

OFFICIAL STATEMENT

**NEW ISSUE
BOOK ENTRY**

**RATINGS: Moody's: "Baa1" (as defined herein)
Standard & Poor's: "A-" (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 2015B 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 2015B Bonds may result in other federal income tax consequences to certain holders of the Series 2015B Bonds. In the opinion of Bond Counsel, interest on the Series 2015B Bonds, is also exempt from income tax by the Commonwealth of Kentucky, and the Series 2015B Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.



KENTUCKY MUNICIPAL POWER AGENCY

\$36,035,000

Power System Revenue Refunding Bonds (Prairie State Project), Series 2015B (SIFMA Floating Rate Tender Notes)

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 2015B (SIFMA Floating Rate Tender Notes) (the "Series 2015B Bonds") will bear interest at a variable rate equal to the SIFMA Index Rate, as further described herein. The SIFMA Index Rate for each Interest Rate Period of the Series 2015B Bonds shall equal the SIFMA Index plus the per annum spread set forth on the inside cover page hereof. The SIFMA Index Rate will be adjusted Wednesday of each week, or if such day is not a Business Day (as defined herein), the next succeeding Business Day, and shall be effective each Thursday. See "THE BONDS – Determination of Interest Rates for the Series 2015B Bonds" herein.

The Kentucky Municipal Power Agency ("KMPA") reserves the right to convert the Series 2015B Bonds to another rate mode as described herein. **This Official Statement is intended to provide disclosure relating to the Series 2015B Bonds only to the extent the Series 2015B Bonds remain in the Flexible Term Rate Period bearing interest at the SIFMA Index Rate.**

The Series 2015B Bonds will bear interest payable on the first Business Day of each month (each an "Interest Payment Date"), commencing August 3, 2015, as determined in accordance with the Trust Indenture dated as of June 1, 2015 (the "Indenture"), between KMPA and Regions Bank, an Alabama banking corporation, as trustee (the "Trustee"). The Series 2015B Bonds are to be delivered in fully registered form in the authorized denominations described in the Indenture.

The Series 2015B Bonds are issued initially under a book-entry only system, registered in the name of CEDE & CO., as registered bondowner and nominee for The Depository Trust Company ("DTC"). DTC will act as securities depository for the Series 2015B Bonds. Individual purchasers of Book-Entry Interests in the Series 2015B Bonds will not receive certificates representing their interest in the Series 2015B Bonds.

THE SERIES 2015B BONDS ARE SUBJECT TO MANDATORY AND OPTIONAL REDEMPTION PRIOR TO MATURITY AND MANDATORY TENDER FOR PURCHASE, INCLUDING ON AN OPTIONAL PURCHASE DATE, AS DESCRIBED HEREIN. THE SERIES 2015B 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 2015B 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 2015B BONDS.

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

The Series 2015B 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 2015B Bonds is expected on or about June 25, 2015.

Goldman, Sachs & Co.

Dated: June 9, 2015

MATURITY SCHEDULE

\$36,035,000
KENTUCKY MUNICIPAL POWER AGENCY
POWER SYSTEM REVENUE REFUNDING BONDS
(PRAIRIE STATE PROJECT), SERIES 2015B
(SIFMA Floating Rate Tender Notes)

<u>Purchase Date****</u>	<u>Maturity Date</u>	<u>Amount</u>	<u>Interest Rate Variable %</u>	<u>Price</u>	<u>CUSIP** 491501</u>
September 1, 2018	September 1, 2042	\$36,035,000	SIFMA Index *** plus 1.40%	100%	EJ7

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*** See "THE BONDS – Interest Rate on Series 2015B Bonds, and – Applicable Definitions" herein for a description of the SIFMA Index, the SIFMA Index Rate and the determination thereof.

**** The Series 2015B Bonds are subject to optional redemption on any day during the period 180 days prior to any Mandatory Purchase Date, as described herein.

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 2015B 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 2015B 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 2015B 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 2015B BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH SERIES 2015B 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 2015B BONDS, NOR SHALL THERE BE ANY SALE OF ANY OF THE SERIES 2015B 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

\$36,035,000
Power System Revenue Refunding Bonds
(Prairie State Project), Series 2015B
(SIFMA Floating Rate Tender Notes)

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 2015B (SIFMA Floating Rate Tender Notes) (the “Series 2015B Bonds”) in the aggregate principal amount of \$36,035,000, 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 2015B 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 June 1, 2015, between KMPA and Regions Bank, an Alabama banking corporation (the “Trustee”).

The proceeds of the Series 2015B Bonds are to be used to (i) currently refund the outstanding Kentucky Municipal Power Agency Power System Revenue Bond Anticipation Notes (Prairie State Project), Series 2012 (the “Bond Anticipation Notes”) issued under the Trust Indenture (the “2012 Indenture”), dated as of March 20, 2012, between KMPA and Regions Bank, as successor trustee to U.S. Bank National Association; (ii) deposit an amount to the debt service reserve fund, and (iii) pay the costs of issuance of the Series 2015B Bonds.

THE SERIES 2015B 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 2015B 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 2015B BONDS.

Brief descriptions of the security for the Series 2015B 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 2015B 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 2015B Bonds will be applied to refund the Bond Anticipation Notes. KMPA has determined that refunding the Bond Anticipation Notes 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:

Principal amount of the Series 2015B Bonds	\$36,035,000.00
Total Sources of Funds	<u>\$36,035,000.00</u>

Uses of Funds:

Deposit to Redemption Account of Bond Fund	\$35,000,000.00
Deposit to Debt Service Reserve Fund ¹	668,471.71
Underwriter's Discount	125,793.42
Costs of Issuance	<u>240,734.87</u>
Total Uses of Funds	<u>\$36,035,000.00</u>

¹This amount is subject to change based on the SIFMA Index Rate on the date of closing. The estimated amount is based on an assumed rate of 1.47%, reflecting a SIFMA Index Rate of .07% plus an Applicable Spread of 1.40%.

SECURITY FOR THE SERIES 2015B BONDS

Pledge Under the Indenture

The Series 2015B Bonds are limited obligations of KMPA payable, on a parity basis with KMPA's outstanding (i) Tax-Exempt Power System Revenue Bonds (Prairie State Project), Series 2007A, (ii) Taxable Power System Revenue Bonds (Prairie State Project), Series 2007B, (iii) Tax-Exempt Power System Revenue Bonds (Prairie State Project), Series 2010A, (iv) Taxable (Build America Bonds – Direct Pay) Power System Revenue Bonds (Prairie State Project), Series 2010B, (v) Taxable Power System Revenue Bonds (Prairie State Project), Series 2010C, and (vi) Power System Revenue Refunding Bonds (Prairie State Project), Series 2015A (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 2015B 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 2015B 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 2015B 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 2015B 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 Trust Indenture, dated as of September 1, 2007, between KMPA and Regions Bank, as Trustee, successor to U.S. Bank National Association (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 2012 Trust Indenture, and the Trust Indenture, dated as of March 1, 2015, by and between KMPA and Regions Bank, as Trustee (the “2015 Indenture”), contain the amounts, as of May 6, 2015 which are available to the Bondholders of the Series 2015B Bonds on a parity basis with the holders of the Bonds:

Bond Fund	
Principal and Interest Account	\$ 8,810,978
Redemption Account	12,287,187
Operating Fund	8,159,361
Reserve Fund*	12,716,170
Capital Improvement Fund	965,897
Rate Stabilization Fund	1,140,000
Decommissioning Fund	57,000
Operating Reserve Fund	1,841,823
Major Maintenance Fund	675,570

See Appendix F, “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.

THE BONDS

General

Record Date. The Record Date with respect to the Series 2015B Bonds shall be the opening of business on the first Business Day preceding any Interest Payment Date.

Book-Entry-Only System. The Series 2015B Bonds will be issued as registered bonds, registered in the name of The Depository Trust Company or its nominee (together, “DTC”), New York, New York, which will act as securities depository for the Series 2015B Bonds. Individual

* An additional approximately \$22 million is represented by surety bonds. The amount of the first surety bond, approximately \$6.8 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 \$15.3 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 (“NPFGB”). The surety bond provided by NPFGB will be drawn upon on a pro rata basis with the surety bond provided by Assured in accordance with the terms of the 2015 Indenture. See Appendix F, “Definitions and Summary of Certain Provisions of the Indenture and the Form of Power Sales Agreement.”

purchases will be made in book-entry-only form, in the principal amount of \$5,000 or integral multiples thereof (“Authorized Denominations”). So long as DTC is the registered owner of the Series 2015B Bonds, all payments on those Series 2015B Bonds will be made directly to DTC. DTC is responsible for disbursement of those payments to its participants, and DTC participants and indirect participants are responsible for making those payments to beneficial owners. See “BOOK-ENTRY ONLY SYSTEM.”

Interest Payments. Interest on the Series 2015B Bonds is payable on the first Business Day of each month, commencing August 3, 2015. So long as DTC is the sole registered owner of all of the Series 2015B Bonds, all interest payments will be made to DTC by wire transfer of immediately available funds, and DTC's participants will be responsible for payment of interest to beneficial owners. All Series 2015B Bonds will be fully registered in Authorized Denominations.

Notwithstanding anything to the contrary in this Official Statement, the Series 2015B Bonds shall not bear interest in excess of the Ceiling Rate (as hereinafter defined).

Transfers and Exchanges. So long as DTC is the securities depository for the Series 2015B Bonds, it will be the sole registered owner of the Series 2015B Bonds, and transfers of ownership interests in the Series 2015 Bonds will occur through the DTC Book-Entry-Only System. See “BOOK-ENTRY ONLY SYSTEM.”

Trustee and Paying Agent. Regions Bank is Trustee and Paying Agent with respect to the Series 2015B Bonds.

Applicable Definitions for this Section. The capitalized terms used in this section entitled “- THE BONDS” shall have the meanings specified herein.

“*Applicable Spread*” means, with respect to the Series 2015B Bonds, the following:

- (i) During the Initial Period, 140 basis points (1.40%); and
- (ii) During any Flexible Term Rate Period other than the Initial Period, the number of basis points determined by the remarketing agent on or before the first day of such Flexible Term Rate Period designated by KMPA in accordance with the Indenture as will, when added to the Flexible Term Rate Index for such Flexible Term Rate Period, enable the outstanding Series 2015B Bonds to be remarketed at par.

“*Ceiling Rate*” means 12% per annum.

“*Computation Date*” means (i) during each SIFMA Index Rate Period, the first day of such period and thereafter Wednesday of each week, (ii) during each LIBOR Index Rate Period, the second London Business Day preceding each LIBOR Index Reset Date and (iii) a date determined by the remarketing agent that is not more than twenty (20) nor less than two (2) days prior to any Conversion Date relating to conversion to a Fixed Rate.

“*Conversion Date*” means each date on which the Interest Rate Determination Method then in effect is changed to another Interest Rate Determination Method as provided in the Indenture.

“Conversion Notice” means the written notice given by KMPA to the remarketing agent, if any, the Calculation Agent and the Trustee, with a copy to the Paying Agent, the Rating Agency, if any, rating the Series 2015B Bonds and the Bond Insurer, if any, pursuant to which KMPA intends to change the Interest Rate Determination Method for the Series 2015B Bonds on the Conversion Date from any Flexible Term Rate to a new Flexible Term Rate or from a Flexible Term Rate to a Fixed Rate.

“Failed Remarketing” means an event in which the remarketing proceeds are insufficient to pay the purchase price of all outstanding Series 2015B Bonds on the applicable Mandatory Purchase Date.

“Failed Remarketing Rate” has the meaning ascribed to such term in the section set forth below under “– Consequences of a Failed Remarketing.”

“First Day of Redemption Period” has the meaning ascribed to such term in the section set forth below under “– Optional and Extraordinary Optional Redemption.”

“Fixed Rate” means the Fixed Rate or Fixed Rates established for the Series 2015B Bonds in accordance with the Indenture.

“Fixed Rate Conversion Date” means the Conversion Date on which a change of the Interest Rate Determination Method to the Fixed Rate becomes effective.

“Fixed Rate Period” means the period from and including the Fixed Rate Conversion Date to and including the date of payment in full of the Series 2015B Bonds.

“Flexible Term Rate” means the Flexible Term Rate established for each of the Series 2015B Bonds in accordance with the Indenture.

“Flexible Term Rate Index” means initially the SIFMA Index and thereafter either the SIFMA Index or the LIBOR Index as determined in accordance with the Indenture to be in existence during a Flexible Term Rate Period for the Series 2015B.

“Flexible Term Rate Period” means any period during which the Series 2015B Bonds bear interest at a Flexible Term Rate, as may be determined by KMPA.

“Initial Conversion Date” means September 1, 2018.

“Initial Period” means the initial period commencing on the Issue Date and ending on the day immediately preceding the Initial Conversion Date.

“Initial Period Rate” shall mean the SIFMA Index Rate.

“Interest Rate Determination Method” means any of the methods of determining the interest rate on the Series 2015B Bonds described in the Indenture.

“Issue Date” means June 25, 2015.

“LIBOR Index” means the rate per annum determined on the basis of the rate of deposits in United States dollars of amounts equal to or comparable to the principal amount of the Series 2015B Bonds, offered for a term of one month, which rate appears on the display designated as Reuters Screen LIBOR01 Page (or such other page as may replace Reuters Screen LIBOR01 Page or such other service or services as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for United States dollar deposits), determined as of approximately 11:00 a.m., London time, on each Computation Date in effect on the next succeeding LIBOR Index Reset Date, or if such rate is not available, another rate determined in accordance with the provisions of the Indenture which most clearly resembles the LIBOR Index and is generally available; provided that if such alternative is in effect, it will remain in effect until the LIBOR Index reappears and is available for determining the rate on the first Computation Date thereafter during any LIBOR Index Rate Period.

“LIBOR Index Rate” means a per annum rate of interest established on each Computation Date equal to the sum of the Applicable Spread plus the LIBOR Index.

“LIBOR Index Rate Conversion Date” means (a) the date on which the Series 2015B Bonds begin to bear interest at the LIBOR Index Rate or (b) if the Series 2015B Bonds have previously borne interest at the LIBOR Index Rate during a LIBOR Index Rate Period then ending, the Mandatory Purchase Date occurring at the end of the then ending LIBOR Index Rate Period.

“LIBOR Index Rate Period” means each period from and including a LIBOR Index Rate Conversion Date to and including the day immediately preceding the earliest of (i) the immediately succeeding Mandatory Purchase Date, (ii) the immediately succeeding Conversion Date and (iii) the Maturity Date.

“LIBOR Index Reset Date” means the first Business Day of each month.

“Mandatory Purchase Date” means (i) a proposed Conversion Date and (ii) with respect to each Series 2015B Bond then bearing interest at a Flexible Term Rate, the first Business Day immediately succeeding the last day of each Flexible Term Rate Period applicable to such Series 2015B Bond.

“Rate” means the Initial Period Rate, any Flexible Term Rate or the Fixed Rate.

“Rate Period” means the Initial Period, any Flexible Term Rate Period or Fixed Rate Period.

“SIFMA Index” means, for any Computation Date, the index generally referred to as the “SIFMA Index” which is issued weekly and which is compiled from the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meet specific criteria established from time to time by the Securities Industry and Financial Markets Association and issued on Wednesday of each week, or if any Wednesday is not a Business Day, the next succeeding Business Day. If the SIFMA Index is no longer published or otherwise available, then “SIFMA Index” shall mean the “S&P Weekly High Grade Index” (formerly the J.J. Kenny Index) maintained by Standard & Poor's Securities Evaluation Inc. for a 7-day maturity as published on the Computation Date or the most recently published

prior to the SIFMA Rate Reset Date. If neither such index is any longer available, then the “SIFMA Index” shall mean the prevailing rate determined in accordance with the provisions of the Indenture for tax-exempt state and local government bonds comparable under the circumstances to the criteria used by the Securities Industry and Financial Markets Association to determine the SIFMA Index immediately prior to the date on which the Securities Industry and Financial Markets Association ceased publication of the SIFMA Index; provided that if such alternative is in effect, it will remain in effect until the SIFMA Index reappears and is available for determining the Rate on the first Computation Date thereafter during any SIFMA Index Rate Period.

“*SIFMA Index Rate*” means a per annum rate of interest established on each Computation Date equal to the sum of the Applicable Spread plus the SIFMA Index.

“*SIFMA Index Rate Conversion Date*” means (a) the date on which the Series 2015B Bonds begin to bear interest at the SIFMA Index Rate or (b) if the Series 2015B Bonds have previously borne interest at the SIFMA Index Rate during a Flexible Term Rate Period then ending, the Mandatory Purchase Date occurring at the end of the then ending SIFMA Index Rate Period.

“*SIFMA Index Rate Period*” means each period from and including a SIFMA Index Rate Conversion Date to and including the day immediately preceding the earliest of (a) the immediately succeeding Mandatory Purchase Date, (b) the immediately succeeding Conversion Date and (c) the Maturity Date.

“*SIFMA Rate Reset Date*” means Thursday of each week.

Interest Rates on Series 2015B Bonds

Initial Period Rate – General. The Series 2015B Bonds shall bear interest from the Issue Date to the date of payment in full of the Series 2015B Bonds. Interest accrued on the Series 2015B Bonds shall be paid on each Interest Payment Date. The interest rate on the Series 2015B Bonds will be determined as provided in the Indenture except that no rate shall exceed the lesser of (i) the Ceiling Rate or (ii) the maximum rate permitted by applicable law (currently, there is no statutory cap under Kentucky law applicable to the Series 2015B Bonds). The Series 2015B Bonds shall initially bear interest at the Initial Period Rate from the Issue Date until the Initial Conversion Date and interest on the Series 2015B Bonds shall be calculated on the outstanding principal amount of the Series 2015B Bonds. Each Interest Rate Determination Method in effect from time to time shall continue in effect until the date on which such Interest Rate Determination Method is changed as described below. The same Interest Rate Determination Method shall apply to all Series 2015B Bonds. See “THE BONDS – Conversion of Interest Rate Determination Mode.”

Flexible Term Rate. During any Flexible Term Rate Period, each of the Series 2015B Bonds will bear interest at a Flexible Term Rate. With respect to any Flexible Term Rate Period, KMPA will determine the Flexible Term Rate Period and the Flexible Term Rate Index, and the remarketing agent will determine the Applicable Spread to be applicable to each Series 2015B Bond on the applicable Computation Date. No Flexible Term Rate Period applicable to any Series 2015B Bond may (i) be less than 360 days in length, (ii) extend beyond any scheduled

Mandatory Purchase Date or the Maturity Date, or (iii) end on a day preceding a non-Business Day. For each Flexible Term Rate Bond, the Flexible Term Rate shall be the rate of interest which, if borne by such Series 2015B Bond for its applicable Flexible Term Rate Period, would, in the judgment of the remarketing agent, having due regard for the prevailing financial market conditions for revenue bonds or other securities the interest on which is included or excluded (as applicable) from gross income of the holders thereof for federal income tax purposes of the same general nature as such Series 2015B Bond or securities the interest on which is included or excluded (as applicable) from gross income of the holders thereof for federal income tax purposes which are comparable as to credit and maturity (or period for tender) with the credit and the length of duration of the proposed Flexible Term Rate Period of such Series 2015B Bond, be the interest rate necessary, but would not exceed the interest rate necessary, to enable the remarketing agent to place such Series 2015B Bond at a price of par (plus accrued interest, if any) on the first Business Day of such Flexible Term Rate Period. Notwithstanding anything to the contrary in this Official Statement, the Series 2015B Bonds shall not bear interest in excess of the Ceiling Rate. If for any reason the applicable rate is not established as aforesaid by the remarketing agent, no remarketing agent shall be serving as such or the rate so established is held to be invalid or unenforceable, then the Interest Rate Determination Method shall be deemed to have converted to the Failed Remarketing Rate on the date such interest rate was (or would have been) determined as provided above and the Series 2015B Bonds shall bear interest at the Failed Remarketing Rate until the Series 2015B Bonds have been successfully remarketed by the remarketing agent at a Flexible Term Rate as provided above or at a Fixed Rate as provided below under “– Interest Rates on Series 2015B Bonds – *Fixed Rate*.” The remarketing agent shall notify KMPA, the Trustee and the Paying Agent if such a conversion is deemed to have occurred.

Fixed Rate. If KMPA has determined that the Series 2015B Bonds are to be converted to a Fixed Rate on a Conversion Date, then the Series 2015B Bonds shall bear interest at the Fixed Rate during the Fixed Rate Period. The remarketing agent will determine the Fixed Rate. The interest rate to be borne by the Series 2015B Bonds as the Fixed Rate from the Fixed Rate Conversion Date to the date of payment in full of the Series 2015B Bonds shall be the rate or rates determined by the remarketing agent on the applicable Computation Date to be the rate or rates which, if borne by the Series 2015B Bonds would, in the judgment of the remarketing agent having due regard for the prevailing market conditions for revenue bonds or other securities the interest on which is included or excluded, as applicable, from gross income of the holders thereof for federal income tax purposes and that are comparable as to credit and maturity to the Series 2015B Bonds, be the interest rate or rates necessary, but would not exceed the interest rate or rates necessary, to enable the remarketing agent to place the Series 2015B Bonds at a price of par (plus accrued interest, if any) on the Fixed Rate Conversion Date. If for any reason the Fixed Rate is not established as aforesaid by the remarketing agent, or no remarketing agent shall be serving as such, or if the Fixed Rate established by the remarketing agent is held to be invalid or unenforceable, then the Interest Rate Determination Method will be deemed to have converted to the Failed Remarketing Rate on the date such interest rate was (or would have been) determined as provided above and the Series 2015B Bonds will bear interest at the Failed Remarketing Rate until the Series 2015B Bonds have been successfully remarketed by the remarketing agent at a Flexible Term Rate or at a Fixed Rate. The remarketing agent shall notify KMPA, the Trustee and the Paying Agent immediately by telephone if such a conversion is deemed to have occurred, with written notice to follow promptly.

Flexible Term Rate Index. During each Flexible Term Rate Period, the Series 2015B Bonds will bear interest at the designated Flexible Term Rate.

If the Flexible Term Rate Index has been designated to be the SIFMA Index, the Calculation Agent shall determine the SIFMA Index Rate on each Computation Date during the SIFMA Index Rate Period, and such rate shall become effective on the SIFMA Rate Reset Date next succeeding such Computation Date.

If the Flexible Term Rate Index has been designated to be the LIBOR Index, the Calculation Agent shall determine the LIBOR Index Rate on each Computation Date during the LIBOR Index Rate Period, and such rate shall become effective on the LIBOR Index Reset Date next succeeding such Computation Date.

Notices of Rates and Deemed Conversions. Promptly following the determination of any Flexible Term Rate, the remarketing agent or the Calculation Agent, as applicable, shall give notice thereof to the Trustee, KMPA and the Paying Agent. Promptly upon receipt from the remarketing agent of notice of any Fixed Rate, the Paying Agent shall give each Owner notice thereof. KMPA and any Owner may obtain any rate on or after the applicable Computation Date upon request to the remarketing agent or the Calculation Agent, as applicable. Promptly upon receipt from the remarketing agent or the Trustee of notice of any deemed conversion to a new Flexible Term Rate or a Fixed Rate, the Paying Agent shall give each Owner, the Bond Insurer, if any, and the Rating Agency, if any, then rating the Series 2015B Bonds notice of the deemed conversion.

Determination of Rate Conclusive. The determination of any Rate by the remarketing agent or the Calculation Agent, as applicable, shall be conclusive and binding upon KMPA, the Trustee, the Paying Agent, the remarketing agent, the Calculation Agent, and the Owners absent manifest error.

No Liability. In determining the interest rate or rates that the Series 2015B Bonds shall bear, neither the remarketing agent nor the Calculation Agent, as applicable, shall have any liability to KMPA, the Trustee, the Paying Agent, the Registrar, or any Owners except for its gross negligence or willful misconduct.

Conversion of Interest Rate Determination Mode

Conversion Notice. The Interest Rate Determination Method for the Series 2015B Bonds may be changed from any Flexible Term Rate to a new Flexible Term Rate or from a Flexible Term Rate to a Fixed Rate, on any Conversion Date, by KMPA giving written notice of such change (a “Conversion Notice”) to the remarketing agent, if any, the Calculation Agent and the Trustee, with a copy to the Paying Agent, the Rating Agency, if any, rating the Series 2015B Bonds and the Bond Insurer, if any. The Conversion Notice must be received by the remarketing agent or the Calculation Agent, as applicable, and the Trustee at least twenty-five (25) days prior to the proposed Conversion Date.

Each Conversion Notice shall state (i) that KMPA elects to change the Interest Rate Determination Method to a new Interest Rate Determination Method, and/or from a Flexible Term Rate Period to a new Flexible Term Rate Period, (ii) the proposed Conversion Date, (iii)

the Interest Rate Determination Method to be in effect from and after such Conversion Date and (iv) the new Flexible Term Rate Period, if any, to be in effect following such Conversion Date. In addition, if a Flexible Term Rate Index is to be in effect immediately following such Conversion Date, such Conversion Notice shall state the new Flexible Term Rate Index and the new Applicable Spread. The new Applicable Spread shall be determined by the remarketing agent as being the appropriate spread to be in effect during the applicable Flexible Term Rate Period as will permit the Series 2015B Bonds to be remarketed at par on the applicable Conversion Date.

KMPA may, by notice given to the Trustee at the same time as the Conversion Notice is given, elect that after the Fixed Rate Conversion Date (i) the Series 2015B Bonds will be converted to have one or more Stated Maturities (as defined below), maturing sequentially in consecutive years, or (ii) all or a portion of the Series 2015B Bonds will be converted to one or more term bonds subject to mandatory sinking fund redemption, with principal installments due sequentially in consecutive years; provided, however, that the principal amount of any Series 2015B Bond due either at a Stated Maturity or on a mandatory sinking fund payment date shall be in an Authorized Denomination; provided, further, that prior to electing any combination of (i) and (ii) above KMPA shall obtain an Approving Opinion. "Stated Maturity" shall mean, when used with respect to any Series 2015B Bond or any installment of interest thereon, the date specified in such Series 2015B Bond as the fixed date on which the principal of such Series 2015B Bond or such installment of interest is due and payable.

Opinions With Respect to Conversions. KMPA shall deliver to the remarketing agent, the Calculation Agent, if any, and the Trustee, by 10:00 a.m., Central Time, on the proposed Conversion Date an Approving Opinion.

Conversion Date. If the Interest Rate Determination Method in effect prior to the proposed Conversion Date is a Flexible Term Rate, the Conversion Date must be the day that would otherwise be an Interest Payment Date for all of the Series 2015B Bonds, such Interest Payment Date to be determined at the time the Conversion Notice is received by the remarketing agent or the Calculation Agent.

Notice of Conversions to Owners. The Trustee will give written notice to the Owners of a proposed Conversion Date appropriately completed, and shall be sent by first-class mail, postage prepaid, at least fifteen (15) days prior to the proposed Conversion Date.

Failure or Revocation of Conversion. If (i) KMPA fails to deliver the Approving Opinion required under the Indenture to the Trustee and the remarketing agent or the Calculation Agent, by 10:00 a.m., Central Time, on the proposed Conversion Date, or (ii) an Event of Default shall have occurred and be continuing, the Interest Rate Determination Method for the Series 2015B Bonds shall not be changed on the proposed Conversion Date and the Trustee shall immediately notify the remarketing agent, KMPA, the Calculation Agent and the Paying Agent that the Interest Rate Determination Method for the Series 2015B Bonds shall not be changed on the proposed Conversion Date.

No conversion of the Interest Rate Determination Method to the Fixed Rate shall occur if KMPA, not later than 10:00 a.m., Central Time, on the Business Day immediately preceding the applicable Conversion Date, directs the remarketing agent, not to change the Interest Rate

Determination Method to the Fixed Rate by written notice, with a copy to the Trustee, KMPA, the Paying Agent, the remarketing agent, the Calculation Agent and the Bond Insurer, if any.

If a proposed conversion of the Interest Rate Determination Method is cancelled pursuant to the provisions of the two preceding paragraphs, all Series 2015B Bonds shall nevertheless be tendered for purchase on the proposed Conversion Date and shall be purchased by KMPA on the proposed Conversion Date. If KMPA fails to purchase the Series 2015B Bonds on such proposed Conversion Date, such failure will constitute a Failed Remarketing and, the Series 2015B Bonds will bear interest in accordance with the provisions of the Indenture summarized below under “– Consequences of a Failed Remarketing.”

Failure to Mail Certain Notices. Failure to mail the notice described above, or any defect therein, shall not affect the validity of any interest rate or change in the Interest Rate Determination Method on any of the Series 2015B Bonds or the requirement that the Series 2015B Bonds shall be tendered pursuant to the Indenture or extend the period for tendering any of the Series 2015B Bonds for purchase, and the Trustee shall not be liable to any Owner by reason of its failure to mail such notice or any defect therein.

