities for such an additional disposal option have begun.

PSGC has engaged Headwaters Resources, Inc. to develop and operate the Jordan Grove Mine site CCW disposal facility at the direction of PSGC for at least the near term period of Project operations.

#### **ELECTRICAL INTERCONNECTION**

The Project's Generating Facility will be directly interconnected to Midwest Independent System Operator ("MISO") regional transmission grid through four new 345-kV electrical interconnections to the Ameren/IP system. The Generating Facility will be connected through 27-kV to 345-kV generator step-up transformers to a new Project switchyard, which will be connected to a new Ameren Services Company ("Ameren") switchyard (the "Ameren Switchyard") via 345-kV overhead tie lines. Pursuant to studies conducted by MISO, network upgrades to the regional transmission system are required beyond the Ameren Switchyard to accommodate the interconnection of the Project.

The construction of the Ameren Switchyard and all necessary transmission upgrades are being undertaken by Ameren pursuant to the terms of a Large Generator Interconnection Agreement (the "LGIA") and a Facilities Construction Agreement ("FCA") that were originally entered into among PSGC, MISO, and Ameren to facilitate PSGC's original 1,500 MW interconnection request for the Project. Subsequently, PSGC requested an increase in the capacity to be interconnected to the MISO system (from 1,500 MW to 1,650 MW), and MISO undertook the necessary studies to determine the impact of interconnecting an additional 150 MW and subsequently approved the request subject to certain minor modifications to the required network upgrades.

The parties were unable to agree on certain modifications to the LGIA and the FCA, primarily those related to the proposed change to PSGC's recovery of the network upgrade costs through cash payments or transmission credits of only 50 percent that PSGC is required to pay for, as opposed to 100 percent recovery which was included in the original LGIA and FCA. As a result, MISO filed an unexecuted LGIA at the Federal Energy Regulatory Commission ("FERC") on November 13, 2007 requesting FERC resolution ("November 2007 LGIA"). FERC issued an order on January 11, 2008, accepting the November 2007 LGIA, which was from that date in effect. On November 20, 2008, FERC issued a finding that the 100 percent crediting mechanism should apply to the network upgrades for the original 1,500 MW interconnection request, and the 50 percent cost recovery should apply only to specific incremental upgrades associated with PSGC's second interconnection request for 150 MW. FERC required MISO to make a compliance filing revising the LGIA accordingly. On January 21, 2009, MISO submitted a completed Compliance Interconnection Agreement ("Compliance IA") with related changes and on May 1, 2009, FERC issued an order accepting the compliance filing.

Based on the Compliance IA, the interconnection facilities and required transmission upgrades were estimated by Ameren Services Company, and further adjusted by PSGC to include escalation and

contingency, to cost approximately \$118 million. In late 2009, Ameren revised its rate treatment of the upgrades upon receipt of FERC approval, and refunded to the Project Owners approximately 30 percent of the payments made for the upgrades. The Project Owners will continue to pay Ameren to complete the remaining upgrades, but should receive a full refund of all remaining payments by the end of 2010.

The Ameren switchyard has been completed and placed into operation. A Certificate of Convenience and Necessity for construction of the transmission upgrades was granted to Ameren by the State of Illinois in May 2007. As of the end of February 2010, all of the permits and easements needed by Ameren to complete construction of the transmission upgrades have been obtained. The transmission upgrades are expected to be completed by October 2010, which supports the targeted commercial operation date of August 2011 for Unit 1 of the Generating Facility.

#### **PSGC MANAGEMENT AND STAFFING**

In accordance with the Participation Agreement, PSGC is responsible for managing the construction and operation of the Project. As of the end of March 2010, PSGC had filled a total of 112 permanent staff positions, including PSGC's key management positions of President and Chief Executive Officer, Senior Vice President - Power Plant, Senior Vice President of Power Operations, Vice President of Generation, Vice President - Mining, Director of Finance and Administration and Director of Human Resources.

PSGC will take direction from the Management Committee, which was established by the Project Owners pursuant to the Participation Agreement. The Project Owners have delegated authority to the Management Committee for overall direction and oversight of all activities, budgets, contracts, financial arrangements, staffing and other functions relating to the Project. The Management Committee is comprised of one representative of each Project Owner, with pro-rata voting based on the respective ownership interest of each Project Owner. The officers of the Management Committee include Chairman, Vice Chairman, Secretary, and Treasurer.

Six standing committees have been established to address specific issues and to advise the Management Committee on such issues based on the collective utility industry experience of each Project Owner's representative on the respective committee. These committees include (i) the Engineering and Operations Committee to develop and examine issues, policies, procedures and methods to maximize safety, reliability, availability and maintainability consistent with prudent utility practice and cost effectiveness; (ii) the Environmental Fuels and By-Products Committee to develop Project environmental, fuels and by-products plans, policies and procedures; (iii) the Finance and Accounting Committee to provide input and direction in the development and implementation of the Project's finance and accounting function; (iv) the Human Resources Committee to develop benefit plans and personnel policies and procedures, and to provide staff support for the Project's human resources function; (v) the Audit Committee to recommend an auditor to the Management Committee and to prepare for initial and future internal and contract audits and the preparation of tax documents; and (vi) the Legislative Affairs Committee to provide input regarding legislative and regulatory matters, communication of objectives and values including commitment to environmental stewardship, and strategies that support the business goals of the Project Owners. KMPA has representation on each of these committees.

## CONSTRUCTION STATUS

Bechtel was issued Full Notice to Proceed on October 1, 2007. As of the end of April 2010, PSGC reported that, for activities related solely to the TPEPC Contract, engineering efforts are approximately 92 percent complete, construction activities are approximately 43 percent complete, and overall efforts are approximately 45 percent complete. Engineering efforts are on schedule, and the overall construction and project completion are behind the target schedule by approximately 3 percent. The primary reasons Bechtel cites for the delays are abnormal rainfall experienced during two months in 2008 and 2009, and issues related to the erection of the Unit 1 boiler encountered in mid and late 2009 and early 2010.

Unit 1 of the Project was targeted by PSGC to be substantially complete, as per the TPEPC Contract, by August 1, 2011, and Unit 2 of the Project is targeted by PSGC to be substantially complete by May 1, 2012. Bechtel currently reports that they expect Unit 1 to be delayed up to three months, but that Unit 2 is still essentially on schedule, although opportunities may exist and are being pursued to return to the original schedule.

Burns & McDonnell Engineering Company ("Burns & McDonnell") has served as Owner's Engineer to PSGC since 2003, and is under contract to do so through the construction period of the Generating Facility. Burns & McDonnell's primary responsibilities consist of assuring technical and contractual compliance with the engineering and design requirements of the TPEPC Contract, and reviewing design drawings, equipment and materials purchases, responding to construction inquiries, and monitoring construction, startup, commissioning and testing activities on the Generating Facility. Burns & McDonnell is a full-service global engineering, architecture, construction, environmental and consulting firm founded in 1898, and includes a staff of over 2,500 representing virtually all design disciplines.

As of the date of this Report, purchase orders for the majority of major equipment have been executed by PSGC, the sum of which represents a considerable portion of the target price under the TPEPC Contract. Multiple contracts for much of the remaining Generating Facility equipment will be awarded over the remainder of 2010. Bechtel will administer all such contracts initially on behalf of the Project Owners. Approximately 90 percent of items and services to be procured under the TPEPC Contract price had been procured through executed commitments with firm or 90 percent firm pricing through January 2010.

Through March 2010, approximately 63 percent of the total costs of the Project pursuant to the latest PSGC budget, without added contingency and excluding the payments for coal reserves and initial land costs and fees, had been billed to the Project Owners. In addition, approximately 8 million manhours had been worked on the project through March 2010, over one-half of the expected total hours required to complete the Project.

Equipment and construction specifications for the Mine have been issued, and construction activities on the Mine portal began in early May of 2008. On August 18, 2009, the Mine slope construction reached the coal seam, and PSGC has subsequently begun to extract coal from the Mine as part of bottom development construction activities.

As of the end of March 2010, approximately 55 percent of construction activities on the Mine had been completed, which is slightly behind the schedule, but still within the schedule necessary to supply coal to the Generating Facilities to support start-up. Approximately 95 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.

As of the end of March 2010, construction of the major auxiliary systems remained ahead of schedule. The water line from the Project to the Kaskaskia River is complete and commissioned. PSGC reported that Ameren is ahead of schedule for external transmission system upgrades. Both the Ameren switchyard located adjacent to the Generating Facility and the natural gas pipeline were completed and commissioned in late 2009, each ahead of schedule and under budget .

## PROJECT PHOTOGRAPHS

Following are recent photographs of the Generating Facility, Jordan Grove Mine site and the Mine.



## STATUS OF PERMITS AND APPROVALS

The Project must be designed, constructed, and operated in compliance with applicable federal, state, and local regulations, guidelines, policies, codes, standards, and laws. The following table lists the current status of the key permits and approvals required from various federal, state, and local agencies before the Project can be constructed and placed into commercial operation.

Status of Key Generating Facility and Mine Permits and Approvals			
APPROVAL	RESPONSIBLE AGENCY	CURRENT STATUS	COMMENTS
<b>FEDERAL</b>			
"No Hazard" Determination	Federal Aviation Administration ("FAA") Obstruction Evaluation Services ("OES")	Determinations for the stack, turbine buildings, and boiler buildings issued May 2007 and expired November 30, 2008. January 15, 2008 email from FAA stated that no extension was necessary and construction could continue.	Required for construction and to demonstrate no hazards to aviation.  There is a requirement to submit a supplemental notice when structures achieve final height.
Hazardous Waste Identification Number	United States Environmental Protection Agency ("USEPA")	To be obtained prior to start of operation, if necessary.	Required for the management and disposal of materials used in plant operations, such as solvents and paints, categorized as hazardous waste. Disposal must follow manifest tracking system.
Oil Spill Prevention Control and Countermeasure Plan	USEPA	To be prepared prior to the start of operation, if needed.	Required per 40 CFR 112, Oil Pollution Prevention regulations, if the Project stores more than 1,320 gallons at the Site. Plan must be prepared before start of operation.



Status of Key Generating Facility and Mine Permits and Approvals			
APPROVAL	RESPONSIBLE AGENCY	CURRENT STATUS	COMMENTS
Clean Water Act Section 10 and Section 404 Permits	U. S. Corps of Engineers ("USCOE")	Renewal of Nationwide Permits 7, 12, 13, 14, and 33 issued February 23, 2007.	Required for construction of intake or outfall structures in navigable waters of the US and for discharge of dredge or fill material into jurisdictional water.
Risk Management Plan	USEPA	Must be submitted prior to receipt of ammonia at site.	Required under 40 CFR 68 to address potential accidental releases of hazardous chemicals stored onsite greater than a threshold quantity.
Threatened and Endangered ("T&E") Species Determination	US Fish and Wildlife Service	USCOE Section 404 permit states that USCOE determined that the activity will have no effect on endangered species.	Required to assess impact of the Project on local species.
<b>STATE</b>			
Air Quality Construction Permit	Illinois Environmental Protection Agency ("IEPA")	Issued April 28, 2005. Became effective August 24, 2007.	Required to construct an air emissions source. Sets forth air emission limits, monitoring, and reporting requirements. Was appealed to and upheld by the USEPA Environmental Appeals Board and the 7 <sup>th</sup> Circuit Court of Appeals in August 2006 and August 2007.
Title IV Acid Rain Permit	IEPA	Included in Air Quality Construction Permit.	Necessary for compliance with SO <sub>2</sub> allowance requirements.
Title V Permit to Operate	IEPA	To be applied for within 12 months of the start of operation	Will incorporate all air quality permit requirements into one document
Water Withdrawal	Illinois Department of Natural Resources ("IDNR")	Approval issued September 17, 2002. Expires September 17,	Allows withdrawal of water from the Kaskaskia River.



Status of Key Generating Facility and Mine Permits and Approvals			
APPROVAL	RESPONSIBLE AGENCY	CURRENT STATUS	COMMENTS
		2042	
National Pollutant Discharge Elimination System ("NPDES") General Permit for Discharges of Stormwater Associated with Construction Activities	IEPA	Permit No. ILR10 effective August 11, 2008. Expires July 31, 2013.	Required for stormwater management during construction.
NPDES Permit for Discharge of Wastewater from Industrial Activities	IEPA	NPDES Permit No. IL0076996 issued December 5, 2005. Permit effective through Nov.30, 2010.	Required for discharge of cooling tower blowdown. Includes stormwater.
NPDES Permit for Stormwater Discharges Associated with Industrial Activities	IEPA	Not required	Included in NPDES permit for wastewater discharge.
Joint Permit for Water Obstruction and Encroachment	USCOE and IDNR	Permit No. DS2002134 issued September 17, 2002 and reissued June 24, 2005. Expires September 17, 2042, or on December 31, 2009 (extension issued July 9, 2008) if construction of intake structure is not complete.	Required for construction of intake structures, outfalls, and culverts. PSGC reports that construction will likely not be completed prior to permit expiration. Thus, a renewal will be applied for.
Cultural and Historical Resources Determination	Illinois Historic Preservation Office ("IHPO")	Various "clearance" and "no further action" letters issued in 2005 and 2006.	Required to assess the impact of the Project on cultural and historical resources.

Status of Key Generating Facility and Mine Permits and Approvals			
APPROVAL	RESPONSIBLE AGENCY	CURRENT STATUS	COMMENTS
<b>MINE AND CCW PERMITS</b>			
Coal Combustion Waste Disposal Authorization	IDNR	Permit No. 378 issued by IDNR October 30, 2007. Expires October 29, 2012.	Authorizes waste disposal and reclamation operations at the Jordan Grove mine. Capacity at the Jordan Grove mine for CCW disposal is currently estimated at 12 to 14 years.
NPDES Permit for Discharge of Wastewater from Industrial Activities	IEPA	Permit IL0077844 issued July 9, 2008. Expires June 30, 2013.	Required for discharge of alkaline mine drainage and stormwater at the Jordan Grove mine.
NPDES Permit for Discharge of Wastewater from Industrial Activities	IEPA	NPDES Permit No. IL0077526 issued February 27, 2006. Permit expires January 31, 2011.	Required for discharge of alkaline mine drainage at the Lively Grove Mine.
Mining and Reclaim Operations	IDNR	Permit No. 373 issued June 21, 2005. Expires June 20, 2010	Authorizes mining and reclamation operations at the Lively Grove Mine.

Based on our review, PSGC has identified the key permits and approvals required from various federal, state, and local agencies necessary to construct and operate the Project. PSGC has obtained all of the permits required for construction of the Project. Certain of the permits and approvals that will be required for operation have not yet been obtained and certain of the permits/approvals will require renewal. PSGC reports that it will apply for needed permits and approvals and for renewal of expired permits and approvals when required. We did not identify any technical or engineering circumstance that would prevent the issuance or renewal of such permits and approvals. In addition, the Generating Facility should be capable of ultimately complying with the emissions limits and other conditions set forth in the key permits and approvals that we reviewed.

#### ENVIRONMENTAL CONSIDERATIONS

In 1998, the USEPA promulgated the "NO<sub>x</sub> State Implementation Plan Call Rule" for the purpose of controlling NO<sub>x</sub> emissions in much of the eastern United States. Subsequently, Section 126 Petitions filed with the USEPA by certain states imposed similar requirements on additional (upwind) states, including Illinois. In 2003 and 2004, under the NO<sub>x</sub> SIP Call and Section 126 petitions, the USEPA began administering the NO<sub>x</sub> Budget Trading Program as a market-based cap-and-trade program to reduce NO<sub>x</sub> emissions. On May 12, 2005, the USEPA adopted the Clean Air Interstate Rule ("CAIR")

aimed at further controlling the emissions of NO<sub>x</sub>. As required by the USEPA rules, Illinois adopted rules to implement CAIR requirements that were to impose additional NO<sub>x</sub> allowance obligations on certain emission sources, including the Project. Under CAIR, affected facilities, such as the Project, were to be assigned allowances from the state's available pool of allowances each year in accordance with formulae based upon the facilities' historical operations and emissions factors. The first phase of CAIR was to take effect in 2009, with additional ratcheting of allocated allowances beginning in 2015.

On July 11, 2008, the United States Court of Appeals for the District of Columbia Circuit ("Court") decided to vacate CAIR in response to petitions challenging various aspects of the rule. Because the Court found more than several fatal flaws in CAIR and the USEPA adopted CAIR as one integral action, the Court vacated CAIR and its associated Federal Implementation Plan in its entirety and remanded both to the USEPA to promulgate a rule consistent with the Court's opinion. The Court noted that in the absence of CAIR, the NO<sub>x</sub> SIP Call trading program would continue, because USEPA terminated the program only as part of the CAIR rulemaking. The Court noted that continuation of the NO<sub>x</sub> SIP Call should mitigate any disruption that might result from vacating CAIR at least with regard to NO<sub>x</sub>, and, in addition, downwind states retain their statutory right to petition for immediate relief from unlawful interstate pollution.

The Court on December 23, 2008 temporarily reinstated CAIR so that USEPA could rewrite the cap-and-trade rule to be in compliance with the Court's July 2008 decision. As a result of the Court's most recent ruling, 28 mostly eastern states and the District of Columbia must reduce NO<sub>x</sub> beginning January 1, 2009 by requiring power plants to participate in an interstate cap-and-trade system administered by USEPA that caps emissions in two stages or through measures devised by individual states. The Court did not set a deadline for the USEPA to rewrite CAIR, but indicated that its stay of the July 2008 ruling was not intended to be indefinite. The specific changes to the rule to be made by USEPA and the associated schedule for such changes are not known at the present time.

The exact number of NO<sub>x</sub> allowances to be allocated to PSGC is not presently known. Based on information provided by PSGC, the impact of complying with the CAIR NO<sub>x</sub> rules (purchasing ozone season and annual allowances) has been estimated in the Projected Operating Results by assuming that the Project will receive an allocation of 67 percent of the required allowances and the additional allowances required will be purchased from the NO<sub>x</sub> allowance market.

The Project is also subject to Title IV of the Clean Air Act Amendments of 1990 (Acid Rain Provisions) whereby each unit of the Generating Facility must possess SO<sub>2</sub> allowances to cover its emissions. In addition, should CAIR remain in effect, it will impose additional SO<sub>2</sub> requirements on the Project beginning in 2010 with further requirements beginning in 2015. As a new facility, PSGC will not be allocated any SO<sub>2</sub> allowances and must purchase all its allowance requirements from the marketplace. The future cost of SO<sub>2</sub> allowances will be market dependent and could be lower or higher than the values for such allowances assumed herein. The impact of complying with the CAIR SO<sub>2</sub> rules has been estimated in the Projected Operating Results.

As a result of commitments made to the United States Fish & Wildlife Service in response to concerns expressed regarding the impact the Project could have in the Mingo Wildlife Refuge in southeastern Missouri, the Project's air permit contains requirements for PSGC to surrender additional SO<sub>2</sub> allowances above those otherwise required by the Acid Rain Program in an amount equal to 25 percent of the actual SO<sub>2</sub> emissions from the units until CAIR or a CAIR-like program which requires further SO<sub>2</sub> emission

reductions from the Project is adopted and in effect. This agreement is not expected to have an impact on the Project since CAIR is currently in effect and is expected to continue. If, for some reason, CAIR is again vacated, and if there is not another federal or state program requiring SO<sub>2</sub> emission reductions from the Project in effect by the time the units commence operation, PSGC will be required to surrender additional SO<sub>2</sub> allowances. The projected operating results are reflective of CAIR requirements.

The Project is subject to the Clean Air Mercury Rule ("CAMR"), intended to reduce mercury emissions from coal-fired generation facilities nationwide. Petitions for review of two final rules promulgated by the USEPA were heard before the United States Court of Appeals for the District of Columbia Circuit on December 6, 2007. The first rule removed coal and oil-fired electric generating units ("EGUs") from the list of sources whose emissions are regulated under Section 112 of the Clean Air Act ("CAA"). The second rule set performance standards pursuant to Section 111 of the CAA for new coal-fired EGUs and established total mercury emission limits for states and certain tribal areas, along with a cap-and-trade program for new and existing coal-fired EGUs. On February 8, 2008, the Court recommended that these two rules be vacated and a mandate was issued by the Court on March 14, 2008, formally overturning the two rules. The order eliminated the CAMR, and the regulation of mercury emissions from coal-fired EGUs now falls under the requirements of Section 112, Maximum Available Control Technology ("MACT") standards. There are, however, no MACT standards for mercury in place at the current time, and the timeframe for rule development is currently unknown. However, as the IEPA accounted for the possibility that the CAMR would be challenged, case-by-case MACT requirements were incorporated by the IEPA into the control technology determinations contained in the Project's air permit.

Illinois has adopted mercury emission standards for new EGUs that apply to the Project which requires the Project to meet either an emission standard of 0.0080 lb mercury/GWh or achieve a minimum 90 percent reduction of input mercury.

The regulation of greenhouse gases such as CO<sub>2</sub> is receiving a great deal of attention within the United States Congress, many state legislatures and the USEPA. On July 11, 2008, the USEPA released an Advance Notice of Proposed Rulemaking soliciting public input relating to climate change. No rulemakings have been proposed to date. Similarly, Illinois has not announced specific plans to regulate CO<sub>2</sub> and has announced target reductions. Illinois is a member of the Midwest Greenhouse Gas Accord, a regional organization currently evaluating different programs and methodologies for CO<sub>2</sub> control.

There has been additional proposed legislation introduced in the US Senate to limit CO<sub>2</sub> emissions. The proposed bills apply to a broad spectrum of industry sectors, including the electric utility industry. At this time, there does not appear to be a consensus as to what the level of future regulation of CO<sub>2</sub> emissions will be (if any), or the costs associated with that regulation, but any such costs would impact the Project and the entire energy industry, including future market prices for electricity. Since the method and the specific details of potential regulation are not presently known, the financial impact to KMPA and the Project cannot be specifically determined and the cost impact to the Project could be significant. As of the date of this Report, no federal legislation has been passed to address CO<sub>2</sub> emissions. It is likely that some form of regulation at the state, regional, and/or federal level will occur in the future.

The U. S. House of Representatives passed H.R. 2454, the American Clean Energy and Security Act of 2009 (ACES), on June 26, 2009, sponsored by Energy and Commerce Committee Chair Henry Waxman and Energy and Environment Subcommittee Chair Ed Markey ("Waxman-Markey Bill"). The



Waxman-Markey Bill is a comprehensive energy bill that includes a cap-and-trade global warming reduction plan designed to reduce economy-wide greenhouse gas emissions 17 percent below 2005 levels by 2020 increasing to 83 percent below 2005 levels by 2050. Other provisions include new renewable requirements for utilities, studies and incentives regarding new carbon capture and sequestration technologies, energy efficiency incentives for homes and buildings, and grants for green jobs.

On September 30, 2009, Senator John Kerry, Chairman of the Foreign Relations Committee, and Senator Barbara Boxer, Chairman of the Committee on Environment and Public Works, released their draft climate change bill, entitled Clean Energy Jobs and American Power Act (referred to herein as the "Kerry-Boxer Bill"). The draft bill addresses the impacts of climate change and the benefits of transitioning to a clean energy economy and establishes targets for reducing global warming pollution.

For purposes of demonstrating the potential impact of CO<sub>2</sub> costs on the projections set forth herein, R. W. Beck conducted a sensitivity analysis that included an estimate of CO<sub>2</sub> costs in the projected power costs of the Project. For the sensitivity case, CO<sub>2</sub> cost estimates were based on an analysis of the Kerry-Boxer Bill. The results for the sensitivity cases indicate that the projected annual costs of the Project on average are estimated to be lower than the projected market prices in the immediate region.

There are several regulations that are either proposed, promulgated, or in the discussion stages as of the date of this Report. These regulations, if implemented, could increase capital expenditures and operations and maintenance costs at existing and new generating facilities. Such potential regulations impact particulate matter of 2.5 microns or less, regional haze, regional visibility, mercury control, water intake structure regulations, potential ratcheting of SO<sub>2</sub> and NO<sub>x</sub> allowances beyond 2010, and toxic emissions control. Even though some of these regulations have already been promulgated, most of the promulgated regulations are still in the implementation phase. Therefore, the timing and specific requirements that might be imposed on the Project are not presently known.

#### **PROJECT CAPITAL COSTS**

The estimated capital costs for construction of the Project are summarized in the following table, as prepared by PSGC. The total construction costs include those for expected TPEPC Contract costs, Mine development, coal reserves, land and all PSGC development and implementation costs through the construction of the Project. The target price contained in the TPEPC Contract is \$2.9 billion for the two units. The TPEPC cost shown below is based on PSGC's latest budget and includes known changes to the target price through July 2009 as well as additional contingency for expected changes thereafter. Additional contingency has been added by the Consulting Engineer based on recent Bechtel reports of expected cost increases, which results in a total remaining contingency relative to the remaining expenditures under the TPEPC Contract of approximately 15.0 percent.

Coal reserve purchases represent those applicable to KMPA's entitlement share, and reflect the terms applicable to KMPA's acquisition of its incremental interests at various times during the development of the Project beginning in 2005. Development and Owner's Construction Period, Start-up and Other Costs include those development costs incurred through the Project Closing Date and projected to occur through commercial operation of the Generating Facility, as well as all other costs projected for owner's engineering, environmental consultants, financial and legal consultants and PSGC staff expenses, insurance programs, construction management, initial inventories, spare parts, and initial working capital.

**Estimated Project Capital Costs Applicable to KMPA Entitlement <sup>(1)</sup>**

<u>Construction Costs</u>	<u>\$ (000)</u>
TPEPC Contract <sup>(2)</sup>	\$ 3,360,910
Coal Mine Construction	206,094
Coal Reserve Purchases <sup>(3)</sup>	86,129
Development and Owners' Construction Period, Start-up and Other Costs <sup>(4)</sup>	539,715
Land, Sales and Property Taxes, and Fees	108,429
Contingency and Escalation Allowance <sup>(5)</sup>	410,000
<b>Total Project Capital Costs</b>	<b>\$ 4,661,277</b>
<b>KMPA Share of Project Capital Costs</b>	<b>\$ 364,512</b>

- (1) Based on 100 percent of the Project.
- (2) Current estimated TPEPC Contract cost in the 2009 PSGC budget, including contingency, and adjustments to account for actual change orders through July 2009 and the estimated cost impact of projected changes within the TPEPC Contract thereafter as of July 2009.
- (3) KMPA's contracted amount for its allocation of the Project's coal reserves.
- (4) Includes construction costs that are outside of the TPEPC Contract, development costs, Project management costs, construction management costs, infrastructure improvements, start-up costs, initial inventories and other Owner costs.
- (5) Includes estimated labor and materials escalation and a contingency allowance in addition to those included in certain budgeted items and the amount budgeted by PSGC based on the most recent forecast of potential trends within the remaining TPEPC work

We have reviewed the basis for the development of the TPEPC Contract Target Price with Bechtel and PSGC and have discussed the basis for the development of certain other cost elements with PSGC. On the basis of such review as of the time of this Report, we are of the opinion that the costs shown have been developed in accordance with generally accepted estimating practices and are reasonable for the Project provided proper management of the remaining activities within the TPEPC Contract and other construction activities is undertaken by Bechtel and the Project Owners pursuant to the latest schedule.

**PROJECT FINANCING REQUIREMENTS**

The projected financing requirements for KMPA's share of the Project were provided by J. J. B. Hilliard, W. L. Lyons, Inc. (the "Underwriter"). The Underwriter assumed that a portion of the capital requirements for the Project would require the issuance of taxable bonds, which portion represents KMPA's proportionate share of (i) the portion of the Project's total non-TPEPC costs deemed to be taxable or potentially taxable by the Project Owners' bond counsel, (ii) the Project Owners' insurance pool costs, (iii) the Project's and KMPA's initial working capital, and (iv) the costs to terminate a financial hedge. The remaining portion of the capital requirements would be provided for through the issuance of tax-exempt revenue bonds and taxable Build America Bonds.

KMPA will fund its required capital for the Project with two separate sets of debt issues, the first of which occurred in September 2007, representing the majority of KMPA's expected capital requirements, and the second to occur by the end of May 2010. The following sources and uses of funds were provided by the

Underwriter for KMPA's share of the Project, which represents the Underwriter's estimates of KMPA's total taxable and tax-exempt bond requirements, including the Series 2007 Bonds and the Series 2010 Bonds.

<u>Sources of Funds – KMPA Project Share</u>	<u>Tax-Exempt Bonds (\$000)</u>	<u>Taxable Build America Bonds (\$000)</u>	<u>Taxable Bonds (\$000)</u>	<u>Aggregate Bonds (\$000)</u>
Par Amount of Bonds	\$ 344,665	\$ 122,405	\$ 24,370	\$ 491,440
Reoffering Premium	5,796	0	0	5,796
Interest Earnings	21,462	1,738	1,112	24,312
PEPB Coal Reserve Adjustment (1)	<u>102</u>	<u>0</u>	<u>0</u>	<u>102</u>
Total Sources of Funds	\$ 372,025	\$ 124,143	\$ 25,482	\$ 521,650
<u>Uses of Funds – KMPA Project Share</u>				
Project Construction Fund	\$ 246,549	\$ 102,255	\$ 2,759	\$ 351,563
Capitalized Interest Fund	82,384	11,409	5,369	99,162
Debt Service Reserve Fund	23,945	7,688	2,150	33,783
BAN and Other Obligation Reimbursement (2)	13,023	0	7,263	20,286
Bond Insurance Premium	2,137	1,452	111	3,700
Fees, Cost of Issuance and Miscellaneous	3,987	1,339	255	5,581
KMPA Operating Costs (3)	<u>0</u>	<u>0</u>	<u>7,576</u>	<u>7,576</u>
Total Uses of Funds	\$ 372,025	\$ 124,143	\$ 25,482	\$ 521,650
Approximate Combined Annual Debt Service (4)				\$ 31,865
Annual Interest Earnings on Reserve Funds (5)				<u>(1,585)</u>
Approximate Net Annual Debt Service				\$ 30,280

- (1) Payment made by PEPB to KMPA in 2007 to result in an equivalent cost per ton for coal reserves as PPS, due to the different costs of coal reserves when PEPB's allocated share was obtained versus PPS' shares
- (2) Bond Anticipation Notes and other obligations issued by KMPA in 2005 and 2006 to fund Project development and other internal costs prior to the Project Closing Date, and the cost to retire a financial interest rate hedge incurred in 2009
- (3) Projected operating costs for KMPA for 2008 through mid 2010 and working capital thereafter
- (4) Approximate annual average debt service for all bonds necessary to complete the Project, as provided by the Underwriters, based on actual interest rates for the Series 2007 Bonds and an assumed average net interest cost net of Build America Bonds reimbursement of 4.05 percent and a 25-year amortization period on the 2010A and 2010B Bonds, and a 4.22 percent interest rate and a 7-year amortization period on the 2010C Bonds.
- (5) Represents an average 4.7% investment income rate on the Debt Service Reserve Funds of the aggregate Bonds

## GENERATING FACILITY OPERATIONS

The Generating Facility will be operated and maintained primarily by permanent PSGC staff, with technical advice and operational expertise solicited from qualified Project Owners and qualified third parties as determined by PSGC to be in its best interests. The Mine will be staffed entirely with PSGC personnel. Under the terms of the Mine Technical Services Agreement, Peabody Energy will provide technical services in support of ongoing Mine operations and maintenance as necessary for a period at least through the fifth anniversary of the substantial completion date of Unit 2 of the Generating Facility.

## PROJECT PERFORMANCE AND OPERATIONS AND MAINTENANCE COSTS

In developing the Projected Operating Results for the Project, we relied primarily on information supplied by PSGC, which was reviewed for reasonableness relative to other similar projects that have been developed with which we are familiar.

Based on information provided by PSGC, the development of the Projected Operating Results for the Project was based on an assumed net plant capacity of 1,584 MW, considering some allowance for degradation, and an average net plant heat rate of 9,390 Btu/kWh, which includes an allowance for degradation over time and with full auxiliary equipment usage. The Project's annual availability factor was assumed to be approximately 88 percent, and we assumed the Project would be dispatched by all Project Owners at maximum possible annual output into the MISO market.

Estimates for the annual cost of fuel for the Project were provided by PSGC and were based on the 2007 Mine Plan approved by the Project Owners in July, 2007, and the most recent updates to the Mine plan prepared by PSGC and approved by the Management Committee in February 2010. Annual estimates are based on details provided by PSGC and include an annual escalation rate of 2.4 percent on all cost elements within the Mine Plan after 2010.

The projected operations and maintenance expenses, limestone, ammonia other reagent usage rates were provided by PSGC and were based on the latest economic model available to us at the time of this Report. Emissions rates were also based on projections provided by PSGC and assume NO<sub>x</sub> emissions credits would be allocated to the Project from the State of Illinois.

Projected fixed operating costs relating to the Project included expected annual costs for labor, fixed operations and maintenance expenses, spare parts, major maintenance, contingencies, insurance, property taxes and operating fees. Projected variable operating costs for the Project included limestone and other reagent usage, and the projected costs for ash disposal, chemicals, start-up fuel, water, water treatment, emissions allowances, and MISO charges related specifically to generating unit dispatch and operations. Emissions allowances are based on our projections of future emissions allowance costs. All other operations and maintenance expenses, with the exception of property taxes and insurance, were escalated from values provided by PSGC at an annual rate of 2.4 percent.

We reviewed PSGC's projections for operations and maintenance expenses and Project performance parameters and compared these estimates to our database of coal-fired generating resources, and determined that these estimates, adjusted for direct comparison to other coal-fired generating facilities with which we are familiar, appear to be within the range expected.

## PROJECT SCHEDULE

For the purpose of the Projected Operating Results, we assumed that the first unit of the Project would be substantially completed and ready for continuous energy production by December 1, 2011, and the second by May 1, 2012, based on projections provided by PSGC incorporating the currently forecasted delay in Unit 1 by Bechtel. Based on our review of the overall Project schedule, its construction status as of the date of this Report, equipment procurement and delivery status and Bechtel's ability, we believe this schedule is achievable provided that construction management, construction oversight and contract



incentives are pursued aggressively throughout the remaining construction period by Bechtel, the Project Owners and PSGC staff and that construction issues that have occurred in the past are quickly resolved.

## **KMPA AGREEMENTS, POLICIES AND PROCEDURES**

The following summarizes the main terms, conditions and obligations in the key agreements in place between KMPA and its Members pursuant to which the Members' share of capacity, energy and attributes of the Project will be delivered and/or received.

### **INTERLOCAL COOPERATION AGREEMENT**

Pursuant to an Interlocal Cooperation Agreement entered into by the Members on February 7, 2005, KMPA was formed to undertake the financing, acquiring, constructing, managing, operating, utilizing and owning, either with or without other electric utilities or groups of utilities, of any electric supply project or projects and any and all facilities, including all equipment, structures, machinery, and all property, whether tangible, intangible, real or personal, for the generation or transmission of electrical energy, or both, including any fuel supply or source useful for such a project, either within or without the Commonwealth of Kentucky.

KMPA is governed by a Board of Directors comprised of two Directors from each member of the Agency, one of whom shall be the chief executive officer of the Member. Each Director is entitled to one vote on a matter submitted to a vote of the Board of Directors provided however that for votes related to a project approved by the Board of Directors, matters relating to that project may provide for a weighted voting scheme in accordance with a formula established in the resolution authorizing said project. The officers of the Agency consist of a Chairman, a Vice Chairman, a Treasurer and a Secretary, and such other officers as the Board of Directors may determine.

### **PROJECT POWER SALES AGREEMENT**

The Project Power Sales Agreement sets forth the rights and obligations of KMPA and its Members with respect to the Project, and was approved by the Members in 2007. Under the Power Sales Agreement, each Member is entitled to receive its Entitlement Percentage of KMPA's ownership share of capacity, energy and other attributes generated by the Project, which Entitlement Percentage may be adjusted. The Power Sales Agreement terminates when the Project has been terminated and/or the principal and interest on all bonds issued in connection with the Project have been paid, and all liabilities pursuant to the Power Sales Agreement have been paid or adequate provision made for their payment.

The Power Sales Agreement provides for, among other things, KMPA to act as agent on behalf of the Members in obtaining, and paying for transmission, ancillary and other related services required to deliver the output of the Project from the Project interconnection point on the MISO system to KMPA's system. The Power Sales Agreement also provides that KMPA has the responsibility for decisions on behalf of the Members with respect to all Project-related matters. The agreement further recognizes that day to day administration, management and operation of KMPA's interest in the Project will be within the province of the Project Management Committee and that policy decisions concerning the Project will be made by the KMPA Board of Directors after taking into consideration recommendations provided by the Project Management Committee. The Power Sales Agreement does not provide for back-up capacity and associated energy in the event of outages of the Project. Rather, the Members are responsible for

arranging for this service. The Members intend to contract for these services under separate agreements with KMPA

The Power Sales Agreement is a "take or pay" agreement between KMPA and each of the Members, whereby the Members agree to pay for their respective rights to the capacity, energy and other attributes at rates sufficient to enable KMPA to recover all of its costs incurred with respect to the Project and make all debt service payments related thereto. The Members are obligated to pay for their respective entitlement share whether or not the Project is complete, operable or operating and whether or not its output is suspended, interrupted, interfered with, reduced, curtailed or terminated in whole or in part.

Under the Power Sales Agreement, all costs of the Project, including debt service, are to be recorded as operation and maintenance expenses of the Member's electric system fund and are payable ahead of debt service on debt issued by each member. Debt issued to finance the Project will be recorded on the books and records of KMPA. No Project debt will be recorded on the books of the Member. The Power Sales Agreement also provides that KMPA may issue bonds from time to time to pay for Project capital improvements, pay for the study of other projects, and refund Project issued debt.

In certain events of default of a Member due to non-payment or other failure to perform, if KMPA has been unable to make adequate provision for the sale or transfer of the defaulting Member's Entitlement Percentage, the non-defaulting Member's Entitlement Percentage will be automatically increased for the remaining life of the agreement, subject to the cap set forth below. The step-up of a non-defaulting Member's Entitlement Percentage occurs regardless of whether the non-defaulting Member consents; however, the increase in the non-defaulting Member's Entitlement Percentage is capped at 20 percent of the non-defaulting Member's initial Entitlement Percentage. Regardless of the occurrence of any such step-up of a non-defaulting Member's Entitlement Percentage, the defaulting Member shall remain liable to KMPA to pay the full amount of Monthly Project Costs for its Entitlement Percentage.

#### **PROJECT MANAGEMENT AGREEMENT**

The Project Management Agreement establishes a Project Management Committee that has been given responsibility for the administration, management, operation, regulation and conduct of the day-to-day affairs of KMPA's interests in the Project. The Project Management Committee has the power to adopt rules, procedures and regulations, not inconsistent with the KMPA Interlocal Agreement or the laws of the Commonwealth of Kentucky, for the management, administration, operation and regulation of KMPA's interest in the business affairs of the Project. The Project Management Committee is charged with providing advice and recommendations to the KMPA Board of Directors on policy decisions regarding the Project. Such policy decisions include:

1. The incurring by KMPA of any debt, obligation or liability, other than in the ordinary course of business, relating to the Project
2. The approval and adoption of an annual and amended budget relating to the Project;
3. The sale of all or a portion of KMPA's undivided interest in the Project;
4. The acquisition of any additional interest by KMPA in the Project;

5. The entering into operating, franchises, exchange, interchange, pooling, wheeling, transmission and other similar agreements with any person, other than in the ordinary course of business, relating to the Project; and
6. The hiring of any full-time or part-time employees.

On policy questions concerning the Project, the KMPA Board may only disregard the recommendation of the Project Management Committee by making a written finding that the recommendation is arbitrary, capricious, unduly discriminatory or impermissible under binding contract or applicable law.

The Project Management Committee consists of an appointed representative from each of the Members, a member of KMPA's Executive Committee appointed by the Chairman of KMPA, and the Chairman of KMPA. A majority vote of a quorum shall be necessary to take any action; provided, however, that on any question coming before the Project Management Committee, any member of the Committee voting in the minority shall have the right to request a weighted vote. If weighted voting is invoked, the Committee Persons not appointed by a Member each have only one vote to cast on the question, while each Committee Member appointed by a Member has multiple votes based on the then-existing Entitlement Percentage of the Member that appointed such Committee Person.

#### TRANSMISSION AGREEMENTS

The Project will be located within and directly interconnected to MISO. The Members each have constructed new physical transmission interconnections from their respective electric systems to nearby LG&E/KU 161 kV transmission facilities in order to receive delivery of Project capacity and energy.

When KMPA was formed, LG&E/KU was a member of MISO. In 2006, LG&E/KU formally withdrew from MISO and established its own regional transmission entity under the oversight of the Southwest Power Pool ("SPP") as tariff administrator and TVA as reliability coordinator. This withdrawal would normally have resulted in additional (or "pancaked") transmission charges to KMPA in connection with the delivery of power from the Project (located within MISO) to the Members, who are now considered to be outside the MISO footprint as a result of LG&E/KU's withdrawal. However, pursuant to an Amended Agreement Among Certain Intervenors and Applicants Regarding Applicant's Withdrawal From The Midwest ISO, executed by the Members, several other municipal and cooperative electric systems located within Kentucky, and LG&E/KU, dated July 21, 2006, LG&E/KU committed to "shield" the Members from any pancaking of rates associated with transmission service between the LG&E/KU transmission system and the remaining members of MISO.

SPP and MISO have performed system impact studies and facility studies required to evaluate the adequacy of the transmission system to deliver KMPA's share of the Project's output. MISO has confirmed that no transmission upgrades will be required to deliver the entire KMPA entitlement of the Project to the MISO/LG&E/KU interface. SPP also confirmed that no transmission upgrades will be required by KMPA to deliver Project output to the Members. An agreement for firm point-to-point transmission service has been executed with MISO. KMPA has also executed a executed network operating agreement for network integrated transmission service with LG&E/KU. KMPA will only incur transmission costs outlined in the Open Access Transmission Tariffs ("OATT") of MISO and LG&E/KU to deliver its share of Project output to the Members.

## **PARTIAL REQUIREMENTS POWER SALES AGREEMENT**

A Partial Requirements Power Sales Agreement has been executed by KMPA and PPS / PEPB ("Partial Requirements Power Sales Agreement"). The Partial Requirements Power Sales Agreement provides for KMPA's provision of additional services to the PPS and PEPB, as requested or required to support Project operations and delivery of related services. The concepts and principles of the Partial Requirements Power Sales Agreement are intended to provide maximum flexibility and options for PPS and PEPB to purchase needed or desired services from KMPA. As requested, KMPA shall sell and deliver or cause to be delivered to the Member components of power supply services that may include reserves, capacity and energy purchases, capacity and energy sales, scheduling and dispatch services, control area services, market participation services, NERC and SERC compliance services, transmission agent services and renewable energy purchases, sales and credits. In addition, KMPA may also provide other services from time to time as requested by the Members that are necessary to supplement their overall power supply. Partial Requirements Bulk Power Supply shall be sold and purchased on a take or pay basis in a feasible manner that is also reasonably economical and dependable under the circumstances.

## **KMPA OPERATIONS AND POLICIES**

### ***Operations Services***

KMPA representatives have met with several nationally recognized firms interested in providing the scheduling, dispatch and ancillary services necessary for KMPA to buy, schedule, dispatch, and deliver the power needs of its Members. KMPA's Members have each become members of AMP, and have contracted with AMP to provide their portfolio management, scheduling, dispatch and ancillary services needs for an initial one year period with automatic renewal unless terminated by either party with 90 days written notice.

### ***Interim Power Supply***

KMPA has retained Fellon McCord, a Louisville-based energy consulting organization, to prepare the contractual and credit mechanisms necessary for KMPA to purchase power and energy for its Members and to solicit power quotes and proposals for Members' power needs for the period prior to the full commercial operation of the Project. KMPA has secured four preferred blocks of energy products in varying annual amounts needed to secure the majority of the interim power supply needs of PEPB and PPS during the applicable time period. KMPA has reported that the average cost of interim power supply to its Members to provide for full requirements electric service prior to the availability of the Project is below the actual wholesale cost from TVA at the time of their respective departures from the TVA system (when not considering TVA's refunds of excessive fuel adjustment clause charges which refunds will terminate in the first quarter of 2010).

### ***Management and Operations***

KMPA has historically relied on Member staff to provide certain of its management and operations functions, and has outsourced much of its operation, planning and implementation needs to third parties. In late 2009, KMPA filed its initial position of Chief Financial Officer. The General Managers of the Members, along with the Members' Board Chairmen, serve as the remainder of the management team for KMPA. Specific legal services, auditing functions and engineering services are provided under contract



with outside parties. The Consulting Engineer has provided various services to KMPA since 2005 and to its Members prior to that time, and has been providing and will continue to provide Project oversight and monitoring on behalf of KMPA.

KMPA will continue to rely on this team of outside experts to supplement its management and operations functions and Project monitoring support as needed through the end of construction of the Project, and may hire permanent staff to replace some of these outsourced functions prior to that time and thereafter. KMPA's operating budget reflects the addition of permanent accounting and engineering staff over the next few years as well as the continued use of these outside teams for various functions. KMPA will continue to rely on outside expertise until its internal operations and membership levels justify adding more permanent positions.

#### *Risk Management Policies*

KMPA has developed and adopted a comprehensive Risk Management Policy developed to help protect the financial integrity of KMPA and its Members by specifying management responsibilities, organizational structures and operating controls necessary to ensure that financial risk exposures are properly identified and managed. KMPA's Risk Management Policy is the focal element of an energy risk management program that provides the framework by which KMPA management and operations personnel will identify, characterize, limit, measure, manage and report financial risks and the results of risk management activities. The KMPA Risk Management Committee consists of the General Managers of both PEPB and PPS.

### **PROJECTED OPERATING RESULTS**

The major legal and contractual arrangements relating to development and financing of the Project include the Power Sales Agreements between KMPA and each of its Members, and the Trust Indenture pursuant to which KMPA will issue bonds for the permanent financing of the Project. Based on these documents, the Consulting Engineer developed projections of the annual rates and charges that KMPA would charge the Members for purchase of their respective Project Entitlement Percentages. The rates and charges were based on annual demand and energy charges for Project capacity and energy sales to the Members based on the expected costs of KMPA's ownership in the Project. Demand charges would be calculated each year to produce net revenues sufficient to fully reimburse KMPA for all expected charges associated with its ownership of the Project, including an accrual of periodic debt service payments, and taking into account the debt service coverage requirements of at least 1.10 as addressed in the Trust Indenture. KMPA's annual operating costs specific to the Project and any other KMPA operating costs necessary to be recovered from the Members would be levied as an additional charge to the Members under the Partial Requirements Power Sales.

Net income from annual Project power sales to KMPA's Members, after payment of all Project expenses and annual debt service payments, are expected to flow into the following funds:

1. Capital Improvements Fund – intended to provide adequate funding for the costs of fixtures, machinery, equipment, real property and additions to, or improvements, extensions or enlargements of the Project not normally incurred as an annual operating expense, to be funded pursuant to a long-term schedule to be developed and updated each year going forward.

2. Rate Stabilization Fund – assumed to equal \$1 per MWh of sales of Project energy to the Members, to be held as a reserve fund to help mitigate the adverse effects of any unforeseen rate changes in future years and to help provide for stable long-term Project rates.
3. Decommissioning Fund – annual contributions for KMPA's portion of the decommissioning costs of the Generating Facility, Mine and CCW Disposal Site, as estimated by PSGC.
4. Operating Reserve Fund – intended to provide a fund for operating reserves to cover future events such as the costs of renewals, replacements and repairs to the Project resulting from an emergency caused by an extraordinary occurrence not covered by insurance premiums, the costs of mitigation of the environmental impacts on the Project or moderation of the volatility of the costs of environmental compliance; to provide for necessary working capital from time to time; and to provide funds for other reasonable purposes related to the Project as determined by KMPA. Assumed to be funded annually from net operating income in excess of the required contributions to the Capital Improvements, Rate Stabilization and Decommissioning Funds, up to a maximum total amount of 18 months of expected total Project operations, maintenance and fuel expenses, excluding Project capital expenditures.
5. General Fund – remaining net income generated after contributions are made to the above four funds annually, up to the maximum amount required to be contained in the Operating Reserve Fund. Any such funds may be credited to the Members on future power sales in proportion to their contributions to such amounts.

The initial establishment of these funds will occur through the levy of Project demand charges beginning upon commercial operation of the Project's Unit 1 and continuing through the end of the capitalized interest period assumed by the Underwriter.

On the basis of the above information and assumptions, the Consulting Engineer estimated the projected operating results for KMPA's entitlement in the Project. Exhibit A-1 of this Report summarizes the projected operating results for the years 2011 through 2020. These projections exclude any consideration of a potential CO<sub>2</sub> tax or any other future environmental restrictions beyond those currently in effect that may be imposed on the Project. KMPA's administrative cost estimates were based on budgetary estimates prepared by KMPA to reflect its administrative and general expenses, the continual monitoring of Project operations, the administration of transmission arrangements for the Project and the Members, initial staffing of KMPA, and the outsourcing of all scheduling, dispatch and resource optimization functions to an experienced third party entity.

