OFFICIAL STATEMENT

NEW ISSUE
BOOK ENTRY

RATINGS: Moody's: "A3" (as defined herein), Underlying: "Baa1"
Standard & Poor's: "AA-" (as defined herein), Underlying: "A-"
KBRA: "AA+" (as defined herein)
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 Kentucky Municipal Power Agency, interest on the Series 2016A 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 Matters". Receipt of interest on the Series 2016A Bonds may result in other federal income tax consequences to certain holders of the Series 2016A Bonds. In the opinion of Bond Counsel, interest on the Series 2016A Bonds, is also exempt from income tax by the Commonwealth of Kentucky, and the Series 2016A Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

KENTUCKY MUNICIPAL POWER AGENCY

$71,235,000
Power System Revenue Refunding Bonds
(Prairie State Project), Series 2016A

Dated Date: Date of Issuance **Due: As set forth herein on the inside front cover**

The Power System Revenue Refunding Bonds (Prairie State Project), Series 2016A (the "Series 2016A Bonds") will bear interest payable semiannually on March 1 and September 1 of each year (each an "Interest Payment Date"), commencing March 1, 2016, as determined in accordance with the Trust Indenture dated as of January 1, 2016 (the "Indenture"), between the Kentucky Municipal Power Agency ("KMPA") and Regions Bank, an Alabama banking corporation, as trustee (the "Trustee"). Interest is payable by check mailed to the registered owners of the Series 2016A 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 Series 2016A Bonds are to be delivered in fully registered form in the authorized denominations described in the Indenture.

The Series 2016A Bonds are issued initially under a book-entry only system, registered in the name of Cede & Co., as registered bond owner and nominee for The Depository Trust Company ("DTC"). DTC will act as securities depository for the Series 2016A Bonds. Individual purchasers of Book-Entry Interests in the Series 2016A Bonds will not receive certificates representing their interest in the Series 2016A Bonds.

The scheduled payment of the principal of and interest on the Series 2016A Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Series 2016A Bonds by National Public Finance Guarantee Corporation.

THE SERIES 2016A BONDS ARE SUBJECT TO REDEMPTION PRIOR TO MATURITY AS DESCRIBED HEREIN. THE SERIES 2016A 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 SERIES 2016A 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 SERIES 2016A BONDS.

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

The Series 2016A Bonds are offered when, as and if issued by KMPA and accepted by the Underwriter, 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, McMurry & Livingston, PLLC, Paducah, Kentucky and B. Todd Wetzel, Esq., Princeton, Kentucky, and for the Underwriter by its counsel, Stites & Harbison, PLLC, Louisville, Kentucky. This Official Statement is deemed final for the purposes of SEC Rule 15c2-12(b)(1). Delivery of the Series 2016A Bonds is expected on or about February 11, 2016.

Goldman, Sachs & Co.

Morgan Stanley **Raymond James**

Dated: January 27, 2016

MATURITY SCHEDULE

$71,235,000
KENTUCKY MUNICIPAL POWER AGENCY
POWER SYSTEM REVENUE REFUNDING BONDS
(PRAIRIE STATE PROJECT), SERIES 2016A

CUSIP** 491501	September 1 Year of Maturity	Amount	Interest Rate %	Yield
EK4	2031	$10,440,000	5.000%	3.090%*
EL2	2032	10,975,000	5.000%	3.160%*
EM0	2033	11,540,000	5.000%	3.210%*
EN8	2034	12,125,000	5.000%	3.260%*
EP3	2035	12,750,000	5.000%	3.310%*
EQ1	2036	13,405,000	5.000%	3.360%*

*Priced to September 1, 2026 optional redemption date

REGARDING USE OF THIS OFFICIAL STATEMENT

No dealer, salesperson or any other person has been authorized by KMPA or the Underwriter 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 Series 2016A Bonds and, if given or made, such information or representations must not be relied upon as having been authorized by KMPA or the Underwriter. 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 Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does 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 Series 2016A 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 SERIES 2016A BONDS HAVE NOT BEEN RECOMMENDED OR AUTHORIZED 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 SERIES 2016A BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH SERIES 2016A 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 SERIES 2016A BONDS, NOR SHALL THERE BE ANY SALE OF ANY OF THE SERIES 2016A 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.

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OFFICIAL STATEMENT

KENTUCKY MUNICIPAL POWER AGENCY

$71,235,000
Power System Revenue Refunding Bonds
(Prairie State Project), Series 2016A

INTRODUCTION

This Official Statement, which includes the cover page and appendices, sets forth certain information concerning (i) the Kentucky Municipal Power Agency ("KMPA"), (ii) the issuance by KMPA of its Power System Revenue Refunding Bonds (Prairie State Project), Series 2016A (the "Series 2016A Bonds") in the aggregate principal amount of $71,235,000, and (iii) the Prairie State Energy Campus ("PSEC"), in which KMPA holds a 7.82% undivided ownership interest.

KMPA is a public agency duly organized under provisions of Chapter 65 of the Kentucky Revised Statutes ("KRS") 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. Both Paducah Electric and Princeton Electric were organized and continue to operate under a comprehensive statutory scheme commonly known as the "Little TVA Act" that is codified at KRS 96.550 through 96.901. Presently, Paducah Electric and Princeton Electric are the only two members of KMPA (the "Members"). Additional municipal utilities could become members of KMPA in the future upon approval of their membership applications in accordance with the terms and conditions of the Interlocal Agreement.

PSEC includes a pulverized coal-fired generating station and associated mine, rail, water, coal combustion waste storage and ancillary support systems that are located in portions of Washington, St. Clair and Randolph Counties in southwest Illinois. PSEC Generating Station consists of two supercritical units ("PS Unit 1" and "PS Unit 2") with a nominal net output capacity of 800 MW each.

The Series 2016A Bonds are being issued under authority of KRS Chapter 65 and the Little TVA Act (together, the "Act") and a Resolution of KMPA, and will be issued pursuant to and secured by a Trust Indenture (the "Indenture"), dated as of January 1, 2016, between KMPA and Regions Bank, an Alabama banking corporation (the "Trustee").

The proceeds of the Series 2016A Bonds are to be used to (i) advance refund the outstanding Tax-Exempt Power System Revenue Bonds (Prairie State Project), Series 2007A (the "Series 2007A Bonds") issued under the Trust Indenture (the "2007 Indenture"), dated as of September 1, 2007, between KMPA and Regions Bank, as successor trustee to U.S. Bank National Association; and (ii) pay the costs of issuance of the Series 2016A Bonds.

THE SERIES 2016A 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 SERIES 2016A 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 SERIES 2016A BONDS.

Brief descriptions of the security for the Series 2016A Bonds, KMPA and PSEC are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. THIS OFFICIAL STATEMENT AND ITS APPENDICES SHOULD BE READ IN THEIR ENTIRETY. All references herein to the Indenture and the Power Sales Agreements (as hereinafter defined) are qualified in their entirety by reference to such documents, and references herein to the Series 2016A 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.

PLAN OF FINANCING

General

A portion of the proceeds of the Series 2016A Bonds will be applied to refund the Series 2007A Bonds. KMPA has determined that refunding the Series 2007A Bonds will produce debt service savings and other financial benefits for KMPA and the Members.

Estimated Sources and Uses

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

Sources of Funds:

Par Amount of the Series 2016A Bonds	$71,235,000.00
Premium	11,138,449.35
Interest Account	1,587,708.33
Total Sources of Funds	$83,961,157.68

Uses of Funds:

Refunding of Series 2007A Bonds	$82,833,199.98
Underwriters' Discount	220,934.70
Costs of Issuance	566,866.12
Bond Insurance	340,156.88
Total Uses of Funds	$83,961,157.68

SECURITY FOR THE SERIES 2016A BONDS

Pledge Under the Indenture

The Series 2016A Bonds are limited obligations of KMPA payable, on a parity basis with KMPA's outstanding (i) Taxable Power System Revenue Bonds (Prairie State Project), Series 2007B (the "Series 2007B Bonds"), (ii) Tax-Exempt Power System Revenue Bonds (Prairie State Project), Series 2010A (the "Series 2010A Bonds"), (iii) Taxable (Build America Bonds – Direct Pay) Power System Revenue Bonds (Prairie State Project), Series 2010B (the "Series 2010B Bonds"), (iv) Taxable Power System Revenue Bonds (Prairie State Project), Series 2010C (the "Series 2010C Bonds"), (v) Power System Revenue Refunding Bonds (Prairie State Project), Series 2015A (the "Series 2015A Bonds"), and (vi) Power System Revenue Refunding Bonds (Prairie State Project), Series 2015B (SIFMA Floating Rate Tender Notes) (the "Series 2015B Bonds") (collectively, the "Prior 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 Bondholders 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 (as defined in the Indenture).

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

(A) KMPA's undivided fee interest in PSEC;

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

(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 Series 2016A 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 on its behalf or with its written consent, to the Trustee.

Power Sales Agreements

KMPA has entered into a Power Sales Agreement with each of Paducah Electric and Princeton Electric, both dated as of September 1, 2007 (individually a "Power Sales Agreement", and collectively, the "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 Series 2016A Bonds and the Prior Bonds (collectively, the "Bonds").

Each Power Sales Agreement may be terminated earlier if all the Bonds issued by KMPA have been paid or provision for such payment has been made pursuant to the applicable indenture under which the Bonds were issued 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. See "THE MEMBERS – Power Sales Agreements."

Rate Covenant and Coverage

KMPA has agreed under the Indenture that, while any of the Series 2016A Bonds authorized thereunder remain outstanding and unpaid, the rates charged and collected under the Power Sales Agreements for the sale of power produced by PSEC 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 PSEC, 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 the Independent Engineer's opinion the Rate Coverage will not thereby be reduced below such level. The Trustee may draw funds from the Reserve Fund (the “Reserve Fund”) (or draw from any surety bond that may be contained in the Reserve Fund) of KMPA to pay the principal of, and/or the interest on, the Series 2016A Bonds in the event Revenues received by KMPA under the Power Sales Agreements are insufficient to pay Bondholders.

The following funds and accounts under the 2007 Indenture; the Trust Indenture, dated as of April 1, 2010, by and between KMPA and Regions Bank, as Trustee, successor to U.S. Bank National Association (the “2010 Indenture”); the Trust Indenture, dated as of March 1, 2015, by and between KMPA and Regions Bank, as Trustee (the “2015A Indenture”); and the Trust Indenture, dated as of June 1, 2015, by and between KMPA and Regions Bank, as Trustee (the “2015B Indenture”) contain the amounts, as of December 29, 2015 which are available to the Bondholders of the Series 2016A Bonds on a parity basis with the holders of the Bonds:

Bond Fund	
Principal and Interest Account	$ 10,766,948
Redemption Account	9,346,397
Operating Fund	8,281,941
Reserve Fund*	13,384,007
Capital Improvement Fund	1,787,353
Rate Stabilization Fund	1,740,000
Decommissioning Fund	87,000
Operating Reserve Fund	2,448,806

See Appendix G, “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 in more detail and other provisions of the Indenture.

* An additional approximately $22 million is represented by surety bonds. The amount of the first surety bond, approximately $6.87 million, is subject to adjustment pursuant to a formula based on the outstanding amount of KMPA’s Series 2010 Bonds that are insured by Assured Guaranty Municipal Corp. (“Assured”). The amount of the second surety bond, approximately $15.33 million, is subject to adjustment pursuant to a formula based on the outstanding amount of KMPA’s Series 2015A Bonds that are insured by National Public Finance Guarantee Corporation (“NPFG”). The surety bond provided by NPFG will be drawn upon on a pro rata basis with the surety bond provided by Assured. *See* Appendix G, “Definitions and Summary of Certain Provisions of the Indenture and the Form of Power Sales Agreement.”

THE BONDS

Description of the Series 2016A Bonds

The Series 2016A 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 Series 2016A 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 March 1, 2016, until maturity or redemption.

Interest on the Series 2016A Bonds shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

The Series 2016A Bonds will be issued in fully registered form in the denomination of $5,000 or any integral multiple of $5,000.

Payment of Series 2016A Bonds

The principal of and premium, if any, and interest on the Series 2016A Bonds are payable in any coin or currency of the United States of America. Regions Bank has been appointed Trustee and Paying Agent for the Series 2016A Bonds. The principal of and premium, if any, on the Series 2016A Bonds will be paid upon surrender thereof at the corporate trust office of the Trustee in Nashville, Tennessee.

Interest on each Series 2016A Bond shall be paid by check mailed on the Interest Payment Date to the Person who is the Owner thereof as shown on the Series 2016A 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 (as hereinafter defined). At the direction of an Owner of $1,000,000 or more of the Series 2016A 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 SERIES 2016A 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 SERIES 2016A 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 SERIES 2016A BONDS.

Registration, Transfer and Exchange

The Trustee shall maintain books (the "Bond Register") for the registration and for the transfer of the Series 2016A Bonds.

Upon surrender for registration or transfer of any Series 2016A Bond at the principal office of the Trustee, the Trustee shall authenticate and shall deliver a new Series 2016A Bond or Series 2016A Bonds in the same aggregate principal amount as the Series 2016A Bond surrendered. No transfer of any Series 2016A Bond shall be binding upon the Trustee unless made at such office and shown on the Series 2016A Bond Register. Unless and until the Trustee notifies the Bondholders in writing of any change of Trustee or of any change of the principal office thereof, the Trustee's principal office shall be 150 4th Avenue North, Suite 900, Nashville, Tennessee 37219, Attention: Corporate Trust Services.

The Trustee shall not be required to exchange or transfer any Series 2016A Bond or portion thereof which has been called for redemption.

Redemption of the Series 2016A Bonds

Optional Redemption. The Series 2016A Bonds maturing on and prior to September 1, 2026, shall not be subject to redemption prior to maturity. The Series 2016A Bonds maturing on or after September 1, 2027, 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, 2026 (less than all Series 2016A 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 2016A Bonds called for redemption, plus unpaid interest accrued to the date of redemption.

*Extraordinary Optional Redemption***.** The Series 2016A 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) PSEC 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 PSEC 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 PSEC 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 PSEC (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 PSEC for a period of at least six consecutive months or (z) selling power or energy generated by PSEC at levels which in the opinion of KMPA and confirmed by an Independent Consultant, make all or a portion of PSEC not economically feasible.

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 Series 2016A Bonds to be redeemed or tendered at the address of such Owner appearing in the Series 2016A 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 shall state:

(i) the redemption date;

(ii) the redemption price (including premium, if any);

(iii) the name of the Series 2016A Bonds to be redeemed, the principal amount of Series 2016A Bonds to be redeemed, and, if less than all Outstanding Series 2016A Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Series 2016A Bonds to be redeemed;

(iv) the reason for the redemption;

(v)that on the redemption date, the redemption price, as appropriate, of each such Series 2016A Bond will become due and payable, that interest on each such Series 2016A Bond shall cease to accrue on and after such date, and that each such Series 2016A Bond will be deemed to have been redeemed;

(vi) the place or places where such Series 2016A Bonds must be surrendered for payment of the redemption price thereof; and

(vii) such additional information as KMPA or the Trustee shall deem appropriate.

In the case of an optional or extraordinary optional redemption pursuant to the Indenture, the notice of redemption may state (i) that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Trustee no later than the redemption date or (ii) that KMPA retains the right to rescind such notice on or prior to the scheduled redemption date, and such notice and optional or extraordinary redemption shall be of no effect if such moneys are not so deposited or if the notice is rescinded in writing, and disseminated to each Owner of the Series 2016A Bonds in accordance with the procedures set forth in the Indenture, no later than seven (7) days prior to the redemption date. Notice of redemption having been given as aforesaid, the Series 2016A 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 Series 2016A Bonds shall cease to bear interest. Upon surrender of any such Series 2016A Bond for redemption in accordance with such notice, such Series 2016A 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 Series 2016A 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 Series 2016A Bonds or portions thereof shall cease to bear interest from and after the date fixed for redemption whether or not such Series 2016A Bonds are presented and surrendered for payment on such date. If any Series 2016A Bond or portion thereof called for redemption is not so paid upon presentation and surrender thereof for redemption, such Series 2016A 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 have been or will 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 PSEC 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 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 PSEC, or for any other lawful purpose of KMPA (the "Parity Bonds"). When issued, any Parity Bonds shall be payable from the Revenues of PSEC ranking on a parity with the Bonds. Parity Bonds may be issued by KMPA only upon compliance with the following conditions and restrictions:

(a) that before any Parity Bonds may be issued (other than a refunding bond issued pursuant to the last paragraph of – Parity Bonds) 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 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 Prior 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 PSEC on a parity with the Prior 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 Prior Bonds.

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

DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements for the Bonds. Principal of and interest on the Bonds are shown in the table below in the year in which the same comes due.

Year Ending June 30,	Principal	Interest	Total Debt Service	Gross Debt Service on Prior Bonds(1)(2)(3)(4)	Total Debt Service	Federal Subsidies (Direct Pays)	Total Net Debt Service
2016		$ 197,875	$ 197,875	$ 32,229,380	$ 32,427,255	($ 2,518,545)	$ 29,908,710
2017		3,561,750	3,561,750	31,258,360	34,820,110	(2,518,545)	32,301,565
2018		3,561,750	3,561,750	26,848,640	30,410,390	(2,518,545)	27,891,845
2019		3,561,750	3,561,750	26,847,194	30,408,944	(2,518,545)	27,890,400
2020		3,561,750	3,561,750	26,846,584	30,408,334	(2,518,545)	27,889,790
2021		3,561,750	3,561,750	31,283,570	34,845,320	(2,518,545)	32,326,775
2022		3,561,750	3,561,750	31,280,745	34,842,495	(2,518,545)	32,323,950
2023		3,561,750	3,561,750	31,281,870	34,843,620	(2,518,545)	32,325,075
2024		3,561,750	3,561,750	31,274,220	34,835,970	(2,509,390)	32,326,581
2025		3,561,750	3,561,750	31,220,790	34,782,540	(2,465,381)	32,317,159
2026		3,561,750	3,561,750	31,113,300	34,675,050	(2,363,223)	32,311,827
2027		3,561,750	3,561,750	30,963,147	34,524,897	(2,224,440)	32,300,457
2028		3,561,750	3,561,750	30,798,325	34,360,075	(2,077,259)	32,282,715
2029		3,561,750	3,561,750	30,633,426	34,195,176	(1,921,737)	32,273,438
2030		3,561,750	3,561,750	30,460,399	34,022,149	(1,757,738)	32,264,411
2031		3,561,750	3,561,750	30,275,895	33,837,645	(1,584,817)	32,252,828
2032	$10,440,000	3,300,750	13,740,750	19,183,424	32,924,174	(1,401,699)	31,522,475
2033	10,975,000	2,765,375	13,740,375	18,976,072	32,716,447	(1,209,292)	31,507,154
2034	11,540,000	2,202,500	13,742,500	18,760,875	32,503,375	(1,008,621)	31,494,754
2035	12,125,000	1,610,875	13,735,875	18,533,169	32,269,044	(799,316)	31,469,727
2036	12,750,000	989,000	13,739,000	18,303,127	32,042,127	(580,957)	31,461,170
2037	13,405,000	335,125	13,740,125	18,053,628	31,793,753	(353,175)	31,440,578
2038				32,236,127	32,236,127	(118,445)	32,117,682
2039				27,540,145	27,540,145		27,540,145
2040				27,536,361	27,536,361		27,536,361
2041				27,540,544	27,540,544		27,540,544
2042				27,536,654	27,536,654		27,536,654
2043				27,537,269	27,537,269		27,537,269
Totals	$71,235,0000	$64,827,7500	$136,062,7500	$766,353,234	$902,415,9844	($42,523,948))	$859,892,0369

Notes:

(1) Gross debt service on prior bonds includes debt service on the Series 2007B Bonds, Series 2010A Bonds, Series 2010B Bonds, Series 2010C Bonds, Bonds 2015A Bonds and Series 2015B Bonds, as well as the interest payment made on the Series 2007A Bonds on September 1, 2015 and monthly interest accruals on the Series 2007A Bonds through January 20, 2016.

(2) A portion of the Series 2010A Bonds have been defeased using a combination of funds that include the funds that were released as a result of a partial replacement of the debt service reserve fund with a surety bond and sinking fund deposits made by KMPA. The principal amounts of the Series 2010A Bonds that have been defeased are as follows:

2016: $3,535,000
2017: 5,290,000
2018: 3,835,000
2019: 2,052,342

(3) Direct Pays on the Series 2010B Bonds assume sequestration of 7.3%.

(4) The Series 2015B Bonds are floating rate tender notes that carry a rate of SIFMA plus 1.4%. The amounts shown above assume a total rate of 1.47%.

BOND INSURANCE

The following information has been furnished by National Public Finance Guarantee Corporation ("National") for use in this Official Statement.

National does not accept any responsibility for the accuracy or completeness of any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding National and the Financial Guaranty Insurance Policy issued by National (the "Policy") Additionally, National makes no representation regarding the Series 2016A Bonds or the advisability of investing in the Series 2016A Bonds. A specimen of the Policy is attached hereto as Appendix I.

The Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of KMPA to the Paying Agent (as defined in the Policy) or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series 2016A Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless National elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Series 2016A Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series 2016A Bonds. The Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Series 2016A Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Policy also does not insure against nonpayment of principal of or interest on the Series 2016A Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Series 2016A Bonds.

National Public Finance Guarantee Corporation

National is an operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against National. National is domiciled in the State of New York and is licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico and the U.S. Virgin Islands.

The principal executive offices of National are located at 1 Manhattanville Road, Suite 301, Purchase, New York 10577 and the main telephone number at that address is (914) 765-3333.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, National is also subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for National, limits the classes and concentrations of investments that are made by National and requires the approval of policy rates and forms that are employed by National. State law also regulates the amount of both the aggregate and individual risks that may be insured by National, the payment of dividends by National, changes in control with respect to National and transactions among National and its affiliates.

The National Insurance Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of National

National's current financial strength ratings from the major rating agencies are summarized below:

Agency	Ratings	Outlook
Standard & Poor’s	AA-	Stable
Moody's	A3	Negative
Kroll Bond Rating Agency, Inc.	AA+	Stable

Each rating of National should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of National and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Series 2016A Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 2016A Bonds. National does not guaranty the market price of the Series 2016A Bonds nor does it guaranty that the ratings on the Series 2016A Bonds will not be revised or withdrawn.

Recent Litigation

In the normal course of operating its business, National may be involved in various legal proceedings. Additionally, MBIA Inc. may be involved in various legal proceedings that directly or indirectly impact National. For additional information concerning material litigation involving National and MBIA Inc., see MBIA Inc.’s Annual Report on Form 10-K for the year ended December 31, 2014 and Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, which are hereby incorporated by reference into this appendix and shall be deemed to be a part hereof, as well as the information posted on MBIA Inc.’s web site at http://www.mbia.com.

MBIA Inc. and National are defending against/pursuing the aforementioned actions and expect ultimately to prevail on the merits. There is no assurance, however, that they will prevail in these actions. Adverse rulings in these actions could have a material adverse effect on National's ability to implement its strategy and on its business, results of operations and financial condition.

Other than as described above and referenced herein, there are no other material lawsuits pending or, to the knowledge of National, threatened, to which National is a party.

National Financial Information

Based upon statutory financials, as of September 30, 2015, National had total net admitted assets of $4.8 billion (unaudited), total liabilities of $2.3 billion (unaudited), and total surplus of $2.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning National, see the financial statements of MBIA Inc. and its subsidiaries as of December 31, 2014, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of MBIA Inc. for the year ended December 31, 2014, which are hereby incorporated by reference into this appendix and shall be deemed to be a part hereof.

Incorporation of Certain Documents by Reference

The following documents filed by MBIA Inc. with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2014;

MBIA Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015;

Any documents, including any financial statements of National that are included therein or attached as exhibits thereto, or any Form 8-K, filed by MBIA Inc. pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of MBIA Inc.'s most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Series 2015A Bonds offered hereby shall be deemed to be incorporated by reference in this section and to be a part hereof from the respective dates of filing such documents.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this section, shall be deemed to be modified or superseded for purposes of this section to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this section.

MBIA Inc, files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of MBIA Inc.'s SEC filings (MBIA Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 and Annual Report on Form 10-K for the year ended December 31, 2014) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at MBIA Inc.'s web site at http://www.mbia.com; and (iv) at no cost, upon request to National at its principal executive offices.

BOOK-ENTRY ONLY SYSTEM

The Series 2016A Bonds initially will be issued solely in certificated form, but may be issued in book entry form to be held in the book-entry only system (the "Book-Entry Only System") maintained by DTC, New York, NY. So long as such Book-entry Only System is used, only DTC will receive or have the right to receive physical delivery of Series 2016A Bonds and, except as otherwise provided herein with respect to Beneficial Owners (as defined below) of beneficial ownership interests, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Series 2016A Bonds under the Indenture.

The following information about the Book-Entry Only System applicable to the Series 2016A Bonds has been supplied by DTC. Neither KMPA nor the Trustee make any representations, warranties or guarantees with respect to its accuracy or completeness.

DTC will act as securities depository for the Series 2016A Bonds. The Series 2016A 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 Series 2016A Bond for each maturity will be issued and will be deposited with DTC.

DTC, the world's largest securities 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2016A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2016A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect 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 Series 2016A 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 Series 2016A Bonds, except in the event that use of the book-entry system for the Series 2016A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2016A 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 Series 2016A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2016A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2016A 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 Series 2016A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2016A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2016A Bond documents. For example, Beneficial Owners of Series 2016A Bonds may wish to ascertain that the nominee holding the Series 2016A 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 Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2016A Bonds 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 Series 2016A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Series 2016A 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 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 Series 2016A Bonds 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 or its nominee, the 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 interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of

DTC) is the responsibility of KMPA or the 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.

A Beneficial Owner shall give notice to elect to have its Series 2016A Bonds purchased or tendered, through its Participant, to the Trustee and shall affect delivery of such Series 2016A Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2016A Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Series 2016A Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2016A Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2016A Bonds to the Trustee's DTC account. See "THE BONDS – Tender and Redemption Provisions for the Series 2016A Bonds."

NEITHER KMPA NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A HOLDER WITH RESPECT TO: (1) THE SERIES 2016A BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PURCHASE PRICE OF TENDERED SERIES 2016A BONDS OR THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2016A BONDS; (4) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO HOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2016A BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

Each Beneficial Owner for whom a Direct Participant or Indirect Participant acquires an interest in the Series 2016A Bonds, as nominee, may desire to make arrangements with such Direct Participant or Indirect Participant to receive a credit balance in the records of such Direct Participant or Indirect Participant, to have all notices of redemption, elections to tender Series 2016A Bonds or other communications to or by DTC which may affect such Beneficial Owner forwarded in writing by such Direct Participant or Indirect Participant, and to have notification made of all debt service payments.

Beneficial Owners may be charged a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation to any transfer or exchange of their interests in the Series 2016A Bonds.

KMPA and the Trustee cannot and do not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments of debt service on the Series 2016A Bonds made to DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

DTC may determine to discontinue providing its service as securities depository with respect to the Series 2016A Bonds at any time by giving notice to KMPA and discharging its responsibilities with respect thereto under applicable law. In such event, the Indenture provides for issuance of fully registered Series 2016A Bonds ("Replacement Series 2016A Bonds") directly to the Beneficial Owners of Series 2016A Bonds, other than DTC or its nominee, only in the event that DTC resigns or is removed as the securities depository for the Series 2016A Bonds. Upon the occurrence of this event, KMPA and the Trustee may appoint another qualified depository. If KMPA and the Trustee fail to appoint a successor depository, the Series 2016A Bonds shall be withdrawn from DTC and issued in fully registered form, whereupon KMPA shall execute and the Trustee, as authenticating agent, shall authenticate and deliver Replacement Series 2016A Bonds in the denomination of $5,000 or integral multiples thereof. KMPA will pay for all costs and expenses of printing, executing and authenticating the Replacement Series 2016A Bonds. Transfer and exchange of such Replacement Series 2016A Bonds shall be made as provided in the Indenture.

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 NEITHER KMPA NOR THE TRUSTEE TAKE ANY RESPONSIBILITY FOR THE ACCURACY THEREOF.

INVESTMENT CONSIDERATIONS

The following is a discussion of certain investment considerations that could affect payments to be made with respect to the Series 2016A 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 Series 2016A 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 G, copies of which are available as described herein.

The following sections of this caption provide brief discussions of some of the factors that affect the operations of KMPA and the electric utility systems operated by the Members. These discussions do not purport to be comprehensive or definitive, however, and the matters discussed are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the Series 2016A Bonds should obtain and review such information.

General

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.

The electric utility industry has been, or in the future may be, affected by a number of other factors that could affect the financial condition and competitiveness of many electric utilities and the level of utilization of generating and transmission facilities. In addition to the factors discussed below, such factors, among others, include: (a) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, including the potential for significantly increased costs relating to such compliance, (b) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, including potential reductions in energy consumption, or increased costs related thereto, (c) changes resulting from a national energy policy, (d) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and "strategic alliances" of competing electric utilities and natural gas utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) 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, commercial and residential 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 natural gas and coal, (m) fluctuations in the price of energy purchased on the open market and/or sold into MISO (as hereinafter defined) at the PSEC node, (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, (r) effects of acts of terrorism or malicious destruction of PSEC property or of the electric grid, (s) effects of organized disruptive actions of persons or entities opposed to the use of fossil fuels or to the rates or business practices of KMPA or its Members, (t) unexpected outages as a result of mechanical or transmission facility failures, and (u) natural disasters or other physical calamities, including, but not limited to, earthquakes and tornadoes.

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 operations and financial condition, or the business operations and financial condition of its Members.

Matters Affecting Members

KMPA Subject to Members' Performance. Paducah Electric and Princeton Electric currently are the only two members of KMPA and the only participants as part of KMPA in KMPA's interest in the PSEC. The entitlement percentages of Paducah Electric's and Princeton Electric's shares of KMPA's interest in PSEC's output and costs, are 83.89% and 16.11%, respectively. Each Member's entitlement percentage establishes the amounts due to KMPA under such Member's Power Sales Agreement and its "take or pay" obligations thereunder. As a consequence, a default of Paducah Electric or Princeton Electric on its obligations under the Power Sales Agreements could materially adversely affect the operations and financial condition of KMPA.

Customer Rate Concerns. For approximately fifty years, the Tennessee Valley Authority ("TVA") provided Paducah Electric and Princeton Electric with electric power and energy under long-term, all-requirements wholesale power contracts. For a number of reasons, including recent and projected TVA power rate increases, attractive indicative pricing from power marketers for intermediate contracts, development of promising regional generation projects, the significant increase in delivered coal prices, and concern regarding the indirect liability for TVA's debt of approximately $25 billion, Paducah Electric, in 2004, notified TVA that it would terminate its wholesale power contract as of December 21, 2009. In January 2005, Princeton Electric likewise gave notice of termination of its TVA power contract effective as of January 25, 2010.

KMPA was formed in February 2005 pursuant to the Interlocal Agreement as a vehicle for Paducah Electric to participate in the development of PSEC. KMPA initially entered into development of PSEC with an interest of 5.06% (equivalent to 80 MW). Princeton Electric thereafter decided to participate in the development of PSEC (through KMPA) and on August 31, 2006, KMPA increased its interest in PSEC by an additional 1.77%. This translated into 18 MW for Princeton Electric and an additional 10 MW for Paducah Electric. KMPA further increased its interest in the development of PSEC by 0.99% through its acquisition in April 2007 of an incremental portion of the interest of an electric cooperative that withdrew from participation in the development of PSEC. KMPA's 7.82% cumulative interest in PSEC has remained the same since that date.

In addition to its power supply from PSEC (through KMPA), Paducah Electric began construction of its own gas-fired combustion turbine peaking facility in 2008. The peaking facility began commercial operation in May 2010.

Since the time KMPA purchased an ownership interest in PSEC on behalf of its Members and the Members committed to purchase power from KMPA, the United States suffered through a major economic recession, power demand and wholesale power market prices decreased significantly, and PSEC experienced construction cost overruns and delays in completion. The delay in PSEC entering into commercial operation and the subpar reliability of PSEC during its extended shakedown phase of operations resulted in the loss of appreciable revenues expected to be produced by PSEC and the incurrence of higher than forecasted costs and expenses to address the unforeseen early operational issues. These factors are among the principal reasons that caused KMPA to pass through to its Members higher than anticipated costs under the Power Sales Agreements. Paducah Electric and Princeton Electric, in turn, needed to raise their respective electric rates with the result that the rates reached levels higher than those historically assessed by these two municipal electric companies.

As construction of PS Unit 2 neared completion, Paducah Electric engaged Black & Veatch to perform a cost of service study of its electric rates. The rates recommended by Black & Veatch in its Electric Rate Study from March 2013 provided for three staggered increases in Paducah Electric's base rates: (i) making permanent a five percent (5%) system average rate increase that had been implemented in November 2012 on a provisional basis; (ii) scheduling an additional five percent (5%) system average increase in April 2013; and (iii) scheduling a five percent (5%) across the board rate increase in April 2014.

In addition, Paducah Electric in March 2013, approved implementation of a Power Cost Adjustment ("PCA") that Black & Veatch also recommended in its study. The PCA was designed to be assessed and adjusted on a quarterly basis for the purpose of recovering power supply costs and related costs, including transmission expenses, to the extent such costs exceed $0.072 per kwh. The PCA rate formula, which contained both forward-looking and backward looking components, became effective as of the first quarter of fiscal year 2014 and was designed to function as an addition to or credit against customers' power bills, as the case may be.

Paducah Electric did not initially increase the PCA to the amount called for by the PCA formula, later adjusting the PCA to the full amount yielded by the PCA formula. The initial PCA resulted in an undercollection of Paducah Electric's purchased power costs with the effect of reduced operating cash. Subsequent increases to the PCA in 2014 reduced the deficit in purchased power collection throughout 2014. However, discontent among Paducah Electric customers and local officials grew throughout 2014 due to the rate increases. In late 2014, at different times, both the chairman and general manager of Paducah Electric resigned. Paducah Electric hired Mark Crisson as interim general manager while Paducah Electric conducted a national search for a permanent general manager.

Mr. Crisson led Paducah Electric's development of a Rate Recovery Plan (the "Recovery Plan"). The Recovery Plan, approved by Paducah Electric's board of directors on November 12, 2014, was designed to stabilize Paducah Electric's finances by eliminating the existing PCA deficit balance by the close of fiscal year 2015 while holding the PCA at no more than its then-current level of $0.0215 per kwh through the end of fiscal year 2015 and reduce the PCA for fiscal year 2016, beginning July 1, 2015. Paducah Electric has a goal of reducing the PCA to $0.0052 per kwh during fiscal year 2016.

To achieve the objectives of the Recovery Plan, Paducah Electric's board in November 2014 authorized the general manager to take certain actions, including without limitation: (1) supporting the reduction of Paducah Electric's purchase power costs from KMPA by facilitating KMPA's replacement of its debt service reserve funds with a surety bond, (2) changing Paducah Electric's resource portfolio manager/power marketer to a firm expected to reduce purchased power costs and seek to utilize power from Paducah Electric's peaking facility, (3) freeing up Paducah Electric's debt service reserve funds to be applied toward debt payments for fiscal years 2015 through 2018 by replacing the debt service reserve funds with a surety bond if financially favorable terms are available, (4) continuing and expanding efforts to sell or otherwise dispose of, on favorable terms, Paducah Electric's excess capacity and/or power supply resources, and (5) continuing, expanding, and/or implementing efforts to assist Paducah Electric's customers, including (a) home energy checks and audits, (b) a "Round-up" program to help low-income customers, (c) provision of helpful daily usage and temperature data through updated billing format, and (d) assisting commercial customers with higher than necessary demand service to reduce costs attributable to the excess demand. A copy of the Recovery Plan is available at www.paducahpower.com/news/rate-recovery-plan/.

Since approval of the Recovery Plan, several action items have been accomplished or are currently in progress. Paducah Electric engaged AMP to perform portfolio management services effective January 1, 2015. Paducah Electric successfully obtained a surety bond to replace its debt service reserve funds which have been placed in an escrow account for payment of the principal portion of sinking fund debt service payments. Paducah Electric implemented all customer programs included in the Recovery Plan (including the "Round-up" program, energy audits, billing format changes to include daily usage, and commercial account excess demand reductions). In addition, Paducah Electric supported the efforts of KMPA to obtain $22 million in surety bonds to replace a portion of KMPA's debt service reserves and supported KMPA in connection with the issuance of KMPA's Series 2015A Bonds and Series 2015B Bonds. Paducah Electric continues to support KMPA in connection with the issuance of the Series 2016A Bonds.

In June 2015, the Paducah Electric board moved from a quarterly calculation of the PCA rate to an annual calculation. Effective July 1, 2015, the PCA rate for the fiscal year ending June 30, 2016 was reduced to $0.01656 per kwh. Additionally, for the period from July through October, 2015, the PSEC has operated at a capacity factor averaging 90%. The deficit in Paducah Electric's PCA collections, which as of June 30, 2015, was $1.1 million became a surplus of $3.5 million as of October 31, 2015.

Below is a summary, from 2014 data compiled by the U.S. Energy Information Administration, that compares Paducah Electric's and Princeton Electric's residential, commercial, and industrial rates to other municipal utilities, investor-owned utilities, and electric cooperatives on both a state and national basis.[2] This table illustrates that the rates charged to customers by Paducah Electric and Princeton Electric were higher than the average in Kentucky, but reflects that the rates were not significantly different than the national average in 2014.

Residential Rate Comparison (cents/kWh)	**Kentucky**	**National**
Avg. IOU	9.64	13.89
Avg. CO-OP	11.01	12.31
Avg. Municipal	10.38	11.23
Paducah Electric	13.75	N/A[3]
Princeton Electric	13.51	N/A[3]

Commercial Rate Comparison (cents/kWh)	**Kentucky**	**National**
Avg. IOU	8.36	12.61
Avg. CO-OP	10.77	11.47
Avg. Municipal	10.24	10.86
Paducah Electric	13.35	N/A[3]
Princeton Electric	14.80	N/A[3]

Industrial Rate Comparison (cents/kWh)	**Kentucky**	**National**
Avg. IOU	6.44	8.73
Avg. CO-OP	7.30	9.31
Avg. Municipal	7.63	8.68
Paducah Electric	10.21	N/A[3]
Princeton Electric	13.26	N/A[3]

[2] For the current rate schedules of Paducah Electric and Princeton Electric see Appendix F "Operating and Financial Data for the Members."
[3] Not available.

Exercise of Step-Up Remedies under Power Sales Agreements May Result in Deficit Payments. Each Power Sales Agreement contains a "step up" provision that requires, in the event of a default by a Member (the "Defaulting Member"), the non-defaulting Member (the "Non-Defaulting Member") to purchase a pro rata share of the Defaulting Member's entitlement percentage (based upon each Non-Defaulting Member's entitlement percentage of KMPA's share of the electric power and energy anticipated to be generated by PSEC), which, together with the shares to be purchased by any other Non-Defaulting Members, is equal to the Defaulting Member's entitlement percentage ("Step Up Power"). Under the terms of each Power Sales Agreement, no Non-Defaulting Member is obligated to accept Step Up Power in excess of 20% of such Non-Defaulting Member's original entitlement percentage. Paducah Electric's original entitlement percentage was 83.89%, and Princeton Electric's original entitlement percentage was 16.11%. If Paducah Electric were to default, under the terms of Princeton Electric's Power Sales Agreement, Princeton Electric would not be required to purchase Paducah Electric's full entitlement percentage, thereby creating a potential deficit in the amounts due KMPA in order to satisfy KMPA's obligations, including debt service payments due on the Series 2016A Bonds. Consequently, a default of Paducah Electric on its obligations under its Power Sales Agreement could materially adversely affect the operations and financial condition of KMPA.

PSEC Operational Issues

PS Unit 1 of PSEC commenced operations in the second quarter of 2012 and PS Unit 2 of PSEC commenced operations in the fourth quarter of 2012. During the shakedown period following commercial operation, PSEC experienced numerous unscheduled outages and derates for equipment adjustments and breakdowns and other operational issues. In a continuing effort to remediate these problems, Prairie State Generating Company, an Indiana nonprofit corporation ("PSGC"), and the operator of PSEC, has implemented numerous improved operational procedures, equipment upgrades and repairs in order to increase reliability. Such remedial measures include optimizing the various plant equipment and systems such as fuel delivery, boiler combustion, air quality control system, ash handling and water supply; verifying that equipment installation and initial startup were completed according to specifications; and enhancing the ongoing training of operators and maintenance staff as they learn the operating characteristics of equipment and optimizing procedures for equipment startup, operation shutdown and normal operation. In addition to the operation of PSEC, in order to enhance reliability and operational procedures, PSGC has also made significant management, structural and personnel changes.

The following table summarizes the PSEC performance during the shakedown period following commercial operation and the improvement in performance that has occurred since that time.

Prairie State Energy Campus

Historical Performance Measures

	Calendar Year Ending 12/31/2013	Calendar Year Ending 12/31/2014	Eleven-Month Period Ending 11/30/2015(3)
Net Capacity Factor(1)	58.39%	67.16%	78.84%
Equivalent Availability Factor(2)	62.67%	72.48%	81.80%

(1)"Net Capacity Factor" represents the ratio of a power plant's actual output over a period of time, to its potential output if it were possible for it to operate at full nameplate capacity continuously over the same period of time.

(2)"Equivalent Availability Factor" represents the amount of time that a power plant is able to produce electricity over a certain period, divided by the amount of time in the period.

(3)Data for the eleven-month period ending 11/30/15 includes a sixteen day planned outage of Unit 2 for scheduled maintenance which was successfully completed.

Following the reliability performance improvement initiatives that were undertaken, including key staff additions with significant experience with supercritical coal-fired generation utilizing Illinois coal, original equipment manufacturer support and third party expert consultant support, PSGC experienced continued improvements in reliability during 2015. At a level consistent with similarly aged coal-fired power plants in the medium term, PSGC is maintaining the improved reliability that began in 2015. At the same time, the PSEC Owners (as hereinafter defined) have made reliability improvements a priority of both PSEC's daily operations and of its short-to-medium term capital improvement plan. Over the short term (2015-2017), PSEC has placed special emphasis on projects that will improve the reliability of PSEC and the productivity of mining operations. There can be no assurance that the operational issues affecting PSEC will not continue for a period of time longer than anticipated or that the reliability performance improvement initiatives will have the desired effect over the short term. See "PRAIRIE STATE ENERGY CAMPUS PROJECT – General, and – PSEC Capital Improvement Plan" below.

Climate Change and Regulation of Greenhouse Gases

This section provides a brief summary of certain actions taken or under consideration regarding the regulation and control of greenhouse gases ("GHGs").

Limitations on emissions of GHGs, including CO_2, create a potential significant exposure for electric coal-fired generation facilities. The United States Environmental Protection Agency ("EPA") is currently pursuing regulation of CO_2 emissions from various classes of electric generating units ("EGUs") in the form of three separate rulemakings. While these regulatory proposals are not yet final and also face considerable legal challenges, the Obama Administration (the "Administration") continues to promote limits on GHG emissions as part of its domestic agenda, as well as through continuing international treaty discussions. However, with the timing and final key details yet unknown, the extent and implications of that exposure cannot be quantified at this time. PSGC has filed official comments with the EPA outlining key concerns.

EPA Climate Action Plan. On June 25, 2013, President Obama announced a new Climate Action Plan, which would be implemented without legislation through existing regulatory authorities and new executive orders. The central and most controversial provision seeks to revitalize and refocus the global debate on climate change onto the U.S. fleet of fossil-fueled power plants; the Administration directed EPA to proceed with rulemakings for carbon limits on both new and existing power plants.

EPA missed its original April 2013 deadline to issue a rule to establish new source performance standards ("NSPS") for CO_2 and other GHG emissions from new EGUs. Under the Administration's new climate initiative, EPA officially proposed a NSPS for GHG emissions from these new EGUs in January 2014.

In June 2014, EPA issued for public comment proposed GHG regulations (called the Clean Power Plan) for existing EGUs, such as PSEC, as well as for modified and reconstructed units defined under a separate rulemaking. The proposed Clean Power Plan would not directly regulate GHG emissions by specific power plants, but instead would impose state-by-state GHG emission rate targets. On August 3, 2015, the EPA released its final rule for regulating CO2 from existing EGUs under section 111(d) of the Clean Air Act. This rule, commonly known as the Clean Power Plan, seeks to reduce CO2 emissions from EGUs by 32 percent below 2005 levels by 2030. On the same day, EPA issued the final NSPS for CO_2 and other GHG emissions from new EGUs.

In order to comply with the rule, states must submit a state implementation plan ("SIP") or seek a two-year extension by September 6, 2016. If a state chooses not to implement a state plan by September 8, 2018, then the EPA will impose a federal plan ("FIP") on the state. A state has the option to either pursue a rate-based plan, which would require the power fleet to adhere to an average amount of carbon per unit of power produced or a mass-based plan, which would cap the total tons of carbon the power sector could emit each year. If a FIP is placed on a state, it is not yet known whether the plan would take a rate-based or mass-based approach.

The rule requires states' existing EGUs to meet a CO2 emissions rate by 2030, and an interim average emission rate between 2022 and 2029. These rates were calculated using each state's 2012 adjusted baseline emissions rate.

In the rule, EPA set forth a best system of emissions reduction ("BSER") for which the states can achieve these goals. The BSER includes three "building blocks" from which states can choose to use some or all in order to reach the state emission reduction goal. The "building blocks" include (1) heat rate improvements at the EGU; (2) dispatching natural gas combined cycle units with higher capacity levels than coal generating capacity and (3) increased use of renewable and non-emitting generation.

Governmental, environmental and utility stakeholders are working together to digest the rule, its implications and the best paths forward in order to ensure low-cost, reliable and environmentally responsible power may be continually provided to ratepayers. The Commonwealth of Kentucky has also responded to the rule by joining a multistate lawsuit, which the United States Court of Appeals for the D.C. Circuit consolidated alongside 20 other legal challenges to the rule in the West Virginia v. EPA, No. 15-1363 case. On January 21, 2016, the D.C. Circuit denied a motion by Petitioners for a stay of the Clean Power Plan pending review. In the same order, the D.C. Circuit set oral argument in the case for June 2, 2016.

EPA's efforts to limit GHG emissions are based on the U.S. Supreme Court's decision in Massachusetts v. Environmental Protection Agency, 549 U.S. 497 (2007). The Court concluded that the Clean Air Act ("CAA") authorized the EPA to regulate GHGs from new motor vehicles if that agency concludes that such emissions "endanger" public health and/or welfare. EPA finalized its finding that GHGs endanger public health and welfare on December 15, 2009, thus establishing the basis for regulating GHGs for cars and trucks — and, by extension under EPA's interpretation of the CAA, all stationary sources. It is based on this interpretation of the CAA that EPA is now proposing to adopt regulations that would effectively limit GHG emissions by stationary sources, including existing power plants.

The statutory interpretation and other legal grounds on which EPA relies in proposing GHG limitations affecting existing, reconstructed and new power plants is controversial, and legal challenges and legislative proposals to EPA's proposed GHG rule already have been initiated. EPA's proposed rules limiting GHG emissions are expected to have very significant implications for the electric utility industry and for electricity consumers, in terms of both direct and indirect cost impacts and on the reliability of electricity supplies. KMPA is unable to predict the outcome of these matters.

Legal challenges were lodged to EPA's 2010 "Tailoring Rule," which made federal new source review ("NSR") permitting requirements under the prevention of significant deterioration ("PSD") program applicable to significant increases in CO_2 emissions at major stationary air emissions sources. On June 23, 2014, the U.S. Supreme Court partially upheld and partially rejected several of EPA's prior GHG regulations, ruling that while EPA had overstepped its authority in issuing the Tailoring Rule, EPA has authority to require GHG "best available control technology" considerations for new and modified units that are already regulated under the CAA's PSD and Title V permitting sections for other pollutants. Challenges to the Administration's current GHG rulemaking proceedings may be bolstered by the Supreme Court's actions in this regard.

GHG / Climate Change Legislation. Motivated in part by a belief that the CAA is an ill-suited framework for controlling GHG emissions, Congress in 2009-2010 considered legislation to establish a market-based regime for limiting GHGs. On June 26, 2009, the U.S. House of Representatives narrowly passed legislation that sought to establish an economy-wide cap-and-trade program to reduce U.S. emissions of GHGs (17 percent reduction in GHG emissions from 2005 levels by 2020 and just over an 80 percent reduction of such emissions by 2050). Under this legislation, EPA would have been required to issue a capped and steadily declining number of tradable emissions allowances to certain major sources of GHG emissions so that such sources could continue to emit GHGs into the atmosphere (as long as allowances are available). Some allowances would have been distributed to major sources for free during the early years of the program; however, these allowances would have been expected to escalate significantly in cost over time. The net effect of the legislation would have been to impose increasing costs on the combustion of carbon-based fuels such as coal, oil, refined petroleum products, and natural gas.

The U.S. Senate failed to pass the bill, and there has been no serious consideration of cap-and-trade or other GHG-limiting legislation by either body of Congress since 2010. EPA has taken congressional inaction on climate change as a rationale for its efforts to regulate GHGs through executive action alone.

It is generally understood that newer facilities that are more energy efficient or which are adaptable to a mix of various conventional and alternative fuels (or those that can successfully incorporate nascent carbon capture and sequestration technology) will be at a competitive advantage in any GHG-limited regulatory framework compared to less efficient facilities. The same is true relative to other environmental regulations that are designed to limit various emissions from electric generation units.

KMPA is unable to predict at this time whether mandatory GHG emissions limitations will be imposed, the impact of any such limitations on the operations of PSEC or other electric generators, or, more broadly, the impacts of any such limitations on the costs and reliability of wholesale electricity supplies. Impacts specific to PSEC likely would be determined primarily by the specific plan the State of Illinois adopts, on its own or in conjunction with other states in the region, to implement any mandated limitations. Although KMPA is unable to predict the outcome of these matters, the potential impacts of mandatory GHG emissions limitations on PSEC, KMPA and/or the Members could be material.