Exchange of Series 2015B Bonds. Upon conversion to a different Interest Rate Determination Method, KMPA shall execute at its sole expense, and the Trustee shall authenticate and deliver, new Series 2015B Bonds of like dates and denominations.

Tender of Series 2015B Bonds for Purchase

The Series 2015B Bonds are subject to tender on such dates and at such prices as are set forth below.

Mandatory Tender for Purchase on Mandatory Purchase Date. The Series 2015B Bonds (or the applicable portion of the Series 2015B Bonds during any Flexible Term Rate Period) are subject to mandatory tender for purchase on each Mandatory Purchase Date at the purchase price.

Mandatory Tender for Purchase at the Option of KMPA. The Series 2015B Bonds are subject to mandatory tender for purchase at the option of KMPA (an “Optional Purchase”) at the purchase price on any Business Day which Business Day is no earlier than September 1, 2018 (the “Optional Purchase Date”).

Mandatory Tender for Purchase on any Mode Change Date. The Series 2015B Bonds are subject to mandatory tender for purchase on the Conversion Date (which Conversion Date shall not be prior to the earliest possible Optional Purchase Date) at the purchase price.

Mandatory Purchase Date and Purchase Price. The Purchase Date, the Optional Purchase Date and the Conversion Date are each referred to herein as a “Mandatory Purchase Date.” The purchase price to be paid for the Series 2015B Bonds on any Mandatory Purchase Date shall be the principal amount of such Series 2015B Bonds. Each Mandatory Purchase Date is also an Interest Payment Date for the Series 2015B Bonds and interest shall be paid in accordance with customary procedures.

No Owner's Right to Tender. The Series 2015B Bonds are not subject to optional tender by the Owner.

Notice of Mandatory Tender for Purchase

Not less than fifteen (15) days prior to each Mandatory Purchase Date, the Trustee shall give written notice of such Mandatory Purchase Date to the remarketing agent, the Paying Agent and, by first-class mail, postage prepaid, the Owners, appropriately completed. Failure to mail such notice or any defect therein shall not affect the rights or obligations of Owners, and the Trustee shall not be liable to any Owner by reason of its failure to mail such notice or any defect therein. With respect to a Mandatory Purchase Date that is a Conversion Date, the Trustee shall provide notice to the Owners as set forth above in “-Conversion of Interest Rate Determination Method – *Notice of Conversions to Owners.*” With respect to a Mandatory Purchase Date that is the first Business Day immediately succeeding the last day of a Flexible Term Rate Period applicable to a Series 2015B Bond, no notice of such Mandatory Purchase Date shall be sent to the Owner of such Series 2015B Bond.

Remarketing of Series 2015B Bonds

Future Remarketing of Series 2015B Bonds. In accordance with the Indenture, 270 days prior to each applicable Mandatory Purchase Date, KMPA expects to appoint a remarketing agent to remarket the Series 2015B Bonds on or prior to the Mandatory Purchase Date. At such time, KMPA, in consultation with its financial advisor, intends to develop a plan of finance with respect to such remarketing and Rate change, if any. KMPA will promptly notify the Trustee, the Calculation Agent and any Paying Agent of the appointment of the remarketing agent, which notice will contain the address, both electronic and physical, as well as telephone numbers of the remarketing agent.

Placement of Series 2015B Bonds. Although KMPA has not yet appointed a remarketing agent, it is expected that the remarketing agent shall use commercially reasonable efforts to place Series 2015B Bonds at a price of par plus accrued interest, if any, on each date that such Series 2015B Bonds are required to be purchased pursuant to the provisions regarding tender in the Indenture and if such Series 2015B Bonds are not placed on such date, the remarketing agent shall continue to use commercially reasonable efforts to remarket the Series 2015B Bonds at a price of par plus accrued interest, if any. By 12:00 noon, Central Time, on the Business Day prior to each date that the Series 2015B Bonds are required to be purchased, the remarketing agent shall give initial notice by telephone (promptly confirmed by electronic means) of the principal amount of the Series 2015B Bonds for which it has arranged placement, together with the principal amount of the Series 2015B Bonds, if any (and such other particulars with respect thereto as the Trustee may deem necessary), for which it has not arranged placement, to the Trustee, KMPA, the Bond Insurer, if any, and the Paying Agent.

If by 9:00 a.m., Central Time, on the date that such Series 2015B Bonds are to be purchased the remarketing agent shall have remarketed all of the outstanding Series 2015B Bonds, the remarketing agent shall provide to the Trustee the information necessary to enable the Trustee to prepare new Series 2015B Bond certificates with respect to the Series 2015B Bonds that were remarketed. By 9:30 a.m., Central Time, the remarketing agent shall transfer to the Paying Agent the proceeds of the remarketing of such Series 2015B Bonds. By 10:30 a.m.,

Central Time, the Paying Agent shall notify the Trustee of the amount of remarketing proceeds it received from the remarketing agent. Series 2015B Bonds may be remarketed only at a price of par plus accrued interest, if any.

If by 9:00 a.m., Central Time, on the date that such Series 2015B Bonds are to be purchased the remarketing agent is unable to remarket all of the outstanding Series 2015B Bonds, then the remarketing agent shall notify the Trustee, KMPA, the Bond Insurer, if any, and the Paying Agent that a Failed Remarketing has occurred. Upon a Failed Remarketing, the provisions of the Indenture with respect to a Failed Remarketing shall become effective. See “THE BONDS – Consequences of a Failed Remarketing.”

No Remarketing During Default. The remarketing agent shall not be required to remarket any Series 2015B Bonds if it has actual knowledge that an Event of Default shall have occurred and be continuing or if the remarketing agent determines, in its sole discretion, that the remarketing of the Series 2015B Bonds would be unlawful or would be likely to result in the imposition of liability or damages against the remarketing agent, the Paying Agent, the Trustee, the Bond Insurer, if any, or KMPA.

Notice to Proposed Purchasers of Series 2015B Bonds. The remarketing agent will give any person to whom Series 2015B Bonds are proposed to be remarketed written notice of any Mandatory Purchase Date, acceleration of maturity of Series 2015B Bonds or redemption of Series 2015B Bonds, notice of which has been given to Owners, prior to remarketing Series 2015B Bonds to such Person.

Source of Funds for Purchase of Series 2015B Bonds

Subject to the terms of the Indenture related to a Failed Remarketing, on each Mandatory Purchase Date KMPA shall purchase the Series 2015B Bonds (or portions thereof), tendered (or deemed tendered) to the Trustee for purchase at the applicable purchase price. Funds for the payment of the purchase price for such Series 2015B Bonds, shall be paid by the Paying Agent solely from the following sources and in the following order of priority:

- (i) proceeds of the remarketing of such Series 2015B Bonds (or portions thereof) that have been transferred to the Paying Agent;
- (ii) moneys from the Redemption Fund; and
- (iii) any other moneys furnished to the Trustee and available for such purpose.

Series 2015B Bonds Deemed Tendered

If with respect to a Mandatory Purchase Date, an Owner fails to deliver such Series 2015B Bond to the Trustee on or before the Mandatory Purchase Date, then such Series 2015B Bond (or portion thereof) that is not delivered to the Trustee shall be deemed to have been properly tendered (such Series 2015B Bond being hereinafter referred to as an “Untendered Bond”) and, to the extent that there shall be on deposit with the Paying Agent on the date purchase thereof is required as provided herein funds sufficient to pay the purchase price thereof, such Untendered Bond shall cease to constitute or represent a right to payment of principal or

interest thereon and shall constitute and represent only the right to the payment of the purchase price of such Untendered Bond payable on such date, unless there shall have been a Failed Remarketing in which event the Series 2015B Bonds will bear interest as set forth below in “-Consequences of a Failed Remarketing.”

Delivery of Purchased Series 2015B Bonds

Series 2015B Bonds (or portions thereof) purchased pursuant to a remarketing of the Series 2015B Bonds shall be delivered as follows:

(i) *Series 2015B Bonds Purchased from Remarketing Proceeds.* Series 2015B Bonds purchased with proceeds from the remarketing of such Series 2015B Bonds shall be delivered to the purchasers thereof upon receipt of payment therefor. Prior to such delivery the Registrar shall provide for registration of transfer to the Owners, as provided in a written notice from the remarketing agent.

(ii) *Series 2015B Bonds Purchased with Other Moneys.* Series 2015B Bonds (or portions thereof) purchased with moneys from the Redemption Fund or any other moneys furnished to the Trustee and available for such purpose shall be delivered to the Trustee (1) for cancellation and shall be cancelled, or (2) if KMPA requests, for registration of transfer to KMPA.

(iii) *During Book Entry System.* Notwithstanding anything herein to the contrary, so long as the Series 2015B Bonds are held under the Book Entry System, Series 2015B Bonds will not be delivered as set forth above describing the Series 2015B Bonds purchased from remarketing proceeds; rather, transfers of beneficial ownership and pledges of the Series 2015B Bonds to the persons indicated above will be effected on the books of the Depository and its Participants pursuant to the rules and procedures of the Depository.

Consequences of a Failed Remarketing

In the event that remarketing proceeds are insufficient to pay the purchase price of all outstanding Series 2015B Bonds on the applicable Mandatory Purchase Date, (1) no purchase shall be consummated on such Mandatory Purchase Date and the Trustee shall, after any applicable grace period, (a) return all tendered Series 2015B Bonds to the registered owners thereof and (b) return all remarketing proceeds to the remarketing agent for return to the persons providing such moneys; and (2) during the period of time from and including the applicable Mandatory Purchase Date to (but not including) the date that all such Series 2015B Bonds are successfully remarketed (the “Delayed Remarketing Period”) the Series 2015B Bonds, will bear interest as follows (the “Failed Remarketing Rate”):

(i) For the period of 0-90 days from the applicable Mandatory Purchase Date, the existing Flexible Term Rate Index plus 2.50%;

(ii) For the period of 91-180 days from the applicable Mandatory Purchase Date, the greater of (i) the existing Flexible Term Rate Index plus 4.50% or (ii) 7.50%;

(iii) For the period 181 days from the applicable Mandatory Purchase Date and thereafter, a rate per annum equal to the lesser of the maximum rate permitted by law and 12% (currently, there is no statutory cap under Kentucky law applicable to the Series 2015B Bonds); and

(iv) In no event will the rate exceed a rate per annum equal to the lesser of the maximum rate permitted by law and 12%.

Following the Failed Remarketing on the applicable Mandatory Purchase Date, KMPA will direct the remarketing agent to continue to remarket the Series 2015B Bonds to bear a Rate in a Rate Period, each as designated by the Trustee, at the direction of KMPA (or such other Rate and/or Rate Period as the Trustee, at the direction of KMPA, shall thereafter designate to the remarketing agent and the prospective owners thereof). Once the remarketing agent has advised the Trustee that it has a good faith belief that it is able to remarket all of the Series 2015B Bonds on terms satisfactory to KMPA not later than five Business Days prior to the Mandatory Purchase Date, the Trustee shall send a notice to the Owners of the Bonds, which notice will state (1) that the Rate on such Series 2015B Bonds will continue to be a Flexible Term Rate or will be adjusted to a Fixed Rate on and after the Mandatory Purchase Date; (2) that such Series 2015B Bonds will be subject to mandatory tender on the Mandatory Purchase Date; (3) the procedures for such mandatory tender; (4) the purchase price of such Series 2015B Bonds on the Mandatory Purchase Date; and (5) the consequences of a Failed Remarketing.

During the Delayed Remarketing Period, the Trustee may, upon direction of KMPA, apply available amounts to the redemption of the Series 2015B Bonds as a whole or in part on any Business Day during the Delayed Remarketing Period, at a redemption price equal to the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium. Notice of redemption shall be provided at least five Business Days prior to the date fixed for redemption.

During the Delayed Remarketing Period, interest on such Series 2015B Bonds shall be paid to the registered owners thereof (i) on the first Business Day of each month occurring during the Delayed Remarketing Period and (ii) on the last day of the Delayed Remarketing Period. Payment of such interest shall be made by the Trustee from the Bond Fund pursuant to the Indenture.

During any Delayed Remarketing Period, pursuant to its plan of financing, KMPA currently expects to use commercially reasonable efforts to cause the remarketing agent to remarket such Series 2015B Bonds, to convert such Series 2015B Bonds to another Rate or another Rate Period or to refund such Series 2015B Bonds, subject to market conditions and the determination of an interest rate and structure acceptable to KMPA at that time.

Redemption of the Series 2015B Bonds – In General

The Series 2015B Bonds are subject to redemption prior to maturity. Except as otherwise permitted under the Indenture, in the case of a redemption of fewer than all of the Outstanding Bonds, the Trustee shall call Bonds for redemption by lot in Authorized Denominations. The Trustee shall notify the Bondholders promptly in writing of the Series 2015B Bonds selected by

lot for redemption and, in the case of any Series 2015B Bond selected for partial redemption, the principal amount thereof to be redeemed.

Optional and Extraordinary Optional Redemption

Optional Redemption. Subject to the order of payment requirements set forth in the Indenture, the Series 2015B Bonds shall be subject to redemption at the option and written direction of KMPA, in whole or in part in Authorized Denominations, upon deposit by KMPA with the Trustee at least one (1) day prior to the date set for redemption of funds in an amount that will be sufficient, together with other funds held by the Trustee and available for such purpose to effect such redemption, including the payment of premium, if any, and subsequent notice of such redemption being given in accordance with the Indenture.

During any Flexible Term Rate Period, the Series 2015B Bonds are subject to redemption, at the direction of KMPA, in whole or in part on any day during the period 180 days prior to a Mandatory Purchase Date or maturity, as applicable, at a redemption price equal to the principal amount of such Series 2015B Bonds to be redeemed plus accrued interest thereon to, but not including, the redemption date.

During any Fixed Rate Period, the Series 2015B Bonds are subject to redemption prior to maturity, at the option of KMPA, on any date occurring on or after the First Day of Redemption Period as described below, in whole or in part, in any order of maturities and by lot within a single maturity, at a redemption price of 100% of the principal amount of the 2015B Bonds called for redemption, plus accrued interest thereon to, but not including, the redemption date:

Length of Fixed Rate Period From Fixed Rate Conversion Date Until End of Rate Period (Expressed in Years)	First Day of Redemption Period
More than 15	10 th anniversary of Fixed Rate Conversion Date
More than 10 but not more than 15	7th anniversary of Fixed Rate Conversion Date
More than 5 but not more than 10	4th anniversary of Fixed Rate Conversion Date
Less than 5	Series 2015B Bonds are not subject to optional redemption

Extraordinary Optional Redemption. The Series 2015B Bonds are 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:

(i) the 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

(ii) a portion of the 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 the PSEC so damaged; provided however, that the Series 2015B Bonds called for redemption 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

(iii) title to or the temporary use of all or substantially all of the 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 the PSEC for a period of at least six consecutive months or (z) selling power or energy generated by the PSEC at levels which in the opinion of KMPA, confirmed by an Independent Consultant, to make all or a portion of the PSEC not economically feasible.

Reimbursement of Amounts owed to Bond Insurer. No optional or extraordinary optional redemption of Series 2015B Bonds shall be permitted unless all amounts owed to a Bond Insurer insuring any of the Series 2015B Bonds and any provider of a Reserve Account Insurance Policy under the Indenture or under any reimbursement agreement have been paid in full.

Mandatory Redemption

The Series 2015B Bonds are subject to mandatory redemption prior to maturity at a redemption price equal to the principal amount to be redeemed plus accrued interest thereon to the date of redemption, at any time, in whole or in part by lot, to the extent necessary in accordance with written instructions from Bond Counsel to effect compliance with the requirements of the Code.

The Series 2015B Bonds due September 1, 2042 shall be subject to mandatory sinking fund redemption prior to maturity (said Series 2015B Bonds to be selected by lot) at a redemption price of 100% of the principal amount thereof to be redeemed, plus interest accrued to the redemption date, on September 1 in the years and in the principal amounts as follows:

<u>September 1</u>	<u>Principal Amount</u>
2038	\$6,995,000
2039	7,100,000
2040	7,205,000
2041	7,315,000
2042	7,420,000

Notwithstanding the above paragraph, the mandatory sinking fund redemption amounts set forth above shall be reduced in connection with any optional or extraordinary redemption of the Series 2015B Bonds. The principal amount of such optional or extraordinary redemptions shall be credited against such concurrent or future sinking fund redemption requirements in such order and in such amounts and years as is specified by KMPA in writing to the Trustee; provided, however, prior to any such adjustments becoming effective (other than an adjustment in reverse order of payment), KMPA shall also provide the Trustee with an Approving Opinion with respect to any such adjustments.

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 2015B Bonds to be redeemed or tendered at the address of such Owner appearing in the Bond Register, and also to such other persons as KMPA shall deem appropriate.

Neither the failure of any Owner to receive notice mailed nor any defect in notice so mailed shall affect the validity of the proceedings for redemption.

All notices of redemption shall state:

- (i) the redemption date;
- (ii) the redemption price (including premium, if any);
- (iii) the name of the Series 2015B Bonds to be redeemed, the principal amount of Series 2015B Bonds to be redeemed, and, if less than all Outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Series 2015B Bonds to be redeemed;
- (iv) the reason for the redemption;
- (v) that on the redemption date, the redemption price of each such Series 2015B Bond will become due and payable, that interest on each such Series 2015B Bond shall cease to accrue on and after such date, and that each such Series 2015B Bond will be deemed to have been redeemed;

(vi) the place or places where such Series 2015B 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 for an optional or extraordinary optional redemption, 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 (in either case, a “Conditional Redemption”), 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 2015B Bonds, no later than 7 days prior to the redemption date. Notice of redemption having been given, the Series 2015B Bonds 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 2015B Bonds shall cease to bear interest. Upon surrender of any such Series 2015B Bond for redemption in accordance with such notice, such Series 2015B Bond shall be paid at the redemption price thereof.

If KMPA shall default in the payment of the redemption price and any Series 2015B Bond called for redemption shall not be so paid upon surrender thereof for redemption, the redemption price and, to the extent lawful, interest thereon shall, until paid, bear interest from the redemption date at the rate borne by that Series 2015B Bond immediately before the redemption date.

Any Series 2015B Bond which is to be redeemed only in part shall be surrendered to the Trustee (with, if the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Trustee duly executed by, the Owner thereof or its attorney duly authorized in writing) and the appropriate officers of KMPA shall execute and the Trustee shall authenticate and deliver to the Owner of such Series 2015B Bond, without service charge to the Owner, a new Series 2015B Bond or Bonds of any Authorized Denomination or Authorized Denominations, as requested by such Owner, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Series 2015B Bond surrendered.

No Partial Redemption After Default

If there shall have occurred and be continuing an Event of Default, there shall be no redemption except in accordance with the provisions of the Indenture relating to remedies on an Event of Default.

Payment of Series 2015B Bonds

The principal of and premium, if any, and interest on the Series 2015B 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 2015B Bonds. The principal of and premium, if any, on the Series 2015B Bonds will be paid upon surrender thereof at the corporate trust office of the Trustee in Nashville, Tennessee.

Interest on each Series 2015B 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 2015B 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 2015B 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 2015B 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 2015B 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 2015B BONDS.

Registration, Transfer and Exchange

The Trustee shall maintain books (the “Bond Register”) for the registration and for the transfer of the Series 2015B Bonds.

Upon surrender for registration of transfer of any Series 2015B Bond at the principal office of the Trustee, the Trustee shall authenticate and shall deliver a new Series 2015B Bond or Series 2015B Bonds in the same aggregate principal amount as the Series 2015B Bond surrendered. No transfer of any Series 2015B Bond shall be binding upon the Trustee unless made at such office and shown on the Series 2015B 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 2015B Bond or portion thereof which has been called for redemption.

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 Series 2015B Bonds herein authorized and/or Prior 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.

Remarketing Agent

A remarketing agent may, and, pursuant to the Indenture, prior to any Conversion Date converting the Series 2015B Bonds to a Flexible Term Rate Period or a Fixed Rate Period, must be appointed by KMPA. KMPA will give written notice to the Trustee of such an appointment, and the Trustee, in turn, will cause written notice of such appointment to be given to the Owners of the Series 2015B Bonds. KMPA will appoint any successor remarketing agent for the Series 2015B Bonds (except for assignees permitted under the following sentence), subject to the conditions set forth in the paragraph below. To the extent permitted by any remarketing agreement then in effect, the remarketing agent may at any time transfer all of its duties and obligations as remarketing agent to an affiliate of such remarketing agent that satisfies the conditions set forth in the paragraph below and, upon such transfer, such affiliate shall automatically become the remarketing agent without any further action.

The remarketing agent must be a financial institution or registered broker/dealer authorized by law to perform all the duties imposed upon it by the Indenture. The remarketing agent may at any time resign and be discharged of its duties and obligations created by the Indenture by giving at least thirty (30) days' notice to KMPA, the Trustee, and the Bond Insurer, if any. The remarketing agent may be removed at any time, upon not less than thirty (30) days' notice, at the direction of KMPA and filed with the remarketing agent, the Trustee, and the Bond Insurer, if any; provided that no such removal will be effective until a successor remarketing agent has been appointed in accordance with the Indenture and such successor remarketing agent has accepted such appointment.

Calculation Agent

For so long as the Series 2015B Bonds shall bear interest at a Flexible Term Rate, a Calculation Agent must be appointed by KMPA. Regions Bank will serve as the initial Calculation Agent under the Indenture. KMPA will appoint any successor Calculation Agent for the Series 2015B Bonds (except for assignees permitted under the following sentence), subject to the conditions set forth in the paragraph below. To the extent permitted by any agreement entered into by and between KMPA and the Calculation Agent then in effect, the Calculation Agent may at any time transfer all of its duties and obligations as Calculation Agent to an affiliate of such Calculation Agent that satisfies the conditions set forth in the paragraph below

and, upon such transfer, such affiliate will automatically become the Calculation Agent without any further action.

The Calculation Agent must be a financial institution or registered broker/dealer authorized by law to perform all the duties imposed upon it by the Indenture. The Calculation Agent may at any time resign and be discharged of its duties and obligations created by the Indenture by giving at least thirty (30) days' notice to KMPA, the Trustee, and the Bond Insurer, if any. The Calculation Agent may be removed at any time, upon not less than thirty (30) days' notice, at the direction of KMPA and filed with the Calculation Agent, the Trustee, and the Bond Insurer, if any; provided that no such removal will be effective until a successor Calculation Agent has been appointed in accordance with the Indenture and such successor Calculation Agent has accepted such appointment.

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 ⁽¹⁾	Total Debt Service	Gross Debt Service on Prior Bonds	Total Gross Debt Service	Federal Subsidies	Total Net Debt Service
2015				\$32,127,144	\$32,127,144	(\$2,518,545)	\$29,608,599
2016		\$494,400	\$494,400	32,052,521	32,546,921	(2,518,545)	30,028,376
2017		529,715	529,715	34,539,145	35,068,860	(2,518,545)	32,550,315
2018		529,715	529,715	30,129,425	30,659,140	(2,518,545)	28,140,595
2019		532,657	532,657	30,125,037	30,657,694	(2,518,545)	28,139,149
2020		526,772	526,772	30,130,313	30,657,084	(2,518,545)	28,138,539
2021		529,715	529,715	34,564,355	35,094,070	(2,518,545)	32,575,525
2022		529,715	529,715	34,561,530	35,091,245	(2,518,545)	32,572,700
2023		529,715	529,715	34,562,655	35,092,370	(2,518,545)	32,573,825
2024		532,657	532,657	34,552,063	35,084,720	(2,509,390)	32,575,330
2025		528,243	528,243	34,503,047	35,031,290	(2,465,381)	32,565,909
2026		528,243	528,243	34,395,557	34,923,800	(2,363,223)	32,560,577
2027		529,715	529,715	34,243,932	34,773,647	(2,224,440)	32,549,207
2028		529,715	529,715	34,079,110	34,608,825	(2,077,359)	32,531,466
2029		529,715	529,715	33,914,211	34,443,926	(1,921,737)	32,522,189
2030		532,657	532,657	33,738,242	34,270,899	(1,757,738)	32,513,161
2031		528,243	528,243	33,558,152	34,086,395	(1,584,817)	32,501,578
2032		528,243	528,243	33,356,431	33,884,674	(1,401,699)	32,482,975
2033		529,715	529,715	33,144,857	33,674,572	(1,209,292)	32,465,280
2034		529,715	529,715	32,932,535	33,462,250	(1,008,621)	32,453,629
2035		529,715	529,715	32,701,829	33,231,544	(799,316)	32,432,228
2036		531,186	531,186	32,469,941	33,001,127	(580,957)	32,420,170
2037		528,243	528,243	32,223,885	32,752,128	(353,175)	32,398,953
2038		529,715	529,715	31,706,413	32,236,127	(118,445)	32,117,682
2039	\$6,995,000	452,595	7,447,595	20,092,550	27,540,145		27,540,145
2040	7,100,000	348,611	7,448,611	20,087,750	27,536,361		27,536,361
2041	7,205,000	245,169	7,450,169	20,090,375	27,540,544		27,540,544
2042	7,315,000	135,654	7,450,654	20,086,000	27,536,654		27,536,654
2043	7,420,000	27,269	7,447,269	20,090,000	27,537,269		27,537,269
Total	\$36,035,000	\$13,357,416	\$49,392,416	\$894,759,004	\$944,151,420	(\$45,042,495)	\$899,108,925

Note: (1) The Series 2015B Bonds are assumed to pay interest at the rate of 1.47%, based upon a SIFMA Index of 0.07% and an Applicable Spread of 1.40%.

BOOK-ENTRY ONLY SYSTEM

The Series 2015B 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 2015B 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 2015B Bonds under the Indenture.

The following information about the Book-Entry Only System applicable to the Series 2015B 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 2015B Bonds. The Series 2015B 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 2015B 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 2015B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2015B Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2015B 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 2015B 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 2015B Bonds, except in the event that use of the book-entry system for the Series 2015B Bonds is discontinued.

To facilitate subsequent transfers, all Series 2015B 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 2015B 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 2015B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2015B 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 2015B Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2015B Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2015B Bond documents. For example, Beneficial Owners of Series 2015B Bonds may wish to ascertain that the nominee holding the Series 2015B 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 2015B 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 2015B 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 2015B 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 2015B 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 2015B Bonds purchased or tendered, through its Participant, to the Trustee and shall affect delivery of such Series 2015B Bonds by causing the Direct Participant to transfer the Participant’s interest in the Series 2015B Bonds, on DTC’s records, to the Trustee. The requirement for physical delivery of Series 2015B Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2015B Bonds are transferred by Direct Participants on DTC’s records and followed by a book-entry credit of tendered Series 2015B Bonds to the Trustee’s DTC account. See “THE BONDS – Tender and Redemption Provisions for the Series 2015B 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 2015B 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 2015B BONDS OR THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2015B 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 2015B 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 2015B 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 2015B 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 2015B 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 2015B 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 2015B 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 2015B Bonds (“Replacement Series 2015B Bonds”) directly to the Beneficial Owners of Series 2015B Bonds, other than DTC or its nominee, only in the event that DTC resigns or is removed as the securities depository for the Series 2015B 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 2015B 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 2015B 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 2015B Bonds. Transfer and exchange of such Replacement Series 2015B 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 2015B 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 2015B 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 F, 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 2015B 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, and (t) 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 has suffered through a major economic recession, power demand and wholesale power market prices have decreased significantly, and PSEC has 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 have 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 were adopted by the board of directors of Paducah Electric on March 25, 2013, after a public hearing earlier that month. The new rate structure provided for the following 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. Paducah Electric has to date devoted the revenues received from the April 2014 rate increase to fund operating reserves as planned.

In addition to the foregoing base rate increases, 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, when 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.

By November 2013, when application of the PCA rate methodology first yielded a PCA charge that would be applied to customers' bills, some public and customer concern already had arisen over the two five percent (5%) base rate increases that had been implemented within the previous twelve months and the additional five percent (5%) rate increase already approved for implementation in April 2014. Although the PCA was designed to be calculated and adjusted on a quarterly basis by management without the necessity of board level action, in October 2013, the board of directors of Paducah Electric adopted a motion establishing the initial PCA to be billed to customers in the quarter beginning November 2013 at a level below that dictated by the PCA formula. The following month, the Paducah Electric board raised the PCA, but not to the full amount at which it would have initially been set for the quarter under the PCA formula but for the board's October 2013 action. The reduction of the calculated PCA resulted in the undercollection of Paducah Electric's purchased power costs with the effect that operating cash was reduced.