### ANALYSIS OF PROJECT RISK

KMPA will continue to address and monitor the potential internal, market and external risks associated with the Project. While some of the risks associated with the Project have, or will be addressed by KMPA and PSGC, many risk elements will remain through the life of the Project. In order to properly manage the risks associated with the Project, KMPA and PSGC plan to put in place proper risk management procedures and programs that will monitor and manage the risks of the Project and continually monitor and update such procedures and programs.

The highest risk associated with the Project appears to be the potential for future legislation aimed at reducing CO<sub>2</sub>, mercury and other emissions. PSGC has been monitoring and analyzing the potential impacts of CO<sub>2</sub> legislation on the Project and believes that the Project layout is such that adequate space for the retrofit of potential CO<sub>2</sub> capture technologies exists, and that the Project site is located in a region with opportunities for sequestration, such as injection into depleted oil wells and coal mines. The Project Owners will continue to monitor the status of future legislation and control options, and make a technical and economic decision at the appropriate time as to the best method of compliance with such potential legislation. KMPA is unable to determine the ultimate impact of such potential legislation, but such impact could be significant.

## KMPA MEMBER POWER SUPPLY COST IMPACTS

### MEMBER POWER SUPPLY RESOURCES

PPS has a contractual entitlement from the Project of 104 MW. In addition, PPS is currently constructing a gas-fired combustion turbine peaking facility located within its system and adjacent to one of its existing 161/69 KV substations. Construction is near completion and the peaking facility will be commercially operable by May 2010. A new 16-mile natural gas pipeline has been constructed to interconnect the facility to the national pipeline system, which has been completed. The total net summer capability of the peaking units will be approximately 100 to 110 MW.

PPS also constructed two new interconnections of its system to that of LG&E/KU, which will be owned, operated and maintained by PPS. The existing TVA delivery points will remain as normally-open, single-contingency or backup sources of transmission service in case of an outage on the LG&E/KU system. Under the terms of an Agreement for Emergency Back-up Service, TVA will provide emergency electric supply service to PPS in the event that a temporary condition interferes with or jeopardizes PPS's ability to utilize its primary transmission connection to LG&E/KU. The costs of such service will be based on the higher of an established base price or TVA's incremental system and other out-of-pocket costs incurred in providing such emergency service, plus a mark-up.

PEPB has an approximate 20 MW contractual entitlement from the Project. PEPB has also conducted initial development activities for a new diesel- or natural gas-fueled peaking plant near its existing Industrial Park, for additional reliability and emergency back-up services for critical loads. The ultimate need and final size of and fuel source for this proposed facility are under investigation by PEPB and decisions will be made in the future on this addition.

PEPB also constructed a new 8-mile physical interconnection of its system to that of LG&E/KU, which is owned, operated and maintained by PEPB. The existing TVA delivery point will remain as normally open, single-contingency or backup sources of transmission service in case of an outage on the LG&E/KU system. Under the terms of an Agreement for Emergency Back-up Service, TVA will provide emergency electric supply service to PEPB in the event that a temporary condition interferes with or jeopardizes PEPB's ability to utilize its primary transmission connection to LG&E/KU. The costs of such service will be based on the higher of an established base price or TVA's incremental system and other out-of-pocket costs incurred in providing such emergency service, plus a mark-up.

Both PPS and PEPB have entered into a "Power Sales Contract Regarding the American Municipal Power Hydroelectric System" ("AMP Power Sales Contract") dated November 1, 2007, along with an

amendment agreement in March 2009. Under the AMP Power Sales Contract, both PPS and PEPB will be non-equity participants in certain hydroelectric generation projects currently being developed by AMP ("Hydro Project 1") at an initial 7.55 and 1.45 MW share, respectively. The Members have the right, but not the obligation, to participate in certain additional shares of future hydroelectric generation projects that may be developed by AMP pursuant a Memorandum of Understanding dated as of November 6, 2008. Hydro Project 1 consists of the development and construction of three new hydroelectric generation projects at existing locks and dams on the Ohio River, namely the Cannelton Hydroelectric Project, the Smithland Hydroelectric Project and the Willow Island Hydroelectric Project.

Both PPS and PEPB also have relatively small allocations of SEPA power. Recent contracts have been agreed upon to allow such deliveries to commence upon their execution. The economic benefits to each Member system of the use of such SEPA power have not been considered.

#### **PROJECTED MEMBER WHOLESALE POWER COSTS**

On the basis of the assumptions outlined above, projections of PPS' and PEPB's future annual average wholesale power costs from KMPA and the Project were developed. Annual debt service and operations and maintenance costs for PPS' and PEPB's new local facilities have been estimated by the Consulting Engineer based on actual interest rates and have been included.

On the basis of the Members' respective power supply plans, the projected annual wholesale costs to both PPS and PEPB are projected to be in the range of \$60 to \$70 per MWh for the period of mid-2012 through 2020, which is on the order of 10 to 15 percent below the expected average annual wholesale costs that would have otherwise been incurred by the Members under continued full requirements service from TVA during this time period, and on the order of 20 to 30 percent below the expected market prices for wholesale power purchases once the Project is fully operational.

The Members' wholesale rates under their proposed long-term power supply plans are also projected to remain relatively stable thereafter, with future increases below the expected rate of inflation.

#### **FACTORS AFFECTING THE ELECTRIC INDUSTRY**

##### **GENERAL**

The electric utility industry in general has been, and in the future may be, affected by a number of factors.

Such factors include, among others, (a) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, (b) changes resulting from conservation and demand-side management programs, (c) changes resulting from a national energy policy, (d) effects of competition from other electric utilities and new methods of, and new facilities for, producing low-cost electricity, (e) the repeal of certain federal statutes that would have the effect of increasing the competitiveness of many utilities, (f) increased competition from independent power producers, marketers, and brokers, (g) "self-generation" by certain industrial and commercial customers, (h) issues relating to the ability to issue tax-exempt debt, (i) effects of inflation on the operating and maintenance costs of an electric utility and its facilities, (j) changes from projected future load requirements, (k) increases in costs and uncertain availability of capital, (l) shifts in the availability and relative costs of different fuels (including the cost of natural gas), (m) fluctuations in the price of energy purchased on the



open market, (n) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity, (o) other legislative changes, voter initiatives, referenda and statewide propositions, (p) effects of the changes in the economy, (q) effects of possible manipulation of the electric markets, and (r) natural disasters or other physical calamity, including, but not limited to, earthquakes.

Any of these factors, as well as other factors, could have an effect on the financial condition of any given electric utility, including KMPA and its Members, and likely will affect individual utilities in different ways. KMPA and the Members cannot determine with certainty what effects such factors will have on their respective business operations and financial condition. The following is a brief discussion of certain of these factors. However, this discussion does not purport to be comprehensive or definitive, nor to have addressed the full range of possibilities for the factors discussed and these matters are all subject to change.

#### **FERC TRANSMISSION INITIATIVES**

The Energy Policy Act of 1992 (the "Energy Policy Act") amended the Federal Power Act to alter fundamentally and expand federal regulation of the electric utility industry, particularly in the area of transmission access. The primary purpose of these changes was to bring about increased competition in the wholesale electric power market. In April 1996, the FERC issued two final rules to address and implement the requirements of the Energy Policy Act (Order Nos. 888 and 889). These rules implemented significant changes in the regulation of transmission services provided by public utilities that own, operate or control interstate transmission facilities and that are subject to the FERC's jurisdiction. More specifically, these rules, required all such utilities to provide open access transmission service on a nondiscriminatory and comparable basis via FERC's proforma OATT; and implemented standards of conduct for utilities that offer open access transmission services and required those utilities to establish an electronic "Open Access Same-time Information System" ("OASIS") to share transmission-related information on the Internet. KMPA and its Members are transmission dependent utilities and as such, neither KMPA nor the Members are directly subject to the rules adopted by FERC in these orders. However, the jurisdictional utilities from which KMPA and its Members purchase transmission service are subject to these rules.

#### **FEDERAL LEGISLATION**

##### ***Energy Policy Act of 2005***

On July 29, 2005, Congress passed the EAct 2005 and it was signed by the President on August 8, 2005. This legislation addresses, among other things, energy efficiency, renewable energy; nuclear energy; electricity related reforms; incentives for oil and gas production and deployment of clean coal technology. KMPA will continue to assess the potential impacts of EAct 2005 on its plans to develop and implement the Project and on any potential plans for the development of other generating resources.

The EAct 2005 did not include a federal requirement that utilities purchase a certain percentage of electricity from renewable sources, or a national Renewable Portfolio Standard. With the failure of the EAct 2005 to require federal Renewable Portfolio Standards, the momentum behind new renewable resources requirements remains primarily with the individual states adoption of a RPS or through enactment of future federal legislation. Kentucky currently has no form of an RPS.

EPAct 2005 included a requirement for PURPA utilities (both regulated, through the appropriate regulatory authority, and non-regulated utilities) to consider the adoption of standards pertaining to: (i) the implementation of net metering service; (ii) ensuring fuel diversity in generating resources; (iii) increased efficiency of fossil fueled generating resources; (iv) the installation of time-based metering and communications; and (v) interconnection of distributed generation. KMPA is exempt from these PURPA requirements as it sells power only at the wholesale level and does not sell power at the retail level. However, depending upon their size and the nature of their operations, the Members may be required to meet these requirements.

#### ***Deregulation Legislation***

Deregulation legislation has been enacted in several states, most notably the neighboring states of Illinois and Ohio. No such legislation has been enacted in Kentucky, and KMPA expects no such actions to materialize in the future. Because of the number and diversity of prior and possible future proposed bills on this issue, KMPA is not able to predict the final form or possible effects of all such legislation that may ultimately be introduced in the current or future sessions of Congress. KMPA is also unable to predict whether any such legislation, after introduction, will be enacted into law.

#### ***Tax Legislation***

Bills have been, and in the future may be, introduced that could impact the issuance of tax-exempt bonds for transmission and generation facilities. KMPA is unable to predict whether any of these bills or any similar federal bills proposed in the future will become law or, if they become law, what their final form or effect would be. Such effect, however, could be material to KMPA and the Members.

### **PRINCIPAL CONSIDERATIONS AND ASSUMPTIONS**

In the preparation of this Report and the conclusions that follow, we have made certain assumptions with respect to conditions that may occur in the future. While we believe these assumptions are reasonable for the purpose of this Report, they are dependent upon future events and actual conditions may differ from those assumed herein. In addition, we have used and relied upon certain information and assumptions provided to us by others, but have not independently verified the information and offer no assurances with respect thereto. We believe the use of such information and assumptions is reasonable for the purposes of this Report. However, some assumptions will invariably not materialize as stated herein or may vary significantly due to unanticipated events and circumstances. Therefore, the actual results can be expected to vary from those forecasted to the extent that actual future conditions differ from those assumed by us or from information or assumptions provided to us by others.

The principal considerations and assumptions made by us and the principal information and assumptions provided to us by others include the following:

1. The peak demands and energy requirements of the Members will be approximately those estimated and presented in the tables contained in this Report.
2. No changes will be made to the key Project Agreements or the TPEPC Contract from their current terms and conditions.

3. The Project will be designed and constructed in accordance with the terms and conditions and technical specifications of the TPEPC Contract.
4. The cost to KMPA for a 7.82% undivided ownership interest in the Project will be \$364,512,000.
5. KMPA will issue a total of \$496,560,000 in revenue bonds, of which approximately 70 percent will be tax-exempt, approximately 25 percent will be taxable Build America Bonds and approximately 5 percent will be taxable. KMPA will pay actual interest rates on its Series 2007 Bonds, and a combined average true interest cost of 4.14 percent on the Series 2010 Bonds, including interest costs and insurance premiums. KMPA will earn interest on monies in the Debt Service Reserve Account, Capitalized Interest Account and Construction Account is estimated at a weighted average annual rate of 4.6 percent on the Aggregate Bonds. Interest on all Series 2007 Bonds and Series 2010 Bonds will be funded from bond proceeds through August 31, 2012.
6. The Project will be capable of an average annual net demonstrated capability of approximately 1,584 MW during the period of our analysis.
7. PSGC will employ experienced and qualified Generating Facility operations and maintenance staff and qualified contractors where necessary, and will align the management and daily operations of the Generating Facility with the economic objectives of the Project Owners.
8. The Project will be able to be operated as a reliable and economical source of power and energy provided that (i) qualified and experienced management, operations and maintenance personnel are hired by PSGC for the Generating Facility, (ii) no technical, legal or regulatory changes have a substantially adverse impact on its operation, (iii) the Generating Facility is at all times maintained, preserved, reconstructed and kept in good repair, working order and condition, and (iv) all necessary repairs, replacements and renewals are made in a timely manner.
9. The first generating unit of the Project will be substantially completed and ready for continuous energy production by December 1, 2011, and the second by May 1, 2012.
10. Energy will be scheduled by KMPA from its entitlement share in the Project as estimated by us.
11. The general rate of inflation will be 2.4 percent per year based on the consensus projections prepared by Blue Chip Economic Indicators in October 2009.
12. Costs associated with operation of the Project, including the costs for operation and maintenance, insurance, property taxes, and expenditures for renewals and replacements, will be as estimated by PSGC.
13. The Mine will be developed and operated as projected by PSGC according to the Mine plan approved by the Project Owners in July 2007 and as amended and approved in December 2009.
14. The cost of fuel for the Project will be as estimated by PSGC.
15. KMPA's administrative and general expenses will be as projected by us.

16. Transmission service will be available from MISO during the period of our analysis, as required, to facilitate the delivery of power and energy from the Project to the Members at rates as estimated by us.
17. KMPA will set rates sufficient to meet its requirements pursuant to the Trust Indenture.
18. The Members will set, and be authorized to collect, rates for retail electric service at levels which are sufficient to pay their obligations when due under the Power Sales Agreements in accordance with the terms of the Power Sales Agreements.
19. KMPA's current and outstanding policies, procedures, contracts and risk management plans will be developed and implemented by KMPA and its advisors in a timely manner consistent with the concepts and plans reported herein in order to provide for cost effective delivery and management of Project power and energy to the Members and to allow for KMPA's provision of other services and management of other resources required or requested by the Members.

This Report has been prepared on the assumption that all contracts, agreements, statutes, rules and regulations that have been relied upon by us in preparing this Report will be fully enforceable in accordance with their terms and conditions. We make no representations or warranties, and provide no conclusion, concerning the enforceability or legal interpretation of such contractual and legal requirements.

### CONCLUSIONS

Based upon the foregoing principal considerations and assumptions and upon the studies and analyses as summarized or discussed in this Report, which Report should be read in its entirety in conjunction with the following, we are of the opinion that:

1. The Project can be beneficially utilized by the Members after giving consideration to their respective estimated load growth, planned sources of additional power supply, and planned peaking facility construction and operation.
2. The Members' plans to integrate the Project combined with their other proposed power supply resources represent prudent power supply plans, and will help to provide the Members with a diversified mixture of resources which will enable them to secure a long-term reliable and economical source of power and energy.
3. The costs assumed herein are reasonable for the Project's construction and operation at this stage of its development, provided proper management of the TPEPC Contract and other construction activities is undertaken by Bechtel, PSGC and the Project Owners and qualified operations and maintenance personnel are retained for the Generating Facilities and the Project is completed according to the latest schedule.
4. The characteristics of the Project will be similar to those of other base load coal-fired generating units which are being proposed or are in operation, and the Project is capable of being completed by PSGC and Bechtel according to its remaining construction schedule.



5. PSGC has identified the key permits and approvals required from various federal, state, and local agencies necessary to construct and operate the Project, and the Generating Facilities should be capable of ultimately complying with the emissions limits and other conditions set forth in the key permits and approvals.
6. The Project represents a reasonable cost long-range power supply option relative to the known alternatives reasonably available to KMPA's Members, including reliance on the regional marketplace, for the 30-year term of the 2007A Bonds.
7. Barring unforeseen circumstances relative to the coal reserves dedicated to the Project or future disruptions to the coal mining operations of the Project, sufficient coal will be available from the dedicated coal reserves or nearby sources of a quality and type that is compatible for use in the Project to allow for its full expected operation for a period of 30 years.
8. The current and proposed arrangements under all Project Agreements and other proposed KMPA Agreements will allow KMPA to meet its power supply responsibilities to its Members and form a reasonable basis for securing a reliable and reasonably priced power supply to meet their long term power supply obligations.
9. Transmission agreements currently in place provide for a viable and reasonable delivery path(s) for Project capacity and energy to the Members over the 30-year term of the 2007A Bonds.
10. Projected rates, fees and charges by KMPA to its Members for Project capacity and energy can reasonably be expected to be sufficient during the period of our analysis to pay all amounts required to be paid from Revenues, including the costs of operation and maintenance, and to yield Net Revenues, as defined in the Trust Indenture, which are at least 1.10 times Aggregate Debt Service during each year in such period, and to provide for normal renewals and replacements.
11. The projected wholesale rates of the Members after completion of the Project, and with the implementation of the Members' local generating facilities and the development of additional power supply, risk management and other services by KMPA will be competitive relative to the Members' current power supply source and will remain competitive relative to the marketplace.

We have reviewed the Official Statement to which this Report is appended and, in our opinion, the information presented therein which is taken from our Report or which otherwise is attributed to us is accurately presented.

Respectfully submitted,

/s/ R. W. Beck, Inc.

Consulting Engineer's Report  
Kentucky Municipal Power Agency  
Prairie State Energy Campus Project  
May 5, 2010

Exhibit A-1

**Kentucky Municipal Power Agency  
Prairie State Project Projected Operating Results**

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Project Net Generation (GWH-I)	40	795	955	955	955	955	955	955	955	955
Sales to Members	40	626	719	727	682	690	697	706	714	723
Sales to Marketplace	-	167	236	227	273	265	257	249	240	231
Project Demand Charge	\$ 218.41	\$ 218.41	\$ 291.22	\$ 289.16	\$ 274.06	\$ 274.87	\$ 275.71	\$ 276.56	\$ 277.44	\$ 278.33
Project Energy Charge	\$ 10.38	\$ 13.24	\$ 13.52	\$ 13.83	\$ 14.16	\$ 14.52	\$ 14.91	\$ 15.26	\$ 15.63	\$ 16.01
<b>Revenues (\$000)</b>										
Project Sales to Members	\$ 1,540	\$ 30,863	\$ 45,796	\$ 45,875	\$ 43,604	\$ 44,064	\$ 44,548	\$ 45,030	\$ 45,528	\$ 46,060
KMPA Administrative Cost Charges	\$ 800	\$ 820	\$ 841	\$ 862	\$ 883	\$ 905	\$ 928	\$ 951	\$ 975	\$ 999
Project Sales to Market	\$ -	\$ 6,299	\$ 9,152	\$ 9,723	\$ 12,023	\$ 12,029	\$ 12,031	\$ 11,981	\$ 11,931	\$ 11,820
<b>Total Revenues</b>	<b>\$ 2,340</b>	<b>\$ 37,982</b>	<b>\$ 55,788</b>	<b>\$ 56,460</b>	<b>\$ 56,510</b>	<b>\$ 56,997</b>	<b>\$ 57,507</b>	<b>\$ 57,962</b>	<b>\$ 58,434</b>	<b>\$ 58,879</b>
<b>Expenses (\$000)</b>										
Operating Costs - Prairie State	\$ 522	\$ 14,975	\$ 18,346	\$ 18,736	\$ 19,162	\$ 19,612	\$ 20,091	\$ 20,540	\$ 21,007	\$ 21,491
Operating Costs - KMPA	\$ 800	\$ 820	\$ 841	\$ 862	\$ 883	\$ 905	\$ 928	\$ 951	\$ 975	\$ 999
<b>Total Operating Costs</b>	<b>\$ 1,322</b>	<b>\$ 15,795</b>	<b>\$ 19,186</b>	<b>\$ 19,597</b>	<b>\$ 20,045</b>	<b>\$ 20,517</b>	<b>\$ 21,019</b>	<b>\$ 21,491</b>	<b>\$ 21,981</b>	<b>\$ 22,490</b>
<b>Net Operating Revenues</b>	<b>\$ 1,018</b>	<b>\$ 22,187</b>	<b>\$ 36,602</b>	<b>\$ 36,862</b>	<b>\$ 36,465</b>	<b>\$ 36,480</b>	<b>\$ 36,488</b>	<b>\$ 36,471</b>	<b>\$ 36,453</b>	<b>\$ 36,389</b>
Interest Income	\$ -	\$ 1,395	\$ 2,378	\$ 2,726	\$ 3,075	\$ 3,301	\$ 3,281	\$ 3,305	\$ 3,392	\$ 3,475
<b>Net Income</b>	<b>\$ 1,018</b>	<b>\$ 23,581</b>	<b>\$ 38,980</b>	<b>\$ 39,588</b>	<b>\$ 39,540</b>	<b>\$ 39,781</b>	<b>\$ 39,769</b>	<b>\$ 39,776</b>	<b>\$ 39,845</b>	<b>\$ 39,864</b>
Total Debt Service	\$ -	\$ 11,557	\$ 34,581	\$ 34,581	\$ 34,581	\$ 34,581	\$ 34,581	\$ 34,581	\$ 34,581	\$ 34,581
Build America Bond Rebate	\$ -	\$ (906)	\$ (2,717)	\$ (2,717)	\$ (2,717)	\$ (2,717)	\$ (2,717)	\$ (2,717)	\$ (2,717)	\$ (2,717)
<b>Net Income (\$000)</b>	<b>\$ 1,018</b>	<b>\$ 12,930</b>	<b>\$ 7,116</b>	<b>\$ 7,724</b>	<b>\$ 7,675</b>	<b>\$ 7,917</b>	<b>\$ 7,904</b>	<b>\$ 7,912</b>	<b>\$ 7,981</b>	<b>\$ 8,000</b>
Debt Service Coverage	n/a	2.21	1.22	1.24	1.24	1.25	1.25	1.25	1.25	1.25
Average Debt Service Coverage	1.28									

**FINANCIAL INFORMATION AND RESERVE FUND BALANCES**

<b>Net Income - Disbursement to Required Funds</b>										
Capital Improvements Fund	\$ 264	\$ 541	\$ 554	\$ 567	\$ 581	\$ 595	\$ 609	\$ 624	\$ 639	\$ 654
Rate Stabilization Fund	\$ 40	\$ 628	\$ 719	\$ 727	\$ 682	\$ 690	\$ 697	\$ 706	\$ 714	\$ 723
Decommissioning Fund	\$ -	\$ 120	\$ 205	\$ 205	\$ 205	\$ 205	\$ 205	\$ 205	\$ 205	\$ 205
Other Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Net Income to Reserve Funds (\$000)</b>	<b>\$ 714</b>	<b>\$ 11,841</b>	<b>\$ 5,638</b>	<b>\$ 6,224</b>	<b>\$ 6,207</b>	<b>\$ 6,427</b>	<b>\$ 6,393</b>	<b>\$ 6,377</b>	<b>\$ 6,423</b>	<b>\$ 6,417</b>
<b>Interest Income (\$000)</b>										
Interest Earnings on Rate Stabilization Fund	\$ -	\$ (17)	\$ (46)	\$ (80)	\$ (113)	\$ (145)	\$ (178)	\$ (211)	\$ (244)	\$ (278)
Interest Earnings on Other Cash Funds	\$ (20)	\$ (322)	\$ (747)	\$ (1,061)	\$ (1,377)	\$ (1,571)	\$ (1,518)	\$ (1,509)	\$ (1,564)	\$ (1,612)
Interest Earnings on Debt Service Reserve	\$ -	\$ (1,056)	\$ (1,584)	\$ (1,584)	\$ (1,584)	\$ (1,584)	\$ (1,584)	\$ (1,584)	\$ (1,584)	\$ (1,584)
Capital Improvements Expenditures	\$ -	\$ -	\$ -	\$ 250	\$ 450	\$ 550	\$ 1,750	\$ 350	\$ 500	\$ 600
<b>Fund Balances (\$000)</b>										
Debt Service Reserve Fund Balance	\$ -	\$ 33,783	\$ 33,783	\$ 33,783	\$ 33,783	\$ 33,783	\$ 33,783	\$ 33,783	\$ 33,783	\$ 33,783
Capital Improvement Fund Balance	\$ 264	\$ 541	\$ 1,095	\$ 1,412	\$ 1,543	\$ 1,588	\$ 447	\$ 720	\$ 859	\$ 913
Rate Stabilization Fund Balance	\$ 40	\$ 628	\$ 1,347	\$ 2,075	\$ 2,757	\$ 3,446	\$ 4,144	\$ 4,850	\$ 5,564	\$ 6,287
Decommissioning Fund Balance	\$ -	\$ 120	\$ 325	\$ 530	\$ 736	\$ 941	\$ 1,146	\$ 1,351	\$ 1,557	\$ 1,762
Operating Reserve Fund Balance (1)	\$ 714	\$ 12,355	\$ 17,993	\$ 24,217	\$ 28,744	\$ 29,418	\$ 30,137	\$ 30,810	\$ 31,510	\$ 32,236
General Fund Balance (2)	\$ -	\$ -	\$ -	\$ -	\$ 1,680	\$ 5,753	\$ 5,674	\$ 5,704	\$ 5,723	\$ 5,691
Total Funds Balance w/o General Reserve	\$ 1,018	\$ 47,427	\$ 54,543	\$ 62,017	\$ 67,562	\$ 69,176	\$ 69,657	\$ 71,514	\$ 73,272	\$ 74,981
Total Unrestricted Funds Balance (3)	\$ 754	\$ 12,984	\$ 19,340	\$ 26,292	\$ 31,501	\$ 32,864	\$ 34,281	\$ 35,660	\$ 37,074	\$ 38,523
<b>Principal Balance - December 31 (\$000)</b>	<b>\$ 491,440</b>	<b>\$ 489,238</b>	<b>\$ 480,434</b>	<b>\$ 471,299</b>	<b>\$ 461,774</b>	<b>\$ 451,859</b>	<b>\$ 441,479</b>	<b>\$ 430,634</b>	<b>\$ 419,279</b>	<b>\$ 407,479</b>

- (1) Funded to a maximum of 18 months of expected annual Project operating and fuel costs, excluding capital improvements  
(2) Funds in excess of Required funds and Operating Reserve Fund which may be credited to Members in following year  
(3) Total of Rate Stabilization Fund and Operating Reserve Fund

## **APPENDIX B**

### **KENTUCKY MUNICIPAL POWER AGENCY POWER SYSTEM REVENUE BONDS, SERIES 2010**

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**Annual Long-Term Debt Service Requirements  
of the Kentucky Municipal Power Agency and  
Long-Term Debt Outstanding and  
Summary of Financial Statements**

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Kentucky Municipal Power Agency  
Power System Revenue Bonds  
(Prairie State Project), Series 2010

**SEMI-ANNUAL LONG-TERM DEBT SERVICE REQUIREMENTS**

Date	Build America Bonds						Tax-Exempt Bonds				Taxable Bonds			
	Principal	Interest	Gross P+I	Less: 35% Direct Pay	Capitalized Interest <sup>(1)</sup>	Total P+I	Principal	Interest	Capitalized Interest <sup>(1)</sup>	Total P+I	Principal	Interest	Capitalized Interest <sup>(1)</sup>	Total P+I
9/01/2010	-	\$2,026,876.31	\$2,026,876.31	(\$709,406.70)	(\$1,317,469.61)	-	-	\$548,738.71	(\$548,738.71)	-	-	\$79,646.98	(\$79,646.98)	-
3/01/2011	-	3,881,252.50	3,881,252.50	(1,358,438.37)	(2,522,814.13)	-	-	1,050,776.25	(1,050,776.25)	-	-	152,515.50	(152,515.50)	-
9/01/2011	-	3,881,252.50	3,881,252.50	(1,358,438.37)	(2,522,814.13)	-	-	1,050,776.25	(1,050,776.25)	-	-	152,515.50	(152,515.50)	-
3/01/2012	-	3,881,252.50	3,881,252.50	(1,358,438.37)	(2,522,814.13)	-	-	1,050,776.25	(1,050,776.25)	-	-	152,515.50	(152,515.50)	-
9/01/2012	-	3,881,252.50	3,881,252.50	(1,358,438.37)	(2,522,814.13)	-	-	1,050,776.25	(1,050,776.25)	-	-	152,515.50	(152,515.50)	-
3/01/2013	-	3,881,252.50	3,881,252.50	(1,358,438.37)	-	\$2,522,814.13	-	1,050,776.25	-	\$1,050,776.25	-	152,515.50	-	\$152,515.50
9/01/2013	-	3,881,252.50	3,881,252.50	(1,358,438.37)	-	2,522,814.13	\$3,365,000.00	1,050,776.25	-	4,415,776.25	\$990,000.00	152,515.50	-	1,142,515.50
3/01/2014	-	3,881,252.50	3,881,252.50	(1,358,438.37)	-	2,522,814.13	-	1,017,126.25	-	1,017,126.25	-	140,289.00	-	140,289.00
9/01/2014	-	3,881,252.50	3,881,252.50	(1,358,438.37)	-	2,522,814.13	3,440,000.00	1,017,126.25	-	4,457,126.25	1,010,000.00	140,289.00	-	1,150,289.00
3/01/2015	-	3,881,252.50	3,881,252.50	(1,358,438.37)	-	2,522,814.13	-	981,006.25	-	981,006.25	-	125,038.00	-	125,038.00
9/01/2015	-	3,881,252.50	3,881,252.50	(1,358,438.37)	-	2,522,814.13	3,535,000.00	981,006.25	-	4,516,006.25	1,050,000.00	125,038.00	-	1,175,038.00
3/01/2016	-	3,881,252.50	3,881,252.50	(1,358,438.37)	-	2,522,814.13	-	913,081.25	-	913,081.25	-	107,030.50	-	107,030.50
9/01/2016	-	3,881,252.50	3,881,252.50	(1,358,438.37)	-	2,522,814.13	5,290,000.00	913,081.25	-	6,203,081.25	1,090,000.00	107,030.50	-	1,197,030.50
3/01/2017	-	3,881,252.50	3,881,252.50	(1,358,438.37)	-	2,522,814.13	-	825,006.25	-	825,006.25	-	85,339.50	-	85,339.50
9/01/2017	-	3,881,252.50	3,881,252.50	(1,358,438.37)	-	2,522,814.13	3,835,000.00	825,006.25	-	4,660,006.25	-	85,339.50	-	1,225,339.50
3/01/2018	-	3,881,252.50	3,881,252.50	(1,358,438.37)	-	2,522,814.13	-	765,618.75	-	765,618.75	-	60,430.50	-	60,430.50
9/01/2018	-	3,881,252.50	3,881,252.50	(1,358,438.37)	-	2,522,814.13	3,955,000.00	765,618.75	-	4,720,618.75	1,190,000.00	60,430.50	-	1,250,430.50
3/01/2019	-	3,881,252.50	3,881,252.50	(1,358,438.37)	-	2,522,814.13	-	700,956.25	-	700,956.25	-	31,751.50	-	31,751.50
9/01/2019	-	3,881,252.50	3,881,252.50	(1,358,438.37)	-	2,522,814.13	4,095,000.00	700,956.25	-	4,795,956.25	1,255,000.00	31,751.50	-	1,286,751.50
3/01/2020	-	3,881,252.50	3,881,252.50	(1,358,438.37)	-	2,522,814.13	-	628,075.00	-	628,075.00	-	-	-	-
9/01/2020	-	3,881,252.50	3,881,252.50	(1,358,438.37)	-	2,522,814.13	5,585,000.00	628,075.00	-	6,213,075.00	-	-	-	-
3/01/2021	-	3,881,252.50	3,881,252.50	(1,358,438.37)	-	2,522,814.13	-	497,375.00	-	497,375.00	-	-	-	-
9/01/2021	-	3,881,252.50	3,881,252.50	(1,358,438.37)	-	2,522,814.13	5,860,000.00	497,375.00	-	6,357,375.00	-	-	-	-
3/01/2022	-	3,881,252.50	3,881,252.50	(1,358,438.37)	-	2,522,814.13	-	350,875.00	-	350,875.00	-	-	-	-
9/01/2022	-	3,881,252.50	3,881,252.50	(1,358,438.37)	-	2,522,814.13	6,160,000.00	350,875.00	-	6,510,875.00	-	-	-	-
3/01/2023	-	3,881,252.50	3,881,252.50	(1,358,438.37)	-	2,522,814.13	-	196,875.00	-	196,875.00	-	-	-	-
9/01/2023	\$1,015,000.00	3,881,252.50	4,896,252.50	(1,358,438.37)	-	3,537,814.13	5,455,000.00	196,875.00	-	5,651,875.00	-	-	-	-
3/01/2024	-	3,853,035.50	3,853,035.50	(1,348,562.42)	-	2,504,473.08	-	60,500.00	-	60,500.00	-	-	-	-
9/01/2024	3,730,000.00	3,853,035.50	7,583,035.50	(1,348,562.42)	-	6,234,473.08	3,025,000.00	60,500.00	-	3,085,500.00	-	-	-	-
3/01/2025	-	3,745,611.50	3,745,611.50	(1,310,964.02)	-	2,434,647.48	-	-	-	-	-	-	-	-
9/01/2025	7,020,000.00	3,745,611.50	10,765,611.50	(1,310,964.02)	-	9,454,647.48	-	-	-	-	-	-	-	-
3/01/2026	-	3,538,170.50	3,538,170.50	(1,238,359.67)	-	2,299,810.83	-	-	-	-	-	-	-	-
9/01/2026	7,295,000.00	3,538,170.50	10,833,170.50	(1,238,359.67)	-	9,594,810.83	-	-	-	-	-	-	-	-
3/01/2027	-	3,317,861.50	3,317,861.50	(1,161,251.52)	-	2,156,609.98	-	-	-	-	-	-	-	-
9/01/2027	7,590,000.00	3,317,861.50	10,907,861.50	(1,161,251.52)	-	9,746,609.98	-	-	-	-	-	-	-	-
3/01/2028	-	3,084,848.50	3,084,848.50	(1,079,696.97)	-	2,005,151.53	-	-	-	-	-	-	-	-
9/01/2028	7,905,000.00	3,084,848.50	10,989,848.50	(1,079,696.97)	-	9,910,151.53	-	-	-	-	-	-	-	-
3/01/2029	-	2,838,212.50	2,838,212.50	(993,374.37)	-	1,844,838.13	-	-	-	-	-	-	-	-
9/01/2029	8,230,000.00	2,838,212.50	11,068,212.50	(993,374.37)	-	10,074,838.13	-	-	-	-	-	-	-	-
3/01/2030	-	2,579,379.00	2,579,379.00	(902,782.65)	-	1,676,596.35	-	-	-	-	-	-	-	-
9/01/2030	8,580,000.00	2,579,379.00	11,159,379.00	(902,782.65)	-	10,256,596.35	-	-	-	-	-	-	-	-
3/01/2031	-	2,305,248.00	2,305,248.00	(806,836.80)	-	1,498,411.20	-	-	-	-	-	-	-	-
9/01/2031	8,945,000.00	2,305,248.00	11,250,248.00	(806,836.80)	-	10,443,411.20	-	-	-	-	-	-	-	-
3/01/2032	-	2,014,982.75	2,014,982.75	(705,243.96)	-	1,309,738.79	-	-	-	-	-	-	-	-
9/01/2032	9,330,000.00	2,014,982.75	11,344,982.75	(705,243.96)	-	10,639,738.79	-	-	-	-	-	-	-	-
3/01/2033	-	1,712,224.25	1,712,224.25	(599,278.48)	-	1,112,945.77	-	-	-	-	-	-	-	-
9/01/2033	9,730,000.00	1,712,224.25	11,442,224.25	(599,278.48)	-	10,842,945.77	-	-	-	-	-	-	-	-
3/01/2034	-	1,396,485.75	1,396,485.75	(488,770.01)	-	907,715.74	-	-	-	-	-	-	-	-
9/01/2034	10,150,000.00	1,396,485.75	11,546,485.75	(488,770.01)	-	11,057,715.74	-	-	-	-	-	-	-	-
3/01/2035	-	1,067,118.25	1,067,118.25	(373,491.38)	-	693,626.87	-	-	-	-	-	-	-	-
9/01/2035	10,590,000.00	1,067,118.25	11,657,118.25	(373,491.38)	-	11,283,626.87	-	-	-	-	-	-	-	-
3/01/2036	-	723,472.75	723,472.75	(253,215.46)	-	470,257.29	-	-	-	-	-	-	-	-
9/01/2036	11,045,000.00	723,472.75	11,768,472.75	(253,215.46)	-	11,515,257.29	-	-	-	-	-	-	-	-
3/01/2037	-	365,062.50	365,062.50	(127,771.87)	-	237,290.63	-	-	-	-	-	-	-	-
9/01/2037	11,250,000.00	365,062.50	11,615,062.50	(127,771.87)	-	11,487,290.63	-	-	-	-	-	-	-	-
Total	\$122,405,000.00	\$168,022,867.81	\$290,427,867.81	(\$58,808,003.48)	(\$11,408,726.13)	\$220,211,138.20	\$53,600,000.00	\$20,726,386.21	(\$4,751,843.71)	\$69,574,542.50	\$7,725,000.00	\$2,094,497.98	(\$689,708.98)	\$9,129,789.00

Note: (1) Interest has been capitalized through the September 1, 2012 bond interest payment.

**Kentucky Municipal Power Agency  
Power System Revenue Bonds, Series 2010  
(Prairie State Project)**

**ANNUAL GROSS AND NET DEBT SERVICE REQUIREMENTS ON SERIES 2007 AND 2010 BONDS**

Fiscal Year Ended June 30	Series 2007 Gross Debt Service			Series 2010 Gross Debt Service			Total Gross Debt Service	Less:						Net New Debt Service
	Principal	Interest	Total P+I	Principal	Interest	Total P+I		35% Direct Pay on Series 2010 BABs	Capitalized Interest on Series 2007 Bonds	Capitalized Interest on Series 2010 Bonds	DSR Earnings and Releases for Series 2007 Bonds <sup>(1)</sup>	DSR Earnings and Releases for Series 2010 Bonds <sup>(2)</sup>		
2010	-	\$15,835,723.00	\$15,835,723.00	-	-	-	15,835,723.00	-	(\$15,835,723.00)	-	-	-	-	
2011	-	15,835,723.00	15,835,723.00	-	\$7,739,806.25	\$7,739,806.25	23,575,529.25	(\$2,067,845.07)	(15,835,723.00)	(\$5,671,961.18)	-	-	-	
2012	-	15,835,723.00	15,835,723.00	-	10,169,088.50	10,169,088.50	26,004,811.50	(2,716,876.74)	(15,835,723.00)	(7,452,211.76)	-	-	-	
2013	-	15,835,723.00	15,835,723.00	-	10,169,088.50	10,169,088.50	26,004,811.50	(2,716,876.74)	(7,917,861.50)	(3,726,105.88)	(\$606,762.25)	(\$217,525.84)	\$10,819,679.29	
2014	\$4,450,000.00	15,721,095.50	20,171,095.50	\$4,355,000.00	10,123,212.00	14,478,212.00	34,649,307.50	(2,716,876.74)	-	-	(1,213,524.50)	(435,051.68)	30,283,854.58	
2015	4,685,000.00	15,484,724.75	20,169,724.75	4,450,000.00	10,025,964.50	14,475,964.50	34,645,689.25	(2,716,876.74)	-	-	(1,213,524.50)	(435,051.68)	30,280,236.33	
2016	4,940,000.00	15,233,509.50	20,173,509.50	4,585,000.00	9,888,661.00	14,473,661.00	34,647,170.50	(2,716,876.74)	-	-	(1,213,524.50)	(435,051.68)	30,281,717.58	
2017	5,235,000.00	14,965,950.00	20,200,950.00	6,380,000.00	9,692,962.50	16,072,962.50	36,273,912.50	(2,716,876.74)	-	-	(2,837,161.03)	(435,051.68)	30,284,823.05	
2018	5,405,000.00	14,685,981.25	20,090,981.25	4,975,000.00	9,498,900.00	14,473,900.00	34,564,881.25	(2,716,876.74)	-	-	(1,131,797.56)	(435,051.68)	30,281,155.27	
2019	5,700,000.00	14,394,475.00	20,094,475.00	5,145,000.00	9,321,262.00	14,466,262.00	34,560,737.00	(2,716,876.74)	-	-	(1,131,797.56)	(435,051.68)	30,277,011.02	
2020	6,005,000.00	14,087,218.75	20,092,218.75	5,350,000.00	9,123,287.75	14,473,287.75	34,565,506.50	(2,716,876.74)	-	-	(1,131,797.56)	(435,051.68)	30,281,780.52	
2021	6,330,000.00	13,763,425.00	20,093,425.00	5,585,000.00	8,887,955.00	14,472,955.00	34,566,380.00	(2,716,876.74)	-	-	(1,131,797.56)	(435,051.68)	30,282,654.02	
2022	6,670,000.00	13,422,175.00	20,092,175.00	5,860,000.00	8,610,755.00	14,470,755.00	34,562,930.00	(2,716,876.74)	-	-	(1,131,797.56)	(435,051.68)	30,279,204.02	
2023	7,030,000.00	13,062,550.00	20,092,550.00	6,160,000.00	8,310,255.00	14,470,255.00	34,562,805.00	(2,716,876.74)	-	-	(1,131,797.56)	(435,051.68)	30,279,079.02	
2024	7,410,000.00	12,683,500.01	20,093,500.01	6,470,000.00	7,991,663.00	14,461,663.00	34,555,163.01	(2,707,000.79)	-	-	(1,131,797.56)	(435,051.68)	30,281,312.98	
2025	7,810,000.00	12,283,975.01	20,093,975.01	6,755,000.00	7,659,147.00	14,414,147.00	34,508,122.01	(2,659,526.44)	-	-	(1,131,797.56)	(435,051.68)	30,281,746.33	
2026	8,230,000.00	11,862,925.00	20,092,925.00	7,020,000.00	7,283,782.00	14,303,782.00	34,396,707.00	(2,549,323.69)	-	-	(1,131,797.56)	(435,051.68)	30,280,534.07	
2027	8,675,000.00	11,419,168.75	20,094,168.75	7,295,000.00	6,856,032.00	14,151,032.00	34,245,200.75	(2,399,611.19)	-	-	(1,131,797.56)	(435,051.68)	30,278,740.32	
2028	9,135,000.00	10,956,193.75	20,091,193.75	7,590,000.00	6,402,710.00	13,992,710.00	34,083,903.75	(2,240,948.49)	-	-	(1,131,797.56)	(435,051.68)	30,276,106.02	
2029	9,610,000.00	10,480,687.50	20,090,687.50	7,905,000.00	5,923,061.00	13,828,061.00	33,918,748.50	(2,073,071.34)	-	-	(1,131,797.56)	(435,051.68)	30,278,827.92	
2030	10,105,000.00	9,987,812.50	20,092,812.50	8,230,000.00	5,417,591.50	13,647,591.50	33,740,404.00	(1,896,157.02)	-	-	(1,131,797.56)	(435,051.68)	30,277,397.74	
2031	10,625,000.00	9,469,562.50	20,094,562.50	8,580,000.00	4,884,627.00	13,464,627.00	33,559,189.50	(1,709,619.45)	-	-	(1,131,797.56)	(435,051.68)	30,282,720.81	
2032	11,170,000.00	8,924,687.50	20,094,687.50	8,945,000.00	4,320,230.75	13,265,230.75	33,359,918.25	(1,512,080.76)	-	-	(1,131,797.56)	(435,051.68)	30,280,988.25	
2033	11,740,000.00	8,351,937.50	20,091,937.50	9,330,000.00	3,727,207.00	13,057,207.00	33,149,144.50	(1,304,522.44)	-	-	(1,131,797.56)	(435,051.68)	30,277,772.82	
2034	12,345,000.00	7,749,812.50	20,094,812.50	9,730,000.00	3,108,710.00	12,838,710.00	32,933,522.50	(1,088,048.49)	-	-	(1,131,797.56)	(435,051.68)	30,278,624.77	
2035	12,975,000.00	7,116,812.50	20,091,812.50	10,150,000.00	2,463,604.00	12,613,604.00	32,705,416.50	(862,261.39)	-	-	(1,131,797.56)	(435,051.68)	30,276,305.87	
2036	13,640,000.00	6,451,437.50	20,091,437.50	10,590,000.00	1,790,591.00	12,380,591.00	32,472,028.50	(626,706.84)	-	-	(1,131,797.56)	(435,051.68)	30,278,472.42	
2037	14,340,000.00	5,751,937.50	20,091,937.50	11,045,000.00	1,088,535.25	12,133,535.25	32,225,472.75	(380,987.33)	-	-	(1,131,797.56)	(435,051.68)	30,277,636.18	
2038	15,075,000.00	5,016,562.50	20,091,562.50	11,250,000.00	365,062.50	11,615,062.50	31,706,625.00	(127,771.87)	-	-	(1,131,797.56)	(11,757,358.28)	18,689,697.29	
2039	15,870,000.00	4,223,100.00	20,093,100.00	-	-	-	20,093,100.00	-	-	-	(1,131,797.56)	-	18,961,302.44	
2040	16,725,000.00	3,367,481.25	20,092,481.25	-	-	-	20,092,481.25	-	-	-	(1,131,797.56)	-	18,960,683.69	
2041	17,625,000.00	2,465,793.75	20,090,793.75	-	-	-	20,090,793.75	-	-	-	(1,131,797.56)	-	18,958,996.19	
2042	18,575,000.00	1,515,543.75	20,090,543.75	-	-	-	20,090,543.75	-	-	-	(1,131,797.56)	-	18,958,746.19	
2043	19,580,000.00	513,975.00	20,093,975.00	-	-	-	20,093,975.00	-	-	-	(21,144,036.28)	-	(1,050,061.28)	
Total	\$307,710,000.00	\$358,756,903.02	\$666,466,903.02	\$183,730,000.00	\$190,843,752.00	\$374,573,752.00	\$1,041,040,655.02	(\$58,808,003.48)	(\$55,425,030.50)	(\$16,850,278.82)	(\$56,523,472.06)	(\$22,416,124.44)	\$831,017,745.72	

J.J.B. Hilliard, W.L. Lyons, LLC  
Public Finance

**KENTUCKY MUNICIPAL POWER AGENCY  
POWER SYSTEM REVENUE BONDS**

**Long-Term Debt Outstanding as of April 1, 2010**

<b>Issuer</b>	<b>Final Maturity</b>	<b>Par Amount Issued</b>	<b>Bonds Outstanding</b>
Power System Revenue Bonds, Series 2007A	09/01/2042	\$291,065,000	\$291,065,000
Taxable Power System Revenue Bonds, Series 2007B	09/01/2016	16,645,000	16,645,000
		<u>\$307,710,000</u>	<u>\$307,710,000</u>

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**Financial Information**

The following is a four year presentation of KMPA's finances to include balance sheets, statement of revenues, expenses and changes in retained earnings. Please note that the first year of audited financial statements for KMPA was as of and for the period ending June 30, 2006. See Appendix C for the KMPA 2008-09 Audited Financial Statements.