Impacts of Other Environmental Regulations

Mercury and Air Toxics Standard ("MATS"). The CAA also provides for a comprehensive program for the control of hazardous air pollutants, including mercury. On April 16, 2012, EPA issued the final MATS Rule that includes stringent emission limits for (1) mercury; (2) certain non-mercury metals including arsenic, lead, cadmium, and selenium; (3) various acid gases including hydrochloric acid; and (4) many organic hazardous air pollutants. The compliance date for the MATS Rule is April 15, 2016. On November 25, 2014, the U.S. Supreme Court granted review of the MATS Rule limited to the question of whether EPA should have considered the cost of complying with the rule in its development. On June 29, 2015, the Supreme Court reversed a D.C. Circuit Court's ruling which had upheld the MATS rule and remanded the case to the D.C. Circuit for further proceedings. The D.C. Circuit remanded the MATS rule to EPA without vacating it on December 15, 2015. As a result, the MATS Rule will remain in effect pending the EPA evaluation of the cost of the rule. KMPA anticipates that current operations at PSEC will comply with the MATS Rule.

The *Cross-State Air Pollution Rule ("CSAPR")*. EPA finalized its CSAPR rule (formerly known as the Clean Air Transport Rule) on July 7, 2011. CSAPR was intended to replace the 2008 Clean Air Interstate Rule ("CAIR") to control cross-state transport of primarily SO_2 and NO_x emissions from coal-fired power plants and other industrial sources. Under CSAPR, areas that have historically been subject to nonattainment restrictions would have been most likely to see those continue, but these areas were also expected to expand. CSAPR created state-specific annual emissions budgets for SO_2 and annual and seasonal budgets for NO_x. Implementation of the rule was stayed in December 2011, and on August 21, 2012, a three judge panel of the U.S. Court of Appeals for the District of Columbia Circuit (the "DC Appeals Court") vacated CSAPR, returning the rule to EPA to be rewritten. The court found that EPA exceeded its authority under the CAA in both its determination of upwind states' reduction obligations and its premature imposition of federal implementation plans; the court directed EPA to continue administering the previously vacated CAIR rule until a new rule could be issued. The court's decision called into question EPA's redesignation of certain areas from nonattainment to attainment, based on use of CSAPR's emission-trading program, as well as ongoing agency efforts to tighten the fine particulate matter and ozone National Ambient Air Quality Standards ("NAAQS").

On April 29, 2014, the U.S. Supreme Court reversed the appeals court decision that overturned CSAPR. While upholding EPA's methodology for allocating emissions among contributing "upwind" states in certain respects, the U.S. Supreme Court also remanded the CSAPR rule back to the appeals court "for further proceedings consistent with this opinion," including whether the specific application of CSAPR in certain states would violate the Clean Air Act. On October 23, 2014, the DC Appeals Court lifted the stay on CSAPR. As a result, the Phase I emissions budgets will apply in 2015 and 2016 and the Phase II emissions budgets will apply beginning in 2017.

For purposes of CSAPR, PSEC is considered a "new unit" and, therefore, receives allowances under the new unit set aside ("NUSA") program. For the years 2015-2017, PSGC expects that sufficient NO_x and SO_2 allowances will be available from the NUSA pool to support operations. If the NUSA pool is exhausted, PSGC will have to purchase allowances from the market.

Coal Combustion Residuals Rule. On December 19, 2014, EPA issued the final coal combustion residual rule ("CCR Rule") regulating the disposal of CCRs in landfills and surface impoundments. Under the rule, CCRs are regulated as non-hazardous solid wastes under subtitle D of the Resource Conservation and Recovery Act. The CCR Rule includes specific design and monitoring standards for CCR disposal units including landfills and surface impoundments as well as closure requirements. The CCR landfill at PSGC must comply with the applicable requirements of the CCR Rule.

Ozone NAAQS. The Administration in September 2011 withdrew its previously proposed rule to tighten the current (from 2008) 0.075 ppm ozone NAAQS. In withdrawing the rule, the President announced that the ozone standard would be reconsidered in 2013 (which was later revised to 2015). Opposed to the Administration's delay, in May 2013, several "downwind" states (Connecticut, Delaware, and Maryland) sued EPA over its approval of state implementation plans for Kentucky and Tennessee to implement the 2008 8-hour ozone standard, which remains in place until a new standard is issued. The DC Appeals Court upheld the 2008 primary standard on July 23, 2013, while remanding the secondary standard to EPA for more work.

The American Lung Association filed suit on January 21, 2014 in the U.S. District Court for the District of Columbia asking the court to direct the EPA to complete a review of the ozone NAAQS as required by the CAA. In November 2014, the EPA issued the proposed rule for comment. EPA proposed to lower the primary ambient air quality standard for ozone from 0.075 ppm to somewhere between 0.065-0.070 ppm while also soliciting comments supporting an even lower standard at 0.060 ppm, as well as those that support maintaining the existing standard. On October 1, 2015, EPA issued a final rule establishing a new ozone NAAQS at 0.070 ppm. EPA must evaluate the impact of the new ozone NAAQS on any potential expansion of the areas identified as nonattainment for ozone within two years of the final rule date.

The Clean Water Act. The Federal Water Pollution Control Act as amended (the "Clean Water Act") regulates the discharge of process wastewater and certain storm water under the National Pollutant Discharge Elimination System permit program. At the present time, PSEC has the required permits under the program for the operation of the facilities. The water quality regulations require compliance with Illinois' water quality standards, including sampling and monitoring of the waters around the plant.

Section 316(b) of the Clean Water Act requires the EPA to ensure that the location, design, construction and capacity of cooling water intake structures reflect the best technology available to protect aquatic organisms from being killed or injured by impingement or entrainment. In February 2014, the EPA issued final regulations establishing standards for cooling water intake structures at existing large generating facilities. The rule provided several compliance alternatives for existing plants such as using existing technologies, adding fish protection systems or using restoration measures.

In April 2014, the EPA and the U.S. Army Corps of Engineers (the "Army Corps") proposed an expansion of regulatory authority under the Clean Water Act through broadening the definition of a "Water of the United States." The final "Clean Water Rule" was published in the Federal Register on June 29, 2015 and became effective on August 28, 2015. On October 9, 2015, the Sixth Circuit Court of Appeals issued a stay postponing the nationwide implementation of the Clean Water Rule.

The Comprehensive Environmental Response, Compensation and Liability Act. Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (also known as Superfund) ("CERCLA") requires cleanup of sites from which there has been a release or threatened release of hazardous substances and authorizes the EPA to take any necessary response action at Superfund sites, including ordering potentially responsible parties liable for the release to take or pay for such actions. Potentially responsible parties are broadly defined under CERCLA to include past and present owners and operators of, as well as generators of wastes sent to a site. To KMPA's knowledge, KMPA is not currently subject to liability for any Superfund matters. However, PSEC generates certain wastes, including hazardous wastes, and sends certain of its wastes to third party waste disposal sites. As a result, there can be no assurance that PSEC will not incur liability under CERCLA in the future.

Electro-Magnetic Fields. A number of electrical industry studies have been conducted regarding the potential long-term health effects resulting from exposure to electo-magnetic fields ("EMF") created by high voltage transmission and distribution equipment. At this time, any relationship between EMF and certain adverse health effects appears inconclusive; however, electric utilities have been experiencing challenges in various forms claiming financial damages associated with electrical equipment which creates EMF. At this time, it is not possible to predict the extent of the cost and other impacts which the EMF concerns may have on electric utilities, including KMPA or its Members. In the future, if the scientific community reaches a consensus that EMF presents a health hazard, KMPA or its Members may be required to take remedial actions at its facilities, including PSEC. The cost of these actions cannot be estimated with certainty at this time. Such costs, however, could be significant, depending on the particular mitigation measures undertaken, especially if relocation of existing power lines is required.

Environmental Regulation in General. An inability to comply with environmental standards could result in penalties, additional capital expenditures to comply, reduced operating levels or the complete shutdown of electric generating units not in compliance. There can be no assurance that the federal and state government agencies regulating environmental matters will not bring enforcement actions under existing statutes, which could require unexpected capital and/or operating expenditures.

KMPA's total capital expenditures may vary substantially depending on, among other things, (i) the availability of an adequate pool of qualified contractors to carry out needed projects,

(ii) increased costs of labor and supplies needed to implement any compliance program, (iii) weather conditions that could adversely affect construction schedules and consumption patterns, (iv) population trends and political and economic developments in the applicable region that could adversely affect the collection of operating revenues, (v) the possibility of new environmental legislation or regulations affecting KMPA's facilities and operations, and (vi) unanticipated costs or potential modifications to PSEC resulting from requirements and limitations imposed by environmental laws and regulations.

There can be no assurance that the actual cost of compliance will not be significantly higher than what KMPA currently estimates, nor can any assurance be given that KMPA will be able to avoid the imposition of monetary penalties. No assurance can be given that KMPA will be able to finance, through the issuance of bonds or otherwise, the estimated costs of any additional capital improvement requirements that may be imposed on KMPA.

Electric System Reliability and Related Legislation

The Energy Policy Act of 1992. The Energy Policy Act of 1992 ("EPACT 1992") made fundamental changes in the federal regulation of the electric utility industry, particularly in the area of transmission access under Sections 211, 212 and 213 of the Federal Power Act. The purpose of these changes, in part, was to bring about increased competition in the electric utility industry. As amended by EPACT 1992, Sections 211, 212 and 213 of the Federal Power Act provide FERC authority, upon application by any electric utility, federal power marketing agency or other person or entity generating electric energy for sale or resale, to require a transmitting utility to provide transmission services (including any enlargement of transmission capacity necessary to provide such services) to the applicant at rates, charges, terms and conditions set by FERC based on standards and provisions in the Federal Power Act. Under EPACT 1992, electric utilities owned by municipalities and other public agencies which own or operate electric power transmission facilities that are used for the sale of electric energy at wholesale are "transmitting utilities" subject to the requirements of Sections 211, 212 and 213.

The Energy Policy Act of 2005. The Energy Policy Act of 2005 ("EPACT 2005") addressed a wide array of energy matters affecting the entire electric utility industry, including KMPA and the electric systems of the Members. It expanded FERC's jurisdiction to require open access transmission by municipal utilities that sell more than four million megawatt hours of energy annually and to order the payment of refunds under certain circumstances by municipal utilities that sell more than eight million megawatt hours of energy annually. No Member is able to predict when, if ever, its sales of electricity would reach either four million or eight million megawatt hours, although no Member now sells more than 700,000 megawatt hours annually. EPACT 2005 provided for mandatory reliability standards to increase the electric grid's reliability and minimize blackouts, criminal penalties for manipulative energy trading practices and the repeal of the Public Utility Holding Company Act of 1935, which prohibited certain mergers and consolidations involving electric utilities. EPACT 2005 also authorized FERC to issue a permit authorizing the permit holder to obtain transmission rights of way by eminent domain if FERC determines that a state or locality has unreasonably withheld approval and if the facilities for which the permit is sought will significantly reduce transmission congestion in interstate commerce and protect or benefit consumers. EPACT 2005 contained provisions designed to increase imports of liquefied natural gas and incentives to support renewable energy technologies. EPACT 2005 also extended for 20 years the Price-Anderson Act, which concerns nuclear power liability protection, and provides incentives for the construction of new nuclear plants. KMPA may be required to meet some or all of the mandates of EPACT 2005.

NERC and EPACT 2005. In response to the August 14, 2003 blackout that affected much of northeastern United States, Congress enacted a new Section 215 of the Federal Power Act as part of the EPACT 2005. Section 215 provides for mandatory compliance by electric utilities with reliability standards promulgated by an "electric reliability organization" (currently, the North American Electricity Reliability Corporation ("NERC")). Pursuant to Federal Energy Regulatory Commission ("FERC") authorization, NERC delegates authority for enforcing the mandatory reliability standards to eight regional entities. One of these regional entities, SERC Reliability Corporation, is charged with enforcing the mandatory reliability standards in much of the Southeastern United States, including the areas of Kentucky served by KMPA, the Members, Louisville Gas & Electric and Kentucky Utilities. NERC has the authority to impose (subject to FERC review) substantial financial penalties on entities that fail to comply with applicable reliability standards.

KMPA and its Members are subject to NERC registration requirements and compliance obligations with respect to specific reliability standards. KMPA is registered with NERC as, and is responsible for compliance with reliability standards applicable to, a "load serving entity". Paducah Electric and Princeton Electric are each registered as a "distribution provider". Entities registered with NERC are subject to periodic audits of their compliance with applicable reliability standards.

RTO-Operated Markets

In addition to coordinating wholesale transmission operations and services, RTOs operate centralized markets for wholesale electricity products such as capacity, energy and ancillary services. By virtue of having generating resources located within the geographical footprint of the Midcontinent Independent Transmission System Operator, Inc. ("MISO") regional transmission organization, KMPA is subject to the tariff provisions and business practices governing the operation of wholesale electricity markets in MISO. As a result, KMPA's costs of securing power to meet its Members' needs are affected by the market and administrative mechanisms approved by FERC for use in setting prices for energy, capacity and ancillary services (as well as transmission service) in MISO.

The nature and operations of RTOs and RTO markets continue to evolve, and KMPA cannot predict whether their existence will meet FERC's goal of reducing transmission congestion and costs and creating a competitive power market.

Series 2016A Bonds and Related Documents

Security for the Series 2016A Bonds. The Series 2016A Bonds are limited obligations of KMPA payable exclusively out of the revenues received by KMPA under the Power Sales Agreements and, in certain circumstances, Series 2016A Bond proceeds and income from the temporary investment thereof. The Series 2016A Bonds are secured by a pledge by KMPA of the Trust Estate to the Trustee in favor of the Bondholders in accordance with the Indenture. KMPA has no taxing power or authority, and no taxes are available for the payment of any of the principal of, premium, if any, or interest on the Series 2016A Bonds. A brief description of the Trust Estate is contained in Appendix G.

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

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 Series 2016A 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.

Deregulation Legislation

Because of the number and diversity of prior and possible future proposed bills on the deregulation of the energy utility industry, KMPA is not able to predict the final forms and possible effects of all such legislation which ultimately may be introduced in the current or future sessions of Congress or of the Kentucky General Assembly. KMPA is also not able to predict whether any such legislation, after introduction, will be enacted into law, with or without amendment. Further, KMPA is unable to predict the extent to which any such electric utility restructuring legislation may have a material, adverse effect on the financial operations of the Members.

Kentucky Legislation

General. Kentucky has a number of statutory schemes that generally permit municipalities to furnish utility services. Those statutory schemes are found in KRS Chapter 96. The comprehensive statutory scheme under which Paducah Electric and Princeton Electric were organized and continue to operate is the Little TVA Act, which is codified at KRS 96.550 through 96.901, inclusive. Enacted in 1942, the Little TVA Act is intended to be the "complete law" of Kentucky with respect to municipalities acquiring and operating electric plants after June 1, 1942. All laws that conflict with the Little TVA Act were expressly repealed by its enactment. The Little TVA Act vests all Kentucky municipalities, regardless of class, with the power and authority to establish, acquire, own and operate "electric plants." The Little TVA Act broadly defines "electric plant" as "any plant, works, systems, facilities, and properties (including poles, wires, stations, transformers, and any and all equipment and machinery), together with all parts thereof and appurtenances thereto, used or useful in the generation, production, transmission, or distribution of energy." Municipal electric utilities organized under the Little TVA Act are specifically authorized to construct, acquire, own, lease operate, maintain and improve distribution lines, transmission lines and generating plants, together with all necessary and appropriate facilities, equipment and appurtenances, whether individually or jointly with another utility organized under the Little TVA Act.

A municipality providing electric service under the Little TVA Act is generally not subject to direct competition in a territory it serves and has the right to establish its electric rates and business practices and procedures within its service boundaries. A municipality operating under the Little TVA Act is forbidden from entering into competition with rural electric cooperative corporations or electric plants operated by another municipality in territory being served by the other provider of electric service at retail, but may enter into cooperative agreements and/or seek franchises to provide electric service in other municipalities under certain circumstances.

The Kentucky Public Service Commission (the "PSC") regulates the intrastate rates and services of investor-owned electric utilities and customer-owned electric cooperatives. For utilities subject to its jurisdiction, the PSC has regulatory responsibility for rate increases or reductions, expansion or reduction of utility service boundaries, construction and operation of utility facilities and compliance with service and safety regulations, among other things. In addition, the PSC is charged with administering Kentucky's Certified Territory Act, KRS Sections 278.016 through 278.018, under which each "retail electric supplier" is provided with a territory certified by the PSC in which it enjoys a protected right to provide retail electric service. Generally, a retail electric supplier has the exclusive right to furnish retail electric service to all electric-consuming facilities located within its certified territory and is forbidden from furnishing retail electric service to a consumer located within the certified territory of another retail electric supplier. The Certified Territory Act protects the territory of one retail electric supplier from incursion by another retail electric supplier. KRS 278.016. Likewise, the only utilities entitled to receive a certified territory from the PSC are those falling within the definition of a "retail electric supplier." Municipally-owned electric utilities, however, are specifically excluded from the definition of "retail electric supplier." KRS 278.010(4).

Unless expressly authorized in the future, municipal electric utilities operating under the Little TVA Act are not subject to the jurisdiction of the PSC over the utility's management and control of its electric plant, or over the regulation of its rates or charges, except that the PSC may, when in the public interest, require the municipal utility under limited circumstances to extend service to customers, whether within or beyond city limits, not previously served by the municipal electric utility. KRS 96.880(2). Furthermore, it is not necessary for a municipal utility operating under the Little TVA Act to obtain any certificate of convenience and necessity, license, permit, or other authorization, from any board, commission, or other agency of Kentucky, in order to maintain and operate any electric plant. KRS 96.880(1). Accordingly, the PSC does not currently regulate the rates or services of the Members.

Future Legislation. In November 2008, Kentucky released an extensive energy plan outlined in a document entitled Intelligent Energy Choices for Kentucky's Future. The energy plan is not legislation; although, it generally outlines the state's energy-related goals of (1) improving the energy efficiency of Kentucky's homes, buildings, industries and transportation fleet, (2) increasing Kentucky's use of renewable energy, (3) sustainably growing Kentucky's production of biofuels, (4) developing a coal-to-liquids industry in Kentucky to replace petroleum-based liquids, (5) implementing a major and comprehensive effort to increase gas supplies, including coal-to-gas in Kentucky, (6) initiating aggressive carbon capture/sequestration projects for coal-generated electricity in Kentucky, and (7) examining the use of nuclear power for electricity generation in Kentucky. If and when Kentucky enacts energy legislation in the future, the particular effect on electric utilities, including municipally owned electric utilities, is not clear.

Open Access Transmission and RTOs

In 1996, FERC in Order No. 888 required utilities under its jurisdiction to provide access to their transmission systems for interstate wholesale transactions on terms and at rates comparable to those available to the owning utility for its own use. In 2007, FERC issued another rulemaking order that is meant to fine-tune the Open Access Transmission Tariff setting minimum standards for transmission owners.

In 1999, FERC in Order No. 2000 adopted regulations aimed at promoting the formation of regional transmission organizations ("RTOs"), which would be established as the sole providers of electric transmission services in large regions of the country, each of which would encompass the service territory of several (or more) electric utilities. These RTOs would operate and control, but would not own, the transmission facilities, pursuant to contracts with the transmission owners.

More recently, in 2011, FERC issued Order No. 1000, which further reforms the requirements applicable to public utility transmission providers in the areas of electric transmission planning and cost allocation. Among other things, the regulations adopted in Order No. 1000 require each public utility transmission provider to participate in a regional transmission planning process, and state that local and regional transmission planning processes must consider transmission needs driven by public policy requirements established by state or federal laws or regulations. The Order No. 1000 regulations also impose compliance obligations on transmission providers with respect to cost allocation for regional and inter-regional transmission projects.

Although KMPA is a transmission dependent utility and, as such, not directly subject to the rules adopted by FERC in these orders, the utilities from which KMPA purchases transmission service are subject to these rules.

National Public Finance Guarantee Corporation's Exposure to Puerto Rico Electric Power Authority Bonds

National has insured a significant amount of bonds of the Puerto Rico Electric Power Authority (together with other monoline insurers), which bonds are currently the subject of restructuring negotiations. To the extent principal and interest on these bonds, either as currently outstanding or as they may be restructured, remains unpaid and National would be called upon under its insurance policies to pay claims of unpaid principal and interest thereon, then the claim payments may ultimately be substantially greater than the amount National is able to recover. Consequently, the payment by National of those claims, without recovery of the payments, could have a material and adverse effect on National's business, financial condition and results of operations, and therefore its ability to pay any claims that may be made under its insurance policy insuring the Series 2016A Bonds. For additional details, see "BOND INSURANCE", "APPENDIX I – Specimen Municipal Bond Insurance Policy" and public filings of National's parent company, MBIA Inc., as filed on EDGAR with the SEC at http://www.sec.gov.

Miscellaneous

Uncertainties of Projections and Assumptions. This Official Statement contains certain assumptions, estimates, projections and other forward-looking statements. Demonstration of compliance by KMPA with certain of the covenants contained in the Indenture also may be based upon assumptions, estimates and projections. Actual results, however, may differ, perhaps materially, from those projected. In addition, certain assumptions with respect to future business and financing decisions, including the decision to undertake, or to postpone or cancel, future capital improvements at PSEC may not occur and are subject to change. No representation is made or intended, nor should any representation be inferred, with respect to the existence of any particular future set of facts or circumstances, and prospective purchasers of the Series 2016A Bonds are cautioned not to place undue reliance upon any forecasts, estimates, plans or projections or requirements for forecasts or projections. If actual results are less favorable than the results projected or if the assumptions used in preparing projections prove to be incorrect, the ability of KMPA to make timely payment of the principal of and interest on the Series 2016A Bonds may be materially and adversely affected.

KENTUCKY MUNICIPAL POWER AGENCY

General

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 is empowered on behalf of its Members to coordinate the 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 projects.

Pursuant to KRS Chapter 65 and the Little TVA Act, KMPA is authorized and empowered to issue bonds (including refunding bonds) to defray the costs of acquiring, constructing and equipping electric generation facilities such as PSEC. From time to time, KMPA may issue future series of notes or bonds in connection with PSEC 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:

Hardy Roberts	Chairman
Rickie W. Williams	Vice Chairman
Gary Zheng	General Manager
John A. Humphries	Secretary/Treasurer and Assistant General Manager

Hardy Roberts has served on the KMPA Board since September 2014 where he became its Chairman effective September 23, 2014. He has been a director of Paducah Electric since February, 2011, and has served as its Chairman since September 2014. Mr. Roberts owned and operated Leake Printing Company and Flagship Printing in Paducah, Kentucky, from 1970 until his retirement in 2008. A native of Paducah, Mr. Roberts attended the University of Miami and graduated from Vanderbilt University with a bachelor's degree in Economics and Business. He has been a member of the Paducah Rotary Club since 1970 and served as the club's president from 1976 to 1977. He is a former 29 year member of the Paducah Cable Commission Authority and served as the Commission's Chairman for five years.

Rickie W. Williams has served as Princeton Electric's designated representative on the KMPA Board since February 2005 and has held the office of Vice-Chairman during his tenure on the KMPA Board. Mr. Williams is a former member and Chairman of the Board of Directors of Princeton Electric. He 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 30 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.

Gary Zheng became a member of the KMPA Board of Directors in February 2015, at the time he became the General Manager of Paducah Electric. In December 2015, the KMPA Board appointed Mr. Zheng as General Manager. Prior to coming to Paducah, Mr. Zheng had 28 years of experience with Lubbock Power & Light ("LP & L") in Lubbock, Texas. Mr. Zheng served as LP & L's President and CEO from 2005 until July 2014. Prior to serving in that position, he held numerous management positions within LP&L including Chief Operating Officer, Manager of Transmission and Distribution and Manager of Electrical Engineering. He has managed power purchases and sales, power contracts and contract negotiations. Mr. Zheng is a past President of the Texas Public Power Association. While at LP&L, he served as a board member for the Lubbock Chamber of Commerce, the Lubbock Area United Way, the Lubbock Symphony Orchestra and Community Health Center of Lubbock where he was heavily involved in a fundraising campaign that generated $7,000,000 for the Center. Mr. Zheng holds a Bachelor of Science in Electrical Engineering from Liaoning University in China, and a Master of Science in Electrical Engineering, a Master of Science in Computer Engineering and a Ph.D. in Electrical Engineering, all from the University of Southern California.

John A. Humphries has served as a KMPA Board member since February 2005. In December 2015, the KMPA Board appointed Mr. Humphries as the Assistant General Manager of KMPA. Mr. Humphries has also previously served as the General Manager from 2014 through December 2015. In November 2014, the KMPA Board appointed Mr. Humphries as the General Manager of KMPA, having previously served as the Assistant General Manager since 2005. He also serves as KMPA's Treasurer and Secretary. Mr. Humphries became 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 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 member of PSEC Board of Directors representing KMPA, serves as a member of PSEC Legislative Committee, and as a member of the MISO Interface Committee. Mr. Humphries has served on the Board of Directors for American Municipal Power, Inc., an Ohio nonprofit corporation ("AMP"), representing Kentucky and West Virginia and also serves on the Hydro Committee of AMP. He is a board member of the economic development entity for Caldwell and Lyon Counties known as the Lake

Barkley Partnership. 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.

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 18 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. She is also 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 the Chair of PSEC Finance Committee. She also serves as a board member for several local charitable organizations.

Financial Statements

Baker Tilly Virchow Krause LLP, which audited the financial statements of KMPA from its creation in 2005 through fiscal year 2009, assisted KMPA in establishing its internal accounting system. Beginning in fiscal year 2010 to date, the financial statements of KMPA have been audited by Williams, Williams & Lentz, LLP, Paducah, Kentucky.

KMPA's audited financial statements for the years ended June 30, 2014 and 2015 and unaudited financial statements for the four-month periods ended October 31, 2014 and 2015 are included as Appendix A. 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 P.O. Box 180, Paducah, Kentucky 42002-0180 or by telephone at (270) 408-5020.

Historical Debt Service Coverage Ratio

KMPA has agreed under the trust indentures for the Bonds, pursuant to a rate covenant, to produce in each fiscal year during which the Bonds are outstanding, a debt service coverage equal to at least 1.10:1. However, under the terms of the trust indentures, principal and interest payments on the long-term indebtedness incurred in connection with PSEC were not required to be included in the computation of the maximum annual debt service until the fiscal year in which the principal or interest first became payable from sources other than amounts deposited in trust, escrowed or otherwise exclusively set aside at the time of incurrence of such indebtedness (including capitalized interest). KMPA used capitalized interest and such other sources to make payments of interest on the Series 2007A Bonds, Series 2007B Bonds, Series 2010A Bonds, Series 2010 B Bonds, and Series 2010C Bonds until September 1, 2012. The debt service coverage ratio for the fiscal year ending June 30, 2015 was 1.15. KMPA bills its Members each fiscal year an amount that will produce a 1.10:1 debt service coverage ratio based on the annual debt service in each respective year.

Management's Discussion and Analysis

Set forth below is an excerpt from the Management's Discussion and Analysis of KMPA's audited financial statements for the fiscal years ended June 30, 2014 and 2015 (with the exception of the following Tables A-1, A-2 and A-3 for which there has been added financial information for fiscal years ending 2011 and 2012 not covered in the Management's Discussion and Analysis of KMPA's audited financial statements for the fiscal years ended June 30, 2014 and 2015), and the unaudited financial statements for the four-month periods ended October 31, 2014 and 2015. Excluded from the discussion below, but which appears in the Management's Discussion and Analysis accompanying such financial statements, is information regarding the organizational structure of KMPA, the Power Sales Agreements, and a description of PSEC, all of which is set forth in more detail elsewhere in this Official Statement. For purposes of consistency, certain defined terms have been used in the discussion below which appear differently in the corresponding Management's Discussion and Analysis. KMPA's audited financial statements for the fiscal years ended June 30, 2014 and 2015, and unaudited financial statements for the four-month periods ended October 31, 2014 and 2015, as well as the entire Management's Discussion and Analysis for those periods, are included as Appendix A.

Comparison of Fiscal Years Ended June 30, 2014 and June 30, 2015

KMPA presents the following discussion and analysis in order to provide an overall review of KMPA's financial activities for the fiscal years ending June 30, 2015 and 2014. KMPA encourages readers to consider the information presented here in conjunction with KMPA's financial statements and notes to the basic financial statements to enhance their understanding of KMPA's financial performance.

Financial Highlights

- KMPA's total assets (including deferred outflows of resources) increased approximately $1.3 million from fiscal year 2014 to fiscal year 2015, which primarily was a result of an increase in regulatory assets related to the advance refunding of certain Series 2007A Bonds and the corresponding issuance of Series 2015A Bonds and Series 2015B Bonds, capital asset depreciation and the use of surety bond proceeds to replace a portion of revenue related to Member debt service. Total liabilities (including deferred inflows of resources) increased approximately $2.5 million from payment of maturing revenue bond principal and the advance refunding referred to above. These events resulted in total net position decreasing by $1.2 million from fiscal year 2015 operations compared to fiscal year 2014.

- KMPA had a negative change in net position in fiscal year 2015 relating to the issuance of surety bonds to replace debt service charges billed to Members as compared to a positive change in net position in fiscal year 2014.

Required Financial Highlights

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

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

The final required financial statements are the Statements of Cash Flows. The statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period. Cash for fiscal year 2015 and fiscal year 2014 was provided by surety bonds issued in 2015, revenue bonds issued in May 2010 ($183.7 million), Bond Anticipation Notes drawn during fiscal years 2012 and 2013 ($35 million) and the sale of electricity to KMPA Members.

Financial Analysis of KMPA

The most common financial question posed to KMPA is "How did KMPA do financially from fiscal year 2014 to fiscal year 2015?" The Statements of Net Position (Deficit) and the Statements of Revenues, Expenses, and Changes in Net Position report information about KMPA's activities in a way that will help answer this question. These two statements report the net position of KMPA and the changes in them. One can think of KMPA's net position (deficit) - the difference between assets and deferred outflows, liabilities and deferred inflows - as one way to measure financial health or financial position. Over time, increases or decreases in KMPA's net position 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 KMPA was a developmental stage entity, it is expected and reasonable that net position continued to decrease until sales of electricity from PSEC began in June 2012 and KMPA began to bill its Members for power supply and costs.

To begin the analysis, a summary of KMPA's Statements of Net Position (Deficit) is presented to Table A-1.

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

	2015	2014	2013	2012	2011	2014-2015 Dollar Change	2013-2014 Dollar Change	2012-2013 Dollar Change	2011-2012 Dollar Change
Current and other assets	$ 66,040	$ 77,787	$ 82,493	$ 73,589	$ 103,138	$ (11,747)	$ (4,706)	$ 8,904	$ (29,549)
Capital assets	424,709	435,030	443,600	445,996	401,801	(10,321)	(8,570)	(2,396)	44,195
Total assets	490,749	512,817	526,093	519,585	504,939	(22,068)	(13,276)	6,508	14,646
Deferred outflows	30,929	7,578	-	-	-	23,351	7,578	-	-
Revenue bonds	506,555	517,635	520,121	514,060	494,195	(11,080)	(2,486)	6,061	19,865
Other liabilities	10,714	14,028	21,936	13,833	20,065	(3,314)	(7,908)	8,103	(6,232)
Total liabilities	517,269	531,663	542,057	527,893	514,260	(14,394)	(10,394)	14,164	13,633
Deferred inflows	21,424	4,506	-	-	-	16,918	4,506	-	-
Invested in capital assets, net of related debt	(56,756)	(40,536)	(35,170)	(10,857)	(3,078)	(16,220)	(5,366)	(24,313)	(7,779)
Restricted	17,365	10,323	9,460	0	0	7,042	863	9460	0
Unrestricted	22,376	14,439	9,746	2,549	(6,243)	7,937	4,693	7200	8,792
Total Net Assets (Deficit)	$ (17,015)	$ (15,774)	$ (15,964)	$ (8,308)	$ (9,321)	$ (1,241)	$ 190	$ (7,656)	$ 1,013

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

	2015	2014	2013	2012	2011	2014-2015 Dollar Change	2013-2014 Dollar Change	2012-2013 Dollar Change	2011-2012 Dollar Change
Operating revenue	$ 80,052	$ 68,224	$ 57,381	$ 52,048	$ 79,770	$ 11,828	$ 10,843	$ 5,333	$ (27,722)
Non-operating revenue	3,488	3,306	11,373	26,406	24,761	182	(8,067)	(15,033)	1,645
Total revenue	83,540	71,530	68,754	78,454	104,531	12,010	2,776	(9,700)	(26,077)
Other operating expense	58,864	44,915	49,786	51,266	79,653	13,949	(4,871)	(1,480)	(28,387)
Non-operating expense	25,917	26,425	26,624	26,175	26,105	(508)	(199)	449	70
Total expenses	84,781	71,340	76,410	77,441	105,758	13,441	(5,070)	(1,031)	(28,317)
Changes in net position	(1,241)	190	(7,656)	1,013	(1,227)	(1,431)	7,846	(8,669)	2,240
Beginning net position (deficit)	(15,774)	(15,964)	(8,308)	(9,321)	(8,093)	190	(7,656)	(1,013)	(1,227)
Ending net position (deficit)	$ (17,015)	$(15,774)	$(15,964)	$ (8,308)	$ (9,321)	$ (1,241)	$ 190	$ (7,656)	$ 1,013

While the Statements of Net Position (Deficit) show net position (deficit) of KMPA, the Statements of Revenues, Expenses, and Changes in Net Position (Deficit) provide answers as to the nature and source of these changes. As illustrated in Table A-2, there was a positive change in net position for 2014 and a negative change in net position for 2015.

Prior to June 2012, electrical power sold to the Members was obtained by KMPA through contracts with power suppliers. At that time, PS Unit 1 of PSEC came online and KMPA sold power produced by that unit for the benefit of its Members. KMPA continued as a developmental stage entity until the completion of PS Unit 2 of PSEC in November 2012. At that time, KMPA began billing the Members for power sales. The amount billed to the Members was based upon KMPA's operating costs and KMPA's debt service costs related to PSEC.

Non-operating revenues represent investment income from the bond funds related to KMPA's 2007 and 2010 bond issues as well as income relating to KMPA's Build America Bond ("BABS") subsidy. KMPA is entitled to a payment of 32.45% of interest expense relating to the BABS portion of the 2010 bond issue from the United States Government. Income related to the BABS subsidy was $2.5 million in 2014 and 2015.

Non-Operating Expenses are comprised mainly of interest paid on indebtedness related to KMPA's 2007, 2010, and 2015 bond issues.

In 2015, KMPA issued surety bonds to replace debt service reserve funds relating to the Series 2007B Bonds and Series 2010A Bonds. KMPA used the funds released from the Debt Service Reserve Fund as part of the defeasance of the Series 2007A Bonds and Series 2010A Bonds. The funds released from the Debt Service Reserve Fund (as a result of the surety bond) relating to the taxable Series 2007B Bonds are available for immediate credit to the Bond Fund. As such, beginning in January, 2015, KMPA did not bill its Members for debt service which is covered by funds released from the Debt Service Reserve Fund ($3.4 million). This release of funds resulted in a negative effect on net position in the financial statements.

Capital Assets

At the end of fiscal year 2015, KMPA had $425 million invested in capital assets. There was a decrease in capital assets from fiscal year 2014 to fiscal year 2015 of $10.3 million due to $1.8 million in capital asset additions and $12.1 million in additional depreciation. There was a decrease in capital assets from fiscal year 2013 to fiscal year 2014 of $8.6 million due to $3.4 million in capital asset additions and $12 million in additional depreciation. Capital assets are entirely comprised of assets related to completed construction at PSEC.

The Capital Assets comparison among fiscal years 2015, 2014, and 2013, is shown in Table A-3.

Table A-3
Capital Assets
(000's)

	2015	2014	2013	2012	2011	2014-2015 Dollar Change	2013-2014 Dollar Change	2012-2013 Dollar Change	2011-2012 Dollar Change
Construction in progress	$ 3,161	$ 5,080	$ 575	$ 165,084	$ 401,801	$ (1,919)	$ 4,505	$ (164,509)	$ (236,717)
Property, plant, and equipment	456,871	453,159	454,227	281,557		3,712	(1,068)	172,670	281,557
Less accumulated depreciation	(35,323)	(23,209)	(11,202)	(645)		(12,114)	(12,007)	(10,557)	(645)
Total capital assets	$ 424,709	$ 435,030	$ 443,600	$ 445,996	$ 401,801	$ (10,321)	$ (8,570)	$ (2,396)	$ 44,195

Administration

The revenue bonds outstanding increased to $517 million in fiscal year 2015 from $511 million in fiscal year 2014 as a result of the advance refunding of certain Series 2007A Bonds and the maturing of bonds relating to PSEC. The bonds are payable from the sale of electric power to Paducah Electric and Princeton Electric. The power sales to Paducah Electric and Princeton Electric are made pursuant to “take or pay” Power Sales Agreements with those entities. KMPA recognized $8.8 million in revenue bonds outstanding as a current liability in fiscal year 2015 as it paid bond holders this amount in principal on September 1, 2015.

Comparison of Four-Month Periods Ended October 31, 2014 and October 31, 2015

KMPA presents the following discussion and analysis in order to provide an overall review of KMPA’s financial activities for the four-month periods ending October 31, 2015 and 2014. KMPA encourages readers to consider the information presented here in conjunction with KMPA’s unaudited financial statements and notes to the basic financial statements to enhance their understanding of KMPA’s financial performance.

Financial Highlights

- KMPA’s total assets decreased $22.4 million (but, with the inclusion of total deferred outflows of resources, increased approximately $0.7 million) as of the four-month period ending October 31, 2015 compared to the four-month period ending October 31, 2014, which primarily was a result of capital asset depreciation (12.3 million) and the reclassification on the Statement of Net Position of unamortized debt issuance costs from Other Assets to Deferred Outflows of Resources in conformance with Generally Accepted Accounting Principles. A deferred bond refunding gain from the advance refunding of the Series 2007A Bonds in April, 2015 ($22 million) was also classified as a Deferred Outflow of Resources. Total liabilities decreased by $12.6 million (but, with the inclusion of total deferred inflows of resources, increased approximately $4.1 million) from payment of maturing revenue bond principal. These events resulted in total net position decreasing by $3.3

million as of the period ending October 31, 2015 in comparison to the period ending October 31, 2014.

- KMPA had an operating gain of \$5.8 million for the four-month period ending October 31, 2015 as compared to an operating gain of \$7.6 million for the four-month period ending October 31, 2014. This variance relates to the issuance of surety bonds to replace debt service charges billed to Members.

Required Financial Highlights

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

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

Financial Analysis of KMPA

The most common financial question posed to KMPA is "How did we do financially for the four-month period ended October 31, 2015 as compared to the four-month period ending October 31, 2015?" The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about KMPA's activities in a way that will help answer this question. These two statements report the net position of KMPA and the changes to it. One can think of KMPA's net position – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in KMPA's net position 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 KMPA was a developmental stage entity, it is expected and reasonable that net assets continued to decrease until sales of electricity from PSEC began in June 2012 and KMPA began to bill its Members for power supply and costs.

To begin the analysis, a summary of KMPA's Statements of Net Position is presented to Table B-1.

Table B-1
Statements of Net Position
(000's)

	YTD 10/31/15	YTD 10/31/14	2014-2015 Dollar Change
Current and other assets	$ 56,241	$ 68,467	$ (12,226)
Capital assets	421,297	431,469	(10,172)
Total assets	477,538	499,936	(22,398)
Deferred outflows of resources	30,579	7,461	23,118
Total assets and deferred outflows of resources	508,117	507,396	721
Revenue bonds	486,805	499,655	(12,850)
Other liabilities	18,813	18,589	224
Total liabilities	505,618	518,244	(12,626)
Deferred inflows of resources	21,131	4,426	16,705
Total liabilities and deferred inflows of resources	526,749	507,396	721
Invested in capital assets, net of related debt	(51,475)	(34,460)	(17,015)
Restricted	11,634	3,840	7,794
Unrestricted	21,209	15,347	5,862
Total Net Position	$ (18,632)	$ (15,273)	$ (3,359)

Table B-2
Statements of Revenues, Expenses, and Changes in Net Position
(000's)

	YTD 10/31/2015	YTD 10/31/2014	2014-2015 Dollar Change
Operating revenue	$ 26,627	$ 21,977	$ 4,650
Non-operating revenue	948	1,613	(665)
Total revenue	27,575	23,590	3,985
Other operating expense	20,861	14,375	6,486
Non-operating expense	8,331	8,714	(383)
Total expenses	29,192	23,089	6,103
Changes in net position	(1,617)	501	(2,118)
Beginning net position	(17,015)	(15,774)	(1,241)
Ending net position	$ (18,632)	$ (15,273)	$ (3,359)

While the Statements of Net Position show the net position of KMPA, the Statements of Revenues, Expenses, and Changes in Net Position provide answers as to the nature and source of these changes. As illustrated in Table B-2, there was a positive change in net position for the four months ended October 31, 2014 and a negative change in net position for the four months ended October 31, 2015.

Prior to June 2012, electrical power sold to Members was obtained through contracts with power suppliers. At that time, Unit 1 of PSEC came online and KMPA sold power produced by that unit to its Members. KMPA continued as a developmental stage entity until completion of PS Unit 2 of PSEC in November 2012. At that time, KMPA began billing its Members for power sales. The bills submitted to the Members were based upon KMPA's operating costs and KMPA's debt service costs related to PSEC.

Non-operating revenues represent investment income from the revenue bond funds as well as income relating to KMPA's BABS subsidy. KMPA is entitled to a payment of 32.45% of interest expense relating to the BABS portion of the 2010 bond issue from the United States Government. Income related to the BABS subsidy was $840,000 for each of the four month periods ending October 31, 2015 and 2014, respectively.

Non-Operating Expenses are comprised mainly of interest paid on indebtedness related to the Series 2007, 2010, and 2015 bond issues.

In 2015, KMPA authorized to be issued surety bonds to replace debt service reserve funds relating to the Series 2007B Bonds and Series 2010A Bonds. KMPA used the funds released from the Debt Service Reserve Fund to pay a portion of the Series 2007A Bonds and Series 2010A Bonds. The funds released from the Debt Service Reserve Fund (as a result of the surety bond) relating to the taxable Series 2007B Bonds are available for immediate credit to the Bond Fund. As such, beginning in January, 2015, KMPA did not bill its Members principal payments paid for by funds released from the Debt Service Reserve Fund. This release of funds resulted in a negative effect on net position in the financial statements for the four month period ending October 31, 2015 of $1.5 million.

Capital Assets

At the end of the four month period ending October 31, 2015, KMPA had $421 million invested in capital assets. There was a decrease in capital assets from the same period in 2014 of $10.1 million due to $2.6 million in capital asset additions and $12.3 million in additional depreciation. Capital assets are entirely comprised of assets related to completed construction of PSEC.

The Capital Assets comparison as of October 31, 2015 and October 31, 2014 is shown in Table B-3.

Table B-3
Capital Assets
(000's)

	YTD 10/31/2015	YTD 2014	2014-2015 Dollar Change
Construction in progress	$ 2,144	$ 2,588	$ (444)
Property, plant, and equipment	$ 459,126	$ 456,511	$ 2,615
Less accumulated depreciation	$ (39,973)	$ (27,630)	$ (12,343)
Total capital assets	$ 421,297	$ 431,469	$ (10,172)

Administration

The revenue bonds outstanding decreased to $497 million in the four months ended October 31, 2015 from 508.5 million in the four months ended October 31, 2014 as a result of the advance refunding of certain Series 2007A Bonds and the maturing of bonds relating to PSEC. The bonds are payable from the sale of electric power to Paducah Electric and Princeton Electric pursuant to "take or pay" power sales agreements. The term of the Power Sales Agreements coincides with the term of KMPA's outstanding revenue bonds. KMPA recognized $10.9 million in revenue bonds outstanding as a current liability on October 31, 2015 as it will pay bond holders this amount in principal on September 1, 2016.

Recent KMPA Action

In November 2014, KMPA took certain actions intended to reduce its Members' power costs. These actions are a multi-faceted approach designed to provide Members immediate rate relief in fiscal years 2015-2018 as well as longer term rate relief.

Asset portfolio management was one area which was targeted for improvement. KMPA worked with its Members to facilitate the engagement of AMP as the new portfolio manager for the Members. KMPA anticipates that the additional knowledge and expertise of AMP in managing the power supply needs of KMPA's Members will increase revenue and reduce expenses associated with KMPA's operations. KMPA also expects to draw upon AMP's knowledge and expertise on how best to utilize power assets owned by KMPA or its Members. KMPA expects the Paducah Electric peaking plant to increase production with the new asset management.

KMPA also contracted with Assured Guaranty Municipal Corp. and National Public Finance Guarantee Corporation to issue surety bonds for a portion of its debt service reserve fund. The issuance of surety bonds provided $22 million of cash which KMPA will use to reduce its principal obligations on KMPA's Series 2010A and Series 2007B Bonds. A reduction in principal and interest of the outstanding KMPA Bonds translates to a reduction to Member power bills.

KMPA has also successfully completed an advance refunding of a portion of its Series 2007A Bonds with the goal of lowering the debt service component of Member power bills. $210.6 million of the Series 2007A Bonds were refunded producing a cash flow savings of $17.8 million over the life of the Series 2015A Bonds used to refund a portion of the Series 2007A Bonds.

In addition, KMPA will continue to monitor Members' long-term power supply position and pursue opportunities to diversify KMPA's generation portfolio to assist its Members in achieving their desire to provide their customers with electricity at reasonable rates and charges.

THE MEMBERS

General

The Members, Paducah Electric and Princeton Electric, are each located in the western portion of the Commonwealth of Kentucky. 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 five years ago, the Members were full requirements wholesale distribution customers of TVA which was permitted to provide such service to the two distribution utilities under special provision of federal law. 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. was retained by the Members to prepare the first of several power supply feasibility studies for each Member. The 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 PSEC, 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.

Upon the termination of each Member's wholesale power contract with TVA, KMPA began providing virtually all of the Member's wholesale electric power requirements. The only power not supplied by KMPA is each Member's small allotment of SEPA power and the power generated by Paducah Electric's combustion turbine natural gas peaking plant that began operations in 2010. In fiscal year 2016 and/or 2017, the Members anticipate beginning to receive hydroelectric power under certain power sales agreements with AMP. *See* Additional Power Supply Resources of the Members, infra.

In order to receive delivery from KMPA of power and energy purchased on its behalf or generated by PSEC, each Member has constructed an 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 22,397 total customers. Approximately 18,675, or 83%, are residential customers, approximately 3,286, 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 ten fiscal year periods of 2006 through 2015 as prepared by Paducah Electric, based on actual sales data.

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

Year	Peak Demand (MW)	Percent Growth	Energy Requirements (MWh)	Percent Growth
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%
2010	153.0	2.0%	612,217	0.9%
2011	157.0	2.6%	631,428	3.1%
2012	156.0	-0.6%	599,913	-5.0%
2013	157.0	0.6%	595,572	-0.7%
2014	147.0	-6.3%	580,995	-2.4%
2015	158.3	7.7%	581,501	0.1%

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 much of the significant reduction in energy sales for that year.

Princeton Electric

The Princeton Electric system consists of approximately 3,905 total customers. Approximately 3,025, or 77%, are residential customers, approximately 866, or 22%, are small and large commercial customers, 14, or 1% 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 ten fiscal year periods ended June 30, 2006 through 2015 as prepared by Princeton Electric based on actual sales data.

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

Year	Peak Demand (MW)	Percent Growth	Energy Requirements (MWh)	Percent Growth
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%
2010	26.6	5.6%	110,118	2.9%
2011	26.2	-1.5%	111,961	1.7%
2012	26.4	0.8%	111,758	-0.2%
2013	26.3	-0.5%	113,685	1.7%
2014	24.1	-8.3%	110,860	-2.5%
2015	24.2	0.4%	114,400	3.2%

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 much of the significant reduction in energy sales for that year.

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.

In addition, Appendix F provides pertinent operating and financial information for the Members and Appendix E provides general demographic and economic data regarding the areas where the Members provide their respective service. Paducah Electric's audited financial statements for the years ended June 30, 2014 and 2015 and unaudited financial statements for the four-month periods ended October 31, 2014 and 2015 are included as Appendix C. Princeton Electric's audited financial statements for the years ended June 30, 2014 and 2015 and unaudited financial statements for the four-month periods ended October 31, 2014 and 2015 are included as Appendix D.

Power Sales Agreements

Under the Power Sales Agreements, both Members agreed to purchase their respective entitlement percentages of KMPA's share of the electric power and energy anticipated to be generated by PSEC. Presently, Paducah Electric is entitled to purchase 83.9% of KMPA's share of PSEC 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 PSEC at rates sufficient to enable KMPA to recover all of its costs in connection with KMPA's ownership interest in PSEC. The Members are obligated to pay for their respective portions of such costs whether or not PSEC is operable or operating and whether or not PSEC's output is suspended, interrupted, interfered with, reduced, curtailed or terminated in whole or in part.

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 as defined in each Power Sales Agreement. Monthly Project Costs include 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, PSEC, including, but not limited to, costs as offset by credits and revenues related to the transmission, interconnection and deliverability of PSEC and all MISO Prairie State Charges. The Monthly Project Costs also 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.

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 PSEC's output, KMPA will make an effort to sell such unused power and energy in the market. However, KMPA is not obligated to effect the sales of such excess power and energy, and any failure of KMPA to sell such power and energy for the benefit of one or both of its Members shall not relieve the obligations of the Members to pay for their respective portions of the cost of PSEC, including debt service on the Bonds.

In addition, each Power Sales Agreement contains a "Step-Up Power" provision. See "INVESTMENT CONSIDERATIONS – Matters Affecting Members."

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 PSEC 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 PSEC is interrupted. 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

In 2010, Paducah Electric completed construction and began commercial operation 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 is approximately 110 MW at peak summer ambient temperatures.

Princeton Electric has not developed a peaking facility and has no current plans to do so.