When the PCA was next calculated for the quarter beginning February 2014, Paducah Electric permitted the PCA to be assessed at the full amount yielded by the adopted PCA formula. During this period the PCA reached a high of almost \$0.036 per kwh, where it remained for five months. The deficit in collected purchased power costs declined through the spring and summer of 2014. During this period, the PCA represented approximately a fifteen percent (15%) additional charge to residential bills, causing considerable customer complaints and garnering extensive media coverage and concern of elected officials. By September 2014, the deficit balance in purchased power collections had been reduced to just over \$3 million. The portion of the deficit originally attributable to the October 2013 setting of the PCA rate below the

level that would otherwise have been implemented under the rate methodology had by then been recaptured, with the then-outstanding deficit balance being largely the result of actual power costs being significantly in excess of forecasts included in the PCA calculation for May through July 2014.

Discontent among Paducah Electric customers and local officials grew throughout 2014, perhaps reaching a peak in September at the same time that a revised PCA was calculated for assessment in the last calendar quarter of the year. At a meeting of the board of directors of Paducah Electric on September 22, 2014, the chairman, who had served on the Paducah Electric board for over 18 years, was replaced as a member of the KMPA board of directors and thereupon he resigned from the Paducah Electric board. At the next meeting of the Paducah Electric board, the general manager submitted his resignation. Paducah Electric engaged Mark Crisson as interim general manager while a national search for a permanent general manager was conducted. Mr. Crisson, who began his tenure at Paducah Electric on October 16, 2014, previously had served as manager of the municipal electric utility in Tacoma, Washington, and had recently retired as President and CEO of the American Public Power Association.

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 general manager was authorized by the board's resolution 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/.

Both before and after the adoption of the Recovery Plan, there has been significant discussion in the Paducah area regarding Paducah Electric's electric rates, with some in the community suggesting that Paducah Electric file for bankruptcy protection as a perceived means of achieving lower electric rates on an expedited basis. On December 8, 2014, Paducah Electric adopted a board resolution which affirmed its commitment to the goals, objectives, and action

steps set forth in the Recovery Plan. The resolution expressed the board's determination that given current and projected financial circumstances and the regulatory environment in which it operates, Paducah Electric is not presently or in the foreseeable future a candidate for a viable chapter 9 bankruptcy proceeding and stated that Paducah Electric had no intention of filing for bankruptcy relief now or in the foreseeable future.

KMPA cannot predict the effect that the Recovery Plan or customer concerns about electric rates will have on Paducah Electric's business operations and financial condition, and the business operations and financial condition of KMPA. There can be no assurance that the Recovery Plan will have the desired effect or that Paducah Electric's financial position will not materially weaken further. Failure of the Recovery Plan to have the desired effect could materially adversely affect the operations and financial condition of Paducah Electric, and as the largest purchaser of power from KMPA, could materially adversely affect the operations and financial condition of KMPA.

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 was successful in obtaining 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 has supported KMPA in obtaining \$22 million in surety bonds to replace a portion of KMPA's debt service reserves, representing 100% of the total surety bonds included in the Recovery Plan, supported KMPA in connection with the recent issuance of KMPA's Series 2015A Bonds, and continues to support KMPA in connection with the issuance of the Series 2015B Bonds and the related transactions. Under the Recovery Plan, the PCA deficit balance was reduced by \$2.2 million during the first quarter of calendar year 2015 and is currently on-track to obtain the desired results in Paducah Electric's financials and retail rates.

Below is a summary, from 2013 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.[†] This table provides an understanding on average in Kentucky, of the higher rates that existed in 2013 for electric utility rates charged to customers by Paducah Electric and Princeton Electric, but the table reflects that on a national basis, the rates are not significantly different.

Residential Rate Comparison (cents/kWh)	Kentucky	National
Avg. IOU	9.20	13.03
Avg. CO-OP	10.78	12.02
Avg. Municipal	9.88	10.94
Paducah Electric	11.01	11.01
Princeton Electric	11.64	11.64

Commercial Rate Comparison (cents/kWh)	Kentucky	National
Avg. IOU	7.82	11.64
Avg. CO-OP	10.50	11.03
Avg. Municipal	9.85	10.50
Paducah Electric	11.11	11.11
Princeton Electric	12.83	12.83

Industrial Rate Comparison (cents/kWh)	Kentucky	National
Avg. IOU	6.21	8.36
Avg. CO-OP	7.32	9.01
Avg. Municipal	7.31	8.50
Paducah Electric	8.48	8.48
Princeton Electric	11.24	11.24

[†] For the current rate schedules of Paducah Electric and Princeton Electric see Appendix E "Operating and Financial Data for the Members."

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 2015B 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.

Due to the issues encountered during the shakedown period, PSEC initially only achieved a net capacity factor of 58.39% in calendar year 2013, with an equivalent availability factor of 62.67%. PSEC’s net capacity factor improved in calendar year 2014 to 67.16%, with an equivalent availability factor of 72.48%. PSGC reports that during the three months ending March 31, 2015, PSEC’s net capacity factor was 69.61%, with an equivalent availability factor of 71.91%. This included a sixteen day planned outage of Unit 2 for scheduled maintenance which was successfully completed. PSEC’s equivalent availability factor target for calendar year 2015 is 84.70%. “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, while “equivalent availability factor”

represents the power plant's amount of time that it is able to produce electricity over a certain period, divided by the amount of time in the period.

Considering the reliability performance improvement initiatives that have been 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 advises that it expects to see continued improvements in reliability during 2015 and should approach levels consistent with similarly aged coal-fired power plants in the medium term. 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 CO₂, create a potential significant exposure for electric coal-fired generation facilities. The United States Environmental Protection Agency ("EPA") is currently pursuing regulation of CO₂ 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 CO₂ 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; a final NSPS is expected in the Summer of 2015.

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. EPA is expected to issue a final rule in the Summer of 2015. States then would be required to submit implementation plans for EPA's approval. Plans for meeting state-specific emission rate targets would be due one year later, in the Summer of 2016, except that EPA's proposal would allow states to request a one-year extension for single-state implementation plans or a two-year extension for multi-state implementation plans.

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 CO₂ 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. Thus, the timing and content of any new regulatory restrictions are uncertain at this time.

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. The MATS Rule will remain in effect pending the Supreme Court’s review. 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 SO₂ 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 SO₂ 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 SO₂ 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 is proposing 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. Lowering the ozone NAAQS will impact development in areas designated as nonattainment for ozone. If the EPA adopts a primary ozone NAAQS lower than the current 0.075 ppm standard and sets new secondary ozone NAAQS, the result could be a significant expansion of the areas identified as nonattainment for ozone.

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.” KMPA cannot determine the impact of such proposals on the operations of PSEC until final rules are issued.

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 electro-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 2015B Bonds and Related Documents

Security for the Series 2015B Bonds. The Series 2015B 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 2015B Bond proceeds and income from the temporary investment thereof. The Series 2015B 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 2015B Bonds. A brief description of the Trust Estate is contained in Appendix F.

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 2015B 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.

Miscellaneous

Consequences of a Failed Remarketing. As a capital intensive company, KMPA relies on access to the capital markets and other borrowings. KMPA expects to continue to need access to such capital and borrowings. KMPA's ability to arrange financing as well as its ability to cause the remarketing of the Series 2015B Bonds and make scheduled payments of principal and interest are dependent on numerous factors. KMPA's inability to obtain a subsequent purchaser of the Series 2015B Bonds upon application of the provisions regarding tender of the Series 2015B Bonds or to obtain additional financing to cover the tender obligations could have a material adverse effect on its liquidity and operations and its ability to meet all of its obligations. In addition, KMPA's inability to successfully remarket the Series 2015B Bonds could cause purchasers of the Series 2015B Bonds to hold the securities longer than originally anticipated. See "THE BONDS – Consequences of a Failed Remarketing."

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 2015B 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 2015B 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
John A. Humphries	Secretary/Treasurer and General Manager
Gary Zheng	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.

John A. Humphries has served as a KMPA Board member since February 2005. 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.

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. 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 last year. 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.

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 17 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 a Vice-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, 2013 and 2014 and unaudited financial statements for the nine-month periods ended March 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 Prior Bonds and the BANs, pursuant to a rate covenant, to produce in each fiscal year during which the Prior Bonds and the BANs 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 Prior Bonds until September 1, 2012. The debt service coverage ratio for the fiscal year ending June 30, 2014 was 1.10. 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, 2013 and 2014, and the unaudited financial statements for the nine-month periods ended March 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, 2013 and 2014, and unaudited financial statements for the nine-month periods ended March 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, 2013 and June 30, 2014

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, 2014 and 2013. 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 decreased \$7.853 million from fiscal year 2013 to fiscal year 2014, which primarily was a result of capital asset depreciation. Total liabilities decreased by \$8.043 million from payment of maturing revenue bond principal. These events resulted in total net assets increasing \$0.190 million over the course of the year's operations compared to fiscal year 2013.
- KMPA had an operating gain in fiscal year 2014 and fiscal year 2013 due to debt service charges being billed to the Members.

Non-operating net revenues, including investment income, decreased \$8 million from fiscal year 2013 to fiscal year 2014. This decrease is primarily related to the elimination of interest charged to construction as PSEC was placed into service and the fact that no investment contracts were terminated such as occurred in November 2012 when Morgan Stanley paid KMPA \$4.8 million to terminate an investment contract for the Series 2007A Debt Service Reserve.

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 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 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 2014 and fiscal year 2013 was provided by 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.

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

Financial Analysis of KMPA

The most common financial question posed to KMPA is "How did KMPA do financially from fiscal year 2013 to fiscal year 2014?" The Statements of Net Assets (Deficit) and the Statements of Revenues, Expenses, and Changes in Net Assets report information about KMPA's activities in a way that will help answer this question. These two statements report the net assets of KMPA and the changes in them. One can think of KMPA's net assets (deficit) - the difference between assets and liabilities - as one way to measure financial health or financial position. Over time, increases or decreases in KMPA's net assets are one indicator of whether the financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed governmental legislation. As 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 Assets (Deficit) is presented to Table A-1.

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

	2014	2013	2012	2013-2014 Dollar Change	2012-2013 Dollar Change
Current and other assets	\$ 83,210	\$ 82,493	\$ 73,589	\$ 717	\$ 8,904
Capital assets	435,030	443,600	445,996	(8,570)	(2,396)
Total assets	518,240	526,093	519,585	(7,853)	6,508
Revenue bonds	510,851	520,121	514,060	(9,270)	6,061
Other liabilities	23,163	21,936	13,833	1,227	8,103
Total liabilities	534,014	542,057	527,893	(8,043)	14,164
Invested in capital assets, net of related debt	(40,536)	(35,170)	(12,944)	(5,366)	(22,226)
Restricted	10,323	9,460	-	863	9,460
Unrestricted	14,439	9,746	4,636	4,693	5,110
Total Net Assets (Deficit)	\$ (15,774)	\$ (154,964)	\$ (8,308)	\$ 190	\$ (7,656)

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

	2014	2013	2012	2013-2014 Dollar Change	2012-2013 Dollar Change
Operating revenue	\$ 68,224	\$ 57,381	\$ 52,048	\$ 10,843	\$ 5,333
Non-operating revenue	3,306	11,373	26,406	(8,067)	(15,033)
Total revenue	71,530	68,754	78,454	2,776	(9,700)
Other operating expense	44,915	49,786	51,266	(4,871)	(1,480)
Non-operating expense	26,425	26,624	26,175	(199)	449
Total expenses	71,340	76,410	77,441	(5,070)	(1,031)
Changes in net assets	190	(7,656)	1,013	7,846	(8,669)
Beginning net assets (deficit)	(15,964)	(8,308)	(9,321)	(7,656)	(1,013)
Ending net assets (deficit)	\$ (15,774)	\$ (15,964)	\$ (8,308)	\$ 190	\$ (7,656)

While the Condensed Statements of Net Assets (Deficit) show net assets (deficit) of KMPA, the Condensed Statements of Revenues, Expenses, and Changes in Net Assets provide answers as to the nature and source of these changes. As illustrated in Table A-2, there was a positive change in net assets for fiscal year 2014 and fiscal year 2012 and a negative change in net assets for fiscal year 2013.

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, KMPA's cost of power purchased on behalf of the Members, and KMPA's debt service costs related to PSEC. In fiscal year 2013, KMPA utilized \$8.1 million from its Rate Stabilization Fund to avoid billing members for transmission congestion and PSEC operating costs that were significantly higher than budgeted.

Non-operating revenues represent investment income from the bond funds related to KMPA's 2007 and 2010 bond issues and interest charged to construction resulting from the 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 32.48% 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 \$2.5 million in fiscal year 2014, \$2.6 million in fiscal year 2013 and \$2.7 million in fiscal year 2012. Interest charged to construction decreased \$17.4 million from fiscal year 2012 to fiscal year 2013 due to the completion of construction of PSEC. No interest charged to construction occurred in fiscal year 2014.

Other operating expenses decreased in fiscal year 2014 due to increased purchase of electricity from PSEC. 2014 was the first full fiscal year of operations for the plant.

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

Capital Assets

At the end of fiscal year 2014, KMPA had \$435 million invested in capital assets. There was a decrease in capital assets from fiscal year 2013 to fiscal year 2014 of \$8.5 million due to \$4.5 million in capital asset additions and \$12 million in additional depreciation. There was a small decrease in capital assets from fiscal year 2012 to fiscal year 2013 of \$2 million, thus a grand total decrease of \$11 million was seen from fiscal year 2012 to fiscal year 2014. Capital assets are entirely comprised of assets related to completed construction at PSEC.

The Capital Assets comparison among fiscal years 2014, 2013, and 2012, is shown in Table A-3.

Table A-3
Capital Assets
(000's)

	2014	2013	2012	2013-2014 Dollar Change	2012-2013 Dollar Change
Construction in progress	\$ 5,080	\$ 575	\$ 165,084	\$ 4,505	\$ (164,509)
Property, plant, and equipment	453,159	454,227	281,557	(1,068)	172,670
Less accumulated depreciation	(23,209)	(11,202)	(645)	(12,007)	(10,557)
Total capital assets	\$ 435,030	\$ 443,600	\$ 445,996	\$ (8,570)	\$ (2,396)

Administration

The revenue bonds outstanding increased from \$514 million in fiscal year 2012 to \$520 million in fiscal year 2013 as a result of a draw from the Bond Anticipation Notes in the amount of \$15 million related to PSEC. The bonds are payable from the sale of electric power to Paducah Electric and Princeton Electric. The power sales to Paducah Electric are made pursuant to “take or pay” Power Sales Agreements with those entities. KMPA recognized \$9.1 million in revenue bonds outstanding as a current liability as it paid bond holders this amount in principal on September 1, 2014.

Comparison of Nine-Month Periods Ended March 31, 2014 and March 31, 2015

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

Financial Highlights

- KMPA’s total assets decreased \$8.4 million as of the nine-month period ending March 31, 2015 compared to the nine-month period ending March 31, 2014, which primarily was a result of capital asset depreciation and the use of surety bond proceeds to replace a portion of revenue related to member debt service. Total liabilities decreased by \$7.3 million from payment of maturing revenue bond principal. These events resulted in total net assets decreasing by \$1 million as of the period ending March 31, 2015 in comparison to the period ending March 31, 2014.
- KMPA had a reduction of net assets of \$1.1 million for the nine-month period ending March 31, 2015 relating to the issuance of surety bonds to replace debt service charges billed to Members as compared to a positive change in net assets of \$109,000 for the nine-month period ending March 31, 2014.

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 Condensed Statements of Net Assets (Deficit) 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 Condensed 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 creditworthiness of KMPA.

Financial Analysis of KMPA

The most common financial question posed to KMPA is "How did KMPA do financially for the nine-month period ending March 31, 2014 as compared to the nine-month period ending March 31, 2015?" The Condensed Statements of Net Assets (Deficit) and the Condensed Statements of Revenues, Expenses, and Changes in Net Assets report information about KMPA's activities in a way that will help answer this question. These two statements report the net assets of KMPA and the changes in them. One can think of KMPA's net assets (deficit) – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in KMPA's net assets are one indicator of whether the financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed governmental legislation. As 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 costs.

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

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

	YTD	YTD	2014-2015
	<u>03/31/15</u>	<u>03/31/14</u>	<u>Dollar</u>
			<u>Change</u>
Current and other assets	\$ 74,985	\$ 73,539	\$ 1,446
Capital assets	<u>427,353</u>	<u>437,181</u>	<u>(9,828)</u>
Total assets	<u>502,338</u>	<u>510,720</u>	<u>(8,382)</u>
Revenue bonds	501,225	510,885	(9,660)
Other liabilities	<u>18,063</u>	<u>15,690</u>	<u>2,373</u>
Total liabilities	<u>519,288</u>	<u>526,575</u>	<u>(7,287)</u>
Invested in capital assets, net of related debt	(45,727)	(37,916)	(7,811)
Restricted	12,613	6,491	6,122
Unrestricted	<u>16,164</u>	<u>15,570</u>	<u>594</u>
Total Net Assets (Deficit)	<u>\$ (16,950)</u>	<u>\$ (15,855)</u>	<u>\$ (1,095)</u>

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

	YTD	YTD	2014-2015
	<u>03/31/15</u>	<u>03/31/14</u>	<u>Dollar</u>
			<u>Change</u>
Operating revenue	\$ 59,678	\$ 51,221	\$ 8,457
Non-operating revenue	<u>2,924</u>	<u>2,449</u>	<u>475</u>
Total revenue	<u>62,602</u>	<u>53,670</u>	<u>8,932</u>
Other operating expense	44,163	33,713	10,450
Non-operating expense	<u>19,615</u>	<u>19,848</u>	<u>(233)</u>
Total expenses	<u>63,778</u>	<u>53,561</u>	<u>10,217</u>
Changes in net assets	<u>(1,176)</u>	<u>109</u>	<u>(1,285)</u>
Beginning net assets (deficit)	<u>(15,774)</u>	<u>(15,964)</u>	<u>190</u>
Ending net assets (deficit)	<u>\$ (16,950)</u>	<u>\$ (15,855)</u>	<u>\$ (1,095)</u>

While the Condensed Statements of Net Assets (Deficit) show net assets (deficit) of KMPA, the Condensed Statements of Revenues, Expenses, and Changes in Net Assets provide

answers as to the nature and source of these changes. As illustrated in Table B-2, there was a negative change in net assets for the nine-month period ending March 31, 2015 as compared to a positive change in assets for the nine-month period ending March 31, 2014.

Prior to June 2012, electrical power sold to the Members was obtained through contracts with power suppliers. At that time, PS 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 the completion of PS Unit 2 of PSEC in November 2012. At that time, KMPA began billing the 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 bond funds related to KMPA's 2007 and 2010 bond issues as well as income relating to KMPA's BABS subsidy. KMPA 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 \$1.9 million for each of the nine-month periods ending March 31, 2015 and 2014, respectively.

Other operating expenses increased for the nine-month period ending March 31, 2015 versus the same period ending March 31, 2014 due to increased purchase of electricity from PSEC.

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

In 2015, KMPA issued surety bonds to replace debt service reserve funds relating to the Series 2007B and Series 2010A Bonds. KMPA used the funds released from the debt service reserve fund as part of the defeasance of the 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 (\$2.5 million). This release of funds resulted in a negative effect on net assets in the financial statements.

Capital Assets

At March 31, 2015, KMPA had \$427 million invested in capital assets. There was a decrease in capital assets from 2014 to 2015 of \$9.8 million due to \$2.2 million in capital asset additions and \$12 million in additional depreciation. Capital assets are entirely comprised of assets related to completed construction of PSEC.

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

Table B-3
Capital Assets
YTD
(000's)

	YTD 2015	YTD 2014	2014-2015 Dollar Change
Construction in progress	\$ 2,693	\$ 5,430	\$ (2,737)
Property, plant, and equipment	\$ 456,893	\$ 451,956	\$ 4,937
Less accumulated depreciation	<u>\$ (32,234)</u>	<u>\$ (20,205)</u>	<u>\$ (12,029)</u>
Total capital assets	\$ 427,352	\$ 437,181	\$ (9,829)

Administration

The revenue bonds outstanding decreased to \$501 million as of March 31, 2015 compared to \$511 million as of March 31, 2014 as a result of 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 coincide with the term of KMPA’s outstanding revenue bonds. KMPA recognized \$9.5 million in revenue bonds outstanding as a current liability for the nine-month period ending March 31, 2015 as it will pay Bondholders this amount in principal on September 1, 2015.

Recent KMPA Action

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

Asset portfolio management was one area which was targeted for improvement. KMPA worked with the 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 and 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 will provide \$22 million of cash which KMPA will use to reduce its principal obligations on its Series 2010 and Series 2007B Bonds. A reduction in principal of the outstanding KMPA bonds should translate 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 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 22,351 total customers. Approximately 18,603, or 83%, are residential customers, approximately 3,282, 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 2005 through 2014 as prepared by Paducah Electric, based on actual sales data.

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

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

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 3,916 total customers. Approximately 3,023, or 77%, are residential customers, approximately 779, or 20%, are small and large commercial customers, 68, or 2% are industrial customers and the remaining less than 1% are classified as “other” customers.

The following table shows the actual non-coincident peak demand and energy requirements for Princeton Electric for the ten fiscal year periods ended June 30, 2005 through 2014 as prepared by Princeton Electric based on actual sales data.

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

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

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 E provides pertinent operating and financial information for the Members and Appendix D 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, 2013 and 2014 and unaudited financial statements for the nine-month periods ended March 31, 2014 and 2015 are included as Appendix B. Princeton Electric's audited financial statements for the years ended June 30, 2013 and 2014 and unaudited financial statements for the nine-month periods ended March 31, 2014 and 2015 are included as Appendix C.

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 Electric 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, 2010 through and including June 30, 2014.

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, 2010 through June 30, 2014.

Paducah Electric
Historical Debt Service Coverage

	Historical				
	Fiscal Year				
	2010	2011	2012	2013	2014
Total Operating Revenues	\$57,541,606	\$64,392,445	\$63,511,516	\$67,945,902	\$85,074,790
Total Operating Expenses (Less Amortization and Depreciation)	\$53,401,540	\$56,683,398	\$45,418,104	\$53,005,084	\$68,351,101
Revenue Available for Debt Service	\$4,140,066	\$7,709,047	\$18,093,412	\$14,940,818	\$16,723,689
Annual Debt Service ⁽¹⁾	\$574,333	\$2,549,342	\$12,335,279	\$12,338,609	\$13,190,451
Total Debt Service Coverage (x)	7.21	3.02	1.47	1.21	1.27

Note:

(1) 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, 2010 through June 30, 2014.

Princeton Electric
Historical Debt Service Coverage

	Historical				
	Fiscal Year				
	2010	2011	2012	2013	2014
Total Operating Revenues	\$11,014,583	\$12,855,448	\$13,409,750	\$13,084,617	\$15,038,941
Total Operating Expenses (Plus Depreciation and Amortization)	\$10,386,315	\$10,208,479	\$8,972,361	\$10,594,230	\$13,124,981
Revenue Available for Debt Service	\$628,268	\$2,646,969	\$4,437,389	\$2,490,387	\$1,913,960
Annual Debt Service ⁽¹⁾	\$302,769	\$285,394	\$1,106,307	\$1,713,413	\$1,709,004
Total Debt Service Coverage (x)	2.08	9.27	4.01	1.45	1.12

Note:

(1) Annual Debt Service consists of payments of principal of and interest on Princeton Electric's Revenue Bonds, Series 1999, 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.

<u>Owner</u>	<u>Ownership Interest</u>
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	<u>5.06</u>
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.

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 (CO₂) 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; however, PSGC is pursuing stream relocation permits to relocate a small intermittent stream to the perimeter of the 500 acre site to increase operational efficiency and capacity of the Near Field Site. PSGC has obtained a 401 Certification from IEPA and has filed with the Army Corps all required information necessary to secure a Section 404 permit that will authorize the relocation of this small stream as proposed. PSGC expects to receive the approval and proceed to conduct relocation activities in the second and third quarters of 2015. To the extent that there are any delays with the receipt of the remaining stream relocation permit, PSGC may use the Jordan Grove Site (as defined below) to dispose of CCR pending receipt.

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 supermajority 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 2015B 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 2015B Bonds.

The Code requires that KMPA comply on an ongoing basis with certain obligations in order for the Series 2015B Bonds not to be used in such a manner that would cause the Series 2015B Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code and for the interest on the Series 2015B 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 2015B Bonds becoming subject to federal income taxation, retroactive to the date of the Series 2015B 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 2015B Bonds. Interest on the Series 2015B 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 2015B 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 2015B 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 2015B 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 2015B 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 2015B 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 2015B 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 2015B Bonds, prospective purchasers of the Series 2015B 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 2015B Bonds.

Backup Withholding

General information reporting requirements will apply to payments of principal and interest made on a Series 2015B Bond and the proceeds of the sale of a Series 2015B Bond to non-corporate holders of the Series 2015B 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 2015B Bond that is a U.S. owner can obtain complete exemption from backup withholding by providing a properly completed IRS Form W-9 (Request for Taxpayer Identification Number and Certification).

Nonresident Owners

Under the Code, interest and OID on any Series 2015B 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 2015B 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 2015B 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 2015B 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 H. 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 2015B Bonds, or the collection of revenues pledged or to be pledged to pay the principal of and interest on the Series 2015B Bonds or (ii) in any way contesting or affecting the validity of the Series 2015B Bonds, the Indenture or the Power Sales Agreements, or the power to collect and pledge the revenues to pay the Series 2015B Bonds, or contesting the power or authority of KMPA to issue the Series 2015B 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, which is a member of the NIMPA, one of the PSEC Owners. The lawsuit named KMPA solely as a "respondent in discovery" rather than as a defendant. The lawsuit has since been removed to the U.S. District Court for the Northern District of Illinois, but the plaintiffs have sought to have the case remanded to the Circuit Court of Kane County, Illinois. If the case remains in the U.S. District Court for the Northern District of Illinois, as the Federal Rules of Civil Procedure do not provide for parties to be included as a "respondent in discovery" as permitted by Illinois law, KMPA believes that it may be properly dismissed from the lawsuit. It is not, however, possible to predict with certainty the outcome of such lawsuit.

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 G 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 2015B 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 2015B 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 2015B Bonds are outstanding in accordance with their terms and (ii) KMPA remains an “obligated person” with respect to the Series 2015B 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 2015B 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 2015B 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 2015B Bonds are expected to be assigned a rating of “Baa1” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”) and “A-” (stable outlook) by Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies, Inc. (“Standard & Poor’s”) 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 2015B Bonds.

INDEPENDENT AUDITORS

The financial statements of KMPA, as of and for the years ended June 30, 2013 and 2014, 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 2015B Bonds from KMPA at a purchase price equal to \$35,909,206.58 for the Series 2015B Bonds, which represents the aggregate principal amount of the Series 2015B Bonds, less the Underwriter’s discount. The Underwriter is committed to purchase all of the Series 2015B 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 2015B Bonds. KMPA will designate a remarketing agent for any future remarketing of the Series 2015B 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.

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 2015B 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 2015B Bonds nor this Official Statement is to be construed as constituting an agreement with the purchaser of the Series 2015B 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

APPENDIX A

KENTUCKY MUNICIPAL POWER AGENCY POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2015B

**Audited Financial Statements of the Kentucky Municipal Power Agency
for Fiscal Years ended June 30, 2013 and 2014;
Unaudited Financial Statements
for the Nine-Month Periods Ended March 31, 2014 and 2015**

**KENTUCKY MUNICIPAL
POWER AGENCY**

**FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013**

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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, 2014 and 2013 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 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 Kentucky Municipal Power Agency, as of June 30, 2014 and 2013, 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 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The schedule of operating expenses presented on page 27 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 27 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 February 9, 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.



Paducah, Kentucky
February 9, 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, 2014 and 2013. 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 \$7.853 million from fiscal year 2013 to fiscal year 2014, which primarily was a result of capital asset depreciation. Total liabilities decreased by \$8.043 million from payment of maturing revenue bond principal. These events resulted in total net assets increasing \$0.190 million over the course of the year's operations compared to fiscal year 2013.
- The Agency had an operating gain in fiscal year 2014 and fiscal year 2013 due to debt service charges being billed to members.

Non-operating net revenues, including investment income, decreased \$8 million from fiscal year 2013 to fiscal year 2014. This decrease is primarily related to the elimination of interest charged to construction as the Prairie State Generation Plant was placed into service and the fact that no investment contracts were terminated such as occurred in November 2012 when Morgan Stanley paid the Agency \$4.8 million to terminate an investment contract for the Series 2007A Debt Service Reserve.