**KENTUCKY MUNICIPAL POWER AGENCY****BALANCE SHEETS****ASSETS**

June 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and investments	\$ 769,117	\$ 1,990,878	\$ -	\$ -
Other receivables	916	891	132,020	-
Prepayments	2,746	2,890	-	-
Total current assets	\$ 772,779	\$ 1,994,659	\$ 132,020	\$ -
<b>Noncurrent Assets</b>				
Restricted assets				
Project fund	114,723,471	195,769,863	4,142,238	10,450
Reserve fund	22,841,648	23,284,562	-	-
Pledged collateral	7,750,000	-	-	-
Interest receivable	1,985,731	8,093,972	-	-
Other assets				
Unamortized debt issuance costs	3,283,559	3,388,011	-	-
Preliminary survey and investigation	547,188	-	-	-
Capital assets				
Construction work in progress	171,234,658	82,795,683	9,617,786	2,353,144
Total noncurrent assets	\$ 322,366,255	\$ 313,332,091	\$ 13,760,024	\$ 2,363,594
<b>TOTAL ASSETS</b>	<b>\$ 323,139,034</b>	<b>\$ 315,326,750</b>	<b>\$ 13,892,044</b>	<b>\$ 2,363,594</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 8,667,523	\$ 147,841	\$ -	\$ -
Current liabilities payable from restricted assets				
Construction payables	-	-	3,834,300	309,471
Accrued interest payable	5,278,574	5,278,574	83,038	-
Total current liabilities	\$ 13,946,097	\$ 5,426,415	\$ 3,917,338	\$ 309,471
<b>Noncurrent Liabilities</b>				
Revenue bond anticipation notes	-	-	9,995,062	2,058,357
Revenue bonds	307,710,000	307,710,000	-	-
Unamortized debt discount	(1,666,668)	(1,725,333)	-	-
Unamortized debt premium	3,779,344	3,893,294	-	-
Total noncurrent liabilities	\$ 309,822,676	\$ 309,877,961	\$ 9,995,062	\$ 2,058,357
<b>TOTAL LIABILITIES</b>	<b>\$ 323,768,773</b>	<b>\$ 315,304,376</b>	<b>\$ 13,912,400</b>	<b>\$ 2,367,828</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	12,586,660	(2,063,842)	(69,338)	(4,234)
Restricted	-	2,815,398	-	-
Unrestricted	(13,216,399)	(729,182)	48,982	-
Total net assets	\$ (629,739)	\$ 22,374	\$ (20,356)	\$ (4,234)
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 323,139,034</b>	<b>\$ 315,326,750</b>	<b>\$ 13,892,044</b>	<b>\$ 2,363,594</b>

Source: Kentucky Municipal Power Agency

KENTUCKY MUNICIPAL POWER AGENCY

COMBINED STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS

	Years Ending June 30,			
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>OPERATING REVENUES</b>	\$ -	\$ -	\$ -	\$ -
<b>OPERATING EXPENSES</b>				
Operation and Maintenance	(1,113,518)	(686,653)	(121,462)	(4,127)
Total Operating Expenses	\$ (1,113,518)	\$ (686,653)	\$ (121,462)	\$ (4,127)
<b>OPERATING LOSS</b>	\$ (1,113,518)	\$ (686,653)	\$ (121,462)	\$ (4,127)
<b>NONOPERATING REVENUES/EXPENSES</b>				
Contributions from member	173,251	263,423	105,340	-
Investment income	8,564,718	9,166,816	628	-
Interest expense	(15,835,723)	(12,484,151)	(225,644)	(72,444)
Amortization of debt issuance cost/discount/premium	(49,168)	(36,906)	-	-
Interest charged to construction	7,608,327	3,820,201	225,016	72,444
Total Nonoperating Revenues/Expenses	\$ 461,405	\$ 729,383	\$ 105,340	\$ -
Change in Net Assets	(652,113)	42,730	(16,122)	(4,127)
<b>TOTAL NET ASSETS, BEGINNING OF YEAR</b>	\$ 22,374	\$ (20,356)	\$ (4,234)	\$ (107)
<b>TOTAL NET ASSETS, END OF YEAR</b>	\$ (629,739)	\$ 22,374	\$ (20,356)	\$ (4,234)

Source: Kentucky Municipal Power Agency

**KENTUCKY MUNICIPAL POWER AGENCY**

**INTERIM BALANCE SHEETS**

	<b>Through December 31,</b>	
	<b><u>2009</u></b>	<b><u>2008</u></b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and investments	\$ 316,555	\$ 271,582
Other receivables	2,045,584	3,111
Prepayments	5,683	-
Total current assets	\$ 2,367,822	\$ 274,693
<b>Noncurrent Assets</b>		
Restricted assets		
Project fund	58,402,859	160,907,043
Reserve fund	22,432,553	23,954,296
Pledged collateral	9,500,000	2,750,000
Interest receivable	1,535,233	-
Other assets		
Unamortized debt issuance costs	3,231,333	3,335,785
Capital assets		
Construction work in progress	218,669,504	123,573,289
Total noncurrent assets	\$ 313,771,482	\$ 314,520,413
<b>TOTAL ASSETS</b>	<b>\$ 316,139,304</b>	<b>\$ 314,795,106</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 1,822,448	\$ 56,301
Current liabilities payable from restricted assets		
Accrued interest payable	5,278,574	5,278,574
Total current liabilities	\$ 7,101,022	\$ 5,334,875
<b>Noncurrent Liabilities</b>		
Revenue bonds	307,710,000	307,710,000
Unamortized debt discount	(1,637,335)	(1,696,001)
Unamortized debt premium	3,722,369	3,836,319
Total noncurrent liabilities	\$ 309,795,034	\$ 309,850,318
<b>TOTAL LIABILITIES</b>	<b>\$ 316,896,056</b>	<b>\$ 315,185,193</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	2,441,214	4,670,094
Restricted	-	-
Unrestricted	(3,197,966)	(5,060,181)
Total net assets	\$ (756,752)	\$ (390,087)
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 316,139,304</b>	<b>\$ 314,795,106</b>

Source: Kentucky Municipal Power Agency

# **INTERIM INCOME STATEMENTS**

	<b>Through December 31,</b>	
	<b><u>2009</u></b>	<b><u>2008</u></b>
<b>OPERATING REVENUES</b>		
Sales to members	\$ 1,732,383	\$ -
Other revenues	\$ 299,814	\$ -
<b>Total Operating Revenues</b>	<b>\$ 2,032,197</b>	<b>\$ -</b>
<b>OPERATING EXPENSES</b>		
Purchased power	1,797,952	-
Fuel	-	-
Production	9,513	-
Transmission and local facilities	-	-
Other operating	358,182	445,510
Maintenance	-	-
Depreciation	-	-
Future recoverable costs	-	-
<b>Total Operating Expenses</b>	<b>\$ 2,165,647</b>	<b>\$ 445,510</b>
<b>OPERATING INCOME</b>	<b>\$ (133,450)</b>	<b>\$ (445,510)</b>
<b>NONOPERATING REVENUES/EXPENSES</b>		
Interest expense on revenue bonds	7,917,861	7,917,861
Interest charged to construction	(5,423,976)	2,250,765
Amortization of discount and issuance costs	81,559	81,559
Amortization of premium	(56,975)	(56,975)
Interest income	(2,526,480)	(10,227,849)
Other non-operating expenses (income)	1,573	1,589
<b>Total Nonoperating Revenues/Expenses</b>	<b>\$ (6,438)</b>	<b>\$ (33,050)</b>
<b>NET INCOME/LOSS</b>	<b>(127,012)</b>	<b>(412,460)</b>
<b>TOTAL NET ASSETS, BEGINNING OF YEAR</b>	<b>\$ (629,739)</b>	<b>\$ 22,374</b>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<b>\$ (756,751)</b>	<b>\$ (390,086)</b>

Source: Kentucky Municipal Power Agency Unaudited Financial Statements

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## **APPENDIX C**

### **KENTUCKY MUNICIPAL POWER AGENCY POWER SYSTEM REVENUE BONDS, SERIES 2010**

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**Audited Financial Statements of the Kentucky Municipal Power Agency  
For Fiscal Years Ended June 30, 2009 and 2008**

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**KENTUCKY MUNICIPAL POWER AGENCY**  
**(A Development Stage Organization)**  
Paducah, Kentucky

**FINANCIAL STATEMENTS**

With Independent Auditors' Report

June 30, 2009 and 2008

**KENTUCKY MUNICIPAL POWER AGENCY**  
**(A Development Stage Organization)**

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June 30, 2009 and 2008

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BAKER TILLY

Baker Tilly Virchow Krause, LLP  
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fax 608 249 8532  
bakertilly.com

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets (deficit) of the Kentucky Municipal Power Agency (the "Agency") (a development stage organization) as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the 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. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Municipal Power Agency as of June 30, 2009 and 2008, and the changes in financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis enclosed in this report is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
October 26, 2009

# **KENTUCKY MUNICIPAL POWER AGENCY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2009, 2008 and 2007

(Unaudited)

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, 2009, 2008 and 2007. 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.

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### **FINANCIAL HIGHLIGHTS**

- > The Agency's total assets increased \$7.8 million from 2008 to 2009, while total liabilities increased \$8.5 million resulting in total net assets decreasing \$652 thousand over the course of the year's operations compared to 2008.
- > The Agency's operating loss in 2009 was \$427 thousand higher than 2008 revenues and expenses due the start-up costs associated with the developmental stage entity. Professional fees not directly related to the of the Prairie State Construction project increased by \$381 thousand.

Non-operating revenues, including investment income, increased by \$3.1 million from 2008 to 2009. This increase is related to the capitalization of interest on the Prairie State Construction project. Investment income decreased by \$602 thousand from 2008 to 2009. Additionally, in 2008, a contribution was made by the Princeton Electric Plant Board in the amount of \$102 thousand to result in Princeton having paid in an equivalent amount, in dollars per ton of allocated coal reserves, as Paducah. This was necessitated due to the timing of Paducah's initial and Princeton's subsequent allocations of their shares of KMPA's Prairie State entitlement since the costs for coal reserves changed over those various times in the Project's development.

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### **OVERVIEW OF THE FINANCIAL HIGHLIGHTS**

This annual report includes the management's discussion and analysis report, the independent auditors' 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.

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

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures 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 the profitability and credit worthiness of the Agency.

# KENTUCKY MUNICIPAL POWER AGENCY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009, 2008 and 2007  
(Unaudited)

### REQUIRED FINANCIAL HIGHLIGHTS (cont.)

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides 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 2009 and 2008 was provided by revenue bonds issued in September 2007 (\$308 million).

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 Statement of Cash Flow in this report.

### FINANCIAL ANALYSIS OF THE AGENCY

The most common financial question posed to the Agency is "How did we do financially from 2008 to 2009?" The Statement of Net Assets and the Statement 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 – 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 electricity sales to its members begin in 2010.

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

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

	2009	2008	2007	2008-2009 Dollar Change	2007-2008 Dollar Change
Current and Other Assets	\$ 151,904	\$ 232,906	\$ 4,274	\$ (81,001)	\$ 228,632
Capital Assets	171,235	82,420	9,618	88,815	72,802
Total Assets	323,139	315,326	13,892	7,814	301,434
Revenue Bonds	309,823	309,878	9,995	(55)	299,883
Other Liabilities	13,946	5,426	3,917	8,520	1,509
Total Liabilities	323,769	315,304	13,912	8,465	301,392
Invested in Capital Assets, Net of					
Related Debt	12,586	(2,439)	(69)	15,025	(2,370)
- Restricted	-	2,815	-	(2,815)	2,815
- Unrestricted	(13,216)	(354)	49	(12,862)	(403)
<b>TOTAL NET ASSETS (DEFICIT)</b>	<b>\$ (630)</b>	<b>\$ 22</b>	<b>\$ (20)</b>	<b>\$ (652)</b>	<b>\$ 42</b>



# KENTUCKY MUNICIPAL POWER AGENCY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009, 2008 and 2007

(Unaudited)

### FINANCIAL ANALYSIS OF THE AGENCY (cont.)

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

	2009	2008	2007	2008-2009 Dollar Change	2007-2008 Dollar Change
Operating Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Non-Operating Revenue	16,346	13,250	331	3,096	12,919
Total Revenue	16,346	13,250	331	3,096	12,919
Other Operating Expense	1,113	686	121	427	566
Non-Operating Expense	15,885	12,520	226	3,363	12,295
Total Expenses	16,998	13,206	347	3,790	12,861
Changes in Net Assets	(652)	42	(16)	(694)	58
Beginning Net Assets	22	(20)	(4)	42	(16)
<b>NET ASSETS - END OF YEAR</b>	<b>\$ (630)</b>	<b>\$ 22</b>	<b>\$ (20)</b>	<b>\$ (652)</b>	<b>\$ 42</b>

While the Statement of Net Assets shows net assets of the Agency, the Statements of Revenues, Expenses, and Changes in Net Assets provides 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 2009 and 2007, while 2008 shows a positive change.

The Agency had no operating revenues in any of the years due to the fact that it is a developmental stage entity and that the Prairie State Generation project is in the construction phase. The agency will have operating revenue from electricity sales to its members beginning in 2010.

Non-operating revenues represent investment income from the 2007 revenue bond funds, interest charged to construction resulting from the 2007 bond issue, and contributions from Paducah Power System and the Princeton Electric Plant Board. Paducah Power System donated all labor for administrative duties performed for the Agency during each year. Princeton Electric Plant Board donated additional funds in 2008 in the amount of \$102 thousand to result in Princeton having paid an equivalent amount, in dollars per ton of allocated coal reserves, as Paducah. This was necessitated due to the timing of Paducah's initial and Princeton's subsequent allocations of their shares of KMPA's Prairie State entitlement since the costs for coal reserves changed over those various times in the Project's development.

# KENTUCKY MUNICIPAL POWER AGENCY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009, 2008 and 2007

(Unaudited)

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### FINANCIAL ANALYSIS OF THE AGENCY (cont.)

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Other operating expenses increased in 2009 due to an increase of \$381 thousand in additional professional consulting expenses from 2008. Professional fees increased \$433 thousand from 2007 to 2008.

Non-Operating Expenses increased dramatically from 2007 to 2008 due to interest expense relating to the September 2007 revenue bond issue. 2009 saw the first full year of interest expense.

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### CAPITAL ASSETS

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At the end of 2009, the Agency had \$171.2 million invested in capital assets. There was an increase in capital assets from 2007 to 2008 of \$72.8 million. There was an increase in capital assets from 2008 to 2009 of \$88.8 million, thus a grand total increase of \$161.6 million was seen from 2007 to 2009. Capital assets are entirely comprised of construction in progress related to the Prairie State Energy Campus project.

The Capital Assets comparison between 2009, 2008 and 2007 is shown in Table A-3.

**Table A-3**  
**Capital Assets**  
**(000's)**

	2009	2008	2007	2008-2009 Dollar Change	2007-2008 Dollar Change
Construction in progress	\$ 171,235	\$ 82,420	\$ 9,618	\$ 88,815	\$ 72,802

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### DEBT ADMINISTRATION

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The revenue bonds outstanding at June 30, 2009 and 2008 amounted to \$308 million. The bonds are guaranteed by Paducah Power System and Princeton Electric Plant Board.

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### ECONOMIC FACTORS AND OTHER INFORMATION

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#### *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

# **KENTUCKY MUNICIPAL POWER AGENCY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2009, 2008 and 2007

(Unaudited)

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### **ECONOMIC FACTORS AND OTHER INFORMATION (cont.)**

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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.

#### ***MEMBERS WHOLESALE POWER CONTRACTS***

Both Paducah Power System and Princeton Electric Plant Board have been full requirements wholesale distribution customers of the Tennessee Valley Authority (TVA) since 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), a subsidiary of Peabody Energy. The Prairie State Project is a 1600 MW supercritical mine mouth coal generating facility located in Southern Illinois, forty miles southeast of St. Louis, Missouri. After financial closing, the plant and coal mine will be 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 – Ohio (AMPO), Marigold Energy, Lively Grove Energy Partners, Illinois Municipal Electric Association (IMEA), Indiana Municipal Power Agency (IMPA), Missouri Public Utility Alliance (MPUA), Northern Illinois Municipal Power Agency (NIMPA), Southern Illinois Power Cooperative, and Prairie Power, Inc. (PPI).

# **KENTUCKY MUNICIPAL POWER AGENCY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2009, 2008 and 2007

(Unaudited)

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### **ECONOMIC FACTORS AND OTHER INFORMATION (cont.)**

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Bechtel was issued Full Notice to Proceed on October 1, 2007. As of the end of August 2009, PSGC reported that, for activities related solely to the Target Price Engineering, Procurement and Construction (TPEPC) Contract, engineering efforts are approximately 80 percent complete, construction activities are approximately 26 percent complete, and overall efforts are approximately 29 percent complete, all of which are on or slightly ahead of schedule. Unit 1 of the PSEC is targeted by PSGC to be substantially complete, as per the TPEPC Contract, by August 1, 2011, and Unit 2 of the PSEC is targeted by PSGC to be substantially complete by May 1, 2012. PSGC and Bechtel currently report that they still expect to meet these target completion dates for both units and that they have not lost the opportunity to achieve earlier completion dates.

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 September 2009, approximately 31 percent of construction activities on the Mine had been completed, which is within the schedule. Approximately 89 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, is approximately \$77 million.

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### **AGENCY CONTACT INFORMATION**

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The financial report is designed to provide creditors with a general overview of Kentucky Municipal Power Agency 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](mailto:dclark@paducahpower.com).

**KENTUCKY MUNICIPAL POWER AGENCY**  
**(A Developmental Stage Organization)**

**STATEMENTS OF NET ASSETS (DEFICIT)**  
June 30, 2009 and 2008

<b>ASSETS</b>		
	<u>2009</u>	<u>2008</u>
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 769,117	\$ 1,990,878
Other receivables	916	891
Prepayments	<u>2,746</u>	<u>2,890</u>
Total Current Assets	<u>772,779</u>	<u>1,994,659</u>
<b>NON-CURRENT ASSETS</b>		
Restricted Assets		
Project fund	114,723,471	195,769,863
Reserve fund	22,841,648	23,284,562
Pledged collateral	7,750,000	-
Interest receivable	1,985,731	8,093,972
Other Assets		
Unamortized debt issuance costs	3,283,559	3,388,011
Preliminary survey and investigation	547,188	375,471
Capital Assets		
Construction work in progress	<u>171,234,658</u>	<u>82,420,212</u>
Total Non-Current Assets	<u>322,366,255</u>	<u>313,332,091</u>
Total Assets	<u>323,139,034</u>	<u>315,326,750</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	8,667,523	147,841
Current Liabilities Payable from Restricted Assets		
Accrued interest payable	<u>5,278,574</u>	<u>5,278,574</u>
Total Current Liabilities	<u>13,946,097</u>	<u>5,426,415</u>
<b>NON-CURRENT LIABILITIES</b>		
Revenue bonds	307,710,000	307,710,000
Unamortized debt discount	(1,666,668)	(1,725,333)
Unamortized debt premium	<u>3,779,344</u>	<u>3,893,294</u>
Total Non-Current Liabilities	<u>309,822,676</u>	<u>309,877,961</u>
Total Liabilities	<u>323,768,773</u>	<u>315,304,376</u>
<b>NET ASSETS (DEFICIT)</b>		
Invested in capital assets, net of related debt	12,586,660	(2,439,313)
Restricted	-	2,815,398
Unrestricted	<u>(13,216,399)</u>	<u>(353,711)</u>
<b>TOTAL NET ASSETS (DEFICIT)</b>	<u>\$ (629,739)</u>	<u>\$ 22,374</u>

See accompanying notes to financial statements.

**KENTUCKY MUNICIPAL POWER AGENCY**  
**(A Developmental Stage Organization)**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (DEFICIT)**  
**Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>OPERATING REVENUES</b>	\$ <u>-</u>	\$ <u>-</u>
<b>OPERATING EXPENSES</b>		
Operation and maintenance	<u>1,113,518</u>	<u>686,653</u>
<b>OPERATING LOSS</b>	<u>(1,113,518)</u>	<u>(686,653)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Contributions from member	173,251	263,423
Investment income	8,564,718	9,166,816
Interest expense	(15,835,723)	(12,484,151)
Interest charged to construction	7,608,327	3,820,201
Amortization of debt issuance cost/discount/premium	<u>(49,168)</u>	<u>(36,906)</u>
<b>Total Non-Operating Revenues</b>	<u>461,405</u>	<u>729,383</u>
<b>Change in Net Assets (Deficit)</b>	(652,113)	42,730
<b>TOTAL NET ASSETS (DEFICIT) – Beginning of Year</b>	<u>22,374</u>	<u>(20,356)</u>
<b>TOTAL NET ASSETS (DEFICIT) – END OF YEAR</b>	<u>\$ (629,739)</u>	<u>\$ 22,374</u>

See accompanying notes to financial statements.

**KENTUCKY MUNICIPAL POWER AGENCY**  
**(A Developmental Stage Organization)**

STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Paid to suppliers for goods and services	\$ (944,496)	\$ (436,705)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Payment made to member	(916)	(891)
Payment received from member	891	233,645
Net Cash Flows From Non-Capital and Related Financing Activities	<u>(25)</u>	<u>232,754</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Debt retired	-	(12,895,062)
Interest paid on debt	(15,835,723)	(7,288,615)
Proceeds from debt issued	-	310,610,000
Debt issuance costs	-	(1,256,956)
Acquisition and construction of capital assets	<u>(72,853,782)</u>	<u>(73,135,195)</u>
Net Cash Flows From Capital and Related Financing Activities	<u>(88,689,505)</u>	<u>216,034,172</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments purchased	(34,453,207)	(213,152,839)
Investments sold	114,055,573	-
Investment income	<u>14,672,959</u>	<u>1,072,844</u>
Net Cash Flows From Investing Activities	<u>94,275,325</u>	<u>(212,079,995)</u>
<b>Net Change in Cash and Cash Equivalents</b>	4,641,299	3,750,226
<b>CASH AND CASH EQUIVALENTS – Beginning of Year</b>	<u>7,892,464</u>	<u>4,142,238</u>
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	<u>\$ 12,533,763</u>	<u>\$ 7,892,464</u>
<b>NON-CASH CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Amortization	\$ (49,168)	\$ (36,906)
Interest charged to construction	<u>\$ 7,608,327</u>	<u>\$ 3,820,201</u>

	<u>2009</u>	<u>2008</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating loss	\$ (1,113,518)	\$ (686,653)
Adjustments to reconcile operating loss to cash from operating activities		
Non-operating income	173,251	161,798
Changes in assets and liabilities		
Prepayments	144	(2,890)
Accounts payable	(4,373)	91,040
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>\$ (944,496)</u>	<u>\$ (436,705)</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET ASSETS (DEFICIT) ACCOUNTS</b>		
Cash and investments	\$ 769,117	\$ 1,990,878
Project fund	114,723,471	195,769,863
Reserve fund	22,841,648	23,284,562
Pledged collateral	7,750,000	-
Total Cash and Investments	146,084,236	221,045,303
Less: Noncash equivalents	(133,550,473)	(213,152,839)
<b>CASH AND CASH EQUIVALENTS</b>	<u>\$ 12,533,763</u>	<u>\$ 7,892,464</u>

See accompanying notes to financial statements.



**KENTUCKY MUNICIPAL POWER AGENCY**  
**(A Development Stage Organization)**

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009 and 2008

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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The financial statements of the Kentucky Municipal Power Agency (the "Agency") have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the Agency are described below.

***NATURE OF BUSINESS***

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 management of the business and affairs of the Agency are governed by a Board of Directors (Board). The Board consists of four (4) directors. 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 are, by virtue of their positions, members of the Board.

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 and operating and power agreements.

The Agency is a development stage organization. As of June 30, 2009, electricity production has not started. The Agency expects to begin production in 2010.

***MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION***

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under 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.

**KENTUCKY MUNICIPAL POWER AGENCY**  
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**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

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***MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION (cont.)***

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Agency's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Agency has the option of following subsequent private-sector guidance subject to this same limitation. The Agency has elected not to follow subsequent private-sector guidance.

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.

***DEPOSITS AND INVESTMENTS***

For purposes of the statements 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:

- > 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.
- > 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:
  - United States Treasury,
  - Export-Import Bank of the United States,
  - Farmers Home Administration,
  - Government National Mortgage Corporation, and
  - Merchant Marine bonds.
- > Obligations of any corporation of the United States government, including but not limited to:
  - Federal Home Loan Mortgage Corporation,
  - Federal Farm Credit Banks,
  - Bank for Cooperatives,
  - Federal Intermediate Credit Banks,
  - Federal Land Banks,
  - Federal Home Loan Banks,
  - Federal National Mortgage Association, and
  - Tennessee Valley Authority.

**KENTUCKY MUNICIPAL POWER AGENCY**  
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**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009 and 2008

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

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***DEPOSITS AND INVESTMENTS (cont.)***

- > Certificates of deposit issued by or other interest bearing accounts of 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).
- > 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.
- > Bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency.
- > Commercial paper rated in the highest category by a nationally recognized rating agency.
- > Bonds or certificates of indebtedness of the State and of its agencies and instrumentalities.
- > Securities issued by a state or local government, or any instrumentality or agency thereof, in the United States, and rated in one (1) of the three (3) highest categories by a nationally recognized rating agency.
- > Shares of mutual funds, each of which shall have the following characteristics:
  - The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;
  - The management company of the investment company shall have been in operation for at least five (5) years; and
  - 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.

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**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009 and 2008

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

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***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.

***PRELIMINARY SURVEY AND INVESTIGATION***

The balance represents initial project engineering costs related to utility plant construction. The balance will be capitalized upon commencement of the project.

***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 plant 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 will result from providing services and producing and delivering goods in connection with the Agency's principal ongoing operations. The principal operating revenues of the Agency will be 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 2011. 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.

**KENTUCKY MUNICIPAL POWER AGENCY**  
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NOTES TO FINANCIAL STATEMENTS  
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**NOTE 2 – CASH AND INVESTMENTS**

	Carrying Value as of June 30,		Risks
	2009	2008	
Checking and Savings	\$ 10,770,580	\$ 1,990,711	Custodial Credit
Mutual Funds – Money	1,763,183	5,901,753	Credit, Interest Rate
Market			
Commercial Paper	22,841,597	22,744,254	Credit, Custodial Credit, Concentration of Credit, Interest Rate
Repurchase Agreement	110,708,876	190,408,585	Credit, Custodial Credit, Concentration of Credit, Interest Rate
Totals	<u>\$ 146,084,236</u>	<u>\$ 221,045,303</u>	

Deposits in each local and area bank are insured by the FDIC in the amount of \$100,000 for interest bearing accounts and \$100,000 for noninterest bearing accounts as of June 30, 2008 and in the amount of \$250,000 for interest bearing accounts and unlimited amounts for non-interest bearing accounts as of June 30, 2009.

In addition, the Agency has collateral agreements in the amount of \$3,876,637 and \$2,574,335 at June 30, 2009 and 2008 respectively.

***CUSTODIAL CREDIT RISK***

**Deposits**

Custodial credit risk is the risk that in the event of a financial institution failure, the Agency's deposits may not be returned to the Agency.

As of June 30, 2009 and 2008, \$7,500,000 and \$0 of the Agency's bank balances known to be individually exposed to custodial credit risk were as follows:

	2009	2008
Citibank, N.A	<u>\$ 7,500,000</u>	<u>\$ -</u>

**KENTUCKY MUNICIPAL POWER AGENCY**  
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**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009 and 2008

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**NOTE 2 – CASH AND INVESTMENTS (cont.)**

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***CUSTODIAL CREDIT RISK (cont.)***

**Investments**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

As of June 30, 2009 and 2008, the Agency's investments were exposed to custodial credit risk as follows:

<u>Commercial Paper</u>	<u>2009</u>	<u>2008</u>
Neither insured nor registered and held by counterparty's trust department in the agency's name	<u>\$ 22,841,597</u>	<u>\$ 22,744,254</u>
<u>Repurchase Agreement</u>	<u>2009</u>	<u>2008</u>
Neither insured nor registered and held by counterparty's trust department in the agency's name	<u>\$ 110,708,876</u>	<u>\$ 190,408,585</u>

***CREDIT RISK***

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

As of June 30, 2009 and 2008, the Agency's investments were rated as follows:

<u>Investment Type</u>	<u>Standard &amp; Poors</u>
Mutual Funds – Money Market	Not Rated
Commercial Paper	A
Repurchase Agreement	A

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NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

**NOTE 2 – CASH AND INVESTMENTS (cont.)**

**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, 2009, the Agency's investment portfolio was concentrated as follows:

Issuer	Investment Type	Percentage of Portfolio
TSL USA Inc	Commercial Paper	16%
Bayerische Landesbank	Repurchase Agreement	82%

As of June 30, 2008, the Agency's investment portfolio was concentrated as follows:

Issuer	Investment Type	Percentage of Portfolio
Morgan Stanley	Commercial Paper	10%
Bayerische Landesbank	Repurchase Agreement	87%

**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, 2009, 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	\$ 1,763,183	\$ 1,763,183	\$ -	\$ -
Commercial Paper	22,841,597	22,841,597	-	-
Repurchase Agreement	110,708,876	-	110,708,876	-
Totals	\$ 135,313,656	\$ 24,604,780	\$ 110,708,876	\$ -

**KENTUCKY MUNICIPAL POWER AGENCY**  
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**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009 and 2008

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**NOTE 2 – CASH AND INVESTMENTS (cont.)**

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***INTEREST RATE RISK (cont.)***

As of June 30, 2008, 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	\$ 5,901,753	\$ 5,901,753	\$ -	\$ -
Commercial Paper	22,744,254	22,744,254	-	-
Repurchase Agreement	190,408,585	-	190,408,585	-
<b>Totals</b>	<b>\$ 219,054,592</b>	<b>\$ 28,646,007</b>	<b>\$ 190,408,585</b>	<b>\$ -</b>

***INVESTMENT POLICY***

The Agency currently does not have an investment policy that addresses any of the above risks.

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**NOTE 3 – RESTRICTED ASSETS**

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***RESTRICTED ACCOUNTS***

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 (deficit) 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 account.
- 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.



**KENTUCKY MUNICIPAL POWER AGENCY**  
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NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

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**NOTE 3 – RESTRICTED ASSETS (cont.)**

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The following calculation supports the amount of restricted net assets:

	2009	2008
Restricted Assets		
Project fund	\$ 114,723,471	\$ 195,769,863
Reserve fund	22,841,648	23,284,562
Pledged collateral	7,750,000	-
Accrued interest receivable	1,985,731	8,093,972
Less: Restricted Assets Not Funded by Revenues		
Project fund	(114,723,471)	(195,769,863)
Reserve fund	(22,841,648)	(23,284,562)
Pledged collateral	(7,750,000)	-
Current Liabilities Payable From Restricted Assets	(5,278,574)	(5,278,574)
Total Restricted Net Assets as Calculated	<u>\$ (3,292,843)</u>	<u>\$ 2,815,398</u>

GASB does not allow the presentation of negative restricted net assets. The deficiency in restricted net assets is netted against unrestricted net assets in 2009.

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**NOTE 4 – CHANGES IN CAPITAL ASSETS**

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A summary of changes in capital assets for the year ended June 30, 2009, follows:

	Balance 7/1/08	Increases	Decreases	Balance 6/30/09
Construction in progress	<u>\$ 82,420,212</u>	<u>\$ 88,814,446</u>	<u>\$ -</u>	<u>\$ 171,234,658</u>

A summary of changes in capital assets for the year ended June 30, 2008, follows:

	Balance 7/1/07	Increases	Decreases	Balance 6/30/08
Construction in progress	<u>\$ 9,617,786</u>	<u>\$ 72,802,426</u>	<u>\$ -</u>	<u>\$ 82,420,212</u>

**KENTUCKY MUNICIPAL POWER AGENCY**  
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**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009 and 2008

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**NOTE 5 – LONG-TERM OBLIGATIONS**

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**REVENUE BONDS**

The following revenue bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 6/30/09
9/20/07	Finance Prairie State Project and working capital needs	9/1/42	4.00 - 5.25%	\$ 291,065,000	\$ 291,065,000
9/20/07	Finance Prairie State Project and working capital needs	9/1/16	5.34 - 5.46%	16,645,000	16,645,000

Revenue bonds debt service to maturity follows:

Year Ending June 30	Principal	Interest	Total
2010	\$ -	\$ 15,835,723	\$ 15,835,723
2011	-	15,835,723	15,835,723
2012	-	15,835,723	15,835,723
2013	-	15,835,723	15,835,723
2014	4,450,000	15,721,096	20,171,096
2015-2019	25,965,000	74,764,641	100,729,641
2020-2024	33,445,000	67,018,869	100,463,869
2025-2029	43,460,000	57,002,950	100,462,950
2030-2034	55,985,000	44,483,814	100,468,814
2035-2039	71,900,000	28,559,851	100,459,851
2040-2042	72,505,000	8,376,768	80,881,768
Totals	<u>\$ 307,710,000</u>	<u>\$ 359,270,881</u>	<u>\$ 666,980,881</u>

**KENTUCKY MUNICIPAL POWER AGENCY**  
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NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

**NOTE 5 – LONG-TERM OBLIGATIONS (cont.)**

**REVENUE BONDS (cont.)**

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 as defined are \$145,315,119. The term of the 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, 2009; and, therefore, there are no revenues at this time. Interest paid for the years ended June 30, 2009 and 2008 was \$15,835,723, and \$7,082,087, respectively. No principal payments were made in the year ended June 30, 2009 and 2008.

**REVENUE BOND ANTICIPATION NOTES**

The following revenue bond anticipation notes (BANS) were issued and have been refinanced with 2007 A and B revenue bonds:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 6/30/09
6/10/05	Finance Prairie State Project	4/1/08	Variable	\$ 3,000,000	\$ -
5/25/06	Finance Prairie State Project	4/1/08	Variable	1,500,000	-
12/29/06	Finance Prairie State Project	4/1/08	Variable	8,400,000	-

The above listed BANS were refinanced with the 2007 A and B revenue bonds during late 2007.

Long-term obligation activity for the year ended June 30, 2009, is as follows:

	7/1/08 Balance	Additions	Reductions	6/30/09 Balance	Due Within One Year
Revenue Bonds	\$ 307,710,000	\$ -	\$ -	\$ 307,710,000	\$ -
Unamortized Debt Discount	(1,725,333)	-	(58,665)	(1,666,668)	-
Unamortized Debt Premium	3,893,294	-	113,950	3,779,344	-
<b>Totals</b>	<b>\$ 309,877,961</b>	<b>\$ -</b>	<b>\$ 55,285</b>	<b>\$ 309,822,676</b>	<b>\$ -</b>

**KENTUCKY MUNICIPAL POWER AGENCY**  
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June 30, 2009 and 2008

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**NOTE 5 – LONG-TERM OBLIGATIONS (cont.)**

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**REVENUE BONDS (cont.)**

Long-term obligation activity for the year ended June 30, 2008 is as follows:

	7/1/07 Balance	Additions	Reductions	6/30/08 Balance	Due Within One Year
Revenue Bonds	\$ -	\$ 307,710,000	\$ -	\$ 307,710,000	\$ -
Revenue Bond Anticipation Notes	9,995,062	2,900,000	12,895,062	-	-
Unamortized Debt Discount	-	(1,769,333)	(44,000)	(1,725,333)	-
Unamortized Debt Premium	-	3,978,757	85,463	3,893,294	-
<b>Totals</b>	<b>\$ 9,995,062</b>	<b>\$ 312,819,424</b>	<b>\$ 12,936,525</b>	<b>\$ 309,877,961</b>	<b>\$ -</b>

**BOND COVENANT DISCLOSURES**

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

**Insurance**

The Agency is exposed to various risks of loss related to torts, theft of, damage to, or destruction 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. Coverage was reduced in 2009 by \$75,000,000 to better reflect the needs of the agency.

The Agency is covered under the following insurance policies at June 30, 2009:

Type	Coverage	Expiration
Real Estate Liability	\$ 125,000,000	07/01/2009
General & Public Officials Liability	10,000,000	01/17/2010

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**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 6 – 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 are 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 definition 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:

	2009	2008
Construction work in progress	\$ 171,234,658	\$ 82,420,212
Less: Capital related debt		
Long-term portion of capital related long-term debt	(305,134,000)	(305,134,000)
Unamortized bond issuance costs	3,283,559	3,388,011
Unamortized debt discount	1,666,668	1,725,333
Unamortized debt premium	(3,779,344)	(3,893,294)
Sub-totals	<u>(303,963,117)</u>	<u>(303,913,950)</u>
Add: Unspent debt proceeds		
Project fund	114,723,471	195,769,863
Reserve fund	22,841,648	23,284,562
Pledged collateral	7,750,000	-
Sub-totals	<u>145,315,119</u>	<u>219,054,425</u>
 Total Net Assets Invested in Capital Assets, Net of Related Debt	 <u>\$ 12,586,660</u>	 <u>\$ (2,439,313)</u>

**KENTUCKY MUNICIPAL POWER AGENCY**  
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**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

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**NOTE 7 – COMMITMENTS AND CONTINGENCIES**

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***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"), a wholly owned subsidiary of Peabody Energy Corporation.

Since entering the project, the Agency has increased its participation from an initial 80 MW level to its present 124 MW share. Upon financial closing of the transaction, the Agency's share will translate into a 7.82% undivided ownership interest as a tenant-in-common with the other project participants. The other participants in the Prairie State Project that will become joint owners are the American Municipal Power – Ohio, 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 Corporation ("Peabody Energy"), Marigold Energy, LLC ("Keys Marigold"), also a wholly-owned indirect subsidiary of Peabody Energy Corporation 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 AI 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 AI 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 most recent financial projections indicate that by the expected date of financial closing, the Agency costs for participation in the project will have totaled some \$17.2 million.

***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%.

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 the 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.

**KENTUCKY MUNICIPAL POWER AGENCY**  
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**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009 and 2008

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**NOTE 7 – COMMITMENTS AND CONTINGENCIES (cont.)**

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***POWER SALES AGREEMENT (cont.)***

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 Integrys Energy Services, Inc. ("Integrys"), 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 strip was purchased from Integrys 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 into 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, Felton-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 Integrys 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. Under its current power supply plans, the Agency does not anticipate actually exercising these options, but the options are available in case the power is needed.

As of June 30, 2009, the Agency made a collateral call totaling \$7,750,000 with AEP under the various Master Agreements. No collateral calls were made during the year ended June 30, 2008. These amounts are shown as restricted on the statement of net assets.

**KENTUCKY MUNICIPAL POWER AGENCY**  
**(A Development Stage Organization)**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

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**NOTE 7 – COMMITMENTS AND CONTINGENCIES (cont.)**

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***EXISTING CONTRACT COMMITMENTS***

The Agency has open contracts for approximately \$234,780,000 for the Prairie State Project. As of June 30, 2009, approximately \$157,622,988 has been expended. In addition, the Agency is incurring costs related to another potential project. The costs incurred as of June 30, 2009 and 2008, have been accrued in these financial statements.

***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.



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## **APPENDIX D**

### **KENTUCKY MUNICIPAL POWER AGENCY POWER SYSTEM REVENUE BONDS, SERIES 2010**

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#### **Operating and Financial Data for the Members**

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## **PADUCAH POWER SYSTEM (“PPS”)**

### **Organization and Powers**

The Electric Plant Board of the City of Paducah, Kentucky d/b/a Paducah Power System (“PPS”) was created by an ordinance duly enacted on January 30, 1945 by the City Commission of the City of Paducah, Kentucky (the “City”) which ordinance was amended on March 7, 1959. PPS is a political subdivision of the Commonwealth of Kentucky and is a separate and distinct corporate entity from the City. PPS is governed by five-person board of directors, four members of which are appointed by the City’s Mayor to staggered four-year terms subject to approval by the City Commission. By statute, one position on the PPS board is to be filled by a representative of the City Commission or the City Manager.

On August 23, 1960, the City Commission of the City adopted an ordinance declaring it desirable for PPS to purchase and operate a municipal electric plant system and setting the question for a referendum of the City’s voters. The referendum was held on November 8, 1960, and resulted in approval of the acquisition by PPS of the existing investor-owned electric distribution system serving the City by over 76 percent of the voters.

In July of 1961, PPS issued revenue bonds to finance the purchase from Kentucky Utilities Company (“KU”) of its electric distribution system located within the city limits of the City and a fringe area in McCracken County, Kentucky, beyond the city limits. PPS thereafter began providing retail electric service within its exclusive service area under a long-term wholesale power contract with the Tennessee Valley Authority.

### ***The Electric Plant***

The PPS distribution system serves approximately 22,400 customers. Of this number, almost 19,000 are classified as residential customers. The PPS service area includes most of the area within the corporate boundaries of the City which have been extended a number of times by annexation over the years and a portion of McCracken County outside of the city limits.

The total power requirements for the system are currently purchased from the Kentucky Municipal Power Agency (“KMPA”) under a Partial Requirements Power Sales Agreement dated as of December 14, 2009. KMPA has a network integration transmission service agreement in place with Louisville Gas & Electric/Kentucky Utilities whose transmission system adjoins the PPS service area. Power is received by PPS at two main delivery points at 161,000 volts. One delivery point is located in west McCracken County near the intersection of Mayfield-Metropolis Road and Old U.S. 60. The second delivery point is located near the southern PPS boundary at its Substation No. 8 on Schneidman Road.

PPS has in place an agreement with the Tennessee Valley Authority dated September 21, 2007 for the provision of emergency back-up power to PPS in the event of disruption of service over the Louisville Gas & Electric/Kentucky Utilities transmission grid. The delivery point for power under this agreement is also located at PPS Substation No. 8. The switch at this delivery point is normally in an open configuration except in emergency conditions.

PPS is nearing completion of construction and testing of a gas-fired combustion turbine generating plant that is located adjacent to Substation No. 8. The plant employs two generators each having a nominal capacity of 62 MW. The generating plant will primarily be used to supply peaking power in times of high demand, but its total capacity of 124 MW is sufficient to serve the entire PPS load in McCracken County during all but peak usage periods. The combustion turbine generating plant is scheduled for substantial completion in May 2010.

A 69,000 volt transmission system connects the system’s eight distribution substations to the delivery points. The 69 KV system is “looped” from distribution substation to substation to provide flexibility in switching and increase reliability.

The distribution substations reduce the voltage from 69,000 volts to 12,470 volts that is the System’s nominal distribution voltage. Distribution transformers, both pole-mounted and pad-mounted, reduce the voltage to the utilization level required by the system’s customers.

The total transformer nameplate capacity of the distribution substations is 356,000 kilo-volt amps. The nameplate capacity of the delivery point transformers (total system capacity) is 316,000 kilo-volt amperes. An all-time maximum system peak for the system is 161,000 kilowatts. This peak was set in August 2000.

PPS has total assets of \$46,077,581 with 895 miles of line with 25 customers per mile and an average residential usage of 1,066 kilowatt-hours per month.

Neither the rates charged nor services provided by PPS are regulated by the Kentucky Public Service Commission or the City. The PPS Board is autonomous in its rate-setting authority.

The current schedule for electric rates, as of February 2010, is shown below.

<u><b>Customer Class</b></u>	<u><b>Retail Rates</b></u>	<u><b>Fuel Adj.</b></u>	<u><b>Effective Rate</b></u>
<u><b>Residential</b></u>			
Customer Charge	\$9.25		\$9.25
All KWH	\$0.08228	\$0.00920	\$0.073080
<u><b>GSA-1</b></u>			
Customer Charge	\$17.50		\$17.50
All KWH	\$0.09618	\$0.00906	\$0.087120
<u><b>GSA-1 Seasonal</b></u>			
Customer Charge	\$17.50		\$17.50
All KWH	\$0.10948	\$0.00906	\$0.100420
<u><b>GSA-2</b></u>			
Customer Charge	\$109.00		\$109.00
1 <sup>st</sup> 15,000 KWH	\$0.09555	\$0.00906	\$0.086490
Additional KWH	\$0.05112	\$0.00891	\$0.042210
1 <sup>st</sup> 50 KW Demand	\$0.00		-
51-1,000 KW Demand	\$14.44		\$14.44
<u><b>GSA-2 Seasonal</b></u>			
Customer Charge	\$109.00		\$109.00
1 <sup>st</sup> 15,000 KWH	\$0.10885	\$0.00906	\$0.099790
Additional KWH	\$0.06442	\$0.00891	\$0.055510
1 <sup>st</sup> 50 KW Demand	\$0.00		-
51-1,000 KW Demand	\$18.40		\$18.40
<u><b>GSA-3</b></u>			
Customer Charge	\$275.00		\$275.00
All KWH	\$0.05193	\$0.00891	\$0.043020
0-1,000 KW Demand	\$14.52		\$14.52
1,001 – 5,000 KW Demand	\$16.78		\$16.78
<u><b>Drainage Pumps</b></u>			
Customer Charge	\$10.00		\$10.00
All KWH	\$0.06141	\$0.00906	\$0.052350
<u><b>Outdoor Lighting</b></u>			
All KWH	\$0.06186	\$0.00920	\$0.052660
Customer Charge	See Note		

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Source: Paducah Power System

Note: Customer charges for outdoor lighting are dependent on type and size.

Fuel charges are applicable to all KWH.

Set forth below is a list of the ten largest electric customers in terms of amount of electricity and revenue generated during fiscal year 2009.

<b><u>Customer</u></b>	<b><u>Usage (Kilowatt Hrs.)</u></b>	<b><u>Dollar Sales</u></b>
Western Baptist Hospital	30,455,970	\$2,565,753.67
Lourdes Hospital	24,388,320	2,041,733.49
Infiniti Plastic Tech Inc.	10,030,500	846,204.13
HB Fuller Co.	8,201,400	754,835.05
Walmart Stores, Inc.	8,729,800	718,862.46
VMV Paducah Bilt	6,624,000	645,077.67
West Kentucky Community and Technical College	6,761,544	583,984.42
Paducah Water Works	6,233,260	547,016.44
Kroger Stores	5,961,360	488,041.77
Dippin Dots Inc.	5,559,200	466,188.46

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Source: Paducah Power System

Listed below are customer statistics of the System for the last five fiscal years.

	<b>FY09</b>	<b>FY08</b>	<b>FY07</b>	<b>FY06</b>	<b>FY05</b>
Residential	18,695	18,670	18,652	18,711	18,804
Commercial	3,321	3,303	3,279	3,431	3,308
Lighting	472	482	493	484	474
Total	22,488	22,455	22,424	22,626	22,586
MWH Sold	606,178	657,178	621,481	626,750	586,742
Peak MWH	150	159	154	158	154

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Source: Paducah Power System

**Financial Information**

The following is a five year presentation of the System's finances to include balance sheets, statement of revenues, expenses and changes in retained earnings, and calculations of debt service coverage based on historical revenues. Please refer to Appendix E for the PPS' 2008-09 Audited Financial Statements.