Along with some 75 other AMP municipal electric utility members, Paducah Electric and Princeton Electric are each a party to a Power Sales Contract with AMP dated as of November 1, 2007, pertaining to AMP's Hydroelectric Project (Phase 1) which consists of three new hydroelectric generation projects being developed by AMP at existing locks and dams on the Ohio River at Smithland, Cannelton, and Willow Island, Kentucky. Paducah Electric and Princeton Electric are subscribed to this hydroelectric project at the respective levels of 7.55 MW and 1.45 MW. Each Member is also a party to certain Power Sales Contracts dated as of March 1, 2009, among AMP and a number of AMP's municipal electric utility members pertaining to AMP's interest in the Greenup Hydroelectric Facility and the Meldahl Hydroelectric Project both of which are located on the Ohio River. Paducah Electric and Princeton Elecric are subscribed to the Greenup Hydroelectric Facility and Meldahl Hydroelectric Project at cumulative respective levels of 7.55 MW and 1.45 MW. Each of the AMP Power Sales Contracts referred to in this paragraph is a "take or pay" contract.

Historical Debt Service Coverage Ratios of Members

The following schedules set forth the total debt service coverage for Paducah Electric and Princeton Electric, respectively, for the fiscal years ended June 30, 2011 through and including June 30, 2015.

The information in the schedule below for Paducah Electric is derived from the corresponding information contained in the audited financial statements of Paducah Electric for the fiscal years ended June 30, 2011 through June 30, 2015.

Paducah Electric
Historical Debt Service Coverage

	Historical Fiscal Year				
	2011	**2012**	**2013**	**2014**	**2015**
Total Operating Revenues [1]	$64,392,445	$63,511,516	$67,945,902	$85,074,790	$80,297,581
Total Operating Expenses (Less Amortization and Depreciation)	$56,683,398	$45,418,104	$53,005,084	$68,351,101	$62,379,076
Revenue Available for Debt Service	$ 7,709,047	$18,093,412	$14,940,818	$16,723,689	$17,918,505
Annual Debt Service [2]	$ 2,549,342	$12,335,279	$12,338,609	$13,190,451	$12,278,954
Total Debt Service Coverage (x)	3.02	1.47	1.21	1.27	1.46

Note:
(1) Includes "Investment Income" and "Nonoperating Income" from the Audited Financial Statements.
(2) Annual Debt Service consists of payments of principal of and interest on Paducah Electric's Revenue Bonds, Series 1998, Series 2001, Series 2009A, Series 2009B and Series 2010. The Series 1998 and Series 2001 Bonds are no longer outstanding as of the date hereof. Debt service on the Series 2009A and Series 2009B Bonds was capitalized through January 1, 2011. The debt service shown here is net of capitalized interest.

The information in the schedule below for Princeton Electric is derived from the corresponding information contained in the audited financial statements of Princeton Electric for the fiscal years ended June 30, 2011 through June 30, 2015.

Princeton Electric
Historical Debt Service Coverage

	Historical Fiscal Year 2011	2012	2013	2014	2015
Total Operating Revenues [1]	$12,855,448	$13,409,750	$13,084,617	$15,038,941	$15,213,894
Total Operating Expenses (Plus Depreciation and Amortization)	$10,208,479	$ 8,972,361	$10,594,230	$13,124,981	$13,020,449
Revenue Available for Debt Service	$ 2,646,969	$ 4,437,389	$ 2,490,387	$ 1,913,960	$ 2,193,445
Annual Debt Service [2]	$ 285,394	$ 1,106,307	$ 1,713,413	$ 1,709,004	$ 1,427,032
Total Debt Service Coverage (x)	9.27	4.01	1.45	1.12	1.53

Note:
(1) Includes "Investment Income" and "Nonoperating Income" from the Audited Financial Statements.
(2) Annual Debt Service consists of payments of principal of and interest on Princeton Electric's Revenue Bonds, Series 2009A, Series 2009B and Series 2009C. Debt service on the Series 2009A and Series 2009C Bonds is net of capitalized interest through 2012. Debt service on the Series 2009B Bonds is net of capitalized interest, but is not net of the Build America Bonds ("BABs") subsidy. The BABs subsidy is included in total revenues. The Series 2009B Bonds were redeemed on March 4, 2015 pursuant to the issuance on March 3, 2015 of Series 2015 Refunding Bonds in the principal amount of $10,405,000 issued by Princeton Electric.

PRAIRIE STATE ENERGY CAMPUS PROJECT

General

In 2001, Peabody Energy Corporation ("Peabody Energy") announced plans to construct a 1,500 megawatt generating plant near a planned six million ton-per-year coal mine in Southwestern Illinois. After Peabody Energy secured several preliminary permits, Indiana Municipal Power Agency ("IMPA"), the Missouri Joint Municipal Electric Utility Commission ("MJMEUC") and other municipal joint action agencies and cooperatives signed a letter of intent to acquire undivided ownership interests in PSEC in 2004. In 2005, Peabody Energy was given a draft air permit for PSEC. In February of 2005, the KMPA Board of Directors approved participation in the development of PSEC. In 2007, KMPA, IMPA, MJMEUC, the Illinois Municipal Electric Agency ("IMEA"), Northern Illinois Municipal Power Agency ("NIMPA"), and two cooperatives entered into a definitive agreement to acquire undivided ownership interests in PSEC. In December of 2007, AMP acquired from Peabody Electricity, LLC, an affiliate of Peabody Energy, its undivided interest in PSEC. Upon closing, KMPA acquired a 7.82% undivided interest in PSEC.

The undivided interests in PSEC are currently owned by KMPA, AMP, NIMPA, IMEA, IMPA, Lively Grove Energy Partners, LLC, a Delaware limited liability company and an affiliate of Peabody Energy ("Lively Grove Energy"), MJMEUC, Prairie Power, Inc., an Illinois not for profit corporation ("PPI") and Southern Illinois Power Cooperative, Inc., an Illinois not for profit corporation ("SIPC") (collectively, such nine joint owners, the "PSEC Owners").

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

Owner	Ownership Interest
AMP	23.26%
IMEA	15.17
IMPA	12.64
MJMEUC	12.33
PPI	8.22
SIPC	7.90
KMPA	7.82
NIMPA	7.60
Lively Grove Energy	5.06
Total	100.00%

KMPA's 7.82% undivided ownership interest in PSEC is approximately 124 MW. PS Unit 1 commenced commercial operation in the second quarter of 2012, and PS Unit 2 commenced commercial operation in the fourth quarter of 2012. Based on performance testing, PS Unit 1 currently has a maximum net rating of 812 MW, and PS Unit 2 has a maximum net rating of 817 MW, or an aggregate maximum net rating of 1,629 MW.

The PSEC Owners executed a Participation Agreement (the "Participation Agreement") to govern the construction and operation of PSEC. The Participation Agreement provides for PSEC to be operated (in addition to the construction of PSEC) through PSGC, which is wholly owned by Prairie State Energy Campus Management, Inc., an Indiana nonprofit corporation, which in turn is wholly owned by the PSEC Owners on a basis that is proportionate to their respective percentage interests in PSEC.

On January 21, 2016, Peabody Energy announced that it entered into a definitive agreement to sell its 5.06 percent share of PSEC to Wabash Valley Power Association. Thus, ownership interests in PSEC are expected to change before the end of the second quarter of 2016, subject to certain governmental and regulatory approvals, expiration of purchase rights, and other customary conditions.

Permits

PSGC holds all of the necessary permits to operate PSEC. Such major permits include: the Illinois Environmental Protection Agency ("IEPA") Prevention of Significant Deterioration (PSD) Permit (the air permit – applicable to plant and mine), the IEPA National Pollutant Discharge Elimination System (NPDES) Permit (the water permit - applicable to plant and mine), the Illinois Department of Natural Resources ("IDNR") Dam permit (raw water impoundment at plant), IDNR intake permit and the IDNR mining permit. As of the date hereof, PSGC reports that it is operating in compliance with such permits.

Air Quality Controls

PSEC uses state-of-the-art control technologies. The air pollution control technology consists of (i) a selective catalytic reduction system for NO_x removal; (ii) a dry electrostatic precipitator; (iii) a wet electrostatic precipitator; (iv) sulfur dioxide scrubbers; (v) low NO_x, burners; and (vi) a powdered-activated-carbon injection to remove 90% of mercury emissions. The plant design complies with all emissions regulations and permit conditions, including all state and federal regulations. Cooling for the generating station is provided by mechanical draft cooling towers. PSEC generating units were designed and constructed to incorporate highly efficient, state-of-the art, combustion and steam cycle technology to minimize carbon dioxide (CO_2) emissions.

Water

Water for PSEC is supplied from the Kaskaskia River approximately 14 miles west of the facility. The withdrawal permit allows PSGC to withdraw up to 30 million gallons per day ("MGD") from the Kaskaskia River. The permit includes a withdrawal restriction that protects the Kaskaskia River during low flow conditions. If the river flow drops below 74 cubic feet per second, 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 IDNR. The raw water pond has a 30 day storage capacity. The agreement with the IDNR is a 40-year water purchase agreement that allows PSGC to purchase water stored at the Carlyle and Shelbyville lakes in Illinois. If purchased by PSGC, water from these lakes will be discharged into the Kaskaskia River where it can be withdrawn by PSGC at a rate of up to approximately 15 MGD. PSGC advises that the water supply arrangements detailed above are more than sufficient to sustain PSEC operations under substantially all weather conditions.

Fuel

The PSEC Generating Station is situated adjacent to underground coal reserves owned by the PSEC Owners. PSEC includes the ownership and operation of a coal mine that is expected to supply all the fuel needs for PSEC for full load operations for approximately 30 years from its operational date. The PSEC Owners each own an undivided interest in the coal reserves, ensuring a reliable source of fuel for the plant. The generating station was constructed to burn the coal sourced from the coal reserves.

As a result of the contents of the coal taken from the mine adjacent to PSEC and used to fuel the plant, PSGC reports that at PSEC it has experienced increased wear rates of pulverizer and boiler components as well as a highly corrosive atmosphere in the furnace. The pulverizer components at the facility have undergone certain design changes in order to reduce the wear rate of the components. PSGC is currently evaluating the success of the design changes. The boiler furnace walls at the facility have had protective coatings applied to reduce the corrosion rates. Shielding in the boiler at the facility was added at select locations prior to construction and additional shields have been added to reduce the corrosion wear rates.

The current mine plan, which was developed and submitted in 2007 (the "PSGC Mine Plan"), called for the use of a single portal, as opposed to the two portals originally planned, to provide access to the underground reserves. PSGC holds all the key permits required to operate the mine portal.

In 2008 and 2009, the Mine Safety and Health Administration ("MSHA"), the Federal entity responsible for the approval of the PSGC Mine Plan, as well as its ongoing construction and operational monitoring and compliance, suggested various modifications to the original PSGC Mine Plan. 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 initial mine development, but simultaneously objected to many of the revisions that would be imposed by the revised plan during future mining to support PSEC operations. Thereafter, on September 17, 2009, MSHA issued two citations. The citations are considered "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 issuance. Subsequently, PSGC entered into discussions with MSHA seeking a reasonable and amicable resolution to the differences in the two plans, which proved to be 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 under the Federal Safety and Health Act of 1977, as amended. PSGC is pursuing such action in an attempt to force a return to the mining techniques contained in the original PSGC Mine Plan, which PSGC believes are more appropriate for the mine's specific characteristics. The case is now pending before the United States Court of Appeals for the Seventh Circuit. In the meantime, PSGC has proceeded to mine in accordance with the PSGC Mine Plan, as revised by MSHA, however, PSGC has also contemporaneously engaged in performance-based mining approaches with MSHA. PSGC has been able to secure MSHA approval to implement many of PSGC's requested modifications to the PSGC Mine Plan that were originally in dispute between MSHA and PSGC. These approved modifications have allowed PSGC to meet its mining performance objectives.

PSGC reports that the actual capital costs of the mine development were in fact under the original budget; however, the annual per ton operating costs of the mine remain higher than those originally assumed. However, in spite of the restrictions imposed by MSHA, other efforts of PSGC have increased the total amount of recoverable coal reserves available to PSEC.

Space has been allocated for on-site coal storage near the PSEC Generating Station for approximately 70 days of operations with additional storage for approximately 15 days of operation located at the mine. PSGC is taking steps to more closely align coal supply held in storage with operations to reduce the negative effects of exposure of the mined coal to the weather. The PSEC design includes rail access to accommodate coal purchased from third parties in the event of an extended mine disruption, facilitate delivery of limestone and major equipment and disposal of coal combustion residuals.

PSGC operates the mine with PSGC personnel, supplemented, as necessary, with personnel from a third party provider in order to economically flex production to meet variable generation requirements. During its time in operation, the mine has maintained an excellent safety record, exceeding the industry averages in the key metrics of lost work day injury frequency and total recordable injury frequency. The mine personnel have also won a number of safety-related awards, including, most recently, the Mine Rescue contest at the Illinois State Mine Rescue and Bench Contest.

Coal Combustion Residual Disposal

The coal combustion residuals ("CCR") generated at PSEC, which consists of fly ash, bottom ash, and desulfurization residuals, are transported via conveyor system to a CCR disposal facility located adjacent to and west of the plant facility (the "Near Field Site"). The Near Field Site consists of approximately 500 acres, and is a permit-exempt monofill facility dedicated to the CCR disposal needs of the plant. The Near Field Site has a disposal life of approximately 30 years of the expected CCR to be generated by the PSEC Generating Station. Disposal cells are built incrementally as necessary to meet CCR disposal needs. All necessary permits for current operations at the Near Field Site have been secured. PSGC has obtained a 401 Certification from IEPA and has received from the Army Corps a Section 404 permit that authorizes the relocation of this small intermittent stream to the perimeter of the 500 acre site to increase operational efficiency and capacity of the Near Field Site. PSGC began relocation construction activities in 2015.

Coal mine breaker byproducts are transported via truck to a disposal facility located southwest of the plant facility (the "Jordan Grove Site"). The Jordan Grove Site is a permitted surface coal mine that has depleted most of its reserves, and the site is owned by a wholly-owned PSGC affiliate, Randolph Land Holding Company, LLC. PSGC is seeking appropriate consent from the IDNR to dispose of coal mine breaker byproducts at the Near Field Site and thereby reduce transportation costs. All necessary permits for current operations of the Jordan Grove Site have been secured by PSGC. Furthermore, if necessary, the Jordan Grove Site is permitted to receive CCR from the plant via existing rail infrastructure.

Electrical Interconnection

PSEC is within the MISO geographical footprint. PSEC's two turbine generators are connected through two 27-kV to 345-kV generator step-up transformers contained within the new PSEC substation which are owned by the PSEC Owners. A new substation was connected to a new Ameren Services Company ("Ameren") switchyard (the "Ameren Switchyard") via two 345-kV overhead lines owned by PSGC. The Ameren Switchyard is owned and operated by Ameren pursuant to the terms of a Large Generator Interconnection Agreement entered and made effective by FERC Order in Docket ER05-215. Ameren Corporation is among the nation's largest investor-owned electric and gas utilities. The largest electric utility in Missouri and the second largest in Illinois, Ameren companies provide energy services to approximately 2.4 million electric and approximately 934,000 natural gas customers throughout its 67,700-square-mile territory.

Participation Agreement

The PSEC Owners entered into the Participation Agreement to govern the construction and operation of PSEC. Pursuant to the Participation Agreement, PSEC is operated by PSGC. Prior to October 1, 2007, PSGC was a wholly-owned subsidiary of Peabody Energy.

The term of the Participation Agreement continues until the retirement from service of the plant and the mine. No provision of the Participation Agreement requires any PSEC Owner to perform the obligations, financial or otherwise, of any other PSEC Owner. A decision by the Management Committee (as hereinafter described) 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 PSEC Owners. 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.

By the terms of the Participation Agreement, each PSEC Owner agreed to delegate to a "Management Committee" all decisions respecting constructing, designing, operating, maintaining and administering PSEC. Each of the PSEC Owners has one representative on the Management Committee with voting power equal to its percentage ownership in PSEC. The

Management Committee meets quarterly. The Management Committee is authorized by the Participation Agreement to delegate certain of its powers to an "Administrative Committee" or other committees created by the Management Committee, but not, among other things, budget approvals, amendments to PSEC agreements, decisions respecting permits or other governmental approvals, major personnel decisions, agreement to site changes or rights in the site, or changes that would have a material adverse effect or a disproportionate impact on one or more of the PSEC Owners. Actions by the Management Committee on non-delegable items require a super-majority weighted vote of PSEC Owner representatives (75% - which would be adjusted downward were any one PSEC Owner to have an increased percentage ownership in PSEC that would give its Management Committee representative a veto where a super-majority vote is required). The President and CEO of AMP is the current chair of the Management Committee.

Project Management Agreement

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

PSEC Capital Improvement Plan

The preliminary PSEC Capital Improvement Plan includes approximately $134 million in capital improvements over the next five years, of which KMPA's share will be approximately $10.5 million. Such capital improvement plan is subject to the approval of the PSEC Owners and is, therefore, subject to change. KMPA expects to pay its share of any such capital improvements from ongoing operations.

PSGC Personnel

PSGC operates the PSEC generating units with personnel hired by PSGC, utilizing various third parties with appropriate expertise for technical assistance as needed. On the initiative of the PSEC Owners, the operational staff of PSGC has been overhauled in the past year to bring in additional personnel with extensive experience in operating coal-fired power plants. The key operational staff is set forth below.

Donald Gaston is President and Chief Executive Officer of PSGC. Mr. Gaston's appointment to such position was effective in November 2014. Mr. Gaston most recently served as Director of Fossil Generation for the Public Service Enterprise Group ("PSEG"), one of the 10 largest electric companies in the U.S. and New Jersey's oldest and largest publicly owned utility. In this capacity, he was accountable for the successful management of safety, environmental compliance, reliability, and financial performance of 5,800 megawatts of coal fired, oil fired, and natural gas generation. Prior to his time with PSEG, Mr. Gaston served as Southern Company's Environmental Program Manager, and Plant Manager at TVA's Paradise Fossil Plant, where he was responsible for all aspects of managing 2,400 megawatts of supercritical coal fired units.

Mr. Gaston holds a Bachelors of Science in Mechanical Engineering from the Georgia Institute of Technology, a Masters of Business Administration from the University of Tennessee, and completed the TVA Executive Development Program at Vanderbilt University.

Randy Short is Chief Operating Officer of PSGC. Mr. Short was appointed to such position in June 2014. Mr. Short has two decades of experience in the utility industry and most recently served as Plant Manager of the coal-fueled Baldwin Energy Complex, an Illinois plant operated by Dynegy. The Baldwin Energy Complex, a three-unit power plant with a total net generating capacity of 1,800 MW, is located in close proximity to PSEC. Previously, Mr. Short served as Plant Manager at the Wood River power plant, another Illinois coal-fired power plant, and served as Senior Director for Generation Programs at Dynegy corporate headquarters in Houston. As COO, Mr. Short oversees the primary corporate functions of PSGC, including the power plant and enhancing PSGC's reliability plan.

Mr. Short holds a Bachelors of Science in Mechanical Engineering from Iowa State University and a Masters of Business of Administration from the University of Illinois Urbana-Champaign.

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 2016A 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 Series 2016A Bonds.

The Code requires that KMPA comply on an ongoing basis with certain obligations in order for the Series 2016A Bonds not to be used in such a manner that would cause the Series 2016A Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and for the interest on the Series 2016A 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 2016A Bonds becoming subject to federal income taxation, retroactive to the date of the Series 2016A 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 2016A Bonds. Interest on the Series 2016A 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 2016A Bonds.

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 Bondholders. Prospective Bondholders, 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 2016A 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 2016A 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 are 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 2016A 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 2016A 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 Series 2016A 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 Series 2016A Bonds, prospective purchasers of the Series 2016A Bonds are advised to consult their own tax advisors as to the impact of the Code upon their acquisition, holding or disposition of the Series 2016A Bonds.

Backup Withholding

General information reporting requirements will apply to payments of principal and interest made on a Series 2016A Bond and the proceeds of the sale of a Series 2016A Bond to non-corporate holders of the Series 2016A 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 Series 2016A 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).

Original Issue Premium

Certain of the Series 2016A 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 Premium Bonds (or book entry interests in them) should consult their own tax advisers as to the determination for federal tax purposes of the amount of amortizable bond premium properly accruable in any period with respect to the Premium Bonds and as to other federal tax consequences and the treatment of amortizable bond premium for purposes of state or local taxes on (or based on) income.

Nonresident Owners

Under the Code, interest and OID on any Series 2016A 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 Series 2016A 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 Series 2016A 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).

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale and delivery of the Series 2016A 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. Certain legal matters will be passed upon for KMPA by its counsel, McMurry & Livingston, PLLC, Paducah, Kentucky and B. Todd Wetzel, Esq., Princeton, Kentucky and for the Underwriter by its counsel, Stites & Harbison, PLLC, Louisville, Kentucky.

LITIGATION

General

Except as noted herein, 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 Series 2016A Bonds, or the collection of revenues pledged or to be pledged to pay the principal of and interest on the Series 2016A Bonds or (ii) in any way contesting or affecting the validity of the Series 2016A Bonds, the Indenture or the Power Sales Agreements, or the power to collect and pledge the revenues to pay the Series 2016A Bonds, or contesting the power or authority of KMPA to issue the Series 2016A Bonds.

Related to PSEC

In January 2013, the staff of the Division of Enforcement of the SEC served a subpoena on KMPA seeking information and documents relating to the development of PSEC. KMPA complied with the SEC's request. KMPA has received no further requests or communications from the SEC. KMPA cannot predict the ultimate outcome of this investigation.

On August 19, 2014, KMPA was informed of a putative class action lawsuit filed in the Circuit Court of Kane County, Illinois, on behalf of certain ratepayers receiving electric utility service from the City of Batavia, Illinois (the "Plaintiffs"). The City of Batavia is a member of NIMPA, one of the PSEC Owners. The lawsuit named KMPA solely as a "respondent in discovery" rather than as a defendant. The lawsuit was thereafter removed to the U.S. District Court for the Northern District of Illinois, and the Plaintiffs sought to have the case remanded to the Circuit Court of Kane County, Illinois. The case was dismissed without prejudice on August 13, 2015, and the Court allowed the Plaintiffs additional time within which to file an amended complaint or appeal the Court's order. On October 23, 2015, the Plaintiffs filed an amended class action complaint against certain defendants in the U.S. District Court for the Northern District of Illinois. Plaintiffs' amended complaint did not name KMPA as a defendant or as a "respondent in discovery."

DISCLOSURE COMPLIANCE

KMPA will comply with the requirements of the SEC regarding secondary market disclosure as set forth in Rule 15c2-12 (the "Rule"), as amended, under the Securities Exchange Act of 1934, as amended. Specifically, KMPA will enter into a Continuing Disclosure Agreement (the "Disclosure Agreement"), a form of which is attached as Appendix H hereto, in which it will covenant to provide notice in a timely manner, not later than ten business days after the event, to the Municipal Securities Rulemaking Board (the "MSRB"), and the appropriate state information depository, if any, of any of the types of events with respect to the Series 2016A Bonds set forth in the form attached hereto. Effective on July 1, 2009, the MSRB became the sole nationally recognized municipal securities information repository and KMPA's filings with the MSRB will be in accordance with the MSRB's Electronic Municipal Market Access ("EMMA") system, as applicable to the Disclosure Agreement. KMPA is providing, and for the five (5) years preceding the date of issuance of the Series 2016A Bonds has provided, ongoing market disclosure as required by the Rule pursuant to agreements entered into in connection with other outstanding securities. In addition, ongoing financial disclosure regarding KMPA will be available through the filing, not later than December 31 after the end of the fiscal year, commencing with the fiscal year ending June 30, 2015, of a document entitled the Annual Report and audited annual financial statements of KMPA and the Members with EMMA as required under the Rule and in accordance with the Disclosure Agreement. As set forth in more detail below, there have been instances where annual disclosures required to be filed with EMMA in connection with other outstanding securities were not timely filed with EMMA. KMPA has put procedures in place to assure that future filings will be timely filed in accordance with the Rule and the Disclosure Agreement.

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 Series 2016A Bonds are outstanding in accordance with their terms and (ii) KMPA remains an "obligated person" with respect to the Series 2016A 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 Series 2016A 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 Series 2016A Bonds).

In the event of a failure of KMPA to comply with the disclosure requirements set forth in the Disclosure Agreement, any Bondholder may take such action as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause KMPA to file its annual report or to give notice of a listed event. A default in compliance with the disclosure requirements under the Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under the Disclosure Agreement in the event of any failure of KMPA to comply with the disclosure requirements shall be an action to compel performance.

As identified below, there have been instances where KMPA or its Members have not filed their respective continuing disclosures on a timely basis:

(1) The audited financial statements of KMPA were filed after the stated filing deadline for the fiscal years ended 2010, 2011 and 2012 by ten days, four days, and four days, respectively. Unaudited financial statements of KMPA for the fiscal year ended 2014 were filed by the stated filing deadline. KMPA filed a notice with EMMA indicating that the audited financial statements for the fiscal year ended 2014 would be available for filing with EMMA on or before February 15, 2015. Such audited financial statements of KMPA were filed with EMMA on March 9, 2015.

(2) The operating data of Paducah Electric was not filed with EMMA under KMPA's filings for the fiscal years ended 2010 and 2011. The audited financial statements of Paducah Electric for the fiscal years ended 2010 and 2011 were filed with EMMA in connection with Paducah Electric's City of Paducah, Kentucky Electric Plant Board Revenue Bonds, Series 2009A on June 8, 2011 and December 31, 2011, respectively. With respect to the fiscal year ended 2012, the operating data of Paducah Electric was filed four days after the stated filing deadline. The operating data of Paducah Electric for the fiscal years ended 2010 and 2011 was filed with EMMA under KMPA on March 10, 2015.

(3) The audited financial statements of Paducah Electric were not filed with EMMA under KMPA's filings for the fiscal years ended 2010 and 2011. The audited financial statements of Paducah Electric for the fiscal years ended 2010 and 2011 were filed with EMMA in connection with Paducah Electric's City of Paducah, Kentucky Electric Plant Board Revenue Bonds, Series 2009A on June 8, 2011 and December 31, 2011, respectively. With respect to the fiscal year ended 2012, audited financial statements of Paducah Electric were filed four days after the stated filing deadline. Unaudited financial statements of Paducah Electric for the fiscal years ended 2013 and 2014 were filed by the stated filing deadline. The audited financial statements of Paducah Electric for the fiscal year ended 2013 were filed fourteen days after the stated filing deadline. Paducah Electric filed a notice with EMMA indicating that the audited financial statements for the fiscal year ended 2014 would be available for filing with EMMA on or before February 15, 2015. Such audited financial statements of Paducah Electric were filed with EMMA on February 19, 2015. The audited financial statements of Paducah Electric for the fiscal year ended 2010 were filed with EMMA under KMPA on March 9, 2015. The audited

financial statements of Paducah Electric for the fiscal year ended 2011 were filed with EMMA under KMPA on March 10, 2015.

(4) The operating data of Princeton Electric was not filed with EMMA under KMPA's filings for the fiscal years ended 2010 and 2011. The audited financial statements of Princeton Electric for the fiscal years ended 2010 and 2011 were filed with EMMA in connection with Princeton Electric's City of Princeton, Kentucky Electric Plant Board Tax-Exempt Revenue Bonds, Series 2009A on May 31, 2011 and December 31, 2011, respectively. With respect to the fiscal year ended 2012, such information was filed four days after the stated filing deadline. The operating data of Princeton Electric for the fiscal years ended 2010 and 2011 was filed with EMMA under KMPA on March 10, 2015.

(5) The audited financial statements of Princeton Electric were not filed with EMMA under KMPA's filings for the fiscal years ended 2010 and 2011. The audited financial statements of Princeton Electric for the fiscal years ended 2010 and 2011 were filed with EMMA in connection with Princeton Electric's City of Princeton, Kentucky Electric Plant Board Tax-Exempt Revenue Bonds, Series 2009A on May 31, 2011 and December 31, 2011, respectively. With respect to the fiscal year ended 2012, audited financial statements of Princeton Electric were filed four days after the stated filing deadline. The audited financial statements of Princeton Electric for the fiscal year ended 2010 were filed with EMMA under KMPA on March 9, 2015. The audited financial statements of Princeton Electric for the fiscal year ended 2011 were filed with EMMA under KMPA on March 10, 2015.

RATINGS

The Series 2016A Bonds are expected to be assigned a rating of "A3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's) and "AA-" (stable outlook) by Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's"), and "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") based upon the insurance commitment secured from National. In addition, Moody's is expected to assign the rating of "Baa1" (stable outlook) and Standard & Poor's is expected to assign the rating of "A-" (stable outlook) to the Series 2016A Bonds based upon the underlying credit of KMPA. An explanation of the significance of the rating given by Moody's may be obtained from Moody's Investor Services, Inc. at 7 World Trade Center, 250 Greenwich Street, New York, New York 10007, (212) 553-0300. An explanation of the significance of the rating given by Standard & Poor's may be obtained from Standard & Poor's Ratings Services at 55 Water Street, New York, New York 10041, (212) 438-2124. 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. Bondholders or prospective Bondholders should contact the Underwriter for information on the then current ratings, if any, on the Series 2016A Bonds.

INDEPENDENT AUDITORS

The financial statements of KMPA, as of and for the years ended June 30, 2014 and 2015, included in this Official Statement in Appendix A have been audited by Williams, Williams & Lentz, LLP, independent auditors, as stated in their report appearing herein.

UNDERWRITING

Goldman, Sachs & Co. has agreed, subject to certain conditions, to purchase all, but not less than all, of the Series 2016A Bonds from KMPA at a purchase price equal to $82,152,514.65 for the Series 2016A Bonds, which represents the aggregate principal amount of the Series 2016A Bonds, plus net original premium, less the Underwriter's discount. The Underwriter is committed to purchase all of the Series 2016A Bonds if any are purchased. The initial public offering prices may be changed from time to time by the Underwriter. Goldman, Sachs & Co. has not been engaged as the remarketing agent for KMPA in connection with any future remarketing of the Series 2016A Bonds. KMPA will designate a remarketing agent for any future remarketing of the Series 2016A Bonds, if applicable, in accordance with the terms of the Indenture.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services.

In the ordinary course of their various business activities, the Underwriter and its affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of KMPA (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with KMPA. The Underwriter and its affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC., an underwriter of the 2016A Bonds, has entered into a retail distribution arrangement with Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2016A Bonds.

ADVISORS

KMPA has retained J.J.B. Hilliard, W.L. Lyons, LLC as financial advisor (the "Financial Advisor") in connection with the issuance of the Series 2016A Bonds. The Financial Advisor has no obligation to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

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 Bondholders is fully set forth in the Indenture, and neither any advertisement of the Series 2016A Bonds nor this Official Statement is to be construed as constituting an agreement with the purchaser of the Series 2016A 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 fact.

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.

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KENTUCKY MUNICIPAL POWER AGENCY

By /s/ Hardy Roberts
Chairman

Attest:

By: /s/ John A. Humphries
Secretary

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APPENDIX A

KENTUCKY MUNICIPAL POWER AGENCY

POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2016A

Audited Financial Statements of the Kentucky Municipal Power Agency

for Fiscal Years ended June 30, 2014 and 2015;

Unaudited Financial Statements

for the Four-Month Periods Ended October 31, 2014 and 2015

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the Kentucky Municipal Power Agency, as of and for the years ended June 30, 2015 and 2014 and the related notes to the financial statements which comprise the Agency's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Kentucky Municipal Power Agency, as of June 30, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The schedule of operating expenses presented on page 30 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of operating expenses presented on page 30 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2015 on our consideration of Kentucky Municipal Power Agency'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kentucky Municipal Power Agency's internal control over financial reporting and compliance.

Williams, Williams & Lentz LLP

Paducah, Kentucky
November 6, 2015

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY MUNICIPAL POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Kentucky Municipal Power Agency (Agency) is presenting the following discussion and analysis in order to provide an overall review of the Agency's financial activities for the fiscal years ending June 30, 2015 and 2014. We encourage readers to consider the information presented here in conjunction with the Agency's financial statements and notes to the basic financial statements to enhance their understanding of the Agency's financial performance.

Financial Highlights

- The Agency's total assets increased $1.7 million from fiscal year 2015 to fiscal year 2014, which primarily was a result of an increase in regulatory assets related to the advanced refunding of certain Series 2007A bonds and the corresponding issuance of Series 2015A and B bonds, capital asset depreciation and the use of surety bond proceeds to replace a portion of revenue related to member debt service. Total liabilities increased by $2.9 million from payment of maturing revenue bond principal and the advanced refunding referred to above. These events resulted in total net position decreasing by $1.2 million over the courses of the year's operations compared to fiscal year 2014.
- The Agency had a negative change in net position in the fiscal year 2015 relating to the issuance of surety bonds to replace debt service charges billed to members as compared to positive change in net position in fiscal year 2014.

Overview of the Financial Highlights

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

Required Financial Highlights

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

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

The final required financial statements are the Statements of Cash Flows. The statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period. Cash for 2015 and 2014 was provided by surety bonds issued in 2015, revenue bonds issued in May 2010 ($183.7 million), Bond Anticipation Notes issued during the 2013and 2012 fiscal years ($35 million) and the sale of electricity to Agency members.

(Continued)

Financial Analysis of the Agency

The most common financial question posed to the Agency is "How did we do financially fiscal year 2014 to fiscal year 2015?" The Statements of Net Position (Deficit) and the Statements of Revenues, Expenses, and Changes in Net Position report information about the Agency's activities in a way that will help answer this question. These two statements report the net position of the Agency and the changes in them. One can think of the Agency's net position (deficit) – the difference between assets and deferred outflows, liabilities, and deferred inflows – as one way to measure financial health or financial position. Over time, increases or decreases in the Agency's net position 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 was a developmental stage entity, it is expected and reasonable that net position continued to decrease until sales of electricity from the Prairie State Project begin in June 2012 and the Agency began to bill its members for power supply and costs.

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

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

	2015	2014	2013	2014-2015 Dollar Change	2013-2014 Dollar Change
Current and other assets	$ 66,040	$ 77,787	$ 82,493	$(11,747)	$(4,706)
Capital assets	424,709	435,030	443,600	(10,321)	(8,570)
Total assets	490,749	512,817	526,093	(22,068)	(13,276)
Deferred outflows	30,929	7,578	-	23,351	7,578
Revenue bonds	506,555	517,635	520,121	(11,080)	(2,486)
Other liabilities	10,714	14,028	21,936	(3,314)	(7,908)
Total liabilities	517,269	531,663	542,057	(14,394)	(10,394)
Deferred inflows	21,424	4,506	-	16,918	4,506
Net investment in capital assets	(56,756)	(40,536)	(35,170)	(16,220)	(5,366)
Restricted	17,365	10,323	9,460	7,042	863
Unrestricted	22,376	14,439	9,746	7,937	4,693
Total Net Position (Deficit)	$(17,015)	$(15,774)	$(15,964)	$ (1,241)	$ 190

(Continued)

Financial Analysis of the Agency (Continued)

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

	2015	2014	2013	2014-2015 Dollar Change	2013-2014 Dollar Change
Operating revenue	$ 80,052	$ 68,224	$ 57,381	$ 11,828	$10,843
Non-operating revenue	3,488	3,306	11,373	182	(8,067)
Total revenue	83,540	71,530	68,754	12,010	2,776
Other operating expense	58,864	44,915	49,786	13,949	(4,871)
Non-operating expense	25,917	26,425	26,624	(508)	(199)
Total expenses	84,781	71,340	76,410	13,441	(5,070)
Changes in net position	(1,241)	190	(7,656)	(1,431)	7,846
Beginning net position (deficit)	(15,774)	(15,964)	(8,308)	190	(7,656)
Ending net position (deficit)	$(17,015)	$(15,774)	$(15,964)	$ (1,241)	$ 190

While the Statements of Net Position (Deficit) show net position (deficit) of the Agency, the Statements of Revenues, Expenses, and Changes in Net Position (Deficit) provide answers as to the nature and source of these changes. As illustrated in Table A-2, there was a positive change in net position for 2014 and a negative change in net position for 2015.

Prior to June 2012, electrical power sold to members was obtained through contracts with power suppliers. At that time, Unit 1 of the Prairie State Project came online and the Agency sold power produced by that unit to its members. The Agency continued as a developmental stage entity until the Prairie State Generation Project completed the construction phase with the completion of Unit 2 in November 2012. At that time, the Agency began billing its members for power sales. The bills submitted to the members were based upon the Agency's operating costs and the Agency's debt service costs related to the Prairie State Generation Plant.

Non-operating revenues represent investment income from the 2007 and 2010 revenue bond funds as well as income relating to the Federal Build America Bond (BABS) subsidy. The Agency is entitled to a payment of 32.45% of interest expense relating to the BABS portion of the 2010 bond issue from the United States Government. Income related to the BABS subsidy was $2.5 million in 2014 and 2015.

Non-Operating Expenses are comprised mainly of interest paid on indebtedness related to the 2007, 2010, and 2015 bond issues.

(Continued)

In 2015, the Agency issued surety bonds to replace debt service reserve funds relating to the Series 2007B and Series 2010A Bonds. The Agency used the funds released from the Debt Service Reserve Fund as part of the defeasance of the Series 2007A Bonds and 2010A Bonds. The funds released from the Debt Service Reserve Fund (as a result of the surety bond) relating to the taxable Series 2007B Bonds are available for immediate credit to the Bond Fund. As such, beginning in January, 2015, the Agency did not bill its members for debt service which is covered by funds released from the Debt Service Reserve Fund ($3.4 million). This release of funds resulted in a negative effect on net position in the financial statements.

Capital Assets

At the end of fiscal year 2015, the Agency had $425 million invested in capital assets. There was a decrease in capital assets from 2014 to 2015 of $10.3 million due to $1.8 million in capital asset additions and $12.1 million in additional depreciation. There was a decrease in capital assets from fiscal year 2013 to 2014 of $8.6 million due to $3.4 million in capital asset additions and $12 million in additional depreciation. Capital assets are entirely comprised of assets related to completed construction at the Prairie State Energy Campus Plant.

The Capital Assets comparison between fiscal years 2015, 2014, and 2013 is shown in Table A-3.

Table A-3
Capital Assets
(000's)

	2015	2014	2013	2014-2015 Dollar Change	2013-2014 Dollar Change
Construction in progress	$ 3,161	$ 5,080	$ 575	$ (1,919)	$ 4,505
Property, plant, and equipment	456,871	453,159	454,227	3,712	(1,068)
Less accumulated depreciation	(35,323)	(23,209)	(11,202)	(12,114)	(12,007)
Total capital assets	$ 424,709	$ 435,030	$ 443,600	$(10,321)	$ (8,570)

Administration

The revenue bonds outstanding increased to $517 million in fiscal year 2015 from $511 million in fiscal year 2014 as a result of the advanced refunding of certain Series 2007A bonds and the maturing of bonds relating to the Prairie State Energy Campus Project. The bonds are payable from the sale of electric power to Paducah Power System and Princeton Electric Plant Board pursuant to "take or pay" power sales agreements. The term of the power sales agreements coincide with the term of the Agency's outstanding revenue bonds. The Agency recognized $8.8 million in revenue bonds outstanding as a current liability in fiscal year 2015 as it will pay bond holders this amount in principal on September 1, 2015.

(Continued)

Economic Factors and Other Information

The Agency Formation

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

The 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: an appointee made by the Board of Directors of Paducah Power System, an appointee made by the Board of Directors of Princeton Electric Plant Board, and the general managers of each member electric system.

Members Wholesale Power Contracts

Both Paducah Power System and Princeton Electric Plant Board were full requirements wholesale distribution customers of the Tennessee Valley Authority (TVA) for more than four decades. 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. Subsequent to providing TVA with said notice, Paducah Power System and Princeton Electric Plant Board determined that they would meet their baseload wholesale power requirements through respective power sales agreements with the Agency. The Agency obtains the power necessary to meet those needs primarily through its participation and ownership in the Prairie State Energy Campus.

Prairie State Project

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

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

(Continued)

Economic Factors and Other Information

Bechtel was issued Full Notice to Proceed with construction of the Plant on October 1, 2007. As of the end of December 2014, PSGC reported that, for activities related solely to Bechtel's Amended Engineering, Procurement and Construction (EPC) Contract, engineering efforts are 100 percent complete, construction activities are 100 percent complete, and overall efforts are 100 percent complete. Unit 1 of the Prairie State Project achieved provisional completion on June 6, 2012 at which time PSGC took care, custody and control. Unit 2 of the Prairie State Project achieved provisional completion on November 1, 2012 at which time PSGC took care, custody and control.

Equipment and construction specifications for the Mine were issued, and construction activities on the Mine portal began in early May of 2008. As of the end of December 2014, 100 percent of construction activities on the Mine had been completed. 100 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 anticipates no additional costs to complete the construction and equipping of the Project.

Recent Agency Actions

In November 2014, the Agency took certain actions intended to reduce its members' power costs. These actions are a multi-faceted approach designed to provide members immediate rate relief in fiscal years 2015-2018 as well as longer term rate relief.

Asset portfolio management was one area which was targeted for improvement. The Agency worked with its members to facilitate the engagement of American Municipal Power, Inc. ("AMP") as the new portfolio manager for the members. The Agency anticipates that the additional knowledge and expertise of AMP in managing the power supply needs of the Agency's members will increase revenue and reduce expenses associated with the Agency's operations. The Agency also expects to draw upon AMP's knowledge and expertise on how best to utilize power assets owned by the Agency or its members. The Agency expects the Paducah Peaking Plant to increase production with the new asset management.

The Agency also contracted with Assured Guaranty Municipal Corp. and National Public Finance Guarantee to issue surety bonds for a portion of its debt service reserve fund. The issuance of a surety bonds will provide $22 million of cash which the Agency will use to reduce its principal obligations on the Agency's 2010A and 2007B revenue bonds. A reduction in principal and interest of the outstanding Agency bonds translates to a reduction to member power bills.

The Agency has also successfully completed an advance refunding of a portion of its Series 2007A Bonds with the goal of lowering the debt service component of member power bills. $210.6 million of the Series 2007A Bonds were refunded producing a cash flow savings of $17.8 million over the life of the Series 2015A Bonds used to refund the Series 2007A Bonds.

In addition, the Agency will continue to monitor members' long-term power supply position and pursue opportunities to diversify the Agency's generation portfolio to assist its members in achieving their desire to provide their customers with electricity at reasonable rates and charges.

(Continued)

Agency Contact Information

The financial report is designed to provide creditors with a general overview of Kentucky Municipal Power Agency's finances. Anyone having questions regarding this report, or desiring additional information, may contact John A. Humphries, General Manager, Kentucky Municipal Power Agency, P.O. Box 0180, Paducah, KY 42002-0180 or by telephone at 270.365.2031 or by email at jahumphries@pepb.org.

BASIC FINANCIAL STATEMENTS

KENTUCKY MUNICIPAL POWER AGENCY
STATEMENTS OF NET POSITION
JUNE 30

ASSETS

	2015	2014
Current Assets:		
Cash and temporary cash investments	$ 10,452,074	$ 5,075,047
Accounts receivable	1,390,357	1,391,765
Working capital Prairie State	2,330,532	2,180,327
Other receivables	6,162,243	8,135,345
Inventory	3,308,400	3,024,159
Prepaid expenses	3,049	3,020
Total current assets	23,646,655	19,809,663
Restricted Assets:		
Principal and interest sinking fund	12,941,823	15,349,619
Redemption fund	11,698,227	-
Reserve fund	13,384,642	37,089,284
Pledged collateral	2,186,007	4,739,382
Interest receivable	103,309	259,054
Prairie State reserve funds	2,079,740	540,315
Total restricted assets	42,393,748	57,977,654
Capital Assets:		
Construction work in progress	3,160,842	5,080,105
Property, plant, and equipment	456,871,324	453,158,404
Less accumulated depreciation	(35,323,460)	(23,208,840)
Total capital assets	424,708,706	435,029,669
Total assets	490,749,109	512,816,986

DEFERRED OUTFLOWS OF RESOURCES

	2015	2014
Deferred bond refunding gain	22,420,539	-
Unamortized debt issuance costs	6,761,116	5,423,217
Unamortized debt discounts	1,747,126	2,155,059
Total deferred outflows of resources	30,928,781	7,578,276
	$521,677,890	$520,395,262

See notes to financial statements.

LIABILITIES

	2015	2014
Current Liabilities:		
Accounts payable	$ 3,250,047	$ 4,280,425
Bonds held by public current portion	8,845,000	9,135,000
Other payables	182,076	1,015,403
Current liabilities payable from restricted assets:		
Accrued interest	7,282,430	8,732,421
Total current liabilities	19,559,553	23,163,249
Noncurrent Liabilities:		
Long-term debts:		
Bonds held by public	497,710,000	473,500,000
Bond anticipation notes	-	35,000,000
Total noncurrent liabilities	497,710,000	508,500,000
Total liabilities	517,269,553	531,663,249

DEFERRED INFLOWS OF RESOURCES

	2015	2014
Unamortized debt premium	21,423,659	4,506,384

NET POSITION

	2015	2014
Net investment in capital assets	(56,756,149)	(40,535,902)
Restricted for debt service	17,365,134	10,322,876
Unrestricted - net (deficit)	22,375,693	14,438,655
TOTAL NET POSITION	$(17,015,322)	$(15,774,371)

KENTUCKY MUNICIPAL POWER AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
YEARS ENDED JUNE 30

	2015	2014
Operating Revenues:		
Service revenue	$ 80,051,619	$ 68,224,379
Total operating revenues	80,051,619	68,224,379
Purchased Power and Operating Expenses:		
Purchased power cost	42,740,776	28,895,642
General operating expense	16,122,747	16,019,202
Total purchased power and operating expenses	58,863,523	44,914,844
Operating income	21,188,096	23,309,535
Nonoperating Revenues (Expenses):		
Interest paid on indebtedness	(25,653,664)	(26,254,365)
Investment income	969,070	791,182
Federal Build America Bond's subsidy	2,518,998	2,514,469
Net amortization discount and premium on debt	(263,451)	(171,134)
Total nonoperating revenues (expenses)	(22,429,047)	(23,119,848)
Change in net position	(1,240,951)	189,687
Net position, beginning of year	(15,774,371)	(15,964,058)
NET POSITION, END OF YEAR	$ (17,015,322)	$ (15,774,371)

See notes to financial statements.

KENTUCKY MUNICIPAL POWER AGENCY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

	2015	2014
Cash Flows from Operating Activities:		
Receipts from customers	$ 82,026,129	$ 65,767,228
Payments to suppliers	(48,027,596)	(31,662,159)
Payments to employees	(866,003)	(872,489)
Net cash provided by operating activities	33,132,530	33,232,580
Cash Flows from Capital and Related Financing Activities:		
Capital expenditures	(1,796,935)	(5,144,236)
Long-term bond issuance cost	(2,950,207)	-
Deferred cost long-term bonds	(20,808,231)	-
Proceeds from issuance of bonds	265,417,058	-
Principal payments made on bonds	(259,220,306)	(8,805,000)
Interest payments on long-term debt	(27,103,655)	(26,254,365)
Federal Build America Bond's subsidy	2,518,998	2,514,469
Net cash used by capital and related financing activities	(43,943,278)	(37,689,132)
Cash Flows from Investing Activities:		
Purchases of investments	(39,152,546)	(12,637,339)
Proceeds from sale of investments	63,163,710	28,045,934
Investment income	1,124,815	729,553
Net cash provided by investing activities	25,135,979	16,138,148
Net increase in cash and cash equivalents	14,325,231	11,681,596
Cash and cash equivalents, beginning of year	23,099,635	11,418,039
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 37,424,866	$ 23,099,635

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

Reconciliation of Operating Income to Net Cash Used by Operating Activities:	2015	2014
Operating income	$ 21,188,096	$ 23,309,535
Depreciation expense	12,117,898	12,006,840
Adjustments to reconcile operating income to net cash used by operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	1,408	(14,087)
Other accounts receivable	1,973,102	(2,443,064)
Prepaid expenses	(29)	(23)
Other assets	(284,241)	(633,945)
Accounts payable	(1,030,378)	1,190,048
Other current and accrued liabilities	(833,327)	(182,725)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 33,132,529	$ 33,232,579
Schedule of Noncash Financing Activities:		
Amortization of bond issue and discount costs	$ (263,451)	$ (171,134)

See notes to financial statements.

Note 1 - Summary of Significant Accounting Policies:

Entity

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

The Agency acquired 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 base load power to its members, Paducah Power System and Princeton Electric. The rates to be charged to Paducah Power System and Princeton Electric will be set by the Board through operating and power agreements.

Measurement Focus, Basis of Accounting and Basis of Presentation

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

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

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, and deferred inflows of resources, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued):

Deposits and Investments

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

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

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

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

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

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

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

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

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

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

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

(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued):

Deposits and Investments

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

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

Receivables

Receivables consist of all revenues earned at year-end and not yet received.

Inventories

Inventories are valued at cost. Inventory consists of the Agency's portion of materials and supplies held for use by Prairie State Generating Company, LLC.

Prepayments

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

Restricted Assets

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

Capital Assets

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

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

(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued):

Long-Term Obligations

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes them as outflows of resources or inflows of resources. In addition, the statement changes the method of reporting debt issuance costs. Prior to implementation of GASB Statement No. 65, the Agency reported debt issuance costs as deferred charges which were capitalized and amortized over the life of the related debt. Under GASB Statement No. 65, debt issuance costs for unregulated operations are to be recognized as an expense in the period incurred. However, GASB 65 provides an exception for regulated operations to allow certain incurred costs related to regulated activities, such as debt issuance costs, to be reported as a regulatory asset. Because the Agency meets the criteria of a ratemaking entity under the regulated operations provisions of GASB Statement No. 62, the Agency's debt issuance costs are capitalized and are shown as costs recoverable from future billings on the statement of net position. GASB Statement No. 65 also required the Agency to reclassify the deferred gain or loss on refunding from long-term debt to deferred inflows of resources and deferred outflows of resources, respectively, on the balance sheets for 2015.