Overview of the Financial Highlights

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

Required Financial Highlights

The financial statements of the Agency report information of the Agency using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statements of Net Assets (Deficit) include all the Agency's assets and liabilities and provide information about the nature and amounts of investments and resources (assets) and the obligations to the Agency's creditors (liabilities). 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 Assets (Deficit). These statements measure the success of the Agency's operations over the past year and can be used to determine whether the Agency has successfully recovered all its costs through its fees and other charges, and also assess the profitability and creditworthiness 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 fiscal year 2014 and fiscal year 2013 was provided by revenue bonds issued in May 2010 (\$183.7 million), Bond Anticipation Notes drawn during the 2013 and 2012 fiscal years (\$35 million) and the sale of electricity to Agency members.

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

(Continued)

**KENTUCKY MUNICIPAL POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Analysis of the Agency

The most common financial question posed to the Agency is "How did we do financially from fiscal year 2013 to fiscal year 2014?" The Statements of Net Assets (Deficit) and the Statements of Revenues, Expenses, and Changes in Net Assets report information about the Agency's activities in a way that will help answer this question. These two statements report the net assets of the Agency and the changes in them. One can think of the Agency's net assets (deficit) – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Agency's net assets are one indicator of whether the financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed governmental legislation. As the Agency 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 began 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 Assets (Deficit) is presented to Table A-1.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2013-2014 Dollar Change</u>	<u>2012-2013 Dollar Change</u>
Current and other assets	\$ 83,210	\$ 82,493	\$ 73,589	\$ 717	\$ 8,904
Capital assets	<u>435,030</u>	<u>443,600</u>	<u>442,996</u>	<u>(8,570)</u>	<u>(2,396)</u>
Total assets	<u>518,240</u>	<u>526,093</u>	<u>519,585</u>	<u>(7,853)</u>	<u>6,508</u>
Revenue bonds	510,851	520,121	514,060	(9,270)	6,061
Other liabilities	<u>23,163</u>	<u>21,936</u>	<u>13,833</u>	<u>1,227</u>	<u>8,103</u>
Total liabilities	<u>534,014</u>	<u>542,057</u>	<u>527,893</u>	<u>(8,043)</u>	<u>14,164</u>
Invested in capital assets, net of related debt	(40,536)	(35,170)	(12,944)	(5,366)	(22,226)
Restricted	10,323	9,460	-	863	9,460
Unrestricted	<u>14,439</u>	<u>9,746</u>	<u>4,636</u>	<u>4,693</u>	<u>5,110</u>
Total Net Assets (Deficit)	<u>\$(15,774)</u>	<u>\$(15,964)</u>	<u>\$(8,308)</u>	<u>\$ 190</u>	<u>\$ (7,656)</u>

(Continued)

**KENTUCKY MUNICIPAL POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Analysis of the Agency

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2013-2014 Dollar Change</u>	<u>2012-2013 Dollar Change</u>
Operating revenue	\$ 68,224	\$ 57,381	\$ 52,048	\$10,843	\$ 5,333
Non-operating revenue	<u>3,306</u>	<u>11,373</u>	<u>26,406</u>	<u>(8,067)</u>	<u>(15,033)</u>
Total revenue	<u>71,530</u>	<u>68,754</u>	<u>78,454</u>	<u>2,776</u>	<u>(9,700)</u>
Other operating expense	44,915	49,786	51,266	(4,871)	(1,480)
Non-operating expense	<u>26,425</u>	<u>26,624</u>	<u>26,175</u>	<u>(199)</u>	<u>449</u>
Total expenses	<u>71,340</u>	<u>76,410</u>	<u>77,441</u>	<u>(5,070)</u>	<u>(1,031)</u>
Changes in net assets	190	(7,656)	1,013	7,846	(8,669)
Beginning net assets (deficit)	<u>(15,964)</u>	<u>(8,308)</u>	<u>(9,321)</u>	<u>(7,656)</u>	<u>(1,013)</u>
Ending net assets (deficit)	<u><u>\$(15,774)</u></u>	<u><u>\$(15,964)</u></u>	<u><u>\$(8,308)</u></u>	<u><u>\$ 190</u></u>	<u><u>\$(7,656)</u></u>

While the Statements of Net Assets (Deficit) show net assets (deficit) of the Agency, the Statements of Revenues, Expenses, and Changes in Net Assets (Deficit) provide answers as to the nature and source of these changes. As illustrated in Table A-2, there was a positive change in net assets for fiscal year 2014 and fiscal year 2012 and a negative change in net assets for fiscal year 2013.

Prior to June 2012, electrical power sold to members was obtained by the Agency 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 for the benefit of 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 amount billed to the members was based upon the Agency's operating costs, the Agency's cost of power purchased on behalf of the members, and the Agency's debt service costs related to the Prairie State Generation Plant. In fiscal year 2013, the Agency utilized \$8.1 million from its Rate Stabilization Fund to avoid billing members for transmission congestion and Prairie State operating costs that were significantly higher than budgeted.

Non-operating revenues represent investment income from the 2007 and 2010 revenue bond funds and interest charged to construction resulting from the 2007 and 2010 bond issues as well as income relating to the Federal Build America Bond (BABS) subsidy. The Agency is entitled to a payment of 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 \$2.5 million in fiscal year 2014, \$2.6 million in fiscal year 2013 and 2.7 million in fiscal year 2012. Interest charged to construction decreased \$17.4 million from fiscal year 2012 to fiscal year 2013 due to the completion of construction of the Prairie State Generating Plant. No interest charged to construction occurred in fiscal year 2014.

Other operating expenses decreased in fiscal year 2014 due to increased purchase of electricity from the Prairie State Generation Plant. 2014 was the first full fiscal year of operations for the plant.

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Capital Assets

At the end of fiscal year 2014, the Agency had \$435 million invested in capital assets. There was a decrease in capital assets from fiscal year 2013 to fiscal year 2014 of \$8.5 million due to \$4.5 million in capital asset additions and \$12 million in additional depreciation. There was a small decrease in capital assets from fiscal year 2012 to fiscal year 2013 of \$2 million, thus a grand total decrease of \$11 million was seen from fiscal year 2012 to fiscal year 2014. 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 2014, 2013, and 2012, is shown in Table A-3.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2013-2014 Dollar Change</u>	<u>2012-2013 Dollar Change</u>
Construction in progress	\$ 5,080	\$ 575	\$ 165,084	\$ 4,505	\$(164,509)
Property, plant, and equipment	453,159	454,227	281,557	(1,068)	172,670
Less accumulated depreciation	(23,209)	(11,202)	(645)	(12,007)	(10,557)
Total capital assets	<u>\$ 435,030</u>	<u>\$ 443,600</u>	<u>\$ 445,996</u>	<u>\$ (8,570)</u>	<u>\$ (2,396)</u>

Administration

The revenue bonds outstanding increased from \$514 million in fiscal year 2012 to \$520 million in fiscal year 2013 as a result of a draw from the Bond Anticipation Notes in the amount of \$15 million related to the Prairie State Energy Campus Plant. The bonds are payable from the sale of electric power to Paducah Power System and Princeton Electric Plant Board. The power sales to Paducah Power System and Princeton Electric Plant Board are made pursuant to "take or pay" Power Sales Agreements with those entities. The Agency recognized \$9.1 million in revenue bonds outstanding as a current liability as it will pay bond holders this amount in principal on 9/1/14.

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 manager of each member electric system.

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Other Information

Members Wholesale Power Contracts

Both Paducah Power System and Princeton Electric Plant Board were full requirements wholesale distribution customers of the Tennessee Valley Authority (TVA) 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.

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 as of the end of December 2014.

(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 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@peph.org.

BASIC FINANCIAL STATEMENTS

KENTUCKY MUNICIPAL POWER AGENCY
STATEMENTS OF NET ASSETS (DEFICIT)
JUNE 30

ASSETS

	2014	2013
Current Assets:		
Cash and temporary cash investments	\$ 5,075,047	\$ 3,318,403
Accounts receivable	1,391,765	1,377,678
Working capital Prairie State	2,180,327	3,256,526
Other receivables	8,135,345	5,692,281
Inventory	3,024,159	2,390,214
Prepaid expenses	3,020	2,997
Total current assets	19,809,663	16,038,099
Restricted assets:		
Project fund	-	5,941,419
Principal and interest sinking fund	15,349,619	14,999,222
Reserve fund	37,089,284	36,486,841
Pledged collateral	4,739,382	3,106,625
Interest receivable	259,054	197,425
Total restricted assets	57,437,339	60,731,532
Capital assets:		
Construction work in progress	5,080,105	575,244
Property, plant, and equipment	453,158,404	454,226,543
Less accumulated depreciation	(23,208,840)	(11,201,999)
Total capital assets	435,029,669	443,599,788
Deferred debits and other assets:		
Prairie State reserve funds	540,315	54,812
Unamortized debt issuance costs	5,423,217	5,668,826
Total deferred debits and other assets	5,963,532	5,723,638
Total noncurrent assets	498,430,540	510,054,958
Total assets	\$ 518,240,203	\$ 526,093,057

See notes to financial statements.

LIABILITIES

	2014	2013
Current Liabilities:		
Accounts payable	\$ 4,280,425	\$ 3,090,376
Bonds held by public current portion	9,135,000	8,805,000
Other payables	1,015,403	1,198,128
Current liabilities payable from restricted assets:		
Accrued interest	8,732,421	8,842,905
Total current liabilities	23,163,249	21,936,409
Noncurrent Liabilities:		
Long-term debts:		
Bonds held by public	473,500,000	482,635,000
Bond anticipation notes	35,000,000	35,000,000
Unamortized debt discounts	(2,155,059)	(2,262,181)
Unamortized debt premium	4,506,384	4,747,887
Total noncurrent liabilities	510,851,325	520,120,706
Total liabilities	534,014,574	542,057,115

NET ASSETS (DEFICIT)

Invested in capital assets, net of related debt	(40,535,902)	(35,170,435)
Restricted for debt service	10,322,876	9,460,367
Unrestricted - net (deficit)	14,438,655	9,746,010
TOTAL NET ASSETS (DEFICIT)	\$ (15,774,371)	\$ (15,964,058)

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

	2014	2013
Operating Revenues:		
Service revenue	<u>\$ 68,224,379</u>	<u>\$ 57,380,576</u>
Total operating revenues	<u>68,224,379</u>	<u>57,380,576</u>
Purchased Power and Operating Expenses:		
Purchased power cost	28,895,642	36,948,908
General operating expense	<u>16,019,202</u>	<u>12,837,142</u>
Total purchased power and operating expenses	<u>44,914,844</u>	<u>49,786,050</u>
Operating income	<u>23,309,535</u>	<u>7,594,526</u>
Nonoperating Revenues (Expenses):		
Interest paid on indebtedness	(26,254,365)	(26,472,695)
Investment income	791,182	5,747,730
Federal Build America Bond's subsidy	2,514,469	2,638,087
Interest charged to construction	-	2,987,748
Net amortization discount and premium on debt	<u>(171,134)</u>	<u>(151,174)</u>
Total nonoperating revenues (expenses)	<u>(23,119,848)</u>	<u>(15,250,304)</u>
Change in net assets	189,687	(7,655,778)
Net assets (deficit), beginning of year	<u>(15,964,058)</u>	<u>(8,308,280)</u>
NET ASSETS (DEFICIT), END OF YEAR	<u><u>\$ (15,774,371)</u></u>	<u><u>\$ (15,964,058)</u></u>

See notes to financial statements.

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

	2014	2013
Cash Flows from Operating Activities:		
Receipts from customers	\$ 65,767,228	\$ 56,518,588
Payments to suppliers	(31,662,159)	(38,515,192)
Payments to employees	(872,489)	(959,370)
Net cash used by operating activities	<u>33,232,580</u>	<u>17,044,026</u>
Cash Flows from Capital and Related Financing Activities:		
Capital expenditures	(5,144,236)	(5,101,105)
Proceeds from issuance of long-term debt	-	15,000,000
Principal payments made on bonds	(8,805,000)	-
Interest payments on long-term debt	(26,254,365)	(26,215,027)
Federal Build America Bond's subsidy	<u>2,514,469</u>	<u>2,638,087</u>
Net cash used by capital and related financing activities	<u>(37,689,132)</u>	<u>(13,678,045)</u>
Cash Flows from Investing Activities:		
Purchases of investments	(12,637,339)	(39,158,730)
Proceeds from sale of investments	28,045,934	-
Investment income	<u>729,553</u>	<u>2,581,959</u>
Net cash provided by investing activities	<u>16,138,148</u>	<u>(36,576,771)</u>
Net increase in cash and cash equivalents	11,681,596	(33,210,790)
Cash and cash equivalents, beginning of year	<u>11,418,039</u>	<u>44,628,829</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 23,099,635</u></u>	<u><u>\$ 11,418,039</u></u>

(Continued)

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

	<u>2014</u>	<u>2013</u>
Reconciliation of Operating Income to Net		
Cash Used by Operating Activities:		
Operating income	\$ 23,309,535	\$ 7,594,526
Depreciation expense	12,006,840	10,560,650
Adjustments to reconcile operating income to net cash used by operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	(14,087)	88,108
Other accounts receivable	(2,443,064)	(950,096)
Prepaid expenses	(23)	(32)
Other assets	(633,945)	558,816
Accounts payable	1,190,048	(1,206,453)
Other current and accrued liabilities	(182,725)	398,507
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ 33,232,579</u></u>	<u><u>\$ 17,044,026</u></u>
Schedule of Noncash Financing Activities:		
Amortization of bond issue and discount costs	\$ (171,134)	\$ (151,174)
Interest charged to construction	-	2,987,748

See notes to financial statements.

**KENTUCKY MUNICIPAL POWER AGENCY
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 Agency is not regulated. The rates to be charged to Paducah Power System and Princeton Electric will be set by the Board through operating and power agreements.

Measurement Focus, Basis of Accounting and Basis of Presentation

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

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

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

(Continued)

**KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Summary of Significant Accounting Policies:

Deposits and Investments

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

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

- a. Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, if delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian. These investments may be accomplished through repurchase agreements reached with sources including, but not limited to, national or state banks chartered in Kentucky.
- b. Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency, including, but not limited to:
 1. United States Treasury,
 2. Export-Import Bank of the United States,
 3. Farmers Home Administration,
 4. Government National Mortgage Corporation, and
 5. Merchant Marine bonds.
- c. Obligations of any corporation of the United States government, including but not limited to:
 1. Federal Home Loan Mortgage Corporation,
 2. Federal Farm Credit Banks,
 3. Bank for Cooperatives,
 4. Federal Intermediate Credit Banks,
 5. Federal Land Banks,
 6. Federal Home Loan Banks,
 7. Federal National Mortgage Association, and
 8. Tennessee Valley Authority.
- d. Certificates of deposit or other interest bearing accounts issued by any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity, or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4).
- e. Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one (1) of the three (3) highest categories by a nationally recognized rating agency.
- f. Bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency.
- g. Commercial paper rated in the highest category by a nationally recognized rating agency.
- h. Bonds or certificates of indebtedness of the State and of its agencies and instrumentalities.
- i. Securities issued by a state or local government, or any instrumentality or agency thereof, in the United States, and rate in one (1) of the three (3) highest categories by a nationally recognized rating agency.

(Continued)

**KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Summary of Significant Accounting Policies:

Deposits and Investments

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

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

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.

Long-Term Obligations

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

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies:

Revenues and Expenses

The Agency distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Agency's principal ongoing operations. The operating revenues of the Agency are the charges to members for sales and services. 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 2013 financial statements to make them conform to the 2014 presentation.

Note 2 - Deposits and Investments:

The investment policies of the Agency are governed by the State statute. In general, this requires that all deposits and investments, not covered by FDIC insurance, are to be collateralized. For the years ended June 30, 2014 and 2013, 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:

	<u>2014</u>	<u>2013</u>
Checking and savings	\$ 5,615,362	\$ 3,373,216
MISO collateral funds	3,446,625	3,106,626
Mutual funds-money market	1,100,766	6,435,935
Commercial paper	16,923,823	1,663,701
Guaranteed investment security	22,874,482	37,788,013
Repurchase agreement	<u>11,539,832</u>	<u>11,539,832</u>
TOTAL CASH AND INVESTMENTS	<u>\$61,500,890</u>	<u>\$63,907,323</u>

Deposits

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.

The financial institution balances of the Agency's deposits were \$63,907,323 for the year ended June 30, 2013. The book balance was \$63,907,323. Of the various financial institution balances at June 30, 2013, \$250,000 was insured by federal depository insurance, and the remaining balance of \$63,657,323 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 \$63,657,323 was uninsured and collateralized by U.S. Treasury pooled investments not held in the Agency's name.

As of June 30, 2014 and 2013, \$0 and \$0 of the Agency's bank balances were known to be individually exposed to custodial credit risk at Citibank, N.A.

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 2 - Deposits and Investments:

Credit Risk

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

As of June 30, 2014 and 2013, the Agency's investments were rated as follows:

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

Concentration of Credit Risk

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

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

<u>Issuer</u>	<u>Investment Type</u>	<u>Percentage of Portfolio</u>
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%

As of June 30, 2013, the Agency's investment portfolio was concentrated as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Percentage of Portfolio</u>
Regions collateralized sweep account	Money market	11%
Bayerische Landesbank	Repurchase agreement	20%
BB&T Reserve Investment	Guaranteed investment certificate	66%
Visionary Funding, LLC	Commercial paper	3%

Interest Rate Risk

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

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 2 - Deposits and Investments:

Interest Rate Risk

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity (In Years)</u>		
		<u>Less than 1 Year</u>	<u>1 - 5 Years</u>	<u>6 - 10 Years</u>
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	<u>\$52,445,823</u>	<u>\$18,024,589</u>	<u>\$34,421,234</u>	<u>\$ -</u>

As of June 30, 2013, the Agency's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity (In Years)</u>		
		<u>Less than 1 Year</u>	<u>1 - 5 Years</u>	<u>6 - 10 Years</u>
Mutual funds-money market	\$ 6,435,935	\$ 6,435,935	\$ -	\$ -
Commercial paper	1,663,701	1,663,701	-	-
Guaranteed investment certificates	37,788,013	-	37,788,013	-
Repurchase agreement	11,539,832	-	11,539,832	-
TOTALS	<u>\$57,427,481</u>	<u>\$ 8,099,636</u>	<u>\$49,327,845</u>	<u>\$ -</u>

Note 3 - Restricted Assets:

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

- Project Fund - Used to report revenue bond proceeds restricted for use in construction and working capital.
- Reserve Fund - Used to report resources set aside to make up potential future deficiencies in the future redemption amount.
- Pledged Collateral - Used to report collateral called to make up potential future deficiencies in energy trading contracts.

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

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 3 - Restricted Assets:

The following calculation supports the amount of restricted net assets:

	<u>2014</u>	<u>2013</u>
Restricted assets:		
Project fund	\$ -	\$ 5,941,419
Sinking and reserve funds	52,438,903	51,486,063
Pledged collateral	3,446,625	3,106,625
Accrued interest receivable	259,054	197,425
Less: restricted assets not funded by revenues:		
Project fund	-	(5,941,419)
Reserve fund	(37,089,284)	(36,486,841)
Current liabilities payable from restricted assets	(8,732,421)	(8,842,905)
TOTAL RESTRICTED NET ASSETS AS CALCULATED	<u>\$ 10,322,877</u>	<u>\$ 9,460,367</u>

GASB does not allow the presentation of negative restricted net assets. The deficiency in restricted net assets is netted against unrestricted net assets in 2014 and 2013.

Note 4 - Capital Assets:

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
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	<u>\$ 1,579,180</u>	<u>\$ 4,504,860</u>	<u>\$ -</u>	<u>\$ 6,084,040</u>
Capital Assets Being Depreciated or Deleted:				
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				
Less accumulated depreciation	453,222,608	639,374	1,707,513	452,154,469
Total capital assets being depreciated, net	<u>11,202,000</u>	<u>12,006,840</u>	<u>-</u>	<u>23,208,840</u>
TOTAL CAPITAL ASSETS, NET	<u>\$443,599,788</u>	<u>\$(6,862,606)</u>	<u>\$1,707,513</u>	<u>\$435,029,669</u>

(Continued)

**KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS**

Note 4 - Capital Assets:

Capital assets activity for the year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 891,745	\$ 112,190	\$ -	\$ 1,003,935
Construction in progress	165,083,923	267,985	164,776,663	575,245
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>\$165,975,668</u>	<u>\$ 380,175</u>	<u>\$164,776,663</u>	<u>\$ 1,579,180</u>
Capital Assets Being Depreciated:				
Land rights	\$ 3,324,280	\$ 891,745	\$ -	\$ 4,216,025
Coal reserves	6,736,123	-	134,158	6,601,965
Non-utility property	15,604,277	889,884	-	16,494,161
Structures and improvements	30,693,601	7,902,700	-	38,596,301
Equipment	224,306,902	163,007,254	-	387,314,156
Total capital assets being depreciated	280,665,183	172,691,583	134,158	453,222,608
Less accumulated depreciation	644,667	10,557,333	-	11,202,000
Total capital assets being depreciated, net	<u>280,020,516</u>	<u>162,134,250</u>	<u>134,158</u>	<u>442,020,608</u>
TOTAL CAPITAL ASSETS, NET	<u>\$445,996,184</u>	<u>\$162,514,425</u>	<u>\$164,910,821</u>	<u>\$443,599,788</u>

Note 5 - Accounts Payable:

The elements comprising accounts payable are as follows:

	<u>2014</u>	<u>2013</u>
Due for purchased power	\$1,740,118	\$ 774,394
Accounts payable, general	2,540,307	2,315,983
TOTAL ACCOUNTS PAYABLE	<u>\$4,280,425</u>	<u>\$3,090,377</u>

Note 6 - Long-Term Indebtedness:

Notes Payable

The following revenue bond anticipation notes have been issued:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Outstanding Amount 6/30/14</u>
3/20/12	Finance Prairie State and working capital needs	9/1/17	Floating	\$35,000,000	\$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. The interest rate at June 30, 2014 was 1.524 %.

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.

(Continued)

**KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS**

Note 6 - Long-Term Indebtedness:

Bonds

The following revenue bonds have been issued:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Outstanding Amount 6/30/14</u>
9/20/07	Finance Prairie State and working capital needs	9/1/42	4.00-5.25%	\$291,065,000	\$290,440,000
9/20/07	Finance Prairie State and working capital needs	9/1/16	5.34-5.46%	16,645,000	12,820,000
5/27/10	Finance Prairie State and working capital needs	9/1/24	2.00-4.00%	53,600,000	50,235,000
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%	<u>7,725,000</u>	<u>6,735,000</u>
TOTALS				<u>\$491,440,000</u>	<u>\$482,635,000</u>

For the years ended June 30, 2014 and 2013, bonds payable totaling \$484,986,325 and \$493,925,706, are recorded net of \$(2,155,059) and \$(2,262,181) of unamortized bond discount and \$4,506,384 and \$4,747,887 of unamortized bond premium, respectively.

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

All revenues received by the Agency through Power Sales Agreements net of specified monthly project costs, in addition to all funds held by the Trustee under the terms of the bond agreement, are pledged as security of the above revenue bonds until the bonds are defeased. Total pledged funds for the years ended June 30, 2014 and 2013, as defined are \$53,731,661 and \$57,427,832, 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, 2014 and 2013, was \$26,254,364 and \$26,472,695, respectively.

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 6 - Long-Term Indebtedness:

Changes in Long-term Debt and Maturities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
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	<u>\$528,925,706</u>	<u>\$ -</u>	<u>\$ 8,939,381</u>	<u>\$519,986,325</u>	<u>\$ 9,135,000</u>

Long-term obligation activity for the year ended June 30, 2013, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$491,440,000	\$ -	\$ -	\$491,440,000	\$ 8,805,000
Bond anticipation notes	20,000,000	15,000,000	-	35,000,000	-
Unamortized debt discount	(2,369,303)	-	(107,121)	(2,262,181)	-
Unamortized debt premium	4,989,390	-	241,503	4,747,887	-
TOTALS	<u>\$514,060,087</u>	<u>\$ 15,000,000</u>	<u>\$ 134,382</u>	<u>\$528,925,706</u>	<u>\$ 8,805,000</u>

Total debt service to maturity:

<u>Maturities</u>	<u>Principal</u>	<u>Interest</u>	<u>Subsidized Interest</u>	<u>Total</u>
2015	\$ 9,135,000	\$ 25,510,689	\$ 2,716,877	\$ 31,928,812
2016	9,525,000	25,122,170	2,716,877	31,930,293
2017	11,615,000	24,658,912	2,716,877	33,557,035
2018	45,380,000	24,540,575	2,716,877	67,203,698
2019	10,845,000	23,715,737	2,716,877	31,843,860
2020-2024	62,870,000	109,942,785	13,584,384	159,228,401
2025-2029	80,025,000	91,127,682	13,349,604	157,803,078
2030-2034	100,800,000	65,942,179	10,319,407	156,422,772
2035-2039	114,935,000	34,267,643	5,393,620	143,809,023
2040-2044	72,505,000	7,862,794	508,759	79,859,035
TOTALS	<u>\$ 517,635,000</u>	<u>\$ 432,691,166</u>	<u>\$ 56,740,159</u>	<u>\$ 893,586,007</u>

(Continued)

**KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS**

Note 6 - Long-Term Indebtedness:

Bond Covenant Disclosures

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

Insurance

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

The Agency is covered under the following insurance policies at June 30, 2014:

<u>Type</u>	<u>Coverage</u>	<u>Expiration</u>
General & Public Officials Liability	\$10,000,000	January 17, 2015

Note 7 - Net Assets:

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

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

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

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

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

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

(Continued)

**KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS**

Note 7 - Net Assets:

	<u>2014</u>	<u>2013</u>
Property, plant, and equipment	\$ 453,158,404	\$ 454,226,543
Less accumulated depreciation	(23,208,840)	(11,201,999)
Working capital and collateral Prairie State	3,473,085	3,256,526
Construction work in progress	<u>5,080,105</u>	<u>575,244</u>
Sub-totals	<u>438,502,754</u>	<u>446,856,314</u>
Less: Capital related debt		
Bonds held by public	(482,635,000)	(491,440,000)
Bond anticipation notes	(35,000,000)	(35,000,000)
Unamortized bond issuance cost	5,423,217	5,668,826
Asset retirement obligation	(1,564,832)	(1,198,128)
Unamortized debt discount	2,155,059	2,262,181
Unamortized debt premium	<u>(4,506,384)</u>	<u>(4,747,887)</u>
Sub-totals	<u>(516,127,940)</u>	<u>(524,455,008)</u>
Add: Unspent debt proceeds		
Project fund	-	5,941,419
Reserve fund	37,089,284	36,486,841
Pledged collateral	<u>-</u>	<u>-</u>
Sub-totals	<u>37,089,284</u>	<u>42,428,260</u>
TOTAL NET ASSETS INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	<u>\$ (40,535,902)</u>	<u>\$ (35,170,434)</u>

Note 8 - Commitments and Contingencies:

Prairie State Energy Campus

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

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

Pursuant to the terms of the Project Development Agreement dated February 5, 2005, the Fee Agreement of the same date, and the AI Fee Agreement dated August 31, 2006, the Agency paid certain fees for the right to participate in the Prairie State Project and ultimately own its share of the coal reserves and other project assets at financial close. On June 19, 2007, the Agency executed, amended, and restated versions of the Project Development Agreement, the Fee Agreement, and the AI Fee Agreement. The amended

(Continued)

**KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS**

Note 8 - Commitments and Contingencies:

Prairie State Energy Campus

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 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 NextEra Energy Power Marketing, LLC on November 14, 2011. The price of the power purchased in these transactions was \$49.50/MWh for delivery to the Cinergy Hub of the Midwest Independent Transmission System Operator ("MISO"). 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 Cinergy Hub.

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

Under the Master Agreements for each of the above-referenced purchases, either party may call for collateral to be posted by the other when the calling party is "in the money" based on a mark-to-market calculation. The effect is that the Agency can be required to post collateral whenever the market value of

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 8 - Commitments and Contingencies:

Power Sales Agreement

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

The Agency has also procured from Macquarie Energy, LLC, formerly Integrys Energy Services, Inc., ("Macquarie") options to purchase certain 5 x 16 strips of power for the period December 2009 through December 2014. The options may be exercised on a day ahead basis at a price that is a certain dollar amount above a MISO index price. These options were acquired on June 9, 2008 and November 25, 2008. Due to power supply needs, the Agency exercised these options during fiscal year 2010. The Agency did not exercise these options during the fiscal years 2013 or 2014.

Claims and Judgments

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

Note 9 - Disclosures Regarding the Statement of Cash Flows:

Accounting Policy

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

The composition of cash and cash investments at June 30, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Cash and temporary cash investments	\$ 5,075,047	\$ 3,318,403
Restricted cash and short-term investments:		
Project and reserve funds and pledged collateral	<u>18,024,589</u>	<u>8,099,636</u>
TOTAL CASH AND CASH INVESTMENTS	<u>\$23,099,636</u>	<u>\$11,418,039</u>

Note 10 - Subsequent Events:

The Agency did not have any subsequent events through February 9, 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, 2014.