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

**BALANCE SHEETS**

	<b>ASSETS</b>				
	<b>June 30,</b>				
	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
<b>UTILITY PLANT</b>					
Transmission system	\$ 2,878,199	\$ 2,706,095	\$ 2,641,833	\$ 2,640,110	\$ 2,598,800
Distribution system	62,911,581	60,310,905	57,657,209	53,813,987	52,107,943
Land	2,053,964	1,406,069	1,405,769	1,405,570	1,405,570
General plant	14,788,207	14,119,013	13,566,428	12,379,824	11,255,333
	82,631,951	78,542,082	75,271,239	70,239,491	67,367,646
Less accumulated depreciation	(32,503,035)	(30,210,972)	(29,712,041)	(28,087,688)	(26,406,569)
	50,128,916	48,331,110	45,559,198	42,151,803	40,961,077
Construction work in progress	22,200,696	813,354	518,383	319,649	524,062
Total Utility Plant	\$ 72,329,612	\$ 49,144,464	\$ 46,077,581	\$ 42,471,452	\$ 41,485,139
<b>OTHER PROPERTY AND INVESTMENTS</b>					
Sinking Fund	14,162,969	882,604	931,049	903,009	881,909
Investment in SEDC	49,944	32,297	16,539	12,662	5,282
Depreciation Fund	1,044,469	1,022,723	945,835	975,224	945,449
Construction Fund	120,268,515	-	-	-	245,474
Investment in CSA	26,740	26,740	26,740	26,740	27,831
Non-utility property	7,891	8,869	9,848	10,826	11,804
Total Other Property and Investments	\$ 135,560,528	\$ 1,973,233	\$ 1,930,011	\$ 1,928,461	\$ 2,117,749
<b>CURRENT ASSETS</b>					
Cash and temporary cash investments	2,738,605	1,466,762	4,086,775	65,398	142,743
Accounts receivable (net of allowance for doubtful accounts)	4,573,120	4,446,807	2,551,308	2,680,184	2,000,026
Materials and supplies	1,742,997	1,507,698	1,312,167	1,267,875	885,302
Prepaid expenses	10,621	8,052	53,433	59,671	44,585
Loan receivable	-	-	-	236,008	1,197,460
Grants receivable	3,834,896	-	-	-	-
Unamortized software maintenance	-	-	10,520	-	-
Receivable from TVA	-	621,093	-	-	-
Accrued interest receivable	538,357	-	-	-	-
Rent receivable	77,280	74,063	71,001	68,960	67,162
Total Current Assets	\$ 13,515,876	\$ 8,124,475	\$ 8,085,204	\$ 4,378,096	\$ 4,337,278
<b>DEFERRED DEBITS</b>					
Unamortized debt discount	2,932,207	43,994	53,210	62,427	71,643
Receivable for conservation	154,273	213,266	290,412	519,743	520,167
Unemployment Trust Fund	28,201	21,775	31,324	32,151	-
Other deferred debits	9,982	2,651	1,703	907	5,778
Total Deferred Debits	\$ 3,124,663	\$ 281,686	\$ 376,649	\$ 615,228	\$ 597,588
<b>TOTAL ASSETS</b>	<b>\$ 224,530,679</b>	<b>\$ 59,523,858</b>	<b>\$ 56,469,445</b>	<b>\$ 49,393,237</b>	<b>\$ 48,537,754</b>

Source: Paducah Power System Audited Financial Statements

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

**BALANCE SHEETS**

**LIABILITIES  
June 30,**

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ 5,188,844	\$ 4,542,152	\$ 4,061,671	\$ 4,124,956	\$ 3,451,644
Line of credit	-	2,039,362	1,568,014	1,387,326	1,690,679
Customer deposits	750,776	775,110	768,282	774,942	811,117
Accrued taxes and equivalents	584,207	512,251	460,118	460,229	421,715
Accrued interest	3,469,279	157,502	156,375	153,173	151,400
Other current and accrued liabilities	1,207,347	616,696	731,044	520,553	505,495
Bonds payable	415,000	400,000	385,000	370,000	355,000
Total Current Liabilities	<u>\$ 11,615,453</u>	<u>\$ 9,043,073</u>	<u>\$ 8,130,504</u>	<u>\$ 7,791,179</u>	<u>\$ 7,387,050</u>
<b>NON-CURRENT LIABILITIES</b>					
Bonds held by public	170,293,849	3,742,084	4,109,368	4,461,653	4,798,938
Advances for conservation loans	185,142	251,666	314,479	413,480	539,387
Note payable	-	6,000,000	6,000,000	-	-
Other deferred credits	92,798	90,995	87,459	81,989	27,706
Total Non-Current Liabilities	<u>\$ 170,571,789</u>	<u>\$ 10,084,745</u>	<u>\$ 10,511,306</u>	<u>\$ 4,957,122</u>	<u>\$ 5,366,031</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 182,187,242</u>	<u>\$ 19,127,818</u>	<u>\$ 18,641,810</u>	<u>\$ 12,748,301</u>	<u>\$ 12,753,081</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	(98,379,237)	39,002,380	35,583,213	37,639,799	36,331,201
Restricted for:					
Capital projects	120,268,515	-	-	-	245,474
Debt service	15,207,438	1,905,327	1,876,884	1,878,233	1,827,358
Unrestricted - net deficit	5,246,721	(511,667)	367,538	(2,873,096)	(2,619,360)
Total Net Assets	<u>\$ 42,343,437</u>	<u>\$ 40,396,040</u>	<u>\$ 37,827,635</u>	<u>\$ 36,644,936</u>	<u>\$ 35,784,673</u>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<u>\$ 224,530,679</u>	<u>\$ 59,523,858</u>	<u>\$ 56,469,445</u>	<u>\$ 49,393,237</u>	<u>\$ 48,537,754</u>

Source: Paducah Power System Audited Financial Statements



**ELECTRIC PLANT BOARD OF  
CITY OF PADUCAH, KENTUCKY D/B/A  
PADUCAH POWER SYSTEM (PPS)**

**COMBINED STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS**

	Years Ending June 30,				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>OPERATING REVENUES</b>					
Charges for services:					
Residential	\$ 22,078,610	\$ 19,721,428	\$ 18,189,699	\$ 17,183,717	\$ 14,794,944
Large lighting and power	28,338,239	25,913,675	23,331,787	21,896,664	19,419,267
Small lighting and power	6,795,227	5,875,684	5,560,865	5,332,905	4,857,466
Street and outdoor	1,345,027	1,448,837	1,419,643	1,295,351	1,214,513
Total Charges for Services	<u>\$ 58,557,103</u>	<u>\$ 52,959,624</u>	<u>\$ 48,501,994</u>	<u>\$ 45,708,637</u>	<u>\$ 40,286,190</u>
Miscellaneous:					
Forfeited discounts	336,662	284,027	263,746	244,338	222,690
Service revenue	1,172,305	1,010,958	955,261	916,572	532,578
Other electric revenue	14,949	12,771	12,518	12,481	10,665
Total Miscellaneous	<u>\$ 1,523,916</u>	<u>\$ 1,307,756</u>	<u>\$ 1,231,525</u>	<u>\$ 1,173,391</u>	<u>\$ 765,933</u>
 <b>TOTAL OPERATING REVENUES</b>	 <u>\$ 60,081,019</u>	 <u>\$ 54,267,380</u>	 <u>\$ 49,733,519</u>	 <u>\$ 46,882,028</u>	 <u>\$ 41,052,123</u>
 <b>PURCHASED POWER AND OPERATING EXPENSES</b>					
Purchased power cost	47,563,950	41,398,313	38,757,861	36,455,268	31,817,600
General operating expense	5,453,155	5,220,931	5,254,983	5,178,379	4,611,921
Maintenance expense	1,116,236	1,258,786	1,137,692	1,118,601	946,094
Other operating expense	3,665,182	3,504,148	3,189,240	3,083,896	2,871,133
Total Purchased Power and Operating Expenses	<u>\$ 57,798,523</u>	<u>\$ 51,382,178</u>	<u>\$ 48,339,776</u>	<u>\$ 45,836,144</u>	<u>\$ 40,246,748</u>
 <b>OPERATING INCOME</b>	 <u>\$ 2,282,496</u>	 <u>\$ 2,885,202</u>	 <u>\$ 1,393,743</u>	 <u>\$ 1,045,884</u>	 <u>\$ 805,375</u>
 <b>NONOPERATING REVENUES/EXPENSES</b>					
Interest paid on indebtedness	(888,753)	(537,208)	(523,815)	(252,426)	(197,469)
Interest earned on investments	651,276	216,270	315,997	74,855	42,061
Net amortization discount and premium on debt	(143,451)	(41,931)	(41,931)	(41,931)	(41,931)
Nonoperating income	45,829	46,072	38,705	33,881	24,088
Total Nonoperating Revenues/Expenses	<u>\$ (335,099)</u>	<u>\$ (316,797)</u>	<u>\$ (211,044)</u>	<u>\$ (185,621)</u>	<u>\$ (173,251)</u>
 <b>CHANGES IN NET ASSETS</b>	 <u>\$ 1,947,397</u>	 <u>\$ 2,568,405</u>	 <u>\$ 1,182,699</u>	 <u>\$ 860,263</u>	 <u>\$ 632,124</u>
 <b>NET ASSETS, BEGINNING OF YEAR</b>	 <u>\$ 40,396,040</u>	 <u>\$ 37,827,635</u>	 <u>\$ 36,644,936</u>	 <u>\$ 35,784,673</u>	 <u>\$ 35,152,549</u>
 <b>NET ASSETS, END OF YEAR</b>	 <u>\$ 42,343,437</u>	 <u>\$ 40,396,040</u>	 <u>\$ 37,827,635</u>	 <u>\$ 36,644,936</u>	 <u>\$ 35,784,673</u>

Source: Paducah Power System Audited Financial Statements

## **PRINCETON ELECTRIC PLANT BOARD ("PEPB")**

### **Organization and Powers**

The Electric Plant Board of the City of Princeton, Kentucky ("PEPB") was created by an ordinance duly enacted on August 18, 1958 by the City Council of the City of Princeton, Kentucky ("City Council"). PEPB is a political subdivision of the Commonwealth of Kentucky that is a separate and distinct corporate entity from the City of Princeton, Kentucky ("City"). PEPB is governed by a five-person board of directors ("Board"), four members of which are residents, taxpayers and legal voters of the City appointed by the City's Mayor to staggered four-year terms subject to the approval of the City Council. By statute, one position on the Board is occupied by a member of the City Council designated by the City's Mayor subject to the approval of the City Council.

On September 8, 1959, the City Council adopted an ordinance declaring it desirable for PEPB to purchase and operate a municipal electric plant system and setting the question for a referendum of the City's voters. The referendum was held on November 3, 1959, and resulted in approval of the acquisition by PEPB of the then existing investor-owned electric distribution system serving the City.

In 1960, PEPB issued revenue bonds to finance the purchase of the electric distribution system of Kentucky Utilities Company ("KU") located within the limits of the City and a fringe area in Caldwell County, Kentucky beyond the limits of the City. In July of 1961, PEPB purchased said electric distribution system of KU and thereafter began providing retail electric service within PEPB's exclusive service area under a long-term wholesale power contract with the Tennessee Valley Authority.

### **The Electric Plant**

The PEPB distribution system serves approximately 3,931 customers. Of this number, approximately 3,125 are classified as residential customers. The PEPB service area includes most of the area within the corporate boundaries of the City and a portion of Caldwell County outside the limits of the City.

The total power requirements for the system are currently purchased from the Kentucky Municipal Power Agency ("KMPA") under a Partial Requirements Power Sales Agreement dated as of December 28, 2009. KMPA has a network integration transmission service agreement in place with Louisville Gas & Electric / Kentucky Utilities ("LG&E/KU") whose transmission system adjoins the PEPB service area. Power is received by PEPB at a single delivery point north of the City at 161,000 volts.

PEPB has in place an agreement with the Tennessee Valley Authority dated September 21, 2007 for the provision of emergency back-up power to PEPB in the event of disruption of service over the LG&E/KU grid. The delivery point for power under this agreement is the Kentucky Dam – Hopkinsville, Princeton Substation Tap located slightly east of the City. The switch at this delivery point is in an open configuration except in emergency conditions.

PEPB distributes more than 108,000,000 kWh to residential, commercial and industrial customers within its service area utilizing two 30 MW substations which are connected by a looped 69,000 volt transmission system. To better serve the needs of its industrial and commercial customers who have become more dependent on automation, PEPB has completed installation of a wireless supervisory control and data acquisition ("SCADA") system which allows for the remote control of all substation breakers and the collection of important system data, both of which help to significantly reduce outage times. The SCADA system also allows finite control of power factor correction with substantial savings realized monthly. The SCADA will be further improved with the addition of a fiber backbone system installed in conjunction with other system improvements. Additionally, several distribution circuits between substations have been strengthened with larger conductors for better backup protection during emergency conditions.

PEPB has total assets of \$24,758,913, with 137 miles of line with 29 customers per mile, and an average residential usage of 750 kilowatt-hours per month.

In addition to operating the electric system, PEPB also owns and operates a wireless broadband system providing high-speed internet service to approximately 400 households within the City and surrounding areas of Caldwell County. The electric system and the wireless broadband system are operated, and accounted for, as distinct and separate assets of PEPB.

Neither the rates charged nor services provided by PEPB are regulated by the Kentucky Public Service Commission or the City. The Board is autonomous in its rate-setting authority and control over the management and operation of the electric system and wireless broadband system.

## **Electric Rates**

The current schedule for electric rates is shown below.

<b><u>Customer Class</u></b>	<b><u>Effective Rate, March 2010</u></b>
<b><u>Residential</u></b>	
Customer Charge	\$8.68
All KWH	\$0.08400
<b><u>GSA-1</u></b>	
Customer Charge	\$15.85/meter
All KWH	\$0.09531
<b><u>GSA-2</u></b>	
Customer Charge	\$105.66/meter
1 <sup>st</sup> 50 KW Demand	--
51-1,000 KW Demand	\$15.71
1 <sup>st</sup> 15,000 KWH	\$0.08896
Additional KWH	\$0.04896
<b><u>GSA-3</u></b>	
Customer Charge	\$264.15
1 <sup>st</sup> 1,000 KWH	\$15.46
Additional KWH	\$17.88
1 <sup>st</sup> 550 KW Demand	\$0.05001
Additional KWH	\$0.04579
<b><u>Outdoor Lighting</u></b>	
Customer Charge	See Note

---

Source: Princeton Electric Plant Board

Note: Customer charges for outdoor lighting are dependent on type and size.

Fuel charges are applicable to all KWH.

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Set forth below is a list of the ten largest electric customers of the PEPB in terms of amount of electricity and revenue generated during fiscal year 2009.

<b><u>Customer</u></b>	<b><u>Usage (Kilowatt Hrs.)</u></b>	<b><u>Dollar Sales</u></b>
Bremner Food Group, Inc.	20,170,260	\$1,691,107.96
Special Metals	3,557,400	399,882.72
Hydro Gear	2,959,200	237,381.84
Bodycote Int Inc.	2,518,800	314,876.15
Caldwell County Hospital	2,148,000	191,820.04
Walmart	2,139,300	193,141.13
E.W. James & Sons	2,019,000	186,562.94
Food Giant	1,592,400	149,327.01
Caldwell County Hospital	1,374,300	122,748.77
Caldwell Co. Board of Education	1,368,900	155,727.01

---

Source: Princeton Electric Plant Board

Listed below are customer statistics of the Board for the last five fiscal years:

	<b>FY09</b>	<b>FY08</b>	<b>FY07</b>	<b>FY06</b>	<b>FY05</b>
Residential	3,125	3,207	3,262	3,259	3,234
Commercial	792	750	711	705	727
Lighting	14	14	14	14	15
Total	3,931	3,971	3,987	3,978	3,976
MWH Sold	106,534	112,943	109,138	108,185	104,569
Peak MW	24.8	27.0	25.7	24.1	23.7

---

Source: Princeton Electric Plant Board

**Financial Information**

The following is a five year presentation of PEPB's finances to include balance sheets, statement of revenues, expenses and changes in retained earnings, and calculations of debt service coverage based on historical revenues. Please refer to Appendix F for the PEPB 2008-09 Audited Financial Statements.

**ELECTRIC PLANT BOARD OF THE  
CITY OF PRINCETON, KENTUCKY D/B/A  
PRINCETON ELECTRIC PLANT BOARD (PEPB)**

***BALANCE SHEETS***

	<b>ASSETS</b>				
	<b>June 30,</b>				
	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 3,754,508	\$ 9,499,742	\$ 1,400,427	\$ 1,065,083	\$ 1,000,953
Special funds	589,467	226,604	180,118	592,787	594,955
Accounts receivable	1,261,900	1,155,842	1,083,401	974,359	804,221
Other receivables	837,560	28,656	27,653	28,153	26,199
Inventories	293,804	215,048	225,592	219,394	211,178
Prepaid expenses	68,977	72,704	75,056	65,003	64,634
Total current assets	<u>\$ 6,806,216</u>	<u>\$ 11,198,596</u>	<u>\$ 2,992,247</u>	<u>\$ 2,944,779</u>	<u>\$ 2,702,140</u>
<b>NONCURRENT ASSETS</b>					
Special Funds-restricted	405,997	149,930	146,622	139,497	136,267
Deferred Charges	181,782	200,228	62,495	72,091	95,403
Capital Assets:					
Electric plant	16,540,728	14,708,287	14,194,103	12,840,353	12,061,657
Construction work-in-progress	7,301,905	1,456,882	512,598	407,817	219,065
Less accumulated depreciation	(6,477,715)	(5,999,492)	(5,468,866)	(5,082,223)	(4,719,676)
Total noncurrent assets	<u>\$ 17,952,697</u>	<u>\$ 10,515,835</u>	<u>\$ 9,446,952</u>	<u>\$ 8,377,535</u>	<u>\$ 7,792,716</u>
<b>TOTAL ASSETS</b>	<u>\$ 24,758,913</u>	<u>\$ 21,714,431</u>	<u>\$ 12,439,199</u>	<u>\$ 11,322,314</u>	<u>\$ 10,494,856</u>

Source: Princeton Electric Plant Board Audited Financial Statements

**ELECTRIC PLANT BOARD OF THE  
CITY OF PRINCETON, KENTUCKY D/B/A  
PRINCETON ELECTRIC PLANT BOARD (PEPB)**

**BALANCE SHEETS**

	<b>LIABILITIES</b>				
	<b>June 30,</b>				
	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
<b>CURRENT LIABILITIES</b>					
Current maturities of long-term debt	\$ 11,715,050	\$ 164,066	\$ 156,193	\$ 143,490	\$ 81,667
Accounts Payable	1,341,296	1,187,934	1,033,619	1,103,494	740,781
Construction Payable	1,196,383				
Consumer deposits	260,055	248,793	219,118	215,184	171,354
Accrued liabilities					
Payroll and other taxes	121,861	95,251	98,220	85,602	86,622
Vacation and sick pay	146,401	110,265	95,668	81,574	67,536
Interest	13,646	7,429	7,083	8,376	7,608
Other	53,735	54,234	1,045,398	37,496	37,661
Deferred Credits	2,754	12,577	37,681	18,834	22,932
Total current liabilities	<u>\$ 14,851,181</u>	<u>\$ 1,880,549</u>	<u>\$ 2,692,980</u>	<u>\$ 1,694,050</u>	<u>\$ 1,216,161</u>
<b>NONCURRENT LIABILITIES</b>					
Advances from others	36,638	48,397	60,443	70,081	89,610
Long-term debt less current maturities	23,038	10,190,088	354,154	510,347	380,000
Total noncurrent liabilities	<u>\$ 59,676</u>	<u>\$ 10,238,485</u>	<u>\$ 414,597</u>	<u>\$ 580,428</u>	<u>\$ 469,610</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 14,910,857</u>	<u>\$ 12,119,034</u>	<u>\$ 3,107,577</u>	<u>\$ 2,274,478</u>	<u>\$ 1,685,771</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	8,697,902	8,654,437	8,727,488	7,512,110	7,099,379
Restricted for debt service	149,430	149,930	146,622	139,497	136,267
Unrestricted	1,000,724	791,032	457,514	1,396,229	1,573,439
Total net assets	<u>\$ 9,848,056</u>	<u>\$ 9,595,399</u>	<u>\$ 9,331,624</u>	<u>\$ 9,047,836</u>	<u>\$ 8,809,085</u>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<u>\$ 24,758,913</u>	<u>\$ 21,714,433</u>	<u>\$ 12,439,201</u>	<u>\$ 11,322,314</u>	<u>\$ 10,494,856</u>

Source: Princeton Electric Plant Board Audited Financial Statements

**ELECTRIC PLANT BOARD OF THE  
CITY OF PRINCETON, KENTUCKY D/B/A  
PRINCETON ELECTRIC PLANT BOARD (PEPB)**

**COMBINED STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS**

	Years Ending June 30,				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>OPERATING REVENUES</b>					
Charges for Services	\$ 10,460,942	\$ 9,384,166	\$ 8,643,450	\$ 8,146,842	\$ 7,256,780
Rent from electric property	72,161	71,433	66,749	64,900	67,412
Consumers' forfeited discounts	66,632	57,824	53,086	42,170	36,823
Other	163,016	160,276	145,589	78,775	46,458
Total Operating Revenues	<u>\$ 10,762,751</u>	<u>\$ 9,673,699</u>	<u>\$ 8,908,874</u>	<u>\$ 8,332,687</u>	<u>\$ 7,407,473</u>
<b>OPERATING EXPENSE</b>					
Power purchased	8,108,755	7,169,131	6,572,554	6,224,658	5,365,870
Distribution expenses	409,702	421,350	357,910	298,950	267,217
Maintenance	433,160	426,222	454,392	390,214	333,402
Accounting and collecting	219,255	199,663	159,234	154,686	145,226
Sales promotion	26,840	11,976	36,571	51,818	63,404
Administrative and general	518,458	471,595	395,617	399,746	373,543
Depreciation and amortization	603,628	581,607	468,099	427,501	391,576
Taxes	185,363	151,249	141,020	134,853	121,574
Total Operating Expenses	<u>\$ 10,505,161</u>	<u>\$ 9,432,793</u>	<u>\$ 8,585,397</u>	<u>\$ 8,082,426</u>	<u>\$ 7,061,812</u>
<b>OPERATING INCOME</b>	<u>\$ 21,267,912</u>	<u>\$ 240,906</u>	<u>\$ 323,477</u>	<u>\$ 250,261</u>	<u>\$ 345,661</u>
<b>NONOPERATING REVENUES/EXPENSES</b>					
Interest revenue	26,878	48,714	49,936	29,987	17,686
Interest expense	(11,540)	2,299	(25,135)	(23,848)	(21,125)
Miscellaneous revenue	-	(18,610)	-	-	-
Miscellaneous expense	(20,271)	(9,533)	(64,491)	(17,649)	(20,574)
Total Nonoperating Revenues/Expenses	<u>\$ (4,933)</u>	<u>\$ 22,870</u>	<u>\$ (39,690)</u>	<u>\$ (11,510)</u>	<u>\$ (24,013)</u>
<b>TOTAL NET ASSETS, BEGINNING OF YEAR</b>	<u>\$ 9,595,400</u>	<u>\$ 9,331,624</u>	<u>\$ 9,047,836</u>	<u>\$ 8,809,085</u>	<u>\$ 8,487,437</u>
<b>NET INCOME</b>	<u>\$ 252,657</u>	<u>\$ 263,776</u>	<u>\$ 283,787</u>	<u>\$ 238,751</u>	<u>\$ 321,648</u>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<u>\$ 9,848,057</u>	<u>\$ 9,595,400</u>	<u>\$ 9,331,624</u>	<u>\$ 9,047,836</u>	<u>\$ 8,809,085</u>

Source: Princeton Electric Plant Board Audited Financial Statements

## **APPENDIX E**

### **KENTUCKY MUNICIPAL POWER AGENCY POWER SYSTEM REVENUE BONDS, SERIES 2010**

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**Audited Financial Statements of the Paducah Electric Plant Board  
For Fiscal Years Ended June 30, 2009 and 2008**



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

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**FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2009 AND 2008**

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

We have audited the accompanying financial statements of the Electric Plant Board of the City of Paducah, Kentucky d/b/a Paducah Power System, an electric utility, as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of Paducah Power System's management. Our responsibility is to express opinions 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 audit 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 the 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.

As described in Note 1, Paducah Power System prepares its financial statements on a prescribed regulatory basis of accounting that demonstrates compliance with the Federal Energy Regulatory Commission accounting policies and procedures, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Paducah Power System as of June 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2009, on our consideration of Paducah Power System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 audit.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Paducah Power System's basic financial statements. The operating expenses on pages 24-25 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Paducah Power System. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Williams, Williams & Zentz LLP*

November 5, 2009

## **REQUIRED SUPPLEMENTARY INFORMATION**

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

As the management of Paducah Power System, we offer readers of the electric system's financial statements this narrative overview and analysis of the company's financial performance during fiscal year ending June 30, 2009. Comparisons are available on several financial and supplemental statements throughout this analysis.

### **FINANCIAL HIGHLIGHTS**

- PPS issued \$170 million in revenue bonds for construction of gas fired turbine peaking units, installation of a high pressure gas line and transmission upgrades.
- PPS withstood a federally declared natural disaster during the February ice storm with total expenditures in excess of \$4 million dollars.
- General Operating and Maintenance expenses for FY 2009 increased by \$90 thousand or 1% from FY 2008 spending levels.

### **FORMATION OF KENTUCKY MUNICIPAL POWER AGENCY**

Paducah Power System (PPS) is currently under a full-requirements power supply contract with the Tennessee Valley Authority (TVA). Termination of this contract requires a five year notice period, which PPS gave to TVA in December 2004. In February 2005, Paducah Power System and the Princeton Electric Plant Board formed a joint action agency, Kentucky Municipal Power Agency (KMPA). KMPA will eliminate regulatory complications created by the outdated Public Utilities Holding Company Act passed in the 1930's.

Paducah Power System authorized KMPA to sign an agreement to participate in the Prairie State Energy Campus, a power generating plant being developed in Washington County, Illinois, near St. Louis. PPS will receive approximately 80% of its electricity from Prairie State. KMPA's ownership share of the project will be 7.82% or 124MW. Paducah Power System's ownership interest in KMPA will be 83.4% or 104MW.

With KMPA providing Paducah Power System's base load requirements, PPS has developed plans to install two 50MW gas turbines to supply its peaking load requirements as well as provide opportunity sales for off-system sales when market prices are advantageous. In January 2009, Paducah Power System issued revenue bonds of approximately \$170 million to fund all construction cost related to the peaking units, associated gas line extension, and all necessary substation / transmission upgrades.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of Paducah Power System. The financial statements also include notes that explain in more detail information relating to the financial statements.

### **REQUIRED FINANCIAL STATEMENTS**

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

These financial statements offer short-term and long-term financial information about the utility's activities.

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

(Continued)

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

The Statement of Cash Flow reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to 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.

## FINANCIAL ANALYSIS OF THE UTILITY

One of the most important questions asked about the utility's finances is "Is Paducah Power System, as a whole, better off or worse off as a result of this year's activities?" The Statement of Net Assets, and the Statement of Revenues, Expenses, and Changes in Net Assets help us answer this question. One can think of the utility's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the utility's net assets is one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in local economic conditions, population growth and new or changed regulations affecting the utility.

## NET ASSETS

To begin our analysis, a summary of Paducah Power System's Statement of Net Assets is presented below.

### CONDENSED STATEMENTS OF NET ASSETS

For fiscal year ended June 30

	<u>FY 2009</u>	<u>FY 2008</u>
Current assets	\$ 13,515,876	\$ 8,124,475
Non-current assets	138,685,191	2,254,919
Capital assets	<u>72,329,612</u>	<u>49,144,464</u>
Total assets	<u>224,530,679</u>	<u>59,523,858</u>
Current liabilities	11,615,453	9,043,073
Non-current liabilities	277,940	342,661
Long-term debt	<u>170,293,849</u>	<u>9,742,084</u>
Total liabilities	<u>182,187,242</u>	<u>19,127,818</u>
Invested in capital assets net of related debt	(98,379,237)	39,002,380
Restricted for capital projects	120,268,515	-
Restricted for debt service	15,207,438	1,905,327
Unrestricted	<u>5,246,721</u>	<u>(511,667)</u>
TOTAL NET ASSETS	<u>\$ 42,343,437</u>	<u>\$40,396,040</u>

Current assets represent items such as cash and temporary investments, accounts receivable, receivables from FEMA related to the February 2009 ice storm, materials and supplies, prepaid expenses, accrued interest receivable and rents receivable. Cash and temporary investments increased by approximately \$1.3 million. Materials and supplies (inventory) increased from \$1,508 thousand to \$1,743 thousand due mainly to increases in the price of material. Inventory item counts are also higher due to increased delivery time of materials. PPS has \$3,835 thousand in grants receivable from FEMA related to the February 2009 ice storm. Accrued interest receivable from investment of bond proceeds from the January 2009 revenue bonds totals \$538 thousand.

(Continued)



Non-current assets include restricted funds such as bond sinking funds and depreciation funds. The depreciation fund is a cash reserve requirement of Paducah Power System's regulatory, TVA, and increased by \$22 thousand during FY09. Bond sinking fund requirements increased by \$13 million as the result of the January 2009 revenue bond issue of \$170 million. PPS also has \$120 million of restricted funds for the continued construction of the peaking plant, high pressure gas line and associated substation/transmission upgrades.

Other non-current assets include unamortized debt discounts which increased by \$2.9 million and conservation loan receivables. With the termination of the TVA wholesale power contract, Energy Right conservation loans are no longer available to PPS customers resulting in a declining balance over time.

Capital assets include land, transmission system, distribution system, general plant and construction work in progress net of accumulated depreciation. The increase in capital assets is primarily the result of construction of the peaking plant, high pressure gas line and associated substation/transmission upgrades accounting for \$21 million. Other increases are the normal electrical system construction projects less accumulated depreciation.

Current liabilities represent items such as accounts payable, bank line-of-credit, customer deposits, accrued taxes and interest payments, and the current portion of any long-term debts. Current liabilities increased during FY09 due to interest payable on the January 2009 revenue bond issue. This increase was \$3,311 thousand. The bank line-of-credit of \$2,039 thousand was paid in full during FY09.

Non-current liabilities primarily represent energy conservation loans. With the elimination of the Energy Right conservation loan program, this liability will continue to decline.

FY08 long-term debt represents revenue bonds issued in 1998 and 2001 held by the public as well as \$6 million of Bond Anticipation Notes that were issued in August 2006 for implementation of an Automated Meter Reading System and service connections for FiberNet customers. FY09 long-term debt includes \$170 million in revenue bonds issued in January 2009. A portion of the bond proceeds were used to retire the bond anticipation notes of \$6 million. Remaining proceeds have and will be used for construction of the peaking plant, high pressure gas line and associated substation/transmission upgrades.

Net Assets are broken down into three major categories: Invested in Capital Assets Net of Related Debt, Restricted Assets, and Unrestricted Assets. Restricted assets include unspent bond proceeds for construction of \$120 million and debt service reserve funds of \$15 million. Unrestricted, net surplus assets increased by \$5.8 million representing increased liquidity for the company.

A summary of Paducah Power System's Statement of Revenues, Expenses, and Changes in Net Assets is as follows:

(Continued)

# CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	<u>FY 2009</u>	<u>FY 2008</u>	<u>Change</u>	<u>% Change</u>
Electrical sales revenue	\$58,557,103	\$52,959,624	\$ 5,597,479	10.5%
Miscellaneous revenue	<u>1,523,916</u>	<u>1,307,756</u>	<u>216,160</u>	<u>16.5%</u>
Total operating revenue	<u>60,081,019</u>	<u>54,267,380</u>	<u>5,813,639</u>	<u>10.7%</u>
Purchased power cost	47,563,950	41,398,313	6,165,637	14.8%
General operating expenses	5,453,155	5,220,931	232,224	4.4%
Maintenance expenses	1,116,236	1,258,786	(142,550)	-11.3%
Other operating expenses	3,665,182	3,504,148	161,034	4.5%
Non-operating expenses	<u>335,099</u>	<u>316,797</u>	<u>18,302</u>	<u>5.7%</u>
Total expenses	<u>58,133,622</u>	<u>51,698,975</u>	<u>6,434,647</u>	<u>12.4%</u>
Changes in net assets	1,947,397	2,568,405	<u>\$ 621,008</u>	<u>24.2%</u>
Beginning net assets	<u>40,396,040</u>	<u>37,827,635</u>		
ENDING NET ASSETS	<u>\$42,343,437</u>	<u>\$40,396,040</u>		

The Statement of Revenues, Expenses and Changes in Net Assets provides answers as to the nature and source of changes in total net assets. Paducah Power System's Electric Sales Revenue and Purchased Power cost increased by 10.5% and 14.8%, respectively, over FY08. This is directly related to changes in the wholesale power rates charged by TVA and increases in line loss percentages. Actual kilowatt hour sales decreased by 8% over the previous year due to climate changes as well as economic factors related to the national slowing of the economy.

Miscellaneous Revenue increased by \$216 thousand over the FY08 figures. As retail rates increase, so does penalty revenue; FY09 saw an increase of \$53 thousand. FiberNet revenue also increased by \$155 thousand.

General Operating Expenses increased by \$232 thousand or 4% over FY08. Maintenance Expenses decreased by \$143 thousand or 11% partially due to labor and other resources being diverted to the February 2009 ice storm.

The change in Other Operating Expenses is directly attributed to increases in tax equivalent payments and increased depreciation expense associated with the addition of electric plant.

The increase in Non-Operating Expenses is directly related to increases in interest expense and interest earned on revenue bond proceeds.

## CASH FLOW

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

A summary of Paducah Power System's Statement of Cash Flow is presented below.

(Continued)

**STATEMENTS OF CASH FLOW**  
For fiscal year ended June 30

	<u>FY 2009</u>	<u>FY 2008</u>
<b>Cash Flows from Operating Activities:</b>		
Receipts from customers	\$ 56,167,664	\$ 51,753,605
Payments to suppliers	(47,674,755)	(45,289,093)
Payments to employees	<u>(3,002,502)</u>	<u>(3,117,208)</u>
Net cash provided by operating activities	<u>5,490,407</u>	<u>3,347,304</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Capital expenditures	(25,927,829)	(5,751,039)
Proceeds from issuance of long-term debt	166,877,669	-
Principal payments on long-term debt	(6,400,000)	(385,000)
Interest payments on long-term debt	(888,753)	(536,080)
Bond issuance cost	(2,942,567)	-
Conservation loans	(7,531)	14,333
Net proceeds (repayments) on line of credit	(2,039,362)	471,348
Non-utility property and other assets	<u>(16,669)</u>	<u>(14,779)</u>
Net cash provided (used) by capital and related financing	<u>128,654,958</u>	<u>(6,201,217)</u>
<b>Cash Flows from Investing Activities:</b>		
Purchases of investments	(964,639)	(986,321)
Proceeds from investments	959,753	935,099
Interest and dividends	651,276	216,270
Non-operating income	<u>45,829</u>	<u>46,072</u>
Net cash provided by investing activities	<u>692,219</u>	<u>211,120</u>
Net increase (decrease) in cash and cash equivalents	134,837,584	(2,642,793)
Cash and cash equivalents, beginning of year	<u>2,387,020</u>	<u>5,029,813</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 137,224,604</u>	<u>\$ 2,387,020</u>

Capital Expenditures and Payment to Suppliers included cash spent on the purchased power from TVA and payment to vendors for material and supplies. Historically, electric plant capital expenditures are approximately \$3 to \$4 million per year. FY08 included expansion of the FiberNet system and completion of the Automated Meter Reading Project. FY09 capital expenditures include the first phases of construction of the peaking plant and substation/transmission system upgrades. Net Proceeds from issuance of long-term debt represents the cash proceeds from the \$170 million Revenue Bonds issued in January 2009. This consequently resulted in an increase in Interest Payments on Long-term Debt and Bond issuance cost. Additionally, Interest and Dividend income was increased from the previous year due to investment of the proceeds from the January 2009 revenue bonds. The bank line-of-credit was also retired during FY09.

<b>BUDGETARY HIGHLIGHTS</b>
-----------------------------

Paducah Power System adopts a current year Operating Budget and a Four Year Capital Plan annually. The Operating Budget includes projected operating and non-operating revenues and expenses. The utility's budget remains in effect the entire year and is not revised. A FY 2009 budget comparison and analysis is presented below, but is not included in the financial statements section of the auditors report.

(Continued)

**BUDGET VERSUS ACTUAL**  
FY 2009

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>Percent</u>
<b>Revenue:</b>				
Electric sales	\$58,557,103	\$52,701,826	\$ 5,855,277	11.1%
Miscellaneous revenue	<u>1,523,916</u>	<u>1,320,025</u>	<u>203,891</u>	<u>15.4%</u>
Total operating revenue	<u>60,081,019</u>	<u>54,021,851</u>	<u>6,059,168</u>	<u>11.1%</u>
Purchased power expense	<u>47,563,950</u>	<u>42,003,355</u>	<u>5,560,595</u>	<u>13.2%</u>
<b>Expenses:</b>				
General operating expense	5,453,155	5,680,730	(227,575)	-4.0%
Maintenance operating expense	1,116,236	1,384,375	(268,139)	-19.3%
Other operating expense	3,665,182	3,591,344	73,838	2.0%
Non-operating expense	<u>335,099</u>	<u>438,500</u>	<u>(103,401)</u>	<u>-23.5%</u>
Total expenses	<u>10,569,672</u>	<u>11,094,949</u>	<u>(525,277)</u>	<u>4.7%</u>
NET INCOME	<u>\$ 1,947,397</u>	<u>\$ 923,547</u>	<u>\$ 1,023,850</u>	<u>110.9%</u>

Electric Sales Revenue and Purchased Power Cost were higher than budgeted due to changes in the wholesale power rates charged by TVA. Electric Revenue percentage increase was significantly lower than the Purchased Power Cost percentage due to an increase in line loss percentage. Miscellaneous revenue was increased due to increased late payment revenue and an increase in FiberNet revenue.

General Operating Expenses and Maintenance Operating Expenses were lower than budget primarily due to labor and other resources being diverted to restoration efforts as the result of the February 2009 ice storm. Eighty-seven percent of these expenses are to be reimbursed by FEMA.

Increases in payment-in-lieu-of-taxes and depreciation expenses were higher than anticipated which resulted in Other Operating Expenses being above the budget for FY09.

Non-Operating Expense was decreased due to an increase in interest income related to investment of bond proceeds from the issuance of revenue bonds in January of 2009.

<b>CAPITAL ASSETS</b>
-----------------------

The electric industry as a whole is a capital intensive business. Typically, Transmission and Distribution assets include, but are not limited to, poles, towers, overhead conductors, underground conductors, underground conduit, line transformers, service wire, meters, street lighting, security lighting, and substation equipment, etc. Examples of General Plant Items include office, maintenance and warehouse buildings, office furniture and equipment, communication equipment, electrical system control equipment, tools and equipment, vehicles, heavy equipment, and bucket trucks. Construction Work in Progress represents mostly capital construction projects which are not currently completed. FY09 Construction Work in Progress includes the expenses related to the construction of the peaking plant and substation/transmission upgrades funded by the January 2009 revenue bonds. Following is a summary of the capital assets and changes that occurred during FY 2009.

(Continued)

**CAPITAL ASSETS**  
FY 2009

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Land	\$ 1,406,069	\$ 647,895	\$ -	\$ 2,053,964
Construction in progress	813,354	21,387,342	-	22,200,696
Transmission system	2,706,095	236,236	64,132	2,878,199
Distribution system	60,310,905	2,990,198	389,522	62,911,581
General plant	<u>14,119,013</u>	<u>692,132</u>	<u>22,938</u>	<u>14,788,207</u>
Total capital assets	79,355,436	25,953,803	476,592	104,832,647
Accumulated depreciation	<u>30,210,972</u>	<u>2,868,215</u>	<u>576,152</u>	<u>32,503,035</u>
NET CAPITAL ASSETS	<u>\$49,144,464</u>	<u>\$23,085,588</u>	<u>\$ (99,560)</u>	<u>\$ 72,329,612</u>

Historically, Paducah Power System has not owned or operated its own generation assets. This will change during FY09 as PPS begins to construct two 50MW combustion turbines. High pressure gas line extensions and transmission upgrades will significantly increase capital spending and assets over the next year.

<b>DEBT ADMINISTRATION</b>
----------------------------

November 1, 1998, Paducah Power System issued \$3.35 million in special revenue refunding bonds with interest rates between 3.75% and 4.20% in order to advance fund an outstanding series of 1991 general obligation bonds with an interest rate of 6.30%. All proceeds from the 1998 series were invested in U.S. Government Securities thereby defeasing the 1991 series.

November 9, 2001, Paducah Power System issued \$3.32 million in special revenue bonds with interest rates between 3.00% and 4.25%. Proceeds from the 2001 series are for the construction of a fiber optic network and substation communication upgrade.

January 29, 2009, Paducah Power System issued \$161.7 million and \$8.5 million in special revenue bonds with interest rates between 3.0% and 5.25%. Proceeds from the 2009 issues will and have been used to construct peaking plant, high pressure gas line and associated substation/transmission upgrades.

Paducah Power System maintains sinking funds in an amount determined by the bond covenants to cover future debt service payments. Below is a summary of debt service requirements for the 1998, 2001 and 2009 bond series.

	<u>Total Series</u>	<u>Series 1998</u>	<u>Series 2001</u>	<u>Series 2009A</u>	<u>Series 2009B</u>
Balance at June 30, 2008	\$ 4,250,000	\$ 1,125,000	\$ 3,125,000	\$ -	\$ -
Increase	170,255,000	-	-	161,730,000	8,525,000
Decreases	<u>400,000</u>	<u>360,000</u>	<u>40,000</u>	<u>-</u>	<u>-</u>
BALANCE AT JUNE 30, 2009	<u>\$ 174,105,000</u>	<u>\$ 765,000</u>	<u>\$ 3,085,000</u>	<u>\$ 161,730,000</u>	<u>\$ 8,525,000</u>

<u>Maturities</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 415,000	\$ 157,970	\$ 572,970
2011	435,000	2,114,342	2,549,342
2012	4,395,000	7,940,279	12,335,279
2013	4,570,000	7,768,609	12,338,609
2014	5,625,000	7,565,451	13,190,451
2015-2039	<u>158,665,000</u>	<u>101,689,892</u>	<u>260,354,892</u>
TOTALS	<u>\$ 174,105,000</u>	<u>\$ 127,236,543</u>	<u>\$ 301,341,543</u>

(Continued)

<b>FINANCIAL OUTLOOK AND ELECTRIC RATE CHANGES</b>
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The management of Paducah Power System considered many factors when preparing the Operating Budget and Capital Plan for FY 2009.

Paducah Power System is under a full-requirements power supply contract with the Tennessee Valley Authority until December 21, 2009. TVA has experienced large swings in its fuel cost adjustment over the last year.

Following is a summary of the retail rate changes effective on October 1, 2008, April 1, 2008, and October 1, 2006. All rates include the applicable Fuel Cost Adjustment in effect at the time.

**SUMMARY OF RETAIL RATE CHANGES**

	<u>October 2008 Rate Tariff</u>	<u>April 2008 Rate Tariff</u>	<u>October 2006 Rate Tariff</u>
<u>Residential</u>			
Customer Charge	\$ 9.25	\$ 9.25	\$ 8.50
All KWH	\$ 0.09427	\$ 0.07881	\$ 0.06713
<u>Small Commercial</u>			
Customer Charge	\$ 17.50	\$ 17.50	\$ 16.00
All KWH	\$ 0.10813	\$ 0.07254	\$ 0.08000
<u>Mid-Sized Commercial</u>			
Customer Charge	\$ 109.00	\$ 109.00	\$ 100.00
1 <sup>st</sup> 15,000 KWH	\$ 0.10633	\$ 0.09074	\$ 0.07830
Additional KWH	\$ 0.06518	\$ 0.05860	\$ 0.04149
1 <sup>st</sup> 50 KW Demand	\$ 0.00	\$ 0.00	\$ 0.00
51 - 1,000 KW Demand	\$ 13.32	\$ 12.98	\$ 12.07
<u>Large Commercial</u>			
Customer Charge	\$ 275.00	\$ 275.00	\$ 250.00
All KWH	\$ 0.06598	\$ 0.05166	\$ 0.04194
0 – 1,000 KW Demand	\$ 13.34	\$ 12.98	\$ 12.03
1,001 – 5,000 KW Demand	\$ 15.40	\$ 14.98	\$ 13.75
<u>Outdoor Lighting</u>			
All KWH	\$ 0.07702	\$ 0.06232	\$ 0.05375
Customer Charge	Depends on type and size of light		

<b>CONTACTING THE PADUCAH POWER SYSTEM FINANCIAL MANAGER</b>
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This financial report is designed to provide customers and creditors with a general overview of Paducah Power System's finances and to demonstrate the utility's accountability for the money it receives. If you have questions concerning this report or need additional financial information, please contact Paducah Power System, David C. Carroll, Director of Finance and Administration at P.O. Box 0180, Paducah, KY 42002-0180.

## **BASIC FINANCIAL STATEMENTS**

**PADUCAH POWER SYSTEM**  
**STATEMENTS OF NET ASSETS**  
JUNE 30

**ASSETS**

<b>Current Assets:</b>	<b>2009</b>	<b>2008</b>
Cash and temporary cash investments	\$ 2,738,605	\$ 1,466,762
Accounts receivable - net of allowance for doubtful accounts of \$25,736 in 2009 and \$24,861 in 2008	4,573,120	4,446,807
Receivable from TVA	-	621,093
Grants receivable	3,834,896	-
Materials and supplies	1,742,997	1,507,698
Prepaid expenses	10,621	8,052
Accrued interest receivable	538,357	-
Rent receivable	77,280	74,063
<b>Total current assets</b>	<b>13,515,876</b>	<b>8,124,475</b>
<b>Noncurrent Assets:</b>		
Restricted assets:		
Sinking Fund	14,162,969	882,604
Construction Fund	120,268,515	-
Depreciation Fund	1,044,469	1,022,723
<b>Total restricted assets</b>	<b>135,475,953</b>	<b>1,905,327</b>
Utility plant:		
Land	2,053,964	1,406,069
Transmission system	2,878,199	2,706,095
Distribution system	62,911,581	60,310,905
General plant	14,788,207	14,119,013
Construction work in progress	22,200,696	813,354
Less accumulated depreciation	(32,503,035)	(30,210,972)
<b>Total utility plant</b>	<b>72,329,612</b>	<b>49,144,464</b>
Deferred debits and other assets:		
Investment in CSA	26,740	26,740
Investment in SEDC	49,944	32,297
Unamortized debt discount	2,932,207	43,994
Receivable for conservation	154,273	213,266
Other deferred debits	9,982	2,651
Unemployment Trust Fund	28,201	21,775
Non-utility property	7,891	8,869
<b>Total deferred debits and other assets</b>	<b>3,209,238</b>	<b>349,592</b>
<b>Total noncurrent assets</b>	<b>211,014,803</b>	<b>51,399,383</b>
<b>Total assets</b>	<b>224,530,679</b>	<b>59,523,858</b>

See notes to financial statements.



## **LIABILITIES**

	<b><u>2009</u></b>	<b><u>2008</u></b>
<b>Current Liabilities:</b>		
Accounts payable	\$ 5,188,844	\$ 4,542,152
Line of credit	-	2,039,362
Customer deposits	750,776	775,110
Accrued taxes and equivalents	584,207	512,251
Accrued interest	3,469,279	157,502
Other current and accrued liabilities	1,207,347	616,696
Bonds payable	415,000	400,000
	<hr/>	<hr/>
Total current liabilities	11,615,453	9,043,073
	<hr/>	<hr/>
<b>Noncurrent Liabilities:</b>		
Long-term debts:		
Bonds held by public	170,293,849	3,742,084
Note payable	-	6,000,000
Deferred credits:		
Advances for conservation loans	185,142	251,666
Other deferred credits	92,798	90,995
	<hr/>	<hr/>
Total noncurrent liabilities	170,571,789	10,084,745
	<hr/>	<hr/>
Total liabilities	182,187,242	19,127,818
	<hr/>	<hr/>

## **NET ASSETS**

Invested in capital assets, net of related debt	(98,379,237)	39,002,380
Restricted for:		
Capital projects	120,268,515	-
Debt service	15,207,438	1,905,327
Unrestricted - net surplus (deficit)	5,246,721	(511,667)
	<hr/>	<hr/>
TOTAL NET ASSETS	\$ 42,343,437	\$ 40,396,040
	<hr/>	<hr/>

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

	<b>2009</b>	<b>2008</b>
<b>Operating Revenues:</b>		
Charges for services:		
Residential	\$22,078,610	\$19,721,428
Large lighting and power	28,338,239	25,913,675
Small lighting and power	6,795,227	5,875,684
Street and outdoor	1,345,027	1,448,837
	<u>58,557,103</u>	<u>52,959,624</u>
Total charges for services		
Miscellaneous:		
Forfeited discounts	336,662	284,027
Service revenue	1,172,305	1,010,958
Other electric revenue	14,949	12,771
	<u>1,523,916</u>	<u>1,307,756</u>
Total miscellaneous		
Total operating revenues	<u>60,081,019</u>	<u>54,267,380</u>
<b>Purchased Power and Operating Expenses:</b>		
Purchased power cost	47,563,950	41,398,313
General operating expense	5,453,155	5,220,931
Maintenance expense	1,116,236	1,258,786
Other operating expense	3,665,182	3,504,148
	<u>57,798,523</u>	<u>51,382,178</u>
Total purchased power and operating expenses		
Operating income	<u>2,282,496</u>	<u>2,885,202</u>
<b>Nonoperating Revenues (Expenses):</b>		
Interest paid on indebtedness	(888,753)	(537,208)
Interest earned on investments	651,276	216,270
Net amortization discount and premium on debt	(143,451)	(41,931)
Nonoperating income	45,829	46,072
	<u>(335,099)</u>	<u>(316,797)</u>
Total nonoperating revenues (expenses)		
Change in net assets	1,947,397	2,568,405
Net assets, beginning of year	<u>40,396,040</u>	<u>37,827,635</u>
NET ASSETS, END OF YEAR	<u><u>\$42,343,437</u></u>	<u><u>\$40,396,040</u></u>

See notes to financial statements.

**PADUCAH POWER SYSTEM**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30**

	<b>2009</b>	<b>2008</b>
<b>Cash Flows from Operating Activities:</b>		
Receipts from customers	\$ 56,167,664	\$ 51,753,605
Payments to suppliers	(47,674,755)	(45,289,093)
Payments to employees	(3,002,502)	(3,117,208)
Net cash provided by operating activities	<u>5,490,407</u>	<u>3,347,304</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Capital expenditures	(25,927,829)	(5,751,039)
Proceeds from issuance of long-term debt	166,877,669	-
Principal payments on long-term debt	(6,400,000)	(385,000)
Interest payments on long-term debt	(888,753)	(536,080)
Bond issuance costs	(2,942,567)	-
Conservation loans	(7,531)	14,333
Net proceeds (repayments) on line of credit	(2,039,362)	471,348
Non-utility property and other assets	<u>(16,669)</u>	<u>(14,779)</u>
Net cash provided (used) by capital and related financing activities	<u>128,654,958</u>	<u>(6,201,217)</u>
<b>Cash Flows from Investing Activities:</b>		
Purchases of investments	(964,639)	(986,321)
Proceeds from investments	959,753	935,099
Interest and dividends	651,276	216,270
Non-operating income	<u>45,829</u>	<u>46,072</u>
Net cash provided by investing activities	<u>692,219</u>	<u>211,120</u>
Net increase (decrease) in cash and cash equivalents	134,837,584	(2,642,793)
Cash and cash equivalents, beginning of year	<u>2,387,020</u>	<u>5,029,813</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$137,224,604</u></u>	<u><u>\$ 2,387,020</u></u>

(Continued)

**PADUCAH POWER SYSTEM**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30**

<b>Reconciliation of Operating Income to Net</b>	<b>2009</b>	<b>2008</b>
<b>Cash Provided by Operating Activities:</b>		
Operating income	\$ 2,282,496	\$ 2,885,202
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,742,681	2,684,155
Provision for losses on accounts receivable	875	3,661
Changes in operating assets and liabilities:		
Accounts receivable	(127,189)	(1,899,160)
Receivable from TVA	621,093	(621,093)
Grants receivable	(3,834,895)	-
Interest receivable	(538,357)	-
Materials and supplies	(235,299)	(195,530)
Prepaid expenses	(2,569)	55,901
Rent receivable	(3,217)	(3,063)
Other assets	(6,426)	9,549
Deferred credits	590,651	(114,349)
Accounts payable	646,692	480,481
Customer deposits	(24,334)	6,828
Accrued taxes and equivalents	71,956	52,133
Accrued interest payable	3,311,777	-
Other current and accrued liabilities	1,803	3,537
Deferred debit	(7,331)	(948)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 5,490,407</b>	<b>\$ 3,347,304</b>
<b>Schedule of Noncash Financing Activities:</b>		
Amortization of bond issue and discount costs	<u>\$ 143,451</u>	<u>\$ 41,931</u>

See notes to financial statements.