Regulated Operations, Revenues and Expenses

Rates for the Agency's regulated operations are established and approved by the Board of Directors. The Agency applies the regulated operations provisions of GASB Statement No. 62, which provide for the deferral of expenses which are expected to be recovered through customer rates over some future period (costs recoverable from future billings) and reductions in earnings to cover future expenditures (reductions of future billings). Costs recoverable from future billings are primarily comprised of charges incurred in relation to the Agency's bond issuances and costs incurred by the Agency for initial payments made on long-term capacity contracts. These costs are being amortized in future rate periods when such costs are included in the revenue requirements to establish electric rates.

The Agency distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Agency's principal ongoing operations. The operating revenues of the Agency are the charges to members for sales and services. The Agency began the supply of electricity to Paducah and Princeton on commercial operations of the Prairie State Energy Campus in June 2012.

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.

Reclassification

Certain reclassifications have been made to the 2014 financial statements to make them conform to the 2015 presentation.

(Continued)

Note 2 - Deposits and Investments:

The investment policies of the Agency are governed by the State statute. In general, this requires that all deposits and investments, not covered by FDIC insurance, are to be collateralized. For the years ended June 30, 2015 and 2014, the Agency's operating and investment accounts were fully collateralized as required by State statute.

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

	2015	2014
Checking and savings	$13,339,775	$ 5,615,362
MISO collateral funds	-	3,446,625
Mutual funds-money market	20,252,079	1,100,766
Commercial paper	5,056,479	16,923,823
Guaranteed investment security	11,051,919	22,874,482
Repurchase agreement	1,664,234	11,539,832
TOTAL CASH AND INVESTMENTS	$51,364,486	$61,500,890

Deposits

The financial institution balances of the Agency's deposits were $51,364,486 for the year ended June 30, 2015. The book balance was $51,364,486. Of the various financial institution balances at June 30, 2015, $250,000 was insured by federal depository insurance, and the remaining balance of $51,114,486 was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The remaining balance of $51,114,486 was uninsured and collateralized by U.S. Treasury pooled investments not held in the Agency's name.

The financial institution balances of the Agency's deposits were $61,500,890 for the year ended June 30, 2014. The book balance was $61,500,890. Of the various financial institution balances at June 30, 2014, $250,000 was insured by federal depository insurance, and the remaining balance of $61,250,890 was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The remaining balance of $61,250,890 was uninsured and collateralized by U.S. Treasury pooled investments not held in the Agency's name.

As of June 30, 2015 and 2014, $0 and $0 of the Agency's bank balances were known to be individually exposed to custodial credit risk at Citibank, N.A.

Credit Risk

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

As of June 30, 2015 and 2014, the Agency's investments were rated as follows:

Investment Type	Standard & Poors
Mutual funds-money market	Not Rated
Guaranteed investment certificates	Not Rated
Commercial paper	A
Repurchase agreement	A

(Continued)

Note 2 - Deposits and Investments (Continued):

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, 2015, the Agency's investment portfolio was concentrated as follows:

Issuer	Investment Type	Percentage of Portfolio
Regions collateralized sweep account	Money market	53%
Bayerische Landesbank	Guaranteed investment certificate	29%
Visionary Funding, LLC	Repurchase agreement	5%
Barclay's Capital Bond	Commercial paper	13%

As of June 30, 2014, the Agency's investment portfolio was concentrated as follows:

Issuer	Investment Type	Percentage of Portfolio
Regions collateralized sweep account	Money market	2%
Bayerische Landesbank	Repurchase agreement	22%
BB&T Reserve Investment	Guaranteed investment certificate	44%
Visionary Funding, LLC	Commercial paper	3%
Barclay's Capital Bond	Commercial paper	29%

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, 2015, the Agency's investments were as follows:

		Maturity (In Years)		
Investment Type	Fair Value	Less than 1 Year	1 - 5 Years	6 - 10 Years
Mutual funds-money market	$20,252,079	$20,252,079	$ -	$ -
Commercial paper	5,056,479	5,056,479	-	-
Guaranteed investment certificates	11,051,919	-	11,051,919	-
Repurchase agreement	1,664,234	1,664,234	-	-
TOTALS	$38,024,711	$26,972,792	$11,051,919	$ -

(Continued)

Note 2 - Deposits and Investments (Continued):

Interest Rate Risk

As of June 30, 2014, 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	$ 1,100,706	$ 1,100,706	$ -	$ -
Commercial paper				
Guaranteed investment certificates	16,923,883	16,923,883	-	-
Investment Certificates	22,881,402	-	22,881,402	-
Repurchase agreement	11,539,832	-	11,539,832	-
TOTALS	$52,445,823	$18,024,589	$34,421,234	$ -

Note 3 - Restricted Assets:

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

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

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

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

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

The following calculation supports the amount of restricted net position:

	2015	2014
Restricted assets:		
Project fund	$ -	$ -
Sinking and reserve funds	38,024,711	52,438,903
Pledged collateral	-	3,446,625
Accrued interest receivable	103,309	259,054
Less: restricted assets not funded by revenues:		
Cost of issuance fund	(95,812)	-
Reserve fund	(13,384,642)	(37,089,284)
Current liabilities payable from restricted assets	(7,282,431)	(8,732,421)
TOTAL RESTRICTED NET POSITION AS CALCULATED	$ 17,365,135	$ 10,322,877

(Continued)

Note 3 - Restricted Assets (Continued):

GASB does not allow the presentation of negative restricted net position. The deficiency in restricted net position is netted against unrestricted net position in 2015 and 2014.

Note 4 - Capital Assets:

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	$ 1,003,935	$ -	$ -	$ 1,003,935
Construction in progress	5,080,105	-	1,919,263	3,160,842
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	$ 6,084,040	$ -	$ 1,919,263	$ 4,164,777
Capital Assets Being Depreciated Or Deleted:				
Land rights	$ 4,216,025	$ 136,488	$ -	$ 4,352,513
Coal reserves	6,487,020	28,934	173,493	6,342,461
Non-utility property	16,775,675	573,441	-	17,349,116
Structures and improvements	38,626,542	909,485	-	39,536,027
Equipment	386,049,207	2,238,064	-	388,287,271
Total capital assets being depreciated	452,154,469	3,886,412	173,493	455,867,388
Less accumulated depreciation	23,208,840	12,114,620	-	35,323,460
Total capital assets being depreciated, net	428,945,629	(8,228,208)	173,493	420,543,928
TOTAL CAPITAL ASSETS, NET	$ 435,029,669	$ (8,228,208)	$ 2,092,756	$ 424,708,705

Capital assets activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	$ 1,003,935	$ -	$ -	$ 1,003,935
Construction in progress	575,245	4,504,860	-	5,080,105
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	$ 1,579,180	$ 4,504,860	$ -	$ 6,084,040

(Continued)

Note 4 - Capital Assets (Continued):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Being Depreciated:				
Land rights	$ 4,216,025	$ -	$ -	$ 4,216,025
Coal reserves	6,601,965	20,821	135,766	6,487,020
Non-utility property	16,494,161	281,514	-	16,775,675
Structures and improvements	38,596,301	30,241	-	38,626,542
Equipment	387,314,156	306,798	1,571,747	386,049,207
Total capital assets being depreciated	453,222,608	639,374	1,707,513	452,154,469
Less accumulated depreciation	11,202,000	12,006,840	-	23,208,840
Total capital assets being depreciated, net	442,020,608	(11,367,466)	1,707,513	428,945,629
TOTAL CAPITAL ASSETS, NET	$ 443,599,788	$ (6,862,606)	$ 1,707,513	$ 435,029,669

Note 5 - Accounts Payable:

The elements comprising accounts payable are as follows:

	2015	2014
Due for purchased power	$3,208,124	$1,740,118
Accounts payable, general	41,923	2,540,307
TOTAL ACCOUNTS PAYABLE	$3,250,047	$4,280,425

Note 6 - Long-Term Indebtedness:

Notes Payable

The following revenue bond anticipation notes have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 6/30/15
3/20/12	Finance Prairie State and working capital needs	9/1/17	Floating	$35,000,000	$ -

The Kentucky Municipal Power Agency Power System Revenue Bond Anticipation Notes (Prairie State Project) Series 2012 were issued on March 20, 2012 with a floating interest rate, to be adjusted monthly at 65% of then current one-month LIBOR, plus 136.8 basis points.

These notes are secured on a parity basis with the Agency's 2007 and 2010 bond issues. All revenues received by the Agency through Power Sales Agreements are pledged as collateral. The notes were paid off on June 1, 2015.

(Continued)

Note 6 - Long-Term Indebtedness (Continued):

Bonds

The following revenue bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 6/30/15
9/20/07	Finance Prairie State and working capital needs	9/1/42	4.00-5.25%	$291,065,000	$ 76,210,000
9/20/07	Finance Prairie State and working capital needs	9/1/16	5.34-5.46%	16,645,000	8,785,000
5/27/10	Finance Prairie State and working capital needs	9/1/24	2.00-4.00%	53,600,000	46,795,000
5/27/10	Finance Prairie State and working capital needs	9/1/37	5.56-6.39%	122,405,000	122,405,000
5/27/10	Finance Prairie State and working capital needs	9/1/19	2.47-5.06%	7,725,000	5,725,000
4/02/15	Finance Prairie State and working capital needs	9/1/42	5.00%	210,600,000	210,600,000
6/01/15	Finance Prairie State and working capital needs	9/1/42	Floating	36,035,000	36,035,000
	TOTALS			$738,075,000	$ 506,555,000

For the years ended June 30, 2015 and 2014, bonds payable totaling $526,231,534 and $484,986,325, are recorded net of $(1,747,126) and $(2,155,059) of unamortized bond discount and $21,423,659 and $4,506,384 of unamortized bond premium, respectively.

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

All revenues received by the Agency through Power Sales Agreements net of specified monthly project costs, in addition to all funds held by the Trustee under the terms of the bond agreement, are pledged as security of the above revenue bonds until the bonds are defeased. Total pledged funds for the years ended June 30, 2015 and 2014, as defined are $39,402,739 and $53,731,661, respectively. 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. During fiscal year 2010, the Agency began providing its members purchased power through power sales agreements with various vendors. During fiscal year 2012, the Agency began supplying power through operations of Prairie State as the first of two units came online in June 2012. The second unit came on line during the fiscal year ended June 30, 2013. Interest paid for the years ended June 30, 2015 and 2014, was $25,653,664 and $26,254,364, respectively.

(Continued)

Note 6 - Long-Term Indebtedness (Continued):

Changes in Long-term Debt and Maturities

Long-term obligation activity for the year ended June 30, 2015, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	$ 482,635,000	$ 246,635,000	$ 222,715,000	$ 506,555,000	$ 8,845,000
Bond anticipation notes	35,000,000	-	35,000,000	-	-
Unamortized debt discount	(2,155,059)	(659,357)	(1,067,290)	(1,747,126)	-
Unamortized debt premium	4,506,384	19,441,415	2,524,140	21,423,659	-
TOTALS	$ 519,986,325	$ 265,417,058	$ 259,171,850	$ 526,231,533	$ 8,845,000

Long-term obligation activity for the year ended June 30, 2014, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	$ 491,440,000	$ -	$ 8,805,000	$ 482,635,000	$ 9,135,000
Bond anticipation notes	35,000,000	-	-	35,000,000	-
Unamortized debt discount	(2,262,181)	-	(107,122)	(2,155,059)	-
Unamortized debt premium	4,747,887	-	241,503	4,506,384	-
TOTALS	$ 528,925,706	$ -	$ 8,939,381	$ 519,986,325	$ 9,135,000

Advance Refundings:

During fiscal year 2015, the Agency issued $246,635,000 Power System Revenue Refunding Bonds (Prairie State Project) Series 2015A and 2015B. Of the proceeds, $236,484,895 has been deposited into an irrevocable trust to provide for the future debt service payments on certain maturities of the Revenue Bonds, Series 2007A, maturing at various dates from 2017 through 2042. As a result, the refunded portion of the bonds is considered defeased and the escrowed assets and liability for the bonds have been removed from the financial statements.

(Continued)

Note 6 - Long-Term Indebtedness (Continued):

Advance Refundings:

The defeased bonds still outstanding are shown below:

Outstanding 2007A Revenue Bonds	$213,580,000

Total debt service to maturity:

Maturities	Principal	Interest	Subsidized Interest	Total
2016	$ 8,845,000	$ 23,737,236	$ 2,518,545	$ 30,063,691
2017	10,905,000	24,163,860	2,518,545	32,550,315
2018	6,860,000	23,799,140	2,518,545	28,140,595
2019	7,130,000	23,524,752	2,518,545	28,136,207
2020	7,435,000	23,225,027	2,518,545	28,141,482
2021-2025	68,165,000	107,227,223	12,530,405	162,861,818
2026-2030	85,975,000	87,044,624	10,344,497	162,675,127
2031-2035	108,250,000	60,092,376	6,003,746	162,338,630
2036-2040	125,075,000	27,973,621	1,052,577	151,996,044
2041-2043	77,915,000	4,670,807	-	82,585,807
TOTALS	$ 506,555,000	$ 405,458,666	$ 42,523,950	$ 869,489,716

Bond Covenant Disclosures

The following information is provided in compliance with the resolution creating the 2007 A and B revenue bonds, 2010 A, B, and C revenue bonds, and the 2015 A and B revenue bonds.

Insurance

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

The Agency is covered under the following insurance policies at June 30, 2015:

Type	Coverage	Expiration
General & Public Officials Liability	$10,000,000	January 17, 2016

Note 7 - Net Position:

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:

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

(Continued)

Note 7 - Net Position (Continued):

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

Unrestricted net position - This component of net position consists of net position that do not meet the definitions of "restricted" or "net investment in capital assets".

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 investment in capital assets:

	2015	2014
Property, plant, and equipment	$ 456,871,324	$ 453,158,404
Less accumulated depreciation	(35,323,460)	(23,208,840)
Working capital and collateral Prairie State	3,708,560	3,473,085
Construction work in progress	3,160,842	5,080,105
Sub-totals	428,417,266	438,502,754
Less: Capital related debt		
Bonds held by public	(506,555,000)	(482,635,000)
Bond anticipation notes	-	(35,000,000)
Deferred refunding gain	22,420,539	-
Unamortized bond issuance cost	6,761,116	5,423,217
Asset retirement obligation	(1,603,991)	(1,564,832)
Unamortized debt discount	1,747,126	2,155,059
Unamortized debt premium	(21,423,659)	(4,506,384)
Sub-totals	(498,653,869)	(516,127,940)
Add: Unspent debt proceeds		
Project fund	-	-
Reserve fund	13,384,642	37,089,284
Cost of issuance fund	95,812	-
Sub-totals	13,480,454	37,089,284
TOTAL NET INVESTMENT IN CAPITAL ASSETS	$ (56,756,149)	$ (40,535,902)

Note 8 - Commitments and Contingencies:

Prairie State Energy Campus

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

(Continued)

Note 8 - Commitments and Contingencies (Continued):

Prairie State Energy Campus

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

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

In July 2010, the owners entered into an agreement with Bechtel Corporation ("Bechtel") to convert the original, cost reimbursable EPC Agreement for the Prairie State Project to a lump sum turn-key EPC Agreement. This agreement provides the owners with a cap on future cost increases, and transfers cost and schedule risk from the owners to Bechtel. Provisional completion of Unit 1 was achieved on June 6, 2012, at which time Prairie State Generating Company took care, custody, and control of the unit. Provisional completion of Unit 2 was achieved on November 1, 2012, at which time Prairie State Generating Company took care, custody, and control of the unit.

The Agency has entered in Power Sales Agreements described below in order to provide additional power to its members.

Power Sales Agreement

The Boards of Paducah Power System and Princeton Electric authorized a Power Sales Agreement with the Agency on July 23, 2007. The Power Sales Agreement is a take or pay agreement that stipulates that 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 that Paducah Power System agrees, if necessary, to commit to take all power from the Agency since Princeton Electric's share of power is less than 20% of the project.

The Agency has entered into transactions for the purchase of blocks or strips of electric capacity and energy of varying sizes with a number of electric power suppliers. These strips of purchased power cover periods of varying lengths. Each of the transactions was entered into within the framework of

(Continued)

Note 8 - Commitments and Contingencies (Continued):

Power Sales Agreement

an EEI Master Power Purchase & Sale Agreement ("Master Agreement") between the Agency and the power supplier. The Agency purchased 5 x 16 strips of power from Illinois Power Marketing Agency on May 28, 2014. The price of the power purchased in these transactions was $47.50/MWh for delivery to the LGEE/MISO Interface of the Midwest Independent Transmission System Operator ("MISO") for the period June 1, 2015 – August 31, 2015. The price does not include the cost of transmitting the power to the Agency's members, the Electric Plant Boards of the Cities of Paducah and Princeton, Kentucky (the "Members") from the delivery point.

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

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

Claims and Judgments

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

Note 9 - Disclosures Regarding the Statement of Cash Flows:

Accounting Policy

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

(Continued)

Note 9 - Disclosures Regarding the Statement of Cash Flows (Continued):

Accounting Policy

The composition of cash and cash investments at June 30, 2015 and 2014, is as follows:

	2015	2014
Cash and temporary cash investments	$10,452,074	$ 5,075,047
Restricted cash and short-term investments:		
Project and reserve funds and pledged collateral	26,972,792	18,024,589
TOTAL CASH AND CASH INVESTMENTS	$37,424,866	$23,099,636

Note 10 - Subsequent Events:

The Agency did not have any subsequent events through November 6, 2015, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended June 30, 2015.

SUPPLEMENTARY INFORMATION

KENTUCKY MUNICIPAL POWER AGENCY
OPERATING EXPENSES
YEARS ENDED JUNE 30

General Operating Expenses:	**2015**	**2014**
Administrative and general:		
Payroll	$ 866,003	$ 872,489
Office supplies and expense	1,062,248	848,836
Outside services employment	1,186,785	1,535,355
Depreciation	12,117,898	12,006,840
Depletion	182,102	142,911
Insurance	389,027	378,845
Injuries and damages	109,154	115,383
General plant maintenance	209,530	118,543
Total administrative and general	16,122,747	16,019,202
TOTAL GENERAL OPERATING EXPENSES	$16,122,747	$16,019,202

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Kentucky Municipal Power Agency as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Kentucky Municipal Power Agency's basic financial statements, and have issued our report thereon dated November 6, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kentucky Municipal Power Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kentucky Municipal Power Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of Kentucky Municipal Power Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kentucky Municipal Power Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Williams, Williams & Lentz LLP

Paducah, Kentucky
November 6, 2015

KENTUCKY MUNICIPAL POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Kentucky Municipal Power Agency (Agency) is presenting the following discussion and analysis in order to provide an overall review of the Agency's financial activities for the four-month periods ending October 31, 2015 and 2014. We encourage readers to consider the information presented here in conjunction with the Agency's financial statements and notes to the basic financial statements to enhance their understanding of the Agency's financial performance.

Financial Highlights

- The Agency's total assets decreased $22.4 million as of the four-month period ending October 31, 2015 compared to the four-month period ending October 31, 2014, which primarily was a result of capital asset depreciation (12.3 million) and the reclassification on the Statement of Net Position of unamortized debt issuance costs from Other Assets to Deferred Outflows of Resources in conformance with Generally Accepted Accounting Principles. A deferred bond refunding gain from the advanced refunding of the 2007A bond issue in April, 2015 ($22 million) was also classified as a Deferred Outflow of Resources. Total liabilities decreased by $12.6 million from payment of maturing revenue bond principal. These events resulted in total net position decreasing by $3.3 million as of the period ending October 31, 2015 in comparison to the period ending October 31, 2014.
- The Agency had an operating gain of $5.8 million for the four-month period ending October 31, 2015 as compared to an operating gain of $7.6 million for the four-month period ending October 31, 2014. This variance relates to the issuance of surety bonds to replace debt service charges billed to members

Overview of the Financial Highlights

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

Required Financial Highlights

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

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

The final required financial statements are the Statements of Cash Flows. The statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period. Cash for 2015 and 2014 was provided by surety bonds issued in 2015, revenue bonds issued in May 2010 ($183.7 million), Bond Anticipation Notes issued during the 2013and 2012 fiscal years ($35 million) and the sale of electricity to Agency members.

(Continued)

Financial Analysis of the Agency

The most common financial question posed to the Agency is "How did we do financially for the four-month period ended October 31, 2015 as compared to the four-month period ending October 31, 2015?" The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about the Agency's activities in a way that will help answer this question. These two statements report the net position of the Agency and the changes to it. One can think of the Agency's net position – 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 position 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 was a developmental stage entity, it is expected and reasonable that net assets continued to decrease until sales of electricity from the Prairie State Project begin in June 2012 and the Agency began to bill its members for power supply and costs.

To begin our analysis, a summary of the Agency's Statements of Net Position is presented to Table B-1.

Table B-1
Statements of Net Position
(000's)

	YTD 10/31/15	YTD 10/31/14	2014-2015 Dollar Change
Current and other assets	$ 56,241	$ 68,467	$ (12,226)
Capital assets	421,297	431,469	(10,172)
Total assets	477,538	499,936	(22,398)
Deferred outflows of resources	30,579	7,461	23,118
Total assets and deferred outflows of resources	508,117	507,396	721
Revenue bonds	486,805	499,655	(12,850)
Other liabilities	18,813	18,589	224
Total liabilities	505,618	518,244	(12,626)
Deferred inflows of resources	21,131	4,426	16,705
Total liabilities and deferred inflows of resources	526,749	507,396	721
Invested in capital assets, net of related debt	(51,475)	(34,460)	(17,015)
Restricted	11,634	3,840	7,794
Unrestricted	21,209	15,347	5,862
Total Net Position	$ (18,632)	$ (15,273)	$ (3,359)

(Continued)

Financial Analysis of the Agency

Table B-2
Statements of Revenues, Expenses, and Changes in Net Position
(000's)

	YTD 10/31/2015	YTD 10/31/2014	2014-2015 Dollar Change
Operating revenue	$ 26,627	$ 21,977	$ 4,650
Non-operating revenue	948	1,613	(665)
Total revenue	27,575	23,590	3,985
Other operating expense	20,861	14,375	6,486
Non-operating expense	8,331	8,714	(383)
Total expenses	29,192	23,089	6,103
Changes in net position	(1,617)	501	(2,118)
Beginning net position	(17,015)	(15,774)	(1,241)
Ending net position	$ (18,632)	$ (15,273)	$ (3,359)

While the Statements of Net Position show the net position of the Agency, the Statements of Revenues, Expenses, and Changes in position provide answers as to the nature and source of these changes. As illustrated in Table B-2, there was a positive change in net position for the four months ended 10/31/2014 and a negative change in net position for 10/31/2015.

Prior to June 2012, electrical power sold to members was obtained through contracts with power suppliers. At that time, Unit 1 of the Prairie State Project came online and the Agency sold power produced by that unit to its members. The Agency continued as a developmental stage entity until the Prairie State Generation Project completed the construction phase with the completion of Unit 2 in November 2012. At that time, the Agency began billing its members for power sales. The bills submitted to the members were based upon the Agency's operating costs and the Agency's debt service costs related to the Prairie State Generation Plant.

Non-operating revenues represent investment income from the revenue bond funds as well as income relating to the Federal Build America Bond (BABS) subsidy. The Agency is entitled to a payment of 32.48% of interest expense relating to the BABS portion of the 2010 bond issue from the United States Government. Income related to the BABS subsidy was $840,000 in the four months ended 10/31/2014 and 10/31/2015.

Non-Operating Expenses are comprised mainly of interest paid on indebtedness related to the 2007, 2010, and 2015 bond issues.

(Continued)

In 2015, the Agency issued surety bonds to replace debt service reserve funds relating to the Series 2007B and Series 2010A Bonds. The Agency used the funds released from the Debt Service Reserve Fund as part of the defeasance of the Series 2007A Bonds and 2010A Bonds. The funds released from the Debt Service Reserve Fund (as a result of the surety bond) relating to the taxable Series 2007B Bonds are available for immediate credit to the Bond Fund. As such, beginning in January, 2015, the Agency did not bill its members for debt service which is covered by funds released from the Debt Service Reserve Fund. This release of funds resulted in a negative effect on net position in the financial statements for the four month period ending 10/31/2015 of $1.5 million.

Capital Assets

At the end of four month period ending 10/31/2015, the Agency had $421 million invested in capital assets. There was a decrease in capital assets from the same period in 2014 of $10.1 million due to $2.6 million in capital asset additions and $12.3 million in additional depreciation. Capital assets are entirely comprised of assets related to completed construction at the Prairie State Energy Campus Plant.

The Capital Assets comparison between the four months ended 10/31/2015 and 10/31/2014 is shown in Table B-3.

Table B-3
Capital Assets
(000's)

	YTD 10/31/2015	YTD 2014	2014-2015 Dollar Change
Construction in progress	$ 2,144	$ 2,588	$ (444)
Property, plant, and equipment	$ 459,126	$ 456,511	$ 2,615
Less accumulated depreciation	$ (39,973)	$ (27,630)	$ (12,343)
Total capital assets	$ 421,297	$ 431,469	$ (10,172)

Administration

The revenue bonds outstanding decreased to $497 million in the four months ended 10/31/2015 from 508.5 million in the four months ended 10/31/2014 as a result of the advanced refunding of certain Series 2007A bonds and the maturing of bonds relating to the Prairie State Energy Campus Project. The bonds are payable from the sale of electric power to Paducah Power System and Princeton Electric Plant Board pursuant to "take or pay" power sales agreements. The term of the power sales agreements coincide with the term of the Agency's outstanding revenue bonds. The Agency recognized $10.9 million in revenue bonds outstanding as a current liability on 10/31/2015 as it will pay bond holders this amount in principal on September 1, 2016.

(Continued)

Economic Factors and Other Information

The Agency Formation

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

The 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: an appointee made by the Board of Directors of Paducah Power System, an appointee made by the Board of Directors of Princeton Electric Plant Board, and the general managers of each member electric system.

Members Wholesale Power Contracts

Both Paducah Power System and Princeton Electric Plant Board were full requirements wholesale distribution customers of the Tennessee Valley Authority (TVA) for more than four decades. 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. Subsequent to providing TVA with said notice, Paducah Power System and Princeton Electric Plant Board determined that they would meet their baseload wholesale power requirements through respective power sales agreements with the Agency. The Agency obtains the power necessary to meet those needs primarily through its participation and ownership in the Prairie State Energy Campus.

Prairie State Project

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

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

(Continued)

Economic Factors and Other Information

Bechtel was issued Full Notice to Proceed with construction of the Plant on October 1, 2007. As of the end of December 2014, PSGC reported that, for activities related solely to Bechtel's Amended Engineering, Procurement and Construction (EPC) Contract, engineering efforts are 100 percent complete, construction activities are 100 percent complete, and overall efforts are 100 percent complete. Unit 1 of the Prairie State Project achieved provisional completion on June 6, 2012 at which time PSGC took care, custody and control. Unit 2 of the Prairie State Project achieved provisional completion on November 1, 2012 at which time PSGC took care, custody and control.

Equipment and construction specifications for the Mine were issued, and construction activities on the Mine portal began in early May of 2008. As of the end of December 2014, 100 percent of construction activities on the Mine had been completed. 100 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 anticipates no additional costs to complete the construction and equipping of the Project.

Recent Agency Actions

In November 2014, the Agency took certain actions intended to reduce its members' power costs. These actions are a multi-faceted approach designed to provide members immediate rate relief in fiscal years 2015-2018 as well as longer term rate relief.

Asset portfolio management was one area which was targeted for improvement. The Agency worked with its members to facilitate the engagement of American Municipal Power, Inc. ("AMP") as the new portfolio manager for the members. The Agency anticipates that the additional knowledge and expertise of AMP in managing the power supply needs of the Agency's members will increase revenue and reduce expenses associated with the Agency's operations. The Agency also expects to draw upon AMP's knowledge and expertise on how best to utilize power assets owned by the Agency or its members. The Agency expects the Paducah Peaking Plant to increase production with the new asset management.

The Agency also contracted with Assured Guaranty Municipal Corp. and National Public Finance Guarantee to issue surety bonds for a portion of its debt service reserve fund. The issuance of a surety bonds provided $22 million of cash which the Agency will use to reduce its principal obligations on the Agency's 2010A and 2007B revenue bonds. A reduction in principal and interest of the outstanding Agency bonds translates to a reduction to member power bills.

The Agency has also successfully completed an advance refunding of a portion of its Series 2007A Bonds with the goal of lowering the debt service component of member power bills. $210.6 million of the Series 2007A Bonds were refunded producing a cash flow savings of $17.8 million over the life of the Series 2015A Bonds used to refund the Series 2007A Bonds.

In addition, the Agency will continue to monitor members' long-term power supply position and pursue opportunities to diversify the Agency's generation portfolio to assist its members in achieving their desire to provide their customers with electricity at reasonable rates and charges.

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Agency Contact Information

The financial report is designed to provide creditors with a general overview of Kentucky Municipal Power Agency's finances. Anyone having questions regarding this report, or desiring additional information may contact Mr. Gary Zheng, 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 gzheng@paducahpower.com.

Statements of Net Position
Oct-15

	Oct 2015	Oct 2014
ASSETS		
CURRENT ASSETS		
Cash and investments	$ 8,581,474	$ 5,769,624
Other receivables	6,219,538	8,034,809
Coal Inventory - Prairie State	1,679,836	1,653,088
Materials and Supplies - Prairie State	1,469,993	1,000,998
Working Capital - Prairie State	2,520,517	2,424,394
Prepayments	1,016	1,007
Total Curent Assets	20,472,374	18,883,920
NON-CURRENT ASSETS		
Restricted Assets		
Project fund	-	-
Principal and Interest Sinking Funds	5,437,407	5,392,339
Bond Redemption Fund	10,228,063	-
Bond Reserve fund	13,384,007	37,383,124
PS OCIP Collateral	1,208,373	1,292,758
Pledged collateral	-	2,646,625
Interest receivable	37,713	109,274
Capital Improvements Fund - Prairie State Project	2,285,682	569,489
Major Maintenance Fund - Prairie State Project	(896,915)	(24,430)
Rate Stabilization Fund - Prairie State Project	1,620,000	900,000
Decommissioning Fund - Prairie State Project	81,000	45,000
Operating Reserve Fund - Prairie State Project	2,383,207	1,268,044
Total Restricted Assets	35,768,537	49,582,223
Capital Assets - Prairie State Project		
Land	5,356,448	5,356,648
Structures	39,631,205	38,812,078
Generation	387,412,113	385,516,880
Asset Retirment Cost	1,425,287	1,464,945
General Plant	1,104,603	1,104,603
Construction work in progress	2,143,879	2,588,383
Less Accumulated Depreciation	(35,622,526)	(24,611,959)
Net Capital Assets	401,451,009	410,231,578
Other Assets		
Non-Utility Property - PS Mine	17,303,332	17,401,999
Accumulated Depreciation - PS Mine	(3,753,499)	(2,614,355)
Non-Utility Property - PS Coal Reserves	6,873,755	6,854,205
Other Regulatory Asset - Deferred Credit	18,846	-
Accumulated Depletion - PS Coal Reserves	(596,482)	(404,003)
Total Other Assets	19,845,952	21,237,846
Total Non-Current Assets	457,065,498	481,051,647
Total Assets	477,537,872	499,935,567
Deferred Outflows of Resources		
Deferred bond refunding gain	22,145,441	-
Unamortized debt issuance costs	6,719,371	5,341,347
Unamortized debt discount	1,714,476	2,119,351
Total Deferred Outflows of Resources	30,579,288	7,460,698
Total Assets and Deferred Outflows of Resources	508,117,160	507,396,265

Statements of Net Position
Oct-15

		Oct 2015		Oct 2014
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	$	2,956,517	$	3,720,021
Revenue bonds - current portion		10,905,000		8,845,000
Current Liabilies Payable from Restricted Assets				
Accrued interest payable		4,069,691		4,308,598
Total Current Liabilities		17,931,208		16,873,619
NON-CURRENT LIABILITIES				
Revenue bonds		486,805,000		499,655,000
Deferred Revenue - PS		(721,915)		150,570
Asset Retirement Obligations		1,603,991		1,564,832
Miscellaneous Liabilities		-		-
Total Non-Current Liabilities		487,687,076		501,370,402
Total Liabilities		505,618,284		518,244,021
Deferred Inflows of Resources				
Unamortized debt premium		21,131,146		4,425,883
Total Deferred Inflows of Resources		21,131,146		4,425,883
Net Position				
Invested in capital assets, net of related debt		(51,474,834)		(34,460,318)
Restricted		11,633,493		3,839,639
Unrestricted		21,209,070		15,347,040
TOTAL NET POSITION		(18,632,270)		(15,273,639)

CONSOLIDATED STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

		YTD FY16		YTD FY15
OPERATING REVENUES				
Sales to members	$	18,458,083	$	21,920,001
Other revenues		8,168,789		56,914
TOTAL OPERATING REVENUE		26,626,872		21,976,914
OPERATING EXPENSES				
Purchased power		9,103,115		3,089,127
Fuel		3,442,144		3,080,087
Production		3,009,739		2,840,903
Transmission and local facilities		-		-
Other operating		1,111,092		1,204,444
Maintenance		71,108		79,129
Depreciation		4,124,257		4,081,431
Future recoverable costs		-		-
TOTAL PURCHASE POWER AND OPERATING EXPENSES		20,861,454		14,375,120
OPERATING INCOME		5,765,418		7,601,795
NON-OPERATING REVENUES (EXPENSES)				
Interest expense on revenue bonds		(8,198,353)		(8,674,829)
Interest charged to construction		-		-
Amortization of discount and issuance costs		(150,187)		(117,577)
Amortization of premium		292,513		80,501
Amortization of Deferred Outflow of Resources		(275,099)		-
Interest income		90,686		772,285
Federal BABs Subsidy		839,515		840,421
Other non-operating expenses (income)		(286)		(1,863)
Regulatory Credit/Debit - Cost to Be Recovered		18,846		-
TOTAL NONOPERATING REVENUES (EXPENSES)		(7,382,364)		(7,101,062)
CHANGE IN NET POSITION		(1,616,946)		500,732
NET POSITION AT BEGINNING OF PERIOD		**(17,015,324)**		**(15,774,371)**
NET POSITION AT END OF PERIOD		**(18,632,270)**		**(15,273,639)**
YTD DSC		**1.12**		

CONSOLIDATED STATEMENT OF CASH FLOWS		YTD 10/31/2015		YTD 10/31/2014
CASH FLOWS FROM OPERATING ACTIVITIES				
RECEIPTS FROM CUSTOMERS	$	18,453,901	$	23,805,746
PAYMENTS TO SUPPLIERS	$	(6,323,744.74)	$	(9,761,733)
PAYMENTS TO EMPLOYEES		(340,344)		(313,981)
NET CASH USED BY OPERATING ACTIVITIES		11,789,813		13,730,033
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
CAPITAL EXPENDITURES		(687,164)		(503,431)
PROCEEDS FROM ISSUANCE OF LONG-TERM DEBT		-		-
PRINCIPAL PAYMENTS MADE ON BONDS		(8,845,000)		(9,135,000)
INTEREST PAYMENTS ON LONG-TERM DEBT		(11,411,093)		(12,841,901)
FEDERAL BUILD AMERICAL BOND SUBSIDY		1,259,272		1,260,631
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		(19,683,984)		(21,219,701)
CASH FLOWS FROM INVESTING ACTIVITIES				
PURCHASE OF INVESTMENTS		(21,509,419)		(24,675,965)
PROCEEDS FROM SALE OF INVESTMENTS		5,056,479		21,976,901
INVESTMENT INCOME		941,850		776,021
NET CASH PROVIDED BY INVESTING ACTIVITIES		(15,511,091)		(1,923,043)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(23,405,262)		(9,412,712)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		37,424,866		23,099,636
CASH AND CASH EQUIVALENTS, END OF YEAR		**14,019,604**		**13,686,924**

RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES		
OPERATING INCOME	5,765,418	7,601,795
DEPRECIATION EXPENSE	4,124,257	4,124,257
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH USED BY OPERTING ACTIVITIES		
CHANGES IN OPERTATING ASSETS AND LIABILITIES		
ACCOUNTS RECEIVABLE	419,757	420,713
OTHER RECEIVABLES	913,304	1,071,588
PREPAID EXPENSES	2,032	2,013
OTHER ASSETS	158,571	370,073
ACCOUNTS PAYABLE	(293,526)	(560,405)
OTHER CURRENT AND ACCRUED LIABILITIES	700,000	700,000
NET CASH USED BY OPERATING ACTIVITIES	11,789,813	13,730,033
SCHEDULE OF NONCASH FINANCING ACTIVITIES		
AMORTIZATION OF BOND ISSUE AND DISCOUNT COSTS	130,581	35,141

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APPENDIX B

KENTUCKY MUNICIPAL POWER AGENCY

POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2016A

Summary of Kentucky Municipal Power Agency Annual Debt Service Payments

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Kentucky Municipal Power Agency
Power System Refunding Revenue Bonds, Series 2016A

Semi-Annual Debt Service Payments

Date	Series 2016A Coupon	Principal	Interest	Total	Fiscal Total
3/1/2016			$ 197,875	$ 197,875	$ 197,875
9/1/2016			1,780,875	1,780,875	
3/1/2017			1,780,875	1,780,875	3,561,750
9/1/2017			1,780,875	1,780,875	
3/1/2018			1,780,875	1,780,875	3,561,750
9/1/2018			1,780,875	1,780,875	
3/1/2019			1,780,875	1,780,875	3,561,750
9/1/2019			1,780,875	1,780,875	
3/1/2020			1,780,875	1,780,875	3,561,750
9/1/2020			1,780,875	1,780,875	
3/1/2021			1,780,875	1,780,875	3,561,750
9/1/2021			1,780,875	1,780,875	
3/1/2022			1,780,875	1,780,875	3,561,750
9/1/2022			1,780,875	1,780,875	
3/1/2023			1,780,875	1,780,875	3,561,750
9/1/2023			1,780,875	1,780,875	
3/1/2024			1,780,875	1,780,875	3,561,750
9/1/2024			1,780,875	1,780,875	
3/1/2025			1,780,875	1,780,875	3,561,750
9/1/2025			1,780,875	1,780,875	
3/1/2026			1,780,875	1,780,875	3,561,750
9/1/2026			1,780,875	1,780,875	
3/1/2027			1,780,875	1,780,875	3,561,750
9/1/2027			1,780,875	1,780,875	
3/1/2028			1,780,875	1,780,875	3,561,750
9/1/2028			1,780,875	1,780,875	
3/1/2029			1,780,875	1,780,875	3,561,750
9/1/2029			1,780,875	1,780,875	
3/1/2030			1,780,875	1,780,875	3,561,750
9/1/2030			1,780,875	1,780,875	
3/1/2031			1,780,875	1,780,875	3,561,750
9/1/2031	5.000%	$10,440,000	1,780,875	12,220,875	
3/1/2032			1,519,875	1,519,875	13,740,750
9/1/2032	5.000%	10,975,000	1,519,875	12,494,875	
3/1/2033			1,245,500	1,245,500	13,740,375
9/1/2033	5.000%	11,540,000	1,245,500	12,785,500	
3/1/2034			957,000	957,000	13,742,500
9/1/2034	5.000%	12,125,000	957,000	13,082,000	
3/1/2035			653,875	653,875	13,735,875
9/1/2035	5.000%	12,750,000	653,875	13,403,875	
3/1/2036			335,125	335,125	13,739,000
9/1/2036	5.000%	13,405,000	335,125	13,740,125	13,740,125
Total		$71,235,000	$64,827,750	$136,062,750	$136,062,750

Kentucky Municipal Power Agency
Summary of Aggregate Debt Service

	Series 2007A & B[1]			Series 2010A,B & C[2][3]					Series 2015A			Estimated Series 2015B[4]			Series 2016A			Combined				
Year	Principal	Interest	P+I	Principal	Interest	Gross P+I	Direct Pay	P+I	Principal	Interest	P+I	Principal	Est. Interest	P+I	Principal	Interest	P+I	Prinicpal	Interest	Gross P+I	Direct Pays	Net P+I
2016	$4,260,000	$3,855,895	$8,115,895	$4,585,000	$9,888,661	$14,473,661	($2,518,545)	$11,955,116	-	$9,145,423	$9,145,423	-	$494,400	$494,400	-	$197,875	$197,875	$8,845,000	$23,582,255	$32,427,255	($2,518,545)	$29,908,710
2017	4,525,000	123,533	4,648,533	6,380,000	9,692,963	16,072,963	(2,518,545)	13,554,418	-	10,007,150	10,007,150	-	529,715	529,715	-	3,561,750	3,561,750	10,905,000	23,915,110	34,820,110	(2,518,545)	32,301,565
2018	-	-	-	4,975,000	9,498,900	14,473,900	(2,518,545)	11,955,355	$1,885,000	9,960,025	11,845,025	-	529,715	529,715	-	3,561,750	3,561,750	6,860,000	23,550,390	30,410,390	(2,518,545)	27,891,845
2019	-	-	-	5,145,000	9,321,262	14,466,262	(2,518,545)	11,947,717	1,985,000	9,863,275	11,848,275	-	532,657	532,657	-	3,561,750	3,561,750	7,130,000	23,278,944	30,408,944	(2,518,545)	27,890,400
2020	-	-	-	5,350,000	9,123,288	14,473,288	(2,518,545)	11,954,743	2,085,000	9,761,525	11,846,525	-	526,772	526,772	-	3,561,750	3,561,750	7,435,000	22,973,334	30,408,334	(2,518,545)	27,889,790
2021	-	-	-	5,585,000	8,887,955	14,472,955	(2,518,545)	11,954,410	6,740,000	9,540,900	16,280,900	-	529,715	529,715	-	3,561,750	3,561,750	12,325,000	22,520,320	34,845,320	(2,518,545)	32,326,775
2022	-	-	-	5,860,000	8,610,755	14,470,755	(2,518,545)	11,952,210	7,085,000	9,195,275	16,280,275	-	529,715	529,715	-	3,561,750	3,561,750	12,945,000	21,897,495	34,842,495	(2,518,545)	32,323,950
2023	-	-	-	6,160,000	8,310,255	14,470,255	(2,518,545)	11,951,710	7,450,000	8,831,900	16,281,900	-	529,715	529,715	-	3,561,750	3,561,750	13,610,000	21,233,620	34,843,620	(2,518,545)	32,325,075
2024	-	-	-	6,470,000	7,991,663	14,461,663	(2,509,390)	11,952,273	7,830,000	8,449,900	16,279,900	-	532,657	532,657	-	3,561,750	3,561,750	14,300,000	20,535,970	34,835,970	(2,509,390)	32,326,581
2025	-	-	-	6,755,000	7,659,147	14,414,147	(2,465,381)	11,948,766	8,230,000	8,048,400	16,278,400	-	528,243	528,243	-	3,561,750	3,561,750	14,985,000	19,797,540	34,782,540	(2,465,381)	32,317,159
2026	-	-	-	7,020,000	7,283,782	14,303,782	(2,363,223)	11,940,559	8,655,000	7,626,275	16,281,275	-	528,243	528,243	-	3,561,750	3,561,750	15,675,000	19,000,050	34,675,050	(2,363,223)	32,311,827
2027	-	-	-	7,295,000	6,856,032	14,151,032	(2,224,440)	11,926,592	9,100,000	7,182,400	16,282,400	-	529,715	529,715	-	3,561,750	3,561,750	16,395,000	18,129,897	34,524,897	(2,224,440)	32,300,457
2028	-	-	-	7,590,000	6,402,710	13,992,710	(2,077,359)	11,915,351	9,560,000	6,715,900	16,275,900	-	529,715	529,715	-	3,561,750	3,561,750	17,150,000	17,210,075	34,360,075	(2,077,359)	32,282,715
2029	-	-	-	7,905,000	5,923,061	13,828,061	(1,921,737)	11,906,324	10,050,000	6,225,650	16,275,650	-	529,715	529,715	-	3,561,750	3,561,750	17,955,000	16,240,176	34,195,176	(1,921,737)	32,273,438
2030	-	-	-	8,230,000	5,417,592	13,647,592	(1,757,738)	11,889,854	10,570,000	5,710,150	16,280,150	-	532,657	532,657	-	3,561,750	3,561,750	18,800,000	15,222,149	34,022,149	(1,757,738)	32,264,411
2031	-	-	-	8,580,000	4,884,627	13,464,627	(1,584,817)	11,879,810	11,115,000	5,168,025	16,283,025	-	528,243	528,243	-	3,561,750	3,561,750	19,695,000	14,142,645	33,837,645	(1,584,817)	32,252,828
2032	-	-	-	8,945,000	4,320,231	13,265,231	(1,401,699)	11,863,532	510,000	4,879,950	5,389,950	-	528,243	528,243	$10,440,000	3,300,750	13,740,750	19,895,000	13,029,174	32,924,174	(1,401,699)	31,522,475
2033	-	-	-	9,330,000	3,727,207	13,057,207	(1,209,292)	11,847,915	530,000	4,859,150	5,389,150	-	529,715	529,715	10,975,000	2,765,375	13,740,375	20,835,000	11,881,447	32,716,447	(1,209,292)	31,507,154
2034	-	-	-	9,730,000	3,108,710	12,838,710	(1,008,621)	11,830,089	555,000	4,837,450	5,392,450	-	529,715	529,715	11,540,000	2,202,500	13,742,500	21,825,000	10,678,375	32,503,375	(1,008,621)	31,494,754
2035	-	-	-	10,150,000	2,463,604	12,613,604	(799,316)	11,814,288	575,000	4,814,850	5,389,850	-	529,715	529,715	12,125,000	1,610,875	13,735,875	22,850,000	9,419,044	32,269,044	(799,316)	31,469,727
2036	-	-	-	10,590,000	1,790,591	12,380,591	(580,957)	11,799,634	600,000	4,791,350	5,391,350	-	531,186	531,186	12,750,000	989,000	13,739,000	23,940,000	8,102,127	32,042,127	(580,957)	31,461,170
2037	-	-	-	11,045,000	1,088,535	12,133,535	(353,175)	11,780,360	625,000	4,766,850	5,391,850	-	528,243	528,243	13,405,000	335,125	13,740,125	25,075,000	6,718,753	31,793,753	(353,175)	31,440,578
2038	-	-	-	11,250,000	365,063	11,615,063	(118,445)	11,496,618	15,650,000	4,441,350	20,091,350	-	529,715	529,715	-	-	-	26,900,000	5,336,127	32,236,127	(118,445)	32,117,682
2039	-	-	-	-	-	-	-	-	16,290,000	3,802,550	20,092,550	$6,995,000	452,595	7,447,595	-	-	-	23,285,000	4,255,145	27,540,145	-	27,540,145
2040	-	-	-	-	-	-	-	-	16,950,000	3,137,750	20,087,750	7,100,000	348,611	7,448,611	-	-	-	24,050,000	3,486,361	27,536,361	-	27,536,361
2041	-	-	-	-	-	-	-	-	17,735,000	2,355,375	20,090,375	7,205,000	245,169	7,450,169	-	-	-	24,940,000	2,600,544	27,540,544	-	27,540,544
2042	-	-	-	-	-	-	-	-	18,640,000	1,446,000	20,086,000	7,315,000	135,654	7,450,654	-	-	-	25,955,000	1,581,654	27,536,654	-	27,536,654
2043	-	-	-	-	-	-	-	-	19,600,000	490,000	20,090,000	7,420,000	27,269	7,447,269	-	-	-	27,020,000	517,269	27,537,269	-	27,537,269
Total	$8,785,000	$3,979,428	$12,764,428	$174,925,000	$142,616,592	$317,541,592	($42,523,948)	$275,017,644	$210,600,000	$176,054,798	$386,654,798	$36,035,000	$13,357,416	$49,392,416	$71,235,000	$64,827,750	$136,062,750	$501,580,000	$400,835,984	$902,415,984	($42,523,948)	$859,892,036

Notes:

(1) The Series 2007A Bonds will be refunded by the Series 2016A Bonds. Fiscal Year 2016 includes interest paid on the Series 2007A Bonds on September 1, 2015 as well as monthly interest accruals for the 2007A Bonds through January 20, 2016

(2) A portion of the Series 2010A Bonds have been defeased using a combination of funds that include the funds that were released as a result of a partial replacement of the debt service reserve fund with a surety bond and sinking fund deposits made by KMPA. The principal amounts of the Series 2010A Bonds that have been defeased are as follows

2016	$3,535,000
2017	5,290,000
2018	3,835,000
2019	2,052,342

(3) Direct Pays on the Series 2010B Bonds assume sequestration of 7.3%.

(4) The Series 2015B Bonds are floating rate tender notes that carry a rate of SIFMA plus 1.4%. The amounts shown above assume a total rate of 1.47%.

APPENDIX C

KENTUCKY MUNICIPAL POWER AGENCY

POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2016A

Audited Financial Statements of the Paducah Electric Plant Board

for Fiscal Years ended June 30, 2014 and 2015;

Unaudited Financial Statements

for the Four-Month Periods Ended October 31, 2014 and 2015

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

FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

TABLE OF CONTENTS

J. DAVID BAILEY, III
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ROGER G. HARRIS
MICHAEL F. KARNES
MARK A. THOMAS
ASHLEY C. GROOMS
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Independent Auditor's Report

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 as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards general 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Paducah Power System, as of June 30, 2015 and 2014, and the respective changes in financial position and cash flows for the years then ended in accordance with the basis of accounting described in Note 1.

Emphasis of matter

Basis of Accounting

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

Change in Accounting Principle

As discussed in Note 15 to the financial statements, in fiscal year 2015, Paducah Power System adopted new accounting guidance, GASB Statement No. 68, *Accounting & Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

The schedule of operating expenses presented on pages 30 and 31 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of operating expenses presented on pages 30 and 31 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2015, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Paducah Power System's internal control over financial reporting and compliance.

Williams, Williams & Lentz LLP

Paducah, Kentucky
October 16, 2015

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, 2015. Comparisons are available on several financial and supplemental statements throughout this analysis.