SUPPLEMENTARY INFORMATION

KENTUCKY MUNICIPAL POWER AGENCY
OPERATING EXPENSES
YEARS ENDED JUNE 30

General Operating Expenses:	<u>2014</u>	<u>2013</u>
Administrative and general:		
Payroll	\$ 872,489	\$ 959,370
Office supplies and expense	848,836	350,757
Outside services employment	1,535,355	528,585
Depreciation	12,006,840	10,560,650
Depletion	142,911	-
Insurance	378,845	268,866
Injuries and damages	115,383	116,609
General plant maintenance	<u>118,543</u>	<u>52,305</u>
 Total administrative and general	 <u>16,019,202</u>	 <u>12,837,142</u>
 TOTAL GENERAL OPERATING EXPENSES	 <u><u>\$16,019,202</u></u>	 <u><u>\$12,837,142</u></u>

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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, 2014, 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 February 9, 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.

William, Williams & Kentz LLP

Paducah, Kentucky
February 9, 2015

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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 nine-month periods ending March 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 \$8.4 million as of the nine-month period ending March 31, 2015 compared to the nine-month period ending March 31, 2014, which primarily was a result of capital asset depreciation and the use of surety bond proceeds to replace a portion of revenue related to member debt service. Total liabilities decreased by \$7.3 million from payment of maturing revenue bond principal. These events resulted in total net assets decreasing by \$1 million as of the period ending March 31, 2015 in comparison to the period ending March 31, 2014.
- The Agency had a reduction of net assets of \$1.1 million for the nine-month period ending March 31, 2015 relating to the issuance of surety bonds to replace debt service charges billed to members as compared to a positive change in net assets of \$109,000 for the nine-month period ending March 31, 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 Condensed Statements of Net Assets (Deficit) include all the Agency's assets and liabilities and provide information about the nature and amounts of investments and resources (assets) and the obligations to the Agency's creditors (liabilities). 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 Condensed Statements of Revenues, Expenses, and Changes in Net Assets (Deficit). These statements measure the success of the Agency's operations over the past year and can be used to determine whether the Agency has successfully recovered all its costs through its fees and other charges, and also assess the profitability and creditworthiness 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 revenue bonds issued in May 2010 (\$183.7 million), Bond Anticipation Notes issued during the 2013 and 2012 fiscal years (\$35 million) and the sale of electricity to Agency members.

**KENTUCKY MUNICIPAL POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Analysis of the Agency

The most common financial question posed to the Agency is “How did we do financially for the nine-month period ending March 31, 2014 as compared to the nine-month period ending March 31, 2015?” The Condensed Statements of Net Assets (Deficit) and the Condensed Statements of Revenues, Expenses, and Changes in Net Assets report information about the Agency’s activities in a way that will help answer this question. These two statements report the net assets of the Agency and the changes in them. One can think of the Agency’s net assets (deficit) – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Agency’s net assets are one indicator of whether the financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed governmental legislation. As the Agency 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 Assets (Deficit) is presented to Table B-1.

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

	YTD 03/31/15	YTD 03/31/14	2014-2015 Dollar Change
Current and other assets	\$ 74,985	\$ 73,539	\$ 1,446
Capital assets	<u>427,353</u>	<u>437,181</u>	<u>(9,828)</u>
Total assets	<u>502,338</u>	<u>510,720</u>	<u>(8,382)</u>
Revenue bonds	501,225	510,885	(9,660)
Other liabilities	<u>18,063</u>	<u>15,690</u>	<u>2,373</u>
Total liabilities	<u>519,288</u>	<u>526,575</u>	<u>(7,287)</u>
Invested in capital assets, net of related debt	(45,727)	(37,916)	(7,811)
Restricted	12,613	6,491	6,122
Unrestricted	<u>16,164</u>	<u>15,570</u>	<u>594</u>
Total Net Assets (Deficit)	<u>\$ (16,950)</u>	<u>\$ (15,855)</u>	<u>\$ (1,095)</u>

**KENTUCKY MUNICIPAL POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Analysis of the Agency

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

	YTD 03/31/15	YTD 03/31/14	2014-2015 Dollar Change
Operating revenue	\$ 59,678	\$ 51,221	\$ 8,457
Non-operating revenue	2,924	2,449	475
Total revenue	<u>62,602</u>	<u>53,670</u>	<u>8,932</u>
Other operating expense	44,163	33,713	10,450
Non-operating expense	<u>19,615</u>	<u>19,848</u>	<u>(233)</u>
Total expenses	<u>63,778</u>	<u>53,561</u>	<u>10,217</u>
Changes in net assets	(1,176)	109	(1,285)
Beginning net assets (deficit)	<u>(15,774)</u>	<u>(15,964)</u>	<u>190</u>
Ending net assets (deficit)	<u>\$ (16,950)</u>	<u>\$ (15,855)</u>	<u>\$ (1,095)</u>

While the Condensed Statements of Net Assets (Deficit) show net assets (deficit) of the Agency, the Condensed Statements of Revenues, Expenses, and Changes in Net Assets (Deficit) provide answers as to the nature and source of these changes. As illustrated in Table B-2, there was a negative change in net assets for the nine-month period ending March 31, 2015 as compared to a positive change in assets for the nine-month period ending March 31, 2014.

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 bond funds related to the Agency's 2007 and 2010 bond issues as well as income relating to the Agency's 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 \$1.9 million for each of the nine-month periods ending March 31, 2015 and 2014, respectively.

Other operating expenses increased for the nine-month period ending March 31, 2015 versus the same period ending March 31, 2014 due to increased purchase of electricity from the Prairie State Generation Campus.

**KENTUCKY MUNICIPAL POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

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 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 (\$2.5 million). This release of funds resulted in a negative effect on net assets in the financial statements.

Capital Assets

At March 31, 2015, the Agency had \$427 million invested in capital assets. There was a decrease in capital assets from 2014 to 2015 of \$9.8 million due to \$2.2 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 as of March 31, 2015 and March 31, 2014 is shown in Table B-3.

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

	YTD 2015	YTD 2014	2014-2015 Dollar Change
Construction in progress	\$ 2,693	\$ 5,430	\$ (2,737)
Property, plant, and equipment	\$ 456,893	\$ 451,956	\$ 4,937
Less accumulated depreciation	<u>\$ (32,234)</u>	<u>\$ (20,205)</u>	<u>\$ (12,029)</u>
Total capital assets	\$ 427,352	\$ 437,181	\$ (9,829)

Administration

The revenue bonds outstanding decreased to \$501 million as of March 31, 2015 compared to \$511 million as of March 31, 2014 as a result of 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 \$9.5 million in revenue bonds outstanding as a current liability for the nine-month period ending March 31, 2015 as it will pay bond holders this amount in principal on September 1, 2015.

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.

KENTUCKY MUNICIPAL POWER AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

Economic Factors and Other Information

Members Wholesale Power Contracts

Both Paducah Power System and Princeton Electric Plant Board were full requirements wholesale distribution customers of the Tennessee Valley Authority (TVA) 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.

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.

KENTUCKY MUNICIPAL POWER AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

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 the power costs of its members. These actions are a multi-faceted approach designed to provide members immediate rate relief in fiscal years 2015-2018 as well as other 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 Electric peaking plant to increase production with the new asset management.

The Agency 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 will provide \$22 million of cash which the Agency will use to reduce its principal obligations on the Agency's 2010 and 2007B revenue bonds. A reduction in principal of the outstanding Agency bonds should translate 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.

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.



Statements of Net Assets (Deficit)
Mar-15

	March 2015	March 2014
ASSETS		
CURRENT ASSETS		
Cash and investments	\$ 7,514,167	\$ 1,786,280
Accounts Receivable	762,305	760,947
Working Capital - PS	2,522,237	2,515,696
Other receivables	4,704,398	10,908,437
Inventory	3,070,415	3,049,066
Prepayments	211,476	4,530
Total Current Assets	18,784,988	19,028,916
NON-CURRENT ASSETS		
Restricted Assets		
Project fund	-	239,468
Principle and Interest Sinking Funds	13,479,695	7,254,662
Bond Reserve fund	28,917,226	37,069,399
Pledged collateral	2,638,363	2,515,381
Interest receivable	40,844	82,404
Total Restricted Assets	45,077,951	47,161,314
Capital Assets		
Construction work in progress	2,693,488	5,430,469
Property, plant, and equipment	456,693,325	451,956,102
Less Accumulated Depreciation	(32,234,154)	(20,205,297)
Net Capital Assets	427,552,659	437,181,274
Deferred Debits and other assets:		
Prairie State reserve funds	4,880,290	1,865,671
Unamortized debt issuance costs	5,542,725	5,484,619
Total deferred debits and other assets	10,223,016	7,350,190
Total Non-Current Assets	483,553,026	491,692,778
Total Assets	502,338,014	510,719,694
NET ASSETS AND LIABILITIES		
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	4,809,427	2,835,986
Bonds held by public current portion	9,625,000	9,135,000
Other Payables	1,573,781	1,635,448
Current Liabilities Payable from Restricted Assets		
Accrued interest payable	2,164,848	2,183,154
Total Current Liabilities	18,062,854	15,689,588
NON-CURRENT LIABILITIES		
Long-term debts:		
Bonds held by public	463,975,000	473,500,000
Bond anticipation notes	35,000,000	35,000,000
Unamortized debt discount	(2,074,717)	(2,181,839)
Unamortized debt premium	4,325,257	4,566,760
Total Non-Current Liabilities	501,225,540	510,884,921
Total Liabilities	519,288,394	526,574,509
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	(45,726,922)	(37,915,551)
Restricted	12,612,719	6,490,537
Unrestricted	15,163,823	15,670,188
TOTAL NET ASSETS (DEFICIT)	(16,950,380)	(15,854,816)



**CONSOLIDATED STATEMENTS OF REVENUE,
EXPENSES, AND CHANGES IN NET ASSETS**

	YTD 3/31/2015	YTD 3/31/2014
OPERATING REVENUES		
Service revenue	\$ 59,677,860	\$ 51,221,175
Total operating revenues	59,677,860	51,221,175
OPERATING EXPENSES		
Purchased power costs	31,975,274	21,765,851
General operating	12,188,045	11,947,683
Total Purchased power and operating expenses	44,163,319	33,713,533
OPERATING INCOME	15,514,541	17,507,682
NON-OPERATING EXPENSES AND (INCOME)		
Interest paid on indebtedness	(19,447,238)	(19,705,096)
Investment income	1,033,355	565,852
Federal BABs Subsidy	1,890,946	1,884,154
Net amortization discount and premium on debt	(167,613)	(143,327)
Total nonoperating revenues (expenses)	(16,690,549)	(17,398,618)
CHANGE IN NET ASSETS	(1,176,009)	109,244
NET ASSETS (DEFICIT), BEGINNING OF YEAR	(15,774,371)	(15,964,059)
NET ASSETS (DEFICIT), END OF YEAR	(16,950,380)	(15,854,816)



CONSOLIDATED STATEMENT OF CASH FLOWS

**YTD
3/31/2015**

**YTD
3/31/2014**

CASH FLOWS FROM OPERATING ACTIVITIES

RECEIPTS FROM CUSTOMERS	\$ 48,667,127	\$ 45,451,553
PAYMENTS TO SUPPLIERS	\$ (18,496,470.01)	\$ (23,491,307)
PAYMENTS TO EMPLOYEES	(681,566)	(625,986)
NET CASH USED BY OPERATING ACTIVITIES	29,489,091	21,334,260

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

CAPITAL EXPENDITURES	(6,046,479)	(3,160,028)
PROCEEDS FROM ISSUANCE OF LONG-TERM DEBT	-	-
PRINCIPAL PAYMENTS MADE ON BONDS	(9,135,000)	(8,805,000)
INTEREST PAYMENTS ON LONG-TERM DEBT	(25,510,689)	(25,844,306)
FEDERAL BUILD AMERICAL BOND SUBSIDY	2,519,903	2,544,269
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(38,172,264)	(35,265,065)

CASH FLOWS FROM INVESTING ACTIVITIES

PURCHASE OF INVESTMENTS	(35,044,358)	(21,496,558)
PROCEEDS FROM SALE OF INVESTMENTS	57,799,940	34,649,306
INVESTMENT INCOME	1,023,080	556,631
NET CASH PROVIDED BY INVESTING ACTIVITIES	23,778,662	13,709,379

NET INCREASE IN CASH AND CASH EQUIVALENTS	15,095,489	(221,426)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	23,099,636	11,418,039
CASH AND CASH EQUIVALENTS, END OF YEAR	38,195,125	11,196,613

RECONCILIATION OF OPERATING INCOME TO NET

CASH USED IN OPERATING ACTIVITIES

OPERATING INCOME	15,514,541	17,507,862
DEPRECIATION EXPENSE	9,081,474	9,003,297

ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET

CASH USED BY OPERATING ACTIVITIES

CHANGES IN OPERATING ASSETS AND LIABILITIES

ACCOUNTS RECEIVABLE	629,460	616,731
OTHER RECEIVABLES	3,430,947	(5,216,156)
PREPAID EXPENSES	(208,456)	(1,533)
OTHER ASSETS	(46,256)	(658,872)
ACCOUNTS PAYABLE	529,003	(254,389)
OTHER CURRENT AND ACCRUED LIABILITIES	558,378	337,321

NET CASH USED BY OPERATING ACTIVITIES	29,489,091	21,334,260
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SCHEDULE OF NONCASH FINANCING ACTIVITIES

AMORTIZATION OF BOND ISSUE AND DISCOUNT COSTS	167,613	143,327
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APPENDIX B

KENTUCKY MUNICIPAL POWER AGENCY POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2015B

**Audited Financial Statements of the Paducah Electric Plant Board
for Fiscal Years ended June 30, 2013 and 2014;
Unaudited Financial Statements
for the Nine-Month Periods Ended March 31, 2014 and 2015**

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

**FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013**

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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, 2014 and 2013, 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, 2014 and 2013, 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.

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 27 and 28 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 27 and 28 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 February 9, 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.



Paducah, Kentucky
February 9, 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, 2014. Comparisons are available on several financial and supplemental statements throughout this analysis.

FINANCIAL HIGHLIGHTS

- Electric sales increased by \$13.7 million or 21% over FY13 while the cost of purchased power increased by \$15.4 million or 37%.
- Miscellaneous Revenue increased by \$4.3 million or 194%.
- During FY14 Paducah Power System implemented a Power Cost Adjustment Clause in the retail rate structure as well as a 5% base rate increase in April 2014 as recommended by the Black & Veatch rate study completed in March, 2013.
- General Operating and Maintenance expenses increased by \$146 thousand or 1.7%.

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 and market purchases. In addition, PPS began generating a portion of the power requirements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

The financial statements of Paducah Power System are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and the principles established by the Federal Energy Regulatory Commission (FERC). The System applies all relevant Governmental Accounting Standards Board (GASB) pronouncements 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.

(Continued)

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

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

	<u>FY14</u>	<u>FY13</u>
Current assets	\$ 12,439,898	\$ 12,166,589
Non-current assets	26,629,373	22,908,911
Capital assets	<u>162,158,617</u>	<u>167,770,837</u>
Total assets	<u>201,227,888</u>	<u>202,846,337</u>
Current liabilities	18,765,808	15,530,343
Non-current liabilities	385,467	399,598
Long-term debt	<u>151,000,043</u>	<u>155,809,740</u>
Total liabilities	<u>170,151,318</u>	<u>171,739,681</u>
Invested in capital assets, net of related debt	6,213,574	6,326,097
Restricted for capital projects	-	-
Restricted for debt service	19,784,370	20,994,282
Unrestricted net assets	<u>5,078,626</u>	<u>3,786,277</u>
TOTAL NET ASSETS	<u>\$ 31,076,570</u>	<u>\$ 31,106,656</u>

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 \$273 thousand.

Cash decreased by \$1.4 million during FY14. This is primarily the result of higher power and the unbilled revenue to be recovered through the Power Cost Adjustment. FY14 receivables increased by \$2.1 million as a result of retail rate increases to customers. FY13 included a receivable from FEMA of \$365 thousand related to the 2009 Ice Storm which was received in FY14.

(Continued)

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

Non-current assets include restricted funds such as bond sinking funds, construction funds, and the Power Cost Adjustment balance which is defined as Other Regulatory assets by FERC. Bond sinking funds decreased during FY14 by \$311 thousand. The balance of the Power Cost Adjustment to be collected and reported as unbilled revenue at the end of FY14 was \$3.98 million.

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. FY14 also includes an investment of \$254 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.

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. The current portion of bonds payable decreased by \$690 thousand. PPS currently has a \$5 million line-of-credit with Regions Bank. The balance on the bank line-of-credit at year end was \$3 million which represents the majority of the increase in current liabilities over last fiscal year.

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

FY14 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 \$19.8 million. Unrestricted net assets increased by \$1.3 million. This change is directly related to the increase in non-current asset, specifically the power cost adjustment balance to be recovered in the first quarter of fiscal year 2015.

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

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

	<u>FY14</u>	<u>FY13</u>	<u>Change</u>	<u>% Change</u>
Electrical sales revenue	\$ 78,126,522	\$ 65,404,424	\$ 12,722,098	21.0%
Miscellaneous revenue	<u>6,551,376</u>	<u>2,224,767</u>	<u>4,326,609</u>	<u>194.5%</u>
Total operating revenue	<u>84,677,898</u>	<u>67,629,191</u>	<u>17,048,707</u>	<u>29.6%</u>
Purchased power cost	56,629,518	41,246,986	15,382,532	37.3%
General operating expense	7,254,708	7,167,898	86,810	1.2%
Generation plant expense	1,239,850	1,195,714	44,136	3.7%
Maintenance expense	1,438,592	1,379,719	58,873	4.3%
Other operating expense	10,811,174	10,727,728	83,446	0.8%
Non-operating expense	<u>7,334,142</u>	<u>7,618,268</u>	<u>(284,126)</u>	<u>(3.7)%</u>
Total expenses	<u>84,707,984</u>	<u>69,336,313</u>	<u>15,371,671</u>	<u>22.2%</u>
Changes in net position	(30,086)	(1,707,122)	\$ <u>1,677,036</u>	<u>98.2%</u>
Beginning net position	<u>31,106,656</u>	<u>32,813,778</u>		
ENDING NET POSITION	<u>\$ 31,076,570</u>	<u>\$ 31,106,656</u>		

(Continued)

PADUCAH POWER SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS

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 \$12.7 million. Total KWH sales were 2.4% less than FY13 but revenue increased by 21% due to the implementation of the Power Cost Adjustment clause in and a 5% base rate increase in April 2014. These rate actions were passed by the Board of Directors as recommended by the Black & Veatch rate study completed in March 2013. Purchased power cost increased by \$15.4 million from FY13. Revenue from 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 its power from the market. This price differential has averaged around \$9/MW. Additionally, PPS purchased some peaking power from the market versus self-generating due to favorable market conditions/prices.

Miscellaneous revenue increased by \$4.3 million over the FY13 figures. The balance of the Power Cost Adjustment accounted for \$3.9 million of the total increase. FiberNet services and late payment penalty revenue accounted for the remainder of the increase.

General operating expense increased by \$87 thousand or 1.2% over FY13. This was essentially less than inflationary increases.

Generation plant expenses were increased by \$44 thousand or 3.7% over FY13. \$58 thousand was an increase in fuel cost due to an increased amount of electricity generated from the gas-turbine units. This was partially offset by reductions in operating and maintenance expenses during the year.

Maintenance expense increased by \$59 thousand over the FY13 figures. This was essentially inflationary increases.

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

The decrease in non-operating expense is directly related to increases in interest income and reductions in interest expense on long-term debt.

CASH FLOWS

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

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

STATEMENTS OF CASH FLOWS

	<u>FY14</u>	<u>FY13</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ 78,847,580	\$ 67,373,236
Payments to suppliers	(63,867,617)	(48,825,107)
Payments to employees	<u>(3,468,479)</u>	<u>(3,427,351)</u>
Net cash provided (used) by operating activities	<u>11,511,484</u>	<u>15,120,778</u>

(Continued)

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

STATEMENTS OF CASH FLOWS

	<u>FY14</u>	<u>FY13</u>
Cash Flows from Capital and Related Financing Activities:		
Capital expenditures	\$ (3,410,518)	\$ (7,804,397)
Proceeds from issuance of long-term debt	-	-
Principal payments on long-term debt	(5,635,000)	(4,590,000)
Interest payments on long-term debt	(7,462,876)	(7,658,943)
Net borrowings on line of credit	3,000,000	-
Bond issuance cost	-	-
Conservation loans	4,689	8,769
Non-utility property and other assets	(161,075)	(15,651)
Net cash used by capital and related financing activities	<u>(13,664,780)</u>	<u>(20,060,222)</u>
Cash Flows from Investing Activities:		
Purchases of investments	-	(622)
Proceeds from investments	-	900,000
Investment income	362,982	271,045
Non-operating income	<u>33,910</u>	<u>45,666</u>
Net cash provided by investing activities	<u>396,892</u>	<u>1,216,089</u>
Net decrease in cash and cash equivalents	(1,756,404)	(3,723,355)
Cash and cash equivalents, beginning of year	<u>24,091,276</u>	<u>27,814,631</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 22,334,872</u>	<u>\$ 24,091,276</u>

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 higher cost of purchased power from KMPA in FY14. Electric plant capital expenditures are historically in the \$4 to \$5 million range per year. FY13 capital expenditures included cost of construction of a new substation in the Lone Oak community. FY14 capital expenditures were lower than historical averages due to cost savings measures implemented by PPS during the year as well as having no large capital projects projected for the fiscal year.

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 auditors report.

**BUDGET VERSUS ACTUAL
FY14**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>Percent</u>
Revenue:				
Electric sales	\$78,126,522	\$74,086,199	\$ 4,040,323	5.4%
Miscellaneous revenue	<u>6,551,376</u>	<u>2,222,407</u>	<u>4,328,969</u>	194.8%
Total operating revenue	<u>84,677,898</u>	<u>76,308,606</u>	<u>8,369,292</u>	11.0%

(Continued)

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

**BUDGET VERSUS ACTUAL
FY14**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>Percent</u>
Expenses:				
Purchased power cost	<u>\$56,629,518</u>	<u>\$42,921,300</u>	<u>\$13,708,218</u>	31.9%
Generation plant expense	<u>1,239,850</u>	<u>3,792,531</u>	<u>(2,552,681)</u>	-67.3%
General operating expense	7,254,708	7,288,307	(33,599)	-0.5%
Maintenance expense	1,438,592	1,404,099	34,493	2.5%
Other operating expense	10,811,174	10,886,644	(75,470)	-0.5%
Non-operating expense	<u>7,334,142</u>	<u>7,509,623</u>	<u>(175,481)</u>	-2.3%
Total expenses	<u>84,707,984</u>	<u>73,802,504</u>	<u>10,905,480</u>	14.8%
NET GAIN/(LOSS)	<u>\$ (30,086)</u>	<u>\$ 2,506,102</u>	<u>\$(2,536,188)</u>	<u>-101.2%</u>

Electric sales were 5.4% higher than the FY14 budget. KWh sales were 7.9% lower than budgeted but offset by implementation of the power cost adjustment which increased rates during the year. 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 increase in miscellaneous revenue is primarily due to \$3.9 million of accrued revenue in the power cost adjustment balance.

Purchased power was 31.9% over budget due to higher than forecasted power cost from KMPA. Revenue from 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 its power from the market. This price differential has averaged around \$9/MW.

Generation plant expense was much lower than budgeted due to PPS taking advantage of low market prices versus generating peaking energy during high usage periods throughout the year.

General operating, maintenance and other operating expenses have been in line with budget forecast. Non-operating expenses were slightly lower than budgeted due to interest income on investments being better than forecasted.

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 FY14.

(Continued)

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

**CAPITAL ASSETS
FY14**

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Land	\$ 2,636,229	\$ -	\$ -	\$ 2,636,229
Construction in progress	3,211,472	2,226,793	2,563,475	2,874,790
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	<u>110,631,286</u>	<u>30,702</u>	<u>-</u>	<u>110,661,988</u>
Total capital assets	222,978,384	7,075,075	4,824,699	225,228,760
Accumulated depreciation	<u>55,207,547</u>	<u>9,022,741</u>	<u>1,160,145</u>	<u>63,070,143</u>
NET CAPITAL ASSETS	<u>\$ 167,770,837</u>	<u>\$(1,947,666)</u>	<u>\$3,664,554</u>	<u>\$ 162,158,617</u>

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.

Paducah Power System maintains sinking funds in an amount determined by the bond covenants to cover future debt service payments. Following is a summary of debt service requirements for the 2009 and 2010 bond series.

(Continued)

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

	<u>Total Series</u>	<u>Series 2009A</u>	<u>Series 2009B</u>	<u>Series 2010</u>
Balance at June 30, 2013	\$164,250,000	\$159,240,000	\$2,970,000	\$2,040,000
Increases	-	-	-	-
Decreases	<u>5,635,000</u>	<u>2,165,000</u>	<u>2,970,000</u>	<u>500,000</u>
BALANCE AT JUNE 30, 2014	<u>\$158,615,000</u>	<u>\$ 157,075,000</u>	<u>\$ -</u>	<u>\$1,540,000</u>

<u>Maturities</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 4,945,000	\$ 7,333,923	\$ 12,278,923
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
2019-2038	<u>138,460,000</u>	<u>73,154,342</u>	<u>211,614,342</u>
TOTALS	<u>\$ 158,615,000</u>	<u>\$ 101,601,102</u>	<u>\$ 260,216,102</u>

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 have been 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 around \$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. KMPA also intends to advance refund all or a portion of its 2007A&B bond issue which is forecasted to also reduce 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)

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

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 and peak demand of 161MW.

Even with elevated purchased power cost, PPS was able to exceed its debt service coverage ratio bond covenant of 1.2 for fiscal year 2014.

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.

Following is a summary of the retail rate changes effective on June 30 of 2014 and 2013.

SUMMARY OF RETAIL RATES

	<u>June 2014</u> <u>Rate Tariff</u>	<u>June 2013</u> <u>Rate Tariff</u>
<u>Residential</u>		
Customer Charge	\$14.75	\$14.75
All KWH	\$0.11153	\$0.10560
Power Cost Adjustment	\$0.03570	\$0.00000
<u>Small Commercial</u>		
Customer Charge	\$22.00	\$22.00
All KWH	\$0.12217	\$0.11580
Power Cost Adjustment	\$0.03570	\$0.00000
<u>Mid-Sized Commercial</u>		
Customer Charge	\$115.00	\$115.00
1 st 15,000 KWH	\$0.11938	\$0.11470
Power Cost Adjustment (1 st 15,000)	\$0.03570	\$0.00000
Additional KWH	\$0.07495	\$0.07027
Power Cost Adjustment (Add KWH)	\$0.03570	\$0.00000
1 st 50 KW Demand	\$0.00	\$0.00
51 - 1,000 KW Demand	\$16.49	\$15.70
<u>Large Commercial</u>		
Customer Charge	\$275.00	\$275.00
All KWH	\$0.06736	\$0.06414
0 - 1,000 KW Demand	\$15.25	\$14.52
1,001 - 5,000 KW Demand	\$17.62	\$16.78
Power Cost Adjustment	\$0.03570	\$0.00000
<u>Industrial</u>		
Customer Charge	\$275.00	\$275.00
All KWH	\$0.05270	\$0.05006
All KW Demand	\$18.38	\$17.50
Power Cost Adjustment	\$0.03570	\$0.00000
<u>Outdoor Lighting</u>		
All KWH	\$0.08425	\$0.08024
Power Cost Adjustment	\$0.03570	\$0.00000
Customer Charge	Depends on type and size of light	

(Continued)

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

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

BASIC FINANCIAL STATEMENTS

**PADUCAH POWER SYSTEM
STATEMENTS OF NET POSITION
JUNE 30**

ASSETS

	2014	2013
Current Assets:		
Cash and temporary cash investments	\$ 1,727,434	\$ 3,096,994
Cash reserves	823,068	899,378
Accounts receivable - net of allowance for doubtful accounts of \$34,693 in 2014 and \$27,044 in 2013	8,240,041	6,092,799
Receivable from MuniNet Fiber Agency	32,252	32,252
Grants receivable	-	365,042
Materials and supplies	1,473,321	1,542,843
Prepaid expenses	16,030	14,462
Accrued interest receivable	29,226	25,476
Rent receivable	98,526	97,343
Total current assets	12,439,898	12,166,589
Noncurrent Assets:		
Restricted assets:		
Sinking Fund	19,784,370	20,094,904
Total restricted assets	19,784,370	20,094,904
Utility plant:		
Land	2,636,229	2,636,229
Transmission system	10,372,166	10,365,605
Distribution system	81,519,079	79,292,296
General plant	17,164,508	16,841,496
Generation plant	110,661,988	110,631,286
Construction work in progress	2,874,790	3,211,472
Less accumulated depreciation	(63,070,143)	(55,207,547)
Total utility plant	162,158,617	167,770,837
Deferred debits and other assets:		
Investment in CSA	26,740	26,740
Investment in SEDC	140,508	94,324
Investment in MuniNet Fiber Agency	253,720	146,930
Unamortized debt discount	2,396,110	2,528,964
Receivable for conservation		15,956
Other deferred debits	19,045	(32,038)
Unemployment Trust Fund	29,154	29,154
Other regulatory assets	3,976,727	-
Non-utility property	2,999	3,977
Total deferred debits and other assets	6,845,003	2,814,007
Total noncurrent assets	188,787,990	190,679,748
Total assets	201,227,888	202,846,337

See notes to financial statements.