**PADUCAH POWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 1 – Summary of Significant Accounting Policies:**

**Entity**

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

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

The major accounting differences between GAAP and FERC are as follows:

- The System accounts for changes in plant in accordance with FERC accounting principles. Plant additions are recorded at cost less any contributions received, and gains and losses from plant retirements are charged to accumulated depreciation. Under GAAP accounting principles, plant additions are recorded at historical cost, contributions for plant additions are recognized as nonoperating revenue, and gains and losses from plant retirements are recognized in the income statement.
- The System accounts for revenues and purchases power in accordance with FERC accounting principles. Revenues are recognized under cycle billing and the cost of purchased power reflects costs through the 24<sup>th</sup> day of each reporting period. Accordingly, no accrual for unbilled revenues or purchased power costs would be reflected in the financial statements. Under GAAP accounting principles, revenues and expenses are recognized as incurred. Accordingly, an accrual for unbilled revenues and purchased power would be reflected in the financial statements.

**Revenue and Expense Recognition**

Paducah Power System utilizes cycle billing. At the end of each accounting period, revenue from electric service which has been rendered since the latest date of each cycle meter reading is not reflected in the current period operations. The wholesale cost of purchased power after the 24<sup>th</sup> of each reporting period is reflected in the following period operations. All operating expenses are recorded under the accrual method of accounting.

**Utility Plant**

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

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

(Continued)

**PADUCAH POWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 1 – Summary of Significant Accounting Policies:**

**Utility Plant**

The original cost of limited life property less estimated net salvage is depreciated by the straight-line method over the estimated useful service lives, using composite rates developed from depreciation studies by the Tennessee Valley Authority. Annual depreciation rates range from 2% to 20%.

**Other Property and Investments**

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

The depreciation fund consists of one-year certificates of deposit and funds invested in a money market account for the years ended June 30, 2009 and 2008. The certificates of deposit are recorded at cost which approximates fair market value at June 30, 2009 and 2008. The utilization of these funds is restricted.

**Receivables and Credit Policies**

Accounts receivable are uncollateralized customer obligations due under normal trade terms requiring payment within 20 days from the invoice mailing date. Unpaid accounts receivable with invoice mailing dates over 20 days old are subject to a 5% penalty on the outstanding balance. Customers are subject to disconnection after 30 days past invoice mailing date. Reconnections are subject to collection and reconnect fees.

Accounts receivable are stated at amounts billed to the customer plus any accrued penalties. Customer account balances with invoices dated over 60 days old are considered delinquent and subject to write-off. As of June 30, 2009 and 2008, receivables of \$126,932 and \$73,191 were over 60 days old.

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

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

**Investments**

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

**Materials and Supplies**

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

**Use of Estimates**

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

**Compensated Absences**

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

(Continued)

**PADUCAH POWER SYSTEM**  
NOTES TO FINANCIAL STATEMENTS

**Note 1 – Summary of Significant Accounting Policies:**

**Concentration of Credit Risk**

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

**Note 2 – Deposits and Investments:**

The investment policies of the System are governed by the State statute. In general, this requires that all deposits and investments, not covered by FDIC insurance, are to be collateralized. For the years ended June 30, 2009 and 2008, the System's operating and investment accounts were fully collateralized as required by State statute.

**Deposits**

The financial institution balances of the System's deposits were \$147,631,369 for the year ended June 30, 2009. The book balance was \$138,214,558 including \$2,900 of petty cash. Of the various financial institution balances at June 30, 2009, \$10,694,469 was insured by federal depository insurance, and the remaining balance of \$127,520,089 was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The remaining balance of \$127,520,089 was uninsured and collateralized by U.S. Treasury pooled investments not held in the System's name.

The financial institution balances of the System's deposits were \$3,276,057 for the year ended June 30, 2008. The book balance was \$3,372,089 including \$2,900 of petty cash. Of the various financial institution balances at June 30, 2008, \$1,186,828 was insured by federal depository insurance, and the remaining balance of \$2,089,229 was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The remaining balance of \$2,089,229 was uninsured and collateralized by U.S. Treasury pooled investments not held in the System's name.

**Investments**

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

<b>Restricted Investments:</b>	<b><u>2009</u></b>	<b><u>2008</u></b>
Sinking Fund:		
Money Market Fund	\$ 14,162,969	\$ 882,604
Total sinking fund	<u>14,162,969</u>	<u>882,604</u>
Construction Fund:		
Money Market Fund	120,268,515	-
Total construction fund	<u>120,268,515</u>	<u>-</u>
Depreciation Fund:		
Various certificates of deposit: \$99,000 - \$100,000; 3.55% to 3.80%; all maturing within one year	989,954	960,194
Money Market Fund	<u>54,515</u>	<u>62,529</u>
Total depreciation fund	<u>1,044,469</u>	<u>1,022,723</u>
<b>TOTAL RESTRICTED INVESTMENTS</b>	<b><u>\$135,475,953</u></b>	<b><u>\$1,905,327</u></b>

(Continued)

**PADUCAH POWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 2 – Deposits and Investments:**

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

**Note 3 – Capital Assets:**

Capital assets activity for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 1,406,069	\$ 647,895	\$ -	\$ 2,053,964
Construction in progress	813,354	21,387,342	-	22,200,696
Total capital assets not being depreciated	<u>2,219,423</u>	<u>22,035,237</u>	<u>-</u>	<u>24,254,660</u>
<b>Capital Assets Being Depreciated:</b>				
Transmission system	2,706,095	236,236	64,132	2,878,199
Distribution system	60,310,905	2,990,198	389,522	62,911,581
General plant	14,119,013	692,132	22,938	14,788,207
Total capital assets being depreciated	77,136,013	3,918,566	476,592	80,577,987
Less accumulated depreciation	<u>30,210,972</u>	<u>2,868,215</u>	<u>576,152</u>	<u>32,503,035</u>
Total capital assets being depreciated, net	<u>46,925,041</u>	<u>1,050,351</u>	<u>(99,560)</u>	<u>48,074,952</u>
<b>TOTAL CAPITAL ASSETS, NET</b>	<u>\$49,144,464</u>	<u>\$ 23,085,588</u>	<u>\$ (99,560)</u>	<u>\$72,329,612</u>

Depreciation expense totaled \$2,742,681 for the fiscal year ended June 30, 2009.

Capital asset activity for the year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 1,405,769	\$ 300	\$ -	\$ 1,406,069
Construction in progress	518,383	294,971	-	813,354
Total capital assets not being depreciated	<u>1,924,152</u>	<u>295,271</u>	<u>-</u>	<u>2,219,423</u>
<b>Capital Assets Being Depreciated:</b>				
Transmission system	2,641,833	70,527	6,265	2,706,095
Distribution system	57,657,209	4,660,311	2,006,615	60,310,905
General plant	13,566,428	689,138	136,553	14,119,013
Total capital assets being depreciated	73,865,470	5,419,976	2,149,433	77,136,013
Less accumulated depreciation	<u>29,712,041</u>	<u>2,684,155</u>	<u>2,185,224</u>	<u>30,210,972</u>
Total capital assets being depreciated, net	<u>44,153,429</u>	<u>2,735,821</u>	<u>(35,791)</u>	<u>46,925,041</u>
<b>TOTAL CAPITAL ASSETS, NET</b>	<u>\$46,077,581</u>	<u>\$ 3,031,092</u>	<u>\$ (35,791)</u>	<u>\$49,144,464</u>

Depreciation expense totaled \$2,684,155 for the fiscal year ended June 30, 2008.

(Continued)



**PADUCAH POWER SYSTEM**  
NOTES TO FINANCIAL STATEMENTS

**Note 4 – Accounts Payable:**

The elements comprising accounts payable are as follows:

	<u>2009</u>	<u>2008</u>
Due TVA for purchased power	\$4,019,398	\$3,808,857
Accounts payable, general	1,169,446	733,295
 TOTAL ACCOUNTS PAYABLE	 <u>\$5,188,844</u>	 <u>\$4,542,152</u>

The System had a line of credit with a local financial institution in the amount of \$2,500,000. The line bore interest at a variable rate of prime plus .20% and was secured by the System's deposit account with the lender. The short-term borrowing outstanding at June 30, 2009 and 2008, was \$0 and \$2,039,362, respectively. The interest rate was 5% as of June 30, 2008 and the agreement expired in September of 2008 and was not renewed. The purpose of this short-term debt was to provide liquidity to the System.

**Note 5 – Long-Term Indebtedness:**

**Bonds**

On November 1, 1998, the System issued \$3.35 million in special revenue refunding bonds with interest rates between 3.75% and 4.20%. The System issued the bonds to advance refund \$3.06 million of the outstanding series 1991 general obligation bonds with a 6.30% interest rate and were secured by all assets of the System. The System used the net proceeds along with other resources to purchase U.S. Government Securities. These Securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 1991 series bonds maturing on or after January 1, 2002. As a result, that portion of the 1991 series bonds is considered defeased and the System has removed the liability from its Statement of Net Assets.

On November 9, 2001, the System issued \$3.32 million in special revenue refunding bonds with interest rates between 3.00% and 4.25% which are secured by a first pledge of the net revenues of the System. The System issued the bonds to finance construction of a fiber optic network in the community.

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

Changes in outstanding bonds:

	<u>Total Series</u>	<u>Series 1998</u>	<u>Series 2001</u>	<u>Series 2009A</u>	<u>Series 2009B</u>
Balance at June 30, 2007	\$ 4,635,000	\$1,470,000	\$3,165,000	\$ -	\$ -
Increase	-	-	-	-	-
Decreases	385,000	345,000	40,000	-	-
 BALANCE AT JUNE 30, 2008	 <u>\$ 4,250,000</u>	 <u>\$1,125,000</u>	 <u>\$3,125,000</u>	 <u>\$ -</u>	 <u>\$ -</u>
 Balance at June 30, 2008	 \$ 4,250,000	 \$1,125,000	 \$3,125,000	 \$ -	 \$ -
Increases	170,255,000	-	-	161,730,000	8,525,000
Decreases	400,000	360,000	40,000	-	-
 BALANCE AT JUNE 30, 2009	 <u>\$174,105,000</u>	 <u>\$ 765,000</u>	 <u>\$3,085,000</u>	 <u>\$161,730,000</u>	 <u>\$8,525,000</u>

(Continued)

**PADUCAH POWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 5 – Long-Term Indebtedness:**

Total bond service to maturity:

<u>Maturities</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 415,000	\$ 157,970	\$ 572,970
2011	435,000	2,114,342	2,549,342
2012	4,395,000	7,940,279	12,335,279
2013	4,570,000	7,768,609	12,338,609
2014	5,625,000	7,565,451	13,190,451
2015-2019	25,240,000	35,256,539	60,496,539
2020-2024	28,505,000	30,263,469	58,768,469
2025-2029	36,030,000	22,750,884	58,780,884
2030-2034	46,550,000	12,229,875	58,779,875
2035-2039	22,340,000	1,189,125	23,529,125
<b>TOTALS</b>	<b><u>\$ 174,105,000</u></b>	<b><u>\$ 127,236,543</u></b>	<b><u>\$ 301,341,543</u></b>

For the years ended June 30, 2009 and 2008, bonds payable totaling \$170,708,849 and \$4,142,084, respectively, are recorded net of \$3,396,151 and \$107,916, respectively, in unamortized bond discount and advance refunding deferred charges.

**Notes Payable**

In August 2006, the System issued \$6 million in Bond Anticipation Notes (BAN's) with an interest rate of 4.31% that mature June 1, 2008. These BAN's were refinanced in June 2008 with an interest rate of 3.14% and a maturity date of June 1, 2010. These BAN's were retired in February 2009, following the Series 2009 bond issue.

**Note 6 – Tax Equivalents:**

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

**Note 7 – Pension Plan:**

The System participates in the County Employee's Retirement System (CERS), a cost-sharing multiple-employer defined benefit plan. If an employee elects to participate in the CERS, the contributions to the Employee Pension Plan are reduced by the amount required to be contributed to the CERS. The Plan provides retirement and disability benefits, cost of living adjustments, and death benefits to plan members and beneficiaries. The Kentucky Revised Statutes provided for the establishment of the system and benefit amendments are authorized by the State legislature. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by calling 1-502-564-4646.

(Continued)

**PADUCAH POWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 7 – Pension Plan:**

**Fund Policies**

Plan members of CERS are required to contribute 5.00% of their annual covered salary and the System provided a contribution rate of 13.50%, 16.17%, and 13.19% of the plan member's salary for the years ended June 30, 2009, 2008, and 2007, respectively. These actuarially determined rates are established and amended by the respective Board of Trustees of the systems and were equal to the required contributions for the year. The contribution requirements and the amounts contributed to CERS by the System were \$840,177, \$922,865, and \$729,701, for the years ended June 30, 2009, 2008, and 2007, respectively.

**Note 8 – Post Retirement Healthcare Benefits:**

In addition to the pension benefits described in Note 7, the System provides post-retirement healthcare benefits to employees who retired prior to the System's participation in the County Employee's Retirement System. The System pays 50% of the premiums for the employees for life. These benefits are financed on a pay-as-you-go basis.

For the year ended June 30, 2009, eight prior employees were receiving healthcare benefits. Post-retirement healthcare benefits totaled approximately \$11,045 for the year ended June 30, 2009.

For the year ended June 30, 2008, eight prior employees were receiving healthcare benefits. Post-retirement healthcare benefits totaled approximately \$12,121 for the year ended June 30, 2008.

**Note 9 – Leases:**

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

The System's rental expense was \$85,004 and \$81,705 and rental income was \$786,057 and \$619,300 for the fiscal years ended June 30, 2009 and 2008, respectively. Rental expense is reflected in general operating expense, and rental income is reflected in service revenue in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

**Note 10 – Commitments:**

The System entered into a power contract with the Tennessee Valley Authority which was effective October 1, 1997, wherein TVA agreed to produce and deliver to the System the electric power required for service to the System's customers. The contract is to continue in effect until December 2009.

As described further in Note 13, the System also entered into a financing agreement with Kentucky Municipal Power Agency as of June 30, 2005.

**Note 11 – Insurance and Related Activities:**

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

(Continued)

**PADUCAH POWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 12 – Receivables and Advances for Conservation Loans:**

The Tennessee Valley Authority offers assistance to the System's customers by providing loans for heat pumps. The System acts as a pass-through agent for TVA and accounts for these loans as deferred assets and credits. Temporary differences arise from timing difference of amounts recorded on the System's books versus TVA's books.

**Note 13 – Joint Venture:**

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

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

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

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

(Continued)

**PADUCAH POWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 13 – Joint Venture:**

During fiscal year 2008, \$114,170 in advances was made to KMPA from the System and as of June 30, 2008, they had been repaid in full by KMPA. During fiscal year 2009, \$26,832 in advances was made to KMPA from the System and as of June 30, 2009, they had been repaid in full by KMPA.

The System and the Electric Plant Board of Princeton, Kentucky do not have any equity interest in the joint venture; therefore, no equity interest has been reflected in the System's financial statements at June 30, 2009. Complete financial statements for KMPA can be obtained from Paducah Power's Accounting Department, P.O. Box 180, Paducah, Kentucky 42002-0180.

**Note 14 – Economic Dependency:**

As described in Note 10, the System is contractually committed to purchase power exclusively from Tennessee Valley Authority until December 2009. In the unlikely event the Tennessee Valley Authority is unable to supply the System with power, the System would have to purchase its power and energy requirements either at prevailing market prices from exempt wholesale generators or at just and reasonable prices from public utilities regulated by the Federal Energy Regulatory Commission.

**Note 15 – 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, 2009 and 2008, are as follows:

	<u>2009</u>	<u>2008</u>
Cash and temporary cash investments	\$ 2,738,605	\$1,466,762
Restricted cash and short-term investments:		
Sinking and Depreciation Funds	<u>134,485,999</u>	<u>920,258</u>
 TOTAL CASH AND CASH INVESTMENTS	 <u>\$ 137,224,604</u>	 <u>\$2,387,020</u>

**Supplemental Disclosure of Cash Flow Information**

During the year ended June 30, 2009, \$2,883,529 of interest was capitalized. No interest was capitalized during the year ended June 30, 2008.

## **SUPPLEMENTARY INFORMATION**

**PADUCAH POWER SYSTEM**  
**OPERATING EXPENSES**  
**YEARS ENDED JUNE 30**

<b>General Operating Expenses:</b>	<b>2009</b>	<b>2008</b>
Transmission:		
Supervision and engineering	\$ 7,194	\$ 7,827
Rent	7,490	2,976
Total transmission	<u>14,684</u>	<u>10,803</u>
Distribution expense:		
Supervision and engineering	160,429	169,276
Station expense	72,006	64,562
Overhead line expense	108,083	113,093
Underground line expense	115,246	92,411
Street lighting and signal expense	40,718	29,891
Meter expense	259,672	184,418
Customer installations expense	141,669	136,221
Miscellaneous	551,165	578,259
Rent/lease/purchase	85,004	81,705
Total distribution expense	<u>1,533,992</u>	<u>1,449,836</u>
Customer account expense:		
Meter reading expense	293,353	280,910
Customer records and collections	986,942	1,112,873
Uncollectible accounts	344,394	141,342
Total customer account expense	<u>1,624,689</u>	<u>1,535,125</u>
Sales expense:		
Demonstration and selling	196,296	240,986
Advertising	106,715	104,840
Total sales expense	<u>303,011</u>	<u>345,826</u>
Administrative and general:		
Salaries	648,979	647,007
Office supplies and expense	378,231	316,990
Outside services employment	265,329	273,924
Property insurance	269,084	293,083
Company use of electricity	(121,163)	(95,538)
Miscellaneous and general expense	536,319	443,875
Total administrative and general	<u>1,976,779</u>	<u>1,879,341</u>
<b>TOTAL GENERAL OPERATING EXPENSES</b>	<u><u>\$5,453,155</u></u>	<u><u>\$5,220,931</u></u>

(Continued)

**PADUCAH POWER SYSTEM**  
**OPERATING EXPENSES**  
**YEARS ENDED JUNE 30**

	<u>2009</u>	<u>2008</u>
<b>Maintenance Expense:</b>		
Transmission:		
Supervision and engineering	\$ 7,120	\$ 9,975
Total transmission	<u>7,120</u>	<u>9,975</u>
Distribution:		
Supervision and engineering	35,055	35,548
Maintenance of station equipment	232,523	165,170
Maintenance of overhead lines	597,024	711,104
Maintenance of underground lines	28,212	38,488
Maintenance of line transformers	67,589	143,706
Street lighting and signals	2,170	576
Maintenance of meters	48,475	64,414
Maintenance of miscellaneous plant	<u>2,897</u>	<u>12,199</u>
Total distribution	<u>1,013,945</u>	<u>1,171,205</u>
Administrative and general	<u>95,171</u>	<u>77,606</u>
<b>TOTAL MAINTENANCE EXPENSE</b>	<u><u>\$1,116,236</u></u>	<u><u>\$1,258,786</u></u>
<b>Other Operating Expenses:</b>		
Depreciation	\$2,742,681	\$2,684,155
Taxes and equivalents	<u>922,501</u>	<u>819,993</u>
<b>TOTAL OTHER OPERATING EXPENSES</b>	<u><u>\$3,665,182</u></u>	<u><u>\$3,504,148</u></u>



**PADUCAH POWER SYSTEM**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

<u>Federal Grantor/Pass-Through Grantor/Program Title:</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor Number</u>	<u>2009 Federal Expenditures</u>
<b>Department of Homeland Security</b> Passed-through the Kentucky Division of Emergency Management, Commonwealth of Kentucky FEMA Public Assistance Grant	97.036	N/A	<u>\$3,298,015</u>
<b>TOTAL FEDERAL AWARDS</b>			<u><u>\$3,298,015</u></u>

**Note 1 - Basis of Presentation:**

The schedule of expenditures of federal awards includes the federal grant activity of Paducah Power System and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

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**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***

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

We have audited the financial statements of Paducah Power System as of and for the years ended June 30, 2009 and 2008, and have issued our report thereon dated November 5, 2009. 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.

**Internal Control Over Financial Reporting**

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Paducah Power System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Paducah Power System's financial statements that is more than inconsequential will not be prevented or detected by Paducah Power System's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Paducah Power System's internal control.

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 that might be 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 Paducah Power System'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 audit committee, Board of Directors, and City Commission of the City of Paducah, Kentucky and the Tennessee Valley Authority, and is not intended to be and should not be used by anyone other than these specified parties.

*Williams, Williams & Zentz LLP*

November 5, 2009

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**Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal  
Control Over Compliance In Accordance  
With OMB Circular A-133**

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

**Compliance**

We have audited the compliance of Paducah Power System, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. Paducah Power System's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Paducah Power System's management. Our responsibility is to express an opinion on Paducah Power System's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Paducah Power System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Paducah Power System's compliance with those requirements.

In our opinion, Paducah Power System, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

**Internal Control Over Compliance**

The management of Paducah Power System, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Paducah Power System's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Paducah Power System's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely

affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of management, the audit committee, Board of Directors, and City Commission of the City of Paducah, Kentucky and the Tennessee Valley Authority, and is not intended to be and should not be used by anyone other than these specified parties.

*Williams, Williams & Zenz LLP*

November 5, 2009

**PADUCAH POWER SYSTEM**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2009**

**Summary of Audit Results**

1. The auditor's report expresses an unqualified opinion on the financial statements of Paducah Power System.
2. No instances of noncompliance material to the financial statements of Paducah Power System were disclosed during the audit.
3. The auditor's report on compliance for the major federal award program for Paducah Power System expresses an unqualified opinion on the major federal program.
4. There are no audit findings relative to the major federal award program for Paducah Power System.
5. The program tested as a major program included:

<u>Name</u>
FEMA Public Assistance Grant

<u>CFDA #</u>
97.036

6. The threshold for distinguishing Types A and B programs was \$300,000.
7. Paducah Power System was not determined to be a low-risk auditee.

**Findings – Financial Statements Audit**

None

**Findings and Questioned Costs – Major Federal Awards Programs**

None

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## **APPENDIX F**

### **KENTUCKY MUNICIPAL POWER AGENCY POWER SYSTEM REVENUE BONDS, SERIES 2010**

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**Audited Financial Statements of the Princeton Electric Plant Board  
For Fiscal Years Ended June 30, 2009 and 2008**



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**PRINCETON ELECTRIC PLANT BOARD  
FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION  
YEAR ENDED JUNE 30, 2009  
AND  
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Princeton Electric Plant Board

We have audited the accompanying financial statements of the business-type activities of Princeton Electric Plant Board, as of and for the year ended June 30, 2009, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Princeton Electric Plant Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1, Princeton Electric Plant Board, has prepared these financial statements using accounting practices prescribed or permitted by the Federal Energy Regulatory Commission, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly the financial position of the Princeton Electric Plant Board, as of June 30, 2009, and the respective changes in financial position, and cash flows, where applicable, thereof for the year 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 September 18, 2009, on our consideration of the Princeton Electric Plant Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 audit.

The management's discussion on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Statement of Operating Expenses on page 20 is not a required part of the basic financial statements but is presented for purposes of additional analysis. The Statement of Operating Expenses has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Princeton Electric Plant Board's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Princeton Electric Plant Board. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Thurman Campbell Group, PLLC*

Princeton, KY

September 18, 2009

# **Princeton Electric Plant Board**

## **Management Discussion and Analysis**

### **Fiscal Year 2009**

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As management of Princeton Electric Plant Board (PEPB), we offer the readers of PEPB financial statements this narrative overview and analysis of the financial activities of PEPB for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information furnished in this report.

#### **Financial Highlights**

The assets of PEPB exceeded its liabilities at the close of the most recent fiscal year by \$9,848,056 (equity). Of this amount, \$149,430 is restricted to be used to meet PEPB's ongoing obligations to bond covenants.

PEPB's total equity increased by \$252,657 from the prior fiscal year.

Operating income for the year ended June 30, 2009 was \$252,657 compared to the June 30, 2008 operating income of \$263,775.

#### **Overview Of The Financial Statements**

This discussion and analysis is intended to serve as an introduction to PEPB financial statements. PEPB is a municipal corporation operating under the provisions of KRS 96.550 – KRS 96.90 (Little TVA Act), and its activities are independent from the City of Princeton. These financial statements include only the activities for PEPB.

PEPB's basic financial statements include a statement of net assets, statement of revenues, expenses, and changes in net assets, statement of cash flows and notes to the financial statements. As recommended by GASB No. 34, PEPB, as a special purpose government engaged only in business-type activities, presents a statement of operating expenses as supplementary information.

PEPB's financial statements are prepared on the regulatory basis of accounting as described in Note 1 to the financial statements.

**Statement of Net Assets.** The statement of net assets presents information on all PEPB assets and liabilities with the difference reported as net assets. Monitoring increases and/or decreases in net assets may serve as a useful indicator of whether the financial position of PEPB is improving, deteriorating, or stagnating.

The Statement of Net Assets can be found on page 7 of this report.

**Statement of Revenues, Expenses, and Changes in Net Assets.** The statement of revenues, expenses and changes in net assets presents information showing how PEPB's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Revenues are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The Statement of Revenues, Expenses, and Changes in Net Assets can be found on page 8 of this report.

**Statement of Cash Flows.** The statement of cash flows presents information on the effects changes in assets and liabilities have on cash during the course of the fiscal year.

The Statements of Cash Flows can be found on page 9 of this report.

**Notes to Financial Statements.** These notes provide additional information crucial to understanding data provided in the government-wide and fund financial statements. Notes to the financial statements can be found at pages 10-17 of this report.

**Supplementary Information.** Supplementary Information consists of the Statements of Operating Expenses. Supplementary information, not required, can be found on page 20 of this report.

#### **Financial Analysis**

As noted earlier, equity (also called total net assets) may serve over time as a useful indicator of the fund's financial position. In the case of PEPB, assets exceeded liabilities by \$9,848,056 at the close of the most recent fiscal year.

PEPB's overall financial position and operations for the past two years are summarized as follows based on the information included in the basic financial statements.

# Princeton Electric Plant Board

## Management Discussion and Analysis

### Fiscal Year 2009

	Business-type Activities	
	2009	2008
<b>Assets:</b>		
Current and other assets	\$ 7,393,995	\$ 11,548,755
Capital assets	<u>17,364,918</u>	<u>10,165,877</u>
<b>Total assets</b>	<b>24,758,913</b>	<b>21,714,432</b>
<b>Liabilities:</b>		
Long-term liabilities outstanding	1,607,676	10,354,154
Other liabilities	<u>13,303,181</u>	<u>1,764,879</u>
<b>Total liabilities</b>	<b>14,910,857</b>	<b>12,119,033</b>
<b>Net assets</b>		
Invested in capital assets	8,697,902	8,654,437
Restricted	149,430	74,930
Unrestricted	<u>1,000,724</u>	<u>866,032</u>
<b>Total net assets</b>	<b>\$ 9,848,056</b>	<b>\$ 9,595,399</b>

A portion of PEPB's net assets (\$8,697,902) reflects its investment in net plant, such as substations, transmission, and distribution facilities, less any related outstanding debt used to acquire those assets. PEPB uses these assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the assets themselves cannot be used to liquidate these long-term liabilities. See Notes 2 and 6 in the Notes to Financial Statements.

The unrestricted portion of PEPB's net assets (\$1,000,724) may be used to meet PEPB's ongoing obligations to creditors and customers.

	Business-type Activities	
	2009	2008
<b>Revenues:</b>		
Program services:		
Charges for services	\$ 10,762,751	\$ 9,673,698
General revenues:		
Miscellaneous		2,299
Investments earnings	<u>26,879</u>	<u>48,714</u>
<b>Total revenues</b>	<b>10,789,630</b>	<b>9,724,711</b>
<b>Expenses:</b>		
Electric utility	10,526,432	9,442,326
Interest on debt	<u>11,541</u>	<u>18,610</u>
<b>Total expenses</b>	<b>10,536,973</b>	<b>9,460,936</b>
<b>Increase (decrease) in net assets</b>	<b>252,657</b>	<b>263,775</b>
<b>Net assets, beginning</b>	<b><u>9,595,399</u></b>	<b><u>9,331,624</u></b>
<b>Net assets, ending</b>	<b>\$ 9,848,056</b>	<b>\$ 9,595,399</b>

PEPB sold 106,534,059 kWh in FY 2009 generating electric revenues of \$10,762,751, which is higher than the previous year due to the commercial and industrial sales growth. Total sales revenue is up \$1,089,053 over the previous year.

Retail Sales Breakdown: residential 34%, small commercial 12%, industrial 52%, and lighting 2%.

Total Operating expenses are \$10,525,432 for the year, which is \$1,083,106 more than the previous year.

# **Princeton Electric Plant Board Management Discussion and Analysis Fiscal Year 2009**

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*EnergyRight* incentives are \$4,050.

PEPB purchased 109,508,823 kWh at a cost of \$8,133,473 (75% of revenue) from TVA during the year which represents a 13% increase from the prior year.

Purchases exceeded sales by 2,503,923 kWh (disregarding kWh for plant board use) during the year representing 2.29% losses.

Taxes and equivalents are \$501,376 during the year, which is more than a year ago. Interest charges are \$19,165 during the year, which is less than a year ago. Net Plant increase to \$17,364,918 from \$10,165,677. Total liabilities increased to \$14,910,857 related to the issuance of long term debt for capital projects.

Cash and Equivalents decreased to \$3,754,508 at the end of June. The fluctuation was due to issuance of debt, construction cost, and storm damage repairs for Hurricane Ike and the 2009 Ice Storm. PEPB system damage incurred related to the Hurricane Ike and 2009 Ice Storm approached \$1,000,000 of which 85% will be reimbursed by FEMA and Kentucky State Agencies. PEPB's net income is \$252,657 compared with \$263,775 for the previous year. Cash flows continue at good levels.

Total Operating Expenses Breakdown: Purchased Power 76.0%, Operations 10%, Maintenance 4%, Depreciation 5%, and Taxes 5%.

PEPB participates in the PlusOne Program. Under the program, customers add \$1 to each monthly bill and PEPB forwards it to the Caldwell County Ministerial Association. The Association uses the funds to assist needy residents with electric bills. Customers contributed \$2,924 for the year.

PEPB continues to take an active leadership roll working with American Public Power Association (APPA) to sustain development of the Reliable Public Power Provider (RP3). APPA has adopted the RP3 program nationwide and copyrighted the program name. PEPB applied for recognition as a Reliable Public Power Provider. The RP3 Program has resulted in lower workers compensations insurance cost and improve customer satisfaction.

PEPB achieved the distinction as a Drug Free Workplace by the Kentucky League of Cities which resulted in a reduction of Workers Comp Insurance premiums of five percent.

Contract tree trimming expenses were \$122,180 for the period ending June 30, 2009.

PEPB contributed more than \$16,510 to local entities during the year.

PEPB Board and management have actively sought a source of lower priced wholesale power. Contract termination notice was given to TVA to be effective January 2010. Shortly thereafter, PEPB and Paducah Power System jointly formed the Kentucky Municipal Power Agency under Kentucky law to participate in the development and ownership of the Prairie State Energy Campus in southern Illinois. KMPA will be entitled to receive 124MW from the Prairie State Energy Campus, from which PEPB will receive 20 MW through a power sales agreement with KMPA. The plant is approximately twenty-five percent complete and is on schedule and budget to date. KMPA anticipates going to the municipal bond market in the summer of 2010.

PEPB continues to explore intermediate power supply options through its membership in KMPA, including the studying and feasibility analysis of potential hydroelectric projects. PEPB has become a member of American Municipal Power, Inc and will receive about 3-MW from the output of the new hydro-generation units being constructed on the navigation locks on the Ohio River.

PEPB has identified plans to install 14 MW of diesel fired peaking power supply options in the Princeton Industrial Park and has acquired fee simple title to the property, upon which the peaking generation will be constructed. Development of the generation assets is underway.

KMPA has obtained a Network Operating Agreement with LG&E to construct a 161-kV transmission line for the purpose of interconnecting with KU/LGE. The transmission line will provide a path for the baseload generation from Prairie State. The final System Impact Study has been issued by Southwest Power Pool and KU/LGE concerning this matter. LG&E has agreed that there are no system improvement costs associated with PEPB system load. The 161-kv transmission line is nearly complete and is expected to be ready for use to transmit wholesale power under the NITSA/NOA arrangements.



**Princeton Electric Plant Board  
Management Discussion and Analysis  
Fiscal Year 2009**

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PEPB expects to be able to lower its wholesale power cost by 10 % to 15% over a twenty-year period.

**Capital Assets**

At the end of June 30, 2009 PEPB had \$16.5 million invested in capital assets. (See table below.) This represents a net increase of 12.4% over last year. As of June 30, 2009 capital assets were as follows:

Business-type activities:	
Land & land rights	\$ 183,237
Structures & improvements	1,453,538
Transmission & distribution	12,783,740
Office furniture & fixtures	212,469
Transportation	720,946
Other general equipment	1,186,798
	<u>\$ 16,540,729</u>

PEPB is in the process of upgrading transmission and distribution lines in anticipation of the switch to Prairie State power purchases.

Additional information on PEPB's capital assets can be found in Note 2 in the footnotes at page 10.

**Debt**

At year-end, PEPB had \$11,738,088 in outstanding debt compared to \$10,354,154 last year.

Business-type Activities	
Bond issue	\$ 100,000
TVA Loan	1,548,000
Note Payable-US Bank	10,000,000
Note payable-First Southern National	90,088
Total debt	<u>\$ 11,738,088</u>

Additional information on PEPB's debt can be found in Note 6 in the footnotes to the financial statements.

**OTHER SERVICES**

PEPB began offering wireless broadband services to the Princeton, Kentucky area in February 2006. PEPBOnline utilizes a Navini 2.4-GHz radio system. With an investment of \$753,699 for the antennas and peripheral equipment, the PEPB currently serves approximately 370 customers. This was accomplished through the addition of only one full-time employee. PEPB is considering expanding the service to all of Caldwell County, Kentucky and discussions are ongoing with some remote areas in adjacent counties that do not have access to broadband service.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of Princeton Electric Plant Board's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to John Humphries, Manager, Princeton Electric Plant Board, 304 East Legion Drive, Princeton, KY 42445.

Princeton Electric Plant Board  
Statement of Net Assets  
June 30, 2009

<b>ASSETS</b>	<u>2009</u>
Current assets:	
Cash and cash equivalents	\$ 3,754,508
Special funds	589,467
Accounts receivable	1,261,900
Other receivables	837,560
Inventories	293,804
Prepaid expenses	68,977
Total current assets	<u>6,806,216</u>
Noncurrent assets:	
Special funds - restricted	405,997
Deferred charges	181,782
Capital assets:	
Electric plant	16,540,728
Construction in progress	7,301,905
Less accumulated depreciation	<u>(6,477,715)</u>
Total noncurrent assets	<u>17,952,697</u>
Total assets	<u>24,758,913</u>
<b>LIABILITIES</b>	
Current liabilities:	
Current maturities of long term debt	11,715,050
Accounts payable	1,341,296
Construction payable	1,196,383
Consumer deposits	260,055
Accrued liabilities:	
Payroll and other taxes	121,861
Vacation and sick pay	146,401
Interest	13,646
Other	53,735
Deferred credits	<u>2,754</u>
Total current liabilities	<u>14,851,181</u>
Noncurrent liabilities:	
Advances from others	36,638
Long-term debt less current maturities	<u>23,038</u>
Total noncurrent liabilities	<u>59,676</u>
Total liabilities	<u>14,910,857</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	8,697,902
Restricted for debt service/covenants	149,430
Unrestricted	<u>1,000,724</u>
Total net assets	<u>\$ 9,848,056</u>

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

Princeton Electric Plant Board  
Statement of Revenues, Expenses and Changes in Net Assets  
Year ended June 30, 2009

	<u>2009</u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 10,460,942
Rent from electric property	72,161
Consumers' forfeited documents	66,632
Other	<u>163,016</u>
Total operating revenue	<u>10,762,751</u>
<b>OPERATING EXPENSES</b>	
Power purchased	8,108,755
Distribution and expenses	409,702
Maintenance	433,160
Accounting and collecting	219,255
Sales promotion	26,840
Administration and general	518,458
Depreciation and amortization	603,628
Taxes	<u>185,363</u>
Total operating expenses	<u>10,505,161</u>
Operating income	<u>257,590</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	26,878
Interest expense	(11,540)
Miscellaneous expense	<u>(20,271)</u>
Total nonoperating revenues (expenses)	<u>(4,933)</u>
Change in net assets	<u>252,657</u>
Total net assets, beginning of year	<u>9,595,399</u>
Total net assets, end of year	<u><u>\$ 9,848,056</u></u>

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

PRINCETON ELECTRIC PLANT BOARD  
STATEMENTS OF CASH FLOW  
Year Ended June 30, 2009

	<u>2009</u>
Cash flows from operating activities:	
Cash received from customers	\$ 10,667,955
Cash payments to suppliers for goods and services	(9,188,935)
Cash remitted to City for assessments	(399,246)
Cash payments to employees for services	(962,246)
Cash payments for interest on customer deposits	(4,589)
Net cash provided (used) by operating activities	<u>112,939</u>
Cash flows from non-capital financing activities:	
Subsidies to other entities	(20,271)
Remittance of TVA customer payments	(11,759)
Net cash provided (used) by non-capital financing activities	<u>(32,030)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of property, plant and equipment	(6,606,485)
Borrowings on long term debt	1,548,000
Principal payments on long-term debt	(164,066)
Interest paid on long-term debt	(11,540)
Net cash provided (used) for capital and related financing activities	<u>(5,234,091)</u>
Cash flows from investing activities:	
Interest on investments	26,878
Net cash provided (used) by investing activities	<u>26,878</u>
Net increase (decrease) in cash and cash equivalents	(5,126,303)
Cash and cash equivalents, beginning of year	<u>9,876,275</u>
Cash and cash equivalents, end of year	<u>\$ 4,749,972</u>
Cash and cash equivalents:	
Cash and cash equivalents	\$ 3,754,508
Special funds	589,487
Special funds - restricted	405,997
Total cash and cash equivalents	<u>\$ 4,749,972</u>
Operating Income	\$ 257,590
Adjustments-operating activities	
Depreciation and amortization	603,628
(Increase) decrease in:	
Accounts receivable	(106,058)
Other receivables	(808,904)
Inventories	(78,756)
Prepaid expenses	3,727
Deferred charges	18,446
Increase (decrease) in:	
Accounts payable	153,362
Accrued interest	6,217
Customer deposits	11,262
Accrued liabilities	62,248
Deferred credits	(9,823)
Net cash provided (used) by operating activities	<u>\$ 112,939</u>

**PRINCETON ELECTRIC PLANT BOARD  
NOTES TO THE FINANCIAL STATEMENTS**

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** - The City of Princeton authorized the Electric Plant Board to serve the needs of its approximately 4,000 customers under KRS 96.550-900.. The Princeton Electric Plant Board currently purchases power from Tennessee Valley Authority. TVA is the Board's sole supplier of power which is specified in a power contract between the two parties. The power contract was last renewed in 1997 and is automatically extended for five years. Either party may terminate the contract at any time upon not less than 5 years prior written notice.

**Principles determining scope of reporting entity** - Princeton Electric Plant Board is considered a related organization of the City of Princeton. The City of Princeton is not financially accountable for the Board. However, Board Members are appointed by the Mayor.

**Measurement focus, basis of accounting, and financial statement presentation**-The financial statements are presented on the regulatory basis of accounting. Under KRS 96.550-900 (Little TVA Act), the board of directors of municipal corporations determine accounting policies under which the utility will operate. The board of directors have elected to use accounting policies established by the Federal Energy Regulatory Commission (FERC). FERC guidelines follow generally accepted accounting principles with the following significant modifications:

- Capital assets are removed from service at the average cost of the asset category when upgrades or repairs are necessary. The replacements are placed in service at acquisition cost. No gain or loss is recognized as a result of the transaction.
- The cost of removal of assets is charged to accumulated depreciation.
- Discounts on long-term debt are amortized over the life of the debt issuance.

**Fund accounting** - The Board uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Board is considered a proprietary fund.

In accordance with Government Accounting Standards Board No. 20, paragraph 7, the Board has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989 for its proprietary activities.

Operating revenues and expenses are distinguished from non-operating items in the statement of revenues, expenses and changes in net assets. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Principal operating revenues of the Board are charges to customers for electricity use. Operating expenses include the cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Board has elected to apply restricted assets first for obligations in which both restricted and unrestricted assets are available.

**Revenue recognition** -Revenues are recognized when earned and expenses are recognized when incurred. Electric Plant Board customers are billed monthly. Unbilled electric service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$388,340 at June 30, 2009.

**Fixed assets** - Fixed assets are carried at cost. Depreciation is computed using the straight-line method. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized. Deduction is made for retirements resulting from renewals or betterments.

The electric plant is accounted for in accordance with the requirements of the Federal Energy Regulatory Commission's system of accounts. The electric plant was initially recorded at the original cost to the Kentucky Utilities Company, the entity first developing it for public service. The difference between the Princeton Electric Plant Board's purchase price and the Kentucky Utilities Company's original cost, less depreciation, was included in acquisition adjustments, which were written off over a 20-year period along with other costs of acquisition included therein. In addition, the cost of removal of assets is charged to accumulated depreciation.

PRINCETON ELECTRIC PLANT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Accounts receivable** - The Board grants credit to its customers, all of whom are residents or businesses located in Princeton, and Caldwell County, Kentucky. The Board's policy is to write off uncollectible accounts in the year they are deemed to be uncollectible. The Board determined that no need existed to provide for an allowance for uncollectible accounts at June 30, 2009.

**Inventories** - Inventories are stated at average cost.

**Cash and cash equivalents** - For purposes of the statements of cash flows, the Board considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. Cash and cash equivalents include the special funds detailed in Note 4.

**Sick leave benefits** - The Board compensates employees for sick leave benefits. The Board has adopted the termination payment method to calculate the liability related to compensated absences for sick leave.

**Accounting estimates** - The preparation of financial statements in conformity with regulatory accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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.

2 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

Business-type Activity:

	June 30			
	2008	Additions	Deletions	2009
Land and land rights	\$ 139,320	\$ 43,916	\$ -	\$ 183,236
Structures and improvements	1,446,636	6,903	-	1,453,539
Transmission and distribution equipment	11,463,344	1,353,827	33,431	12,783,740
Office furniture and fixtures	198,697	15,567	1,795	212,469
Transportation equipment	821,109	30,589	130,751	720,946
Other general equipment	639,181	551,527	3,910	1,186,798
Totals at historical costs	14,708,287	2,002,329	169,888	16,540,728
Less accumulated depreciation:				
Structures and improvements	285,001	50,672	-	335,673
Transmission and distribution equipment	4,851,576	502,262	54,534	5,299,304
Office furniture and fixtures	20,021	12,296	1,795	30,522
Transportation equipment	499,965	66,333	130,751	435,546
Other general equipment	342,929	37,652	3,910	376,671
Total accumulated depreciation	5,999,492	669,215	190,990	6,477,717
Business type capital assets, net	\$ 8,708,795	\$ 1,333,114	\$ (21,103)	\$ 10,063,012

Depreciation charged to income was \$601,787 for 2009 of which \$51,323 represents depreciation on transportation and power operated equipment, which is allocated to various expense accounts.

PRINCETON ELECTRIC PLANT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

2 CAPITAL ASSETS (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. At June 30, 2009 a total of \$7,301,905 of assets were under construction and not included in the capital assets information above. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Board during the current fiscal year was \$11,540.

In accordance with accounting standards prescribed by the Federal Energy Regulatory Commission, applicable to electric utilities, cost of removal of assets are reported as reductions of accumulated depreciation and evaluated periodically for valuation. This method is not considered a departure from generally accepted accounting principles because it reflects the economic effects on the rate-making process of a public utility in accordance with FASB Statement No. 71 *Accounting for the Effects of Certain Types of Regulation*.

3 DEPOSITS

The Board has adopted Governmental Accounting Standards Board (GASB) Statement No. 40 effective July 1, 2005. GASB 40 is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. There are risks inherent in all deposits and investments, and GASB believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. Deposit and investment resources often represent significant assets of the governmental fund. These resources are necessary for the delivery of governmental services and programs. GASB 40, as it applies to the Board, includes disclosure of the following:

- Common deposit risks related to credit risk; and
- Deposit policies related to those risks.

As of June 30, 2009, the carrying amount of the Authority's deposits was \$4,749,971 and the bank balance was \$4,259,066. As of June 30, 2009, the authority's deposits were categorized as follows:

Insured by FDIC coverage	\$ 500,000
Uninsured and collateralized with securities held by the pledging financial institution	1,861,516
Uninsured and uncollateralized	<u>1,897,550</u>
Total	<u>\$ 4,259,066</u>

Custodial credit risk is defined as the risk that a government will not be able to recover its deposits, investments, or collateral from the bank in the event of bank failure.

The Board does not have a deposit policy.

PRINCETON ELECTRIC PLANT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

4 SPECIAL FUNDS

	2009
Revenue Bond Sinking Fund for 1999 Series	\$ 74,430
Depreciation Fund	75,000
Board Designated Depreciation Fund	406,195
Cash Restricted for Customer Deposits	256,567
Tax Equivalent Fund	62,748
Insurance Fund	79,109
Unemployment Insurance Fund	41,415
	<hr/>
	\$ 995,464

The Revenue Bond Sinking Fund and the Depreciation Fund were established and are being maintained in accordance with the bond resolution of the Princeton Electric Plant Board dated January 1, 1999. These accounts are reported as restricted in the Statement of Net Assets.

Current revenues are deposited daily in the temporary investment account, which earns interest at the passbook rate. Deposits to the Revenue Fund are made as needed from the temporary investment account. Disbursements from this fund are made into the following funds as required by the bond covenants and are more fully described in subsequent paragraphs:

- (1) Operation and Maintenance Fund
- (2) Depreciation Fund
- (3) Revenue Bonds Sinking Funds

On the first day of each month there is to be withdrawn from the revenue fund, and deposited to the operation and maintenance fund, an amount sufficient to pay the reasonably necessary monthly costs of operating and maintaining the plant. This fund is reported on the balance sheet as cash for general use.

The bond covenants require the sum of \$6,000 annually, in equal monthly payments be set aside into the Depreciation Fund until \$75,000 has been accumulated within five years from the date of delivery of the bonds. At June 30, 2008, the Depreciation Fund was fully funded. Disbursements from this fund are restricted to expenditures for renewals, replacements, extensions, improvements, acquisitions, and additions to the electric plant.

In May 1995, the Board established an additional Depreciation Fund for the purpose of providing for future building renovation. There are no restrictions on disbursements from this fund. The Board has retained control over these assets and may, at its discretion, use them for other purposes. If funds are available, \$30,000 per month is to be allocated to this fund.

There is being deposited into the Revenue Bond Sinking Fund Series of 1999 an amount equal to one-sixth of the next succeeding six-month interest installment to become due on the Bonds then outstanding, plus one-twelfth of the principal of any Bonds maturing on the next succeeding November 1.

The revenue bond sinking funds are restricted in their use to the payment of interest and principal on the bonds outstanding under the authority of the bond resolutions.

Customer deposits are held in the general operating account. The amount of customer deposits has been reclassified as a restricted asset.

The insurance fund, the tax equivalent fund, the unemployment insurance fund, and the board designated depreciation fund facilitate the payment of these annual expenses. These funds are not required by the bond resolutions.



PRINCETON ELECTRIC PLANT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

5 DEFERRED CHARGES

Deferred charges consist of the following:

Unamortized debt expense	\$ 145,144
Receivables from customers from conservation loans	<u>36,639</u>
	<u>\$ 181,783</u>

6 LONG-TERM DEBT

Business-type activities:

	June 30			
	2008	Additions	Reductions	2009
Revenue bonds - 1999 Series	\$ 200,000	\$ -	\$ 100,000	\$ 100,000
First Southern National Bank	154,154	-	64,066	90,088
TVA Loan		1,548,000.00		1,548,000
US Bank	10,000,000		-	10,000,000
	<u>\$ 10,354,154</u>	<u>\$ 1,548,000</u>	<u>\$ 164,066</u>	<u>\$ 11,738,088</u>

During 1999, the Board adopted a resolution to issue \$910,000 principal "City of Princeton Electric Plant Board Revenue Bonds, Series 1999" for the purpose of advance refunding the outstanding \$815,000 "City of Princeton Electric Plant Board Revenue Bonds Series 1989" and to pay \$95,000 costs incident to the issuance of the Bonds. The result of this issue and advance refunding is expected to yield a net savings of \$56,021 over the next twelve years, or \$4,668 annually.

Originally, during 1989, the board adopted a resolution to issue \$980,000 principal "City of Princeton Electric Plant Board Revenue Bonds Series 1989" for the purpose of adding to and improving the electric system by the acquisition of a warehouse facility, a substation facility, construction vehicles and the testing and retrofit of PCB transformers and the refunding of certain short-term bank notes.

Interest is paid each May 1 and November 1. The bonds are to mature in annual installments in accordance with the schedule presented below:

Maturity date	Interest	Amount
November 1	Rate	
2010	4.40%	100,000
		<u>\$ 100,000</u>

All the revenue bonds are payable solely from and secured by a first pledge of the electric revenues. So long as any of the bonds are outstanding and unpaid, the Board will ensure that the electric plant be continuously operated and maintained in good condition, rates and charges for services rendered will be imposed and collected so that gross revenues will be sufficient at all times to provide for the payment of the operation and maintenance of the electric plant, to maintain the Depreciation Fund and the Sinking Fund described in Note 4 and to make tax equivalent payments.