FINANCIAL HIGHLIGHTS

- Planned, approved and executed a "Rate Recovery Plan" with goals of 1) stabilizing finances, 2) no increases in the power cost adjustment through June 2015, 3) eliminating the power cost adjustment deficit balance and 4) reducing the power cost adjustment rate effective July 1, 2015.
- Purchased power Cost was reduced by $6.2 million
- Unbilled power cost adjustment balance defined as Regulatory Credits was reduced from $4 million to $1.2 million during FY15.
- Cash and cash reserves increased by $5.6 million during FY15. Additionally the line-of-credit balance with Regions Bank was reduced from $3 million to $0.
- Paducah Power System's debt service reserve funds were replaced with a surety bond from Assured Guaranty. These funds will be utilized to effectively defease the principal payments on Paducah Power System long-term debt through calendar year 2018.

FORMATION OF KENTUCKY MUNICIPAL POWER AGENCY

Paducah Power System (PPS) was under a full-requirements power supply contract with the Tennessee Valley Authority (TVA) until December 21, 2009. 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 124 MW. Paducah Power System's ownership interest in KMPA is 83.4% or 104 MW.

With KMPA providing Paducah Power System's base and intermediate load requirements, PPS has constructed two 60 MW gas turbines to supply its peaking load requirements as well as provide opportunity 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.

Since the termination of the power supply contract on December 21, 2009, KMPA has provided wholesale power to Paducah Power System through bridge contracts, market purchases, and Prairie State generation.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes the 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 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.

(Continued)

The Statement of Net Position 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.

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

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and 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 Position and the Statement of Revenues, Expenses, and Changes in Net Position help us answer this question. One can think of the utility's net position – 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 position 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 POSITION

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

CONDENSED STATEMENTS OF NET POSITION
For fiscal year ended June 30

	FY15	FY14
Current assets	$ 16,289,610	$ 12,439,898
Non-current assets	18,705,259	22,652,646
Capital assets	156,827,532	162,158,617
Total assets	191,822,401	197,251,161
Deferred Outflows of Resources	1,984,168	3,976,727
Current liabilities	14,621,512	18,765,808
Non-current liabilities	6,867,786	385,467
Long-term debt	146,032,721	151,000,043
Total liabilities	167,522,019	170,151,318
Deferred Inflows of Resources	727,301	-
Invested in capital assets, net of related debt	5,694,811	6,213,574
Restricted for capital projects	-	-
Restricted for debt service	15,356,869	19,784,370
Unrestricted net assets	4,505,569	5,078,626
TOTAL NET ASSETS	$ 25,557,249	$ 31,076,570

Current assets represent items such as cash and temporary investments, accounts receivable, materials and supplies, prepaid expenses, accrued interest receivable, and rents receivable. Current assets increased by approximately $3.9 million.

(Continued)

Cash increased by $5.6 million during FY15. This is the result of reducing the power cost adjustment balance and utilization of the debt service reserve funds replaced with a surety bond to pay the principal portion of all long-term debt. Receivables decreased by $1.6 million as a result of the power cost adjustment rate decrease compared to last year. FY15 materials and supplies inventory balance also decreased by $126 thousand.

Non-current assets include restricted funds such as bond sinking funds and debt service reserve funds. These funds decreased during FY15 by $4.4 million. Paducah Power System purchased a surety bond from Assured Guaranty to replace the debt service reserve fund. The cost of the bond was $556 thousand. The remaining funds were escrowed and will be utilized to pay the principal portion of Paducah Power System's sinking fund payments into calendar year 2018. During FY15, $2.1 million of the escrowed funds were utilized to offset sinking fund payments.

Other non-current assets include unamortized debt discounts 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. FY15 also includes an investment of $331 thousand for the startup of MuniNet. This includes PPS's portion of MuniNet's debt service payments and legal fees.

Capital assets include land, transmission system, distribution system, general plant, generation plant, and construction work in progress net of accumulated depreciation. The decrease in capital assets is the result of depreciation of the peaking plant, high pressure gas line and associated substation/transmission upgrades.

Deferred outflows of resources include the power cost adjustment balance which is defined as Other Regulatory assets by FERC and the KY unemployment trust fund. The balance of the Power Cost Adjustment to be collected and reported as unbilled revenue at the end of FY15 was $1.16 million compared to $3.98 million for FY14. Deferred outflows in FY15 also include $798 thousand which represents the annual contribution amount from Paducah Power System to the County Employees' Retirement System. This is defined as a deferred outflow due to the liability measurement of date of June 2014 provided by the County Employees' Retirement System.

Current liabilities represent items such as accounts payable, customer deposits, accrued taxes, interest payments, balance of the bank line-of-credit and the current portion of any long-term debts. PPS currently has a $5 million line-of-credit with Regions Bank. The balance on the bank line-of-credit for FY15 was $0 compared to $3 million for FY14. This represents the majority of the decrease in current liabilities over last fiscal year.

Non-current liabilities primarily represents Paducah Power System's proportionate share of the net pension liability of the County Employees' Retirement System (CERS), a cost-sharing, multiple-employer, defined benefit pension plan, which is administered by the Kentucky Retirement System. Under GASB 68, FY15 is the first year this is required to be reported resulting in a $6.5 million increase in non-current liabilities.

FY15 long-term debt represents the long-term portion of revenue bonds, net of unamortized discounts and advanced refunding deferred charges. Outstanding revenue bonds include $3 million issued in October 2010 to defease a previous 2001 bond issue as well as $170 million issued in January 2009 for the construction of the peaking plant, gas-line, and transmission/substation upgrades. This will continue to decrease as the bonds are repaid.

Net assets are broken down into three major categories: Invested in Capital Assets Net of Related Debt, Restricted Net Assets, and Unrestricted Net Assets. Restricted net assets include debt service reserve funds and sinking funds deposits of $15.4 million. Unrestricted net assets increased by $573 thousand. Unrestricted net assets would have increased by in excess of $6 million but was offset by the inclusion of the net pension liability requirement of GASB 68 which began in FY15.

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

(Continued)

PADUCAH POWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	FY15	FY14	Change	% Change
Electrical sales revenue	$80,107,578	$78,126,522	$ 1,981,056	2.5%
Miscellaneous revenue	(17,020)	6,551,376	6,568,396	(100.00)%
Total operating revenue	80,090,558	84,677,898	(4,587,340)	(5.4)%
Purchased power cost	50,457,469	56,629,518	(6,172,049)	(10.9)%
General operating expense	7,292,640	7,254,708	37,932	0.5%
Generation plant expense	1,480,592	1,239,850	240,742	19.4%
Maintenance expense	1,393,068	1,438,592	(45,524)	(3.2)%
Other operating expense	10,856,868	10,811,174	45,694	0.4%
Non-operating expense	7,407,821	7,334,142	73,679	1.0%
Total expenses	78,888,458	84,707,984	(5,819,526)	(6.9)%
Changes in net position	1,202,100	(30,086)	$ 1,232,186	
Beginning net position	31,076,570	31,106,656		
Prior period Adjustment	(6,721,421)			
Net position, Restated	24,355,149			
ENDING NET POSITION	$25,557,249	$31,076,570		

The Statements of Revenues, Expenses, and Changes in Net Position provide answers as to the nature and source of changes in total net assets.

Paducah Power System's electric sales revenue increased by $2 million, even though FY15 kWh sales were reduced by 4.3%. FY14 included only 3 months of a 5% base rate increase implemented in April 2014.

Miscellaneous revenue decreased by $6.5 million over the FY14 figures. The balance of the Power Cost Adjustment accounted for $3.9 million of the total revenue in FY14 with FY15 being a reduction of the Power Cost Adjustment balance of $2.8 million. FiberNet services and late payment penalty and other miscellaneous service revenue increased by $200 thousand.

General operating expense increased by $38 thousand or 0.5% over FY14. This was essentially less than inflationary increases.

Generation plant expenses were increased by $240 thousand or 19.4% over FY14. Total MWH generated increased from 6,817 in FY14 to 12,261 during FY15 as Paducah Power System was able to take advantage of lower natural gas prices during certain market conditions.

Maintenance expense decreased by $46 thousand over the FY14 figures.

The change in other operating expense is directly attributed to increases in depreciation expense.

The increase in non-operating expense is directly related to decreases in interest income.

CASH FLOWS

The Statements of Cash Flows show what impact the utility's activities had on cash and cash equivalents. This financial statement can often reflect the liquidity situation of the utility. If a trend of decreasing cash balances over a period of years occurs without any additional capital funding or change in revenues and expenses, the

(Continued)

entity may become unable to meet its short-term obligations to creditors. Increases in cash over a one year time frame may be nothing more than financing of a capital project that will be constructed over a period of years. A scenario of decreasing cash position may occur if an entity self-funds a capital asset that is anticipated to generate returns in future periods thereby increasing cash flows.

A summary of Paducah Power System's Statements of Cash Flows is presented below.

STATEMENTS OF CASH FLOWS

	FY15	FY14
Cash Flows from Operating Activities:		
Receipts from customers	$ 84,386,969	$ 78,847,580
Payments to suppliers	(59,229,793)	(62,604,598)
Payments to employees	(4,479,787)	(4,731,498)
Net cash provided (used) by operating activities	20,677,389	11,511,484
Cash Flows from Capital and Related Financing Activities:		
Capital expenditures	(3,770,475)	(3,410,518)
Proceeds from issuance of long-term debt	-	-
Principal payments on long-term debt	(4,945,000)	(5,635,000)
Interest payments on long-term debt	(7,338,095)	(7,462,876)
Net borrowings on line of credit	(3,000,000)	3,000,000
Bond insurance cost	(556,349)	-
Conservation loans	-	4,689
Non-utility property and other assets	(109,943)	(161,075)
Net cash used by capital and related financing activities	(19,719,862)	(13,664,780)
Cash Flows from Investing Activities:		
Purchases of investments	-	-
Proceeds from investments	-	-
Investment income	194,308	362,982
Non-operating income	12,715	33,910
Net cash provided by investing activities	207,023	396,892
Net decrease in cash and cash equivalents	1,164,550	(1,756,404)
Cash and cash equivalents, beginning of year	22,334,872	24,091,276
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 23,499,422	$ 22,334,872

Receipts from customers increased with the implementation of the power cost adjustment and a 5% base rate increase in April 2014. The large change in payments to suppliers reflects the lower cost of purchased power from KMPA in FY15. Net borrowing on the line-of-credit reflects a draw of $3 million in FY14 which was repaid during FY15. Electric plant capital expenditures are historically in the $4 to $5 million range per year but recent years have been reduced in part to cost savings measures.

BUDGETARY HIGHLIGHTS

Paducah Power System adopts a current year Operating Budget and a Three-Year Capital Plan annually. The Operating Budget includes projected operating and non-operating revenues and expenses. The utility's budget remains in effect the entire year, but may be revised throughout the year as major assumptions or conditions change. A FY14 budget comparison and analysis is presented below, but is not included in the financial statements section of the auditor's report.

(Continued)

PADUCAH POWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

BUDGET VERSUS ACTUAL
FY15

	Actual	Budget	Variance	Percent
Revenue:				
Electric sales	$80,107,578	$82,315,688	$(2,208,110)	-2.68%
Miscellaneous revenue	(17,020)	3,061,974	(3,078,994)	-100.6%
Total operating revenue	80,090,558	85,377,662	(5,287,104)	-6.2%
Expenses:				
Purchased power cost	50,457,469	52,770,711	(2,313,242)	-4.4%
Generation plant expense	1,480,592	1,765,746	(285,154)	-16.1%
General operating expense	7,292,640	7,572,563	(279,923)	-3.7%
Maintenance expense	1,393,068	1,531,995	(138,927)	-9.1%
Other operating expense	10,856,868	11,274,486	(417,618)	-3.7%
Non-operating expense	7,407,821	7,619,030	(211,209)	-2.8%
Total expenses	78,888,458	82,534,531	(3,646,073)	-4.4%
NET GAIN/(LOSS)	$ 1,202,100	$ 2,843,131	$(1,641,031)	-57.7%

Electric sales were 2.7% lower than the FY15 budget. KWh sales were 4.4% lower than budgeted, but offset by implementation of higher power cost adjustment than forecasted. The decrease in kWh sales is partially due to mild weather conditions during the fiscal year and an overall reduction in projected kWh sales. The large decrease in miscellaneous revenue is strictly due to a $2.8 million reduction in the power cost adjustment balance that was accrued as revenue during FY14.

Purchased power was 4.4% under budget due to lower than forecasted power cost from KMPA. Revenue from excess Prairie State energy sold into the market has been low due to the market price of power in the MISO area as well as across the country. This revenue is used to offset the cost of purchased power to meet the PPS electric load requirement. Additionally, PPS has experienced a price differential between the node where Prairie State energy is liquidated in the market and the node where PPS purchases it power from the market. This is often referred to as transmission congestion. In January 2015, PPS implemented a Rate Recovery Plan to lower cost by reducing KMPA's debt service payments and other cost such as transmission congestion. The plan has been successful in reducing power cost and the power cost adjustment balance.

Generation plant expense was much lower than budgeted due to lower natural gas prices and below average staffing at the peaking plant during the year.

General operating, maintenance, other operating expenses and non-operating expenses have been in line with budget forecast.

CAPITAL ASSETS

The electric industry as a whole is a capital intensive business. Transmission and distribution assets typically include, but are not limited to, poles, towers, overhead conductors, underground conductors, underground conduit, line transformers, service wire, meters, street lighting, security lighting, and substation equipment, 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 in progress represents mostly capital construction projects which are not currently completed. Following is a summary of the capital assets and changes that occurred during FY15.

(Continued)

CAPITAL ASSETS
FY15

	Beginning Balance	Increase	Decrease	Ending Balance
Land	$ 2,636,229	$ -	$ -	$ 2,636,229
Construction in progress	2,874,790	1,397,507	3,367,298	904,999
Transmission system	10,372,166	2,185	-	10,374,351
Distribution system	81,519,079	3,798,720	647,750	84,670,049
General plant	17,164,508	1,616,690	239,958	18,541,240
Generation plant	110,661,988	-	-	110,661,988
Total capital assets	225,228,760	6,815,102	4,255,006	227,788,856
Accumulated depreciation	63,070,143	9,101,561	1,210,380	70,961,324
NET CAPITAL ASSETS	$ 162,158,617	$(2,286,459)	$3,044,626	$ 156,827,532

Construction in progress decreased due to fewer capital improvement projects throughout the system.

Distribution system increases are slightly lower than historical averages, but consist of replacement of existing assets including line extensions and new services.

General plant increases include FiberNet additions, network equipment, and vehicle replacements.

Generation plant increases represent additional capital purchases for assets related to the gas-fired turbine facility.

Total capital assets decreased during the fiscal year due to the depreciation of PPS's largest asset, the gas turbine generation station.

DEBT ADMINISTRATION

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 refund 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 have been used to construct the peaking plant, high pressure gas lines, and associated substation/transmission upgrades.

October 14, 2010, Paducah Power System issued $3 million in revenue refunding bonds with interest rates between 0.6% and 2.2% in order to advance refund the balance of the 2001 revenue bonds with interest rates between 3.00% and 4.25%. All proceeds were invested in U.S. Government Securities thereby defeasing the 2001 series.

(Continued)

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 2009 and 2010 bond series.

	Total Series	Series 2009A	Series 2009B	Series 2010
Balance at June 30, 2014	$158,615,000	$157,075,000	$ -	$ 1,540,000
Increases	-	-	-	-
Decreases	4,945,000	4,440,000	-	505,000
BALANCE AT JUNE 30, 2015	$153,670,000	$152,635,000	$ -	$ 1,035,000

Maturities	Principal	Interest	Total
2016	$ 5,100,000	$ 7,189,389	$ 12,289,389
2017	5,240,000	7,038,944	12,278,944
2018	4,870,000	6,884,504	11,754,504
2019	5,035,000	6,720,989	11,755,989
2020	5,220,000	6,533,994	11,753,994
2021-2036	128,205,000	59,899,359	188,104,359
TOTALS	$153,670,000	$ 94,267,179	$247,937,179

FINANCIAL OUTLOOK AND ELECTRIC RATE CHANGES

In 2013, The Board hired Black & Veatch to complete a retail rate study based on anticipated power cost from Prairie State Generating Company, South East Power Administration, AMP hydro projects and PPS gas-turbines. The Board of Directors voted to implement the recommended rate increases in November 2012, April 2013 and April 2014. Included in the Board action was the implementation of a Power Cost Adjustment (PCA) clause beginning in November 2014. The PCA is intended to account for any difference (plus or minus) in the actual power cost and the power cost included in the base retail rates.

During fiscal year 2014 Paducah Power purchased almost all its base and intermediate power from Kentucky Municipal Power Agency and either generated or purchased from the open market its peaking load requirements. During the year, the Power Cost Adjustment reached a high of 3.59¢ per kWh.

Purchased power costs were significantly higher than projected resulting in increased power cost adjustment rates to retail customers. Low market prices have produced less revenue from the sale of Prairie State energy into the market. This revenue is used to offset the cost of purchased power to meet PPS electric load. PPS also realized price differentials between the node where Prairie State energy is liquidated in the MISO market and the node where PPS purchases it power from the market. This price differential or transmission congestion has averaged up to $9/MW. Additionally, Prairie State continued to battle startup issues related to plant which resulted in lower than projected capacity ratings. Performance and output from the plant has improved significantly in recent months with a change in management and operating philosophy.

To address the increased power cost and associated rate impacts to customers, in November, 2014, the PPS Board of Directors approved an Action Plan with several key goals. The first goal was to stabilize the PPS finances and power cost. Additional goals for FY15 included no increase in the PCA rate of 2.15¢ while eliminating the PCA balance by year end. As part of the plan, PPS changed portfolio managers approving a contract with American Municipal Power. The plan also includes reductions in debt service for KMPA and Paducah by replacing portions of the Debt Service Reserve Funds with Surety Bonds. These funds will be used to effectively defease principal payments over the next several years. Additionally KMPA advance refunded a portion of its 2007A&B bond issue which reduced debt service cost. Reductions in KMPA debt service and improved performance from Prairie State are realized as reductions in power cost to its members including PPS.

(Continued)

The portfolio management contract with American Municipal Power includes efforts to market the generation assets held by KMPA and PPS in order to eliminate excess capacity from the total portfolio. PPS, through its assets and contracts with AMP and KMPA, has a total MW capacity of approximately 239MW.

Even with elevated purchased power cost, PPS was able to realize in excess of 1.4 debt service coverage ratio exceeding its bond covenant of 1.2 for fiscal year 2015.

Fiscal year 2015 projections included in the Action Plan reflect increasing debt service coverage ratios and much improved cash positions while maintaining a 2.15¢ PCA during FY15 and reducing the power cost adjustment in FY16.

Results of the Action Plan were very positive with an increase in cash and cash reserve balances, significant reduction of the power cost adjustment balance, reductions in power cost from KMPA and a reduced PCA rate of 1.656¢ for FY16.

Following is a summary of the retail rate changes effective on June 30 of 2015 and 2014.

SUMMARY OF RETAIL RATES

	June 2015 Rate Tariff	June 2014 Rate Tariff
Residential		
Customer Charge	$14.75	$14.75
All KWH	$0.11153	$0.11153
Power Cost Adjustment	$0.02150	$0.3570
Small Commercial		
Customer Charge	$22.00	$22.00
All KWH	$0.12217	$0.12217
Power Cost Adjustment	$0.02150	$0.03570
Mid-Sized Commercial		
Customer Charge	$115.00	$115.00
1st 15,000 KWH	$0.11938	$0.11938
Power Cost Adjustment (1st 15,000)	$0.02150	$0.03570
Additional KWH	$0.07495	$0.07495
Power Cost Adjustment (Add KWH)	$0.02150	$0.03570
1st 50 KW Demand	$0.00	$0.00
51 - 1,000 KW Demand	$16.49	$16.49
Large Commercial		
Customer Charge	$275.00	$275.00
All KWH	$0.06736	$0.06736
0 – 1,000 KW Demand	$15.25	$15.25
1,001 – 5,000 KW Demand	$17.62	$17.62
Power Cost Adjustment	$0.02150	$0.03570
Industrial		
Customer Charge	$275.00	$275.00
All KWH	$0.05270	$0.05270
All KW Demand	$18.38	$18.38
Power Cost Adjustment	$0.02150	$0.03570
Outdoor Lighting		
All KWH	$0.08425	$0.08425
Power Cost Adjustment	$0.02150	$0.02150
Customer Charge	Depends on type and size of light	

(Continued)

CONTACTING THE PADUCAH POWER SYSTEM FINANCIAL MANAGER

This financial report is designed to provide customers and creditors with a general overview of Paducah Power System's finances and to demonstrate the utility's accountability for the money it receives. If you have questions concerning this report or need additional financial information, please contact 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 POSITION
JUNE 30

ASSETS

	2015	2014
Current Assets:		
Cash and temporary cash investments	$ 3,905,965	$ 1,727,434
Cash reserves	4,236,588	823,068
Accounts receivable - net of allowance for doubtful accounts of $35,195 in 2015 and $34,693 in 2014	6,649,580	8,240,041
Receivable from MuniNet Fiber Agency	32,252	32,252
Materials and supplies	1,347,339	1,473,321
Prepaid expenses	12,718	16,030
Accrued interest receivable	6,642	29,226
Rent receivable	98,526	98,526
Total current assets	16,289,610	12,439,898
Noncurrent Assets:		
Restricted assets:		
Sinking Fund	15,356,869	19,784,370
Total restricted assets	15,356,869	19,784,370
Utility plant:		
Land	2,636,229	2,636,229
Transmission system	10,374,351	10,372,166
Distribution system	84,670,049	81,519,079
General plant	18,541,240	17,164,508
Generation plant	110,661,988	110,661,988
Construction work in progress	904,999	2,874,790
Less accumulated depreciation	(70,961,324)	(63,070,143)
Total utility plant	156,827,532	162,158,617
Other Assets		
Investment in CSA	26,740	26,740
Investment in SEDC	159,421	140,508
Investment in MuniNet Fiber Agency	330,508	253,720
Unamortized debt discount	2,808,387	2,396,110
Regulatory credits	1,157,419	3,976,727
Other miscellaneous assets	21,313	19,045
Unemployment Trust Fund	29,154	29,154
Non-utility property	2,021	2,999
Total other assets	4,534,963	6,845,003
Total noncurrent assets	176,719,364	188,787,990
Total assets	193,008,974	201,227,888

DEFERRED OUTFLOWS OF RESOURCES

	2015	2014
Pension plan contributions subsequent to the measurement date	797,594	-

See notes to financial statements.

LIABILITIES

Current Liabilities:	2015	2014
Accounts payable	$ 5,111,371	$ 6,308,307
Customer deposits	814,286	794,596
Accrued taxes and equivalents	910,046	1,024,117
Accrued interest	1,837,712	1,876,502
Other current and accrued liabilities	848,097	817,286
Line of credit	-	3,000,000
Bonds payable	5,100,000	4,945,000
Total current liabilities	14,621,512	18,765,808
Noncurrent Liabilities:		
Long-term debts:		
Bonds held by public	146,032,721	151,000,043
Advances for conservation loans	-	15,220
Other unearned revenues	352,166	370,247
Net pension liability	6,515,620	-
Total noncurrent liabilities	152,900,507	151,385,510
Total liabilities	167,522,019	170,151,318

DEFERRED INFLOWS OF RESOURCES

Difference between projected and actual earnings	727,301	-

NET POSITION

Investment in capital assets	5,694,811	6,213,574
Restricted for:		
Debt service	15,356,869	19,784,370
Unrestricted - net position	4,505,569	5,078,626
TOTAL NET POSITION	$ 25,557,249	$ 31,076,570

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

	2015	2014
Operating Revenues:		
Charges for services:		
Residential	$31,647,468	$31,611,977
Large lighting and power	37,575,679	36,078,042
Small lighting and power	9,190,800	8,814,194
Street and outdoor	1,693,631	1,622,309
Total charges for services	80,107,578	78,126,522
Miscellaneous:		
Forfeited discounts	472,781	479,047
Service revenue	2,328,907	2,095,002
Regulatory credits	(2,819,308)	3,976,727
Other electric revenue	600	600
Total miscellaneous	(17,020)	6,551,376
Total operating revenues	80,090,558	84,677,898
Purchased Power and Operating Expenses:		
Purchased power cost	50,457,469	56,629,518
General operating expense	7,292,640	7,254,708
Generation plant expense	1,480,592	1,239,850
Maintenance expense	1,393,068	1,438,592
Other operating expense	10,856,868	10,811,174
Total purchased power and operating expenses	71,480,637	77,373,842
Operating income	8,609,921	7,304,056
Nonoperating Revenues (Expenses):		
Interest paid on indebtedness	(7,338,095)	(7,462,876)
Investment income	194,308	362,982
Net amortization discount and premium on debt	(276,749)	(268,158)
Nonoperating income	12,715	33,910
Total nonoperating revenues (expenses)	(7,407,821)	(7,334,142)
Change in net position	1,202,100	(30,086)
Net position - beginning	31,076,570	31,106,656
Prior period adjustment	(6,721,421)	-
Net position, beginning, as restated	24,355,149	-
NET POSITION, ENDING	$25,557,249	$31,076,570

See notes to financial statements.

PADUCAH POWER SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

	2015	2014
Cash Flows from Operating Activities:		
Receipts from customers	$ 84,386,969	$ 78,847,580
Payments to suppliers	(59,229,793)	(62,604,598)
Payments to employees	(4,479,787)	(4,731,498)
Net cash provided by operating activities	20,677,389	11,511,484
Cash Flows from Capital and Related Financing Activities:		
Capital expenditures	(3,770,475)	(3,410,518)
Principal payments on long-term debt	(4,945,000)	(5,635,000)
Interest payments on long-term debt	(7,338,095)	(7,462,876)
Net borrowings on line of credit	(3,000,000)	3,000,000
Conservation loans	-	4,689
Bond insurance cost	(556,349)	-
Non-utility property and other assets	(109,943)	(161,075)
Net cash used by capital and related financing activities	(19,719,862)	(13,664,780)
Cash Flows from Investing Activities:		
Investment income	194,308	362,982
Non-operating income	12,715	33,910
Net cash provided by investing activities	207,023	396,892
Net increase (decrease) in cash and cash equivalents	1,164,550	(1,756,404)
Cash and cash equivalents, beginning of year	22,334,872	24,091,276
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 23,499,422	$ 22,334,872

(Continued)

PADUCAH POWER SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	**2015**	**2014**
Operating income	$ 8,609,921	$ 7,304,056
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	9,101,561	9,022,741
Provision for losses on accounts receivable		7,649
Changes in operating assets and liabilities:		
Accounts receivable	1,586,871	(1,785,412)
Net change in regulatory asset	2,819,308	(3,976,727)
Deferred pension cost	(276,094)	-
Interest receivable	22,583	(3,750)
Materials and supplies	125,982	69,523
Prepaid expenses	6,901	(1,568)
Rent receivable	-	(1,183)
Other miscellaneous assets	-	6,161
Accounts payable	(1,196,936)	1,065,928
Customer deposits	19,690	(19,812)
Accrued taxes and equivalents	(114,071)	(70,551)
Accrued interest payable	(38,789)	(56,268)
Other current and accrued liabilities	12,730	1,780
Other miscellaneous liabilities	(2,268)	(51,083)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 20,677,389	$ 11,511,484
Supplemental Disclosure of Noncash Financing Activities:		
Amortization of bond issue and discount costs	$ 276,749	$ 268,158
Supplemental Disclosure of Cash Paid For:		
Interest	$ 7,376,884	$ 7,519,144

See 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 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 purchased power in accordance with FERC accounting principles. Revenues are recognized under cycle billing and the cost of purchased power reflects costs through the last day of each reporting period. Accordingly, no accrual for unbilled revenues would be reflected in the financial statements. Under GAAP accounting principles, revenues and expenses are recognized as incurred. Accordingly, an accrual for unbilled revenues would be reflected in the financial statements.

Revenue and Expense Recognition

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. All operating expenses are recorded under the accrual method of accounting.

Operating Revenues and Expenses

Operating revenues consist primarily of charges to customers for the sale of power. Operating expenses consist of the cost of providing power, including administrative expenses. All other revenues and expenses are classified as non-operating.

Utility Plant

Changes in plant are accounted for at cost. Prior to July 1, 1974, contributions toward the construction of electric plant were accounted for through accumulated depreciation. After that date, the installed costs of electric plant additions are reduced by contributions. Acquired property is recorded at original cost to the person first devoting it to public service, and any difference (acquisition adjustment) between purchase price and the original cost less depreciation requirement at the date of acquisition is written off to expense over a period of twenty years.

(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued):

Maintenance, repairs, and minor renewals are expensed as incurred. When units are retired, the original cost of plant items is deducted from the plant assets and respective allowances for depreciation are reduced by the original cost of the plant, plus removal costs, less the salvage value. Accordingly, gains and losses from plant retirements are charged to accumulated depreciation.

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.

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, 2015 and 2014, receivables of $104,425 and $220,918 were over 60 days old.

Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amount of accounts receivable is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews accounts receivable balances that exceed 60 days from invoice date and based on an assessment of current credit worthiness, estimates the portion, if any, of the balance that will not be collected. Additionally, for the remaining aggregate accounts, management establishes a general allowance based on historical averages.

Investments

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

Materials and Supplies

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

Net Position

Net position is displayed in three components:

a. Investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation, and unpaid debt financing.

b. Restricted net position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued):

c. Unrestricted net position - All other net position that does not meet the definition of "restricted" or "investment in capital assets".

Use of Estimates

The preparation of financial statements in conformity with a prescribed regulatory basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Compensated Absences

Employees of the System are entitled to paid vacations, sick days, and other time off depending on job classification, length of service, and other factors and, accordingly, the System has recorded the accrual in the accompanying financial statements.

Deferred Outflows and Deferred Inflows

Deferred outflow of resources represents a consumption of net position by the System that is applicable to a future reporting period and will not be recognized as an outflow of resources (expenditure/expense) until that time. Deferred inflow of resources represents an acquisition of net position by the System that is applicable to a future reporting period and will not be recognized as an inflow of resources (revenue) until that time.

The system reports deferred inflows and outflows of resources with respect to their participation in the County Employee Retirement System as discussed further in note 7.

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.

Subsequent Events

Subsequent events were evaluated through October 16, 2015, which is the date the financial statements were available to be issued.

Note 2 - Deposits and Investments:

The investment policies of the System are governed by the State statute. In general, this requires that all deposits and investments, not covered by FDIC insurance, are to be collateralized. For the years ended June 30, 2015 and 2014, 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 $23,608,627 for the year ended June 30, 2015. The book balance was $23,499,422 including $2,900 of petty cash. Of the various financial institution balances at June 30, 2015, $500,000 was insured by federal depository insurance, and the remaining balance of $23,108,627 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 $23,108,627 was uninsured and collateralized by U.S. Treasury pooled investments not held in the System's name.

(Continued)

Note 2 - Deposits and Investments (Continued):

The financial institution balances of the System's deposits were $22,929,496 for the year ended June 30, 2014. The book balance was $22,384,872 including $2,900 of petty cash. Of the various financial institution balances at June 30, 2014, $500,000 was insured by federal depository insurance, and the remaining balance of $22,429,496 was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The remaining balance of $22,429,496 was uninsured and collateralized by U.S. Treasury pooled investments not held in the System's name.

Investments

The cost of these investments approximates fair value; therefore, only the cost basis as of June 30 is disclosed as follows:

Restricted Investments:	**2015**	**2014**
Sinking Fund:		
Money Market Fund	$15,356,869	$19,784,370
Total sinking fund	15,356,869	19,784,370
TOTAL RESTRICTED INVESTMENTS	$15,356,869	$19,784,370

The System's investment in CSA (Central Services Association, a former associated organization) reflects the System's proportionate share of CSA's excess revenues over expenses to help finance a new headquarters and reengineering software costs. Cash distributions net of accrued interest from the former associated organization reduce the investment account.

During fiscal year 2015 and 2014, the System invested $76,788 and $106,790, respectively, as a member in MuniNet Fiber Agency and this combined amount of $330,508 is reflected as an investment on the System's Statement of Net Position at June 30, 2015. The System purchases inventory for MuniNet Fiber Agency and bills for the inventory when it is used. The receivable from MuniNet Fiber Agency was $32,252 and $32,252 as of June 30, 2015 and 2014, respectively.

Note 3 - Capital Assets:

Capital assets activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	**Increases**	**Decreases**	**Ending Balance**
Capital Assets Not Being Depreciated:				
Land	$ 2,636,229	$ -	$ -	$ 2,636,229
Construction in progress	2,874,790	1,397,507	3,367,298	904,999
Total capital assets not being depreciated	5,511,019	1,397,507	3,367,298	3,541,228
Capital Assets Being Depreciated:				
Transmission system	10,372,166	2,185	-	10,374,351
Distribution system	81,519,079	3,798,720	647,750	84,670,049
General plant	17,164,508	1,616,690	239,958	18,541,240
Generation plant	110,661,988	-	-	110,661,988
Total capital assets being depreciated	219,717,741	5,417,595	887,708	224,247,628
Less accumulated depreciation	63,070,143	9,101,561	1,210,380	70,961,324
Total capital assets being depreciated, net	156,647,598	(3,683,966)	322,672	153,286,304
TOTAL CAPITAL ASSETS, NET	$162,158,617	$(2,286,459)	$3,044,626	$156,827,532

Depreciation expense totaled $9,101,561 for the fiscal year ended June 30, 2015.

(Continued)

Note 3 - Capital Assets (Continued):

Capital assets activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	$ 2,636,229	$ -	$ -	$ 2,636,229
Construction in progress	3,211,472	2,226,793	2,563,475	2,874,790
Total capital assets not being depreciated	5,847,701	2,226,793	2,563,475	5,511,019
Capital Assets Being Depreciated:				
Transmission system	10,365,605	6,561	-	10,372,166
Distribution system	79,292,296	2,647,851	421,068	81,519,079
General plant	16,841,496	2,163,168	1,840,156	17,164,508
Generation plant	110,631,286	30,702	-	110,661,988
Total capital assets being depreciated	217,130,683	4,848,282	2,261,224	219,717,741
Less accumulated depreciation	55,207,547	9,022,741	1,160,145	63,070,143
Total capital assets being depreciated, net	161,923,136	(4,174,459)	1,101,079	156,647,598
TOTAL CAPITAL ASSETS, NET	$ 167,770,837	$(1,947,666)	$3,664,544	$ 162,158,617

Depreciation expense totaled $9,022,741 for the fiscal year ended June 30, 2014.

Note 4 - Accounts Payable:

The elements comprising accounts payable are as follows:

	2015	2014
Due KMPA for purchased power	$4,103,646	$5,352,274
Accounts payable, general	1,007,725	956,033
TOTAL ACCOUNTS PAYABLE	$5,111,371	$6,308,307

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 Position.

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.

(Continued)

Note 5 - Long-Term Indebtedness (Continued):

On October 14, 2010, the System issued $3,015,000 in revenue refunding bonds with interest rates between 0.60% and 2.20%. The System issued the bonds to advance refund $3,045,000 of the outstanding series 2001 revenue bonds with interest rates between 3.00% and 4.25% which were secured by a first pledge of the net revenues of the System. The System used the net proceeds along with other resources to purchase State and Local Government Series Securities, which matured on January 1, 2011. The remaining principal outstanding and accumulated interest payable for the series 2001 revenue bonds were paid in full on January 1, 2011, the call date for the series 2001 revenue bonds. This portion of the series 2001 revenue bonds is considered defeased, and the System has removed the liability from its Statement of Net Position.

Changes in outstanding bonds:

	Total Series	Series 1998	Series 2001	Series 2009A	Series 2009B	Series 2010
Balance at June 30, 2013	$ 164,250,000	$ -	$ -	$ 159,240,000	$2,970,000	$2,040,000
Increases	-	-	-	-	-	-
Decreases	5,635,000	-	-	2,165,000	2,970,000	500,000
BALANCE AT JUNE 30, 2014	$ 158,615,000	$ -	$ -	$ 157,075,000	$ -	$1,540,000
Balance at June 30, 2014	$ 158,615,000	$ -	$ -	$ 157,075,000	$ -	$1,540,000
Increases	-	-	-	-	-	-
Decreases	4,945,000	-	-	4,440,000	-	505,000
BALANCE AT JUNE 30, 2015	$ 153,670,000	$ -	$ -	$ 152,635,000	$ -	$1,035,000
Balance due in one year	$ 5,100,000	$ -	$ -	$ 4,585,000	$ -	$ 515,000

Total bond service to maturity:

Maturities	Principal	Interest	Total
2016	$ 5,100,000	$ 7,189,389	$ 12,289,389
2017	5,240,000	7,038,944	12,278,944
2018	4,870,000	6,884,504	11,754,504
2019	5,035,000	6,720,989	11,755,989
2020	5,220,000	6,533,994	11,753,994
2021-2025	29,800,000	28,972,009	58,772,009
2026-2030	37,875,000	20,905,625	58,780,625
2031-2035	49,050,000	9,720,375	58,770,375
2036	11,480,000	301,350	11,781,350
TOTALS	$ 153,670,000	$ 94,267,179	$ 247,937,179

For the years ended June 30, 2015 and 2014, bonds payable totaling $151,132,721 and $155,945,043, respectively, are recorded net of $2,537,279 and $2,669,957, respectively, in unamortized bond discount and advance refunding deferred charges.

(Continued)

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:

Employees of Paducah Power System participate in the County Employees' Retirement System (CERS), a cost-sharing, multiple-employer, defined benefit pension plan, which is administered by the Kentucky Retirement Systems. The plan covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost of living (COLA) adjustments are provided at the discretion of the State legislature. Under the provisions of Kentucky Revised Section 61.645, the Board of Trustees of Kentucky Retirement Systems provides for the establishment of the system and benefit amendments are authorized by the State legislature. The Kentucky Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing or calling the plan:

Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, KY 40601-6124
(502) 564-4646.

Funding policies. Contribution rates are established by the Kentucky Revised Statutes. Plan members of CERS are required to contribute 5.000% of their annual covered salary, and Paducah Power System provides a contribution of 17.67% of that salary. The required contribution rate for fiscal year ending June 30, 2014 was 18.89%. For employees hired on September 1, 2008, or thereafter, an additional 1% must be contributed by employees to a health insurance account.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. At June 30, 2015, Paducah Power System reported a liability of $6,515,620 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Paducah Power System's proportion of the net pension liability was based on a projection of Paducah Power System's share of contributions to the pension plan relative to the total contributions of the all participating employers. At June 30, 2014, Paducah Power System's proportion was .200828%.

As a result of its requirement to contribute to CERS, Paducah Power System recognized pension expenses of $521,500 for the year ended June 30, 2015. At June 30, 2015, Paducah Power System reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirements to contribute to CERS:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Net differences between projected and actual earnings on pension plan investments	$ -	$727,301
System contributions subsequent to the measurement date	797,594	-
TOTALS	$797,594	$727,301

(Continued)

Note 7 – Pension Plan (Continued):

Deferred outflows of resources in the amount of $797,594 related to pensions resulting from system contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2016	$181,825
2017	181,825
2018	181,825
2019	181,825

The net pension liability as of June 30, 2015, is based on the June 30, 2014, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience or changes in assumptions subject to amortization. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

Actuarial assumptions. The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation – 3.5%
Salary increases – 4.5%, average including inflation
Investment rate of return – 7.75%, net of pension plan investment expense including inflation

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Mortality Table set forward five years is used for the period after disability retirement. The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which cover a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Discount rate. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2116. The target allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

(Continued)

Note 7 – Pension Plan (Continued):

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.5%
Private Equity	7%	11.25%
Real Estate	5%	7%
Core US Fixed Income	10%	5.25%
High Yield US Fixed Income	5%	7.25%
Non US Fixed Income	5%	5.5%
Commodities	5%	7.75%
TIPS	5%	5%
Cash	1%	3.25%
Total	100%	

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contributions rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Paducah Power System's proportionate share of the net pension liability to changes in the discount rate. The following presents Paducah Power System's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what Paducah Power System's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% 6.75%	Current 7.75%	1% 8.75%
Paducah Power System's proportionate share of the net pension liability	$8,574,116	$6,515,620	$4,696,885

Payables to the pension plan. At June 30, 2015, the financial statements include $0 in payables to CERS. These are legally required contributions to the plan. These amounts are not accounted for in the net pension liability.

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, 2015, 7 prior employees were receiving healthcare benefits. Post-retirement healthcare benefits totaled approximately $10,000 for the year ended June 30, 2015.

(Continued)

Note 8 - Post Retirement Healthcare Benefits (Continued):

For the year ended June 30, 2014, seven prior employees were receiving healthcare benefits. Post-retirement healthcare benefits totaled approximately $12,000 for the year ended June 30, 2014.

For the year ended June 30, 2013, seven prior employees were receiving healthcare benefits. Post-retirement healthcare benefits totaled approximately $15,000 for the year ended June 30, 2013.

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 $106,783 and $107,800, and rental income was $1,910,279 and $1,707,532 for the fiscal years ended June 30, 2015 and 2014, 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 Position.

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 was terminated in 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.

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. Prior to termination of the TVA contract, the System acted as a pass-through agent for TVA and has accounted for these loans as miscellaneous assets and miscellaneous liabilities. Temporary differences arise from timing difference of amounts recorded on the System's books versus TVA's books. The balances in these accounts should continue to diminish until the loans are paid in full as no new loans have been issued since termination of the TVA contract.

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

(Continued)

Note 13 - Joint Venture (Continued):

number of other public, cooperative, and private participants, in the development and ownership of the Prairie State Energy Campus (Project). The Project is a mine-mouth pulverized coal-fueled power generating facility in Washington and St. Clair Counties in Illinois with a nominal net output of approximately 800 MW for each of its two units.

On September 28, 2007, KMPA purchased a 7.82% interest in the Prairie State Project. KMPA owns its interest in the Project as a tenant in common along with the other Project participants. At the closing, KMPA acquired not only an interest in the equipment and intangible property, such as permits, comprising the Project, but also its proportional share of the coal reserves surrounding the Prairie State plant. The coal reserves are estimated to be sufficient to fuel the plant's operations for at least 30 years. At the closing, KMPA also entered into a Participation Agreement with the other Project participants under which KMPA is responsible for its proportional share of the construction costs of the generating plant, waste disposal site, and associated coal mine.

KMPA on September 20, 2007, issued its tax-exempt Power System Revenue Bonds (Prairie State Project), Series 2007A, in the amount of $291,065,000, and its Taxable Power System Revenue Bonds (Prairie State Project), Series 2007B, in the amount of $16,645,000. The proceeds of these bonds were used primarily to fund the purchase of KMPA's interest in the Project and KMPA's share of the ongoing Project construction costs. The remaining proceeds of the Series 2007A and Series 2007B bonds were used or will be used to (i) pay the costs of certain transmission facilities applicable to the interconnection of the Project to the regional bulk transmission grid, (ii) retire indebtedness (including KMPA Bond Anticipation Notes (Prairie State Project) Series 2005, Series 2005B, and Series 2006 in the respective amounts of $3 million, $1.5 million, and $8.4 million) issued to pay pre-closing Project development costs, (iii) fully fund the Debt Service Reserve Requirement, as defined in the Trust Indenture for the 2007A and Series 2007B bond issues, and capitalize a portion of the interest due on those bonds, (iv) make deposits into funds to provide working capital and into the Capital Improvement Fund to provide for extraordinary expenses of the Project, and (v) pay the costs of issuance related to the Series 2007A and Series 2007B bonds.

On September 1, 2007, KMPA and the System entered a Power Sales Agreement under which the System is responsible for 83.89% of KMPA's share of the Prairie State Project's construction costs and operation/maintenance expenses. The System is likewise entitled to 83.89% of KMPA's share of the electric power and energy produced by the plant. The Power Sales Agreement is a "take or 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.

On May 27, 2010, KMPA issued its tax-exempt Power System Revenue Bonds (Prairie State Project), Series 2010A, in the amount of $53,600,000, its taxable (Build America Bonds-Direct Pay) Power System Revenue Bonds (Prairie State Project), Series 2010B, in the amount of $122,405,000, and its taxable Power System Revenue Bonds (Prairie State Project), Series 2010C, in the amount of $7,725,000. The proceeds of these bonds were used primarily to fund the ongoing Project construction costs. The remaining proceeds of the Series 2010A, Series 2010B, and Series 2010C bonds were used or will be used to (i) finance the completion of the acquisition, construction, development, and equipping of KMPA's undivided interest in the Project (ii) settle KMPA's Qualified Hedge which locked in interest rates in 2007 with Deutsche Bank; the hedge settlement amount was $7,263,000, (iii) fully fund the Debt Service Reserve Requirement, as

(Continued)

Note 13 - Joint Venture (Continued):

defined in the Trust Indenture for the Series 2010A, Series 2010B, and Series 2010C bond issues, and capitalize a portion of the interest due on those bonds, (iv) make deposits into funds to provide working capital and into the Capital Improvement Fund to provide for extraordinary expenses of the Project, and (v) pay the costs of issuance related to the Series 2010A, Series 2010B, and Series 2010C bonds.

During fiscal year 2010, the System and the Electric Plant Board of Princeton, Kentucky entered into a Partial Requirements Sales Agreement with KMPA. Under this agreement, KMPA began purchasing power for sale to the System and Princeton; this arrangement will continue until the Prairie State Project is complete. Unit 1 of the Prairie State generating plant came on-line in June 2012 and Unit 2 in December 2012.

The System began buying purchased power from KMPA in December 2009. The System purchased power from KMPA in the amounts of $51,803,706 and $56,360,666 during the fiscal years ending June 30, 2015 and 2014, respectively. Of these amounts, $4,103,646 and $5,352,273 were payable to KMPA as of June 30, 2015 and 2014, respectively. The System also had a receivable due from KMPA as of June 30, 2015, for refunds and other credits related to purchased power in the amount of $-0- ; there was a receivable due from KMPA as of June 30, 2014 in the amount of $ 14,490.

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, 2015. Complete financial statements for KMPA can be obtained from Paducah Power's Accounting Department, P.O. Box 180, Paducah, Kentucky 42002-0180.

Note 14 - 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, 2015 and 2014, is as follows:

	2015	2014
Cash and temporary cash investments	$ 8,142,553	$ 2,550,502
Restricted cash and short-term investments:		
Sinking and Depreciation Funds	15,356,869	19,784,370
TOTAL CASH AND CASH INVESTMENTS	$23,499,422	$22,334,872

Note 15 - Change in Accounting Principle and Restatement of Beginning Net Position:

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, Accounting *and Financial Reporting for Pensions*, which amends GASB Statement No. 27. The new standard addresses several issues regarding public pension plans, including the liabilities reported pertaining to unfunded portions and the disclosure requirements of those plans. The standard is effective for Paducah Power System for the fiscal year beginning July 1, 2014. The new standard requires Paducah Power System to report its proportionate share of the total net pension liability of the County Employee Retirement System Plan as a liability on the statement of net position and on the statement of revenues, expenses, and changes in net position. The standard also requires the deferral of changes in the net pension liability and amortization of those changes over set periods.

(Continued)

Note 15 - Change in Accounting Principle and Restatement of Beginning Net Position (Continued):

Paducah Power System's proportionate share of the net pension liability and deferred outflows at July 1, 2014 was $7,591,743 and $870,322, respectively. Beginning net position at July 1, 2014, has been adjusted to reflect this.

Net position July 1, 2014, as previously stated		$31,076,570
Proportionate share of net pension liability	$(7,591,743)	
Deferred outflows:		
Contributions made after the measurement date	870,322	
Adjustments to net position		(6,721,421)
NET POSITION JULY 1, 2014, AS RESTATED		$24,355,149

The net position at June 30, 2013 and related deferred outflows and inflows could not be determined in a practical manner. Therefore, net position at June 30, 2013 has not been restated and is presented based on previous guidance under GASB Statement No. 27.

Note 16 - Contingency:

The system has been named in a lawsuit by a former employee disputing the amount due upon their separation of employment. The system intends to defend this claim vigorously and it is the current opinion of management that the final disposition of such matters will not have a material adverse effect on the Company's consolidated financial position or results of operations.

SUPPLEMENTARY INFORMATION

PADUCAH POWER SYSTEM
OPERATING EXPENSES
YEARS ENDED JUNE 30

General Operating Expenses:	2015	2014
Transmission:		
Supervision and engineering	$ 10,275	$ 10,448
Rent	8,756	7,078
Total transmission	19,031	17,526
Distribution expense:		
Supervision and engineering	206,648	206,701
Station expense	74,125	68,298
Overhead line expense	109,934	116,225
Underground line expense	105,872	95,715
Street lighting and signal expense	40,317	54,840
Meter expense	466,395	483,582
Customer installations expense	142,145	174,189
Miscellaneous	728,252	702,080
Rent/lease/purchase	106,783	107,800
Total distribution expense	1,980,471	2,009,430
Customer account expense:		
Meter reading expense	207,273	206,207
Customer records and collections	1,304,855	1,221,990
Uncollectible accounts	360,798	345,350
Total customer account expense	1,872,926	1,773,547
Sales expense:		
Demonstration and selling	293,037	232,529
Advertising	102,451	74,344
Total sales expense	395,488	306,873
Administrative and general:		
Salaries	726,104	836,826
Office supplies and expense	565,719	634,286
Outside services employment	720,454	496,592
Property insurance	520,191	530,017
Company use of electricity	(225,670)	(225,103)
Miscellaneous and general expense	717,926	874,714
Total administrative and general	3,024,724	3,147,332
TOTAL GENERAL OPERATING EXPENSES	$ 7,292,640	$ 7,254,708

(Continued)

PADUCAH POWER SYSTEM
OPERATING EXPENSES
YEARS ENDED JUNE 30

	2015	2014
Generation Plant Expense:		
Generation expense	$ 945,492	$ 838,426
Generation fuel	535,100	401,424
TOTAL GENERATION PLANT EXPENSE	$ 1,480,592	$ 1,239,850
Maintenance Expense:		
Transmission:		
Supervision and engineering	$ 10,275	$ 10,031
Total transmission	10,275	10,031
Distribution:		
Supervision and engineering	44,457	44,713
Maintenance of station equipment	343,069	375,281
Maintenance of overhead lines	790,477	734,031
Maintenance of underground lines	39,422	54,374
Maintenance of line transformers	28,474	50,526
Street lighting and signals	263	1,080
Maintenance of meters	21,092	20,382
Maintenance of miscellaneous plant	745	853
Total distribution	1,267,999	1,281,240
Administrative and general	114,794	147,321
TOTAL MAINTENANCE EXPENSE	$ 1,393,068	$ 1,438,592
Other Operating Expenses:		
Depreciation	$ 8,923,451	$ 8,843,428
Taxes and equivalents	1,933,417	1,967,746
TOTAL OTHER OPERATING EXPENSES	$10,856,868	$10,811,174

REQUIRED SUPPLEMENTARY INFORMATION

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

	2015
Employer's proportion of the net pension liability (asset)	0.200828%
Employer's proportionate share of the net pension liability (asset)	$6,515,620
Employer's covered-employee payroll	$4,513,829
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	144.35%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

* The amounts presented for the fiscal year were determined as of June 30, of the prior year. Until a full 10 - year trend is compiled, information will only be presented for those years which information is available.