LIABILITIES

	<u>2014</u>	<u>2013</u>
Current Liabilities:		
Accounts payable	\$ 6,308,307	\$ 5,242,373
Customer deposits	794,596	814,408
Accrued taxes and equivalents	1,024,117	1,094,667
Accrued interest	1,876,502	1,932,770
Other current and accrued liabilities	817,286	811,125
Line of credit	3,000,000	-
Bonds payable	4,945,000	5,635,000
Total current liabilities	<u>18,765,808</u>	<u>15,530,343</u>
Noncurrent Liabilities:		
Long-term debts:		
Bonds held by public	151,000,043	155,809,740
Deferred credits:		
Advances for conservation loans	15,220	23,865
Other deferred credits	370,247	375,733
Total noncurrent liabilities	<u>151,385,510</u>	<u>156,209,338</u>
Total liabilities	<u>170,151,318</u>	<u>171,739,681</u>

NET POSITION

Invested in capital assets, net of related debt	6,213,574	6,326,097
Restricted for:		
Capital projects	-	-
Debt service	19,784,370	20,994,282
Unrestricted - net position	5,078,626	3,786,277
TOTAL NET POSITION	<u>\$ 31,076,570</u>	<u>\$ 31,106,656</u>

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

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Charges for services:		
Residential	\$31,611,977	\$25,942,162
Large lighting and power	36,078,042	30,848,216
Small lighting and power	8,814,194	7,249,722
Street and outdoor	1,622,309	1,364,324
	<u>78,126,522</u>	<u>65,404,424</u>
Total charges for services		
Miscellaneous:		
Forfeited discounts	479,047	364,870
Service revenue	2,095,002	1,844,872
Regulatory credits	3,976,727	-
Other electric revenue	600	15,025
	<u>6,551,376</u>	<u>2,224,767</u>
Total miscellaneous		
Total operating revenues	<u>84,677,898</u>	<u>67,629,191</u>
Purchased Power and Operating Expenses:		
Purchased power cost	56,629,518	41,246,986
General operating expense	7,254,708	7,167,898
Generation plant expense	1,239,850	1,195,714
Maintenance expense	1,438,592	1,379,719
Other operating expense	10,811,174	10,727,728
	<u>77,373,842</u>	<u>61,718,045</u>
Total purchased power and operating expenses		
Operating income	<u>7,304,056</u>	<u>5,911,146</u>
Nonoperating Revenues (Expenses):		
Interest paid on indebtedness	(7,462,876)	(7,658,943)
Investment income	362,982	271,045
Net amortization discount and premium on debt	(268,158)	(276,036)
Nonoperating income	<u>33,910</u>	<u>45,666</u>
Total nonoperating revenues (expenses)	<u>(7,334,142)</u>	<u>(7,618,268)</u>
Change in net position	(30,086)	(1,707,122)
Net position, beginning of year	<u>31,106,656</u>	<u>32,813,778</u>
NET POSITION, END OF YEAR	<u>\$31,076,570</u>	<u>\$31,106,656</u>

See notes to financial statements.

**PADUCAH POWER SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30**

	2014	2013
Cash Flows from Operating Activities:		
Receipts from customers	\$ 78,847,580	\$ 67,373,236
Payments to suppliers	(62,604,598)	(47,347,684)
Payments to employees	(4,731,498)	(4,904,774)
Net cash provided by operating activities	<u>11,511,484</u>	<u>15,120,778</u>
Cash Flows from Capital and Related Financing Activities:		
Capital expenditures	(3,410,518)	(7,804,397)
Principal payments on long-term debt	(5,635,000)	(4,590,000)
Interest payments on long-term debt	(7,462,876)	(7,658,943)
Net borrowings on line of credit	3,000,000	-
Conservation loans	4,689	8,769
Non-utility property and other assets	(161,075)	(15,651)
Net cash used by capital and related financing activities	<u>(13,664,780)</u>	<u>(20,060,222)</u>
Cash Flows from Investing Activities:		
Purchases of investments	-	(622)
Proceeds from investments	-	900,000
Investment income	362,982	271,045
Non-operating income	33,910	45,666
Net cash provided by investing activities	<u>396,892</u>	<u>1,216,089</u>
Net decrease in cash and cash equivalents	(1,756,404)	(3,723,355)
Cash and cash equivalents, beginning of year	<u>24,091,276</u>	<u>27,814,631</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 22,334,872</u></u>	<u><u>\$ 24,091,276</u></u>

(Continued)

**PADUCAH POWER SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30**

	<u>2014</u>	<u>2013</u>
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities:		
Operating income	\$ 7,304,056	\$ 5,911,146
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	9,022,741	8,712,961
Provision for losses on accounts receivable	7,649	102
Changes in operating assets and liabilities:		
Accounts receivable	(1,785,412)	(355,240)
Net change in regulatory asset	(3,976,727)	
Interest receivable	(3,750)	(3,622)
Materials and supplies	69,523	27,842
Prepaid expenses	(1,568)	27,474
Rent receivable	(1,183)	-
Deferred credits	6,161	(4,098)
Accounts payable	1,065,928	616,136
Customer deposits	(19,812)	(27,835)
Accrued taxes and equivalents	(70,551)	(145,609)
Accrued interest payable	(56,268)	(45,942)
Other current and accrued liabilities	1,780	276,823
Deferred debit	(51,083)	130,640
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 11,511,484</u></u>	<u><u>\$ 15,120,778</u></u>
Supplemental Disclosure of Noncash Financing Activities:		
Amortization of bond issue and discount costs	<u><u>\$ 268,158</u></u>	<u><u>\$ 276,036</u></u>
Supplemental Disclosure of Cash Paid For:		
Interest	<u><u>\$ 7,519,144</u></u>	<u><u>\$ 7,704,885</u></u>

See notes to financial statements.

**PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Summary of Significant Accounting Policies:

Entity

The Electric Plant Board of the City of Paducah, Kentucky, d/b/a Paducah Power System (the System) is a municipal electric corporation organized and existing pursuant to the Little TVA Act, KRS 96.550-96-901. The System is governed by a five-person board, the members of which are appointed by the mayor subject to the approval of the city commission of Paducah, Kentucky. The System provides electrical service to consumers within the city limits of Paducah, Kentucky, and portions of McCracken County, Kentucky, beyond the city limits. The System maintains its records in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. As the System is a distinct corporate entity from the City of Paducah, Kentucky, the accompanying financial statements present only the financial position, results of operations, and cash flows of the System.

The financial statements of Paducah Power System are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and the principles established by the Federal Energy Regulatory Commission (FERC). The System applies all relevant Governmental Accounting Standards Board (GASB) pronouncements 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.

Utility Plant

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

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

(Continued)

**PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Summary of Significant Accounting Policies:

Utility Plant

The original cost of limited life property, less estimated net salvage, is depreciated by the straight-line method over the estimated useful service lives using composite rates developed from depreciation studies by the Tennessee Valley Authority. Annual depreciation rates range from 2% to 20%.

Other Property and Investments

A sinking fund is maintained with the bond paying agent to meet current interest and principal requirements. Bond discount and issue costs are amortized over the term of the bond using the straight-line method. Other funds are invested and utilized for specific purposes. The utilization of these funds is restricted in accordance with various bond covenants.

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, 2014 and 2013, receivables of \$220,918 and \$55,179 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. Invested in capital assets, net of related debt - 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)

**PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Summary of Significant Accounting Policies:

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

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.

Concentration of Credit Risk

The System's accounts receivable result primarily from credit extended to residents and businesses in its service area in Paducah, Kentucky. The System has experienced losses on such accounts and, accordingly, maintains an allowance for doubtful accounts. This balance is maintained at a level considered appropriate by management based on historical industrial trends.

Note 2 - Deposits and Investments:

The investment policies of the System are governed by the State statute. In general, this requires that all deposits and investments, not covered by FDIC insurance, are to be collateralized. For the years ended June 30, 2014 and 2013, 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 \$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.

The financial institution balances of the System's deposits were \$24,040,471 for the year ended June 30, 2013. The book balance was \$24,091,277 including \$2,900 of petty cash. Of the various financial institution balances at June 30, 2013, \$1,149,378 was insured by federal depository insurance, and the remaining balance of \$22,891,093 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 \$22,891,093 was uninsured and collateralized by U.S. Treasury pooled investments not held in the System's name.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 2 - Deposits and Investments:

Investments

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

Restricted Investments:	<u>2014</u>	<u>2013</u>
Sinking Fund:		
Money Market Fund	\$19,784,370	\$20,094,904
Total sinking fund	<u>19,784,370</u>	<u>20,094,904</u>
 TOTAL RESTRICTED INVESTMENTS	 <u>\$19,784,370</u>	 <u>\$20,094,904</u>

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 2014 and 2013, the System invested \$106,790 and \$24,513, respectively, as a member in MuniNet Fiber Agency and this combined amount of \$253,720 is reflected as an investment on the System's Statement of Net Position at June 30, 2014. The System purchases inventory for MuniNet Fiber Agency and bills for the inventory when it is used. The receivable from MuniNet Fiber Agency was \$0 and \$0 as of June 30, 2014 and 2013, respectively.

Note 3 - Capital Assets:

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 2,636,229	\$ -	\$ -	\$ 2,636,229
Construction in progress	<u>3,211,472</u>	<u>2,226,793</u>	<u>2,563,475</u>	<u>2,874,790</u>
Total capital assets not being depreciated	<u>5,847,701</u>	<u>2,226,793</u>	<u>2,563,475</u>	<u>5,510,019</u>
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	<u>110,631,286</u>	<u>30,702</u>	<u>-</u>	<u>110,661,988</u>
Total capital assets being depreciated	217,130,683	4,848,282	2,261,224	219,717,741
Less accumulated depreciation	<u>55,207,547</u>	<u>9,022,741</u>	<u>1,160,145</u>	<u>63,070,143</u>
Total capital assets being depreciated, net	<u>161,923,136</u>	<u>(4,174,459)</u>	<u>1,101,079</u>	<u>156,647,598</u>
TOTAL CAPITAL ASSETS, NET	<u>\$ 167,770,837</u>	<u>\$(1,947,666)</u>	<u>\$3,664,544</u>	<u>\$ 162,158,617</u>

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

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 3 - Capital Assets:

Capital assets activity for the year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 2,611,629	\$ 24,600	\$ -	\$ 2,636,229
Construction in progress	5,915,561	-	2,704,089	3,211,472
Total capital assets not being depreciated	8,527,190	24,600	2,704,089	5,847,701
Capital Assets Being Depreciated:				
Transmission system	8,314,588	2,052,497	1,480	10,365,605
Distribution system	73,800,089	6,051,511	559,304	79,292,296
General plant	15,705,629	1,807,433	671,566	16,841,496
Generation plant	110,365,697	265,589	-	110,631,286
Total capital assets being depreciated	208,186,003	10,177,030	1,232,350	217,130,683
Less accumulated depreciation	48,016,771	8,387,534	1,196,758	55,207,547
Total capital assets being depreciated, net	160,169,232	1,789,496	35,592	161,923,136
TOTAL CAPITAL ASSETS, NET	\$ 168,696,422	\$ 1,814,096	\$ 2,739,681	\$ 167,770,837

Depreciation expense totaled \$8,712,961 for the fiscal year ended June 30, 2013.

Note 4 - Accounts Payable:

The elements comprising accounts payable are as follows:

	<u>2014</u>	<u>2013</u>
Due KMPA for purchased power	\$5,352,274	\$3,969,231
Accounts payable, general	956,033	1,273,142
TOTAL ACCOUNTS PAYABLE	\$6,308,307	\$5,242,373

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)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 5 - Long-Term Indebtedness:

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:

	<u>Total Series</u>	<u>Series 1998</u>	<u>Series 2001</u>	<u>Series 2009A</u>	<u>Series 2009B</u>	<u>Series 2010</u>
Balance at						
June 30, 2012	\$ 168,840,000	\$ -	\$ -	\$ 160,505,000	\$5,805,000	\$2,530,000
Increases						
Decreases	<u>4,590,000</u>	<u>-</u>	<u>-</u>	<u>1,265,000</u>	<u>2,835,000</u>	<u>490,000</u>
BALANCE AT						
JUNE 30, 2013	<u>\$ 164,250,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 159,240,000</u>	<u>\$2,970,000</u>	<u>\$2,040,000</u>
Balance at						
June 30, 2013	\$164,250,000	\$ -	\$ -	\$ 159,240,000	\$2,970,000	\$2,040,000
Increases						
Decreases	<u>5,635,000</u>	<u>-</u>	<u>-</u>	<u>2,165,000</u>	<u>2,970,000</u>	<u>500,000</u>
BALANCE AT						
JUNE 30, 2014	<u>\$ 158,615,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 157,075,000</u>	<u>\$ -</u>	<u>\$1,540,000</u>

Total bond service to maturity:

<u>Maturities</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 4,945,000	\$ 7,333,923	\$ 12,278,923
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
2019-2023	27,325,000	31,445,176	58,770,176
2024-2028	34,305,000	24,474,941	58,779,941
2029-2033	44,180,000	14,601,613	58,781,613
2034-2038	<u>32,650,000</u>	<u>2,632,613</u>	<u>35,282,613</u>
TOTALS	<u>\$ 158,615,000</u>	<u>\$ 101,601,102</u>	<u>\$ 260,216,102</u>

For the years ended June 30, 2014 and 2013, bonds payable totaling \$155,945,043 and \$161,444,740, respectively, are recorded net of \$2,669,957 and \$2,805,260, respectively, in unamortized bond discount and advance refunding deferred charges.

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.

(Continued)

**PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

Note 7 - Pension Plan:

The System participates in the County Employee's Retirement System (CERS), a cost-sharing multiple-employer defined benefit plan. If an employee elects to participate in the CERS, the contributions to the Employee Pension Plan are reduced by the amount required to be contributed to the CERS. The Plan provides retirement and disability benefits, cost of living adjustments, and death benefits to plan members and beneficiaries. The Kentucky Revised Statutes provided for the establishment of the system and benefit amendments are authorized by the State legislature. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by calling 1-502-564-4646.

Fund Policies

Plan members of CERS are required to contribute 5.00% of their annual covered salary if hired before January 2009, and plan members hired after January 2009 are required to contribute 6% of their annual covered salary. The System provided a contribution rate of 18.89%, 19.55%, and 18.96% of the plan member's salary for the years ended June 30, 2014, 2013, and 2012, respectively. These actuarially determined rates are established and amended by the respective Board of Trustees of the systems and were equal to the required contributions for the year. The contribution requirements and the amounts contributed to CERS by the System were \$870,322, \$935,618, and \$1,143,320 for the years ended June 30, 2014, 2013, and 2012, respectively.

Note 8 - Post Retirement Healthcare Benefits:

In addition to the pension benefits described in Note 7, the System provides post-retirement healthcare benefits to employees who retired prior to the System's participation in the County Employee's Retirement System. The System pays 50% of the premiums for the employees for life. These benefits are financed on a pay-as-you-go basis.

For the year ended June 30, 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.

For the year ended June 30, 2012, eight prior employees were receiving healthcare benefits. Post-retirement healthcare benefits totaled approximately \$15,000 for the year ended June 30, 2012.

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 \$107,800 and \$106,587, and rental income was \$1,707,532 and \$1,474,622 for the fiscal years ended June 30, 2014 and 2013, 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.

(Continued)

**PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

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 deferred assets and credits. 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 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

(Continued)

**PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

Note 13 - Joint Venture:

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 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 is scheduled to come on-line in December 2012.

The System began buying purchased power from KMPA in December 2009. The System purchased power from KMPA in the amounts of \$56,360,666 and \$41,002,885 during the fiscal years ending June 30, 2014 and 2013, respectively. Of these amounts, \$5,352,273 and \$4,435,383 were payable to KMPA as of June 30, 2014 and 2013, respectively. The System also had a receivable due from KMPA as of June 30, 2014, for refunds and other credits related to purchased power in the amount of \$14,490; there was a receivable due from KMPA as of June 30, 2013 in the amount of \$ 15,029.

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, 2014. Complete financial statements for KMPA can be obtained from Paducah Power's Accounting Department, P.O. Box 180, Paducah, Kentucky 42002-0180.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

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, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Cash and temporary cash investments	\$ 2,550,502	\$ 3,096,994
Restricted cash and short-term investments:		
Sinking and Depreciation Funds	<u>19,784,370</u>	<u>20,994,282</u>
TOTAL CASH AND CASH INVESTMENTS	<u>\$ 22,384,872</u>	<u>\$ 24,091,276</u>

Note 15 - Subsequent Events:

The System did not have any subsequent events through February 9, 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, 2014.

Note 16 - Change in Accounting Standards:

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which amends GASB statement No. 27. It addresses several issues regarding public pension plans, liabilities reported pertaining to unfunded portions of those plans, and the disclosure requirements. GASB Statement No. 68 will be effective for the system for the calendar year beginning July 1, 2014. The effects it will have on the system have yet to be determined.

SUPPLEMENTARY INFORMATION

**PADUCAH POWER SYSTEM
OPERATING EXPENSES
YEARS ENDED JUNE 30**

General Operating Expenses:	2014	2013
Transmission:		
Supervision and engineering	\$ 10,448	\$ 9,525
Rent	7,078	6,123
Total transmission	<u>17,526</u>	<u>15,648</u>
Distribution expense:		
Supervision and engineering	206,701	196,688
Station expense	68,298	52,362
Overhead line expense	116,225	137,756
Underground line expense	95,715	120,518
Street lighting and signal expense	54,840	79,532
Meter expense	483,582	463,693
Customer installations expense	174,189	174,275
Miscellaneous	702,080	738,857
Rent/lease/purchase	107,800	106,587
Total distribution expense	<u>2,009,430</u>	<u>2,070,268</u>
Customer account expense:		
Meter reading expense	206,207	209,749
Customer records and collections	1,221,990	1,237,157
Uncollectible accounts	345,350	174,739
Total customer account expense	<u>1,773,547</u>	<u>1,621,645</u>
Sales expense:		
Demonstration and selling	232,529	245,781
Advertising	74,344	70,682
Total sales expense	<u>306,873</u>	<u>316,463</u>
Administrative and general:		
Salaries	836,826	798,360
Office supplies and expense	634,286	534,805
Outside services employment	496,592	584,498
Property insurance	530,017	505,356
Company use of electricity	(225,103)	(215,905)
Miscellaneous and general expense	874,714	936,760
Total administrative and general	<u>3,147,332</u>	<u>3,143,874</u>
TOTAL GENERAL OPERATING EXPENSES	<u><u>\$ 7,254,708</u></u>	<u><u>\$ 7,167,898</u></u>

(Continued)

**PADUCAH POWER SYSTEM
OPERATING EXPENSES
YEARS ENDED JUNE 30**

	2014	2013
Generation Plant Expense:		
Generation expense	\$ 838,426	\$ 851,877
Generation fuel	401,424	343,837
TOTAL GENERATION PLANT EXPENSE	<u>\$ 1,239,850</u>	<u>\$ 1,195,714</u>
Maintenance Expense:		
Transmission:		
Supervision and engineering	\$ 10,031	\$ 9,525
Total transmission	<u>10,031</u>	<u>9,525</u>
Distribution:		
Supervision and engineering	44,713	41,998
Maintenance of station equipment	375,281	294,071
Maintenance of overhead lines	734,031	699,488
Maintenance of underground lines	54,374	35,844
Maintenance of line transformers	50,526	46,731
Street lighting and signals	1,080	748
Maintenance of meters	20,382	21,092
Maintenance of miscellaneous plant	853	719
Total distribution	<u>1,281,240</u>	<u>1,140,691</u>
Administrative and general	<u>147,321</u>	<u>229,503</u>
TOTAL MAINTENANCE EXPENSE	<u>\$ 1,438,592</u>	<u>\$ 1,379,719</u>
Other Operating Expenses:		
Depreciation	\$ 8,843,428	\$ 8,547,993
Taxes and equivalents	1,967,746	2,179,735
TOTAL OTHER OPERATING EXPENSES	<u>\$10,811,174</u>	<u>\$10,727,728</u>

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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 Members of the Electric Plant Board
of the City of Paducah
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 Paducah Power System as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Paducah Power System's basic financial statements, and have issued our report thereon dated February 9, 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 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 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 / [Signature]

Paducah, Kentucky
February 9, 2015

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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 nine months ending March 31, 2015. Comparisons are available on several financial and supplemental statements throughout this analysis.

FINANCIAL HIGHLIGHTS

- The uncollected Power Cost Adjustment Balance decreased from \$3.5M compared to March 2014.
- Current Liabilities decreased by \$8.5M compared to March 2014.
- Purchased Power cost is decreased by \$4.6M.

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 six 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 six months ended December 31

	<u>FY15</u>	<u>FY14</u>
Current assets	\$ 14,053,917	\$ 14,783,978
Non-current assets	17,156,675	20,324,015
Deferred debits & other assets	5,366,828	8,210,909
Capital assets	<u>157,999,600</u>	<u>163,579,501</u>
Total assets	<u>194,577,020</u>	<u>206,898,403</u>
Current liabilities	15,391,461	23,848,783
Non-current liabilities	432,231	443,802
Long-term debt	<u>145,999,551</u>	<u>150,966,874</u>
Total liabilities	<u>161,823,243</u>	<u>175,259,459</u>
Invested in capital assets, net of related debt	6,900,049	7,667,627
Restricted for capital projects	-	-
Restricted for debt service	17,156,675	20,324,014
Unrestricted net assets	<u>8,697,053</u>	<u>3,647,303</u>
TOTAL NET ASSETS	<u>\$ 32,753,777</u>	<u>\$ 31,638,944</u>

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 decreased by \$730 thousand.

Cash and Cash Reserves increased by \$197 thousand during the first nine months of FY15 compared to FY14. Materials and Supplies (Inventory) decreased by \$229 thousand and Accounts Receivable decreased by \$660 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 \$3.2 million.

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 \$3.5 million as these cost were recovered through the retail rates charged during the first six months.

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 \$8.5 million. Accounts payable decreased by \$6.5 million as last March included two months power invoices from KMPA. The current portion of bonds payable increased by \$155 thousand. PPS currently has \$1 million outstanding on a bank line-of-credit with Regions Bank, which is reduced from \$3 million outstanding in March, 2014.

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

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. Unrestricted net assets increased by \$5 million.

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

For six months ended December 31

	<u>FY15</u>	<u>FY14</u>	<u>Change</u>	<u>% Change</u>
Electrical sales revenue	\$61,506,622	\$56,969,191	\$ 4,537,431	7.96%
Miscellaneous revenue	<u>(12,756)</u>	<u>7,288,422</u>	<u>(7,301,178)</u>	<u>-100.2%</u>
Total operating revenue	<u>61,493,866</u>	<u>64,257,613</u>	<u>(2,763,747)</u>	<u>-4.30%</u>
Purchased power cost	38,244,004	42,865,345	(4,621,341)	-10.8%
General operating expense	5,796,236	5,203,419	592,817	11.4%
Generation plant expense	1,112,655	995,596	117,059	11.8%
Maintenance expense	989,838	1,069,580	(79,742)	-8.1%
Other operating expense	8,126,635	8,079,335	47,300	0.6%
Non-operating expense	<u>5,547,291</u>	<u>5,512,048</u>	<u>35,244</u>	<u>0.6%</u>
Total expenses	<u>59,816,659</u>	<u>63,725,323</u>	<u>(3,908,664)</u>	<u>-6.1%</u>
Changes in net position	<u>1,677,207</u>	<u>532,290</u>	<u>\$ 1,144,917</u>	
Beginning net position	<u>31,076,570</u>	<u>31,106,654</u>		
ENDING NET POSITION	<u>\$32,753,777</u>	<u>\$31,638,944</u>		

Paducah Power System's electric sales revenue increased by \$11.6 million with the inclusion of the power cost adjustment clause that was first added to consumer bills November 2013. Additionally, a 5% base rate increase occurred in April 2014 as recommended by the Black & Veatch rate study completed in March, 2012. Miscellaneous revenue is decreased due to the little change in the Power Cost Adjustment balance. Purchased power cost decreased over last year by \$4.6 million

General operating expense increased by \$593 thousand. Bad debt increased reflecting the increase in retail electric rates. FiberNet expenses were increased due to outside service contracts for various activities. Additionally, professional services and consulting expenses were increased over last fiscal year including cost of interim General Manager, Mark Crisson and Assured Guarantee Surety Bond fees.

Generation plant expenses were decreased by \$117 thousand or 11% over last December. Fuel cost increased as the amount of energy generated from the peaking plant increased over last year.

Maintenance expense decreased by \$80 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 but offset by reductions in interest expense on long-term debt.

CASH FLOWS

STATEMENTS OF CASH For Six Months Ended December 31

	FY15	FY14
Receipts from customers	\$ 65,790,520	\$ 58,610,901
Net cash provided (used) by operating activities	<u>14,929,890</u>	<u>11,148,098</u>
Cash Flows from Capital and Related Financing Activities:		
Capital expenditures	(2,646,606)	(2,567,282)
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	(3,743,358)	(3,810,834)
Net borrowings on line of credit	(2,000,000)	3,000,000
Surety Bond Fee	(556,349)	-
Conservation loans	(1,073)	(7,366)
Net cash used by capital and related financing activities	<u>(13,891,653)</u>	<u>(9,019,748)</u>
Cash Flows from Investing Activities:		
Purchases of investments	\$ (82,141)	\$ (77,169)
Proceeds from investments	-	-
Investment income	168,978	281,583
Non-operating income	<u>8,677</u>	<u>14,685</u>
Net cash provided by investing activities	<u>95,514</u>	<u>219,099</u>
Net increase in cash and cash equivalents	1,133,751	2,347,449
Cash and cash equivalents, beginning of year	<u>22,334,872</u>	<u>24,091,277</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 23,468,623</u>	<u>\$ 26,438,726</u>

Receipts from customers increased with the implementation of the power cost adjustment and a 5% base rate increase in April 2014. The change in payments to suppliers reflects two months outstanding invoices to KMPA in FY14 versus one month in FY15. Electric plant capital expenditures are historically in the \$4 to \$5 million range per year. FY14 and FY15 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 \$2 million towards the line-of-credit reducing the outstanding balance to \$1 million.

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 2013. 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 have been 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 its 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. 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. KMPA also issued bonds to advance refund a portion of its 2007A&B bond issue which will reduce debt service cost billed to Paducah over the next five and a half years. Reductions in KMPA debt service and improved performance from Prairie State are realized as reductions in power cost to its members including PPS. All of these action items were planned and accomplished during the second six months of the year.

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 and an all time peak demand of 161MW.

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.