In the event there would be a default in the payment of interest on or the principal of the Bonds promptly when due, any balance then on deposit in the Depreciation Fund may be withdrawn and applied to such extent as may be necessary in order to prevent such default, and any investments held for the account of the Depreciation Fund

PRINCETON ELECTRIC PLANT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

6 LONG-TERM DEBT (Continued)

be converted into cash if and to the extent required for such purpose; but such withdrawals shall be deemed to be advances from the Depreciation Fund and the amount thereof shall be restored as soon as moneys are available.

The Plant may be sold, leased or otherwise disposed of only as a whole or substantially as a whole and then only if the proceeds to be realized there from, together with any moneys in the Sinking Fund are sufficient fully to redeem at the then current redemption prices all outstanding bonds and other obligations payable from the net revenues of the Board.

The bond covenants require that the rates for all utility services rendered by the Board must be reasonable, the Board must be audited annually and must maintain adequate fire and windstorm insurance. The net revenues of the Board must be equal to 110% of the maximum annual debt service that will be due in each calendar year for both principal and interest on the bonds.

Bond requirements are as follows:

	Principal	Interest	Total
2010	100,000	2,200	102,200
Total	<u>\$ 100,000</u>	<u>\$ 2,200</u>	<u>\$ 102,200</u>

On October 6, 2005, the Board obtained a \$311,388 loan at 4½% for 60 months from First Southern National Bank. The loan calls for monthly payments of principal and interest totaling \$5,814. The purpose of the loan was to establish wireless broadband service for the Princeton, Kentucky area.

Loan requirements are as follows:

	Principal	Interest	Total
2010	67,050	2,722	69,772
2011	23,038	220	23,258
Total	<u>\$ 90,088</u>	<u>\$ 2,942</u>	<u>\$ 93,030</u>

In June 2008, the board established a bond anticipation note in the amount of \$10,000,000. Interest is 3.14% and the demand note is due July 1, 2010. There are no principle payments required until July 1, 2010 when the full amount is due. Interest payments are due January 1 and July 1, commencing January 1, 2009.

In May 2009, PEPB entered into an agreement with TVA to provide backup power supply when the transition to purchase power for Prairie State is complete. The agreement required construction of assets, as well as, purchase of existing transmission sources. The cost of the project is financed by an eight month loan from TVA to be paid in monthly installments beginning June 2009 and ending February 2010. The amount of the project to be paid in installments is \$1,548,000.

7 PENSION PLAN

On August 2, 1999, the Board approved a resolution to participate in the County Employees Retirement System effective November 1, 1999. Prior participation in the Aetna Target Benefit Plan was canceled effective November 1, 1999.

The County Employees Retirement System (CERS) is a multiple employer cost sharing defined benefit public employee retirement system which covers substantially all regular full-time employees of each county and local government agencies. The plan provides for retirement, disability and death benefits to plan members. Copies of this report may be obtained from Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

PRINCETON ELECTRIC PLANT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

7 PENSION PLAN (continued)

CERS participants have a fully vested interest after completion of sixty (60) months of service, twelve (12) months of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3 percent thereafter. The Board determines and may amend contribution rates, per Kentucky Revised Statute, if it is determined on a basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

CERS covered employees are required to contribute an amount equal to 5.00% of gross pay and the employer was required to contribute an amount equal to 13.50% gross pay for the year ended June 30, 2009.

Trend information:

Schedule of Employer Contributions:

Year Ended	Annual Required Contribution	Actual Contributions	Percentage Contributions
June 30, 2009	\$ 135,118	\$ 135,118	100%
June 30, 2008	\$ 130,027	\$ 130,027	100%
June 30, 2007	\$ 93,597	\$ 93,597	100%

8 ACCRUED VACATION AND SICK PAY

The Board allows employees to accumulate unused vacation to a maximum of 240 hours. As of June 30, 2009 the liability for accrued vacation was \$84,703.

Employees may accumulate 182 days of sick pay. Upon termination, the Board will compensate an employee 25 percent of all unused sick days at their regular rate of pay. As of June 30, 2009 the liability for accrued sick pay was \$61,698.

9 SANITATION CONTRACT

During 2004 the Board entered into a contract with the City of Princeton, Kentucky to provide a collection service for sanitation fees charged by the City to its residents. The Board charges the City a fee of 3.0% of the total collection received for providing this service and remits the remaining collection to the City on a monthly basis. Service fees recognized in revenue were \$11,977 in 2009.

10 SUBSEQUENT EVENTS

To secure lower rates for its customers, Princeton Electric Plant Board, along with Paducah Power System jointly formed the Kentucky Municipal Power Agency (KMPA). KMPA will participate in the development and ownership of the Prairie State Energy Campus in southern Illinois, a planned 1,582-megawatt generating plant under development. Contract termination notice was given to TVA to be effective January 2010. It is expected that the equity arrangement will provide PEPB wholesale power at 10-15% lower cost compared to TVA. KMPA anticipates going to the bond market in the summer of 2008.

Peabody Energy, the world's largest private sector coal company, is developing the Prairie State Campus in Washington County, Illinois and will fire the campus by more than 6 million tons of coal produced each year from an adjacent underground mine. The campus is designed to provide electricity for up to 1.5 million families and is expected to begin generating power in the first quarter of 2010.

The Prairie State Interest Group has 95 percent ownership of the project and plant's electricity output. Other interest group partners include the Indiana Municipal Power Agency (IMPA), Northern Illinois Municipal Power Agency, AMP-Ohio, Missouri JMUC, Prairie Power, Southern Illinois Power Cooperative, and Illinois Municipal Power Agency that serve retail customers in nine different states. In completing the equity agreements, Prairie State continues has

PRINCETON ELECTRIC PLANT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

10 SUBSEQUENT EVENTS (continued)

started construction and is on schedule and on budget as of this writing since the U.S. Environmental Protection Agency's recent affirmation of the project's air permit.

Prairie State has received the major permits necessary for construction and continues finalizing project-engineering plans. Prairie State would invest more than a half billion dollars in emission technologies to create one of the cleanest major coal-fueled power plants in the United States. With emissions that would be one-fifth the average existing U.S. coal plants. Prairie State's emissions would be comparable to gasification units that have operated in recent years.

When compared to the projected wholesale costs under continued purchase from TVA under the lowest TVA cost estimate, the net present value benefits are projected (with Prairie State and Peaking Facility) to be \$13 to \$17 million over a 15-year period.

PEPB and PPS have also entered negotiations with AMP-Ohio for construction of small hydro generating units on existing Ohio River locks owned by the US Corps of Engineers. PEPB is expected to have use of 3-MW of hydro generation upon completion of the generation facilities.

## ACCOMPANYING INFORMATION

Princeton Electric Plant Board  
Schedule of Expenditures of Federal Awards  
for the year ended June 30, 2009

	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Department of Homeland Security: Federal Emergency Management Agency: Kentucky Emergency Management Public Assistance Grant	97.036	1818-DR	<u>\$ 728,050</u>
Total expenditures of federal awards			<u>\$ 728,050</u>

See accompanying notes to schedule of expenditures of federal awards.

**PRINCETON ELECTRIC PLANT BOARD**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2009

**Note 1 Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Princeton Electric Plant Board, Kentucky and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB-Circular A-133 and *Audits of States, Local Governments, and Non-Profit Organizations*.

PRINCETON ELECTRIC PLANT BOARD  
STATEMENT OF OPERATING EXPENSES  
Year ended June 30, 2009

Power purchased	\$ 8,108,755
Distribution expenses:	
Supervision and engineering	62,554
Station expense	25,031
Overhead lines expense	83,999
Underground lines expense	(1,585)
Street lighting/signal expense	2,876
Meter expense	126,812
Consumer service-outdoor light	1,802
Consumer service-surge protector	81
Miscellaneous distribution	91,962
Rents	16,380
Total distribution expense	409,702
Maintenance:	
Supervision and engineering	59,420
Station expense	2,937
Maintenance-Overhead lines	189,519
Contract treetrimmers	122,180
Maintenance-Underground lines	13,876
Maintenance-Line transformer	1,364
Maintenance-Lights and signs	2,230
Maintenance-Distribution plant	12,096
Maintenance-General plant	18,732
Other interest expense	10,806
Total maintenance expense	433,160
Accounting and collecting:	
Supervision and engineering	17,955
Meter reading expense	23,630
Customer record and collection	164,438
Uncollectible accounts	6,071
Miscellaneous customer expense	7,161
Total accounting and collecting	219,255
Sales promotion:	
Customer assistance expense	10,418
Information advertising	9,147
Selling expense	2,312
Advertising expense	4,813
Miscellaneous customer expense	150
Total sales promotion	26,840
Administrative and general:	
Administrative salaries	73,244
Office supplies	103,255
Outside services employed	39,577
Boiler and machinery	3,540
Fidelity bond	3,426
Insurance-Fire and contents	13,655
Insurance-Injury and damages	10,097
Insurance-Workers compensation	26,128
Insurance-Directors liability	2,504
Insurance-Public liability	6,310
Employee pension and benefits	237,876
Duplicate charges	(47,141)
Miscellaneous general expense	33,338
General advertising-Goodwill	6,924
General advertising-Financial	5,725
Total administrative and general	518,458
Depreciation	603,628
Taxes	185,363
Total operating expenses	\$ 10,505,161

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



**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  
Princeton Electric Plant Board

We have audited the financial statements of the business-type activities Princeton Electric Plant Board, as of and for the year ended June 30, 2009, which collectively comprise the Princeton Electric Plant Board's basic financial statements and have issued our report thereon dated September 18, 2009. 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 Princeton Electric Plant Board'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 the Princeton Electric Plant Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Princeton Electric Plant Board's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Princeton Electric Plant Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Princeton Electric Plant Board's financial statements that is more than inconsequential will not be prevented or detected by the Princeton Electric Plant Board's internal control. We consider the deficiency 2009-1 described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Princeton Electric Plant Board's internal control.

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 that might be 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 Princeton Electric Plant Board'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*.

We noted certain matters that we reported to management of Princeton Electric Plant Board, in a separate letter dated September 18, 2009.

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

*Thurman Campbell Group, PLLC*

September 18, 2009

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors  
Princeton Electric Plant Board

Compliance

We have audited the compliance of Princeton Electric Plant Board, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Princeton Electric Plant Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Princeton Electric Plant Board's management. Our responsibility is to express an opinion on Princeton Electric Plant Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Princeton Electric Plant Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Princeton Electric Plant Board's compliance with those requirements.

In our opinion, Princeton Electric Plant Board, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings.

Internal Control Over Compliance

The management of Princeton Electric Plant Board, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Princeton Electric Plant Board's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Princeton Electric Plant Board's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Firm's signature

*Thurman Campbell Group, PLLC*

September 18, 2009

Princeton Electric Plant Board  
Summary Schedule of Prior Audit Findings  
For the year ended June 30, 2008

NONE

Princeton Electric Plant Board  
Schedule of Findings and Questioned Costs  
For the year ended June 30, 2009

**A. SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of Princeton Electric Plant Board.
2. One significant deficiency relating to the audit of the financial statements is reported in the 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.
3. No instances of noncompliance material to the financial statements of Princeton Electric Plant Board were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Princeton Electric Plant Board expresses an unqualified opinion.
6. No audit findings relative to the major federal award programs for Princeton Electric Plant Board are reported in Part C of this schedule.
7. The program tested as a major program was Department of Homeland Security, Federal Emergency Management Agency, Kentucky Emergency Management CFDA# 97.036
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Princeton Electric Plant Board did not qualify as a low-risk auditee.

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

2009-1 Accounting:

Condition: Certain transactions were not properly recorded in subsidiary ledgers on timely basis.

Criteria: Accounting department staff record all transactions required by regulatory accounting principals on a timely basis.

Effect: The lack of timely recording of all transactions resulted in several audit adjustments necessary to present the financial statements in accordance with regulatory accounting principals.

Recommendation: The board should implement internal controls necessary to insure financial statements are presented in accordance with regulatory accounting principals.

Response: The board will review internal controls over financial reporting to determine if cost-effective procedures can be implemented to correct this deficiency.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None

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## **APPENDIX G**

### **KENTUCKY MUNICIPAL POWER AGENCY POWER SYSTEM REVENUE BONDS, SERIES 2010**

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#### **Demographic and Economic Data of KMPA's Members**



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**PADUCAH, KENTUCKY**  
**(McCracken County)**

Paducah, the county seat of McCracken County, is the major economic center and the largest urban area in west Kentucky's Jackson Purchase Region. Paducah is located at the confluence of the Ohio and Tennessee Rivers (the head of the Tennessee-Tombigbee Waterway) approximately 48 river miles east of the confluence of the Ohio and Mississippi Rivers. Paducah is located 139 miles northwest of Nashville, Tennessee; 167 miles southeast of St. Louis Missouri; and 215 miles southwest of Louisville, Kentucky. Paducah had an estimated 2008 population of 25,521 and is a "Hall of Fame" Kentucky Certified City.

McCracken County, with a land area of 251 square miles, had an estimated 2009 population of 64,640 persons.

**The Economic Framework**

The total number of McCracken County residents employed in 2008 averaged 29,647. In 2008, manufacturing firms in the county reported 3,516 employees; transportation, trade and utilities provided 9,787 jobs; 16,673 people were employed in service occupations; informational, financial activities and public administration accounted for 3,238 employees; and contract construction firms provided 2,127 jobs.

**Labor Supply**

There is a current estimated labor supply of 12,720 persons available for industrial jobs in the labor market area. In addition, from 2009 through 2012, 13,674 young persons in the area will become 18 years of age and potentially available for industrial jobs.

**Transportation**

Major "AAA"- rated trucking highways serving the city include Interstate 24 and U.S. Highways 45, 60, and 62. The Interstate 24 Downtown Loop provides direct access from downtown to Interstate 24. Twenty-five trucking companies provide interstate and/or intrastate service to Paducah. Three maintain local terminals. The Paducah & Louisville Railway provides main line rail service to Paducah. Connections with the Illinois Central Railroad and the Burlington Northern Railroad are located near Paducah. The Barkley Regional Airport, six miles west of Paducah, provides scheduled commuter airline service. The Paducah-McCracken County Riverport Authority operates a public riverport at the confluence of the Ohio and Tennessee Rivers. Major manufacturing employers in McCracken County (as of January 2010) are listed below:

<u><b>Firm</b></u>	<u><b>Product</b></u>	<u><b>Average Employment</b></u>
United States Enrichment Corp.	Government & uranium enrichment	1,178
Lynx Services LLC	Customer service center	265
Credit Bureau Systems	Credit reporting, collections and billing services	252
US Food Service of Paducah	Food service distribution	249
Computer Services, Inc.	Headquarters and provider of data processing services, and supplies for banks	230
Western Kentucky Navigation	Towboat company	220
Henry A. Petter Supply Co.	Headquarters, industrial supply/distribution	214
Dippin' Dots, Inc.	Ice cream & yogurt	169
Paducah & Louisville Railway	Railroad headquarters	150
VMV	Re-manufactured locomotives and component parts	121

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Sources: Kentucky Cabinet for Economic Development, Division of Research and Planning

**McCracken County Economic Statistics  
2005-2009**

<b><u>Year</u></b>	<b><u>Per Capita Income</u></b>	<b><u>Median Family Income</u></b>	<b><u>Average Weekly Wage</u></b>	<b><u>Unemployment Rate</u></b>	<b><u>Employment</u></b>	<b><u>Civilian Labor Force</u></b>
2009	(1)	\$54,600	(1)	8.8% (2)	28,909 (2)	31,703 (2)
2008	(1)	52,900	\$675.69	5.8	29,647	31,462
2007	\$36,226	50,500	644.48	4.9	30,238	31,809
2006	34,385	51,000	625.83	5.4	29,501	31,200
2005	32,472	50,600	601.61	6.0	29,348	31,235

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Source: Kentucky Department of Economic Development

(1) Data not available.

(2) Preliminary, as of November 2009.

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**PRINCETON, KENTUCKY**  
**(Caldwell & Lyon Counties)**

Princeton, the county seat of Caldwell County, is located in the Pennyryle Region of Western Kentucky just east of Lake Barkley, the Land Between the Lakes and the vast Western Waterland area. Princeton, with an estimated 2008 population of 6,398, is located 100 miles northwest of Nashville, Tennessee; 174 miles southwest of Louisville, Kentucky; and 219 miles southeast of St. Louis, Missouri.

Caldwell and Lyon Counties together had an estimated population of 20,791 in 2009.

**The Economic Framework**

Firms in the labor market area employed 9,353 people in 2008. Manufacturing firms in the County reported 968 employees; trade, transportation and utilities provided 1,091 jobs; 787 people were employed in service occupations; informational, financial activities and public administration accounted for 1084 employees; and contract construction firms provided 203 jobs.

**Transportation**

Major highways serving Princeton include the Western Kentucky Parkway, U.S. Highway 62, and Kentucky Route 293. An interchange of Interstate 24 is located 13 miles west of the city. Twenty-two trucking companies provide interstate and/or intrastate service to Princeton. The Paducah and Louisville Railway and the Tradewater Railway provide rail service to Princeton. The nearest commercial airline service is available at Barkley Regional Airport near Paducah, Kentucky, 55 miles west. The Princeton-Caldwell County Airport maintains a 3,000-foot paved runway.

**Labor Supply**

There is a current estimated labor supply of 22,318 persons available for industrial jobs in the labor market area. In addition, from 2009 through 2012, 21,653 young persons in the area will become 18 years of age and potentially available for industrial jobs. Major employers in Princeton (as of January 2010) are listed below:

<u>Firm</u>	<u>Product</u>	<u>Average Employment</u>
Bremner Food Group, Inc.	Cookies & crackers	580
Hydro-Gear LP	Designs & manufactures hydrostatic pumps	62
	Transmissions & trans-axles for the lawn & garden industry	
Special Metals Powder Division	Powdered metals and consolidations	58
Exel	Processing of plastics & chemicals	42
Princeton Finishing, Inc.	Cotton athletic sock finishing	34
Bodycote Int Inc.	HIP (Hot isostatic pressing)	24
Trans Industries Plastics LLC	Plastic injection moldings	22

Sources: Kentucky Cabinet for Economic Development

**Princeton, Kentucky  
(Caldwell and Lyon Counties)  
Economic Statistics  
2005-2009**

<b>Year</b>	<b>Per Capita Income</b>		<b>Median Family Income</b>		<b>Average Weekly Wage</b>	
	<b><u>Caldwell</u></b>	<b><u>Lyon</u></b>	<b><u>Caldwell</u></b>	<b><u>Lyon</u></b>	<b><u>Caldwell</u></b>	<b><u>Lyon</u></b>
2009	(1)	(1)	\$45,500	\$51,500	(1)	(1)
2008	(1)	(1)	43,800	49,900	\$556.73	\$473.92
2007	\$27,498	\$24,760	42,000	47,700	542.13	446.73
2006	26,516	23,537	42,100	47,800	519.58	424.15
2005	25,572	22,450	40,100	47,700	522.58	417.85

<b>Year</b>	<b>Unemployment Rate</b>		<b>Employment</b>		<b>Civilian Labor Force</b>	
	<b><u>Caldwell</u></b>	<b><u>Lyon</u></b>	<b><u>Caldwell</u></b>	<b><u>Lyon</u></b>	<b><u>Caldwell</u></b>	<b><u>Lyon</u></b>
2009	10.0% <sup>(2)</sup>	12.8% <sup>(2)</sup>	6,033 <sup>(2)</sup>	2,920 <sup>(2)</sup>	6,703 <sup>(2)</sup>	3,347 <sup>(2)</sup>
2008	6.6	7.6	6283	3,070	6726	3,324
2007	5.4	6.4	6295	3138	6656	3353
2006	5.2	6.6	6375	3,104	6725	3,325
2005	6.0	7.4	5990	2,972	6374	3,209

Source: Kentucky Department of Economic Development.

(1) Data not available.

(2) Preliminary, as of December 2009.

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## **APPENDIX H**

### **KENTUCKY MUNICIPAL POWER AGENCY POWER SYSTEM REVENUE BONDS, SERIES 2010**

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#### **Definitions and Summary of Certain Provisions of the Indenture and the Form of Power Sales Agreement**

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## **DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

The following is a summary of the Indenture. The summary does not purport to set forth all of the provisions of such document, to which reference is made for the complete and actual terms thereof.

### **DEFINITIONS**

Set forth below are summary definitions of certain terms used in the summary of the Indenture contained in the Official Statement.

"*Act*" means Sections 96.550 to 96.901 of the Kentucky Revised Statutes, as amended.

"*Annual Budget*" means the budget adopted by the Issuer at the beginning of each Fiscal Year, as the same may be amended from time to time.

"*Assumed Amortization Period*" means, with respect to any Indebtedness the principal and interest requirements of which are to be recast for purposes of a calculation of the Debt Service Coverage Ratio, the period of time determined, at the election of the Issuer, with the consent of the Bond Insurer, pursuant to either paragraph (a) or paragraph (b) below:

(a) twenty-five (25) years; or

(b) the period of time, not exceeding twenty-five (25) years, set forth in an opinion delivered to the Trustee of an investment banker selected by the Issuer and experienced in underwriting indebtedness of the type being recast, or of another Person selected by the Issuer and experienced in the issuance and sale of indebtedness of such type, as being the maximum period of time over which indebtedness having comparable terms and security issued or incurred by municipal utilities of comparable credit standing would, if then being offered, be marketable on reasonable and customary terms.

"*Assumed Interest Rate*" means, with respect to any Indebtedness the principal and interest requirements of which are to be recast for purposes of a calculation of the Debt Service Coverage Ratio, the rate per annum determined in accordance with the applicable paragraph set forth below:

(a) with respect to Variable Rate Indebtedness proposed to be incurred, the Projected Rate;

(b) with respect to Variable Rate Indebtedness then Outstanding, 100% of the weighted average annual interest rate borne by such Variable Rate Indebtedness during the 12-month period ending on the date of calculation, or with respect to Variable Rate Indebtedness issued during such 12-month period, 125% of the initial rate borne by such Variable Rate Indebtedness; or

(c) with respect to Indebtedness then Outstanding and not described in either clause (a) or clause (b) above, the Projected Rate.

"*Attributes*" has the meaning given that term in the Power Sales Agreement.

"*Authorized Denominations*" means \$5,000 or any integral multiple thereof provided that any amount shall be an Authorized Denomination if such amount results from the redemption of Bonds pursuant to the Indenture.

"*Authorized Investments*" means any of the following:



- (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America, including instruments which are rated in one of the two highest Rating Categories by a Rating Agency evidencing an ownership interest in securities described in this clause (1);
- (2) obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following:  
  
Federal Home Loan Bank System, Export-Import Bank of the United States, Farmers Home Administration; Merchant Marine Bonds; Federal Financing Bank, Federal Farm Credit Banks; Bank for Cooperatives; Federal Land Banks, Government National Mortgage Association, Federal National Mortgage Association; Tennessee Valley Authority; Federal Home Loan Mortgage Corporation; Federal Housing Administration; General Services Administration; U.S. Maritime Administration; U.S. Department of Housing and Urban Development; or Resolution Funding Corp.;
- (3) repurchase agreements (including those of the Trustee or its affiliates) rated in one of the three highest Rating Categories by a Rating Agency and fully secured by collateral security described in clause (1) or (2) of this definition or any other collateral authorized by Kentucky law for repurchase agreements, which collateral (a) is held by the Trustee or a third party agent during the term of such repurchase agreement, (b) is not subject to liens or claims of third parties and (c) has a market value (determined at least once every fourteen days) at least equal to the amount so invested;
- (4) certificates of deposit of, or time deposits in, any bank (including the Trustee or its affiliates) or savings and loan association (a) the debt obligations of which (or in the case of the principal bank of a bank holding company, the debt obligations of the bank holding company of which) have been rated at least equal to the rating assigned to the Bonds by each Rating Agency then rating the Bonds or (b) which are fully insured by the Federal Deposit Insurance Corporation;
- (5) shares in any investment company registered under the Federal Investment Governmental Agency Act of 1940 whose shares are registered under the Federal Securities Act of 1933 and whose only investments are government securities described in clause (1) or (2) of this definition and repurchase agreements fully secured by government securities described in clause (1) or (2) of this definition and/or other obligations rated in the highest Rating Category by a Rating Agency;
- (6) tax-exempt obligations of any state of the United States, or political subdivision thereof, which are rated one of the two highest Rating Categories by a Rating Agency or mutual funds invested only in such obligations and which are rated in one of the two highest Rating Categories by a Rating Agency;
- (7) units of a taxable or nontaxable government money-market portfolio composed of U.S. Government obligations and repurchase agreements collateralized by such obligations;
- (8) commercial paper rated the highest Rating Category by a Rating Agency;
- (9) corporate notes or bonds with one year or less to maturity rated in one of the two highest Rating Categories by a Rating Agency;
- (10) shares of mutual funds, each of which shall have the following characteristics:
  - (i) the mutual fund shall be an open-end diversified investment company registered under the Federal Investment company Act of 1940, as amended;

(ii) the management company of the investment company shall have been in operation for at least five (5) years;

(iii) all of the securities in the mutual fund shall be in investments in any one or more of the investments described in (1) and (3) above; and

(iv) the mutual fund shall be rated in one of the two highest Rating Categories by a Rating Agency; or

(11) any other investments permitted by State law.

"*Authorized Representative*" means, with respect to the Issuer, its Chairman, Vice-Chairman, Treasurer, Secretary, General Manager or any other Person(s) designated as an Authorized Representative of the Issuer.

"*Bankruptcy Code*" means the United States Bankruptcy Code, as amended from time to time.

"*Bond Counsel*" means the firm of Rubin & Hays of Louisville, Kentucky, or any other firm of nationally recognized bond counsel, whose members are duly admitted to practice law before the highest court of any state and designated by the Issuer as its bond counsel for the Bonds. Nothing shall preclude the Issuer from designating the same firm as both Tax Counsel and Bond Counsel.

"*Bond Fund*" means the fund of that name created and established pursuant to Section 4.1.

"*Bond Insurance Policy*" refers to the municipal bond insurance policy issued by the Bond Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds when due.

"*Bond Insurer*" means any corporation, association or other entity which is engaged in the business, among other things, of insuring or guaranteeing the payment of the principal of and interest on municipal bond issues, and for the purposes of the Series 2010 Bonds, shall mean Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.), a New York stock insurance company, or any successor thereto or assignee thereof.

"*Bond Register*" means the books for registration of Bonds kept for the Issuer by the Trustee as provided in the Indenture.

"*Bond Year*" means each one-year period that ends on the date selected by the Issuer. The first and last Bond Years may be short periods. If no date is selected by the Issuer before the earlier of the final maturity date of the Bonds or the date that is five years after the Date of Issue of the Bonds, Bond Years end on each anniversary of the Date of Issue and on the final maturity date of the Bonds.

"*Bondowner*" means the Owner of any Bond.

"*Bonds*" means collectively the Series 2010 Bonds, the Prior Bonds and any Parity Bonds.

"*Book Entry System*" means, with respect to the Bonds, a form or system, as applicable, under which (i) the beneficial ownership interests may be transferred only through a book entry and (ii) physical Bond certificates in fully registered form are registered only in the name of a Depository or its nominee as Holder, with the physical Bond certificates "immobilized" in the custody of the Depository. The Book Entry System maintained by and the responsibility of the Depository and not maintained by or the responsibility of the Issuer or the Trustee is the record that identifies, and records the transfer of the interests of, the owners of book entry interests in the Bonds.

"*Business Day*" means any day other than (i) a Saturday, (ii) a Sunday, (iii) a day on which banking institutions in the Commonwealth of Kentucky, the State of New York or any state in which the office of the Trustee is located are

closed as authorized or obligated by law or administrative order or (iv) a day on which the New York Stock Exchange is closed.

"*Capacity*" has the meaning given that term in the Power Sales Agreement.

"*Capacity Share*" has the meaning given that term in the Power Sales Agreement.

"*Capital Improvement Fund*" means the fund of that name created and established pursuant to the Indenture.

"*Capital Improvements*" means anticipated and unanticipated necessary repairs, renewals, replacements, extensions, renovations, improvements, acquisitions and additions to the Plant.

"*Capital Reserve Requirement*" refers, as of any particular computation date, to the amount, determined by an Independent Consultant and set forth in the then most recent report of the Independent Consultant to the Issuer and the Trustee, to be held in the Capital Improvement Fund as the amount reasonably anticipated under prevailing standards of sound electric utility management to be necessary for the purpose of providing funds which may be needed for Capital Improvements.

"*Certificate, statement, request, direction or order*" of the Issuer, a Member or a PSA Signatory means, respectively, a written certificate, statement, request, direction or order signed in the name of the Issuer, the Member or PSA Signatory by an Authorized Representative of the Issuer, the Member or the PSA Signatory, as the case may be. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument shall include the statements provided for in the Indenture.

"*Code*" means the Internal Revenue Code of 1986, as amended, or any successor federal income tax statute or code. Any reference to a provision of the Code shall include the applicable regulations of the Department of the Treasury promulgated or proposed with respect to such provision.

"*Completion Indebtedness*" means any Long-Term Indebtedness or Interim Indebtedness incurred or issued by the Issuer for the purpose of financing the completion of the Project.

"*Consultant's Report*" means, when used with reference to a Projection, a written statement of an Independent Consultant to the effect that the Independent Consultant has reviewed the Projection, concurs with the calculations reflected therein and believes that the assumptions and rationale upon which the Projection is based are reasonable and appropriate or believes that they are not unreasonable.

"*Costs of Issuance Account*" means the account of that name in the Project Fund created pursuant to the Indenture.

"*Credit Enhanced Indebtedness*" shall mean Indebtedness the principal of and interest on which are secured by the proceeds of an irrevocable letter of credit, surety bond, insurance policy or other credit facility or arrangement with a Person who the Issuer is obligated to reimburse for advances made for amounts due on such Credit Enhanced Indebtedness.

"*Credit Enhancer*" shall mean to a Person who has undertaken to provide moneys necessary for payment to holders of Credit Enhanced Indebtedness.

"*Date of Issue*" means the date the Bonds are issued and delivered to the Underwriter.

"*Debt Service Coverage Ratio*" means for the period in question the ratio of Net Revenues to the Maximum Annual Debt Service; provided, however, that for purposes of calculating such ratio:

(a) principal and interest requirements on Long-Term Indebtedness, or portions thereof, shall not be included in the computation of the Maximum Annual Debt Service until the Fiscal Year in which such principal or interest, or portions thereof, first becomes payable from sources other than amounts deposited in trust, escrowed or otherwise set aside exclusively for the payment thereof at the time of incurrence of Indebtedness (including without limitation capitalized interest and accrued interest so deposited into trust, escrowed or otherwise set aside) with the Trustee or another Person approved by the Trustee;

(b) any Long-Term Indebtedness having a single principal maturity and no sinking fund redemption requirements, or having a principal amount due in any Fiscal Year which exceeds an amount equal to 200% of the maximum principal amount of such Long-Term Indebtedness that would have become due (whether at maturity or pursuant to sinking fund redemption requirements) in such Fiscal Year if such Indebtedness Outstanding on the date of calculation had been amortized on a level debt service basis from the date of calculation over the stated term of such Indebtedness shall be deemed to bear interest at the Assumed Interest Rate determined in accordance with paragraph (c) of the definition of Assumed Interest Rate and shall be deemed to be amortized on a level debt service basis over a period equal to the Assumed Amortization Period;

(c) the interest on any Variable Rate Indebtedness shall be calculated in accordance with paragraph (a) of the definition of Assumed Interest Rate;

(d) debt service on Credit Enhanced Indebtedness shall be deemed to include all periodic payments to the Credit Enhancer but shall not be based upon the terms of any reimbursement obligation to the Credit Enhancer except to the extent and for periods during which payments have been required to be made pursuant to such reimbursement obligation due to the Credit Enhancer advancing funds and not being reimbursed; and

(e) any outstanding debt which has been completely defeased shall be excluded.

*"Declaration of Acceleration"* means a declaration given in accordance with the provisions of the Indenture that all principal of and interest on the Bonds are due and payable immediately.

*"Decommissioning Costs"* means costs and expenses associated with the decommissioning, remediation, mitigation and closing down of the Project or any portion thereof.

*"Decommissioning Fund"* means the fund of that name created and established pursuant to the Indenture.

*"Decommissioning Reserve Requirement"* refers, as of any particular computation date, to the amount, determined by an Independent Consultant and set forth in the then most recent report of an Independent Consultant to the Issuer and the Trustee, to be held in the Decommissioning Fund for the purpose of providing funds which may be needed for Decommissioning Costs.

*"Depository"* means any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a book entry system to record ownership of book entry interests in the Bonds, and to effect transfers of book entry interests in the Bonds in book entry form, and includes and means initially The Depository Trust Company (a limited purpose trust company), New York, New York.

*"Depository Bank"* means a bank or trust company, designated by the Issuer, in which one or more of the Funds referred to in the Indenture will be established and maintained; provided, however, that by appropriate action the Issuer, from time to time, may designate a different bank or trust company.

*"Determination of Taxability"* means the receipt by the Trustee (1) of written notice of any final determination, decision or decree, all applicable appeal periods with respect to which shall have expired, made by the Commissioner or any District Director of the Internal Revenue Service or by any court of competent jurisdiction, or (2) of an opinion

of Tax Counsel, in either case to the effect that interest on the Tax-Exempt Bonds is not excludable for regular federal income tax purposes under Section 103(a) of the Code from gross income of any Owner of the Tax-Exempt Bonds (other than an Owner who is a substantial user of the Project or related person as defined in the Code) or (3) of notice that, as a result of any amendment, modification, addition or change made in Section 103 or any other provision of the Code or in any regulation or proposed regulation thereunder, or any ruling issued or revoked by the Internal Revenue Service, or any other action taken by the Internal Revenue Service, the Department of the Treasury or any other governmental agency, authority or instrumentality, or any opinion of any federal court or of the United States Tax Court rendered, Tax Counsel is unable to give an opinion that the interest payable on any Tax-Exempt Bond on or after a date specified in such notice is excludable from gross income of the taxpayer named therein (other than any such-taxpayer who is a "substantial user" or a "related person," within the meaning of Section 147(a) of the Code) for regular federal income tax purposes.

*"Direct Participant"* means a Participant as defined in the Letter of Representations.

*"Entitlement Capacity Share"* means each Participating Member's Entitlement Percentage of available Capacity associated with the Project. An estimate of the Participating Member's Entitlement Capacity Share is included in the Power Sales Agreement.

*"Entitlement Percentage"* means with respect to a Participating Member, the percentage as set forth for such Participating Member in the Power Sales Agreement, as may be adjusted as provided for pursuant to the Power Sales Agreement.

*"Event of Default"* means any of the events specified in the Indenture.

*"Excess Capacity"* has the meaning given that term in the Power Sales Agreement.

*"Final Computation Date"* means the date on which all amounts due with respect to the Bonds are actually and unconditionally due, if cash is available at the place of payment, after which date no interest accrues with respect to any of the Bonds. The Final Computation Date for the Bonds will generally be the earlier of (a) the final principal payment date for the Bonds or (b) the date on which the Bonds are redeemed as a whole.

*"Financing Expenses"* means all expenses of issuing and/or preparing the Bonds or the Indenture, including but not limited to legal, fiscal and printing expenses, the initial fee of the Trustee under the Indenture, or any bank or other agency for collection or administration of the Bonds, advertising expenses, any fees or expenses incurred in connection with the placement of the Bonds by the Underwriter, any premium or rating agency fee paid to a Rating Agency and any and all other similar out-of-pocket expenses.

*"Fiscal Year"* means the period of twelve complete, consecutive calendar months ending on June 30 of each year.

*"Funds"* means the funds created and established pursuant to the Indenture.

*"General Fund"* means the fund of that name created and established pursuant to the Indenture.

*"Generally Accepted Accounting Principles"* or *"GAAP"* means those principles of accounting set forth in statements of the Financial Accounting Standards Board or which have other substantial authoritative support and are applicable in the circumstances as of the date of a report, as such principles are from time to time supplemented and amended.

*"Governing Body"* means, with respect to the Issuer, its board of directors established by the KMPA Interlocal Agreement and for a Member or any Person, the board of directors, board of commissioners or board of trustees of such Member or Person, or if there shall be no board of trustees, board of commissioners or board of directors, then such person or body which pursuant to law or the organizational documents of the Member or Person is vested with powers

similar to those vested in a board of trustees, board of commissioners or a board of directors; the term also encompasses any committee empowered to act on behalf of such board of directors, board of trustees or board of commissioners.

*"Government Obligations"* means direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America.

*"Holder"* or *"Bondholder"* means the Person in whose name a Bond is registered on the Bond Register.

*"Indebtedness"* means, without duplication, (a) all indebtedness of the Issuer incurred for borrowed moneys or which has been incurred or assumed in connection with the acquisition, construction, development or operation of the Project; (b) all indebtedness for borrowed moneys, no matter how created, secured by the Project or the Power Sales Agreements; and (c) the liability of the Issuer under any lease of real or personal property which is properly capitalized on the balance sheet of the Issuer in accordance with GAAP and which is integral to the ownership or the operation of the Project.

*"Indenture"* means the Trust Indenture, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

*"Independent Certified Public Accountant"* means an Independent Person of national recognition and experience qualified as a certified public accountant.

*"Independent Consultant"* means an Independent Person of national recognition and experience appointed by the Issuer and not objected to by the Trustee, which objection shall be reasonable, as lacking the skill or the experience necessary to render the particular opinions and reports required by the Indenture.

*"Independent Engineer"* means an Independent Person qualified as a licensed professional engineer with an expertise in electric power and energy generation systems.

*"Independent Insurance Consultant"* means an Independent Person, appointed by the Issuer and not objected to by the Trustee, which objection shall be reasonable, as lacking (a) the qualifications to survey risks and to recommend insurance coverage for facilities of the type or types operated by the Issuer and services and organizations engaged in like operations and (b) a favorable reputation for skill and experience in such surveys and such recommendations, and who may be the principal broker or agent with whom the Issuer transacts business if he otherwise meets the qualifications.

*"Independent Person"* means either (a) a firm or Person designated by the Issuer and reasonably acceptable to the Trustee or (b) a firm or person designated by the Issuer and in which no partner (treating a shareholder of a professional association which is a partner as though such shareholder were such a partner), director, officer or employee is a director, officer or employee of the Issuer or a Member.

*"Indirect Participant"* means a Person utilizing the Book Entry System of the Depository by, directly or indirectly, clearing through or maintaining a custodial relationship with a Participant.

*"Installment Computation Date"* means the last day of the fifth Bond Year and of each succeeding fifth Bond Year thereafter.

*"Interest Accrual Date"* means (1) with respect to the first Interest Payment Date, the Date of Issue and (2) thereafter, each Interest Payment Date in respect thereof, other than the last such Interest Payment Date.

"*Interest Payment Date*" means March 1 and September 1 of each year, commencing on September 1, 2010, provided, that if any Interest Payment Date does not fall on a Business Day, the Interest Payment Date shall be the next succeeding Business Day.

"*Interim Indebtedness*" means Indebtedness incurred or assumed in anticipation of being refinanced or refunded with Long-Term Indebtedness.

"*Investment Earnings*" means all earnings derived from the investment of money held in any of the Funds.

"*Issuer*" or "*KMPA*" means the Kentucky Municipal Power Agency, a joint public agency of the Commonwealth of Kentucky.

"*Issuer's Project Share*" means the undivided ownership interest of the Issuer as a tenant in common in the Project, which undivided interest shall be initially equal to 7.82% of the Project and the power and energy generated by the Project.

"*KMPA Interlocal Agreement*" shall mean the Interlocal Cooperation Agreement creating the Kentucky Municipal Power Agency, dated February 7, 2005, by and between the Electric Plant Board of the City of Paducah, Kentucky and the Electric Plant Board of the City of Princeton, Kentucky, as founding Members establishing the Kentucky Municipal Power Agency, as amended and supplemented.

"*Letter of Representations*" means the Blanket Issuer Letter of Representations from the Issuer to The Depository Trust Company, as in effect from time to time.

"*Long-Term*", when used in connection with Indebtedness, means Indebtedness having an original maturity greater than one year or renewable at the option of the obligor for a period greater than one year from the date of original incurrence or issuance thereof, which shall not include the current portion of such Long-Term Indebtedness as determined in accordance with GAAP.

"*Maximum Annual Debt Service*" means the largest amount of principal and interest on Long-Term Indebtedness computed in accordance with clauses (a) through (e) of the definition of Debt Service Coverage Ratio due in any Fiscal Year ending on or after the date of determination.

"*Member*" shall mean any agency, unit of government, or political subdivision within or without the State which has entered or shall enter into the KMPA Interlocal Agreement for such period of time as said agency, unit of government, or political subdivision shall remain a party to the KMPA Interlocal Agreement.

"*Monthly Project Costs*" has the meaning set forth in the Power Sales Agreement.

"*Moody's*" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns.

"*Net Revenues*" means, with respect to any period of calculation, Revenues less Operating Expenses, other than (i) expenses incurred with respect to property the acquisition of which has been financed from the proceeds of Indebtedness, (ii) depreciation, (iii) amortization and (iv) interest on Long-Term Indebtedness; provided that no determination thereof shall take into account: (a) material balances and transactions between the Issuer and its Members; (b) insurance proceeds payable as a result of casualty or other similar circumstances (other than the proceeds of business interruption insurance); (c) gains and losses from the sale of capital assets and from other extraordinary items; and (d) gains and losses attributable to refundings, advance refundings and other early extinguishment of Indebtedness.

"*Officer's Certificate*" means, in the case of the Issuer, a certificate signed by the Chairman, Vice Chairman, Secretary or Treasurer thereof or other Person in which the power to act on behalf of the Issuer is vested by subsequent

action of its Governing Body; and, in the case of any Member, the Chairman or Vice Chairman thereof, or other Person in which the power to act on behalf of the Member is vested by subsequent action of its Governing Body.

"*Official Statement*" means any official statement, offering circular, private placement memorandum or other disclosure document pursuant to which the Bonds are initially sold.

"*Operating Expenses*" means any (i) expense of the Issuer related to the operations, management and maintenance of the Project, properly charged as an operating expense in accordance with GAAP, including but not limited to salaries; wages; costs of maintenance, materials and supplies; insurance; maintenance expenditures; tax equivalent payments; transmission costs; fees and costs of paying agents, attorneys, consultants and others; costs associated with studies and reports; and permit fees all of which relate to the Project or the administration of the Power Sales Agreements and (ii) payments required to be made by the Issuer to the Capital Improvement Fund as provided in the Indenture.

"*Operating Fund*" means the fund of that name created and established pursuant to the Indenture.

"*Operating Reserve Fund*" means the fund of that name created and established pursuant to the Indenture.

"*Operating Reserve Requirement*" refers, as of any particular computation date, to the amount, determined by an Independent Consultant and set forth in the then most recent report of the Independent Consultant to the Issuer and the Trustee, to be held in Operating Reserve Fund for the purpose of providing funds which may be needed for unexpected Operating Expenses or maintenance costs associated with the Project.

"*Opinion of Bond Counsel*" means an opinion in writing signed by Rubin & Hays or legal counsel which shall be nationally recognized as expert in matters pertaining to the validity of obligations of governmental issuers and the exemption from Federal income taxation of interest on such obligations, and who shall not be unsatisfactory to the Trustee as lacking either the skill or experience necessary to render the opinions required.

"*Opinion of Counsel*" means an opinion in writing signed by (a) an attorney or firm of attorneys who may be an employee of or counsel to the Issuer or any Member and who shall not be unsatisfactory to the Trustee as lacking either the skill or experience necessary to render the opinions required, or (b) an attorney or firm of attorneys who neither are employees of, nor counsel to, the Issuer or any Member.

"*Outstanding*", when used as of any particular time with reference to Bonds, means all Bonds delivered by the Trustee under the Indenture or the Prior Indenture except (1) Bonds cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the Issuer shall have been discharged in accordance with the Indenture or Prior Indenture, including Bonds (or portions thereof) referred to in the Indenture or Prior Indenture, and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture or the Prior Indenture.

"*Owner*", whenever used herein with respect to a Bond, means the Person in whose name such Bond is registered on the Bond Register.

"*Parity Bonds*" means bonds or Completion Indebtedness issued in the future pursuant to the provisions of the Indenture, which shall rank on a basis of parity with the Bonds.

"*Participating Member*" means each entity that is specified in the Power Sales Agreement, and which enters into a Power Sales Agreement.

"*Paying Agent*" means the Trustee and any bank or trust company designated by the Trustee to act in the capacity of a paying agent on the Bonds.



"*Person*" means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"*Power Sales Agreement*" means a Power Sales Agreement between the Issuer and a PSA Signatory or other entity, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Indenture, which has been entered into and pledged pursuant to the Indenture.

"*Principal and Interest Account*" means the account of that name in the Bond Fund established pursuant to the Indenture.

"*Principal Office of the Trustee*" means the corporate trust office of the Trustee established from time to time by written notice sent by the Trustee to the Issuer and to each Owner.

"*Prior Bonds*" refers to the Outstanding Series 2007 Bonds.

"*Prior Indenture*" refers to the Series 2007 Indenture.

"*Project*" shall mean the "mine mouth," pulverized coal-fueled power generating facility on a site in Washington, Randolph and St. Clair Counties, Illinois, including but not limited to (i) a coal-fired, steam-electric generating station utilizing pulverized coal boiler technology and comprised of: two boilers with low NOx burners and electrical generating units; coal storage and handling equipment; an emissions control system consisting of selective catalytic reduction, dry electrostatic precipitators ("DESP"), wet limestone scrubbers and a wet electrostatic precipitator ("WESP"); two cooling towers; water storage facilities; transmission facilities to interconnect the Project with the grid at a delivery point; a railroad spur to service the facility; a water pipeline to the Kaskaskia River; facilities for the disposal of coal combustion waste from the facilities; and associated power plant facilities and equipment; and (ii) coal reserves to be accessed via one or more mine portals and to have recoverable raw coal reserves; coal storage handling and conveying equipment; and mine facilities for the coal reserves and related mining equipment.

"*Project Account - BABs*" means the account of that name in the Project Fund created pursuant to the Indenture.

"*Project Account - Taxable*" means the account of that name in the Project Fund created pursuant to the Indenture.

"*Project Account - Tax-Exempt*" means the account of that name in the Project Fund created pursuant to the Indenture.

"*Project Costs*" means the costs associated with the Issuer acquiring, developing, constructing and equipping the Issuer's Project Share of the Project.

"*Project Fund*" means the Fund of that name created pursuant to the Indenture.

"*Projected Rate*" means the Bond Buyer "Revenue Bond Index", as then published most recently by *The Bond Buyer*, New York, New York, or, if such index is no longer available, such index for comparable thirty year maturity tax-exempt revenue bonds as may be certified to the Trustee by a firm of investment bankers or a financial advisory firm.

"*Projection*" means pro forma projected or forecasted financial statements of the Issuer or a proposed project of the Issuer for a future period, including balance sheets as of the end of such period and statements of operation and changes in cash flows for such period, accompanied by a statement of the relevant assumptions and rationale upon which the pro forma financial statements are based.

"*PSA Default Event*" means any of the events specified in the Power Sales Agreement.

"*PSA Payments*" means the payments required to be made to the Issuer pursuant to a Power Sales Agreement.

"*PSA Signatory*" means the Person who is obligated to purchase power from the Issuer under a Power Sales Agreement.

"*PSA Signatory Account*" means each separate and distinct account in the General Fund established and created in the Indenture in the name of and for benefit of each PSA Signatory.

"*Rate Stabilization Fund*" means the fund of that name created and established pursuant to the Indenture.

"*Rate Stabilization Requirement*" refers, as of any particular computation date, to the amount, determined by an Independent Consultant and set forth in the then most recent report of the Independent Consultant to the Issuer and the Trustee, to be held in the Rate Stabilization Fund for the purpose of providing funds to mitigate and stabilize the costs to the PSA Signatories of the fluctuations in wholesale power costs or increased costs as a result of shortages or outages of power and energy anticipated to be generated by the Project.

"*Rating Agency*" means S&P, if S&P then maintains a rating on the Bonds, or Moody's, if Moody's then maintains a rating on the Bonds.

"*Rating Category*" means the generic rating categories of the Rating Agency, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

"*Rebate Amount*" means the amount, as of each Installment Computation Date and as of the Final Computation Date, required to be paid to the United States of America pursuant to Section 148(f) of the Code within 60 days after such Installment Computation Date or Final Computation Date.

"*Rebate Analyst*" means a firm of certified public accountants, nationally-recognized bond counsel or other specialist in the calculation of arbitrage rebate.

"*Rebate Fund*" means the Fund of that name created pursuant to the Indenture.

"*Record Date*" means the 15th day of the calendar month immediately preceding the Interest Payment Date (or the preceding Business Day if the 15th is not a Business Day).

"*Recovery Act*" shall mean the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 stat. 115 (2009).

"*Redemption Account*" means the account of that name in the Bond Fund established pursuant to the Indenture.

"*Related Documents*" means the Power Sales Agreements.