NOTE: This schedule is determined as of the employer's most recent fiscal year-end.

PADUCAH POWER SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
COUNTY EMPLOYEE'S RETIREMENT SYSTEM (CERS)
LAST 10 FISCAL YEARS*

	2015	2014	2013	2012	2011	2010
Contractually required contribution	$ 797,594	$ 870,322	$ 935,618	$1,143,320	$ 949,054	$ 984,860
Contributions in relation to the contractually required contribution	797,594	870,322	935,618	1,143,320	949,054	984,860
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Employer's covered-employee payroll	$4,513,829	$4,607,316	$4,785,770	$6,030,169	$5,605,753	$6,094,431
Contributions as a percentage of covered-employee payroll	17.67%	18.89%	19.55%	18.96%	16.93%	16.16%

NOTE: The amounts presented for each fiscal year were determined as of June 30 of the current year. Until a full 10 - year trend is compiled, information will only be presented for those years available.

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

To the Board of Directors
Paducah Power System
Paducah, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Paducah Power System as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise Paducah Power System basic financial statements, and have issued our report thereon dated October 16, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Paducah Power System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Paducah Power System's internal control. Accordingly, we do not express an opinion on the effectiveness of Paducah Power System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Paducah Power System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit; and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Williams, Williams & Lentz LLP

Paducah, Kentucky
October 16, 2015

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 for the four months ending October 31, 2015. Comparisons are available on several financial and supplemental statements throughout this analysis.

FINANCIAL HIGHLIGHTS

- Cash and Cash Reserves increased by $11.8M compared to October 2014.
- Non-Current Liabilities include a $6.5M pension liability in October 2015.
- The $3.4M PCA deficit in October 2014 is now a $3.5M surplus or liability in October 2015.
- Purchased Power cost is decreased by $4.7M.

REQUIRED FINANCIAL STATEMENTS

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

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

The Statement of Net Position 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.

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

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

NET POSITION

CONDENSED STATEMENTS OF NET POSITION
For four months ended October 31

	FY16	FY15
Current assets	$ 24,360,190	$ 13,180,963
Non-current assets	9,065,150	15,335,211
Deferred debits & other assets	3,484,227	6,466,291
Capital assets	155,206,757	160,232,629
Total assets	192,116,324	195,215,095
Deferred Outflows of Resources	797,593	-
Current liabilities	13,134,769	16,092,209
Non-current liabilities	10,249,513	308,183
Long-term debt	140,836,946	145,944,269
Total liabilities	164,221,228	162,344,661
Deferred Inflows of Resources	727,301	-
Invested in capital assets, net of related debt	9,127,810	9,188,360
Restricted for capital projects	-	-
Restricted for debt service	9,065,150	15,335,211
Unrestricted net assets	9,770,429	8,346,863
TOTAL NET ASSETS	$ 27,965,389	$ 32,870,435

Current assets represent items such as cash and temporary investments, accounts receivable, materials and supplies, prepaid expenses, accrued interest receivable, and rents receivable. Current assets increased by $11.2 million.

Cash and Cash Reserves increased by $11.8 million during the first four months of FY16 compared to FY15. This is primarily the result of revenue increases through the power cost adjustment collecting more than the actual cost of purchased power. Additionally, the replace of debt service reserve with a surety bond allowed for the effective defeasement of the principal portion of debt payments resulting in increased cash on hand. Materials and Supplies (Inventory) decreased by $130 thousand and Accounts Receivable decreased by $459 thousand.

Non-current assets include restricted funds such as bond sinking funds and debt service reserve funds. The amounts required vary by year based on the amount of the principle and interest payments as well as the total debt outstanding. These funds decreased by $6.3M. This is the result of the replacement of the debt service reserve fund with a surety bond. The released debt service reserve funds are escrowed to reduce principal of outstanding long-term debt.

Deferred Debits and Other Assets include items such as the Power Cost Adjustment balance which is defined as Other Regulatory assets by FERC, unamortized debt discounts, conservation loan receivables and other investments. The Power Cost Adjustment balance accrued as unbilled revenue decreased by $3.5M as these cost were recovered through the retail rates charged since October 2014. With the termination of the TVA wholesale power contract in 2009, Energy Right conservation loans are no longer available to PPS customers resulting in a declining balance over time. October FY16 also includes an additional investment amount of $91 thousand in MuniNet. This includes PPS's portion of MuniNet's debt service payments and legal fees.

Capital assets include land, transmission system, distribution system, general plant, generation plant, and construction work in progress net of accumulated depreciation. The decrease in capital assets is the result of depreciation of the peaking plant, high pressure gas line and associated substation/transmission upgrades.

Current liabilities represent items such as accounts payable, customer deposits, accrued taxes, interest payments, balance of the bank line-of-credit and the current portion of any long-term debts. Total Current Liabilities are decreased by $3.0M. Accounts payable decreased by $1.0M. PPS also eliminated the $2 million outstanding balance on a bank line-of-credit with Regions Bank from October 2014.

Non-current liabilities primarily represent energy conservation loans, the Power Cost Adjustment balance which is defined as Other Regulatory debits by FERC. Additionally, October 2015 includes a Net pension liability as required by GASB 34. The over-collection balance of the PCA at the end of October 2015 was $3.5M and the net pension liability was $6.5M. Both these balances were $0 at the end of October 2014.

Long-term debt represents the long-term portion of revenue bonds, net of unamortized discounts and advanced refunding deferred charges. Outstanding revenue bonds include $3 million issued in October 2010 to defease a previous 2001 bond issue as well as $170 million issued in January 2009 for the construction of the peaking plant, gas-line, and transmission/substation upgrades. This will continue to decrease as the bonds are repaid.

Net assets are broken down into three major categories: Invested in Capital Assets Net of Related Debt, Restricted Net Assets, and Unrestricted Net Assets. Restricted net assets include debt service reserve funds and sinking funds deposits which decreased with the replacement of debt service reserve funds with a surety bond. Unrestricted net assets increased by $1.4 million.

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For four months ended October 31

	FY16	FY15	Change	% Change
Electrical sales revenue	$29,675,280	$29,872,706	$ (197,426)	-0.7%
Miscellaneous revenue	(3,555,839)	471,302	(4,027,141)	N/A%
Total operating revenue	26,119,441	30,344,008	(4,224,567)	-13.9%
Purchased power cost	14,267,886	18,943,570	(4,675,684)	-24.7%
General operating expense	2,235,861	2,622,279	(386,418)	-14.7%
Generation plant expense	540,151	431,359	108,792	25.2%
Maintenance expense	533,794	479,232	54,562	11.4%
Other operating expense	3,655,132	3,644,325	10,807	0.3%
Non-operating expense	2,478,508	2,429,379	49,129	2.0%
Total expenses	23,711,332	28,550,144	(4,838,812)	-16.9%
Changes in net position	2,408,139	1,793,864	$ 614,275	

Paducah Power System's electric sales revenue remained flat even with a reduction in the PCA rate from 2.15¢ to 1.656¢. Miscellaneous revenue is decreased due to the elimination of the Power Cost Adjustment deficit balance. Purchased power cost decreased over last year by $4.7 million

General operating expense decreased by $386 thousand.

Generation plant expenses were increased by $109 thousand or 25% over last October due to the peaking plant generating 7,612 MWh versus 2,583 MWh.

Maintenance expense increased by $55 thousand over the FY15 figures. The change in other operating expense is directly attributed to increases in depreciation expense. The increase in non-operating expense is directly related to decreases in interest income.

CASH FLOWS

STATEMENTS OF CASH
For Four Months Ended October 31

	FY16	FY15
Cash Flows from Operating Activities:		
Receipts from customers	$ 27,931,253	$ 32,582,837
Payments to suppliers	(14,080,421)	(22,682,649)
Payments to employees	(1,606,575)	(1,556,972)
Net cash provided (used) by operating activities	12,244,257	8,343,217
Cash Flows from Capital and Related Financing Activities:		
Capital expenditures	(1,462,166)	(1,095,261)
Proceeds from issuance of long-term debt	-	-
Principal payments on long-term debt	(5,100,000)	(4,945,000)
Interest payments on long-term debt	(3,639,831)	(3,725,162)
Net borrowings on line of credit	-	(1,000,000)
Bond issuance cost	-	-
Conservation loans	-	(550)
Non-utility property and other assets	326	326
Net cash used by capital and related financing activities	(10,201,671)	(10,765,647)
Cash Flows from Investing Activities:		
Purchases of investments	$ (24,693)	$ (10,448)
Proceeds from investments	-	-
Investment income	33,606	124,717
Non-operating income	1,454	12,813
Net cash provided by investing activities	10,366	127,082
Net increase/(decrease) in cash and cash equivalents	2,052,952	(2,295,349)
Cash and cash equivalents, beginning of year	23,499,422	22,334,872
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 25,552,374**	**$ 20,039,523**

Receipts from customers decreased with the reduction in the power cost adjustment rate. The change in payments to suppliers reflects the lower cost of purchased power from KMPA in FY15. Electric plant capital expenditures are historically in the $4 to $5 million range per year. FY15 and FY16 capital expenditures are lower than historical averages due to cost saving measures and neither year including any major capital projects. FY15 reflects a payment of $1 million towards the line-of-credit reducing the outstanding balance to $2 million. While FY16 does not include a payment on the line-of-credit, the remaining $2 million balance was paid during the last half of FY15.

FINANCIAL OUTLOOK AND ELECTRIC RATE CHANGES

In 2013, The Board hired Black & Veatch to complete a retail rate study based on anticipated power cost from Prairie State Generating Company, South East Power Administration, AMP hydro projects and PPS gas-turbines. The Board of Directors voted to implement the recommended rate increases in November 2012, April 2013 and April 2014. Included in the Board action was the implementation of a Power Cost Adjustment (PCA) clause beginning in November 2014. The PCA is intended to account for any difference (plus or minus) in the actual power cost and the power cost included in the base retail rates.

During fiscal year 2014 Paducah Power purchased almost all its base and intermediate power from Kentucky Municipal Power Agency and either generated or purchased from the open market its peaking load requirements. During the year, the Power Cost Adjustment reached a high of 3.59¢ per kWh.

Purchased power costs were significantly higher than projected resulting in increased power cost adjustment rates to retail customers. Low market prices produced less revenue from the sale of Prairie State energy into the market. This revenue is used to offset the cost of purchased power to meet PPS electric load. PPS also realized price differentials between the node where Prairie State energy is liquidated in the MISO market and the node where PPS purchases it power from the market. This price differential or transmission congestion has averaged around $9/MW. Additionally, Prairie State continued to battle startup issues related to plant which resulted in lower than projected capacity ratings

To address the increased power cost and associated rate impacts to customers, in November, 2014, the PPS Board of Directors approved an Action Plan with several key goals. The first goal was to stabilize the PPS finances and power cost. Additional goals in FY15 included no increase in the PCA rate of 2.15¢ while eliminating the PCA balance by year end. As part of the plan, PPS changed portfolio managers approving a contract with American Municipal Power. The plan also includes reductions in debt service for KMPA and Paducah by replacing portions of the Debt Service Reserve Funds with Surety Bonds. These funds will be used to effectively defease principal payments over the next several years. KMPA also advance refunded a portion of its 2007A&B bond issue which also reduced debt service cost. Reductions in KMPA debt service and improved performance from Prairie State are realized as reductions in power cost to its members including PPS.

The portfolio management contract with American Municipal Power includes efforts to market the generation assets held by KMPA and PPS in order to eliminate excess capacity from the total portfolio. PPS, through its assets and contracts with AMP and KMPA, has a total MW capacity of approximately 239MW. PPS has base load of approximately 70MW with an all-time high peak demand of 161MW.

Fiscal year 2015 projections included in the Action Plan reflected increasing debt service coverage ratios and much improved cash positions while maintaining a 2.15¢ PCA during FY15 and reducing the power cost adjustment in FY16.

At fiscal year-end 2015, the PCA deficit was reduced to $1.1 million and the debt service coverage ratio was 1.44 times. In June 2015, the Board of Directors passed a motion to convert the PCA calculation to an annual rate. The PCA rate for FY 2016 is 1.656¢, down 23% from the 2.15¢ PCA rate in FY 2015.

Through October with the new 1.656¢ PCA rate, the PCA deficit balance has been eliminated and a PCA surplus of $3.5 million has been collected.

CONTACTING THE PADUCAH POWER SYSTEM FINANCIAL MANAGER

This financial report is designed to provide customers and creditors with a general overview of Paducah Power System's finances and to demonstrate the utility's accountability for the money it receives. If you have questions concerning this report or need additional financial information, please contact Paducah Power System, David C. Carroll, Director of Finance and Administration at P.O. Box 0180, Paducah, KY 42002-0180.

PADUCAH POWER SYSTEM
INTERIM STATEMENTS OF NET POSITION
FOR THE FOUR MONTHS ENDED OCTOBER 31

ASSETS

	2015	2014
Current Assets:		
Cash and temporary cash investments	$ 10,942,974	$ 2,615,589
Cash reserves	5,544,250	2,088,723
Accounts receivable - net of allowance for doubtful accounts of $35,102 in 2015 and $36,367 in 2014	5,937,626	6,396,702
Receivable from MuniNet Fiber Agency	32,252	32,252
Materials and supplies	1,300,717	1,430,415
Prepaid expenses	440,112	448,791
Accrued interest receivable	(1,951)	4,281
Rent receivable	164,211	164,211
Total current assets	24,360,190	13,180,963
Noncurrent Assets:		
Restricted assets:		
Sinking Fund	9,065,150	15,335,211
Total restricted assets	9,065,150	15,335,211
Utility Plant:		
Land	2,636,229	2,636,229
Transmission system	10,437,921	10,372,505
Distribution system	85,324,647	81,979,114
General plant	18,986,587	17,343,459
Generation plant	110,661,988	110,661,988
Construction work in progress	858,173	2,985,152
Less accumulated depreciation	(73,698,787)	(65,745,818)
Total utility plant	155,206,757	160,232,629
Deferred debits and other assets:		
Investment in CSA	26,740	26,740
Investment in SEDC	159,422	140,508
Investment in MuniNet Fiber Agency	355,201	264,168
Unamortized debt discount	2,755,129	2,351,825
Regulatory credits	-	3,504,717
Other miscellaneous assets	156,887	146,506
Unemployment Trust Fund	29,154	29,154
Non-utility property	1,695	2,673
Total other assets	3,484,227	6,466,291
Total noncurrent assets	167,756,134	182,034,132
Total assets	192,116,324	195,215,095

DEFERRED OUTFLOWS OF RESOURCES

	2015	2014
Pension plan contributions subsequent to the measurement date	797,593	-

LIABILITIES

Current Liabilities:	2015	2014
Accounts payable	$ 4,066,388	$ 5,066,431
Customer deposits	822,411	783,761
Accrued taxes and equivalents	1,610,988	1,712,684
Accrued interest	613,965	629,737
Other current and accrued liabilities	781,017	799,595
Line of credit	-	2,000,000
Bonds payable	5,240,000	5,100,000
Total current liabilities	13,134,769	16,092,209
Noncurrent Liabilities:		
Long-term debts:		
Bonds held by public	140,836,946	145,944,269
Advances for conservation loans	-	14,670
Other unearned revenues	280,130	293,513
Regulatory debits	3,453,763	-
Net pension liability	6,515,620	-
Total noncurrent liabilities	151,086,459	146,252,452
Total liabilities	164,221,228	162,344,661

DEFERRED INFLOWS OF RESOURCES

Difference between projected and actual earnings	727,301	-

NET POSITION

Invested in capital assets, net of related debt	9,129,810	9,188,360
Restricted for:		
Debt service	9,065,150	15,335,211
Unrestricted - net position	9,770,429	8,346,863
TOTAL NET POSITION	$ 27,965,389	$ 32,870,435

PADUCAH POWER SYSTEM
INTERIM STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
FOR THE FOUR MONTHS ENDED OCTOBER 31

	2015	2014
Operating Revenues:		
Charges for services:		
Residential	$ 12,307,511	$ 11,965,970
Large lighting and power	13,357,880	13,879,109
Small lighting and power	3,461,111	3,460,148
Street and outdoor	548,779	567,479
Total charges for services	29,675,280	29,872,706
Miscellaneous:		
Forfeited discounts	197,509	193,228
Service revenue	857,634	749,885
Regulatory credits	(1,157,419)	(472,010)
Regulatory debits	(3,453,763)	-
Other electric revenue	200	200
Total miscellaneous	(3,555,839)	471,302
Total operating revenues	26,119,441	30,344,008
Purchased Power and Operating Expenses:		
Purchased power cost	14,267,886	18,943,570
General operating expense	2,235,861	2,622,279
Generation plant expense	540,151	431,359
Maintenance expense	533,764	479,232
Other operating expense	3,655,132	3,644,325
Total purchased power and operating expenses	21,232,794	26,120,765
Operating income (loss)	4,886,647	4,223,243
Nonoperating Revenues (Expenses):		
Interest paid on indebtedness	(2,416,083)	(2,478,398)
Investment income	33,606	124,717
Net amortization discount and premium on debt	(97,484)	(88,511)
Nonoperating income	1,454	12,813
Total nonoperating revenues (expenses)	(2,478,508)	(2,429,379)
Change in net position	2,408,139	1,793,864
Net position, beginning of fiscal year	25,557,249	31,076,570

PADUCAH POWER SYSTEM
INTERIM STATEMENTS OF CASH FLOWS
FOR THE FOUR MONTHS ENDED OCTOBER 31

Cash Flows from Operating Activities:	**2015**	**2014**
Receipts from customers	27,931,253	32,582,837
Payments to suppliers	(14,080,421)	(22,682,649)
Payments to employees	(1,606,575)	(1,556,972)
Net cash provided (used) by operating activities	12,244,257	8,343,217
Cash Flows from Capital and Related Financing Activities:		
Capital expenditures	(1,462,166)	(1,095,261)
Principal payments on long-term debt	(5,100,000)	(4,945,000)
Interest payments on long-term debt	(3,639,831)	(3,725,162)
Net borrowings on line of credit	-	(1,000,000)
Conservation loans	-	(550)
Non-utility property and other assets	326	326
Net cash used by capital and related financing activities	(10,201,671)	(10,765,647)
Cash Flows from Investing Activities:		
Purchases of investments	(24,693)	(10,448)
Investment income	33,606	124,717
Non-operating income	1,454	12,813
Net cash provided by investing activities	10,366	127,082
Net decrease in cash and cash equivalents	2,052,952	(2,295,349)
Cash and cash equivalents, beginning of fiscal year	23,499,422	22,334,872
CASH AND CASH EQUIVALENTS, END OF YEAR	25,552,374	20,039,523

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APPENDIX D

KENTUCKY MUNICIPAL POWER AGENCY

POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2016A

Audited Financial Statements of the Princeton Electric Plant Board

for Fiscal Years ended June 30, 2014 and 2015;

Unaudited Financial Statements

for the Four-Month Periods Ended October 31, 2014 and 2015

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ELECTRIC PLANT BOARD

OF THE

CITY OF PRINCETON, KENTUCKY

FINANCIAL STATEMENTS

YEARS ENDED

JUNE 30, 2015 AND 2014

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY

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Michael A. Kem, CPA
Sandra D. Duguid, CPA
Anna B. Gentry, CPA

Walter G. Cummings, CPA

Kem, Duguid & Associates, PSC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of the
Electric Plant Board of the
City of Princeton, Kentucky
Princeton, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Princeton Electric Plant Board of the City of Princeton, Kentucky (PEPB) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Princeton Electric Plant Board of the City of Princeton, Kentucky's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Princeton Electric Plant Board of the City of Princeton, Kentucky as of June 30, 2015 and 2014, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 22 to the financial statements in 2015, the Electric Plant Board of the City of Princeton, Kentucky adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Electric Plant Board of the City of Princeton, Kentucky's basic financial statements. The accompanying additional information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2015, on our consideration of the Electric Plant Board of the City of Princeton, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Electric Plant Board of the City of Princeton, Kentucky's internal control over financial reporting and compliance.

Kem, Duguid & Associates, P.S.C.

Kem, Duguid & Associates, P.S.C.

Certified Public Accountants
Princeton, Kentucky

October 12, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

The management of Princeton Electric Plant Board of the City of Princeton (PEPB, the "Board") offers Management's Discussion and Analysis to provide an overview and analysis of the Board's financial activities for the year ended June 30, 2015. To fully understand the entire scope of the Board's financial activities, this information should be read in conjunction with the financial statements provided in this document.

FINANCIAL HIGHLIGHTS

- The assets of PEPB exceeded its liabilities at the close of the 2015 fiscal year by $9,217,794 (*net position*). Of this amount, $4,933,100 (*unrestricted net position*) may be used to meet the Board's ongoing obligations to citizens and creditors.

- The Board's total net position decreased by $1,920,650 during the period. The components of this decrease were a decrease in net position of electric operations of $146,071; a decrease in net position of broadband operations of $73,579; and a prior period adjustment of $1,701,000 decreasing the beginning net position to implement GASB 68 related to incorporating the net pension liability into the financial statements of the Utility.

- Total operating revenues for the 2015 fiscal year increased by $275,770 or about 1.87% compared to the previous period. This increase in operating revenues was principally due to higher sales (a .2% increase from the prior year) and 12 months of higher rate. The rate increase implemented in FY 2014 only affected nine months of FY 2014.

- FY 2015 operating expenses totaled $14,234,540 which was $111,103 or about .77% less than the previous year's amount. This decrease in operating expenses was principally due to a decrease in power cost and depreciation expense.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements. The Board operates as a utility enterprise and presents its financial statements using the economic resources measurement focus and the full accrual basis of accounting. In layman's terms, this presentation means that financial information is reported using the accounting methods similar to those followed by private sector companies. The statements offer both short-term and long-term financial information about the activities of Princeton Electric Plant Board. And to further aid the reader with analysis and comprehension of the information presented, financial data for two years is provided.

The basic financial statements provide information about the Board's business-type activities. The financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

REQUIRED FINANCIAL STATEMENTS FOR BUSINESS-TYPE ACTIVITIES

In reporting on the operations of its enterprise fund, the Board's basic financial statements include a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. To help provide our users with a contextual frame of reference, comparative information from the financial statements of the previous fiscal year is also provided. The financial statements also include notes that are considered essential to a full understanding of the data that is being presented on the face of the statements. The primary purpose of the notes is to provide additional discussion, enhanced disclosures and tabular presentation of data to further explain information in the financial statements and to provide more detailed data.

The information contained on the **Statement of Net Position** represents all of the Board's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to the Board's creditors (liabilities). It also provides the basis for computing rate of returns, evaluating the capital structure of the Board, and assessing the liquidity and financial flexibility of the Board.

All of the current year's revenues and expenses are accounted for in the **Statement of Revenues, Expenses and Changes in Net Position.** This statement measures the success of the Board's operations over the past year and can be used to determine whether PEPB has successfully recovered all of its costs through user fees and other charges. It provides the user with basic financial information about the profitability and credit worthiness of the Board.

The final required financial statement is the **Statement of Cash Flows**. The primary purpose of this statement is to provide information about the Board's cash receipts and cash payments during the fiscal year. The statement reports cash receipts, cash payments and net changes in cash resulting from operating; capital and related financing; and investing activities. Again to put it into layman's terms, the purpose of this statement is to tell the user where the Board's cash came from, what the cash was used for, and by how much the cash balance changed over the course of the fiscal year.

When analyzing the financial statements of Princeton Electric Plant Board's business-type activities, the primary consideration should be whether the Board as a whole is financially better off or worse off as a result of the year's activities. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position are designed to report information about the Board's activities that will help the user determine how good or bad a year it was from a financial perspective. PEPB's two statements report the net position of the Board and changes in the net position.

One can think of the Board's net position (i.e., the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases or decreases in the Board's net position are a general indicator of whether its financial health is improving or deteriorating. In addition to the relative change in net position, one will also have to take into consideration the impact on operations of other non-financial factors and external influences. PEPB's would include, but are not limited to, economic conditions, population growth, changes in governmental legislation, and the issuance of new regulations and the utilization of new technologies.

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

Financial Analysis of the Fiscal Year Ended June 30, 2015

Over the past year, total assets of the Board decreased by $2,221,796 while total liabilities decreased by $245,340. And for the current period, the net operating income of the Board totaled $801,205. Net operating income includes $874,784 from Electric and ($73,579) from Broadband.

Condensed Statements of Net Position

The Statement of Net Position, shown in tabular format below, represents information on all of the Board's assets and liabilities with the difference between the two reported as net position. The Board's total net position decreased from the prior year by $1,920,650 or about 17.24% for the period.

Our analysis that follows focuses on the Board's net position (shown in Table 1) and the changes in net position (shown in Table 2) during the year.

TABLE 1
Condensed Statements of Net Position

	Fiscal Year		Change in FY 2014 to FY 2015	
	2015	2014	Amount	Percent
Current and other assets	$ 11,123,520	$ 12,593,184	$ (1,469,664)	-11.67%
Capital assets	20,498,772	21,250,904	(752,132)	-3.54%
TOTAL ASSETS	31,622,292	33,844,088	(2,221,796)	-6.56%
Deferred outflows	203,006	-	203,006	100%
Current liabilities	2,494,106	2,623,603	(129,497)	-4.94%
Long-term liabilities	19,966,198	20,082,041	(115,843)	-0.58%
TOTAL LIABILITIES	22,460,304	22,705,644	(245,340)	-1.08%
Deferred inflows	147,200	-	147,200	100%
Invested in utility plant, net of related debt	1,703,374	683,863	1,019,511	149.08%
Restricted for debt service	2,581,320	3,090,153	(508,833)	-16.47%
Unrestricted	4,933,100	7,364,428	(2,431,328)	-33.01%
TOTAL NET POSITION	$ 9,217,794	$ 11,138,444	$ (1,920,650)	-17.24%

Analysis of Net Position

To better understand the Board's actual financial position and its ability to deliver services in future periods, the reader will need to review the various components of the net asset category and obtain an understanding of how each relate specifically to the business activities that we perform.

TABLE 2
Components of Net Postion

	Fiscal Year		Change FY 2014 to FY 2015	
	2015	2014	Amount	Percent
Invested in capital assets, net of related debt	$ 1,703,374	$ 683,863	$ 1,019,511	149.08%
Restricted	2,581,320	3,090,153	(508,833)	-16.47%
Unrestricted	4,933,100	7,364,428	(2,431,328)	-33.01%
	$ 9,217,794	$ 11,138,444	$ (1,920,650)	-17.24%

For the 2015 fiscal year, *Net Position Invested in Capital Assets, Net of Related Debt* increased by $1,019,511 or 149.08% compared to previous year. The amount shown in this category is calculated by taking the depreciated value of our capital assets and subtracting the associated bond debt. The significance of this increase on future operations is that it represents additional equity that the Board has accumulated in its plant, equipment and infrastructure.

In comparing the total amount of *Restricted Net Position* with the previous fiscal year, there was a decrease of $508,833 or 16.47%. The components of this category consist of Series 2009 A and C and Series 2015 bond reserve funds, customer deposits and capital improvement fund.

Compared to the prior year's balance, there was a decrease in the *Unrestricted Net Position* category of $2,431,328 or 33.01%.

Unrestricted net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Analysis of Current Assets

The textbook definition of "current assets" is balance sheet items which equal the sum of cash and cash equivalents, accounts receivable, inventory, marketable securities, prepaid expenses, and other assets that could be converted to cash in less than one year. Current assets are important in any financial analysis because it is from current assets that a business funds its ongoing, day-to-day operations. A comparison of the June 30, 2015 and 2014 balances by asset classification is shown in the table below.

TABLE 3
Components of Current Assets

	Fiscal Year		Change from FY 2014 to FY 2015	
	2015	2014	Amount	Percent
Cash and cash equivalents	$ 3,325,363	$ 3,981,340	$ (655,977)	-16.48%
Accounts receivable	1,194,338	1,294,242	(99,904)	-7.72%
Heat pump loans	-	773	(773)	-100.00%
Unbilled revenue	445,380	482,273	(36,893)	-7.65%
Inventories	301,772	296,027	5,745	1.94%
Other current assets	23,513	380,337	(356,824)	-93.82%
	$ 5,290,366	$ 6,434,992	$ (1,144,626)	-17.79%

Analysis of Noncurrent Assets

Noncurrent assets represent assets that are not reasonably expected to be realized in cash or sold or consumed during the next fiscal year. When making the distinction between whether an asset should be considered current or noncurrent, liquidity or nearness to cash is not the proper basis for determining the classification. In making this determination, any encumbrances on the use of the asset must be considered. Thus, cash investments intended for liquidation of liabilities due beyond the one-year period are noncurrent assets, as are assets segregated or restricted for the liquidation of long-term debts (including amounts due within the next operating cycle). Assets designated to be used to acquire, construct, or improve capital assets would also be noncurrent.

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In the following table, the Noncurrent Assets of the Board at June 30, 2015 and 2014 are compared by major classification. As indicated by the tabular information, total noncurrent assets decreased by $1,077,170 or 3.93% during the 2015 fiscal year.

TABLE 4
Components of Noncurrent Assets

	Fiscal Year		Change from FY 2014 to FY 2015	
	2015	2014	Amount	Percent
Restricted:				
Investments - special funds	$ 2,581,320	$ 3,090,153	$ (508,833)	-16.47%
Investment in affiliated organizations	152,360	120,133	32,227	26.83%
Nonutility property	749,481	771,525	(22,044)	-2.86%
Deferred charges	2,349,993	2,176,381	173,612	7.98%
Capital assets (net)	20,498,772	21,250,904	(752,132)	-3.54%
	$ 26,331,926	$ 27,409,096	$ (1,077,170)	-3.93%

The table above demonstrates the relatively large investment that the Board has made in capital assets. At the end of the 2015 fiscal year, capital assets represented about 77.85% of the noncurrent assets.

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Analysis of Liabilities

In financial accounting, the term "liability" is defined as an obligation of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future. To put it in more simplistic terms, this section analyzes the various claims that creditors have against the Board's assets.

Current Liabilities Payable from Unrestricted Assets had a net decrease in its various components of $129,497 or about 4.94% compared to the previous fiscal year's balance.

TABLE 5

	Fiscal Year		Change from FY 2014	
	2015	2014	Amount	Percent
Revenue bonds payable	$ 515,000	$ 485,000	$ 30,000	6.19%
Accounts payable - other	63,364	55,910	7,454	13.33%
Accounts payable - related parties	827,943	1,017,869	(189,926)	-18.66%
Customer deposits	362,102	323,616	38,486	11.89%
Accrued taxes	130,947	135,663	(4,716)	-3.48%
Accured interest	131,803	202,697	(70,894)	-34.98%
Accrued payroll and benefits	197,449	84,986	112,463	132.33%
Deferred credits	15,946	77,352	(61,406)	-79.39%
Vacation and sick pay	210,825	201,123	9,702	4.82%
Conservation advances	-	773	(773)	-100.00%
Other accrued liabilities	38,727	38,614	113	0.29%
	$ 2,494,106	$ 2,623,603	$ (129,497)	-4.94%

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Condensed Statements of Revenues, Expenses and Changes in Net Assets

As indicated in Table 6, the change in net position for the fiscal year ended June 30, 2015 was ($219,650).

TABLE 6
Condensed Statements of Revenues, Expenses and Changes in Net Position

	Fiscal Year		Changes from FYE 2014 To FYE 2015	
	2015	2014	Amount	Percent
Operating revenues:				
Electric revenues	$ 15,006,691	$ 14,660,924	$ 345,767	2.36%
Broadband revenues	29,054	99,051	(69,997)	-70.67%
Total operating revenues	15,035,745	14,759,975	275,770	1.87%
Operating expenses:				
Purchased power	10,235,071	10,276,577	(41,506)	-0.40%
Other expenses	3,999,469	4,069,066	(69,597)	-1.71%
Total operating expenses	14,234,540	14,345,643	(111,103)	-0.77%
Net operating income	801,205	414,332	386,873	93.37%
Non-operating income, net	(1,020,855)	(1,080,474)	59,619	-5.52%
Change in net position	(219,650)	(666,142)	446,492	-67.03%
Net position, beginning of year	11,138,444	11,804,586	(666,142)	-5.64%
Implementation of GASB 68	(1,701,000)	-	(1,701,000)	100.00%
Net position, beginning of year, restated	9,437,444	11,804,586	(2,367,142)	-20.05%
Net position, end of year	$ 9,217,794	$ 11,138,444	$ (1,920,650)	-17.24%

Analysis of Revenue

For the 2015 fiscal year, the *Operating Revenues* of the Board totaled $15,035,745. This amount represented an increase of 1.87% more than the previous year's total of $14,759,975.

In analyzing the increase in the *electric* revenue for the year, the main reason for the increase was higher sales (a .2% increase from the prior year) and 12 months of higher rate. The rate increase implemented in FY 2014 only affected nine months of FY 2014.

Included in the *Non-Operating Revenues (Expenses) (net)* are interest income, interest expense and other miscellaneous revenues totaling ($1,020,855).

Analysis of Expenses

The *Total Operating Expenses* for FY 2015 were $14,234,540. That amount represents an decrease of $111,103 or about .77% less than the prior fiscal year total of $14,345,643. The nine major categories of Operating Expenses are shown in the chart below.

TABLE 7
Comparison of Operating Expenses

	Fiscal Year		Change from FY 2014 to FY 2015	
	2015	2014	Amount	Percent
Cost of power	$ 10,235,071	$ 10,276,577	$ (41,506)	-0.40%
Distribution - operation	600,913	572,118	28,795	5.03%
- maintenance	553,461	506,598	46,863	9.25%
Maintenance - general plant	22,052	37,237	(15,185)	-40.78%
Customer accounts	192,478	189,151	3,327	1.76%
Customer service and information	19,572	23,864	(4,292)	-17.99%
Sales	7,959	11,411	(3,452)	-30.25%
Administrative and general	630,330	702,772	(72,442)	-10.31%
Depreciation	1,214,091	1,261,191	(47,100)	-3.73%
Taxes	758,613	764,724	(6,111)	-0.80%
	$ 14,234,540	$ 14,345,643	$ (111,103)	-0.77%

As indicated by the comparative information presented above, *Cost of Power* decreased by $41,506 or .40% compared to the prior year.

Included in the *Non-Operating Revenues (Expenses) (net)* are interest expense of $1,088,502, amortization expense of $102,515, tax rebate from Build America Bonds of $178,149, interest income of $10,078 and other expenses of $18,065.

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CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Princeton Electric Plant Board's investment in capital assets as of June 30, 2015 was $20,498,772 (net of accumulated depreciation), as shown in the following table.

TABLE 8
Schedule of Capital Assets (Net of Depreciation)

	Fiscal Year		Increase
	2015	2014	(Decrease)
Land	$ 1,104,841	$ 1,104,842	$ (1)
Construction in progress	143,799	42,307	101,492
Transmission plant	4,219,670	4,429,610	(209,940)
Distribution plant	12,906,005	13,296,091	(390,086)
General plant	1,933,498	2,099,087	(165,589)
Broadband plant	190,959	278,967	(88,008)
	$ 20,498,772	$ 21,250,904	$ (752,132)

Additional detailed information concerning the Board's capital assets can be found in Note 4 in the notes to the financial statements.

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Long-term Debt

At June 30, 2015, the Board had $18,695,000 in debt outstanding, a decrease of $2,395,000 or approximately 11.36% less than the previous fiscal year. A comparative schedule at June 30, 2015 and 2014 is shown in the tabular information provided below.

TABLE 9
Changes in Long Term Debt

	Fiscal Year		Increase	
	2015	2014	(Decrease)	Percent
Tax-Exempt Revenue Bonds				
Series 2009A	$ 7,240,000	$ 7,430,000	$ (190,000)	-2.56%
Taxable Revenue Bonds (Build America Bonds)				
Series 2009B	-	12,320,000	(12,320,000)	-100.00%
Taxable Revenue Bonds				
Series 2009C	1,110,000	1,340,000	(230,000)	-17.16%
Taxable Revenue Bonds				
Series 2015	10,345,000	-	10,345,000	100.00%
	$ 18,695,000	$ 21,090,000	$ (2,395,000)	-11.36%

Additional detailed information concerning the Board's liabilities can be found in the notes to the financial statements, Note 8.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the 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, General Manager, Princeton Electric Plant Board, 304 East Legion Drive, Princeton, KY 42445.

FINANCIAL STATEMENTS

PRINCETON ELECTRIC PLANT BOARD
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STATEMENTS OF NET POSITION
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ASSETS	2015	2014
Utility plant	$ 31,942,622	$ 31,564,968
Less accumulated depreciation	11,443,850	10,314,064
Net utility plant	20,498,772	21,250,904
Restricted assets		
Investments - special funds	2,581,320	3,090,153
Other assets		
Investment in affiliated organizations	152,360	120,133
Nonutility property	749,481	771,525
Total other assets and investments	901,841	891,658
Current assets		
Cash - general funds	3,325,363	3,981,340
Accounts receivable	1,194,338	1,294,242
Heat pump loans	-	773
Unbilled revenue	445,380	482,273
Inventories (at weighted-average cost)	301,772	296,027
Other current assets	23,513	380,337
Total current assets	5,290,366	6,434,992
Deferred charges	2,349,993	2,176,381
Total assets	31,622,292	33,844,088
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension amounts	203,006	-

See accompanying notes to financial statements

PRINCETON ELECTRIC PLANT BOARD
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STATEMENTS OF NET POSITION, continued
JUNE 30, 2015 AND 2014

LIABILITIES	**2015**	**2014**
Current liabilities		
Revenue bonds payable	515,000	485,000
Accounts payable - other	63,364	55,910
Accounts payable - related parties	827,943	1,017,869
Customer deposits	362,102	323,616
Accrued taxes	130,947	135,663
Accrued interest	131,803	202,697
Accrued payroll and benefits	197,449	84,986
Deferred credits	15,946	77,352
Vacation and sick pay	210,825	201,123
Conservation advances	-	773
Other accrued liabilities	38,727	38,614
Total current liabilities	2,494,106	2,623,603
Noncurrent liabilities		
Revenue bonds payable	18,280,398	20,082,041
Pension liability	1,685,800	-
Total noncurrent liabilities	19,966,198	20,082,041
Total liabilities	22,460,304	22,705,644
DEFERRED INFLOWS OF RESOURCES		
Deferred pension amounts	147,200	-
NET POSITION		
Invested in capital assets, net of related debt	1,703,374	683,863
Restricted	2,581,320	3,090,153
Unrestricted	4,933,100	7,364,428
Total net position	$ 9,217,794	$ 11,138,444

See accompanying notes to financial statements

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
OPERATING REVENUES	$ 15,035,745	$ 14,759,975
OPERATING EXPENSES		
Cost of power	10,235,071	10,276,577
Distribution - operation	600,913	572,118
- maintenance	553,461	506,598
Maintenance - general plant	22,052	37,237
Customer accounts	192,478	189,151
Customer service and information	19,572	23,864
Sales	7,959	11,411
Administrative and general	630,330	702,772
Depreciation	1,214,091	1,261,191
Taxes	758,613	764,724
Total operating expenses	14,234,540	14,345,643
Net operating revenues	801,205	414,332
NONOPERATING REVENUES (EXPENSES)		
Interest expense	(1,085,177)	(1,240,666)
Other interest expense	(3,325)	(2,902)
Amortization of debt expense	(80,471)	(75,343)
Amortization - other	(22,044)	(22,044)
Interest income	10,078	17,616
Tax rebate on Build America Bonds	178,149	261,350
Other expenses	(18,065)	(18,485)
Net nonoperating revenues (expenses)	(1,020,855)	(1,080,474)
CHANGE IN NET POSITION	(219,650)	(666,142)
NET POSITION, BEGINNING OF YEAR	11,138,444	11,804,586
Implementation of GASB 68 (Note 22)	(1,701,000)	-
NET POSITION, BEGINNING OF YEAR, restated	9,437,444	11,804,586
NET POSITION, END OF YEAR	$ 9,217,794	$ 11,138,444

See accompanying notes to financial statements

PRINCETON ELECTRIC PLANT BOARD
OF THE
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STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Cash flows from operating activities		
Receipts from customers and users	$ 15,218,051	$ 14,317,899
Payments to suppliers	(10,897,200)	(10,996,800)
Payments to employees	(1,167,502)	(1,217,577)
Payments of taxes	(763,329)	(752,618)
Net cash provided (used) by operating activities	2,390,020	1,350,904
Cash flows from non-capital financing activities		
Energy service loans advances	(773)	(1,341)
Net cash provided (used) by non-capital financing	(773)	(1,341)
Cash flows from capital financing activities		
Expenditures for utility plant	(416,028)	(655,738)
Net cost of retiring plant	(45,931)	(63,330)
Proceeds from long-term debt	10,405,000	-
Principal payments on long-term debt	(12,800,000)	(485,000)
Premium on new debt	611,741	-
Bond issue costs on new debt	(250,695)	-
Tax rebate on Build America Bonds	132,279	262,704
Interest paid	(1,151,166)	(1,226,908)
Net cash provided (used) by capital financing activities	(3,514,800)	(2,168,272)
Cash flows from investing activities		
Energy loans receivable	773	1,341
Investment in affiliated companies	(32,227)	(32,184)
Interest income	10,262	17,911
Interest and other revenues	(18,065)	(18,485)
Net cash provided (used) by investing activities	(39,257)	(31,417)
Net increase (decrease) in cash	(1,164,810)	(850,126)
Cash, beginning of year	7,071,493	7,921,619
Cash, end of year	$ 5,906,683	$ 7,071,493

See accompanying notes to financial statements

PRINCETON ELECTRIC PLANT BOARD
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STATEMENTS OF CASH FLOWS, continued
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Reconciliation of operating income to net cash provided by operating activities:		
Net operating revenues	$ 801,205	$ 414,332
Adjustments to reconcile net operating revenues to net cash provided by operating activities:		
Depreciation	1,214,091	1,261,191
Changes in assets and liabilities:		
Receivables	145,772	(356,884)
Unbilled revenues	36,893	(84,920)
Materials and supplies	(5,745)	220,029
Other current assets	356,640	(357,273)
Accounts payable	(182,472)	153,246
Deferred pension amounts	(71,006)	-
Other current and accrued liabilities	113	(22,958)
Accrued payroll and other taxes	112,463	22,378
Vacation and sick pay	9,702	(166)
Accrued taxes - property	(4,716)	12,108
Customer deposits	38,486	33,148
Deferred credits	(61,406)	56,673
Total adjustments	1,588,815	936,572
	$ 2,390,020	$ 1,350,904

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Princeton authorized the Electric Plant Board (PEPB) to serve the needs of its approximately 4,000 customers under KRS 96.550-900. PEPB is governed by a Board of Directors "Board" who are appointed by the Mayor of Princeton, KY and are responsible for selection of fiscal policies.

Princeton Electric Plant Board is considered a related organization of the City of Princeton. The City of Princeton is not financially accountable for PEPB.

Basis of Presentation and Accounting

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 which 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.
- Discounts on long-term debt are amortized over the life of the debt issuance.

Proprietary Fund Type

The Utility is intended to be self-supporting through user charges. All of its revenues, expenses, assets, and liabilities, including fixed assets and long-term debt associated with the specific activity, are accounted for within its financial statements.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Board considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Accounts Receivable

PEPB grants credit to its customers, all of whom are residents or businesses located in or around Princeton, and Caldwell County, Kentucky. PEPB's policy is to write off uncollectible accounts in the year they are deemed to be uncollectible. PEPB determined that no need existed to provide for an allowance for uncollectible accounts at June 30, 2015 and 2014.

Material and Supplies Inventory

Material and supplies inventory (which consists of wire, poles, and other supplies) is valued at average cost.

Utility Plant

Utility plant is 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 costs 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 costs, 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.

Impairment of Capital Assets

In accordance with GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries," management evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. No impairment losses were recognized in the years ended June 30, 2015 and 2014.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Pensions

For purposes of measuring the net pension liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position of the County Employees Retirement System ("CERS"), and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Utility has one item that qualifies for reporting in this category. The deferred outflows of resources relates to the net pension liability described in Note 10.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Utility has one item that qualifies for reporting in this category: The deferred inflows of resources relates to the net pension liability as described in Note 10.

Compensated Absences

PEPB compensates employees for paid time-off including vacation and sick leave benefits. PEPB has adopted the termination payment method to calculate the liability related to compensated absences for sick leave. Other paid time-off is calculated at pay rate times hours.

Revenues and Expenses

Proprietary funds distinguish between operating and non-operating items. Operating revenues generally result from providing services, producing, and delivering goods in connection with the Board's principal ongoing operations. The principal operating revenues of the Board are charges to customers for sales and services. Operating expenses for enterprise funds 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 non-operating revenues and expenses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Net Position

Net position is categorized as invested in capital assets (net of related debt), restricted, and unrestricted and further described as follows.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets including infrastructure into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributed to the acquisition, construction or improvement of these assets reduce the balance in this category.

- *Restricted* – This category represents those assets which have constraints placed on the expenditures either externally imposed or imposed by law or enabled by legislature.

- *Unrestricted* – This category presents the net position of the Utility not included elsewhere.

The Board's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted are available.

Income Tax Status

The Board is exempt from federal and state income taxes. Accordingly, the financial statements include no provision for such taxes.

Subsequent Events

Subsequent events have been evaluated through October 12, 2015, which is the date the financial statements were available to be issued.

NOTE 2 – CASH AND CASH EQUIVALENTS

At June 30, 2015, the Board's deposits in depository institutions had a carrying amount of $5,906,683 and bank balances of $5,944,142. At June 30, 2015, the deposits were covered entirely by FDIC insurance or a properly executed collateral security agreement. At June 30, 2014, the Board's deposits in depository institutions had a carrying amount of $7,071,493 and bank balances of $7,005,525. At June 30, 2014, the deposits were covered entirely by FDIC insurance or a properly executed collateral security agreement.

The carrying amounts are reflected in the financial statements as follows:

PRINCETON ELECTRIC PLANT BOARD
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 2 – CASH AND CASH EQUIVALENTS, continued

Cash consisted of the following:

	2015	2014
Change funds	$ 4,773	$ 4,124
Operating reserve fund	2,275,850	3,141,789
Unemployment insurance fund	35,428	35,393
Other special funds	75,000	75,000
Revenue fund general	934,312	725,034
	$ 3,325,363	$ 3,981,340

Investments – Restricted funds consisted of the following:

	2015	2014
Customer deposits	$ 362,102	$ 323,616
Debt service reserve fund	1,319,491	1,729,725
2009 Bond principal and interest	399,727	536,761
Capital improvement fund	500,000	500,051
Total restricted special funds	$ 2,581,320	$ 3,090,153

The separate cash funds listed above are not required by the bond resolutions but are Board designations.

Customer deposits are held in the general operating account but are classified as a restricted asset.

The revenue bond reserve funds are restricted in their use to the payments for construction of assets and interest and principal on the bonds outstanding under the authority of the bond resolutions.

The capital improvement fund is established under the 2009 bond covenants to be used for capital improvements. A minimum balance of $500,000 is to be maintained. As of June 30, 2015 and 2014, the capital improvement fund was fully funded.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a depository institution failure, the Board's deposits may not be returned to it. The Board does not have a policy regarding custodial credit risk for deposits.

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

NOTE 2 – CASH AND CASH EQUIVALENTS, continued

At June 30, 2015 and 2014, the Utility was not exposed to custodial credit risk.

Interest Rate Risk

The Board does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates. In general, certificates of deposit are not subject to interest rate risk.

Credit Risk

Under Kentucky Revised Statutes Section 66.480, the Board is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three categories by nationally recognized rating agencies and shares in mutual funds. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments held in possession of an outside party. The Board does not have an investment policy that would further limit its investment choices. In general, certificates of deposit are not subject to investment credit risk.

NOTE 3 - INVESTMENT IN AFFILIATED ORGANIZATIONS

Investment in affiliated organizations consisted of the following at June 30, 2015 and 2014:

	2015	2014
Central Service Association	$ 12,215	$ 11,602
MuniNet	140,145	108,531
Total	$ 152,360	$ 120,133

Central Service Association is a computer technology company that serves municipals throughout the region and provides them with software and support tailored to the electric industry.

MuniNet is a partnership of electric utilities that is working to provide fiber service throughout western Kentucky (See Note 20)

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 4 – UTILITY PLANT AND DEPRECIATION PROCEDURES

A summary of changes in major classifications of the utility plant in service is as follows:

	Balance June 30, 2014	Reclassifications/ Additions	Reclassifications/ Retirements	Balance June 30, 2015
Utility plant not depreciated:				
Land	$ 1,104,842	$ -	$ -	$ 1,104,842
Construction in progress	42,307	666,538	565,045	143,800
Total utility plant not depreciated	1,147,149	666,538	565,045	1,248,642
Utility plant depreciated:				
Transmission plant	5,652,956	-	-	5,652,956
Distribution plant	19,937,574	255,535	38,374	20,154,735
General plant	3,841,773	59,000	-	3,900,773
Telecommunications plant	985,516	-	-	985,516
Total utility plant depreciated	30,417,819	314,535	38,374	30,693,980
Accumulated depreciation	(10,314,064)	(1,225,414)	95,628	(11,443,850)
Total utility plant depreciated, net	20,103,755	(910,879)	(57,254)	19,250,130
Total utility plant	$ 21,250,904	$ (244,341)	$ 507,791	$ 20,498,772

Depreciation charged to income was $1,214,091 and $1,261,191 for June 30, 2015 and 2014.