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 NINE MONTHS ENDED MARCH 31

ASSETS

Current Assets:	2015	2014
Cash and temporary cash investments	\$ 2,869,141	\$ 6,114,711
Cash reserves	3,442,808	0
Accounts receivable - net of allowance for doubtful accounts of \$36,111 in 2015 and \$32,421 in 2014	6,092,524	6,752,759
Receivable from MuniNet Fiber Agency	32,252	32,252
Grants receivable	-	-
Materials and supplies	1,388,230	1,617,434
Prepaid expenses	173,950	191,994
Accrued interest receivable	5,749	25,565
Rent receivable	49,263	49,263
Total current assets	14,053,917	14,783,978
Noncurrent Assets:		
Restricted assets:		
Sinking Fund	17,156,675	20,324,014
Total restricted assets	17,156,675	20,324,014
Utility Plant:		
Land	2,636,229	2,636,229
Transmission system	10,372,950	10,373,066
Distribution system	84,206,042	81,050,069
General plant	17,736,150	17,111,474
Generation plant	110,661,988	110,661,988
Construction work in progress	1,521,463	2,990,006
Less accumulated depreciation	(69,135,220)	(61,243,330)
Total utility plant	157,999,600	163,579,501
Deferred debits and other assets:		
Investment in CSA	26,740	26,740
Investment in SEDC	159,422	140,508
Investment in MuniNet Fiber Agency	316,947	177,915
Unamortized debt discount	2,848,331	2,429,323
Other deferred debits	89,426	16,106
Unemployment trust fund	29,154	29,154
Other regulatory assets (PCA)	1,894,543	5,387,918
Non-utility property	2,265	3,244
Total deferred debits and other assets	5,366,829	8,210,909
Total noncurrent assets	180,523,103	192,114,424
Total assets	194,577,020	206,898,403

LIABILITIES

	2015	2014
Current Liabilities:		
Accounts payable	\$ 3,633,190	\$ 10,178,629
Customer deposits	812,286	786,496
Accrued taxes and equivalents	481,434	512,074
Accrued interest	3,654,454	3,728,477
Other current and accrued liabilities	710,097	698,107
Line of credit	1,000,000	3,000,000
Bonds payable	<u>5,100,000</u>	<u>4,945,000</u>
Total current liabilities	<u>15,391,461</u>	<u>23,848,783</u>
Noncurrent Liabilities:		
Long-term debts:		
Bonds held by public	145,999,551	150,966,874
Deferred credits:		
Advances for conservation loans	14,147	16,500
Other deferred credits	<u>418,083</u>	<u>427,302</u>
Total noncurrent liabilities	<u>146,431,782</u>	<u>151,410,676</u>
Total liabilities	<u>161,823,243</u>	<u>175,259,459</u>

NET POSITION

Invested in capital assets, net of related debt	6,900,049	7,667,627
Restricted for:		
Capital projects	-	-
Debt service	17,156,675	20,324,014
Unrestricted - net position	<u>8,697,054</u>	<u>3,647,302</u>
TOTAL NET POSITION	<u>\$ 32,753,777</u>	<u>\$ 31,638,944</u>

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

Operating Revenues:	2015	2014
Charges for services:		
Residential	\$ 25,230,389	\$ 24,045,314
Large lighting and power	27,993,901	25,357,155
Small lighting and power	7,011,511	6,406,092
Street and outdoor	1,270,822	1,160,630
Total charges for services	<u>61,506,622</u>	<u>56,969,191</u>
Miscellaneous:		
Forfeited discounts	380,134	369,753
Service revenue	1,688,844	1,530,301
Regulatory credits (PCA)	(2,082,184)	5,387,918
Other electric revenue	450	450
Total miscellaneous	<u>(12,756)</u>	<u>7,288,422</u>
Total Operating revenues	<u>61,493,866</u>	<u>64,257,613</u>
Purchased Power and Operating Expenses:		
Purchased power cost	38,244,004	42,865,345
General operating expense	5,796,236	5,203,419
Generation plant expense	1,112,655	995,596
Maintenance expense	989,838	1,069,580
Other operating expense	<u>8,126,635</u>	<u>8,079,335</u>
Total purchased power and operating expenses	<u>54,269,367</u>	<u>58,213,275</u>
Operating income (loss)	<u>7,224,499</u>	<u>6,044,338</u>
Nonoperating Revenues (Expenses):		
Interest paid on indebtedness	(5,521,311)	(5,606,541)
Investment income	168,978	281,583
Net amortization discount and premium on debt	(203,636)	(201,775)
Donations	(10,000)	-
Nonoperating income	<u>18,677</u>	<u>14,685</u>
Total nonoperating revenues (expenses)	<u>(5,547,292)</u>	<u>(5,512,048)</u>
Change in net position	1,677,207	532,290
Net position, beginning of fiscal year	<u>31,076,570</u>	<u>31,106,654</u>
NET POSITION, END OF YEAR	<u>\$ 32,753,777</u>	<u>\$ 31,638,944</u>

PADUCAH POWER SYSTEM
INTERIM OPERATING EXPENSES
FOR THE NINE MONTHS ENDED MARCH 31

General Operating Expenses:	2015	2014
Transmission:		
Supervision and engineering	\$ 7,829	\$ 8,227
Rent	5,322	5,878
Total transmission	<u>13,150</u>	<u>14,105</u>
Distribution expense:		
Supervision and engineering	154,801	152,902
Station expense	58,128	50,148
Overhead line expense	85,882	88,166
Underground line expense	71,752	67,836
Street lighting and signal expense	33,584	34,984
Meter expense	365,441	360,520
Customer installations expense	112,458	135,483
Miscellaneous	539,327	529,203
Rent/lease/purchase	80,087	81,104
Total distribution expense	<u>1,501,459</u>	<u>1,500,346</u>
Customer account expense:		
Meter reading expense	142,895	163,011
Customer records and collections	977,083	910,856
Uncollectible accounts	262,862	166,099
Total customer account expense	<u>1,382,840</u>	<u>1,239,967</u>
Sales expense:		
Demonstration and selling	225,963	169,115
Advertising	85,752	62,461
Total sales expense	<u>311,715</u>	<u>231,577</u>
Administrative and general:		
Salaries	523,911	622,720
Office supplies and expense	447,914	446,363
Outside services employment	597,684	390,466
Property insurance	387,805	397,412
Company use of electricity	(178,768)	(177,732)
Miscellaneous and general expense	808,523	538,197
Total administrative and general	<u>2,587,070</u>	<u>2,217,426</u>
TOTAL GENERAL OPERATING EXPENSES	<u><u>\$ 5,796,236</u></u>	<u><u>\$ 5,203,419</u></u>

PADUCAH POWER SYSTEM
INTERIM OPERATING EXPENSES
FOR THE NINE MONTHS ENDED MARCH 31

Generation Plant Expense:	2015	2014
Generation expense	\$ 655,242	\$ 662,619
Generation fuel	<u>457,413</u>	<u>332,977</u>
 TOTAL GENERATION PLANT EXPENSE	 <u><u>\$ 1,112,655</u></u>	 <u><u>\$ 995,596</u></u>
 Maintenance Expense:		
Transmission:		
Supervision and engineering	\$ 7,829	\$ 7,810
Total transmission	<u>7,829</u>	<u>7,810</u>
 Distribution:		
Supervision and engineering	33,333	33,034
Maintenance of station equipment	229,996	278,898
Maintenance of overhead lines	587,228	548,549
Maintenance of underground lines	31,329	39,276
Maintenance of line transformers	11,923	39,563
Street lighting and signals	15	771
Maintenance of meters	15,853	15,188
Maintenance of miscellaneous plant	497	702
Total distribution	<u>910,174</u>	<u>955,981</u>
 Administrative and general	 <u>71,835</u>	 <u>105,789</u>
 TOTAL MAINTENANCE EXPENSE	 <u><u>\$ 989,838</u></u>	 <u><u>\$ 1,069,580</u></u>
 Other Operating Expenses:		
Depreciation	\$ 6,674,653	\$ 6,623,648
Taxes and equivalents	<u>1,451,982</u>	<u>1,455,687</u>
 TOTAL OTHER OPERATING EXPENSES	 <u><u>\$ 8,126,635</u></u>	 <u><u>\$ 8,079,335</u></u>

PADUCAH POWER SYSTEM
INTERIM STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED MARCH 31

Cash Flows from Operating Activities:	2015	2014
Receipts from customers	65,790,520	58,610,901
Payments to suppliers	(47,335,397)	(43,910,600)
Payments to employees	(3,525,233)	(3,552,203)
Net cash provided (used) by operating activities	<u>14,929,890</u>	<u>11,148,098</u>
Cash Flows from Capital and Related Financing Activities:		
Capital expenditures	(2,646,606)	(2,567,282)
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	(3,743,358)	(3,810,834)
Surety bond fee	(556,349)	-
Net borrowings on line of credit	(2,000,000)	3,000,000
Conservation loans	(1,073)	(7,366)
Non-utility property and other assets	<u>734</u>	<u>734</u>
Net cash used by capital and related financing activities	<u>(13,891,653)</u>	<u>(9,019,748)</u>
Cash Flows from Investing Activities:		
Purchases of investments	(82,141)	(77,169)
Proceeds from investments	-	-
Investment income	168,978	281,583
Non-operating income	<u>8,677</u>	<u>14,685</u>
Net cash provided by investing activities	<u>95,514</u>	<u>219,099</u>
Net decrease in cash and cash equivalents	1,133,751	2,347,449
Cash and cash equivalents, beginning of fiscal year	22,334,872	24,091,277
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>23,468,623</u></u>	<u><u>26,438,726</u></u>

PADUCAH POWER SYSTEM
INTERIM STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED MARCH 31

Reconciliation of Operating Loss to Net	2015	2014
Cash Provided by Operating Activities:		
Operating income (loss)	7,224,499	6,044,338
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	6,805,623	6,758,618
Provision for losses on accounts receivable	1,618	5,376
Changes in operating assets and liabilities:		
Accounts receivable	2,145,899	(284,339)
Net change in regulatory asset	2,082,184	(5,387,918)
Interest receivable	23,477	(89)
Material and supplies	85,091	(74,590)
Prepaid expenses	(157,921)	(177,532)
Rent receivable	49,263	48,080
Deferred debits	(70,382)	(48,144)
Accounts payable	(2,675,116)	4,936,251
Customer deposits	17,690	(27,911)
Accrued taxes and equivalents	(542,683)	(582,593)
Other current and accrued liabilities	(107,190)	(113,018)
Deferred credits	47,837	51,570
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	14,929,890	11,148,098
Supplemental Disclosure of Noncash Financing Activities:		
Amortization of bond issue and discount costs	203,636	201,775
Supplemental Disclosure of Cash Paid For:		
Interest	7,299,263	7,402,247

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APPENDIX C

KENTUCKY MUNICIPAL POWER AGENCY POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2015B

**Audited Financial Statements of the Princeton Electric Plant Board
for Fiscal Years ended June 30, 2013 and 2014;
Unaudited Financial Statements
for the Nine-Month Periods Ended March 31, 2014 and 2015**

**ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
FINANCIAL STATEMENTS
YEARS ENDED
JUNE 30, 2014 AND 2013**

**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



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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the 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.

American Institute of Certified Public Accountants - Kentucky Society of Certified Public Accountants

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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, 2014 and 2013, 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 4–13 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 audits were 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 introductory section and the accompanying financial information listed as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying financial information listed as supplementary information is the responsibility of management and is 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 accompanying financial information listed as supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2014, 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.

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

Kern, Duguid & Associates P.S.C.

Certified Public Accountants
Princeton, Kentucky

October 22, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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, 2014. 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 2014 fiscal year by \$11,138,444 (*net position*). Of this amount, \$7,364,428 (*unrestricted net position*) may be used to meet the Board's ongoing obligations to citizens and creditors.
- The Board's total net assets decreased by \$666,142 during the period.
- Total operating revenues for the 2014 fiscal year increased by \$1,965,086 or about 15.36% compared to the previous period. This increase in operating revenues was principally due to a rate increase that went into effect October 1, 2013 as well as PCA increases throughout the year.
- FY 2014 operating expenses totaled \$14,367,687 which was \$2,705,335 or about 23.20% more than the previous year's amount. This increase in operating expenses was principally due to increased power costs due to the PSGC continued shakedown period.

OVERVIEW OF FINANCIAL STATEMENTS

The 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, 2014**

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, 2014**

Financial Analysis of the Fiscal Year Ended June 30, 2014

Over the past year, total assets of the Board decreased by \$881,394 while total liabilities decreased by \$215,252. And for the current period, the operating income of the Board totaled \$392,288. Net operating income includes \$461,059 from Electric and (\$68,771) 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 \$666,142 or about 5.64% 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 2013 to FY 2014	
	2014	2013	Amount	Percent
Current and other assets	\$ 12,593,184	\$ 12,932,455	\$ (339,271)	-2.62%
Capital assets	21,250,904	21,793,027	(542,123)	-2.49%
Total assets	33,844,088	34,725,482	(881,394)	-2.54%
Current liabilities	2,638,603	2,373,121	265,482	11.19%
Long-term liabilities	20,067,041	20,547,775	(480,734)	-2.34%
Total liabilities	22,705,644	22,920,896	(215,252)	-0.94%
Invested in utility plant, net of related debt	683,863	760,252	(76,389)	-10.05%
Restricted for debt service	3,090,153	3,054,033	36,120	1.18%
Unrestricted	7,364,428	7,990,301	(625,873)	-7.83%
Total net position	\$ 11,138,444	\$ 11,804,586	\$ (666,142)	-5.64%

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Analysis of Net Position

To better understand the Board's actual financial positions 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.

Components of Net Position

	Fiscal Year		Change FY 2013 to FY 2014	
	2014	2013	Amount	Percent
Invested in capital assets, net of related debt	\$ 683,863	\$ 760,252	\$ (76,389)	-10.05%
Restricted	3,090,153	3,054,033	36,120	1.18%
Unrestricted	7,364,428	7,990,301	(625,873)	-7.83%
	<u>\$ 11,138,444</u>	<u>\$ 11,804,586</u>	<u>\$ (666,142)</u>	<u>-5.64%</u>

For the 2014 fiscal year, *Net Position Invested in Capital Assets, Net of Related Debt* decreased by \$76,389 or 10.05% 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 an increase of \$36,120 or 1.18%. The components of this category consist of Series 2009 (A-C) bond reserve funds, customer deposits, and capital improvement fund.

Compared to the prior year's balance, there was an decrease in the *Unrestricted Net Position* category of \$625,873 or 7.83%.

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
JUNE 30, 2014**

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, 2014 and 2013 balances by asset classification is shown in the table below.

	Fiscal Year		Change from FY 2013 to FY 2014	
	2014	2013	Amount	Percent
Cash and cash equivalents	\$ 3,981,340	\$ 4,867,586	\$ (886,246)	-18.21%
Accounts receivable	1,294,242	938,714	355,528	37.87%
Heat pump loans	773	2,114	(1,341)	-63.43%
Unbilled revenue	482,273	397,353	84,920	21.37%
Inventories	296,027	516,056	(220,029)	-42.64%
Other current assets	380,337	23,359	356,978	1528.22%
	<u>\$ 6,434,992</u>	<u>\$ 6,745,182</u>	<u>\$ (310,190)</u>	<u>-4.60%</u>

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 would 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 June 30, 2014 and 2013 are compared to major classification. As indicated by the tabular information, total noncurrent assets decreased by \$571,204 or 2.04% during the 2014 fiscal year.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

	Fiscal Year		Change from FY 2013 to FY 2014	
	2014	2013	Amount	Percent
Restricted:				
Investments - special funds	\$ 3,090,153	\$ 3,054,033	\$ 36,120	1.18%
Investment in affiliated organizations	120,133	87,949	32,184	36.59%
Nonutility property	771,525	793,568	(22,043)	-2.78%
Deferred charges	2,176,381	2,251,723	(75,342)	-3.35%
Capital assets (net)	21,250,904	21,793,027	(542,123)	-2.49%
	<u>\$ 27,409,096</u>	<u>\$ 27,980,300</u>	<u>\$ (571,204)</u>	<u>-2.04%</u>

The table above demonstrates the relatively large investment that the Board has made in capital assets. At the end of the 2014 fiscal year, capital assets represented about 77.53% of the noncurrent assets.

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 increase in its various components of \$265,482 or about 11.19% compared to the previous fiscal year's balance.

In the *Long-Term Liabilities Outstanding* category, the balance decreased by \$480,734 or about 2.34% from the previous fiscal year. There were no new bond issues during the current year. The majority of the decrease represents normal principal reduction of debt.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Condensed Statements of Revenues, Expenses and Changes in Net Assets

As indicated in Table 2, the change in net position for the fiscal year ended June 30, 2014 was (\$666,142).

**TABLE 2
Condensed Statements of Revenues, Expenses and Changes in Net Position**

	Fiscal Year		Changes from FYE 2013 To FYE 2014	
	2014	2013	Amount	Percent
Operating revenues:				
Electric revenues	\$ 14,660,924	\$ 12,677,610	\$ 1,983,314	15.64%
Broadband revenues	99,051	117,279	(18,228)	-15.54%
Total operating revenues	14,759,975	12,794,889	1,965,086	15.36%
Operating expenses:				
Purchased power	10,276,577	7,870,088	2,406,489	30.58%
Other expenses	4,091,110	3,792,264	298,846	7.88%
Total operating expenses	14,367,687	11,662,352	2,705,335	23.20%
Net operating income	392,288	1,132,537	(740,249)	-65.36%
Non-operating income, net	(1,058,430)	(1,056,385)	(2,045)	0.19%
Change in net position	(666,142)	76,152	(742,294)	-974.75%
Net position, beginning of year	11,804,586	11,728,434	76,152	0.65%
Net position, end of year	\$ 11,138,444	\$ 11,804,586	\$ (666,142)	-5.64%

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Analysis of Revenue

For the 2014 fiscal year, the *Operating Revenues* of the Board totaled \$14,759,975. This amount represented an increase of 15.36% more than the previous year's total of \$12,794,889.

In analyzing the increase in the *electric* revenue for the year, the main reason for the increase was an increase in power costs related to the PSGC continued shakedown period.

Included in the *Non-Operating Revenues (Expenses) (net)* are interest income, interest expense and other miscellaneous revenues totaling (\$1,058,430).

Analysis of Expenses

The *Total Operating Expenses* for FY 2014 were \$14,367,687. That amount represents an increase of \$2,705,335 or about 23.20% more than the prior fiscal year total of \$11,662,352. The nine major categories of Operating Expenses are shown in the chart below.

	Fiscal Year		Change from FY 2013 to FY 2014	
	2014	2013	Amount	Percent
Cost of power	\$ 10,276,577	\$ 7,870,088	\$ 2,406,489	30.58%
Distribution - operation	572,118	540,768	31,350	5.80%
- maintenance	506,598	463,575	43,023	9.28%
Maintenance - general plant	37,237	21,532	15,705	72.94%
Customer accounts	189,848	171,241	18,607	10.87%
Customer service and information	28,167	24,733	(1,566)	-6.33%
Sales	11,411	9,420	1,991	21.14%
Administrative and general	702,772	720,706	(17,934)	-2.49%
Depreciation	1,261,191	1,089,543	171,648	15.75%
Taxes	786,768	750,746	36,022	4.80%
	<u>\$ 14,367,687</u>	<u>\$ 11,662,352</u>	<u>\$ 2,705,335</u>	<u>23.20%</u>

As indicated by the comparative information presented above, *Cost of Power* increased by \$2,406,489 or 30.58% compared to the prior year.

This increase in operating expenses was principally due to the increase in purchased power costs during the PSGC continued shakedown period. In addition, depreciation expense increased due to the closing of several large work orders during FY 2014.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Included in the *Non-Operating Revenues (Expenses) (net)* are interest expense of \$1,243,568, amortization of debt expense of \$75,343, tax rebate from Build America Bonds of \$261,350, interest income of \$17,616 and other expenses of \$18,485.

Capital Assets

Princeton Electric Plant Board's investment in capital assets as of June 30, 2014 was \$21,250,904 (net of accumulated depreciation), as shown in the following table.

Schedule of Capital Assets (Net of Depreciation)

	<u>2014</u>	<u>2013</u>	<u>(Decrease)</u>
Land	\$ 1,104,842	\$ 1,104,842	\$ -
Construction in progress	42,307	1,481,046	(1,438,739)
Transmission plant	4,429,610	5,132,251	(702,641)
Distribution plant	13,296,091	11,391,044	1,905,047
General plant	2,099,087	2,343,592	(244,505)
Broadband plant	278,967	340,252	(61,285)
	<u>\$ 21,250,904</u>	<u>\$ 21,793,027</u>	<u>\$ (542,123)</u>

Additional detailed information concerning the Board's capital assets can be found in Note 2 in the notes to the financial statements.

Long-term Debt

At June 30, 2014, the Board had \$21,090,000 in debt outstanding, a decrease of \$485,000 or approximately 2.25% less than the previous fiscal year. A comparative schedule at June 30, 2014 and 2013 is shown in the tabular information provided below.

	<u>2014</u>	<u>2013</u>	<u>(Decrease)</u>
Tax-Exempt Revenue Bonds	\$ -	\$ -	\$ -
Series 2009A	7,430,000	7,615,000	(185,000)
Taxable Revenue Bonds (Build America Bonds)			
Series 2009B	12,320,000	12,320,000	-
Taxable Revenue Bonds Series 2009C	1,340,000	1,640,000	(300,000)
	<u>\$ 21,090,000</u>	<u>\$ 21,575,000</u>	<u>\$ (485,000)</u>

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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
OF THE
CITY OF PRINCETON, KENTUCKY
STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013**

ASSETS

	<u>2014</u>	<u>2013</u>
Utility plant	\$ 31,564,968	\$ 31,074,285
Less accumulated depreciation	<u>10,314,064</u>	<u>9,281,258</u>
Net utility plant	<u>21,250,904</u>	<u>21,793,027</u>
Restricted assets		
Investments - special funds	<u>3,090,153</u>	<u>3,054,033</u>
Other assets		
Investment in affiliated organizations	120,133	87,949
Nonutility property	<u>771,525</u>	<u>793,568</u>
Total other assets and investments	<u>891,658</u>	<u>881,517</u>
Current assets		
Cash - general funds	3,981,340	4,667,586
Accounts receivable	1,294,242	938,714
Heat pump loans	773	2,114
Unbilled revenue	482,273	397,353
Inventories (at weighted-average cost)	296,027	516,056
Other current assets	<u>380,337</u>	<u>23,359</u>
Total current assets	<u>6,434,992</u>	<u>6,745,182</u>
Deferred charges	<u>2,176,381</u>	<u>2,251,723</u>
Total assets	<u>33,844,088</u>	<u>34,725,482</u>

See accompanying notes to financial statements

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
STATEMENTS OF NET POSITION, continued
JUNE 30, 2014 AND 2013**

LIABILITIES

	<u>2014</u>	<u>2013</u>
Current liabilities		
Current maturities of long-term debt	500,000	485,000
Accounts payable - other	55,910	92,527
Accounts payable - related parties	1,017,869	828,006
Customer deposits	323,616	290,468
Accrued taxes - property	135,663	123,555
Accrued interest	202,697	205,303
Accrued payroll and other taxes	84,986	62,608
Deferred credits	77,352	20,679
Vacation and sick pay	201,123	201,289
Conservation advances	773	2,114
Other accrued liabilities	38,614	61,572
Total current liabilities	<u>2,638,603</u>	<u>2,373,121</u>
Noncurrent liabilities		
Long-term debt	<u>20,067,041</u>	<u>20,547,775</u>
Total noncurrent liabilities	<u>20,067,041</u>	<u>20,547,775</u>
Total liabilities	<u>22,705,644</u>	<u>22,920,896</u>
NET POSITION		
Invested in capital assets, net of related debt	683,863	760,252
Restricted	3,090,153	3,054,033
Unrestricted	<u>7,364,428</u>	<u>7,990,301</u>
Total net position	<u>\$ 11,138,444</u>	<u>\$ 11,804,586</u>

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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES	\$ 14,759,975	\$ 12,794,889
OPERATING EXPENSES		
Cost of power	10,276,577	7,870,088
Distribution - operation	572,118	540,768
- maintenance	506,598	463,575
Maintenance - general plant	37,237	21,532
Customer accounts	189,848	171,241
Customer service and information	23,167	24,733
Sales	11,411	9,420
Administrative and general	702,772	720,708
Depreciation	1,261,191	1,089,543
Taxes	786,768	750,746
Total operating expenses	14,367,687	11,682,352
Net operating revenues	392,288	1,132,537
NONOPERATING REVENUES (EXPENSES)		
Interest expense	(1,240,866)	(1,243,216)
Other interest expense	(2,902)	-
Amortization of debt expense	(75,343)	(81,476)
Interest income	17,616	18,817
Tax rebate on Build America Bonds	251,350	270,911
Other expenses	(18,485)	(21,421)
Net nonoperating revenues (expenses)	(1,058,430)	(1,056,385)
CHANGE IN NET POSITION	(666,142)	76,152
NET POSITION, BEGINNING OF YEAR	11,804,588	11,728,434
NET POSITION, END OF YEAR	\$ 11,138,444	\$ 11,804,586

See accompanying notes to financial statements.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Receipts from customers and users	\$ 14,317,899	\$ 12,896,538
Payments to suppliers	(10,974,758)	(8,584,588)
Payments to employees	(1,217,577)	(1,166,133)
Payments of taxes	(774,660)	(697,044)
Net cash provided (used) by operating activities	<u>1,350,904</u>	<u>2,448,793</u>
Cash flows from non-capital financing activities		
Energy service loans advances	(1,341)	(2,775)
Net cash provided (used) by non-capital financing	<u>(1,341)</u>	<u>(2,775)</u>
Cash flows from capital financing activities		
Expenditures for utility plant	(855,738)	(899,026)
Net cost of retiring plant	(63,330)	57,282
Reimbursement of non utility property	-	98,288
Principal payments on long-term debt	(485,000)	(475,000)
Tax rebate on Build America Bonds	262,704	272,980
Interest paid	(1,226,907)	(1,232,280)
Net cash provided (used) by capital financing activities	<u>(2,168,272)</u>	<u>(2,177,756)</u>
Cash flows from investing activities		
Energy loans receivable	1,341	2,775
Investment in affiliated companies	(32,184)	(70,846)
Interest income	17,911	20,547
Interest and other revenues	(18,485)	(21,421)
Net cash provided (used) by investing activities	<u>(31,417)</u>	<u>(68,945)</u>
Net increase (decrease) in cash	(850,126)	199,317
Cash, beginning of year	<u>7,921,619</u>	<u>7,722,302</u>
Cash, end of year	<u>\$ 7,071,493</u>	<u>\$ 7,921,619</u>

See accompanying notes to financial statements

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
STATEMENTS OF CASH FLOWS, continued
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Reconciliation of operating income to net cash provided by operating activities:		
Net operating revenues	\$ 392,288	\$ 1,132,537
Adjustments to reconcile net operating revenues to net cash provided by operating activities:		
Depreciation	1,261,191	1,089,543
Changes in assets and liabilities:		
Receivables	(356,884)	(41,543)
Unbilled revenues	(84,920)	143,306
Materials and supplies	220,029	(192,304)
Other current assets	(357,273)	(115)
Non utility property	22,044	22,044
Accounts payable	153,246	189,350
Other current and accrued liabilities	(22,958)	385
Accrued payroll and other taxes	22,378	(9,920)
Vacation and sick pay	(166)	31,126
Accrued taxes - property	12,108	53,702
Customer deposits	33,148	(25,101)
Deferred credits	56,673	55,783
Total adjustments	<u>958,616</u>	<u>1,316,256</u>
	<u>\$ 1,350,904</u>	<u>\$ 2,448,793</u>

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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 Board 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. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and delivering goods in connection with the fund's principle ongoing operations such as charges to customers for sales and services and expenses such as salaries, product costs, administrative expenses, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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, 2014 and 2013.

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, 2014 and 2013.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

Revenues and expenses are distinguished 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.

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.

Implementation of Accounting Policies

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*. GASB 67 improves financial reporting by state and local governmental pension plans. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. The adoption of GASB 67 does not have any impact on the Board's financial statements as the Utility only participates in a multiple-employer plan (and is not the trustee).

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27*. GASB 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the Board's financial statements.

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 22, 2014, which is the date the financial statements were available to be issued.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 2 – UTILITY PLANT AND DEPRECIATION PROCEDURES

A summary of changes in major classifications of the utility plant in service is as follows:

	Balance June 30, 2013	Reclassifications/ Additions	Reclassifications/ Retirements	Balance June 30, 2014
Utility plant not depreciated:				
Land	\$ 1,104,842	\$ -	\$ -	\$ 1,104,842
Construction in progress	1,481,046	2,343,605	3,782,344	42,307
Total utility plant not depreciated	2,585,888	2,343,605	3,782,344	1,147,149
Utility plant depreciated:				
Transmission plant	5,618,255	34,702	-	5,652,957
Distribution plant	18,095,401	1,993,308	151,135	19,937,574
General plant	3,815,948	39,744	13,920	3,841,772
Telecommunications plant	958,793	26,723	-	985,516
Total utility plant depreciated	28,488,397	2,094,477	165,055	30,417,819
Accumulated depreciation	(9,281,258)	(1,270,272)	237,466	(10,314,064)
Total utility plant depreciated, net	19,207,139	824,205	(72,411)	20,103,755
Total utility plant	\$ 21,793,027	\$ 3,167,810	\$ 3,709,933	\$ 21,250,904

Depreciation charged to income was \$1,261,191 and \$1,089,543 for June 30, 2014 and 2013.

Major outlays for capital assets and improvements are capitalized as projects are constructed. A total of \$42,307 and \$1,481,046 of assets were under construction and shown as construction in progress in the capital assets information above as of June 30, 2014 and 2013.