"*Required Reserve*" refers to an amount, as of any particular date of computation, equal to the lesser of (i) 10% of the proceeds of the Bonds, (ii) 100% of the greatest amount required in the then current or any future Bond Year to pay the principal and interest requirements on the Outstanding Bonds or (iii) 125% of the average of the annual principal and interest requirements on the Outstanding Bonds.

"*Requisition Certificate*" means the Requisition for Payment of Project Costs in substantially the form set forth as Exhibit C attached to the Indenture.

"*Reserve Account Insurance Policy*" refers to an insurance policy issued by or approved in writing by the Bond Insurer guaranteeing the payment of whatever reserve account or commitment related thereto is described in such insurance policy.

"*Reserve Fund*" means the fund of that name created and established pursuant to the Indenture.

*"Reserve Fund Withdrawal"* means a withdrawal of moneys from the Reserve Fund to pay the principal of and interest on the Bonds.

*"Resolution"* means the Resolution enacted by the Issuer, approving the execution of the Indenture and authorizing the issuance of the Series 2010 Bonds.

*"Retained Rights"* means the rights retained by the Issuer under the Power Sales Agreements that are not expressly assigned to the Trustee under the Indenture.

*"Revenue Fund"* means the fund of that name created and established pursuant to the Indenture.

*"Revenues"* means (i) all amounts received by the Issuer or by the Trustee for the account of the Issuer pursuant or with respect to any Power Sales Agreement, including, without limiting the generality of the foregoing, PSA Payments (including both timely and delinquent payments and any late charges, paid from any source), prepayments, proceeds derived from the Power Sales Agreement; (ii) all proceeds or revenues generated by the sale of all or a portion of the Issuer's Project share; (iii) the proceeds of the sale of any Project assets or attributes and (iv) all interest, profits or other income derived from the investment of amounts in any of the Funds or accounts established pursuant to the Indenture (except the Rebate Fund).

*"S&P"* means Standard & Poor's Ratings Services, a division of McGraw-Hill, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns.

*"Series 2007 Bonds"* means collectively the Series 2007A Bonds and the Series 2007B Bonds.

*"Series 2007 Indenture"* means the Trust Indenture, dated as of September 1, 2007, by and between the Issuer and the Trustee, as amended and supplemented from time to time.

*"Series 2007A Bond"* or *"Series 2007A Bonds"* means the Kentucky Municipal Power Agency Power System Revenue Bonds (Prairie State Project), Series 2007A, authorized by, and at any time Outstanding, pursuant to the Series 2007 Indenture.

*"Series 2007B Bond"* or *"Series 2007B Bonds"* means the Kentucky Municipal Power Agency Taxable Power System Revenue Bonds (Prairie State Project), Series 2007B, authorized by, and at any time Outstanding, pursuant to the Series 2007 Indenture.

*"Series 2010 Bonds"* means collectively the Series 2010A Bonds, the Series 2010B Bonds and the Series 2010C Bonds.

*"Series 2010A Bond"* or *"Series 2010A Bonds"* means the Kentucky Municipal Power Agency Tax-Exempt Power System Revenue Bonds (Prairie State Project), Series 2010A, authorized by, and at any time Outstanding, pursuant to the Indenture.

*"Series 2010B Bond"* or *"Series 2010B Bonds"* means the Kentucky Municipal Power Agency Taxable (Build America Bonds - Direct Pay) Power System Revenue Bonds (Prairie State Project), Series 2010B, authorized by, and at any time Outstanding, pursuant to the Indenture.

*"Series 2010C Bond"* or *"Series 2010C Bonds"* means the Kentucky Municipal Power Agency Taxable Power System Revenue Bonds (Prairie State Project), Series 2010C, authorized by, and at any time Outstanding, pursuant to the Indenture.

*"Short-Term"*, when used in connection with Indebtedness, means having an original maturity less than or equal to one year and not renewable at the option of the Issuer for a term greater than one year beyond the date of original incurrence or issuance.

"*Special Record Date*" means the date established by the Trustee pursuant to Section 2.1 as a record date for the payment of defaulted interest on Bonds.

"*State*" means the Commonwealth of Kentucky.

"*Supplemental Indenture*" means any indenture hereafter duly authorized and entered into between the Issuer and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

"*Tax Counsel*" means the firm of Rubin & Hays of Louisville, Kentucky, or any other firm of nationally recognized tax counsel, whose members are duly admitted to practice law before the highest court of any state and designated by the Issuer as its tax counsel for the Bonds. Nothing shall preclude the Issuer from designating the same firm as both Tax Counsel and Bond Counsel.

"*Taxable Bonds*" means, collectively, the Series 2007B Bonds, the Series 2010B Bonds and the Series 2010C Bonds.

"*Tax-Exempt Bonds*" means, collectively, the Series 2007A Bonds and the Series 2010A Bonds.

"*Temporary Bond*" or "*Temporary Bonds*" means the Bonds described and authorized in the Indenture.

"*Trust Estate*" means the trust estate pledged by the Issuer and described in the Granting Clauses of the Indenture.

"*Trustee*" means U.S. Bank National Association, Louisville, Kentucky, or its successor, as trustee and paying agent hereunder as provided in the Indenture.

"*UCC*" means the Uniform Commercial Code of the State codified in Chapter 355 of the Kentucky Revised Statutes.

"*Underwriter*" means, collectively, the initial purchasers of the Bonds.

"*Variable Rate Indebtedness*" means any portion of Indebtedness the rate of interest on which is not established at the time of incurrence as one or more numerical rates applicable throughout the term thereof or for specified periods during the term thereof, with the result that at the time of incurrence the numerical rate of interest which will be in effect during any portion of the term thereof cannot be determined.

## **THE INDENTURE**

### **Trust Estate**

The Issuer, in consideration of the premises and the acceptance by the Trustee of the trusts created in the Indenture and of the purchase and acceptance of the Bonds by the Owners thereof, to secure the payment of the principal of and premium, if any, and interest on the Bonds according to their tenor and effect, and to secure the performance and observance by the Issuer of all the covenants expressed or implied in the Indenture and in the Bonds, in the Indenture does grant, bargain, sell, convey, pledge and assign unto and grant a security interest to the Trustee, and to its successors in trust and assigns forever, a security interest in the following described property (but reserving its Retained Rights):

(a) All Revenues and all of the Issuer's rights, title and interest in and to the Power Sales Agreements, including, but without limiting the generality of the foregoing, the Issuer's rights, title, and interest in and to the Revenues and the present and continuing right to make claim for, collect and receive any of the money, income, revenues, issues, profits and other amounts payable or receivable thereunder, to bring actions and proceedings thereunder or for the

enforcement thereof, and to do any and all things which the Issuer or any other person is or may become entitled to do under the Power Sales Agreements, but reserving, however, to the Issuer its Retained Rights.

- (b) All rights, title and interest of the Issuer, if any, whether now or hereafter in effect, respecting:
  - (i) the Issuer's undivided fee interest in the Project;
  - (ii) the right of the Issuer to receive power and energy generated by the Project;
  - (iii) all choses in action and all choses in possession now or hereafter existing to the benefit of or arising from the benefit of the Issuer with respect to the Bonds (except for the Issuer's Retained Rights); and
  - (iv) all proceeds of all the foregoing.
- (c) All funds and accounts established under the Indenture and the investments thereof, if any, and money, securities and obligations therein (subject to disbursements from any such fund or account upon the conditions set forth in the Indenture); and
- (d) All money and securities from time to time held by the Trustee under the terms of the Indenture and any and all other real or personal property of every name and nature concurrently herewith or from time to time hereafter by delivery or by writing of any kind pledged or assigned as and for additional security under the Indenture, by the Issuer or by anyone in its behalf or with its written consent, to the Trustee, which is authorized under the Indenture to receive any and all such property at any and all times and to hold and apply the same subject to the terms thereof.

#### **Authorization**

The Bonds are authorized to be issued hereunder to acquire, construct and equip the Project.

The Indenture constitutes a continuing agreement with the Owners from time to time of the Bonds to secure the full payment of the principal of and premium, if any, and interest on all such Bonds subject to the covenants, provisions and conditions contained herein. On the Date of Issue, all conditions, acts and things required by law or by the Indenture to exist, to have happened or to have been performed precedent to or in the issuance of the Bonds shall exist, shall have happened and shall have been performed, and the Bonds, together with all other indebtedness of the Issuer, shall be within every debt and other limit prescribed by law.

#### **Nature of Security**

The Bonds are special and limited obligations of the Issuer secured by the Trust Estate and payable only from Revenues deposited in the Bond Fund or otherwise available for the payment of the Bonds under the terms of the Indenture and are not general obligations of the Issuer, of the State, or of any political subdivisions of the State, including any Members. The Bonds and interest and premium, if any, thereon are not payable from taxes and are not a charge against the general credit or taxing power of the State, the Issuer or any Member, or any other municipal corporation, quasi-municipal corporation, political subdivision or agency thereof. No Owner of any Bond shall have the right to compel any exercise of the taxing power of the Issuer, the State, any Member or any other municipal corporation, quasi-municipal corporation, political subdivision or agency thereof to pay the Bonds or the interest or premium, if any, thereon, and the Bonds do not constitute an indebtedness of the Issuer, any Member or the State or a loan of the credit thereof within the meaning of any constitutional or statutory provision other than from the Revenues deposited in the Bond Fund or otherwise available for the payment of the Bonds under the terms of the Indenture.

#### **Parity Bonds**

The Bonds shall not be entitled to priority one over the other in the application and pledge of the Revenues, regardless of the time or times of their issuance, it being the intention that there shall be no priority among the Bonds,

regardless of the fact that they may be actually issued and delivered at different times, and provided further that the lien and security of and for any bonds or obligations hereafter issued that are payable from the Revenues of the Project shall, except as set out in the Indenture, be subject to the priority of the Bonds as may from time to time be outstanding; provided the Issuer hereby reserves the right and privilege of issuing (i) Completion Indebtedness and/or (ii) any additional bonds from time to time in order to pay the cost of acquiring, whether by purchase or construction of extensions, renovations, improvements and/or betterments to the Project, or for any other lawful purpose of the Issuer. When issued any Parity Bonds shall be payable from the Revenues of the Project ranking on a parity with the Bonds. Parity Bonds, other than the Completion Indebtedness, may be issued by the Issuer only upon compliance with the following conditions and restrictions:

- (a) that before any Parity Bonds may be issued there shall have been procured and filed with the Secretary of the Issuer a statement by an Independent Engineer, reciting the opinion, based upon necessary investigation, that on an annual basis the Debt Service Coverage Ratio, based upon (i) the Net Revenues of the Project, including the then contemplated extensions, improvements, renovations and betterments throughout the life of the Bonds and (ii) the Maximum Annual Debt Service on the Outstanding Bonds and the Parity Bonds then proposed to be issued, will, from and after the fifth year after the Parity Bonds are issued, be equal to at least 1.20:1;
- (b) that the Issuer reserves the right, exercisable by supplemental indenture, to prescribe additional and more restrictive conditions for the issuance of such additional Parity Bonds, and upon issuance of Parity Bonds in compliance therewith such additional and more restrictive conditions shall be applicable to all such Parity Bonds as may thereafter be issued;
- (c) at the time of issuance of such Parity Bonds, the supplemental indenture (and/or other appropriate document) of the Issuer authorizing such Parity Bonds shall contain a provision requiring the funding, completion of the funding, or additional funding of the Reserve Fund with cash and/or a surety bond;
- (d) that if the Parity Bonds are to bear interest at a fixed rate, the interest payment dates for any such additional Parity Bonds shall be semiannually on the same dates as the Outstanding Bonds; and
- (e) that the principal maturities of such additional Parity Bonds shall be on an Interest Payment Date.

The Net Revenues of said contemplated extensions, improvements, renovations and betterments shall not be included as aforesaid, unless, at the time it is proposed to issue any such Parity Bonds, either (i) a written contract or contracts shall have been entered into for the immediate acquisition of any such betterments, improvements, renovations or extensions to be acquired and for the construction of substantially all of any such extensions, improvements, renovations or betterments to be constructed through application of any of the proceeds of such additional Parity Bonds; or (ii) a certificate shall have been made and filed with the Secretary of the Issuer by an Independent Engineer, meeting the qualifications prescribed in the Indenture, stating that in his, her or their opinion certain described extensions, improvements, renovations, betterments or constructions are needed, that the nature thereof is such that construction can be accomplished more economically or more expeditiously by purchasing materials and utilizing labor or personnel employed directly by the Issuer, and that the estimated costs thereof can be paid in full from the proceeds of the Parity Bonds proposed to be issued, as supplemented by any other funds then available.

The additional Parity Bonds and other obligations, the issuance of which is restricted by the Indenture, shall be understood to mean Parity Bonds and obligations payable from the Revenues of the Project on a parity with the Outstanding Bonds and shall not be deemed to include bonds or other obligations subsequently issued, the lien and security of which are subordinate and subject to the prior and superior lien and security of the Outstanding Bonds.

Nothing in the Indenture is intended or shall be construed as a restriction upon the ordinary refunding of any of the Bonds herein authorized and/or Outstanding Bonds, if such refunding does not operate to increase in any year the aggregate debt service requirements of the Outstanding Bonds proposed to be refunded.

## **Funds and Accounts**

The following Funds and accounts either have been created and established under the Series 2007 Indenture or shall be created and established as needed to comply with the provisions of the Indenture:

- (1) the Revenue Fund;
- (2) the Bond Fund, consisting of:
  - (i) the Principal and Interest Account; and
  - (ii) the Redemption Account;
- (3) the Project Fund, consisting of:
  - (i) the Costs of Issuance Account;
  - (ii) the Project Account - Tax-Exempt;
  - (iii) the Project Account - BABs; and
  - (iii) the Project Account - Taxable;
- (4) the Operating Fund;
- (5) the Reserve Fund;
- (6) the Capital Improvement Fund;
- (7) the Rate Stabilization Fund;
- (8) the Decommissioning Fund;
- (9) the Operating Reserve Fund;
- (10) the General Fund consisting of:
  - (i) one or more PSA Signatory Accounts; and
- (11) if necessary, the Rebate Fund.

The Bond Fund, the Project Fund, the Reserve Fund and the Rebate Fund shall be established with and maintained by the Trustee. The other Funds and accounts created under the Indenture shall be established with and maintained by the Issuer with the Trustee and/or a Depository Bank; provided that if there shall be declared an Event of Default under this Indenture, then the Revenue Fund shall be established and maintained with the Trustee. Each Fund and account created under the Indenture shall be established and maintained as a separate and distinct fund or account to be held, managed, invested, disbursed and administered as provided in the Indenture. All money deposited in the Funds and accounts created under the Indenture shall be used solely for the purposes set forth in the Indenture. The Trustee and the Depository Bank, as the case may be, shall keep and maintain adequate records pertaining to each Fund and account, and all deposits thereto and disbursements therefrom.

The Trustee may, in its discretion, establish such additional accounts within any of the Funds maintained by the Trustee, and subaccounts within any of the accounts, as the Trustee may deem necessary or useful for the purpose of identifying more precisely the sources of payments into and disbursements from the Funds maintained by the Trustee and their accounts, or for the purpose of complying with the requirements of the Code, but the establishment of any such account or subaccount shall not alter or modify any of the requirements of the Indenture with respect to a deposit or use of money in the Funds maintained by the Trustee, or result in commingling of funds prohibited thereunder.

## **Revenue Fund**

All of the Revenues, including the PSA Payments, shall be deposited into the Revenue Fund and shall thereafter be apportioned to the various funds and accounts as set out below and in the Indenture.

## **Bond Fund - Principal and Interest Account**

The Issuer shall deposit in or transfer to the Principal and Interest Account:

(i) on the 20<sup>th</sup> day of each month from the Revenue Fund (or if the money is being transferred from the Project Fund, then on or before the day prior to the Interest Payment Date), a sum equal to the total of the following:

(1) an amount equal to one-sixth (or such larger amount as is necessary) of the interest to become due on the Bonds then outstanding on the next Interest Payment Date, plus

(2) an amount equal to one-twelfth (or such larger amount as is necessary) of the principal of any Bonds maturing on the next succeeding September 1;

(ii) immediately upon receipt thereof, the net earnings on investments of money in the Principal and Interest Account;

(iii) all money required to be transferred to the Principal and Interest Account from the Project Fund pursuant to the Indenture;

(iv) all money required to be transferred to the Principal and Interest Account from the Redemption Account pursuant to the Indenture; and

(v) all other money required to be transferred to or deposited in the Principal and Interest Account pursuant to any provision of the Indenture or any Power Sales Agreement.

The money and investments in the Principal and Interest Account are irrevocably pledged to and shall be used by the Trustee, from time to time, to the extent required, in the following order of priority:

(y) for the payment of the principal of and interest on Bonds on the next Interest Payment Date or redemption or maturity date; and

(z) for transfer to the Redemption Account funds in the Principal and Interest Account in excess of those necessary for the purposes described in paragraph (y) above, upon written request from an Authorized Representative of the Issuer, for the payment of accrued interest on and principal of any Outstanding Bonds that are optionally redeemed.

## **Bond Fund - Redemption Account**

The Trustee shall deposit in or transfer to the Redemption Account:

(i) immediately upon receipt thereof, all money received by the Trustee from the Issuer or from any other source with written instructions to deposit such amounts in the Redemption Account;

(ii) immediately upon receipt thereof, the net income realized on investments of money in the Redemption Account; and



(iii) all money required to be transferred to or deposited in the Redemption Account pursuant to any provision of the Indenture.

The money and investments in the Redemption Account are irrevocably pledged and shall be used by the Trustee, from time to time, to redeem Bonds called for redemption in accordance with the provisions of the Indenture or in accordance with the following paragraph.

Upon receipt of and in accordance with a written request from an Authorized Representative of the Issuer, funds in the Redemption Account in excess of the amount necessary to redeem Bonds for which notice of redemption has been given pursuant to the Indenture shall be used for any one or more of the following purposes:

- (y) for the optional redemption of Bonds prior to the maturity thereof pursuant to the Indenture;
- or
- (z) for transfer to the Principal and Interest Account.

#### **Bond Fund - Investment of Money in Bond Fund**

Pending application of money in the Bond Fund as set forth in the Indenture, such money shall be invested and reinvested by the Trustee in Authorized Investments pursuant to the Indenture.

In the absence of written direction from the Issuer with respect to investment of moneys held in the Funds, the Trustee is hereby directed to invest funds in money market mutual funds of the Trustee or its affiliates that qualify as Authorized Investments under the Indenture.

#### **Project Fund - Costs of Issuance Account**

The Trustee shall deposit in or transfer to the Costs of Issuance Account:

- (i) immediately upon receipt thereof, the amounts derived from Bond proceeds required to be deposited therein pursuant to the Indenture; and
- (ii) amounts as are received by the Trustee from the Issuer or from any other source (other than proceeds of the Bonds) for purposes of paying the Financing Expenses.

Financing Expenses shall be paid by the Trustee from the Costs of Issuance Account, but only to the extent of the balance therein, within five Business Days following receipt by the Trustee of a written request for payment from an Authorized Representative of the Issuer, accompanied by the statements or billings therefor provided, however, that the Issuer may pay such Financing Expenses in which case the Trustee shall reimburse the Issuer from the Costs of Issuance Account, but only to the extent of the balance therein, within five Business Days of the Trustee's receipt of the written request of an Authorized Representative of the Issuer, accompanied by the statements or billings therefor and evidence that such costs have been paid by the Issuer. All payments made from the Costs of Issuance Account pursuant to a written request for payment from an Authorized Representative of the Issuer shall be presumed to be made properly and the Trustee shall not be required to see to the application of any payments made from the Costs of Issuance Account. Any money remaining in the Costs of Issuance Account after the later of payment of all Financing Expenses (or reimbursement of the Issuer for payment of such expenses), shall be deposited in the Project Account - Tax-Exempt of the Project Fund.

#### **Project Account - Tax Exempt**

The Trustee shall deposit in or transfer to the Project Account - Tax- Exempt:

(i) immediately upon receipt thereof, the amounts derived from Bond proceeds required to be deposited therein pursuant to the Indenture; and

(ii) all amounts required to be transferred to the Project Account - Tax-Exempt from the Costs of Issuance Account pursuant to the Indenture.

The money and investments in the Project Account - Tax-Exempt shall be held in trust by the Trustee and applied in accordance with and subject to the provisions of the Indenture and, pending such application, shall be held for the further security of the Owners of the Bonds until applied as provided herein. Until actually disbursed by the Trustee to or upon the order of the Issuer in accordance with the Indenture, the Issuer shall have no interest in such money and investments.

From the Project Account - Tax-Exempt, the Trustee shall:

(i) transfer to the Principal and Interest Account of the Bond Fund, on or before the day prior to the Interest Payment Date, until the completion of construction of the Project, an amount equal to the interest to become due on the Tax-Exempt Bonds then outstanding on the next Interest Payment Date;

(ii) transfer, if and when directed by the Issuer, money to the Principal and Interest Account of the Bond Fund for the purpose of paying interest on the Tax-Exempt Bonds prior to completion of construction of the Project; and

(iii) upon receipt of a properly executed form of a Requisition Certificate signed by an Authorized Representative of the Issuer and approved by an Independent Engineer, pay to the parties designated by the Issuer and in such amounts as set forth in the Requisition Certificate as payment toward the Project Costs.

All payments and transfers made from the Project Account - Tax-Exempt pursuant to a duly authorized and executed Requisition Certificate shall be presumed to be made properly and the Trustee shall not be required to see to the application of any payments and transfers made from the Project Account - Tax-Exempt.

#### **Project Account - BABs**

The Trustee shall deposit in or transfer to the Project Account - BABs:

(i) immediately upon receipt thereof, the amounts derived from Bond proceeds required to be deposited therein pursuant to the Indenture; and

(ii) all amounts required to be transferred to the Project Account - BABs from the Costs of Issuance Account pursuant to the Indenture.

The money and investments in the Project Account - BABs shall be held in trust by the Trustee and applied in accordance with and subject to the provisions of the Indenture and, pending such application, shall be held for the further security of the Owners of the Bonds until applied as provided herein. Until actually disbursed by the Trustee to or upon the order of the Issuer in accordance with the Indenture, the Issuer shall have no interest in such money and investments.

From the Project Account - BABs, the Trustee shall:

(i) transfer to the Principal and Interest Account of the Bond Fund, on or before the day prior to the Interest Payment Date, until the completion of construction of the Project, an amount equal to the interest to become due on the Series 2010B Bonds (less any subsidy credit to be received) then outstanding on the next Interest Payment Date;

(ii) transfer, if and when directed by the Issuer, money to the Principal and Interest Account of the Bond Fund for the purpose of paying interest on the Series 2010B Bonds prior to completion of construction of the Project; and

(iii) upon receipt of a properly executed form of a Requisition Certificate signed by an Authorized Representative of the Issuer and approved by an Independent Engineer, pay to the parties designated by the Issuer and in such amounts as set forth in the Requisition Certificate as payment toward the Project Costs.

All payments and transfers made from the Project Account - BABs pursuant to a duly authorized and executed Requisition Certificate shall be presumed to be made properly and the Trustee shall not be required to see to the application of any payments and transfers made from the Project Account - BABs.

#### **Project Account - Taxable**

The Trustee shall deposit in or transfer to the Project Account - Taxable:

(i) immediately upon receipt thereof, the amounts derived from Bond proceeds required to be deposited therein pursuant to the Indenture; and

(ii) amounts as are received by the Trustee from the Issuer or from any other source (other than proceeds of the Bonds) for purposes of paying Project Costs.

The money and investments in the Project Account - Taxable shall be held in trust by the Trustee and applied in accordance with and subject to the provisions of the Indenture and, pending such application, shall be held for the further security of the Owners of the Bonds until applied as provided herein. Until actually disbursed by the Trustee to or upon the order of the Issuer in accordance with the Indenture, the Issuer shall have no interest in such money and investments.

From the Project Account - Taxable, the Trustee shall:

(i) transfer to the Principal and Interest Account of the Bond Fund, on or before the day prior to the Interest Payment Date until the completion of construction of the Project, an amount equal to the interest to become due on the Series 2010C Bonds then outstanding on the next Interest Payment Date;

(ii) transfer, if and when directed by the Issuer, money to the Principal and Interest Account of the Bond Fund for the purpose of paying interest on the Bonds prior to completion of construction of the Project; and

(iii) upon receipt of a properly executed form of a Requisition Certificate signed by an Authorized Representative of the Issuer and approved by an Independent Engineer, pay to the parties designated by the Issuer and in such amounts as set forth in the Requisition Certificate as payment toward the Project Costs.

All payments and transfers made from the Project Account - Taxable pursuant to a duly authorized and executed Requisition Certificate shall be presumed to be made properly and the Trustee shall not be required to see to the application of any payments and transfers made from the Project Account - Taxable.

The date of completion of construction of the Project shall be the date when the Trustee shall have received a certificate in the form attached to the Indenture (the "Completion Certificate") of an Authorized Representative of the Issuer to the effect that all Financing Expenses and Project Costs to be paid from the Project Fund have been paid in full.

### **Application of Balance in Project Fund**

Upon receipt of the Completion Certificate, the Trustee shall transfer any money and investments remaining in the accounts in the Project Fund to the Redemption Account of the Bond Fund to be used to redeem Bonds on the earliest redemption date.

### **Investment of Money in the Project Fund**

Pending application of money in the Project Fund as set forth in the Indenture, such money shall be invested and reinvested by the Trustee in accordance with the requirements of the Indenture. All investment earnings, if any, on money in any account in the Project Fund shall be deposited in the respective account of the Project Fund.

In the absence of written direction from the Issuer with respect to investment of moneys held in the Funds, the Trustee is hereby directed to invest funds in money market mutual funds of the Trustee or its affiliates that qualify as Authorized Investments under the Indenture.

### **Reserve Fund**

The Trustee shall deposit in or transfer to the Reserve Fund:

- (i) immediately upon receipt thereof, the amounts derived from Bond proceeds required to be deposited therein pursuant to the Indenture; and
- (ii) amounts as are received by the Trustee from the Issuer or from any other source (other than proceeds of the Bonds) which have been designated for deposit in the Reserve Fund.

All income derived from the investments on deposit in the Reserve Fund shall remain in, and be credited to, the Reserve Fund unless the amount on deposit in the Reserve Fund exceeds the Required Reserve, in which case, such excess shall be deposited to the Principal and Interest Account.

On March 1 and September 1 of each year the Trustee shall determine the market value of the amounts on deposit in the Reserve Fund, including amounts available under any Reserve Account Insurance Policy. If the amount determined to be on deposit in the Reserve Fund is in excess of the Required Reserve, such excess shall be transferred and deposited to the Principal and Interest Account. If the amount determined to be on deposit in the Reserve Fund is less than the Required Reserve, the Trustee shall so notify the Issuer and, as set forth below, the Issuer shall replenish and restore the amount on deposit in the Reserve Fund to an amount equal to the Required Reserve.

Amounts on deposit in the Reserve Fund, including amounts available under any Reserve Account Insurance Policy, may be withdrawn and used by the Trustee, when necessary, and shall only be so withdrawn and used if and to the extent necessary to prevent the occurrence of an Event of Default or for the purpose of making payments of principal of and interest on the Bonds (including both principal maturities and mandatory redemptions) if the amounts on deposit in the Bond Fund are not sufficient to make such payments.

In the event that any funds shall be paid by any Reserve Account Insurance Policy or funds then on deposit shall be withdrawn from the Reserve Fund (the "Reserve Fund Withdrawal"), the Issuer shall be obligated to transfer funds from the Revenue Fund to the Reserve Fund in each month in an amount equal to 1/12 of the Reserve Fund Withdrawal until such Required Reserve has been restored. Such funds shall be used first to restore the Reserve Account Insurance Policy to the face amount of such Reserve Account Insurance Policy and thereafter to restore any cash which had been on deposit in the Reserve Fund.

If, whenever, and so long as the Reserve Fund contains more than one surety or Reserve Account Insurance Policy, any charge, draw, withdrawal, or other reduction in or from such Reserve Fund must be made pro rata against

such surety and/or Reserve Account Insurance Policies after the depletion of any cash or assets other than surety bonds or policies.

As and when Parity Bonds are issued, provision shall be made similarly for increasing the Reserve Fund, if necessary and to the extent not fully funded concurrently with the issuance of such Parity Bonds, to not less than the Required Reserve applicable to all Bonds, including the Parity Bonds, then scheduled to be Outstanding falling due in any 12-month period thereafter, by (a) the immediate deposit in cash and/or investments of such additional amount required to provide such increased Required Reserve, or (b) obtaining a Reserve Account Insurance Policy to effect such funding.

All amounts on deposit in the Reserve Fund shall constitute a trust fund and shall be and are hereby earmarked and pledged for the security and source of payment for the Bonds.

### **Capital Improvement Fund**

In order to provide moneys which will be available for Capital Improvements to the Project, there shall be transferred and deposited into the Capital Improvement Fund, from the Revenue Fund, in as nearly equal monthly deposits as practicable, the amount recommended by an Independent Consultant and set forth in the Annual Budget of Issuer. Balances at any time on deposit in said Capital Improvement Fund may be expended upon order of the Issuer for costs of the Capital Improvements, and to the extent not so expended the same shall accumulate in the Capital Improvement Fund until such time as the amount on deposit in the Capital Improvement Fund shall equal the Capital Reserve Requirement, represented either by cash or by the market value of investments, as permitted in the Indenture, and upon the accumulation of an amount equal to the Capital Reserve Requirement, the monthly transfers from the Revenue Fund may be suspended. If and when it shall become necessary to make disbursements from the Capital Improvement Fund for such authorized Capital Improvements, the monthly transfers and deposits from the Revenue Fund shall be resumed and continued until the amount on deposit in the Capital Improvement Fund shall have been restored to the Capital Reserve Requirement.

Pending application of money in the Capital Improvement Fund as set forth in the Indenture, such money shall be invested and reinvested in Authorized Investments pursuant to the Indenture. Any investment so made shall be held for the account of the Capital Improvement Fund. Any income or gain realized therefrom shall be credited to the Capital Improvement Fund and expenses or loss in connection therewith shall be charged to said Capital Improvement Fund. It is recognized and determined by the Issuer that provision for the aforesaid Capital Improvement Fund shall take into account the annual requirements for retirement of the Outstanding Bonds and the capital costs of additions, improvements, renovations and betterments financed from surplus revenues, and should be at least equivalent to the accounting practices of privately owned utility systems for depreciation of electric generation and transmission facilities. Accordingly, it is determined that such serial retirement of Outstanding Bonds may be shown on the books of record and account of the Issuer as balancing, in part, the normal depreciation of the Project.

In the event there would otherwise be a default in the payment of interest on or the principal of the Outstanding Bonds, any balance then on deposit in the Capital Improvement Fund may be withdrawn and applied to such extent as may be necessary in order to prevent such default, and any investments held for the account of the Capital Improvement Fund may be converted into cash if and to the extent required for such purpose; but such withdrawals shall be deemed to be advances from the Capital Improvement Fund and the amount thereof shall be restored as soon as moneys are available.

### **Operating Fund**

The Issuer shall deposit in or transfer to the Operating Fund:

- (i) immediately upon receipt thereof, the amounts derived from Bond proceeds required to be deposited therein pursuant to the Indenture; and

(ii) amounts as are received by the Issuer from any other source (other than proceeds of the Bonds) which have been designated for deposit to the Operating Fund.

On the 20<sup>th</sup> day of each month, beginning with the first month in which the Issuer receives payments under a Power Sales Agreement, the Issuer shall transfer from the Revenue Fund, an amount equal to the balance of the aggregate Operating Expenses set forth in the Annual Budget approved by the Issuer for the current Fiscal Year divided by the number of complete and partial calendar months remaining in said Fiscal Year (or such larger amount as is necessary). Moneys on deposit in the Operating Fund shall be used by the Issuer to pay the Operating Expenses of the Project, including but not limited to salaries, wages, cost of materials and supplies, power purchased at wholesale, tax equivalent payments, transmission costs and fees, insurance and professional services, and all other Operating Expenses associated with any provision of the Indenture or any Power Sales Agreement.

Funds on deposit in the Operating Fund shall be drawn and disbursed by the Issuer without the requirement of any requisition or certification.

All investment earnings, if any, on money in the Operating Fund shall be retained in the Operating Fund.

### **Rate Stabilization Fund**

In order to provide moneys which will be available to stabilize the costs to the PSA Signatories of the fluctuations in wholesale power costs or increased costs as a result of (i) shortages or outages of power and energy anticipated to be generated by the Project or (ii) the increase in wholesale power costs to the PSA Signatories for the purchase of power and energy prior to the completion and operation of the Project, there shall be transferred and deposited into the Rate Stabilization Fund, from the Revenue Fund, in as nearly equal monthly deposits as practicable, the amount recommended by an Independent Consultant and set forth in the Annual Budget of Issuer. Balances at any time on deposit in said Rate Stabilization Fund may be expended by the Issuer to stabilize the temporary increases in wholesale power costs, and to the extent not so expended the same shall accumulate in the Rate Stabilization Fund until such time as the amount on deposit in the Rate Stabilization Fund shall equal the Rate Stabilization Requirement, represented either by cash or by the market value of investments, as permitted in the Indenture, and upon the accumulation of an amount equal to the Rate Stabilization Requirement, the monthly transfers from the Revenue Fund may be suspended. If and when it shall become necessary to make disbursements from the Rate Stabilization Fund, the monthly transfers and deposits from the Revenue Fund shall be resumed and continued until the amount on deposit in the Rate Stabilization Fund shall have been restored to the Rate Stabilization Requirement.

Pending application of money in the Rate Stabilization Fund as set forth in the Indenture, such money shall be invested and reinvested in Authorized Investments pursuant to the Indenture. Any investment so made shall be held for the account of the Rate Stabilization Fund. Any income or gain realized therefrom shall be credited to the Rate Stabilization Fund and expenses or losses in connection therewith shall be charged to said Rate Stabilization Fund.

### **Decommissioning Fund**

In order to provide moneys which will be available to pay for Decommissioning Costs, there shall be transferred and deposited into the Decommissioning Fund, from the Revenue Fund, in as nearly equal monthly deposits as practicable, the amount recommended by an Independent Consultant and set forth in the Annual Budget of Issuer. Balances at any time on deposit in said Decommissioning Fund may be expended by the Issuer to pay Decommissioning Costs, and to the extent not so expended the same shall accumulate in the Decommissioning Fund until such time as the amount on deposit in the Decommissioning Fund shall equal the Decommissioning Reserve Requirement, represented either by cash or by the market value of investments, as permitted in the Indenture, and upon the accumulation of an amount equal to the Decommissioning Reserve Requirement, the monthly transfers from the Revenue Fund may be suspended. If and when it shall become necessary to make disbursements from the Decommissioning Fund, the monthly transfers and deposits from the Revenue Fund shall be resumed and continued until the amount on deposit in the Decommissioning Fund shall have been restored to the Decommissioning Reserve Requirement.

Pending application of money in the Decommissioning Fund as set forth in the Indenture, such money shall be invested and reinvested in Authorized Investments pursuant to the Indenture. Any investment so made shall be held for the account of the Decommissioning Fund. Any income or gain realized therefrom shall be credited to the Decommissioning Fund and expenses or losses in connection therewith shall be charged to said Decommissioning Fund.

### **Operating Reserve Fund**

At the close of each fiscal quarter there shall be transferred from the Operating Fund and deposited in the Operating Reserve Fund all amounts in excess of the estimated Operating Expenses needed for the next quarter. Amounts on deposit in the Operating Reserve Fund, from time to time as so determined by the Issuer, may be transferred, as needed, to increase the amount in or replenish any deficit in any other Fund established by the Indenture or used to (i) pay Operating Expenses or any other costs or expense associated with the Project; (ii) pay the principal of and interest on the Bonds; (iii) redeem any Bonds; and/or (iv) pay any cost or expense required by the Indenture or the Power Sales Agreement.

At the end of any Fiscal Year the amount on deposit in the Operating Reserve Fund in excess of the Operating Reserve Requirement shall be transferred and deposited into the General Fund.

Pending application of money in the Operating Reserve Fund as set forth in the Indenture, such money shall be invested and reinvested in Authorized Investments pursuant to the Indenture. Any investment so made shall be held for the account of the Operating Reserve Fund. Any income or gain realized therefrom shall be credited to the Operating Reserve Fund and expenses or losses in connection therewith shall be charged to said Operating Reserve Fund.

### **General Fund**

The Issuer shall deposit in or transfer to the General Fund:

- (i) immediately upon receipt thereof, the amounts derived from Operating Reserve Fund required to be transferred therefrom and deposited in the General Fund pursuant to the Indenture; and
- (ii) amounts as they are received by the Issuer from any other source (other than proceeds of the Bonds) which have been designated for deposit to the General Fund.

Moneys on deposit in the General Fund shall be divided into pro rata amounts equal in proportion to the PSA Signatories' Entitlement Percentages as reflected in the Power Sales Agreements and thereafter deposited into separate accounts respectively named for each PSA Signatory. Upon the direction of the respective PSA Signatory, moneys on deposit in the respective PSA Signatory's General Fund account shall be used as a credit to offset any required payment to be made by the PSA Signatory under the Power Sales Agreement.

Pending application of money in the General Fund as set forth in the Indenture, such money shall be invested and reinvested in Authorized Investments pursuant to the Indenture. Any investment so made shall be held for the respective account in the General Fund. Any income or gain realized therefrom shall be credited to the respective account of the General Fund and expenses or losses in connection therewith shall be charged to said respective account of the General Fund.

### **Rebate Fund**

(a) The Issuer hereby authorizes the Trustee to establish a separate special fund designated as the "Rebate Fund," which shall be segregated from all other funds and accounts held by the Trustee. If such a fund is established, the Trustee shall maintain the Rebate Fund until the expiration of 60 days after the retirement of the last Outstanding Bond.

(b) The Trustee shall maintain records of investment transactions of the gross proceeds of the Bonds held in the Project Fund and the Bond Fund on an investment-by-investment basis and shall make such records available at the request of the Issuer to the Rebate Analyst. The Issuer shall cause the Rebate Amount to be calculated as of each Installment Computation Date and as of the Final Computation Date. The Issuer shall employ a Rebate Analyst to calculate the Rebate Amount.

(c) The Issuer shall cause the rebate calculations to be completed and filed with the Trustee not later than 45 days after each Installment Computation Date, or 45 days after the Final Computation Date.

(d) The Trustee shall transfer from the Revenue Fund, from time to time, such amounts as directed by the Issuer for deposit to the Rebate Fund for the purpose of accruing funds to pay to the United States in the amounts required to be paid under the Indenture. Not later than three Business Days after the rebate calculations are filed with the Trustee, the Trustee shall transfer from the Revenue Fund for deposit to the Rebate Fund an amount such that the balance in the Rebate Fund is at least equal to the Rebate Amount.

(e) Not later than 55 days after each Installment Computation Date, or 55 days after the Final Computation Date, the Issuer shall cause to be paid to the United States any amount which is required to be paid under Section 148(f)(3) of the Code. Each payment shall be mailed to the Internal Revenue Service Center, Philadelphia, Pennsylvania 19255, and shall be accompanied by a copy of I.R.S. Form 8038-T prepared by the Issuer. The Trustee shall disburse money from the Rebate Fund to the United States for such payments.

(f) Money in the Rebate Fund shall be invested by the Trustee at the written direction of the Issuer in Authorized Investments which mature no later than the date that is 55 days after the earlier of the next Installment Computation Date or the Final Computation Date.

(g) No earlier than 120 days and no later than 90 days prior to each Installment Computation Date and the Final Computation Date, the Trustee shall notify the Issuer of the action which is required by the foregoing subsections. No earlier than 15 days and no later than 10 days prior to the date on which the rebate calculations must be completed under paragraph (c) above, the Trustee shall use its best efforts to notify the Issuer of the action required by paragraph (c) above. No notice need be given if the required action already has been taken by the Issuer.

(h) In addition to the records required by paragraph (a) above, the Trustee shall maintain such records of investments, deposits and disbursements in the Funds as the Issuer may specifically instruct the Trustee to maintain to comply with the provisions of Section 148 of the Code and the Indenture.

(i) If the calculation of the Rebate Amount under paragraph (b) above indicates that the balance in the Rebate Fund exceeds the Rebate Amount as of the date on which a payment is made to the United States pursuant to paragraph (e) above, then the Trustee shall, if directed by the Issuer, transfer all or any portion of such excess to the Revenue Fund.

(j) The Issuer shall be responsible for the calculation and paying of all Rebate Amounts due under Section 148 of the Code. The Trustee shall not be obligated to calculate or pay Rebate Amounts on behalf of the Issuer. The obligation of the Trustee under the Indenture is limited to giving notice to the Issuer on a best efforts basis, keeping records, investing money and depositing and disbursing money in and from the Rebate Fund in accordance with instructions from the Issuer and the Indenture.

(k) The intent of the Indenture is to require funding of the Rebate Fund so that money in that account will be available to pay Rebate Amounts when they are required to be paid under Section 148 of the Code. Notwithstanding anything to the contrary in the Indenture, the Issuer may cause the Trustee to amend the Indenture, without consent of the Bondholders, in any manner consistent with the intent of the Indenture, if the Issuer provides the Trustee with an opinion of Tax Counsel to the effect that:



(i) the Indenture, as amended, states in reasonable detail the procedures with which the Issuer must comply under the applicable provisions of the regulations and rulings under Section 148 of the Code that are then in effect, and requires the Trustee to notify the Issuer in advance of the date on which action is required to comply with Section 148(f) of the Code; and

(ii) the amendment will not cause interest on the Tax-Exempt Bonds to become includable in gross income for federal income tax purposes; and

(iii) the amendment is consistent with the stated intent of the Indenture prior to its amendment.

(l) The Trustee shall retain records of the source of and determination of the Rebate Amounts required to be deposited and credited to the Rebate Fund, of the proceeds of any investments of money in the Rebate Fund, and of the amounts paid to the United States Treasury from the Rebate Fund for six years after the retirement of the last Outstanding Bond, or such shorter period as may be permitted by Section 148 of the Code.

(m) The Trustee may, in its discretion, establish such accounts within the Rebate Fund established under the Indenture, and subaccounts within any of such accounts, as the Trustee may deem necessary or useful for the purpose of identifying more precisely the sources of payments into and disbursements from such accounts or subaccounts, but the establishment of any such additional account or subaccount shall not alter or modify any of the requirements of the Indenture with respect to the deposit or use of money in the Rebate Fund established under the Indenture or result in commingling of funds not permitted thereunder.

### **Final Balances**

Upon payment of all principal of and premium, if any, and interest on the Bonds, and upon payment of all sums properly due and payable hereunder and under the Power Sales Agreements (including all fees, charges and expenses of the Trustee and the Issuer which are properly due and payable hereunder and under the Power Sales Agreements as of such date), all money remaining in all Funds and accounts, except money held by the Trustee pursuant to any escrows established under the Indenture, shall be remitted and paid to the Issuer.

### **Investment of Funds**

Money on deposit in the Project Fund shall be invested and reinvested by the Trustee in Authorized Investments, as directed by the Issuer and confirmed in writing.

In the absence of written direction from the Issuer with respect to investment of moneys held in the Project Fund, the Trustee is hereby directed to invest funds in money market mutual funds of the Trustee or its affiliates that qualify as Authorized Investments under the Indenture.

Money on deposit in the Principal and Interest Account or Redemption Account of the Bond Fund shall be invested and reinvested by the Trustee in Authorized Investments as directed by the Issuer and confirmed in writing, but in the event of the failure of the Issuer to provide timely directions as to such investments or reinvestments, the Trustee shall invest or reinvest any or all money held by it in the Bond Fund in the uninvested cash account maintained by the Trustee. In all cases money in the accounts in the Bond Fund shall be invested only in Authorized Investments maturing no later than the date money in such account or accounts is needed to make the payments authorized to be made therefrom.

Money on deposit in the Reserve Fund shall be invested and reinvested by the Trustee in Authorized Investments, as directed by the Issuer and confirmed in writing.

In the absence of written direction from the Issuer with respect to investment of moneys held in the Reserve Fund, the Trustee is hereby directed to invest funds in money market mutual funds of the Trustee or its affiliates that qualify as Authorized Investments under the Indenture.

Money on deposit in the Rebate Fund, if created, shall be invested only in accordance with the provisions of the Indenture.

### **Allocation of Income and Losses**

The interest and income received with respect to the investments in any Fund or account held by the Trustee under the Indenture, and any profit or loss resulting from the sale of any such investments, shall be deposited and credited upon receipt, or charged to such Fund or such account, and all earnings received from the investment of money in any Fund or account shall be credited as described in the Indenture.

Whenever any transfer or payment is required to be made from any particular Fund or account, such transfer or payment shall be made from such combination of maturing principal, redemption or repurchase prices, liquidation proceeds and withdrawals of principal as the Trustee deems appropriate for such purposes, after taking into account such factors as the Trustee may deem appropriate.

Neither the Issuer nor the Trustee shall be accountable for any depreciation in the value of the investments or any losses incurred upon any authorized disposition thereof.

### **Investments; Arbitrage; Special Arbitrage Restriction**

The Trustee may make any and all investments permitted by the provisions of the Indenture through its own trust department. As and when any amount invested pursuant to the Indenture may be needed for disbursement, the Trustee shall cause a sufficient amount of such investments to be sold and reduced to cash to the credit of such Funds. The Trustee covenants that at any time that it has discretion as to such investments it will not use or invest the proceeds of the Tax-Exempt Bonds or the Series 2010B Bonds in any manner which will cause the Tax-Exempt Bonds or the Series 2010B Bonds to become "arbitrage bonds" within the meaning of Section 148 of the Code and any lawful regulation proposed or promulgated thereunder, as the same exist on this date or may from time to time hereafter be amended, supplemented or revised. The Trustee may rely upon certificates of certified public accountants and opinions of Tax Counsel or Bond Counsel with respect to the foregoing covenants.

### **Performance of and Authority for Covenants**

The Issuer covenants and represents that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in the Indenture and in the Related Documents, in any and every Bond executed, authenticated and delivered hereunder and in all proceedings of its Board of Directors pertaining thereto; that it is duly authorized under the Constitution and laws of the State, including particularly and without limitation the Act, to issue the Bonds and to pledge and grant a security interest in the Trust Estate in the manner and to the extent set forth in the Indenture; that all action on its part for the issuance of the Bonds and for the execution and delivery thereof will be duly and effectively taken and that such Bonds in the hands of the Owners thereof will be valid and enforceable special and limited obligations of the Issuer according to the terms thereof.

The Issuer acknowledges and agrees that all covenants contained in the Indenture are with and for the benefit of all Bondowners and can be enforced by the Trustee, in its discretion or at the direction of the Bondowners, as provided herein, or by the Bondowners in accordance with the provisions of the Indenture.

### **Extensions of Payments of Bonds**

The Issuer will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of interest thereon without the consent of the Trustee and the Owners of all Outstanding Bonds.

## **Concerning the Power Sales Agreement**

The Issuer will do or cause to be done all things on its part to be performed under the Power Sales Agreement so that the rights and obligations of the Issuer thereunder shall not be impaired or excused.

## **Lien of Indenture**

The Issuer will not knowingly create or suffer to be created any lien having priority or preference over the lien of the Indenture upon the Trust Estate or any part thereof, other than the security interests granted by it to the Trustee thereunder. Except to the extent otherwise provided in the Indenture, the Issuer will not knowingly enter into any contract or take any action by which the rights of the Trustee or the Bondowners will be impaired.

## **Instruments of Further Assurance**

The Issuer will do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, such indentures supplemental to the Indenture and such further acts, instruments, and transfers for the better conveying, assuring, transferring, assigning, pledging and hypothecating unto the Trustee the rights, title and interests of the Issuer in the Power Sales Agreement as security for the payment of the principal of and premium, if any, and interest on the Bonds in the manner and to the extent contemplated in the Indenture.

## **Tax-Exempt Status of Series 2010A Bonds**

The Issuer covenants and agrees not to use or permit the use of any of the proceeds of the Tax-Exempt Bonds in such manner, and not to take or omit to take any other action in such manner, as will impair the exclusion of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes. The Issuer further covenants and agrees to comply with applicable arbitrage rebate requirements under Section 148 of the Code.

## **Tax Covenants Relating to Series 2010B Bonds**

The Recovery Act authorizes the Issuer to issue taxable bonds known as "Build America Bonds" to finance capital expenditures for which it could issue tax-exempt bonds and to elect to receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on such taxable bonds if the Issuer so designates such bonds.

The Issuer has made an irrevocable election to designate the Series 2010B Bonds as "Build America Bonds" under Section 54AA of the Code and such Series 2010B Bonds shall be "qualified bonds" pursuant to Section 54AA(g) of the Code so that the Issuer will receive a refundable credit under Section 6431 of the Code equal to 35% of the stated interest paid on the Series 2010B Bonds.