Major outlays for capital assets and improvements are capitalized as projects are constructed. A total of $143,800 and $42,307 of assets were under construction and shown as construction in progress in the capital assets information above as of June 30, 2015 and 2014.

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.

NOTE 5 – RECEIVABLES

Net receivables include the following at June 30:

	2015	2014
Accounts Receivable		
Electric	$ 1,101,846	$ 1,192,679
YTD even pay	(24,098)	35,072
	1,077,748	1,227,751
Tax rebate on Build America Bonds	90,010	44,141
Other receivables	26,580	22,350
Total	$ 1,194,338	$ 1,294,242

NOTE 6 – MATERIAL AND SUPPLIES

The values of electric materials at balance sheet dates were ascertained by reference to perpetual inventory records. Princeton Electric Plant Board personnel make physical counts of stock near the end of each year and adjust the perpetual inventory records to actual count. The adjustment to the general ledger control is made to bring it into conformity with perpetual stock records. This amount is charged against stores expense (clearing) each year. The positive (negative) adjustments required were ($699) and ($4,138) as of June 30, 2015 and 2014, respectively.

NOTE 7 – DEFERRED CHARGES

Deferred Charges at June 30 consisted of:

	2015	2014
Series 2008 - bond issuance cost	$ 121,077	$ 125,427
Unamortized debt discount/expense - 2009	851,382	2,050,954
Unamortized debt discount/expense - 2015	1,377,534	-
Total	$ 2,349,993	$ 2,176,381

NOTE 8 – BONDED INDEBTEDNESS

On March 3, 2015, the Utility issued $10,405,000 in Revenue Refunding Bonds with interest rates of 3.00% - 3.70%. The Utility issued the bonds to refund $12,240,000 of outstanding 2009B Build America Bonds with interest rates 4.30% - 7.00% with a call premium of $611,741. The Utility was able to refund this bond series without penalty because the federal sequester reduced the tax rebate. The Board contributed $1,746,784 in cash ($1,000,000 from reserves and $746,784 from existing debt service funds). The net proceeds of $12,517,424 (after payment of $254,038 in underwriting fees, insurance and other issuance costs) were transferred to an escrow agent to provide future debt service payments. As a result, the refunded bonds were considered to be defeased, and the liability was removed from the financial statements. The refund reduced total debt service payments over the next 29 years by $4,910,411, with a net present value savings of 14.839%. This resulted in an economic gain (the difference between the present value of the old and the new debt service payments) of $1,816,300. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2,087,368. The difference, reported in the accompanying financial statements as a deferred charge, is being charged to operations through the year 2042 using the effective interest method. Payments of interest are paid semi-annually and payments of principal are paid annually with the last principal payment scheduled for November 1, 2041.

All the revenue bonds are payable solely from and secured by a first pledge of the net electric revenues. So long as any of the bonds are outstanding and unpaid, PEPB will ensure that the electric plant be continuously operated and maintained in good condition, and 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.

The 2009 and 2015 bonds require that earnings from the system be greater than 1.1 times the revenue bond annual debt service based on the bond year. The coverage requirement was met for June 30, 2015 and 2014.

Accrued interest on the 2009 (A & C) and 2015 bonded indebtedness represents the liability for the periods from May 1, the last payment date, to June 30. The accrued interest for each year is $131,803 and $202,697 for June 30, 2015 and 2014, respectively.

NOTE 8 – BONDED DEBT, continued

The changes in outstanding debt are as follows:

	Balance July 1, 2014	New Issues	Debt Payments and Refunds	Balance June 30, 2015
Tax - Exempt Revenue Bonds				
Series 2009A	$ 7,430,000	$ -	$ 190,000	$ 7,240,000
Taxable Revenue Bonds (Build America Bonds - Direct Pay)				
Series 2009B	12,320,000	-	12,320,000	-
Taxable Revenue Bonds				-
Series 2009C	1,340,000	-	230,000	1,110,000
Taxable Revenue Bonds				
Series 2015	-	10,405,000	60,000	10,345,000
	$ 21,090,000	$ 10,405,000	$ 12,800,000	$ 18,695,000
Plus: Unamortized premium				270,158
Less: Unamortized discount				(169,760)
Net total				$ 18,795,398

The cost of issuance and discount associated with the issuance of the revenue bonds payable is being amortized on the straight-line method over the term of the bonds. Amortization for the year ending June 30 was expensed as follows:

	Discount/Premium 2015	Discount/Premium 2014
Interest		
Series 2009 A	$ 6,509	$ 6,509
Series 2009 B	7,999	11,998
Series 2009 C	760	760
Series 2015	(3,652)	-
	$ 11,616	$ 19,267

	Cost of Issuance 2015	Cost of Issuance 2014
Amortization		
Series 2009	$ 57,505	$ 70,993
Series 2008 BAN	4,350	4,350
Series 2015	18,616	-
	$ 80,471	$ 75,343

NOTE 8 – BONDED DEBT, continued

The following represents principal and interest payments on outstanding debt.

	2009A			2009C		
	Principal	Interest	Total	Principal	Interest	Total
2016	$ 195,000	$ 322,907	$ 517,907	$ 85,000	$ 59,240	$ 144,240
2017	205,000	316,702	521,702	130,000	53,715	183,715
2018	210,000	309,852	519,852	135,000	46,905	181,905
2019	220,000	302,322	522,322	140,000	39,837	179,837
2020	225,000	294,143	519,143	150,000	32,383	182,383
2021-2025	1,275,000	1,322,128	2,597,128	470,000	43,096	513,096
2026-2030	1,560,000	1,011,976	2,571,976	-	-	-
2031-2035	1,945,000	602,424	2,547,424	-	-	-
2036-2038	1,405,000	107,625	1,512,625	-	-	-
	$ 7,240,000	$ 4,590,079	$ 11,830,079	$ 1,110,000	$ 275,176	$ 1,385,176

	Series 2015		
	Principal	Interest	Total
2016	$ 235,000	$ 400,038	$ 635,038
2017	200,000	393,513	593,513
2018	210,000	387,363	597,363
2019	215,000	380,988	595,988
2020	225,000	374,388	599,388
2021-2025	1,385,000	1,733,757	3,118,757
2026-2030	1,900,000	1,398,094	3,298,094
2031-2035	2,270,000	1,043,263	3,313,263
2036-2040	2,825,000	457,539	3,282,539
2041-2042	880,000	25,012	905,012
	$ 10,345,000	$ 6,593,955	$ 16,938,955

NOTE 8 – BONDED DEBT, continued

	GRAND TOTAL		
	Principal	Interest	Total
2016	$ 515,000	$ 782,185	$ 1,297,185
2017	535,000	763,930	1,298,930
2018	555,000	744,120	1,299,120
2019	575,000	723,147	1,298,147
2020	600,000	700,914	1,300,914
2021-2025	3,130,000	3,098,981	6,228,981
2026-2030	3,460,000	2,410,070	5,870,070
2031-2035	4,215,000	1,645,687	5,860,687
2036-2040	4,230,000	565,164	4,795,164
2041-2042	880,000	25,012	905,012
	$ 18,695,000	$ 11,459,210	$ 30,154,210

NOTE 9 – ADVANCES FROM OTHERS

Advances have been received from Tennessee Valley Authority for the purpose of making long-term loans to electric customers under various energy conservation programs. The balances due to Amsouth Bank were $0 and $773 as of June 30, 2015 and 2014, respectively.

NOTE 10 – PENSION PLAN

The Utility's employees are provided a pension plan through the County Employees Retirement System.

General information about the County Employees Retirement System Non-Hazardous ("CERS")

Plan description – CERS is a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from http://kyret.ky.gov/.

NOTE 10 – PENSION PLAN, continued

Benefits provided – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old
		At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old
		Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old
		Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are $5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and $10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions – Required contributions by the employee are based on the tier:

	Required contributions
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

NOTE 10 – PENSION PLAN, continued

Pension Liabilities, Pension Expense, and Deferred Outflows or Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Utility reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the Utility as its proportionate share of the net pension liability and the total portion of the net pension liability that was associated with the Utility were as follows:

District's proportionate share of the CERS net pension liability $ 1,685,800

The net pension liability of the plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The Utility's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the Utility's proportion was .050838%.

For the year ended June 30, 2015, the Utility recognized pension expense of ($71,006) related to CERS. At June 30, 2014, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	184,000
Changes in proportion and differences between EPB contributions and proportionate share of contributions	-	-
PEPB contributions subsequent to the measurement date	220,313	-
Total	$ 220,313	$ 184,000

NOTE 10 – PENSION PLAN, continued

The amount of $203,006 reported as deferred outflows of resources related to pensions resulting from Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2016	$	36,800
2017		36,800
2018		36,800
2019		36,800
2020		-

Actuarial assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS
Inflation	3.50%
Projected salary increases	4.50%
Investment rate of return, net of investment expense & inflation	7.75%

For CERS, Mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by then adding expected inflation. The capital market assumptions involved by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

NOTE 10 – PENSION PLAN, continued

Discount rate – For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate – The following table presents the net pension liability of the Utility, calculated using the discount rates selected by each pension system, as well as what the Utility's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.75%	7.75%	8.75%
PEPB's proportionate share of net pension liability	$ 2,170,469	$ 1,685,800	$ 1,188,979

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of CERS.

NOTE 11 – POST-EMPLOYMENT HEALTH CARE BENEFITS

Retired Board employees receive some health care benefits depending on their length of service. In accordance with Kentucky Revised Statutes, these benefits are provided and advanced-funded on an actuarially determined basis through the CERS plan.

NOTE 12 – ACCRUED VACATION AND SICK PAY

PEBP allows employees to accumulate unused vacation to maximum of 270 hours during a calendar year end. As of June 30, 2015 and 2014, the liability for accrued vacation was $127,857 and $123,592.

Upon termination, PEPB will compensate an employee 25 percent of all unused sick days at their regular rate of pay. As of June 30, 2015 and 2014 the liability for accrued sick pay was $82,968 and $77,531.

NOTE 13 – RATE CHANGES

PEPB implemented a base rate Increase effective for bills rendered from meter readings taken on or after October 1, 2013. PEPB's base rate increase included adjustments in customer charges and energy charges to reflect increased operating cost. PEPB continues to utilize a power cost adjustment (PCA) to track variable cost.

NOTE 14 – RISK MANAGEMENT AND LITIGATION

The Board is exposed to various risks of loss related torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Board carries commercial insurance for the risks of loss, including worker's compensation, and property and casualty loss insurance. Settled claims resulting from PEPB risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Limits of insurance coverage remain unchanged in the past three years.

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

NOTE 15 – OTHER CURRENT ASSETS AND ACCRUED LIABILITIES

Following is a summary of the amounts recorded as other current assets and other accrued liabilities as of June 30, 2015 and 2014:

	2015	2014
Other current assets		
Interest receivable	$ 436	$ 620
Rent receivable	23,077	22,717
Other regulatory asset	-	357,000
	$ 23,513	$ 380,337
Other current liabilities		
Accrued pole rentals	$ 7,852	$ 7,852
Sanitation payable	30,875	30,762
	$ 38,727	$ 38,614

NOTE 16 – SANITATION CONTRACT

During 2004, PEPB 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. PEPB 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 $11,611 and $11,806 in 2015 and 2014.

NOTE 17 – RELATED PARTY TRANSACTIONS

Princeton Electric Plant Board (PEPB) and Paducah Power System (PPS) formed Kentucky Municipal Power Agency (KMPA) which is participating in the development and ownership of the Prairie State Energy Campus located in Southern Illinois. KMPA will provide power to the municipal agencies. PEPB pays KMPA director salaries directly and is reimbursed by KMPA. KMPA also reimburses PEPB for incidental expenses related to KMPA board meetings.

During the fiscal years ending June 30, 2015 and 2014, PEPB expensed $9,804,084 and $10,529,417 to KMPA for purchased power.

As of June 30, 2015 and 2014, PEPB owed $827,943 and $1,017,869 to KMPA for power purchased.

During the fiscal years ending June 30, 2015 and 2014, KMPA paid to PEPB the following:

	2015	2014
Directors' salaries	$ 27,956	$ 28,103
Miscellaneous reimbursements	3,387	764
	$ 31,343	$ 28,867

NOTE 18 – KENTUCKY MUNICIPAL POWER AGENCY (KMPA)

On February 5, 2005, Princeton Electric Plant Board and Paducah Power System (members) established Kentucky Municipal Power Agency (KMPA or Agency) to acquire resources necessary to generate or transmit electrical energy for the parties involved. In addition, the agency was formed for the purpose of pooled financing or borrowing to provide the necessary resources. KMPA, under the inter-local agreement, has the power to purchase or construct assets, issue debt, exercise the power of eminent domain and enter into, on its own behalf, contracts and agreements. The Inter-local Agreement specifically addressed that debts of KMPA are not debts of the parties to the Agreement.

The Inter-local Agreement dictates that KMPA records are required to be audited annually. A copy of the most recent audit can be obtained from KMPA offices, PO Box 0180, Paducah, KY 42002-0180.

The KMPA Board of Directors is composed of two directors designated by each member of the Agency, one of whom shall be the chief executive officer of the member. The duration of the Agency is perpetual and shall continue in full force and effect. Dissolution may occur only after all bonds, notes or indebtedness has been paid or adequate provision of payment has been made. In the event of dissolution, assets and property of the agency shall be distributed to the participating agencies in the proportion that each party's aggregate kilowatt hours of energy purchased from the Agency during the time.

NOTE 18 – KENTUCKY MUNICIPAL POWER AGENCY (KMPA), continued

On September 1, 2007, Princeton Electric Plant Board entered into a power sales agreement with KMPA. The agreement, defined as a "take or pay" agreement obligates PEPB to purchase their Entitlement Percentage of Energy of 16.11% or 20MW each contract year. PEPB has an Unconditional Payment Obligation to KMPA which is in effect until all KMPA debt is retired. Current year transactions PEPB and KMPA are detailed in Note 17 Related Party Transactions.

NOTE 19 – PRAIRIE STATE PROJECT

Peabody Energy, the world's largest private sector coal company, has participated in the development of 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, Lively Grove, Inc.

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, American Municipal Power (AMP), Missouri Joint Municipal Electric Utility Company (JMEUC), Prairie Power, Southern Illinois Power Cooperative, and Illinois Municipal Electric Agency that serve retail customers in more than nine different states.

NOTE 20 – MUNINET

MuniNet Fiber Agency ("MuniNet") was formed to undertake the financing, acquisition, construction, management, operation, utilization and ownership of fiber network projects and any and all facilities, including all equipment, structures, machinery, and tangible and intangible property, real or personal, useful for such projects, either within or without the Commonwealth of Kentucky. Projects are approved by the MuniNet Board on a project-specific basis. After a project is approved, MuniNet and the individual MuniNet members that desire to participate in the project enter into a Project Participation Agreement which sets forth the terms and conditions of the project's development and operation and establishes each participant's rights and obligations with respect to the project.

MuniNet Project 2 ("Project 2") consists of the development of a fiber optic cable system and a contractual arrangement for a connection to an Internet Access Provider (IAP) located in Nashville, Tennessee that will provide each project participant with high speed access to the internet. The estimated cost of Project 2 is $3,173,049.

NOTE 20 – MUNINET, continued

On April 12, 2013, the Board signed a Resolution approving the Project 2 Participation Agreement among the Board, MuniNet and the other Project 2 participants. Princeton Electric Plant Board is one of seven (7) Kentucky public utility companies who are participants in Project 2. Each participant in Project 2 ("Participant") has a one-seventh (1/7) interest in the project ("Project Share").

MuniNet obtained a loan from the Kentucky Infrastructure Authority in the amount of $3,200,000 to finance the development, construction and equipping of Project 2.

The Superintendent/General Manager of each Participant appoints one representative to the Project Management Committee and one alternate, either or both of whom, may be employees of the Participant. The Superintendent/General Manager of the Participant may appoint himself as the representative or alternate to the Project Management Committee.

Costs and expenses associated with financing, development, equipping, maintenance and operation of Project 2, including debt service, will be paid from the revenue generated from the project. In the event the revenue generated from Project 2 is insufficient to pay the full amount of the costs and expenses associated with the project as they come due, each Participant will be responsible for its Project Share of the deficit.

Princeton Electric Plant Board has provided MuniNet with an indefeasible right of use (IRU) for fibers on the Board's existing fiber system. MuniNet has agreed to pay Princeton Electric Plant Board for its provision of an IRU in such fibers in the amount of $44,700. During fiscal year June 30, 2014, $22,350 was received. The remaining $22,350 was recorded as a receivable. The balance of the receivable remained at the $22,350 as no payments were received for the year ended June 30, 2015.

MuniNet bills each Participant monthly indicating the amount payable for its Project Share of payment obligations due under the Project Participation Agreement. In addition, MuniNet bills each Participant administrative and operating costs which will be expensed by MuniNet. The Board paid $31,614 for administrative and operating costs during fiscal year ended June 30, 2015.

The following are costs incurred for the initial investment in MuniNet and Project 2 costs:

Initial investment	$	5,000
Project 2 investment in Muninet		
Beginning balance July 1, 2014	$	103,531
Costs incurred		31,614
Ending balance June 30, 2015		135,145
Total investment in MuniNet	$	140,145

NOTE 21 – UPCOMING PRONOUNCEMENTS

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. PEPB is currently evaluating the impact this standard will have on the financial statements when adopted during PEPB's 2016 fiscal year.

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, addresses reporting by OPEB plans whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statement more extensive footnote disclosures and required supplementary information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, PEPB will, after adoption of GASB 75, recognize on the face of the financial statements its net OPEB liability. PEPB is currently evaluating the impact these standards will have on the financial statements when adopted. GASB 74 is effective for fiscal years beginning after June 15, 2016 whereas GASB 75 is effective one year later.

NOTE 22 – CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES

Effective July 1, 2014, the Utility was required to adopt Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68). GASB 68 replaced the requirements of GASB 27, Accounting for Pensions by State and Local Governmental Employers and GASB 50, Pension Disclosures, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the Utility, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan. Refer to the Defined Benefit Plan section of Note 10 for further details.

As a result of implementing this statement, the following line items have been added to the statement of Net Position:

	As of June 30, 2015	As of June 30, 2014
Deferred outflows - pension plan	$ 203,006	$ 220,313
Deferred inflows - pension plan	147,200	184,000
Net pension liability	1,685,800	1,921,313

As this statement is applied retroactively, the financial statement for the year ended June 30, 2014 has been restated to apply the changes noted associated with the net pension asset.

Net position - June 30, 2014, as originally reported	$ 11,138,444
GASB 68 adjustment to record net pension asset as of June 30, 2014	(1,701,000)
Net position - June 30, 2014, as restated	$ 9,437,444
Net income - June 30, 2015, as originally reported	(290,656)
GASB 68 adjustment to record net pension expense for the year ended June 30, 2015 (included in administrative and general expense)	71,006
Net income - June 30, 2015, as restated	$ (219,650)

REQUIRED SUPPLEMENTARY INFORMATION

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
County Employees Retirement System

Utility's proportion of the net pension liability (asset)	0.050838%
Utility's proportionate share of the net pension liability (asset)	$ 1,685,800
State's proportionate share of the net pension liability (asset) associated with PEPB	-
Total	$ 1,685,800
Utility's covered-employee payroll	$ 1,148,872
Utility's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	68.15%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN
County Employees Retirement System

	Year Ended June 30, 2015
Contractually required contribution	$ 203,006
Contributions in relation to the contractually required contribution	203,006
Contribution deficiency (excess)	$ -
Utility's covered employee payroll	$ 1,148,872
Contributions as a percentage of covered employee payroll	17.67%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

ADDITIONAL INFORMATION

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
COMBINED SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

	ELECTRIC	BROADBAND	TOTAL
OPERATING REVENUES	$ 15,006,691	$ 29,054	$ 15,035,745
OPERATING EXPENSES			
Cost of power	10,235,071	-	10,235,071
Distribution - operation	586,943	13,970	600,913
- maintenance	553,461	-	553,461
Maintenance - general plant	22,052	-	22,052
Customer accounts	192,423	55	192,478
Customer service and information	19,572	-	19,572
Sales	7,959	-	7,959
Administrative and general	629,730	600	630,330
Depreciation and amortization	1,126,083	88,008	1,214,091
Taxes	758,613	-	758,613
Total operating expenses	14,131,907	102,633	14,234,540
Net operating revenues	874,784	(73,579)	801,205
NONOPERATING REVENUES (EXPENSES)			
Interest expense	(1,085,177)	-	(1,085,177)
Other interest expense	(3,325)	-	(3,325)
Amortization of debt expense	(80,471)	-	(80,471)
Amortization - other	(22,044)	-	(22,044)
Interest income	10,078	-	10,078
Tax rebate on Build America Bonds	178,149	-	178,149
Other income (expenses)	(18,065)	-	(18,065)
Total nonoperating revenues (expenses)	(1,020,855)	-	(1,020,855)
CHANGE IN NET POSITION	(146,071)	(73,579)	(219,650)
NET POSITION, BEGINNING OF YEAR	12,019,251	(880,807)	11,138,444
Implementation of GASB 68 (Note 22)	(1,701,000)	-	(1,701,000)
NET POSITION, BEGINNING OF YEAR, restated	10,318,251	(880,807)	9,437,444
NET POSITION, END OF YEAR	$ 10,172,180	$ (954,386)	$ 9,217,794

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES - ELECTRIC
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	ELECTRIC 2015	ELECTRIC 2014	VARIANCE FAVORABLE (UNFAVORABLE)
OPERATING REVENUES	$ 15,006,691	$ 14,660,924	$ 345,767
OPERATING EXPENSES			
Cost of power	10,235,071	10,276,577	41,506
Distribution - operation	586,943	508,403	(78,540)
- maintenance	553,461	505,796	(47,665)
Maintenance - general plant	22,052	29,874	7,822
Customer accounts	192,423	189,151	(3,272)
Customer service and information	19,572	23,167	3,595
Sales	7,959	11,411	3,452
Administrative and general	629,730	695,535	65,805
Depreciation	1,126,083	1,173,183	47,100
Taxes	758,613	764,724	6,111
Total operating expenses	14,131,907	14,177,821	45,914
Net operating revenues	874,784	483,103	391,681
NONOPERATING REVENUES (EXPENSES)			
Interest expense	(1,085,177)	(1,240,666)	155,489
Other interest expense	(3,325)	(2,902)	(423)
Amortization of debt expense	(80,471)	(75,343)	(5,128)
Amortization - other	(22,044)	(22,044)	-
Interest income	10,078	17,616	(7,538)
Tax rebate on Build America Bonds	178,149	261,350	(83,201)
Other revenues (expenses)	(18,065)	(18,485)	420
Total nonoperating revenues (expenses)	(1,020,855)	(1,080,474)	59,619
CHANGE IN NET POSITION	$ (146,071)	$ (597,371)	$ 451,300

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES - BROADBAND
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	BROADBAND 2015	BROADBAND 2014	VARIANCE FAVORABLE (UNFAVORABLE)
OPERATING REVENUES	$ 29,054	$ 99,051	$ (69,997)
OPERATING EXPENSES			
Distribution - operation	13,970	63,715	49,745
- maintenance	-	802	802
Maintenance - general plant	-	7,363	7,363
Customer service and information	-	-	-
Customer accounts	55	697	642
Administrative and general	600	7,237	6,637
Depreciation and amortization	88,008	88,008	-
Total operating expenses	102,633	167,822	65,189
Net operating revenues	(73,579)	(68,771)	(4,808)
CHANGE IN NET POSITION	$ (73,579)	$ (68,771)	$ (4,807)

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
COMPARATIVE ANALYSIS OF OPERATING EXPENSES - ELECTRIC

	For the Year Ended June 30, 2015		For the Year Ended June 30, 2014		Increase
	Amount	Percent	Amount	Percent	(Decrease)
Distribution					
Supervision & engineering	$ 80,593	0.54 %	$ 58,616	0.40 %	$ 21,977
Station expense	178,597	1.19	93,138	0.64	85,459
Overhead lines expense	74,498	0.50	116,086	0.79	(41,588)
Underground line expense	(1,824)	(0.01)	(6,385)	(0.04)	4,561
Street light & signal system expense	1,939	0.01	2,625	0.02	(686)
Meter expense	96,255	0.64	101,965	0.70	(5,710)
Customer installation expense	1,149	0.01	1,460	0.01	(311)
Miscellaneous distribution expense	140,032	0.93	125,099	0.85	14,933
Rents	15,704	0.10	15,799	0.11	(95)
Total distribution	$ 586,943	3.91 %	$ 508,403	3.48 %	$ 78,540
Maintenance expense					
Distribution:					
Supervision & engineering	$ 99,372	0.66 %	$ 72,114	0.49 %	$ 27,258
Station expense	-	0.00	2,396	0.02	(2,396)
Overhead lines	361,720	2.41	376,891	2.57	(15,171)
Underground services	40,230	0.27	12,534	0.09	27,696
Transformers	-	0.00	100	0.00	(100)
Street light & signal system	4,702	0.03	5,585	0.04	(883)
Pole inspecting	8,924	0.06	24,046	0.16	(15,122)
Miscellaneous distribution plant	38,513	0.26	12,130	0.08	26,383
Total distribution maintenance	$ 553,461	3.69 %	$ 505,796	3.45 %	$ 47,665
Customer accounts					
Meter reading	$ 7,051	0.05 %	$ 7,080	0.05 %	(29)
Customer records & collection expense	168,199	1.12	160,768	1.10	7,431
Uncollectible accounts	3,680	0.02	9,383	0.06	(5,703)
Miscellaneous customer accounting expense	13,493	0.09	11,920	0.08	1,573
Customer assistance expense	8,985	0.06	11,788	0.08	(2,803)
Information & instructional advertising	10,587	0.07	11,379	0.08	(792)
Total customer accounts	$ 211,995	1.41 %	$ 212,318	1.45 %	$ (323)

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
COMPARATIVE ANALYSIS OF OPERATING EXPENSES - ELECTRIC, continued

	For the Year Ended June 30, 2015 Amount	Percent	For the Year Ended June 30, 2014 Amount	Percent	Increase (Decrease)
Sales expense					
Demonstrating and selling expense	$ 1,800	0.01 %	$ 5,003	0.03 %	$ (3,203)
Advertising expense	2,846	0.02	2,744	0.02	102
Miscellaneous	3,313	0.03	3,664	0.02	(351)
Total sales	$ 7,959	0.06 %	$ 11,411	0.07 %	$ (3,452)
Administrative and general					
Administrative & office salaries	$ 169,192	1.13 %	$ 138,432	0.94 %	$ 30,760
Office supplies & expense	120,813	0.81	139,062	0.95	(18,249)
Outside services employed	70,785	0.47	63,671	0.43	7,114
Insurance	67,402	0.45	61,591	0.42	5,811
Injuries & damages	55,576	0.37	28,708	0.20	26,868
Employees pension & other benefits	319,773	2.13	361,582	2.47	(41,809)
Duplicate charges (credit)	(193,075)	(1.29)	(117,498)	(0.80)	(75,577)
Miscellaneous general expense	19,264	0.13	19,987	0.13	(723)
Total administrative and general	$ 629,730	4.20 %	$ 695,535	4.74 %	$ (65,805)

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
COMPARATIVE ANALYSIS OF OPERATING EXPENSES - BROADBAND

	For the Year Ended June 30, 2015		For the Year Ended June 30, 2014		Increase
	Amount	Percent	Amount	Percent	(Decrease)
Distribution					
Operation:					
Overhead expense	$ -	- %	$ -	- %	$ -
Customer installations	12,428	42.78	36,455	36.80	(24,027)
Miscellaneous distribution expense	1,542	5.31	27,260	27.52	(25,718)
Total distribution	$ 13,970	48.09 %	$ 63,715	64.32 %	$ (49,745)
Maintenance expense					
Distribution:					
Maintenance of installed modem	$ -	0.00 %	$ 802	0.81 %	$ (802)
Total distribution maintenance	$ -	0.00 %	$ 802	0.81 %	$ (802)
Maintenance general					
Maintenance of general plant	$ -	0.00 %	$ 7,363	7.43 %	$ (7,363)
Total maintenance general	$ -	0.00 %	$ 7,363	7.43 %	$ (7,363)
Customer accounts					
Uncollectible accounts	$ 55	0.19%	$ 697	0.70%	$ (642)
Administrative and general					
Office supplies & expense	$ 600	2.07 %	$ 7,237	7.31 %	$ (6,637)
Total administrative and general	$ 600	2.07 %	$ 7,237	7.31 %	$ (6,637)

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PEFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of the
Electric Plant Board of the
City of Princeton, Kentucky
Princeton, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Princeton, Kentucky as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Princeton Electric Plant Board of the City of Princeton, Kentucky's basic financial statements and have issued our report thereon dated October 12, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Princeton Electric Plant Board of the City of Princeton, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Princeton Electric Plant Board of the City of Princeton, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the Princeton Electric Plant Board of the City of Princeton, Kentucky's internal control.

A *deficiency in internal* control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kem, Duguid & Associates, P.S.C.

Kem, Duguid & Associates, P.S.C.

Certified Public Accountants
Princeton, Kentucky

October 12, 2015

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
OCTOBER 31, 2015

The management of Princeton Electric Plant Board of the City of Princeton (PEPB, the "Board") offers Management's Discussion and Analysis to provide an overview and analysis of the Board's financial activities for the four months ended October 31, 2015. To fully understand the entire scope of the Board's financial activities, this information should be read in conjunction with the financial statements provided in this document.

FINANCIAL HIGHLIGHTS

- The assets of PEPB exceeded its liabilities at the close of the four months ended October 31, 2015 by $9,807,870 (*net position*). Of this amount, $5,216,794 (*unrestricted net position*) may be used to meet the Board's ongoing obligations to citizens and creditors.

- The Board's total net position increased by $590,076 during the period.

- Total operating revenues for the four months ended October 31, 2015 decreased by $220,682 or about 3.98% compared to the previous period. This decrease in operating revenues was principally due to a lower PCA.

- Total operating expenses for the four months ended October 31, 2015 totaled $4,432,976 which was $672,177 or about 13.17% less than the previous period's amount. This decrease in operating expenses was principally due to a decrease in power cost.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements. The Board operates as a utility enterprise and presents its financial statements using the economic resources measurement focus and the full accrual basis of accounting. In layman's terms, this presentation means that financial information is reported using the accounting methods similar to those followed by private sector companies. The statements offer both short-term and long-term financial information about the activities of Princeton Electric Plant Board. And to further aid the reader with analysis and comprehension of the information presented, financial data for two years is provided.

The basic financial statements provide information about the Board's business-type activities. The financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
OCTOBER 31, 2015

Financial Analysis of the Four Months Ended October 31, 2015

For the same four month period of the prior year, total assets of the Board decreased by $1,794,770 while total liabilities decreased by $376,999. And for the current period, the net operating income of the Board totaled $893,725.

Condensed Statements of Net Position

The Statement of Net Position, shown in tabular format below, represents information on all of the Board's assets and liabilities with the difference between the two reported as net position. The Board's total net position decreased from the prior period by $1,417,771 or about 12.63% for the period.

Our analysis that follows focuses on the Board's net position (shown in Table 1) and the changes in net position (shown in Table 2) during the period.

TABLE 1
Condensed Statements of Net Position

	Four months ended October 31		Change in four months ended October 31, 2015 to 2014	
	2015	2014	Amount	Percent
Current and other assets	$ 12,129,291	$ 13,188,740	$ (1,059,449)	-8.03%
Capital assets	20,274,751	21,010,072	(735,321)	-3.50%
Total assets	32,404,042	34,198,812	(1,794,770)	-5.25%
Current liabilities	2,834,207	2,899,709	(65,502)	-2.26%
Long-term liabilities	19,761,965	20,073,462	(311,497)	-1.55%
Total liabilities	22,596,172	22,973,171	(376,999)	-1.64%
Invested in utility plant, net of related debt	1,480,580	436,610	1,043,970	239.11%
Restricted for debt service	3,110,496	3,661,848	(551,352)	-15.06%
Unrestricted	5,216,794	7,127,183	(1,910,389)	-26.80%
Total net position	$ 9,807,870	$ 11,225,641	$ (1,417,771)	-12.63%

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
OCTOBER 31, 2015

Analysis of Net Position

To better understand the Board's actual financial position and its ability to deliver services in future periods, the reader will need to review the various components of the net asset category and obtain an understanding of how each relate specifically to the business activities that we perform.

TABLE 2
Components of Net Position

	Four months ended October 31		Change in four months ended October 31, 2015 to 2014	
	2015	2014	Amount	Percent
Invested in utility plant, net of related debt	1,480,580	436,610	1,043,970	239.11%
Restricted for debt service	3,110,496	3,661,848	(551,352)	-15.06%
Unrestricted	5,216,794	7,127,183	(1,910,389)	-26.80%
Total net position	$ 9,807,870	$ 11,225,641	$ (1,417,771)	-12.63%

For the four months ended October 31, 2015, *Net Position Invested in Capital Assets, Net of Related Debt* increased by $1,043,970 or 239.11% compared to previous period. The amount shown in this category is calculated by taking the depreciated value of our capital assets and subtracting the associated bond debt. The significance of this increase on future operations is that it represents additional equity that the Board has accumulated in its plant, equipment and infrastructure.

In comparing the total amount of *Restricted Net Position* with the previous period, there was a decrease of $551,352 or 15.06%. The components of this category consist of Series 2009 A and C and Series 2015 bond reserve funds, customer deposits and capital improvement fund.

Compared to the prior period's balance, there was a decrease in the *Unrestricted Net Position* category of $1,910,389 or 26.80%.

Unrestricted net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt".

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
OCTOBER 31, 2015

Analysis of Current Assets

The textbook definition of "current assets" is balance sheet items which equal the sum of cash and cash equivalents, accounts receivable, inventory, marketable securities, prepaid expenses, and other assets that could be converted to cash in less than one year. Current assets are important in any financial analysis because it is from current assets that a business funds its ongoing, day-to-day operations. A comparison of the October 31, 2015 and 2014 balances by asset classification is shown in the table below.

TABLE 3
Components of Current Assets

	Four months ended October 31		Change in four months ended October 31, 2015 to 2014	
	2015	2014	Amount	Percent
Cash and cash equivalents	$ 3,869,271	$ 4,135,678	$ (266,407)	-6.44%
Accounts receivable	1,076,165	1,225,761	(149,596)	-12.20%
Heat pump loans	-	335	(335)	-100.0%
Unbilled revenue	445,380	482,274	(36,894)	-7.65%
Inventories	301,722	299,016	2,706	0.90%
Other current assets	98,612	335,882	(237,270)	-70.64%
	$ 5,791,150	$ 6,478,946	$ (687,796)	-10.62%

Analysis of Noncurrent Assets

Noncurrent assets represent assets that are not reasonably expected to be realized in cash or sold or consumed during the next fiscal year. When making the distinction between whether an asset should be considered current or noncurrent, liquidity or nearness to cash is not the proper basis for determining the classification. In making this determination, any encumbrances on the use of the asset must be considered. Thus, cash investments intended for liquidation of liabilities due beyond the one-year period are noncurrent assets, as are assets segregated or restricted for the liquidation of long-term debts (including amounts due within the next operating cycle). Assets designated to be used to acquire, construct, or improve capital assets would also be noncurrent.

In the following table, the Noncurrent Assets of the Board at October 31, 2015 and 2014 are compared by major classification. As indicated by the tabular information, total noncurrent assets decreased by $1,106,974 or 3.99% during the period.

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
OCTOBER 31, 2015

TABLE 4
Components of Noncurrent Assets

	Four months ended October 31		Change in four months ended October 31, 2015 to 2014	
	2015	2014	Amount	Percent
Investments-special funds	$ 3,110,496	$ 3,661,848	$ (551,352)	-15.06%
Investment in affiliated organizations	165,759	132,502	33,257	25.10%
Nonutility property	742,134	764,178	(22,044)	-2.88%
Deferred charges	2,319,752	2,151,266	168,486	7.83%
Capital assets (net)	20,274,751	21,010,072	(735,321)	-3.50%
	$ 26,612,892	$ 27,719,866	$ (1,106,974)	-3.99%

The table above demonstrates the relatively large investment that the Board has made in capital assets. At the end of the period, capital assets represented about 76.18% of the noncurrent assets.

<u>Analysis of Liabilities</u>

In financial accounting, the term "liability" is defined as an obligation of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future. To put it in more simplistic terms, this section analyzes the various claims that creditors have against the Board's assets.

Current Liabilities Payable from Unrestricted Assets had a net decrease in its various components of $65,502 or about 2.26% compared to the previous period's balance.

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
OCTOBER 31, 2015

TABLE 5
Components of Current Liabilities

	Four months ended October 31		Change in four months ended October 31, 2015 to 2014	
	2015	2014	Amount	Percent
Revenue bonds payable	$ 515,000	$ 500,000	$ 15,000	3.00%
Accounts payable – other	45,297	25,750	19,547	75.91%
Accounts payable - related parties	713,219	815,346	(102,127)	-12.53%
Customer deposits	378,328	336,239	42,089	12.52%
Accrued taxes – property	218,246	226,104	(7,858)	-3.48%
Accrued interest	395,410	608,095	(212,685)	-34.98%
Accrued payroll and benefits	127,263	75,701	51,562	68.11%
Deferred credits	187,674	67,903	119,771	176.39%
Vacation and sick pay	209,329	199,842	9,487	4.75%
Conservation advances	-	335	(335)	-100.0%
Other accrued liabilities	44,441	44,394	47	0.11%
	$ 2,834,207	$ 2,899,709	$ (65,502)	-2.26%

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
OCTOBER 31, 2015

Condensed Statements of Revenues, Expenses and Changes in Net Assets

As indicated in Table 6, the change in net position for the four month period ended October 31, 2015 was $590,076.

TABLE 6
Condensed Statements of Revenues, Expenses and Changes in Net Position

	Four months ended October 31		Change in four months ended October 31, 2015 to 2014	
	2015	2014	Amount	Percent
Operating revenues:				
Electric revenues	$ 5,317,951	$ 5,535,790	$ (217,839)	-3.94%
Broadband revenues	8,750	11,593	(2,843)	-24.5%
Total operating revenues	5,326,701	5,547,383	(220,682)	-3.98%
Operating expenses:				
Purchased power	3,052,906	3,754,362	(701,456)	-18.7%
Other expenses	1,380,070	1,350,791	29,279	2.17%
Total operating expenses	4,432,976	5,105,153	(672,177)	-13.2%
Net operating income	893,725	442,230	451,495	102.1%
Non-operating income, net	(303,649)	(355,033)	51,384	14.47%
Change in net position	590,076	87,197	502,879	576.7%
Net position, beginning	9,217,794	11,138,444	(1,920,650)	-17.2%
Net position, end	$ 9,807,870	$ 11,225,641	$ (1,417,771)	-12.6%

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
OCTOBER 31, 2015

Analysis of Revenue

For the four months ended October 31, 2015, the *Operating Revenues* of the Board totaled $5,326,701. This amount represented a decrease of 3.98% more than the previous period's total of $5,547,383.

In analyzing the decrease in the *electric* revenue for the period, the main reason for the decrease was a lower PCA. The PCA was half a cent lower in 2015 than in 2014.

Included in the *Non-Operating Revenues (Expenses) (net)* are interest income, interest expense and other miscellaneous revenues totaling ($303,649). Included are interest expense of $262,437, amortization expense of $37,590, interest income of $3,317 and other expenses of $6,939.

Analysis of Expenses

The *Total Operating Expenses* for the four months ended October 31, 2015 were $4,432,976. That amount represents a decrease of $672,177 or about 13.17% less than the prior period total of $5,105,153. The nine major categories of Operating Expenses are shown in the chart below.

TABLE 7
Comparison of Operating Expenses

	Four months ended October 31		Change in four months ended October 31, 2015 to 2014	
	2015	2014	Amount	Percent
Cost of power	$ 3,052,906	$ 3,754,362	$ (701,456)	-18.7%
Distribution - operation	175,306	204,997	(29,691)	-14.5%
maintenance	190,333	175,590	14,743	8.40%
Maintenance - general	20,888	1,645	19,243	1,170%
Customer accounts	69,599	64,836	4,763	7.35%
Customer service and info	8,576	6,121	2,455	40.11%
Sales	4,963	4,742	221	4.66%
Administrative and general	246,714	214,038	32,676	15.27%
Depreciation	402,734	407,066	(4,332)	-1.06%
Taxes	260,958	271,756	(10,798)	-3.97%
	$ 4,432,976	$ 5,105,153	$ (672,177)	-13.2%

As indicated by the comparative information presented above, *Cost of Power* decreased by $701,456 or 18.7% compared to the prior period.

Long-term Debt

There were no changes in long-term debt from the audited June 30, 2015 statements. All principal payments are made annually on November 1.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the 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, General Manager or Cindy Birrell, Chief Financial Officer, Princeton Electric Plant Board, 304 East Legion Drive, Princeton, KY 42445.

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
STATEMENTS OF NET POSITION
OCTOBER 31, 2015 AND 2014

ASSETS

	2015	2014
Utility plant	$ 32,034,491	$ 31,701,448
Less accumulated depreciation	11,759,740	10,691,376
Net utility plant	20,274,751	21,010,072
Restricted assets		
Investments - special funds	3,110,496	3,661,848
Other assets		
Investment in affiliated organizations	165,759	132,502
Nonutility property	742,134	764,178
Total other assets and investments	907,893	896,680
Current assets		
Cash - general funds	3,869,271	4,135,678
Accounts receivable	1,076,165	1,225,761
Heat pump loans	-	335
Unbilled revenue	445,380	482,274
Inventories (at weighted-average cost)	301,722	299,016
Other current assets	98,612	335,882
Total current assets	5,791,150	6,478,946
Deferred charges	2,319,752	2,151,266
Total assets	32,404,042	34,198,812

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
STATEMENTS OF NET POSITION, continued
OCTOBER 31, 2015 AND 2014

LIABILITIES

	2015	2014
Current liabilities		
Current maturities of long-term debt	515,000	500,000
Accounts payable - other	45,297	25,750
Accounts payable - related parties	713,219	815,346
Customer deposits	378,328	336,239
Accrued taxes - property	218,246	226,104
Accrued interest	395,410	608,095
Accrued payroll and other taxes	127,263	75,701
Deferred credits	187,674	67,903
Vacation and sick pay	209,329	199,842
Conservation advances	-	335
Other accrued liabilities	44,441	44,394
Total current liabilities	2,834,207	2,899,709
Noncurrent liabilities		
Pension liability	1,482,794	-
Revenue bonds payable	18,279,171	20,073,462
Total noncurrent liabilities	19,761,965	20,073,462
Total liabilities	22,596,172	22,973,171
NET POSITION		
Invested in capital assets, net of related debt	1,480,580	436,610
Restricted	3,110,496	3,661,848
Unrestricted	5,216,794	7,127,183
Total net position	$ 9,807,870	$ 11,225,641

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FOUR MONTHS ENDED OCTOBER 31, 2015 AND 2014

	2015	2014
OPERATING REVENUES	$ 5,326,701	$ 5,547,383
OPERATING EXPENSES		
Cost of power	3,052,906	3,754,362
Distribution - operation	175,306	204,997
- maintenance	190,333	175,590
Maintenance - general plant	20,888	1,645
Customer accounts	69,599	64,836
Customer service and information	8,576	6,121
Sales	4,963	4,742
Administrative and general	246,714	214,038
Depreciation	402,734	407,066
Taxes	260,958	271,756
Total operating expenses	4,432,976	5,105,153
Net operating revenues	893,725	442,230
NONOPERATING REVENUES (EXPENSES)		
Interest expense	(262,379)	(411,819)
Other interest expense	(58)	(96)
Amortization of debt expense	(30,242)	(25,114)
Amortization - other	(7,348)	(7,348)
Interest income	3,317	7,128
Tax rebate on Build America Bonds	-	88,139
Other expenses	(6,939)	(5,924)
Net nonoperating revenues (expenses)	(303,648)	(355,033)
CHANGE IN NET POSITION	590,076	87,197
NET POSITION, BEGINNING OF YEAR	9,217,794	11,138,444
NET POSITION, END OF YEAR	$ 9,807,870	$ 11,225,641

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
STATEMENTS OF CASH FLOWS
FOR THE FOUR MONTHS ENDED OCTOBER 31, 2015 AND 2014

	2015	2014
Cash flows from operating activities		
Receipts from customers and users	$ 5,429,052	$ 5,688,257
Payments to suppliers	(3,522,421)	(4,200,966)
Payments to employees	(464,968)	(403,069)
Payments of taxes	(173,659)	(181,315)
Net cash provided (used) by operating activities	1,268,004	902,907
Cash flows from non-capital financing activities		
Energy service loans advances	-	438
Net cash provided (used) by non-capital financing	-	438
Cash flows from capital financing activities		
Expenditures for utility plant	(372,940)	(297,880)
Net cost of retiring plant	194,664	131,647
Principal payments on long-term debt	-	-
Tax rebate on Build America Bonds	-	-
Interest paid	(58)	(95)
Net cash provided (used) by capital financing activities	(178,334)	(166,328)
Cash flows from investing activities		
Energy loans receivable	-	(438)
Investment in affiliated companies	(13,399)	(12,369)
Interest income	3,753	7,747
Interest and other revenues	(6,940)	(5,924)
Net cash provided (used) by investing activities	(16,586)	(10,984)
Net increase (decrease) in cash	1,073,084	726,033
Cash, beginning of year	5,906,683	7,071,493
Cash, end of year	$ 6,979,767	$ 7,797,526

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APPENDIX E

KENTUCKY MUNICIPAL POWER AGENCY

POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2016A

Demographic & Economic Data of KMPA's Members

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.

McCracken County had an estimated 2013 population of 65,373 persons.

The Economic Framework

The total number of persons employed in McCracken County as of September 2015 averaged 26,333. In 2014, manufacturing firms in the county reported 2,391 employees; trade, transportation and utilities provided 10,891 jobs; 17,141 people were employed in service occupations; informational and financial services accounted for 1,985 employees; 3,351 accounted for state and local government employees; and contract construction firms provided 1,545 jobs.

Labor Supply

There is a current estimated labor supply of 13,218 persons available for industrial jobs in the labor market area. In addition, from 2014 through 2017, 13,467 young persons in the area will become 18 years of age and potentially available for industrial jobs.

Transportation

Major highways serving McCracken County 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 employers in McCracken County (as of December 2015) are listed below:

Firm	Product	Employment
Ingram Barge	Inland marine	2,500
Baptist Health Paducah	Hospital	1,655
Lourdes Hospital	Hospital	1,550
Marquette Transportation	Inland marine	1,430
McCracken County Public Schools	K-12	1,121
James Marine	Inland marine/barge mfg	860
WalMart	Retail	728
West KY Community & Technical College	Higher Education	525
Paducah Public Schools	K-12	448
City of Paducah	Government	405
TeleTech	Call Center	250
Fluor Federal Services	Clean-up Contractor	400
Credit Bureau Systems	Credit reporting/collections	298
Lynx Services	Call Center	275

Sources: Paducah Economic Development

McCracken County Economic Statistics

2011-2015

Year	Per Capita Income	Median Family Income	Average Weekly Wage	Unemployment Rate	Employment	Civilian Labor Force
2015	(1)	$60,500	$779.00 (2)	4.9% (2)	26,333 (2)	27,683 (2)
2014	(1)	56,400	781.00	7.1	27,272	29,359
2013	$41,934	64,300	766.00	8.0	28,535	31,033
2012	41,084	57,300	758.00	7.8	29,327	31,825
2011	39,872	56,500	744.00	8.5	29,289	31,994

Source: Kentucky Department of Economic Development; U.S. Department of Housing and Urban Development

(1) Data not available.
(2) Preliminary, as of 2nd quarter 2015
(3) Preliminary, as of September 2015

PRINCETON, KENTUCKY

(Caldwell County)

Princeton, the county seat of Caldwell County, is located in the Pennyrile Region of Western Kentucky just east of Lake Barkley, the Land Between the Lakes and the vast Western Waterland area. Princeton, with an estimated 2013 population of 6,252, is located 100 miles northwest of Nashville, Tennessee; 174 miles southwest of Louisville, Kentucky; and 219 miles southeast of St. Louis, Missouri.

Caldwell County had an estimated population of 12,823 in 2013.

The Economic Framework

The total number of persons employed in Caldwell County in September 2015 averaged 4,965. In 2014, manufacturing firms in the County reported 846 employees; trade, transportation and utilities provided 864 jobs; 1,260 people were employed in service occupations; financial activities accounted for 135 employees; agriculture, forestry, fishing and hunting provided 85 jobs; and contract construction firms provided 72 jobs.

Transportation

Major highways serving Princeton include Interstate 69, 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 18,066 persons available for industrial jobs in the labor market area. In addition, from 2014 through 2017, 15,513 young persons in the area will become 18 years of age and potentially available for industrial jobs. Major employers in Princeton (as of December 2015) are listed below:

Firm	Product	Employment
ConAgra	Cookies & crackers	631
Hydro-Gear LP	Designs & manufactures hydrostatic pumps transmissions & trans-axles for the lawn & garden industry	170
Caldwell Co. Hospital	Healthcare	108
Princeton Finishing, Inc.	Cotton athletic sock finishing	26
Bodycote Imt Inc.	HIP (Hot isostatic pressing)	18
Rogers Group	Crushed limestone	17
Times Leader & Pacesetter Printing	Twice weekly newspaper and sheet-fed commercial printing	12

Sources: Kentucky Cabinet for Economic Development and Other Sources

Princeton, Kentucky

(Caldwell County)

Economic Statistics

2011-2015

Year	Per Capita Income	Median Family Income	Average Weekly Wage	Unemployment Rate	Employment	Civilian Labor Force
2015	(1)	$48,400	$603.00(2)	4.7% (2)	4,965 (2)	5,208 (2)
2014	(1)	51,100	588.00	6.5	5,115	5,472
2013	$33,760	51,300	589.00	7.0	6,162	6,628
2012	31,921	51,500	576.00	7.1	6,183	6,652
2011	30,328	50,800	578.00	8.2	6,140	6,686

Source: Kentucky Department of Economic Development; U.S. Department of Housing and Urban Development

(1) Data not available.
(2) Preliminary, as of 2nd quarter 2015.
(3) Preliminary, as of September 2015

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APPENDIX F

KENTUCKY MUNICIPAL POWER AGENCY

POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2016A

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 all-requirements wholesale power contract with the Tennessee Valley Authority ("TVA"). The original wholesale power contract between PPS and TVA was renewed by a power contract dated August 8, 1980. As permitted by the terms of the 1980 power contract, PPS in 2004 notified TVA that the contract would terminate as of December 21, 2009. Since termination of the TVA wholesale power contract, PPS has purchased virtually all of its electric power and energy requirements from the Kentucky Municipal Power Agency ("KMPA"). KMPA is a public agency created and operating under an Interlocal Cooperation Agreement dated February 7, 2005, by and between its two members, PPS and Princeton Electric Plant Board, as authorized by the Interlocal Cooperation Act, KRS 65.210 to 65.300, for purposes that include the mutual advantages that may be obtained from the coordinated planning, construction and operation of electric power generation and transmission facilities and the joint purchases, sales and exchanges of electric power and energy.

The Electric Plant

The PPS distribution system serves approximately 22,397 customers. Of this number, approximately 18,675 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.

Except for a small allotment of hydroelectric power purchased from the Southeastern Power Administration and the power generated by the PPS gas-fired combustion turbine generating plant (described below), all electric power requirements of PPS are purchased from KMPA. 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.

In May, 2010, PPS completed construction of a gas-fired combustion turbine peaking facility located adjacent to its Substation No. 8 and at one of the two points at which the PPS distribution system interconnects to the transmission system of Louisville Gas & Electric/ Kentucky Utilities. 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 is approximately 110 MW at peak summer ambient temperatures.

A 69,000 volt transmission system connects the system's ten 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 $193,008,974 with approximately 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 November 2013, is shown below.

Customer Class	Retail Rates	Power Cost Adjustment	Effective Rate
Residential			
Customer Charge	$14.75		$14.75
All KWH	$0.11153	$0.01656	$0.12809
GSA-1			
Customer Charge	$22.00		$22.00
All KWH	$0.12217	$0.01656	$0.13873
GSA-1 Seasonal			
Customer Charge	$22.00		$22.00
All KWH	$0.13883	$0.01656	$0.15539
GSA-2			
Customer Charge	$115.00		$115.00
1st 15,000 KWH	$0.11938	$0.01656	$0.13594
Additional KWH	$0.07495	$0.01656	$0.09151
1st 50 KW Demand	$0.00		-
51-1,000 KW Demand	$16.49		$16.49
GSA-2 Seasonal			
Customer Charge	$115.00		$115.00
1st 15,000 KWH	$0.13529	$0.01656	$0.15185
Additional KWH	$0.09086	$0.01656	$0.10742
1st 50 KW Demand	$0.00		-
51-1,000 KW Demand	$20.69		$20.69
GSA-3			
Customer Charge	$275.00		$275.00
All KWH	$0.06736	$0.01656	$0.08392
0-1,000 KW Demand	$15.25		$15.25
1,001 – 5,000 KW Demand	$17.62		$17.62
Industrial	$275.00		$275.00
Customer Charge	$0.05257	$0.01656	$0.06913
All KWH	$18.38		$18.38
All KW Demand			
Drainage Pumps			
Customer Charge	$65.00		$65.00
All KWH	$0.09391	$0.01656	$0.11047
Outdoor Lighting			
All KWH	$0.08425	$0.01656	$0.10081
Customer Charge	See Note		
City Street Lighting			
All KWH	$0.10625	$0.01656	$0.12281

Source: Paducah Power System

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

Power Cost Adjustment 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 2015.

Customer	**Usage (Kilowatt Hrs.)**	**Dollar Sales**
Western Baptist Hospital	30,842,767	$3,752,631
Lourdes Hospital	21,535,501	2,573,799
HB Fuller Co	11,179,800	1,228,893
City of Paducah	6,532,781	1,110,615
West KY Community & Technical College	7,793,140	1,095,723
Walmart Stores	7,463,336	953,959
VMV Paducahbilt	6,049,791	900,734
Paducah Water	6,049,498	798,038
Dippin Dots Inc.	6,492,698	729,793
Kroger	5,720,547	727,635

Source: Paducah Power System

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

	FY15*	**FY14**	**FY13**	**FY12**	**FY11**
Residential	18,675	18,603	18,612	18,677	18,699
Commercial	3,286	3,282	3,291	3,282	3,291
Lighting	436	466	471	448	449
Total	22,397	22,351	22,374	22,407	22,439
MWH Sold	556,184	580,995	595,572	599,913	631,428
Peak MWH	134	147	157	156	157

Source: Paducah Power System
*as of June 30, 2015

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Financial Information

The following is a five year presentation of Paducah Electric's finances to include balance sheets, statements of revenues, expenses and changes in retained earnings, and calculations of debt service coverage based on historical revenues. Please refer to Appendix C for Paducah Electric's 2014-2015 Audited Financial Statements.

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

BALANCE SHEETS

ASSETS

	June 30,				
	2015	**2014**	**2013**	**2012**	**2011**
UTILITY PLANT					
Transmission system	$ 10,374,351	$10,372,166	$10,365,605	$ 8,314,588	$ 8,315,685
Distribution system	84,670,049	1,519,079	79,292,296	73,800,089	71,984,076
Land	2,636,229	,636,229	2,636,229	2,611,629	2,604,129
Generation plant	110,661,988	10,661,988	110,631,286	110,365,697	110,964,638
General plant	18,541,240	7,164,508	16,841,496	15,705,629	15,047,200
	226,883,857	22,353,970	219,766,912	210,797,632	208,915,728
Less accumulated depreciation	(70,961,324)	(63,070,143)	55,207,547)	(48,016,771)	(41,096,103)
	155,922,533	59,283,827	164,559,365	162,780,861	167,819,625
Construction work in progress	904,999	,874,790	3,211,472	5,915,561	2,305,176
Total Utility Plant	$ 156,827,532	$162,158,617	$167,770,837	$168,696,422	$170,124,801
OTHER PROPERTY AND INVESTMENTS					
Sinking Fund	15,356,869	9,784,370	20,094,904	19,103,925	17,792,523
Investment in SEDC	159,421	140,508	94,324	102,208	84,528
Investment in MuniNet Fiber Agency	330,508	253,720	146,930	122,417	35,059
Construction Fund	-	-	-	-	9,272,391
Investment in CSA	26,740	26,740	26,740	26,740	26,740
Non-utility property	2,021	2,999	3,977	4,956	5,934
Total Other Property and Investments	$ 15,875,559	$20,208,337	$ 20,366,875	$ 19,360,246	$ 27,217,175
CURRENT ASSETS					
Cash and temporary cash investments	3,905,965	1,727,434	3,096,994	8,693,373	2,696,072
Cash reserve fund	4,236,588	823,068	899,378	917,332	912,222
Accounts receivable (net of allowance for doubtful accounts)	6,649,580	8,240,041	6,092,799	4,935,507	5,022,971
Materials and supplies	1,347,339	1,473,321	1,542,843	1,570,685	1,731,578
Prepaid expenses	12,718	16,030	14,462	41,936	85,442
Receivable from KMPA	-	-	-	325,794	-
Receivable from MuniNet Fiber Agency	32,252	32,252	32,252	510,515	865,028
Grants receivable	-	-	365,042	365,042	389,320
Unamortized software maintenance	-	-	-	-	-
Receivable from TVA	-	-	-	-	-
Accrued interest receivable	6,642	29,226	25,476	21,854	25,248
Rent receivable	98,526	98,526	97,343	95,338	95,338
Total Current Assets	$ 16,289,610	$12,439,898	$ 12,166,589	$ 17,477,376	$248,287,599
DEFERRED DEBITS					
Unamortized debt discount	2,808,387	2,396,110	2,636,229	2,661,819	2,794,674
Regulatory credits	1,157,419	3,976,727	-	-	-
Receivable for conservation	-	-	15,956	35,077	63,697
Unemployment Trust Fund	29,154	29,154	29,154	29,154	29,154
Other deferred debits	21,313	19,045	(32,038)	98,603	21,453
Total Deferred Debits	$ 4,016,273	$ 6,421,036	$ 2,649,301	$ 2,824,653	$ 2,908,978
TOTAL ASSETS	$ 193,008,974	$201,227,888	$202,846,337	$208,358,697	$212,074,173
DEFERRED OUTFLOWS OF RESOURCES					
Pension plan contributions subsequent to the measurement date	$ 797,594	$ -	$ -	$ -	$ -

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,				
	2015	2014	2013	2012	2011
CURRENT LIABILITIES					
Accounts payable	$ 5,111,371	$ 6,308,307	$ 5,242,373	$ 4,626,243	$ 5,072,377
Line of credit	-	3,000,000	-	-	-
Customer deposits	814,286	794,596	814,408	842,243	754,362
Accrued taxes and equivalents	910,046	1,024,117	1,094,667	1,240,276	1,413,601
Accrued interest	1,837,712	1,876,502	1,932,770	1,978,712	2,022,137
Accrued generation plant liabilities	-	-	-	-	374,885
Other current and accrued liabilities	848,097	817,286	811,125	815,222	790,278
Bonds payable	5,100,000	4,945,000	5,635,000	4,590,000	4,430,000
Total Current Liabilities	$ 14,621,512	$ 18,765,808	$ 15,530,343	$ 14,092,696	$ 14,857,640
NON-CURRENT LIABILITIES					
Bonds held by public	146,032,721	151,000,043	155,809,740	161,301,558	165,748,377
Advances for conservation loans	-	15,220	23,865	51,755	82,014
Note payable	-	-	-	-	-
Other deferred credits	352,166	370,247	375,733	98,910	101,242
Net pension liability	6,515,620	-	-	-	-
Total Non-Current Liabilities	$152,900,507	$151,385,510	$156,209,338	$161,452,223	$165,931,633
TOTAL LIABILITIES	$167,522,019	$170,151,318	$171,739,681	$175,544,919	$180,789,273
DEFERRED INFLOWS OF RESOURCES					
Difference between projected and actual earnings	$727,301	-	-	-	-
NET ASSETS					
Invested in capital assets, net of Related debt	5,694,811	6,213,574	6,326,097	2,804,864	(428,461)
Restricted for:					
Capital projects	-	-	-	-	9,272,391
Debt service	15,356,869	19,784,370	20,994,282	20,021,257	18,704,745
Unrestricted - net deficit	4,505,569	5,078,626	3,786,277	9,987,657	3,736,225
Total Net Assets	$ 25,557,249	$ 31,076,570	$ 31,106,656	$ 32,813,778	$ 31,284,900
TOTAL LIABILITIES & NET ASSETS	$193,079,268	$201,227,888	$202,846,337	$208,358,697	$212,074,173

Source: Paducah Power System Audited Financial Statements

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

COMBINED STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS

	Years Ending June 30,				
	2015	**2014**	**2013**	**2012**	**2011**
OPERATING REVENUES					
Charges for services:					
Residential	$31,647,468	$31,611,977	$ 25,942,162	$ 23,520,042	$ 24,403,769
Large lighting and power	37,575,679	36,078,042	30,848,216	29,647,756	29,439,282
Small lighting and power	9,190,800	8,814,194	7,249,722	6,901,797	6,966,622
Street and outdoor	1,693,631	1,622,309	1,364,324	1,252,568	1,233,159
Total Charges for Services	$80,107,578	$78,126,522	$ 65,404,424	$ 61,322,163	$ 62,042,832
Miscellaneous:					
Forfeited discounts	472,781	479,047	364,870	347,405	368,526
Service revenue	2,328,907	2,095,002	1,844,872	1,507,138	1,439,842
Regulatory credits	(2,819,308)	3,976,727	-	-	-
Other electric revenue	600	600	15,025	14,423	14,720
Total Miscellaneous	$ (17,020)	$ 6,551,376	$ 2,224,767	$ 1,868,966	$ 1,823,088
TOTAL OPERATING REVENUES	$80,090,558	$84,677,898	$ 67,629,191	$ 63,191,129	$ 63,865,920
PURCHASED POWER AND OPERATING EXPENSES					
Purchased power cost	50,457,469	56,629,518	41,246,986	32,446,316	44,472,463
General operating expense	7,292,640	7,254,708	7,167,898	7,016,723	6,436,143
Generation plant expense	1,480,592	1,239,850	1,195,714	2,477,582	2,873,063
Maintenance expense	1,393,068	1,438,592	1,379,719	1,350,675	1,359,103
Other operating expense	10,856,868	10,811,174	10,727,728	10,594,100	9,885,342
Total Purchased Power and Operating Expenses	$71,480,637	$77,373,842	$ 61,718,045	$ 53,885,396	$ 65,026,114
OPERATING INCOME	$ 8,609,921	$ 7,304,056	$ 5,911,146	$ 9,305,733	$ (1,160,194)
NONOPERATING REVENUES/EXPENSES					
Interest paid on indebtedness	(7,338,095)	(7,462,876)	(7,658,943)	(7,821,206)	(7,960,692)
Interest earned on investments	194,308	362,982	271,045	288,356	496,049
Net amortization discount and premium on debt	(276,749)	(268,158)	(276,036)	(276,036)	(287,416)
Nonoperating income	12,715	33,910	45,666	32,031	30,476
Total Nonoperating Revenues/Expenses	$ (7,407,821)	$ (7,334,142)	$ (7,618,268)	$ (7,776,855)	$ (7,721,583)
CHANGES IN NET ASSETS	$ 1,202,100	$ (30,086)	$ (1,707,122)	$ 1,528,878	$ (8,881,777)
NET ASSETS, BEGINNING OF YEAR	$31,076,570	$31,106,656	$ 32,813,778	$ 31,284,900	$ 40,166,677
Prior period adjustment	$ (6,721,421)	$ -	$ -	$ -	$ -
NET ASSETS, END OF YEAR	$25,557,249	$31,076,570	$ 31,106,656	$ 32,813,778	$ 31,284,900

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 25, 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 3,905 customers. Of this number, approximately 3,025 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 Power Sales Agreement dated as of September 1, 2007 and 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 161,000 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. Additionally, several distribution circuits between substations have been strengthened with larger conductors for better backup protection during emergency conditions.

PEPB has total assets of $31,622,292, with 137 miles of line with 29 customers per mile, and an average residential usage of 1,000 kilowatt-hours per month.

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.

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Electric Rates

The current schedule for electric rates, shown below, became effective July 1, 2015.

Customer Class	Effective Rate, July 1, 2015
Residential	
Customer Charge	$14.89
All KWH	$0.10798
GSA-1	
Customer Charge	$27.85
All KWH	$0.11928
GSA-2	
Customer Charge	$127.66
1st 50 KW Demand	--
51-1,000 KW Demand	$15.71
1st 15,000 KWH	$0.09778
Additional KWH	$0.09778
GSA-3	
Customer Charge	$294.15
1st 1,000 KWH	$15.46
Additional KWH	$17.88
1st 550 KW Demand	$0.07978
Additional KWH	$0.07978

Outdoor Lighting

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 2015.

Customer	**Usage (Kilowatt Hrs.)**	**Dollar Sales**
ConAgra	23,461,200	$2,994,254
Special Metals	6,947,400	975,562
Hydro-Gear	4,038,300	532,533
Wal-Mart	3,232,800	454,259
Caldwell Co. Hospital	3,118,500	428,475
Bodycote	3,072,000	479,875
Food Giant	1,426,320	198,396
City of Princeton	1,284,852	135,210
Water & Sewer Commission	1,137,000	147,281
Bremner	1,128,600	155,120

Source: Princeton Electric Plant Board

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

	FY15*	**FY14**	**FY13**	**FY12**	**FY11**
Residential	3,025	3,023	3,032	3,071	3,090
Commercial	866	847	877	846	819
Lighting	14	14	14	14	13
Total	3,905	3,884	3,923	3,931	3,922
MWH Sold	111,137	110,921	113,638	111,758	111,961
Peak MW	25.31	24.47	26.6	26.4	26.2

Source: Princeton Electric Plant Board
*as of June 30, 2015

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Financial Information

The following is a five year presentation of Princeton Electric's finances to include balance sheets, statements of revenues, expenses and changes in retained earnings, and calculations of debt service coverage based on historical revenues. Please refer to Appendix D for Princeton Electric's 2014-2015 Audited Financial Statements.

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ELECTRIC PLANT BOARD OF THE
CITY OF PRINCETON, KENTUCKY
PRINCETON ELECTRIC PLANT BOARD (PEPB)

BALANCE SHEETS

	ASSETS				
	Years Ending June 30,				
	2015	2014	2013	2012	2011
CURRET ASSETS					
Cash - general funds	$3,325,363	$3,981,340	$4,867,586	$4,286,027	$1,740,827
Special funds	-	-	-	-	-
Accounts receivable	1,194,338	1,294,242	938,714	899,242	746,946
Other receivables	-	-	-	-	-
TVA heat pump loans	-	773	2,114	4,889	13,445
Unbilled revenue	445,380	482,273	397,353	540,659	459,810
Inventories (at weighted-average cost)	301,772	296,027	516,056	323,752	261,532
Prepaid expenses	-	-	-	-	-
Other current assets	23,513	380,337	23,359	24,974	19,581
Total Current Assets	$5,290,366	$6,434,992	$6,745,182	$6,079,543	$3,242,141
NONCURRENT ASSETS					
Utility plant	$31,942,622	$31,564,968	$31,074,285	$30,290,564	$29,283,004
Construction in progress	-	-	-	-	-
Less accumulated depreciation	11,443,850	10,314,064	9,281,258	8,249,740	7,486,907
Net utility plant	$20,498,772	$21,250,904	$21,793,027	$22,040,824	$21,796,097
RESTRICTED ASSETS					
Investments - special funds	$2,581,320	$3,090,153	$3,054,033	$3,436,275	$4,491,863
OTHER ASSETS					
Investment in affiliated organizations	$152,360	$120,133	$87,949	$17,103	$10,833
Nonutility property	749,481	771,525	793,568	913,900	938,600
Total other assets and investments	$901,841	$891,658	$881,517	$931,003	$949,433
Deferred charges	2,349,993	2,176,381	2,251,723	2,327,066	2,402,408
TOTAL ASSETS	$31,622,292	$33,844,088	$34,725,482	$34,814,711	$32,881,942
DEFERRED OUTFLOWS OF					
Deferred pension amounts	$ 203,006	$ -	$ -	$ -	$ -

Source: Princeton Electric Plant Board Audited Financial Statements

ELECTRIC PLANT BOARD OF THE
CITY OF PRINCETON, KENTUCKY
PRINCETON ELECTRIC PLANT BOARD (PEPB)

BALANCE SHEETS

	LIABILITIES				
	Years Ending June 30,				
	2015	2014	2013	2012	2011
CURRENT LIABILITIES					
Current maturities of long-term debt	$ 515,000	$ 485,000	$ 485,000	$ 475,000	$ 170,000
Accounts payable - other	63,364	55,910	92,527	119,138	104,878
Accounts payable - related parties	827,943	1,017,869	828,006	612,045	795,283
Customer deposits	362,102	323,616	290,468	315,569	309,192
Accrued interest	131,803	202,697	205,303	207,501	208,067
Accrued payroll and other taxes	328,396	220,649	186,163	142,381	135,775
Deferred credits	15,946	77,352	20,679	(35,104)	(45,045)
Vacation and sick pay	210,825	201,123	201,289	170,163	162,616
Conservation advances - TVA	0	773	2,114	4,889	-
Other current & accrued liabilities	38,727	38,614	61,572	61,187	58,001
Total Current Liabilities	$2,494,106	$2,623,603	$2,373,121	$2,072,769	$1,898,767
NONCURRENT LIABILITIES					
Long-term debt	$18,280,398	$20,082,041	$20,547,775	$21,013,508	$21,469,241
Pension liability	1,685,800	-	-	-	-
Advances from others:					
Conservation advances - TVA	-	-	-	-	13,295
Total Noncurrent Liabilities	$19,966,198	$20,082,041	$20,547,775	$21,013,508	$21,482,536
TOTAL LIABILITIES	$22,460,304	$22,705,644	$22,920,896	$23,086,277	$23,381,303
DEFERRED INFLOWS OF RESOURCES					
Deferred pension amounts	$147,200	$ -	$ -	$ -	$ -
NET ASSETS					
Invested in capital assets, net of related debt	$1,703,374	$ 683,863	$ 760,252	$ 552,316	$ 156,856
Restricted	2,581,320	3,090,153	3,054,033	3,436,275	4,491,863
Unrestricted	4,933,100	7,364,428	7,990,301	7,739,843	4,851,920
Total Net Assets	$9,217,794	$11,138,444	$11,804,586	$11,728,434	$9,500,639

Source: Princeton Electric Plant Board Audited Financial Statements

ELECTRIC PLANT BOARD OF THE
CITY OF PRINCETON, KENTUCKY
PRINCETON ELECTRIC PLANT BOARD (PEPB)

BALANCE SHEETS

COMBINED STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS

		Years Ending June 30,			
	2015	**2014**	**2013**	**2012**	**2011**
OPERATING REVENUES					
Total Operating Revenues	$15,035,745	$14,759,975	$12,794,889	$13,086,572	$12,472,157
OPERATING EXPENSE					
Cost of power	$10,235,071	$10,276,577	$7,870,088	$6,083,593	$7,316,092
Distribution - operation	600,913	572,118	540,768	524,951	520,534
Maintenance	575,513	543,835	485,107	731,869	506,144
Customer accounts	192,478	189,151	171,163	177,210	225,524
Customer service and information	19,572	23,864	-	-	-
Sales promotion	7,959	11,411	34,231	36,858	286,103
Administrative and general	630,330	702,772	720,706	800,859	735,444
Depreciation	1,214,091	1,261,191	1,089,543	1,017,205	784,123
Taxes	758,613	764,724	750,746	598,246	598,720
Total Operating Expenses	$14,234,540	$14,345,643	$11,662,352	$9,970,791	$10,972,684
OPERATING INCOME	$801,205	$414,332	$1,132,537	$3,115,781	$1,499,473
NONOPERATING REVENUES/EXPENSES					
Interest expense	($1,085,177)	($1,240,666)	($1,230,082)	($1,246,141)	($1,248,554)
Other interest expense	(3,325)	(2,902)	-	-	-
Amortization of debt expense	(80,471)	(75,343)	(94,610)	(94,610)	(93,940)
Amortization-other	(22,044)	(22,044)	-	-	-
Interest income	10,078	17,616	18,817	37,784	60,331
Tax rebate on Build America Bonds	178,149	261,350	270,911	285,394	332,960
Other expenses	(18,065)	(18,485)	(21,421)	(18,775)	(19,918)
Gain (Loss) on disposal of assets	-	-	-	-	(861)
Total Nonoperating Revenues/Expenses	($1,020,855)	($1,080,474)	($1,056,385)	($1,036,348)	($969,982)
TOTAL NET ASSETS, BEGINNING OF YEAR	$11,138,444	$11,804,586	$11,728,434	$9,649,001	$9,119,510
Implementation of GASB 68	($1,701,000)	-	-	-	-
NET INCOME	($219,650)	($666,142)	$76,152	$2,079,433	$529,491
TOTAL NET ASSETS, END OF YEAR	$9,217,794	$11,138,444	$11,804,586	$11,728,434	$9,649,001

Source: Princeton Electric Plant Board Audited Financial Statements

APPENDIX G

KENTUCKY MUNICIPAL POWER AGENCY

POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2016A

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 65.210 to 65.300 and Sections 96.550 to 96.901of 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.

"*Annual Debt Service*" means the 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 a Fiscal Year.

"*Approving Opinion*" means, with respect to any action relating to the Series 2016A Bonds, the occurrence of which requires an Opinion of Counsel, delivered by Bond Counsel, to the effect that such action (a) is permitted by this Indenture and (b) will not adversely affect the exclusion of interest on the Series 2016A Bonds from gross income of the Owners for purposes of federal income taxation.

"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) are rated in one of the three highest Rating Categories by a Rating Agency 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, as amended, 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 that provides such insurance or guaranty with respect to the Bonds.

"*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 2016A 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 Owner, 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.

"*Conditional Redemption*" has the meaning ascribed to such term in the Indenture.

"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*" or "*Issue Date*" means, with respect to the Series 2016A Bonds, the date the Series 2016A Bonds are issued and delivered to the Underwriter.

"*Debt Service*" means respectively (i) Maximum Annual Debt Service for the purpose of calculating Debt Service Coverage for the issuance of Parity Bonds as described in the Indenture and (ii) Annual Debt Service for the purpose of calculating the required coverage for the covenant relating to rates as described in the Indenture.

"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 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.

"Escrow Agreement" refers to the Agreement between the Issuer and the Trustee which provides for the investment and disbursement of the funds in the Escrow Fund for the purpose of providing for the payment of the principal of and interest, together with the redemption premium, if any, on the Refunded Bonds.

"Escrow Fund" refers to the Kentucky Municipal Power Agency Escrow Fund created in the Escrow 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.

"*Financial Advisor*" means J.J.B. Hilliard, W.L. Lyons, LLC.

"*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.

"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, dated as of January 1, 2016, by and between the Issuer and the Trustee, 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, with respect to Series 2016A Bonds, March 1 and September 1 of each year, commencing on March 1, 2016, 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, Inc., 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 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 and who shall not be unsatisfactory to the Trustee as lacking either the skill or experience necessary to render the opinions required.

"*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; and, when used as of any particular time with respect to the Prior Bonds, such bonds as are "Outstanding" under the Prior Indenture. In addition with respect to the Series 2015B Bonds, "Outstanding" shall not mean any Untendered

Bonds to the extent that there shall be on deposit with the Paying Agent on the date the purchase thereof is required as provided in the Indenture an amount to pay the Purchase Price thereof. For the purpose of providing consent or direction to the Trustee or the filing of suits or like actions, the amount of Bonds Outstanding under the Prior Indenture, the Indenture and a Parity Indenture shall be aggregated for the purpose of determining the applicable percentage.

"*Owner*", "*Holder*", "*Bondowner*" or "*Bondholder*" 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 issued in the future pursuant to the provisions of the Indenture, which shall rank on a basis of parity with the Bonds.

"Parity Indenture" means an indenture entered into in the future pursuant to which Parity Bonds are issued.

"*Participant*" means a broker-dealer, bank or other financial institution for which the Depository holds Bonds as a securities depository.

"*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, limited liability company, 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, the Series 2010 Bonds, the Series 2015A Bonds and the Series 2015B Bonds.

"*Prior Indenture*" collectively refers to the Series 2007 Indenture, the Series 2010 Indenture, the Series 2015A Indenture and the Series 2015B 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 Costs*" means the costs associated with the Issuer's acquisition, development, construction and equipping the Issuer's Project Share of the Project.

"*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.

"*Prudent Utility Practice*" at a particular time means any of the practices, methods and acts (including but not limited to the practices, methods and acts engaged in or approved by a significant portion of the electrical utility industry prior thereto) which, in the exercise of reasonable judgment in the light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at the lowest reasonable cost consistent with good business practices, reliability, safety and expedition. Prudent Utility Practice shall apply not only to functional parts of the Project but also to appropriate structures, landscaping, painting, signs, lighting, or facilities and public relations programs reasonably designed to promote public enjoyment, understanding and acceptance of the Project. Prudent Utility Practice is not intended to be limited to the optimum practice, method or act, to the exclusion of all others, but rather to be a spectrum of possible practices, methods or acts. In evaluating whether any matter conforms to Prudent Utility Practice, the parties shall take into account (i) the fact that KMPA is a body politic and corporate and a political subdivision under the laws of the State of Kentucky, with the statutory duties and responsibilities thereof, and (ii) in the case of any joint facility, the applicable ownership or participation agreement between KMPA and the other Prairie State owners of the facility.

"*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).

"*Redemption Account*" means the account of that name in the Bond Fund established pursuant to the Indenture.

"*Refunded Bonds*" means the Outstanding Series 2007A Bonds being refunded by the Series 2016A Bonds and as identified in 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 least 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.

"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 2016A Bonds.

"*Retained Rights*" means the rights of the Issuer under any Power Sales Agreement that provide indemnification or similar rights to the Issuer or provide for the payment of attorney's fees. Retained Rights shall also include such other rights of the Issuer as may be necessary to preserve the enforceability of such Power Sales Agreement after giving effect to any anti-assignment provision contained therein.

"*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, amended and supplemented by the First Supplemental and Amended Trust Indenture, dated March 1, 2015, and as otherwise 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 2010 Indenture*" means the Trust Indenture, dated as of April 1, 2010, by and between the Issuer and the Trustee, amended and supplemented by the First Supplemental and Amended Trust Indenture, dated March 1, 2015, the Second Supplemental and Amended Trust Indenture, dated April 1, 2015, and as otherwise amended and supplemented from time to time.

"*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 Series 2010 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 Series 2010 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 Series 2010 Indenture.

"*Series 2015A Bond*" or "*Series 2015A Bonds*" means the Kentucky Municipal Power Agency Power System Revenue Refunding Bonds (Prairie State Project), Series 2015A, authorized by, and at any time Outstanding, pursuant to the Series 2015A Indenture.

"*Series 2015A Indenture*" means the Trust Indenture, dated as of March 1, 2015, by and between the Issuer and the Trustee, as amended and supplemented from time to time.

"*Series 2015B Bond*" or "*Series 2015B Bonds*" means the Kentucky Municipal Power Agency Power System Revenue Refunding Bonds (Prairie State Project), Series 2015B (SIFMA Floating Rate Notes), authorized by, and at any time Outstanding, pursuant to the Series 2015B Indenture.

"*Series 2015B Indenture*" means the Trust Indenture, dated as of June 1, 2015, by and between the Issuer and the Trustee, as amended and supplemented from time to time.

"*Series 2016A Bond*" or "*Series 2016A Bonds*" means the Kentucky Municipal Power Agency Power System Revenue Refunding Bonds (Prairie State Project), Series 2016A, 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 under the Indenture.

"*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 2010A Bonds, the Series 2015A Bonds, the Series 2015B Bonds and the Series 2016A 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 Regions Bank, Nashville, Tennessee, or its successor, as trustee and paying agent as provided in the Indenture and the Prior Indenture.

"*UCC*" means the Uniform Commercial Code of the State codified in Chapter 355 of the Kentucky Revised Statutes.

"*Underwriter*" means, collectively, Goldman, Sachs & Co. and any other initial purchasers of the Series 2016A 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 Prior Indenture and granted 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, the Prior Indenture and the Prior Bonds, does grant, bargain, sell, convey, pledge and assign unto and grant a security interest, on a pari passu basis with the Prior Bonds, 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 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 have been or will 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 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 may be issued by the Issuer only upon compliance with the following conditions and restrictions:

(a) that before any Parity Bonds may be issued (other than a refunding bond issued pursuant to the last paragraph of this Section) 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, nor the compliance with the requirements set forth above, is intended or shall be construed as a restriction upon the ordinary refunding of any portion of any of the Bonds then Outstanding, if such refunding does not operate to increase in any Bond Year the aggregate debt service requirements of the Outstanding Bonds.

Funds and Accounts

The following Funds and accounts either have been created and established under the Prior Indenture or, in the case of the Costs of Issuance Account, 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 Costs of Issuance Account;

(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 Costs of Issuance Account, the Reserve Fund and the Rebate Fund are or shall be established with and maintained by the Trustee. The other Funds and accounts created under the Indenture or the Prior Indenture were established with and maintained by the Issuer with a Depository Bank; provided that if there shall be declared (i) an Event of Default other than a payment default under the Indenture, the Prior Indenture or a Parity Indenture then the Revenue Fund shall be maintained with the Trustee or (ii) an Event of Default of a payment of principal, premium, if any, or interest on the Bonds under the Indenture, the Prior Indenture or a Parity Indenture then all Funds shall be transferred 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^{th} day of each month from the Revenue Fund, 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 Costs of Issuance Account 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.

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 Principal and Interest Account of the Bond Fund.

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 make 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 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^{th} 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 by 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, the Prior Indenture or a Parity 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, the Prior 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 Reserve 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 Issuer shall cause the Depository Bank to transfer from the Revenue Fund, from time to time, such amounts as determined by the Issuer as needed 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 Issuer shall cause to be transferred 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 Bondowners, 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 under the Indenture and under the Power Sales Agreements (including all fees, charges and expenses of the Trustee and the Issuer which are properly due and payable under the Indenture 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.

Indenture and Prior Indenture Conflicts

Nothing in the Indenture shall be construed as amending, altering or supplementing the Prior Indenture or adding any covenants adverse to the Owners of the Prior Bonds. The Issuer and the Trustee acknowledge that the Prior Bonds are contemplated to remain outstanding under the Prior Indenture after the issuance of the Series 2016A Bonds and that the Series 2016A Bonds are intended to be on a parity of lien basis with the Prior Bonds and Parity Bonds. The Issuer and the Trustee agree that in the case of an Event of Default under the Indenture, all funds under the Indenture, the Prior Indenture and a Parity Indenture shall be held for the benefit of the Owners of the Bonds on a pari passu basis, without priority of one bond over another. To the extent possible, the trust created by the Indenture and the Prior Indenture shall be administered so that the Indenture shall not prejudice or be interpreted adversely to or be in conflict with the Prior Indenture.

Investment of Funds

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, but in the event of the failure of the Issuer to provide written 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 money market mutual funds or deposit accounts of the Trustee or its affiliates that qualify as Authorized Investments under the Indenture. 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 Funds maintained by the Trustee shall be invested and reinvested by the Trustee in Authorized Investments, as directed by the Issuer.

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 or deposit accounts 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 under the Indenture 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 or the Prior 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 Tax-Exempt 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.

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.

Provisions Relating to the Bond Insurance Policy

The Indenture provides for certain notifications, control rights, repayment provisions and compliance covenants or limitations of the Issuer with respect to the Bond Insurer.

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, the Prior Indenture, a Parity 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, the Prior Indenture or in the Bonds to the contrary notwithstanding.

Upon any Declaration of Acceleration of the Bonds under the Indenture, 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 or the bond register maintained under the Prior Indenture, as the case may be.

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 under the Indenture), 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", "Final Balances" 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 under the Indenture), 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.

Control Rights

The Bond Insurer shall be deemed to be the holder of all of the Series 2016A Bonds for purposes of (i) exercising all remedies and directing the Trustee to take actions or for any other purposes following an Event of Default, and (ii) granting any consent, direction or approval or taking any action permitted by or required under the Indenture, to be granted or taken by the holders of such Bonds.

Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default as defined herein, Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the holders of the Series 2016A Bonds or the Trustee for the benefit of the holders of the Series 2016A Bonds under the Indenture, including, without limitation, (i) the right to accelerate the principal of the Series 2016A Bonds as described in the Indenture and (ii) the right to annul any declaration of acceleration.

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 under the Indenture 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 in the Indenture 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 under the Indenture 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 under the Indenture 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 Standards Relating to 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.

The Trustee shall be required to take notice or be deemed to have notice of any Event of Default under the Indenture 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 under the Indenture undertaken in good faith; 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 in the Indenture 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 in the Indenture 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 the resignation effective date, the resigning 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 and reasonable expenses 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 and reasonable expenses 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.

(d) Any trustee appointed under the Indenture shall also serve as trustee under the Prior Indenture.

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 under the Indenture 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 in the Indenture 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 under the Indenture shall execute, acknowledge and deliver to its predecessor and also to the Issuer a written instrument accepting such appointment under the Indenture, 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 under the Indenture, and every predecessor Trustee shall deliver all funds held by it as Trustee under the Indenture 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 vested or intended to be vested in the predecessor Trustee under the Indenture, 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, or the register maintained for the Owners of the Prior Bonds under the Prior Indenture, 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 under the Indenture 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 Defeased Bonds under the pertinent provisions of the Indenture, and except that the covenants contained in the Indenture regarding the tax-exempt status of the Tax-Exempt Bonds 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 the Indenture 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, the Prior Indenture or a Parity 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 to any of the foregoing 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, the Prior Indenture or a Parity 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, the Prior Indenture or a Parity 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, the Prior Indenture or a Parity 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, the Prior Indenture or a Parity Indenture;

(9) to modify, alter, amend or supplement the Indenture, the Prior Indenture or a Parity 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;

(10) to provide for the issuance of Parity Bonds in conformity with the provisions of the Indenture; and

(11) to provide for the Series 2016A Bonds to be insured or to provide the Bond Insurer, if any, with such rights as it may require in connection therewith, provided that such additional rights are not, in the opinion of Bond Counsel, substantially different from or afford such Bond Insurer substantially greater rights than have been afforded other bond insurers that insure or guaranty other Bonds that are Outstanding and are on a parity with the Series 2016A Bonds.

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, the Prior Indenture or a Parity 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 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 included 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 under the Indenture, 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 the Indenture, the Prior Indenture or a Parity Indenture, the Indenture, the Prior Indenture or a Parity 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; provided, however, before the effective date of any amendment or supplement to a Power Sales Agreement, the Trustee and the Bond Insurer shall be provided with a copy of such amendment or supplement.

(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 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 Trust Estate

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 under the Indenture 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 under the Indenture 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 under the Indenture, 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 under the Power Sales Agreement 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 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 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 by the Power Sales Agreement or to perform any obligation under the Power Sales Agreement, 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 under the Power Sales Agreement 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.

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APPENDIX H

KENTUCKY MUNICIPAL POWER AGENCY

POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2016A

Form of Continuing Disclosure Agreement

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement"), is executed and delivered as of February __, 2016 by Kentucky Municipal Power Agency, a joint public agency organized under Chapter 65 of the Kentucky Revised Statutes, ("KMPA") in connection with the issuance of its Revenue Refunding Bonds (Prairie State Project), Series 2016A (the "Series 2016A Bonds"). The Series 2016A Bonds are being issued pursuant to a Trust Indenture, dated as of January 1, 2016 (the "Trust Indenture"), between KMPA and Regions Bank, Nashville, Tennessee, as trustee (the "Trustee"). KMPA covenants and agrees as follows:

1. PURPOSE OF THE DISCLOSURE AGREEMENT. This Disclosure Agreement is being executed and delivered by KMPA for the benefit of the holders of the Series 2016A Bonds and in order to assist the Participating Underwriter(s) (defined below) in complying with the Rule (defined below). KMPA acknowledges that it is undertaking responsibility for any reports, notices or disclosures that may be required under this Disclosure Agreement. KMPA and its officials and its employees shall have no liability by reason of any act taken or not taken by reason of this Disclosure Agreement except to the extent required for the agreements contained in this Disclosure Agreement to satisfy the requirements of the Rule.

2. DEFINITIONS. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Disclosure Agreement, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by KMPA pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean, for purposes of this Disclosure Agreement, any person who is a beneficial owner of a Series 2016A Bond.

"Dissemination Agent" shall mean J.J.B. Hilliard, W.L. Lyons, LLC, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by KMPA and which has filed with KMPA a written acceptance of such designation.

"EMMA" means the Electronic Municipal Market Access system for municipal securities disclosure (http://emma.msrb.org) or any other single dissemination agent or conduit required, designated or permitted by the SEC.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

"Filing Date" shall have the meaning given to such term in Section 3.1 hereof.

"Fiscal Year" shall mean the twelve-month period at the end of which financial position and results of operations are determined. Currently, KMPA's and each MOP's Fiscal Year begins July 1 and continues through June 30 of the next calendar year.

"Listed Events" shall mean, with respect to the Series 2016A Bonds, any of the events listed in subsection (b)(5)(i)(C) of the Rule, which are as follows:

(1) Principal and interest payment delinquencies;

(2) Non-payment related defaults, if material;

(3) Unscheduled draws on debt service reserves reflecting financial difficulties;

(4) Unscheduled draws on credit enhancements reflecting financial difficulties;

(5) Substitution of credit or liquidity providers, or their failure to perform;

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security;

(7) Modifications to rights of security holders, if material;

(8) Bond calls (except in the case of a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event if the terms under which the redemption is to occur are set forth in detail in an official statement and the only open issue is which Series 2016A Bonds will be redeemed in the case of a partial redemption, provided notice of the redemption is given to the bondholders and the public; see Exchange Act Release No. 23856, Dec. 3, 1986) and tender offers;

(9) Defeasances;

(10) Release, substitution or sale of property securing repayment of the securities, if material;

(11) Rating changes;

(12) Bankruptcy, insolvency, receivership or similar event of the obligated person (Note: For the purposes of this event, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person);

(13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive

agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

"MOP" shall mean an "obligated person" within the meaning of the Rule. Each of the Electric Plant Board of the City of Paducah, Kentucky d/b/a Paducah Power System and the Electric Plant Board of the City of Princeton, Kentucky, is deemed an MOP.

"MSRB" means the Municipal Securities Rulemaking Board established in accordance with the provisions of Section 15B(b)(1) of the Exchange Act or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule.

"Official Statement" shall mean the Official Statement dated _______ __, 2016 relating to the Series 2016A Bonds.

"Participating Underwriter" shall mean the Underwriter of the Series 2016A Bonds required to comply with the Rule in connection with the offering of such Series 2016A Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the SEC under the Exchange Act.

"SEC" means the United States Securities and Exchange Commission.

3. PROVISION OF ANNUAL REPORTS.

3.1 KMPA shall, or shall cause the Dissemination Agent to, provide to the MSRB via EMMA and to any bond insurer insuring the Series 2016A Bonds an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Such Annual Report shall be filed on a date (the "Filing Date") that is not later than December 31 after the end of each Fiscal Year commencing with the report for the Fiscal Year ending June 30, 2016. Not later than ten (10) days prior to the Filing Date, KMPA shall provide the Annual Report to the Dissemination Agent (if applicable). In such case, the Annual Report must be submitted in electronic format and accompanying information as prescribed by the MSRB and (i) may be submitted as a single document or as separate documents comprising a package, (ii) may include by specific reference other information as provided in Section 4 of this Disclosure Agreement, and (iii) shall include such financial statements as may be required by the Rule.

3.2 The annual financial statements of KMPA and the MOPs shall be prepared on the basis of generally accepted accounting principles, will be copies of the audited annual financial statements and will be filed with the MSRB when they become publicly available. Such annual financial statements may be filed separately from the Annual Report.

3.3 If KMPA or the Dissemination Agent (if applicable) fails to provide an Annual Report to the MSRB by the date required in Section 3.1 hereto KMPA or the Dissemination Agent, if applicable, shall send a notice to the MSRB in substantially the form attached hereto as Exhibit B.

4. CONTENT OF ANNUAL REPORTS. Except as otherwise agreed, any Annual Report required to be filed hereunder shall contain or incorporate by reference, at a minimum, (i) a table presenting the MOPs and their allocation in the Prairie State Energy Campus Project expressed in kilowatts and percentages, (ii) with respect to the MOPs, annual statistical information, as described in Exhibit A attached hereto, (iii) KMPA's audited financial statements and (iv) a description of the capacity factor of the PSEC for the last fiscal year.

Any or all of such information may be included by specific reference from other documents, including offering memoranda of securities issues with respect to which KMPA or an MOP is an "obligated person" (within the meaning of the Rule), which have been filed with the MSRB via EMMA or the SEC. If the document included by specific reference is a final Official Statement, it must be available from the MSRB via EMMA. KMPA shall clearly identify each such other document so included by specific reference.

5. REPORTING OF LISTED EVENTS. KMPA will provide in a timely manner, not in excess of ten (10) business days, to the MSRB via EMMA, if any, notice of any of the Listed Events and will also provide a copy of any such notice to any bond insurer insuring the Series 2016A Bonds.

6. TERMINATION OF REPORTING OBLIGATION. KMPA's obligations under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance or final retirement of all the Series 2016A Bonds.

7. DISSEMINATION AGENT. J.J.B. Hilliard, W.L. Lyons, LLC shall be the Dissemination Agent. KMPA may, from time to time, appoint or engage another Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

8. AMENDMENT. Notwithstanding any other provision of this Disclosure Agreement, KMPA may amend this Disclosure Agreement, if such amendment is supported by an opinion of independent counsel with expertise in federal securities laws, to the effect that such amendment is not inconsistent with or is required by the Rule.

9. ADDITIONAL INFORMATION. Nothing in this Disclosure Agreement shall be deemed to prevent KMPA from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If KMPA chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, KMPA shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

10. DEFAULT. Any Beneficial Owner may take such action as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause KMPA to file its Annual Report or to give notice of a Listed Event. The Beneficial Owners of not less than a majority in aggregate principal amount of Series 2016A Bonds outstanding may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of KMPA hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under the Indenture or the Series 2016A Bonds, and the sole remedy under this Disclosure Agreement in the event of any failure of KMPA to comply herewith shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any holder pursuant to the Exchange Act or other applicable laws.

It shall be a condition precedent to the right, power and standing of any person to bring an action to compel performance under this Disclosure Agreement that such person, not less than 30 days prior to commencement of such action, shall have actually delivered to KMPA notice of such person's intent to commence such action and the nature of the non-performance complained of, together with reasonable proof that such person is a person otherwise having such right, power and standing, and KMPA shall not have cured the non-performance complained of.

Neither the commencement nor the successful completion of an action to compel performance under this Disclosure Agreement shall entitle any person to any other relief other than an order or injunction compelling performance.

11. BENEFICIARIES. This Disclosure Agreement shall inure solely to the benefit of the Participating Underwriter(s) and Beneficial Owners from time to time of the Series 2016A Bonds, and shall create no rights in any other person or entity

KENTUCKY MUNICIPAL POWER AGENCY

By:______________________________
Title: ____________________________

EXHIBIT A

ANNUAL INFORMATION

(a) Updates for the previous fiscal year of the Schedule for Electric Rates, Ten Largest Electric Customers and Customer Statistics by Category for each MOP, consistent with the presentation of such tables in Appendix F to the Official Statement.

(b) The audited financial statements for KMPA and each MOP. The basis of presentation of such financial statements shall be generally accepted accounting principles or such other manner of presentation as may be required by law.

EXHIBIT B

NOTICE OF FAILURE TO FILE ANNUAL REPORT

RE: Kentucky Municipal Power Agency Revenue Refunding Bonds (Prairie State Project), Series 2016A ("Series 2016A Bonds")

CUSIP NOS.________________

Dated: ________________ ___, 2016

NOTICE IS HEREBY GIVEN that Kentucky Municipal Power Agency ("KMPA") has not provided an Annual Report as required by Section 3 of the Continuing Disclosure Agreement, which was entered into in connection with the above-named Series 2016A Bonds issued pursuant to that certain Trust Indenture, dated as of January 1, 2016, between KMPA and Regions Bank, Nashville, Tennessee, as trustee. KMPA anticipates that the Annual Report will be filed by ______________________.

Dated: _____________________

KENTUCKY MUNICIPAL POWER AGENCY

By:__________________________________
Title: _________________________________

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APPENDIX I

KENTUCKY MUNICIPAL POWER AGENCY

POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2016A

Specimen Municipal Bond Insurance Policy

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FINANCIAL GUARANTY INSURANCE POLICY
National Public Finance Guarantee Corporation
Purchase, New York 10577

Policy No. [POLICY #]

National Public Finance Guarantee Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT], [PAYING AGENT CITY & STATE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR AMOUNT]
[FIRST LINE OF LEGAL TITLE]
[SECOND LINE OF LEGAL TITLE]
[THIRD LINE OF LEGAL TITLE]
[FOURTH LINE OF LEGAL TITLE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 1 Manhattanville Road, Suite 301, Purchase, New York 10577 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH], [YEAR].

National Public Finance Guarantee Corporation

____
President

Attest: ______________________________
Secretary

STD-NATL-CA-1
3/14

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APPENDIX J

KENTUCKY MUNICIPAL POWER AGENCY

POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2016A

Form of Opinion of Bond Counsel

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February 11, 2016

Kentucky Municipal Power Agency
Paducah, Kentucky

National Public Finance Guarantee Corporation
New York, New York

Regions Bank, as trustee
Nashville, Tennessee

Re: $71,235,000 Power System Revenue Refunding Bonds (Prairie State Project), Series 2016A

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 Power System Revenue Refunding Bonds (Prairie State Project), Series 2016A (the "Bonds"), 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 of Kentucky (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 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, including particularly Chapters 65 and 96 of the Kentucky Revised Statutes (collectively, the "Act"), in accordance with a Trust Indenture dated as of January 1, 2016 (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 public 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 (i) Taxable Power System Revenue Bonds (Prairie State Project) Series 2007B, dated September 20, 2007; (ii) Tax-Exempt Power System Revenue Bonds (Prairie State Project) Series 2010A, dated May 27, 2010; (iii) Taxable (Build America Bonds - Direct Pay) Power System Revenue Bonds (Prairie State Project) Series 2010B, dated May 27, 2010; (iv) Taxable Power System Revenue Bonds (Prairie State Project) Series 2010C, dated May 27, 2010; (v) Power System Revenue Refunding Bonds (Prairie State Project), Series 2015A, dated April 2, 2015 and (vi) Power System Revenue Refunding Bonds (Prairie State Project), Series 2015B (SIFMA Floating Rate Tender Notes), dated June 25, 2015, 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). KMPA does not have taxing powers.

4. The 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 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 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 Bonds as set forth and required in the Indenture. Failure to comply with those covenants could cause interest on the Bonds to lose the exclusion from gross income for purposes of federal income taxation retroactive to the date of issuance of the 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

KENTUCKY MUNICIPAL POWER AGENCY • POWER SYSTEM REVENUE REFUNDING BONDS (PRAIRIE STATE PROJECT), SERIES 2016A

KMPA

KENTUCKY MUNICIPAL POWER AGENCY

Mixed Sources
Product group from well managed forests, controlled sources and recycled wood or fiber.

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