The Issuer covenants and agrees that:

- (i) All of the excess of (a) the available project proceeds (as defined in Section 54A of the Code to mean sale proceeds of the Series 2010B Bonds less not more than 2% of such proceeds used to pay costs of issuance plus investment proceeds thereon), over (b) any amounts in a reasonably required reserve fund (within the meaning of Section 150(a)(3) of the Code) with respect to such issue, is to be used for capital expenditures;
- (ii) The Issuer will comply with the requirements of Section 54AA(g) of the Code to assure eligibility of the Issuer for receipt of the direct pay interest credit;
- (iii) The issue price (reoffering price) of the Series 2010B Bonds of the same maturity does not exceed the par amount by more than .25% multiplied by the number of complete years to the earlier of the maturity date or the first optional redemption date for such Series 2010B Bonds; and

(iv) The Issuer will not use or permit the use of any of the funds provided by the Series 2010B Bonds in such a manner as to, or take or omit to take any action which would, impair the status of the Series 2010B Bonds as "qualified bonds" under Section 54AA of the Code.

### **Rate Covenant**

The Issuer covenants and agrees that while any of the Bonds authorized under the Indenture Outstanding and unpaid, the rates charged and collected under the Power Sales Agreement for the sale of power produced by the Project, shall be fixed, maintained and, if necessary, adjusted from time to time, to be sufficient, so as to produce, based upon the audited financial statements of the Issuer relating to the Project, in each Fiscal Year, a Debt Service Coverage Ratio equal to at least 1.10:1 (the "Rate Coverage"); and that the rates prevailing at any time will not be reduced except upon the basis of a statement of an Independent Engineer, after necessary investigation, that in his or her opinion the Rate Coverage will not thereby be reduced below such level.

### **Events of Default**

The following events shall be Events of Default:

(1) default in the punctual payment of the principal of or premium, if any, or interest on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration or otherwise; or

(2) default by the Issuer in the observance of any of the other covenants, agreements or conditions on its part contained in the Indenture or in the Bonds (other than as shall cause the mandatory redemption of Bonds under the Indenture), if such default shall have continued for a period of 90 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Issuer by the Trustee, or to the Issuer and the Trustee by the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding.

The Trustee shall notify the Issuer of the occurrence of any event described in paragraph (2) above.

### **Acceleration of Maturity**

If any Event of Default described in paragraph (1) above shall occur, the Trustee shall (subject to the provisions of the Indenture relating to Bond Insurance Policy), and in every case during the continuance of any other Event of Default may, upon notice in writing to the Issuer, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such Declaration of Acceleration the same shall become and shall be immediately due and payable, anything contained in the Indenture or in the Bonds to the contrary notwithstanding.

Upon any Declaration of Acceleration of the Bonds hereunder, the Trustee shall give notice of such declaration by mail to the respective Owners of the Bonds at their respective addresses appearing on the Bond Register.

### **Other Remedies Upon Default**

Upon the occurrence and continuance of an Event of Default, then and in every such case the Trustee in its discretion may, and upon the written direction of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding and receipt of indemnity against anticipated expenses and liability to its satisfaction (which indemnity is a condition precedent to its duties hereunder), shall, in its own name and as the Trustee of an express trust:

(1) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners and require the Issuer or any Member to carry out any agreements with or for the benefit of the Owners of Bonds and to perform its or their duties under the Act, the Power Sales Agreement and the Indenture,

provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Power Sales Agreement or the Indenture, as the case may be;

- (2) bring suit upon the Bonds;
- (3) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of Bonds;
- (4) enforce any provisions of any Power Sales Agreement under which there may exist at that time a PSA Default Event; or
- (5) exercise any other remedies available at law or in equity.

#### **Application of Revenues and Other Funds After Default**

If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (subject to certain sections titled "Rebate Fund" and "Unclaimed Moneys" and provided that money described in "Unclaimed Moneys" shall not be used for purposes other than payment of the Bonds) shall be applied by the Trustee as follows and in the following order:

- (1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable charges and expenses of the Trustee (including reasonable fees and disbursements of its legal counsel) incurred in and about the performance of its powers and duties under the Indenture; and
- (2) To the payment of amounts then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, without preference or priority of any kind, ratably, according to the amounts due on the Bonds for principal (and premium, if any) and interest, respectively, to the Owners thereof without discrimination or privilege.

#### **Trustee to Represent Bondowners**

The Trustee is hereby irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture, the Power Sales Agreements and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondowners, the Trustee in its discretion may, and upon the written request of Owners of a majority in aggregate principal amount of the Bonds then Outstanding as provided in the Indenture, and upon being indemnified against anticipated expenses and liabilities to its satisfaction therefor (which indemnity is a condition precedent to its duties hereunder), shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Indenture, the Power Sales Agreements or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. Notwithstanding the foregoing, the Trustee shall not require indemnification prior to accelerating the Bonds as required in the Indenture, or making payment of principal of or premium, if any, or interest on the Bonds.

All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any

such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

### **Bondowners' Direction of Proceedings**

Anything in the Indenture to the contrary notwithstanding, but subject to the rights of the Bond Insurer thereunder, the Owners of a majority in aggregate principal amount of the Bonds Outstanding, shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the time, place and method of conducting all remedial proceedings taken by the Trustee thereunder, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction that in the sole discretion of the Trustee would be unjustly prejudicial to Bondowners not parties to such direction. Before the Owners may take or require the Trustee to take any action not otherwise required thereunder, the Trustee may require that it be furnished an indemnity bond satisfactory to it for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from the negligence or willful misconduct of the Trustee, by reason of any action so taken by the Owners or the Trustee. The Trustee shall not be responsible for the propriety of or liable for the consequences of following such a direction given by the Owners of a majority in aggregate principal amount of the Bonds Outstanding.

### **Limitation on Bondowners' Right to Sue**

Except as otherwise provided in the Indenture, no Owner of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, any Power Sales Agreement or any other applicable law with respect to such Bond, unless (1) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Owners of not less than 50% in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (3) such Owner or Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or failed to comply with such request for a period of 90 days after such written request shall have been received by, and such tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or failure are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy hereunder or under law; it being understood and intended that no one or more Bondowners shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Bondowners, or to enforce any right under the Indenture, the Power Sales Agreements or applicable law with respect to the Bonds, except in the manner therein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided therein and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Notwithstanding the foregoing, nothing in the Indenture shall be construed as limiting or otherwise modifying the rights of the Owners and the Trustee under the Indenture, and in no event shall anything herein impair the absolute and unconditional right of the Owner of each Bond to receive payment of the principal thereof and interest and premium, if any, thereon at the times provided in such Bond and in the Indenture and to institute suit solely for the purpose of enforcing any such payment or purchase.

### **Absolute Obligation of Issuer**

Nothing in the Indenture, or in the Bonds, shall affect or impair the obligation of the Issuer, which is absolute and unconditional, to pay the principal of and premium, if any, and interest on the Bonds to the respective Owners of the Bonds at the times stated therein, but only out of the Revenues and other assets pledged herein therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

## **Termination of Proceedings**

In case any proceedings taken by the Trustee or any one or more Bondowners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bondowners, then in every such case the Issuer, the Trustee and the Bondowners, subject to any determination in such proceedings, shall be restored to their former positions and rights thereunder, severally and respectively, and all rights, remedies, powers and duties of the Issuer, the Trustee and the Bondowners shall continue as though no such proceedings had been taken.

## **Remedies Not Exclusive**

Except as otherwise provided in the Indenture, no remedy herein conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

## **No Implied Waiver of Default**

No delay or omission of the Trustee or any Owner of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

## **Waivers of Events of Default**

Unless a Declaration of Acceleration has been given by the Trustee, the Trustee in its discretion may, if all arrears of principal and interest, if any, on the Bonds and all expenses of the Trustee and/or the Issuer have been paid and all other defaults shall have been cured or provision satisfactory to the Trustee and the Issuer has been made therefor, waive any Event of Default hereunder other than a default under paragraph (1) of "Events of Default", and rescind its consequences. In the case of any such waiver and rescission, the Issuer, the Trustee and the Bondowners shall be restored to their former positions and rights under the Indenture, respectively, but no such waiver and rescission shall extend to any subsequent or other default, or impair any right consequent thereon.

## **Acceptance of Trust and Prudent Performance Thereof**

The Trustee, as evidenced by its due execution of the Indenture, accepts the conveyance set forth in the preamble, in trust, and agrees to keep, perform and observe faithfully all of the covenants, conditions and requirements imposed upon it in the Indenture and in the Bonds and the covenants, conditions, requirements, duties and obligations imposed upon the Issuer in the Power Sales Agreements and assigned to the Trustee.

The Trustee shall be required to take notice or be deemed to have notice of any Event of Default hereunder except for Events of Defaults arising from PSA Default Events. The Trustee shall be required to take notice or be deemed to have notice of any other PSA Default Event only if the Trustee shall have received specific notice thereof. All notices or other instruments required by the Indenture or the Power Sales Agreement to be delivered to the Trustee, in order to be effective, must be delivered at the address specified herein in the Indenture; and in the absence of such notice so delivered and except as to Events of Default for which the Trustee shall be deemed to have received notice as provided in the Indenture, the Trustee may conclusively assume that there is no default or Event of Default. Nonetheless, the Trustee may in its sole discretion take notice of a PSA Default Event without having received specific notice thereof. In such case, the Trustee shall proceed as if it had received such specific notice and all provisions of the Indenture applying to the Trustee after having received such specific notice shall apply to the Trustee in actions without such specific notice.

The Trustee shall not be liable with respect to any action taken or omitted to be taken hereunder except for its own negligent failure to act or its own negligence or willful misconduct; provided, that:

(a) In the absence of an Event of Default, the duties and obligations of the Trustee shall be determined solely by the express provisions of the Indenture; the Trustee shall be obligated to take only such actions as are specifically set forth herein or as are specifically required to be taken by the Trustee when requested from time to time by the Owners of not less than the aggregate principal amount of Outstanding Bonds specified herein with respect to the action in question; and

(b) In the absence of willful misconduct on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and to the correctness of the opinions expressed therein, upon any certificate or opinion furnished to the Trustee conforming to the procedural requirements of the Indenture or the Power Sales Agreements; but in the case of any such certificate or opinion which by any provision is specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not it conforms to the procedural requirements of the Indenture or the Power Sales Agreement; and

(c) The Trustee shall not be liable for any error of judgment made in good faith by the Trustee unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts; and

(d) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of Outstanding Bonds or in accordance with the express provisions of the Indenture.

#### **Appointment of Trustee**

There shall at all times be a trustee under the Indenture which shall be an association or a corporation organized and doing business under the laws of the United States or any state thereof, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$100,000,000 (or a subsidiary of an association or corporation having such combined capital and surplus), and subject to supervision or examination by federal or state authority. The written consent of the Rating Agency, if any, shall be required for the appointment of any successor to the Trustee unless the obligations of such successor are rated Baa3/P-3 or higher by the Rating Agency. If such association or corporation publishes reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority referred to above, then for the purposes of this paragraph, the combined capital and surplus of such association or corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this paragraph and another association or corporation is eligible, the Trustee shall resign immediately in the manner and with the effect specified in the Indenture.

#### **Resignation of Trustee**

The Trustee may resign and be discharged from the trusts created by the Indenture by giving to the Issuer 45 days' advance written notice. Such resignation shall take effect on the day specified in such notice, but the Trustee shall not be discharged from the trusts created hereby until a successor trustee has been approved and appointed. Subsequent to such date, the Trustee shall have no further duties and obligations under the Indenture or any Power Sales Agreement.

#### **Removal of Trustee**

(a) Subject to the provisions of the Indenture, the Trustee may be removed at any time, either with or without cause, by the Owners of a majority in aggregate principal amount of Outstanding Bonds, provided that all fees of the Trustee due and owing pursuant to the Indenture shall first be paid.



(b) Subject to the provisions of the Indenture, the Trustee may be removed, either with or without cause, by the Issuer so long as there has been no Event of Default which then remains uncured and provided that all fees of the Trustee due and owing pursuant to the Indenture shall first be paid.

(c) Any removal of the Trustee pursuant to the Indenture shall be effected by delivery to the Trustee of a written instrument to that effect.

(d) No resignation or removal of the Trustee shall be effective until a successor to the Trustee shall have been appointed and shall have assumed those functions.

#### **Appointment of Successor Trustee**

(a) If at any time the Trustee shall resign, be removed or otherwise become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver of the Trustee or of its property shall be appointed, or if a public supervisory office shall take charge or control of the Trustee or of its property or affairs, a vacancy shall forthwith and *ipso facto* be created in the office of such Trustee under the Indenture, and the Issuer shall promptly appoint a successor Trustee meeting the requirements of the Indenture.

(b) If, in a proper case, no appointment of a successor Trustee shall be made pursuant to the Indenture within 45 days after notice of removal or resignation of the Trustee, any Owner or the retiring Trustee may apply to any court of competent jurisdiction to appoint a successor Trustee. The court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

(c) The Issuer shall notify the Rating Agency of the appointment of a successor Trustee within 30 days of such appointment.

#### **Merger of Trustee**

Any corporation or association into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, *ipso facto*, shall be and become successor trustee hereunder and vested with all of the title to the Trust Estate and all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties thereto, anything herein to the contrary notwithstanding, provided that such resulting entity shall be entitled under state or federal law to exercise corporate trust powers.

#### **Transfer of Rights and Property to Successor Trustee**

Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to the Issuer a written instrument accepting such appointment hereunder, and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with the Trust Estate and the rights, powers, trusts, duties and obligations of its predecessor; but such predecessor shall, nevertheless, on the written request from the Authorized Representative of the Issuer or of its successor execute and deliver a written instrument transferring to such successor all the Trust Estate and the rights, powers, trusts, duties and obligations of such predecessor hereunder, and every predecessor Trustee shall deliver all funds held by it as Trustee hereunder to its successor. Should any assignment, conveyance or written instrument from the Issuer be required by any successor Trustee for more fully and certainly vesting in such successor Trustee the Trust Estate and rights, powers, trusts, duties and obligations hereby vested or intended to be vested in the predecessor Trustee, any and all such assignments, conveyances and written instruments shall, on request, be executed, acknowledged and delivered by the Issuer. Each successor Trustee shall give notice of its appointment to all Owners appearing on the Bond Register as of the date of appointment. The successor Trustee shall reimburse the predecessor Trustee for any expenses incurred under the Indenture.

The Trustee's rights to immunity and protection from liability hereunder and its right to receive payment of its fees and expenses shall survive its removal or resignation and the final payment, defeasance or discharge of the Bonds and the termination of the lien of the Indenture.

### **Defeasance**

If the Issuer shall issue refunding bonds or have money available from any other lawful source to pay, if applicable, the principal of and premium, if any, and interest on the Bonds, or such portion thereof included in the refunding or defeasance plan, as the same become due and to pay the costs of refunding or defeasance, and shall have set aside irrevocably in a special fund for and pledged to such payment, refunding or defeasance, money and/or Government Obligations that are not subject to redemption prior to maturity sufficient in amount, together with known earned income from the investments thereof but without regard to any reinvestment thereof, to make such payments and to accomplish the refunding or defeasance as scheduled (hereinafter called the "trust account"), and shall make irrevocable provisions for redemption of such Bonds, if such redemption is included in the refunding or defeasance plan, then in that case all right and interest of the Owners of the Bonds to be so retired, refunded or defeased (hereinafter collectively called the "Defeased Bonds") in the covenants of the Indenture, in the Revenues and Funds, and in the funds and accounts obligated to the payment of such defeased Bonds, other than the right to receive the funds so set aside and pledged, thereupon shall cease and become void. Notwithstanding the foregoing, the Owners of the Defeased Bonds shall have the residual right to receive payment of the principal of and premium, if any, and interest on the defeased Bonds from the Revenues and Funds without any priority of lien or charge against those Revenues or Funds or covenants with respect thereto except to be paid therefrom (except such rights as exist with respect to payment, exchange and transfer of such Bonds under the pertinent provisions of the Indenture, and except that the covenants contained in Section 6.6 shall continue in full force and effect). After the establishing and full funding of such trust account, the Defeased Bonds shall be deemed to be discharged and the Issuer then may apply any money in any other fund or account established for the payment or redemption of the Defeased Bonds to any lawful purposes as it shall determine, subject only to the rights of the Owners of any other Bonds then Outstanding.

Anything in the Indenture to the contrary notwithstanding, if such Eligible Funds in the form of cash or Government Obligations have been deposited or set aside with the Trustee pursuant to this Article for the payment of Bonds and interest and premium thereon, if any, and such Bonds shall not yet have been paid in full, no amendment to the provisions of the Indenture shall be made without the consent of the Owner of each Bond affected thereby.

It shall be a condition of any such defeasance of Bonds that the Issuer has obtained (i) the Opinion of Counsel recognized in the area of bankruptcy matters that payment of the Defeased Bonds from the money and securities in the trust account will not constitute a voidable preference under the Bankruptcy Code and (ii) a certificate of a nationally recognized accounting firm or Tax Counsel that the money and securities in the trust account are sufficient to discharge and defease the Defeased Bonds.

Upon the discharge and defeasance of the Defeased Bonds, the Trustee shall send written notice to each Owner of a Defeased Bond stating that the Owner's Bond has been defeased and the time and manner of presenting the Defeased Bond for payment.

### **Unclaimed Money**

Notwithstanding any other provision of the Indenture, any money held by the Trustee for the payment and discharge of any Bond shall be held in cash and shall not be invested by the Trustee. Any money held by the Trustee for the payment and discharge of any Bond which remains unclaimed for more than one year after the discharge of such Bond (or such longer period as the Issuer may approve in writing) shall be free from such trust and shall promptly thereafter be transferred by the Trustee to the Issuer, and the Trustee shall be released and discharged with respect thereto, and the Owners of Bonds payable from any such money shall look only to the Issuer for the payment thereof (or to the State if the Issuer has delivered such money to the State in accordance with the laws of the State relating to the escheat of unclaimed funds).

The Trustee shall not be responsible for accounting for, or paying to, the Issuer or any Bondowner any return on or benefit from money held for the payment of unredeemed Bonds or outstanding checks, and no calculation of the same shall affect or result in any offset against fees due to the Trustee under the Indenture.

### **Amendment of Indenture**

(a) The Indenture shall not be supplemented or amended in any respect subsequent to the initial issuance of the Bonds, except as provided in and in accordance with and subject to the provisions of the Indenture.

(b) The Issuer may from time to time and at any time, without the consent of or notice to the Owners of the Bonds, enter into Supplemental Indentures for the following purposes:

(1) to cure any formal defect, omission, inconsistency or ambiguity in the Indenture in a manner not adverse to the Owner of any Bonds;

(2) to impose upon the Trustee for the benefit of the Owners of the Bonds any additional rights, remedies, powers, authority, security, liabilities or duties which may lawfully be granted, conferred or imposed and which are not contrary to or inconsistent with the Indenture as theretofore in effect;

(3) to add to the covenants and agreements of, and limitations and restrictions upon, the Issuer in the Indenture other covenants, agreements, limitations and restrictions to be observed by the Issuer which are not contrary to or inconsistent with the Indenture as theretofore in effect;

(4) to confirm, as further assurance, any pledge under, and the subjection to any claim, lien or pledge created or to be created by, the Indenture of any other money, securities or funds;

(5) to comply with any federal law or interpretation, including those relating to arbitrage rebate, to prevent the occurrence of an event that in the opinion of Bond Counsel would lead to a Determination of Taxability;

(6) to modify, amend or supplement the Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by that act or statute, in a manner not adverse to the Owner of any Bond;

(7) to authorize different denominations of the Bonds and to make correlative amendments and modifications to the Indenture regarding exchangeability of Bonds of different Authorized Denominations, redemptions of portions of Bonds of particular Authorized Denominations and similar amendments and modifications of a technical nature;

(8) to make such changes as are elsewhere expressly permitted by the Indenture; and

(9) to modify, alter, amend or supplement the Indenture in any other respect, including modifications required by the Rating Agency, which in the reasonable judgment of the Trustee is not materially adverse to the Owners of the Bonds and which does not involve a change described in paragraph (c) below.

Concurrently with or prior to the adoption by the Issuer of any such Supplemental Indenture pursuant to the Indenture, there shall have been delivered to the Issuer and the Trustee an opinion of Bond Counsel stating that such Supplemental Indenture is authorized or permitted by the Indenture and will, upon the execution and delivery thereof, be valid and binding upon the Issuer in accordance with its terms and will not cause the interest on the Tax-Exempt Bonds to be included in gross income of the Owners for federal income tax purposes.

(c) Except for any Supplemental Indenture entered into pursuant to paragraph (b) above, subject to the terms and provisions contained in this paragraph (c) and in any Related Documents and not otherwise, the Owners of 60% in aggregate principal amount of Bonds then Outstanding shall have the right from time to time to consent to and approve the entering into by the Issuer of any Supplemental Indenture deemed necessary or desirable by the Issuer for the purpose of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the Indenture; except that, unless approved in writing by the Owners of all Bonds then Outstanding, nothing contained in the Indenture shall permit, or be construed as permitting:

- (1) a change in the times, amounts or currency of payment of the principal of or premium, if any, or interest on any outstanding Bond, or a reduction in the principal amount or redemption price of any outstanding Bond or a change in the method of redemption or redemption price of any outstanding Bond or an extension of the final maturity thereof;
- (2) a preference or priority of any Bond over any other Bond;
- (3) a reduction in the aggregate principal amount of Bonds the consent of the Owners of which is required for any such Supplemental Indenture;
- (4) the creation of any lien ranking prior to or on a parity with the lien of any Bonds; or
- (5) the modification of any of the provisions of the amendment section of the Indenture.

If at any time the Issuer shall desire to enter into any Supplemental Indenture for any of the purposes of this paragraph (c), the Trustee shall cause notice of the proposed Supplemental Indenture to be given by first-class United States Mail, postage prepaid, to all Owners of the then Outstanding Bonds and to the Rating Agency. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the office of the Trustee for inspection by all Owners of the Outstanding Bonds.

Within 60 days after the date of the mailing of such notice or such longer period as shall be prescribed from time to time by the Issuer, the Issuer may enter into such Supplemental Indenture in substantially the form described in such notice, but only if there shall have first or concurrently been delivered to the Trustee (i) the required consents, in writing, of the Owners of the Bonds and any other Person whose consent is required under the terms of any Related Documents, and (ii) an opinion of Bond Counsel, stating that such Supplemental Indenture is authorized or permitted by the Indenture and, upon the execution and delivery thereof, will be valid and binding upon the Issuer in accordance with its terms and will not cause interest on the Tax-Exempt Bonds to be includable in gross income of the Owners for federal income tax purposes.

If the Owners of not less than 60% in aggregate principal amount of Bonds shall have consented to and approved the execution and delivery of a Supplemental Indenture as provided herein, no Owner of any Bond shall have any right to object to the adoption of such Supplemental Indenture, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Issuer or the Trustee from entering into the same or from taking any action pursuant to the provisions thereof. Any written consent to a permitted amendment may be embodied in and evidenced by one or any number of written instruments of substantially similar tenor signed by such Bondowners in person or by an agent duly appointed in writing, and such consent shall become effective when such instrument or instruments are delivered to the Issuer or the Trustee.

(d) Proof of the execution of any such consent or of a writing appointing any such agent shall be sufficient for any purpose and shall be conclusive in favor of the Issuer if made in the following manner: the fact and date of the execution by any Person of any such consent or appointment may be proved by the affidavit of any witness of such execution or by the certificate of any notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the Person signing such consent or appointment acknowledged to him the execution thereof. The fact and date of execution of such consent or appointment may also be proved in any other manner which the Issuer may deem

sufficient; but the Issuer may nevertheless, in its discretion, require further proof in cases where it deems further proof desirable. Any consent by the Owner of any Bond shall bind any future Owner of the same Bond with respect to any Supplemental Indenture executed by the Issuer pursuant to such consent.

(e) Upon the execution and delivery of any Supplemental Indenture pursuant to the provisions of this Section 10.1, the Indenture shall be, and be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Issuer, the Trustee and all Owners of Bonds then Outstanding shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modifications and amendments.

#### **Amendment of Power Sales Agreement**

(a) Without the consent of or notice to the Owners or the Trustee, the Issuer may modify, alter, amend or supplement the Power Sales Agreements (i) for the purpose of curing any formal defect, omission, inconsistency or ambiguity therein, (ii) for the purpose of avoiding a withdrawal or a reduction in the rating, if any, on the Bonds, (iii) based on an opinion of Bond Counsel, to preserve the tax-exempt status of interest on the Tax-Exempt Bonds, or (iv) in connection with any other change therein which is not materially adverse to the Owners of the Bonds.

(b) Concurrently with or prior to entering into or consenting to, as the case may be, any modification, alteration, amendment or supplement to any Power Sales Agreement pursuant to this the Indenture, the Issuer and the Trustee shall have received an opinion of Bond Counsel stating that such modification, alteration, amendment or supplement is authorized or permitted by the Indenture, the Power Sales Agreement and the Act, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon the Issuer and the Member in accordance with its terms, and will not adversely affect the exclusion from gross income of the Owners of interest on the Tax-Exempt Bonds for federal income tax purposes.

#### **Payments Due on Other Than Business Days**

In any case in which the date of payment of principal of the Bonds, whether at the stated maturity thereof, on a date fixed for redemption or otherwise, or payment of interest or premium, if any, thereon is not a Business Day then such payment need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date of maturity or redemption or the date such interest was due, as the case may be, and no interest shall accrue in respect of the period after such date.

#### **Liability of Issuer Limited to Revenues**

Notwithstanding anything contained in the Indenture or in the Bonds, the Issuer shall not be required to advance any money derived from any source other than the Trust Estate, the Revenues and other assets pledged under the Indenture for any of the purposes mentioned in the Indenture, whether for the payment of the principal of or premium, if any, or interest on the Bonds or for any other purpose of the Indenture.

#### **Immunities and Limitations of Issuer**

The Issuer shall be entitled to the advice of counsel (who, except as otherwise provided, may be counsel for any Bondowner), and the Issuer shall be wholly protected as to action taken or omitted in good faith in reliance on such advice. The Issuer may rely conclusively on any communication or other document furnished to it hereunder and reasonably believed by it to be genuine. The Issuer shall not be liable for any action (i) taken by it in good faith and reasonably believed by it to be within its discretion or powers under the Indenture, or (ii) in good faith omitted to be taken by it because such action was reasonably believed to be beyond its discretion or powers under the Indenture, or (iii) taken by it pursuant to any direction or instruction by which it is governed under the Indenture, or (iv) omitted to be taken by it by reason of the lack of any direction or instruction required hereby for such action; nor shall it be responsible for the consequences of any error of judgment reasonably made by it. The Issuer shall in no event be liable for the application or misapplication of funds or for other acts or defaults by any Person other than Issuer. When any

payment or consent or other action by it is called for hereby, it may defer such action pending receipt of such evidence (if any) as it may require in support thereof. The Issuer shall not be required to take any remedial action unless indemnity in a form acceptable to the Issuer is furnished for any expense or liability to be incurred in connection with such remedial action, other than liability for failure to meet the standards set forth in the Indenture.

## **FORM OF POWER SALES AGREEMENT**

### **Term and Termination**

The Power Sales Agreement shall be effective upon execution and delivery of Power Sales Agreements by KMPA and the Participating Members listed on and having the Participating Members' Entitlement Percentages specified on an attachment thereto.

The Power Sales Agreement shall terminate, unless otherwise extended by the parties, when (a) the Project has been terminated as provided in the Power Sales Agreement, (b) the principal of and premium, if any, and interest on all of the Bonds have been paid or funds set aside for the payment or retirement thereof in accordance with the Indenture, and (c) all other obligations and liabilities hereunder have been paid or provided for.

### **Project; Project Attributes**

KMPA shall sell and the Participating Member shall purchase its Participating Member Entitlement Percentage of Energy, Capacity and other Attributes generated by the Project pursuant to the terms of the Power Sales Agreement. The amounts to be paid for each Contract Year by the Participating Member to KMPA for its Participating Member Entitlement Percentage of Attributes generated by the Project shall be in accordance with the Power Sales Agreement.

### **Participating Member Entitlement Percentage**

The Participating Member's Entitlement Percentage shall be set forth in an attachment to the Power Sales Agreement and was initially developed based on the KMPA Ownership Interest Percentage set forth in such attachment.

### **Sale of Excess Participating Member's Entitlement Percentage**

In the event that the Participating Member shall determine that all or any part of the Participating Member's Entitlement Percentage of the Attributes of the Project is in excess of the requirements of the Participating Member, the Participating Member shall notify KMPA of such determination and KMPA shall use its best efforts to sell and transfer for any period of time all or part of such excess. The other Participating Members shall have the first right of refusal to accept each such disposal pro rata based on Entitlement Percentage among those exercising such right before a transfer is made to another KMPA Member, an electric utility or another entity, which is not a Participating Member, as permitted by law. Preference for the sale and transfer to non Participating Members shall be given to KMPA Members that are not Participating Members assuming the sale and transfer can be made under reasonable terms, conditions and price as compared to sales to other third parties. If all or any portion of such excess of the Participating Member's Entitlement Percentage of the Attributes of the Project is sold pursuant to the Power Sales Agreement, the Participating Member's Entitlement Percentage shall not be reduced, and the Participating Member shall remain liable to KMPA to pay the full amount of Monthly Project Costs for its Participating Member Entitlement Percentage as if such sale had not been made, except that such liability shall be discharged to the extent that KMPA shall receive payment for such excess Project Attributes from the purchaser or purchasers thereof. The provisions for the sale of excess Attributes of the Project provided for in the Power Sales Agreement shall be consistent with KMPA's rights to make such sales pursuant to the KMPA Prairie State Project Agreements.

In the event that the Participating Member shall determine that all or any part of the Participating Member's Entitlement Capacity Share is in excess of the requirements of the Participating Member for the next schedule hour (i.e. "Participating Member's Excess Capacity"), the Participating Member shall notify KMPA of such determination

pursuant to the scheduling protocols to be developed pursuant to the Power Sales Agreement and KMPA shall use its best efforts to sell such Participating Member's Excess Capacity in accordance with the policies to be developed pursuant to the Power Sales Agreement. If all or any portion of such Participating Member's Excess Capacity is sold pursuant to this section, the Participating Member's Entitlement Percentage shall not be reduced, and the Participating Member shall remain liable to KMPA to pay the full amount of Monthly Project Costs for its Participating Member Entitlement Percentage as if such sale had not been made, except that such liability shall be discharged to the extent that KMPA shall receive payment for such excess Project Attributes from the purchaser or purchasers thereof. The provisions for the sale of Participating Members' Excess Capacity provided for in the Power Sales Agreement shall be consistent with KMPA's rights to make such sales pursuant to the KMPA Prairie State Project Agreements.

### **Participating Member Rate and System Maintenance Covenant**

The Participating Member shall establish, maintain and collect rates and charges for the electric and other services of its electric system so as to provide revenues sufficient, together with available electric system reserves, to enable the Participating Member to pay to KMPA all amounts payable under the Power Sales Agreement, all other amounts payable from and all lawful charges against or liens on the revenue of its electric system and to operate and maintain its electric system in a sound, businesslike manner in accordance with Prudent Utility Practice.

### **Unconditional Payment Obligation**

The Participating Member shall pay the Monthly Project Costs for its Participating Member Entitlement Percentage, whether or not the Project is completed or is operating or operable, and whether or not its output is suspended, interrupted, interfered with, reduced, or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction, whether by offset or otherwise, and shall not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

### **Termination of Project**

KMPA shall have the responsibility for making a determination of when the Project will be terminated, and such decision will be made in accordance with Prudent Utility Practice, provided that (a) termination of the Project will be in accordance with provisions of the KMPA Prairie State Project Agreements, (b) termination of the Project and the Power Sales Agreement will not occur so long as any Bonds are outstanding or until adequate provision for the payment thereof has been made in accordance with provisions of the Indenture, and (c) termination of the Project and the Power Sales Agreement will not occur until adequate provisions have been made for all costs, obligations and liabilities of KMPA to decommission, salvage, discontinue, and dispose of the Facilities that comprise the Project.

### **Responsibility for Termination Costs**

To the extent that there are outstanding and/or remaining liabilities and costs that KMPA is obligated to pay in connection with any Windup Events as defined in the KMPA Prairie State Project Agreements or termination of the Project, the Participating Member shall be responsible for payment for its Entitlement Percentage of the amount of such outstanding and/or remaining liabilities and costs. To the extent that there is a credit that KMPA is entitled to receive upon termination of the Project, the Participating Member shall receive a credit based on its Entitlement Percentage applied to such credit.

### **Participating Member Failure to Pay**

The failure of the Participating Member to make any payment in full required hereby or to perform any obligation herein, and if such failure continues for twenty (20) days after KMPA gives notice to the Participating Member that such payment is due and unpaid or that the performance of any obligations herein is required, shall constitute an "event of default" under the Power Sales Agreement.

A copy of a notice of an event of default delivered by KMPA to a defaulting Participating Member shall be sent to the other Participating Members by KMPA.

Upon an event of default under the Power Sales Agreement by a Participating Member, KMPA shall use its best efforts to sell and transfer all or a portion of such Participating Member's Entitlement Percentage for all or a portion of the remainder of the term of the Power Sales Agreement, provided the other Participating Members shall have the first right to purchase all or a portion of such share to be disposed before a transfer is made to any entity which is not a Participating Member. In the event that the other Participating Members desire to purchase an aggregate amount in excess of the share to be disposed such purchase by the other Participating Member shall be allocable on a pro rata basis of the other Participating Members Entitlement Percentage.

Notwithstanding that all or any portion of the Participating Member's Entitlement Percentage is transferred pursuant to the Power Sales Agreement, the Participating Member shall remain liable to KMPA to pay the full amount of Monthly Project Costs for its Participating Member Entitlement Percentage as if such sale had not been made, except that such liability shall be discharged to the extent that KMPA receives payment from the purchaser or purchasers thereof.

If the Participating Member in good faith disputes the validity of KMPA's notice of an event of default, then the Participating Member shall make such payment or perform such obligation under protest directed to KMPA and shall proceed to resolve the dispute pursuant to the provisions of the Power Sales Agreement. Such protest shall specify the reasons upon which the protest is based. KMPA shall provide a copy of the protest to all other Participating Members.

#### **Participating Member Payment Default**

Upon an event of default relating to payment and after any transfers made pursuant to the Power Sales Agreement, the Entitlement Percentage of the non-defaulting Participating Members shall be automatically increased for the remaining term of the Power Sales Agreement on a pro rata basis, *provided*, that the increase of a non-defaulting Participating Member's Entitlement Percentage pursuant to the Power Sales Agreement shall not exceed, without consent of the non-defaulting Participating Member, an amount equivalent to 20% of the non-defaulting Participating Member's initial Entitlement Percentage upon its execution of the Power Sales Agreement.

Notwithstanding that all or any portion of the defaulting Participating Member's Entitlement Percentage is automatically transferred pursuant to the Power Sales Agreement, the defaulting Participating Member shall remain liable to KMPA to pay the full amount of Monthly Project Costs for its Participating Member Entitlement Percentage as if such transfer had not been made, except that such liability shall be discharged to the extent that KMPA receives payment from the purchaser or purchasers thereof. Non-defaulting Participating Members assuming increased Participating Member Entitlement Percentage, either individually or as a Participating Member of a group, shall have a right of recovery from the defaulting Participating Member, provided that such right of recovery shall be diminished to the extent such Participating Members have received value from the concomitant rights and interests.

KMPA or any Participating Member as their interests may appear, jointly or severally, may commence such suits, actions or proceedings, at law or in equity, including suits for specific performance, as may be necessary or appropriate to enforce the obligations of the Power Sales Agreement against the defaulting Participating Member.

KMPA or any Participating Member shall be entitled to recover from the defaulting Participating Member any and all reasonable legal fees and other costs incurred by KMPA or the non-defaulting Participating Member as a result of the Participating Member's default.

#### **Other Participating Member Default**

In the event of any default by the Participating Member under any covenant, agreement or obligation of the Power Sales Agreement, other than a failure to make a payment required to be made under the Power Sales Agreement, KMPA may bring any suit, action, or proceeding in law or in equity, including mandamus, injunction, specific



performance, declaratory judgment, or any combination thereof, as may be necessary or appropriate to enforce any covenant, agreement or obligation of the Power Sales Agreement against the Participating Member. Such remedies shall be in addition to all other remedies provided for in the Power Sales Agreement.

#### **KMPA Default**

In the event of any default by KMPA under any covenant, agreement or obligation of the Power Sales Agreement, any Participating Member may, subject to the limitations and provisions set forth in the Power Sales Agreement, bring any suit, action, or proceeding in law or in equity, including mandamus, injunction, specific performance, declaratory judgment, or any combination thereof, as may be necessary or appropriate to enforce any covenant, agreement or obligation of the Power Sales Agreement against KMPA. Such remedies shall be in addition to all other remedies provided for therein.

#### **Assignment of Agreement**

The Power Sales Agreement shall inure to the benefit of, and shall be binding upon, the respective successors and assigns of the parties to the Power Sales Agreement; *provided*, that, except as provided therein, neither the Power Sales Agreement nor any interest therein (including Project Attributes), shall be assigned or transferred or sold by the Participating Member, including in connection with any sale, transfer or other disposition of Participating Member's system (a) without the written consent of KMPA, which consent shall not be unreasonably withheld, (b) nor if in the opinion of counsel to KMPA such assignment or transfer or sale would adversely affect the exemption from Federal income taxation of the interest on the Bonds. In the event of a proposed assignment, transfer, sale or other disposition of the Participating Member's system, the Participating Member shall provide timely notification to KMPA, and KMPA and the Participating Member will establish an agreeable schedule for KMPA and its counsel to respectively address the requirements of part (a) and part (b) of the preceding sentence. No such assignment, transfer, sale or other disposition shall relieve the Participating Member of any obligation under the Power Sales Agreement.

## **APPENDIX I**

### **KENTUCKY MUNICIPAL POWER AGENCY POWER SYSTEM REVENUE BONDS, SERIES 2010**

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#### **Specimen Municipal Bond Insurance Policy**

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## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.  
(FORMERLY KNOWN AS FINANCIAL  
SECURITY ASSURANCE INC.)

By \_\_\_\_\_  
Authorized Officer

(212) 826-0100

## **APPENDIX J**

### **KENTUCKY MUNICIPAL POWER AGENCY POWER SYSTEM REVENUE BONDS, SERIES 2010**

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#### **Form of Bond Counsel Approving Legal Opinion**

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Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202-1410  
Telephone (502) 569-7525 Telefax (502) 569-7555 www.rubinhays.com

CHARLES S. MUSSON  
W. RANDALL JONES  
CHRISTIAN L. JUCKETT

May 27, 2010

Kentucky Municipal Power Agency  
Paducah, Kentucky

U.S. Bank National Association  
Louisville, Kentucky

Re: \$53,600,000 Tax-Exempt Power System Revenue Bonds (Prairie State Project), Series 2010A; \$122,405,000 Taxable (Build America Bonds - Direct Pay) Power System Revenue Bonds (Prairie State Project), Series 2010B; and \$7,725,000 Taxable Power System Revenue Bonds (Prairie State Project), Series 2010C

Ladies and Gentlemen:

We have examined a certified copy of the transcript of proceedings of the Kentucky Municipal Power Agency, a joint agency and political subdivision of the Commonwealth of Kentucky (the "KMPA") relating to the authorization, sale and issuance of its (i) Tax-Exempt Power System Revenue Bonds (Prairie State Project), Series 2010A (the "Series 2010A Bonds"); (ii) Taxable (Build America Bonds - Direct Pay) Power System Revenue Bonds (Prairie State Project), Series 2010B (the "Series 2010B Bonds") and (iii) Taxable Power System Revenue Bonds (Prairie State Project), Series 2010C (the "Series 2010C Bonds"), all dated the date of issuance. In addition, we have examined such portions of the Constitution, Statutes and laws of the United States, the Constitution, Statutes and laws of the Commonwealth, and such applicable court decisions, regulations, rulings and opinions as we have deemed necessary or relevant for the purposes of the opinions set forth below.

We have also examined records and the transcript of proceedings relating to the authorization and issuance of the Series 2010A Bonds, the Series 2010B Bonds and the Series 2010C Bonds (collectively, the "Bonds"), including specimen bonds, and other relevant matters. We have also made such investigation as we have deemed necessary for the purposes of such opinions, and relied upon certificates of officials of the Commonwealth and KMPA as to certain factual matters.

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth of Kentucky (the "Commonwealth"), including particularly Chapters 65 and 96 of the Kentucky Revised Statutes (collectively, the "Act"), in accordance with a Trust Indenture dated as of April 1, 2010 (the "Indenture"). Terms not defined herein are defined in the Indenture and



shall have the same meanings herein, unless the context otherwise requires.

Based upon the foregoing and our review of the above and such other information, documents and statutes, regulations, rulings and decisions as we believe necessary or advisable, we are of the opinion that:

1. KMPA is a joint agency and political subdivision of the Commonwealth, duly organized and validly existing under the laws of the Commonwealth and has the legal right and authority to issue the Bonds.

2. The Indenture has been duly authorized, executed and delivered by KMPA, is in full force and effect and is a valid and binding obligation of KMPA enforceable in accordance with its terms.

3. The Bonds have been duly authorized and issued by KMPA and are valid and binding limited and special obligations of KMPA enforceable in accordance with their terms. The Bonds are payable as to principal, premium, if any, and interest from, and are secured, on a parity basis with KMPA's outstanding Series 2010 Bonds (as defined in the Indenture), by a pledge of, a first lien on the Trust Estate, as defined in the Indenture. The Bonds do not pledge the general credit or taxing power, if any, of the Commonwealth or any agency or political subdivision of the Commonwealth (other than KMPA).

4. The Series 2010A Bonds are "state or local bonds" as defined and described in Section 103(c)(1) of the Internal Revenue Code of 1986, as amended.

5. Under federal statutes, decisions, regulations and rulings existing on this date, the interest on the Series 2010A Bonds is excludable from gross income for purposes of federal income taxation pursuant to Section 103 of the Code. This opinion relates only to the exclusion from gross income of interest on the Series 2010A Bonds for federal income tax purposes under Section 103 of the Code and is conditioned on continuing compliance by KMPA with certain covenants relating to the tax exempt status of the Series 2010A Bonds as set forth and required in the Indenture. Failure to comply with those covenants could cause interest on the Series 2010A Bonds to lose the exclusion from gross income for purposes of federal income taxation retroactive to the date of issuance of the Series 2010A Bonds.

6. The interest on the Bonds is exempt from income taxation and the Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

Our opinion set forth above is subject to the qualification that the enforceability of the Indenture, the Bonds and agreements relating thereto may be limited by bankruptcy, reorganization, moratorium, insolvency, or other similar laws relating to or affecting the enforcement of creditors' rights, whether now in effect or hereafter enacted, and to the exercise of judicial discretion in accordance with general equitable principles.

RUBIN & HAYS

## **APPENDIX K**

### **KENTUCKY MUNICIPAL POWER AGENCY POWER SYSTEM REVENUE BONDS, SERIES 2010**

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#### **Form of Opinion of Bond Counsel Relating to the Power Sales Agreements**

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Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202-1410  
Telephone (502) 569-7525    Telefax (502) 569-7555    www.rubinhays.com

CHARLES S. MUSSON  
W. RANDALL JONES  
CHRISTIAN L. JUCKETT

May 27, 2010

Kentucky Municipal Power Agency  
Paducah, Kentucky

U.S. Bank National Association  
Louisville, Kentucky

Re:    Power Sales Agreement by and between Kentucky Municipal Power Agency and its  
Participating Members relating to the Prairie State Project

Ladies and Gentlemen:

We have been asked to render this opinion as to certain matters in regards to the Power Sales Agreements (the "Power Sales Agreements") by and between the Kentucky Municipal Power Agency ("KMPA") and the respective signatories thereto (the "Participating Members") which have been pledged as part of the Trust Estate under the Trust Indenture authorizing KMPA's (i) Tax-Exempt Power System Revenue Bonds (Prairie State Project), Series 2010A (the "Series 2010A Bonds"); (ii) Taxable (Build America Bonds - Direct Pay) Power System Revenue Bonds (Prairie State Project), Series 2010B (the "Series 2010B Bonds") and (iii) Taxable Power System Revenue Bonds (Prairie State Project), Series 2010C (the "Series 2010C Bonds"), all dated the date of issuance. For the purposes of this opinion we have examined such portions of the Constitution, Statutes and laws of the United States, the Constitution, Statutes and laws of the Commonwealth, particularly Chapter 96 of the Kentucky Revised Statutes (the "Act"), and such applicable court decisions, regulations, rulings and opinions as we have deemed necessary or relevant for the purposes of the opinions set forth below.

We have also made such investigation as we have deemed necessary for the purposes of such opinions, and relied upon certificates of officials of the Commonwealth, KMPA and the Participating Members as to certain factual matters. We have not taken any responsibility for reviewing any other materials or laws in rendering this opinion.

Terms not defined herein are defined in the Power Sales Agreements and shall have the same meanings herein, unless the context otherwise requires.

In rendering this opinion we have relied, with your permission, on (1) a certificate of KMPA

to the effect that (a) the Power Sales Agreements between the Issuer and the Participating Members, delivered to us through this date are the current forms of Power Sales Agreements, and that there have been no changes to the Power Sales Agreements other than those reflected therein, (b) no litigation has been filed against the Issuer or threatened against the Issuer challenging the enforceability or validity of the Power Sales Agreements, (c) to the Issuer's knowledge and without any independent investigation, the Issuer is unaware of any litigation which has been filed against a Participating Member or threatened challenging the enforceability or validity of the Power Sales Agreements and (d) to the Issuer's knowledge and without any independent investigation, the Issuer has no reason to believe that any action has been taken by any Participating Member which questions or adversely affects the validity, binding effect or enforceability of its Power Sales Agreements, and (2) a certificate of the Issuer regarding its proceedings concerning the adoption, execution and delivery of the Power Sales Agreements by the Issuer (collectively, "Issuer Certificate").

In rendering this opinion, we have also relied, with your permission, (i) on the opinions of attorneys for each of the Participating Members (collectively, "Opinions") as set forth below and on (i) certificates of the Participating Members delivered on May 27, 2010; (collectively, "Participating Members' Certificates") as set forth below, and have assumed that there have been no changes in the facts or circumstances upon which the Opinions and the Participating Members' Certificates were based since each was delivered to KMPA.

We have relied on the correctness of the following portions of the Opinions and Participating Members' Certificates:

1. The documents delivered by the Participating Member to the Issuer together with the Opinion and the Participating Member Certificate contains full, true and correct copies of all proceedings had by the Participating Members (including resolutions) relating to the Participating Member's authorization, execution and delivery of the Power Sales Agreement, all of said proceedings have been duly recorded in the proper permanent records of the Participating Members, and have been signed by the proper officials of the Participating Member. The resolutions have not been amended, modified, repealed or rescinded except as indicated therein and were in full force and effect on the date of the Opinion and the Participating Member Certificate.

2. The governing body of the Participating Member duly approved the Participating Member's execution and delivery of the Power Sales Agreement by resolution duly and lawfully adopted at a meeting or meetings duly called and held at which quorums were present and acting throughout and such meeting or meetings were duly called pursuant to necessary public notice. All actions taken by the governing body concerning the Power Sales Agreement were taken at meetings open to the public which complied in all respects with the Kentucky Revised Statutes.

3. The Power Sales Agreement has been duly authorized, executed and delivered by the appropriate officers of the Participating Members.

4. The execution and delivery of the Power Sales Agreement by the Participating Member, the performance by the Participating Member of its obligations thereunder and the consummation of the transactions contemplated therein do not and will not contravene any existing

law or any existing order, injunction, judgment, decree, or rule or regulation of any court or administrative agency having jurisdiction over the Participating Member or its property or result in a breach or violation of any of the terms and provisions of; or constitute a default under, any existing bond ordinance, trust agreement, indenture, mortgage, deed of trust or other agreements which or by which it or its property is bound, nor will any such execution or delivery result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the Participating Member.

5. All approvals, consents or authorizations of; or registrations or filings with, any governmental or public agency, authority or person required on the part of the Participating Member in connection with the execution, delivery and performance of the Power Sales Agreement have been obtained or made.

6. To the knowledge of the attorney or official of the Participating Member after due inquiry, there is no action, suit, proceeding, inquiry, investigation or litigation or other proceeding, at law or in equity, pending or threatened in a court, government agency, public board or body or other tribunal of competent jurisdiction questioning or affecting the creation, organization or corporate existence of the Participating Member, the titles of its officers to their respective offices or the validity, legality or enforceability of the Power Sales Agreement.

We have assumed that the certificates and opinions described in number paragraphs 1 through 6 above are true and correct as to any amendments ("Amendments") to the Power Sales Agreements since the date of any Opinion or Certificate we have relied upon.

Based solely upon our examination of the above and without any further investigation of any kind, including investigation into threatened or pending litigation or actions challenging the Power Sales Agreements, we are of the opinion that the Power Sales Agreements between the Issuer and the Participating Members constitute valid and binding agreements of the Issuer and the Participating Members, enforceable in accordance with their respective terms.

Our opinion set forth above is subject to the qualification that the enforceability of the Power Sales Agreements may be limited by bankruptcy, reorganization, moratorium, insolvency, or other similar laws relating to or affecting the enforcement of creditors' rights, whether now in effect or hereafter enacted, and to the exercise of judicial discretion in accordance with general equitable principles.

RUBIN & HAYS

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