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.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 3 – CASH AND CASH EQUIVALENTS

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. At June 30, 2014, the Board's deposits in depository institutions had a carrying amount of \$7,921,619 and bank balances of \$7,914,906. At June 30, 2013, 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:

Cash consisted of the following:

	<u>2014</u>	<u>2013</u>
Change funds	\$ 4,124	\$ 3,771
Operating reserve fund	3,141,789	3,574,953
Unemployment insurance fund	35,393	35,357
Other special funds	75,000	75,000
Revenue fund general	<u>725,034</u>	<u>1,178,505</u>
	<u>\$ 3,981,340</u>	<u>\$ 4,867,586</u>

Investments – Restricted funds consisted of the following:

	<u>2014</u>	<u>2013</u>
Customer deposits	\$ 323,616	\$ 290,468
Debt service reserve fund	1,729,725	1,734,149
2009 Bond principal and interest	536,761	529,365
Capital improvement fund	<u>500,051</u>	<u>500,051</u>
Total restricted special funds	<u>\$ 3,090,153</u>	<u>\$ 3,054,033</u>

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.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 3 – CASH AND CASH EQUIVALENTS, continued

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, 2014 and 2013, 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.

At June 30, 2014 and 2013, 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.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 4 - INVESTMENT IN AFFILIATED ORGANIZATIONS

Investment in affiliated organizations consisted of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Central Service Association	\$ 11,602	\$ 11,854
MuniNet	<u>108,531</u>	<u>76,095</u>
Total	<u>\$ 120,133</u>	<u>\$ 87,949</u>

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 18)

NOTE 5 - RECEIVABLES

Net receivables include the following at June 30:

	<u>2014</u>	<u>2013</u>
Accounts Receivable		
Electric	\$ 1,192,679	\$ 847,242
YTD even pay	<u>35,072</u>	<u>(23,835)</u>
	<u>1,227,751</u>	<u>823,407</u>
Tax rebate on Build America Bonds	44,141	45,496
Other receivables	<u>22,350</u>	<u>69,811</u>
Total	<u>\$ 1,294,242</u>	<u>\$ 938,714</u>

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 (\$4,138) and \$143 as of June 30, 2014 and 2013, respectively.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 7 – DEFERRED CHARGES

Deferred Charges at June 30 consisted of:

	<u>2014</u>	<u>2013</u>
Series 2008 - bond issuance cost	\$ 125,427	\$ 129,777
Unamortized debt discount/expense - 2009	<u>2,050,954</u>	<u>2,121,946</u>
Total	<u>\$ 2,176,381</u>	<u>\$ 2,251,723</u>

NOTE 8 – BONDED DEBT

The amounts shown in the accompanying financial statements as bonded debt obligations represent the Utility's future obligations to make payments related to revenue bonds issued by PEPB.

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2009-A	\$7,965,000	2.00%-5.00%
2009-B (BAB)	\$12,320,000	4.30%-7.00%
2009-C	\$1,935,000	3.25%-6.07%

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, 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 interest on the 2009-B bonds is 35% direct pay by the US Treasury as a tax incentive under the ARRTA.

Effective March 1, 2013 and continuing until earlier of September 30, 2013, or intervening Congressional action, the amount of direct pay by the US Treasury will be reduced. The September 2013 payment reduction was 8.7% and the May 2014 payment reduction was 7.2%. Future reductions are estimated to be 7.2%.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 8 – BONDED DEBT, continued

The changes in outstanding debt are as follows:

	<u>Balance July 1, 2013</u>	<u>New Issues</u>	<u>Debt Payments and Refunds</u>	<u>Balance June 30, 2014</u>
Tax - Exempt Revenue Bonds Series 2009A	\$ 7,615,000	\$ -	\$ 185,000	\$ 7,430,000
Taxable Revenue Bonds (Build America Bonds - Direct Pay) Series 2009B	12,320,000	-	-	12,320,000
Taxable Revenue Bonds Series 2009C	<u>1,640,000</u>	<u>-</u>	<u>300,000</u>	<u>1,340,000</u>
	<u>\$ 21,575,000</u>	<u>\$ -</u>	<u>\$ 485,000</u>	<u>\$ 21,090,000</u>
Less: Unamortized discount				<u>(522,959)</u>
Net total				<u>\$ 20,567,041</u>

The 2009 bond requires 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, 2014 and 2013.

Accrued interest on the 2009 (A-C) 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 \$202,897 and \$205,303 for June 30, 2014 and 2013, respectively.

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:

	<u>Discount</u>			<u>Cost of Issuance</u>	
	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>
<u>Interest</u>			<u>Amortization</u>		
Series 2009 A	\$ 6,509	\$ 6,509	Series 2009	\$ 70,993	\$ 70,993
Series 2009 B	11,998	11,998	Series 2008 BAN	4,350	4,350
Series 2009 C	760	760		<u>\$ 75,343</u>	<u>\$ 75,343</u>
	<u>\$ 19,267</u>	<u>\$ 19,267</u>			

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 8 – BONDED DEBT, continued

The following represents principal and interest payments on outstanding debt.

	2009A			2009B		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 190,000	\$ 328,302	\$ 518,302	\$ 80,000	\$ 813,692	\$ 893,692
2016	195,000	322,907	517,907	235,000	806,920	1,041,920
2017	205,000	316,702	521,702	200,000	797,267	997,267
2018	210,000	309,852	519,852	210,000	787,521	997,521
2019	220,000	302,322	522,322	215,000	776,733	991,733
2020	225,000	294,143	519,143	225,000	764,902	989,902
2021	235,000	285,224	520,224	245,000	751,364	996,364
2022	245,000	275,502	520,502	255,000	736,364	991,364
2023	255,000	265,061	520,061	255,000	720,937	975,937
2024	265,000	254,011	519,011	320,000	703,240	1,023,240
2025	275,000	242,330	517,330	335,000	682,935	1,017,935
2026	285,000	229,868	514,868	360,000	661,210	1,021,210
2027	300,000	216,706	516,706	370,000	638,030	1,008,030
2028	310,000	202,980	512,980	390,000	613,515	1,003,515
2029	325,000	188,692	513,692	405,000	587,475	992,475
2030	340,000	173,730	513,730	430,000	559,705	989,705
2031	355,000	157,924	512,924	450,000	529,550	979,550
2032	370,000	140,500	510,500	475,000	497,175	972,175
2033	390,000	121,500	511,500	490,000	463,400	953,400
2034	405,000	101,625	506,625	520,000	428,050	948,050
2035	425,000	80,875	505,875	545,000	390,775	935,775
2036	445,000	59,125	504,125	570,000	351,750	921,750
2037	470,000	36,250	506,250	595,000	310,975	905,975
2038	490,000	12,250	502,250	625,000	268,275	893,275
2039	-	-	-	645,000	223,825	868,825
2040	-	-	-	675,000	177,625	852,625
2041	-	-	-	710,000	129,150	839,150
2042	-	-	-	735,000	78,575	813,575
2043	-	-	-	755,000	26,425	781,425
	<u>\$ 7,430,000</u>	<u>\$ 4,918,381</u>	<u>\$ 12,348,381</u>	<u>\$ 12,320,000</u>	<u>\$ 15,277,360</u>	<u>\$ 27,597,360</u>

**PRINCETON ELECTRIC PLANT BOARD
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CITY OF PRINCETON, KENTUCKY
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JUNE 30, 2014 AND 2013**

NOTE 8 – BONDED DEBT, continued

	2009C			GRAND TOTAL		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 230,000	\$ 65,714	\$ 295,714	\$ 500,000	\$ 1,207,708	\$ 1,707,708
2016	85,000	59,240	144,240	515,000	1,189,067	1,704,067
2017	130,000	53,715	183,715	535,000	1,167,684	1,702,684
2018	135,000	46,905	181,905	555,000	1,144,278	1,699,278
2019	140,000	39,837	179,837	575,000	1,118,892	1,693,892
2020	150,000	32,383	182,383	600,000	1,091,428	1,691,428
2021	155,000	23,824	178,824	635,000	1,060,412	1,695,412
2022	155,000	14,416	169,416	665,000	1,026,282	1,681,282
2023	160,000	4,856	164,856	670,000	990,854	1,660,854
2024	-	-	-	585,000	957,251	1,542,251
2025	-	-	-	610,000	925,265	1,535,265
2026	-	-	-	645,000	891,078	1,536,078
2027	-	-	-	670,000	854,736	1,524,736
2028	-	-	-	700,000	816,495	1,516,495
2029	-	-	-	730,000	776,167	1,506,167
2030	-	-	-	770,000	733,435	1,503,435
2031	-	-	-	805,000	687,474	1,492,474
2032	-	-	-	845,000	637,675	1,482,675
2033	-	-	-	880,000	584,900	1,464,900
2034	-	-	-	925,000	529,675	1,454,675
2035	-	-	-	970,000	471,850	1,441,650
2036	-	-	-	1,015,000	410,875	1,425,875
2037	-	-	-	1,065,000	347,225	1,412,225
2038	-	-	-	1,115,000	280,526	1,395,526
2039	-	-	-	645,000	223,825	868,825
2040	-	-	-	675,000	177,625	852,625
2041	-	-	-	710,000	129,150	839,150
2042	-	-	-	735,000	78,575	813,575
2043	-	-	-	755,000	26,425	781,425
	<u>\$1,340,000</u>	<u>\$ 340,890</u>	<u>\$ 1,680,890</u>	<u>\$ 21,090,000</u>	<u>\$ 20,536,631</u>	<u>\$ 41,626,631</u>

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 Arnsouth Bank were \$773 and \$2,114 as of June 30, 2014 and 2013, respectively.

**PRINCETON ELECTRIC PLANT BOARD
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NOTE 10 – PENSION PLAN

County Employee Retirement Board

On August 2, 1999, PEPB approved a resolution to participate in the statewide County Employees Retirement System (CERS) as provided under Section 78.530 of the Kentucky Revised Statutes effective November 1, 1999.

The County Employees' Retirement Board, a component unit of the Commonwealth of Kentucky (CERS), is a cost-sharing multiple-employer defined benefit plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. The CERS provides retirement, death and disability benefits to Plan members and beneficiaries. Cost of living adjustments are provided at the discretion of the State Legislature.

Under the provisions of the Kentucky Revised Statutes Section 61.645, the Board of Trustees of Kentucky Retirement Boards administers the CERS and has the ability to establish and amend benefit provisions.

Most plan members are required to contribute 5% of their annual covered compensation. Employees hired after August 31, 2008 are required to contribute 6% of their annual covered compensation. The Board is required to contribute at an actuarially determined rate. The current rate is 18.89% of the employee's total covered compensation. The Board's contributions to CERS for the years ending June 30, 2014, 2013 and 2012 were \$220,313, \$222,883 and \$211,503, respectively, equal to the required contributions for the year.

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 by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601 or by calling (502) 564-5656.

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.

PRINCETON ELECTRIC PLANT BOARD
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NOTE 11 – 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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
<u>Other current assets</u>		
Interest receivable	\$ 620	\$ 915
Rent receivable	22,717	22,444
Other regulatory asset	357,000	-
	<u>\$ 380,337</u>	<u>\$ 23,359</u>
<u>Other current liabilities</u>		
Accrued pole rentals	\$ 7,852	\$ 7,758
Sanitation payable	30,762	31,473
Kentucky retirement withholding	-	22,341
	<u>\$ 38,614</u>	<u>\$ 61,572</u>

NOTE 12 – 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.

**PRINCETON ELECTRIC PLANT BOARD
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NOTE 13 – ACCRUED VACATION AND SICK PAY

PEPB allows employees to accumulate unused vacation to maximum of 270 hours. As of June 30, 2014 and 2013, the liability for accrued vacation was \$123,592 and \$118,419.

Upon termination, PEPB will compensate an employee 25 percent of all unused sick days at their regular rate of pay. As of June 30, 2014 and 2013 the liability for accrued sick pay was \$77,531 and \$82,870.

NOTE 14 – 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 \$11,806 and \$11,846 in 2013 and 2012.

NOTE 15 – 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, 2014 and 2013, PEPB paid \$10,529,417 and \$7,778,001 to KMPA for purchase power.

As of June 30, 2014 and 2013, PEPB owed \$1,017,869 and \$828,006 to KMPA for power purchased.

During the fiscal years ending June 30, 2014 and 2013, KMPA paid to PEPB the following:

	2014	2013
Directors' salaries	\$ 28,103	\$ 30,525
Reimbursement of power costs	-	62,652
Miscellaneous reimbursements	764	911
	<u>\$ 28,867</u>	<u>\$ 94,088</u>

**PRINCETON ELECTRIC PLANT BOARD
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JUNE 30, 2014 AND 2013**

NOTE 16 – 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 have 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.

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 15 Related Party Transactions.

NOTE 17 – 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.

PSGC Unit 1 went commercial on June 6, 2012 and Unit 2 went commercial on November 1, 2012. Both units are in shakedown mode. Unit availability is expected to improve after the shakedown period.

**PRINCETON ELECTRIC PLANT BOARD
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CITY OF PRINCETON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
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NOTE 17 – PRAIRIE STATE PROJECT, continued

When compared to the projected wholesale costs under continued purchase from TVA under the lowest TVA cost estimate, the net value benefits are projected (with Prairie State and Peaking Facility) to be \$13 to \$17 million over a 15-year period.

NOTE 18 – 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.

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, 2013, \$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, 2014.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 18 – MUNINET, continued

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 \$32,436 for administrative and operating costs during fiscal year June 30, 2014.

The following are costs incurred for the initial investment in MuniNet and Project 2 costs:

Initial Investment	<u>\$ 5,000</u>
<u>Project 2 Investment in MuniNet</u>	
Beginning Balance July 1, 2013	\$ 71,095
Costs incurred	<u>32,436</u>
Ending Balance June 30, 2014	<u>103,531</u>
Total Investment in MuniNet	<u>\$ 108,531</u>

NOTE 19 – 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.

SUPPLEMENTARY 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, 2014**

	<u>ELECTRIC</u>	<u>BROADBAND</u>	<u>TOTAL</u>
OPERATING REVENUES	<u>\$ 14,660,924</u>	<u>\$ 99,051</u>	<u>\$ 14,759,975</u>
OPERATING EXPENSES			
Cost of power	10,276,577	-	10,276,577
Distribution - operation	508,403	63,715	572,118
- maintenance	505,796	802	506,598
Maintenance - general plant	29,874	7,363	37,237
Customer accounts	189,151	697	189,848
Customer service and information	23,167	-	23,167
Sales	11,411	-	11,411
Administrative and general	695,535	7,237	702,772
Depreciation and amortization	1,173,183	88,008	1,261,191
Taxes	786,768	-	786,768
Total operating expenses	<u>14,199,865</u>	<u>167,822</u>	<u>14,367,687</u>
Net operating revenues	<u>461,059</u>	<u>(68,771)</u>	<u>392,288</u>
NONOPERATING REVENUES (EXPENSES)			
Interest expense	(1,240,666)	-	(1,240,666)
Other interest expense	(2,902)	-	(2,902)
Amortization of debt expense	(75,343)	-	(75,343)
Interest income	17,616	-	17,616
Tax rebate on Build America Bonds	261,350	-	261,350
Other income (expenses)	(18,485)	-	(18,485)
Total nonoperating revenues (expenses)	<u>(1,058,430)</u>	<u>-</u>	<u>(1,058,430)</u>
CHANGE IN NET POSITION	<u>(597,371)</u>	<u>(68,771)</u>	<u>(666,142)</u>
NET POSITION, BEGINNING OF YEAR	<u>12,616,622</u>	<u>(812,036)</u>	<u>11,804,586</u>
NET POSITION, END OF YEAR	<u>\$ 12,019,251</u>	<u>\$ (880,807)</u>	<u>\$ 11,138,444</u>

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES - ELECTRIC
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>ELECTRIC 2014</u>	<u>ELECTRIC 2013</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
OPERATING REVENUES	\$ 14,660,924	\$ 12,677,610	\$ 1,983,314
OPERATING EXPENSES			
Cost of power	10,276,577	7,870,088	(2,406,489)
Distribution - operation	508,403	454,051	(54,352)
- maintenance	506,796	461,679	(44,117)
Maintenance - general plant	29,874	20,629	(9,245)
Customer accounts	189,151	171,241	(17,910)
Customer service and information	23,167	24,811	1,644
Sales	11,411	9,420	(1,991)
Administrative and general	695,535	717,076	21,541
Depreciation	1,173,183	1,001,535	(171,648)
Taxes	786,768	750,746	(36,022)
Total operating expenses	<u>14,199,865</u>	<u>11,481,276</u>	<u>(2,718,589)</u>
Net operating revenues	<u>461,059</u>	<u>1,196,334</u>	<u>(735,275)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest expense	(1,240,866)	(1,243,216)	2,350
Other interest expense	(2,902)	-	(2,902)
Amortization of debt expense	(75,343)	(81,476)	6,133
Interest income	17,616	18,817	(1,201)
Tax rebate on Build America Bonds	261,350	270,911	(9,561)
Other revenues (expenses)	<u>(18,485)</u>	<u>(21,421)</u>	<u>2,936</u>
Total nonoperating revenues (expenses)	<u>(1,058,430)</u>	<u>(1,056,385)</u>	<u>(2,045)</u>
CHANGE IN NET POSITION	\$ (597,371)	\$ 139,949	\$ (737,320)

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES - BROADBAND
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	BROADBAND 2014	BROADBAND 2013	VARIANCE FAVORABLE (UNFAVORABLE)
OPERATING REVENUES	\$ 99,051	\$ 117,279	\$ (18,228)
OPERATING EXPENSES			
Distribution - operation	63,715	86,717	23,002
- maintenance	802	1,896	1,094
Maintenance - general plant	7,363	903	(6,460)
Customer accounts	697	(78)	(775)
Administrative and general	7,237	3,630	(3,607)
Depreciation and amortization	88,008	88,008	
Total operating expenses	167,822	181,076	13,254
Net operating revenues	(68,771)	(63,797)	(4,974)
CHANGE IN NET POSITION	\$ (68,771)	\$ (63,797)	\$ (4,973)

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
COMPARATIVE ANALYSIS OF OPERATING EXPENSES - ELECTRIC**

	For the Year Ended June 30, 2014		For the Year Ended June 30, 2013		Increase (Decrease)
	Amount	Percent	Amount	Percent	
Distribution					
Supervision & engineering	\$ 58,816	0.40 %	\$ 59,288	0.47 %	\$ (680)
Station expense	93,138	0.64	28,709	0.23	84,429
Overhead lines expense	116,088	0.79	96,059	0.76	20,027
Underground line expense	(6,385)	(0.04)	(2,569)	(0.02)	(3,816)
Street light & signal system expense	2,625	0.02	2,145	0.02	480
Meter expense	101,965	0.70	99,300	0.78	2,665
Customer installation expense	1,460	0.01	7,701	0.06	(6,241)
Miscellaneous distribution expense	126,099	0.85	147,388	1.16	(22,287)
Rents	15,799	0.11	16,024	0.13	(225)
Total distribution	\$ 508,403	3.48 %	\$ 454,051	3.59 %	\$ 54,352
Maintenance expense:					
Distribution:					
Supervision & engineering	\$ 72,114	0.49 %	\$ 73,549	0.58 %	\$ (1,435)
Station expense	2,396	0.02	-	0.00	2,396
Overhead lines	376,891	2.57	363,381	2.87	13,530
Underground services	12,535	0.09	15,349	0.12	(2,814)
Transformers	100	0.00	-	0.00	100
Street light & signal system	5,585	0.04	1,770	0.01	3,815
Pole inspecting	24,046	0.16	-	0.00	-
Miscellaneous distribution plant	12,130	0.08	7,650	0.06	4,480
Total distribution maintenance	\$ 505,796	3.45 %	\$ 461,679	3.64 %	\$ 20,072
Customer accounts					
Supervision	\$ -	0.00 %	\$ 69	0.00 %	\$ (69)
Meter reading	7,080	0.05	9,800	0.08	(2,720)
Customer records & collection expense	160,768	1.10	144,821	1.14	15,947
Uncollectible accounts	9,383	0.06	9,574	0.08	(291)
Miscellaneous customer accounting expense	11,920	0.08	8,877	0.05	5,043
Customer assistance expense	11,788	0.08	14,301	0.11	(2,513)
Information & instructional advertising	11,379	0.08	10,510	0.08	869
Total customer accounts	\$ 212,318	1.45 %	\$ 196,052	1.54 %	\$ 16,266

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
COMPARATIVE ANALYSIS OF OPERATING EXPENSES - ELECTRIC, continued**

	For the Year Ended June 30, 2014		For the Year Ended June 30, 2013		Increase (Decrease)
	Amount	Percent	Amount	Percent	
Sales expense					
Demonstrating and selling expense	\$ 5,003	0.03 %	\$ 2,400	0.02 %	\$ 2,603
Advertising expense	2,744	0.02	2,965	0.02	(221)
Miscellaneous	3,664	0.02	4,055	0.03	(391)
Total sales	<u>\$ 11,411</u>	<u>0.07 %</u>	<u>\$ 9,420</u>	<u>0.07 %</u>	<u>\$ 1,991</u>
Administrative and general					
Administrative & office salaries	\$ 138,432	0.94 %	\$ 135,340	1.07 %	\$ 3,092
Office supplies & expense	139,062	0.95	131,138	1.03	7,924
Outside services employed	63,671	0.43	53,701	0.42	9,970
Insurance	61,591	0.42	58,658	0.46	2,933
Injuries & damages	28,708	0.20	10,434	0.08	18,274
Employees pension & other benefits	361,582	2.47	347,980	2.74	13,602
Duplicate charges (credit)	(117,498)	(0.80)	(51,202)	(0.40)	(66,296)
Miscellaneous general expense	19,987	0.13	31,027	0.24	(11,040)
Total administrative and general	<u>\$ 695,535</u>	<u>4.74 %</u>	<u>\$ 717,076</u>	<u>5.64 %</u>	<u>\$ (21,541)</u>

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
COMPARATIVE ANALYSIS OF OPERATING EXPENSES - BROADBAND**

	For the Year Ended June 30, 2014		For the Year Ended June 30, 2013		Increase (Decrease)
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	
Distribution					
Operation:					
Overhead expense	\$ -	- %	\$ -	- %	\$ -
Customer Installations	36,455	36.80	49,626	42.31	(13,172)
Miscellaneous distribution expense:	27,260	27.52	37,091	31.63	(9,832)
Total distribution	<u>\$ 63,715</u>	<u>64.32 %</u>	<u>\$ 86,717</u>	<u>73.94 %</u>	<u>\$ (23,004)</u>
Maintenance expense					
Distribution:					
Maintenance of installed modem	\$ 802	0.81 %	\$ 1,896	1.62 %	\$ (1,094)
Total distribution maintenance	<u>\$ 802</u>	<u>0.81 %</u>	<u>\$ 1,896</u>	<u>1.62 %</u>	<u>\$ (1,094)</u>
Maintenance general					
Maintenance of general plant	\$ 7,363	7.43 %	\$ 903	0.77 %	\$ 6,460
Total maintenance general	<u>\$ 7,363</u>	<u>7.43 %</u>	<u>\$ 903</u>	<u>0.77 %</u>	<u>\$ 6,460</u>
Administrative and general					
Office supplies & expense:	\$ 7,237	7.31 %	\$ 3,630	3.1 %	\$ 3,607
Total administrative and general	<u>\$ 7,237</u>	<u>7.31 %</u>	<u>\$ 3,630</u>	<u>3.1 %</u>	<u>\$ 3,607</u>

MICHAEL A. KEM, CPA
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**INDEPENDENT AUDITORS' 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 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 Princeton Electric Plant Board of the City of Princeton, Kentucky as of and for the years ended June 30, 2014 and 2013, 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 22, 2014.

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.

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 22, 2014

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**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 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 nine months ended March 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 nine months ended March 31, 2015 by \$11,101,730 (*net position*). Of this amount, \$6,749,431 (*unrestricted net position*) may be used to meet the Board's ongoing obligations to citizens and creditors.
- The Board's total net assets decreased by \$36,714 during the period.
- Total operating revenues for the nine months ended March 31, 2015 increased by \$723,226 or about 6.72% compared to the previous period. This increase in operating revenues was principally due to a rate increase that went into effect October 1, 2013 as well as a higher average PCA throughout the year. KWh's sold increased by 575,793 or 0.68%.
- Total operating expenses for the nine months ended March 31, 2015 were \$10,751,264 which was \$100,663 or about 1% less than the previous period's amount. This decrease in operating expenses was principally due to decreased power costs due to the increased capacity of PSGC and savings from the KMPA surety bond transaction.

OVERVIEW OF FINANCIAL STATEMENTS

The 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
MARCH 31, 2015**

Financial Analysis of the Nine Months Ended March 31, 2015

From the same nine month period of the prior year, total assets of the Board decreased by \$2,167,343 while total liabilities decreased by \$2,348,593. And for the current period, the operating income of the Board totaled \$739,535. Net operating income includes \$21,011 from Electric and (\$57,725) 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.

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.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2015**

**TABLE 1
Condensed Statements of Net Position**

	Nine months ended March 31		Change in nine months ended March 31, 2015 to 2014	
	2015	2014	Amount	Percent
Current and other assets	\$ 10,836,218	\$ 12,090,852	\$ (1,254,634)	10.38%
Capital assets	20,691,203	21,603,912	(912,709)	-4.22%
Total assets	31,527,421	33,694,764	(2,167,343)	-6.43%
Current liabilities	2,144,498	2,712,060	(567,562)	20.93%
Long-term liabilities	18,281,193	20,062,224	(1,781,031)	-8.88%
Total liabilities	20,425,691	22,774,284	(2,348,593)	10.31%
Invested in utility plant, net of related debt	1,835,010	1,041,688	793,322	76.16%
Restricted for debt service	2,517,289	3,248,463	(731,174)	22.51%
Unrestricted	6,749,431	6,630,329	119,102	1.80%
Total net position	\$ 11,101,730	\$ 10,920,480	\$ 181,250	1.66%

Analysis of Net Position

To better understand the Board's actual financial positions 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.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2015**

Components of Net Position

	Nine months ended March 31		Change in nine months ended March 31, 2015 to 2014	
	2015	2014	Amount	Percent
Invested in utility plant, net of related debt	1,835,010	1,041,688	793,322	76.16%
Restricted for debt service	2,517,289	3,248,463	(731,174)	22.51%
Unrestricted	6,749,431	6,630,329	119,102	1.80%
 Total net position	 \$ 11,101,730	 \$ 10,920,480	 \$ 181,250	 1.66%

For the nine months ended March 31, 2015, *Net Position Invested in Capital Assets, Net of Related Debt* increased by \$793,322 or 76.16% 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 \$731,174 or 22.51%. The components of this category consist of Series 2009 (A and C) and 2015 bond reserve funds, customer deposits, and capital improvement fund.

Compared to the prior period's balance, there was an increase in the *Unrestricted Net Position* category of \$119,102 or 1.8%.

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 March 31, 2015 and 2014 balances by asset classification is shown in the table below.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2015**

	Nine months ended March 31		Change in nine months ended March 31, 2015 to 2014	
	2015	2014	Amount	Percent
Cash and cash equivalents	\$ 3,027,084	\$ 3,655,196	\$ (628,112)	-17.18%
Accounts receivable	1,116,121	1,280,728	(164,607)	-12.85%
Heat pump loans	-	1,094	(1,094)	100.00%
Unbilled revenue	482,274	397,353	84,921	21.37%
Inventories	306,716	396,338	(89,622)	-22.61%
Other current assets	123,596	33,100	90,496	273.40%
	<u>\$ 5,055,791</u>	<u>\$ 5,763,809</u>	<u>\$ (708,018)</u>	<u>-12.28%</u>

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 would 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 March 31, 2015 and 2014 are compared to major classification. As indicated by the tabular information, total noncurrent assets decreased by \$1,459,324 or 5.22% compared to the prior nine months ended.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2015**

	Nine months ended March 31		Change in nine months ended March 31, 2015 to 2014	
	2015	2014	Amount	Percent
Investments - special funds	\$ 2,517,289	\$ 3,248,463	\$ (731,174)	22.51%
Investment in affiliated organizations	145,491	106,327	39,164	36.83%
Nonutility property	754,993	777,036	(22,043)	-2.84%
Deferred charges	2,362,654	2,195,216	167,438	7.63%
Capital assets (net)	20,691,203	21,603,912	(912,709)	-4.22%
	<u>\$ 26,471,630</u>	<u>\$ 27,930,954</u>	<u>\$ (1,459,324)</u>	<u>-5.22%</u>

The table above demonstrates the relatively large investment that the Board has made in capital assets. At the end of the nine months ended March 31, 2015, capital assets represented 78.16% of the noncurrent assets.

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 \$567,562 or 20.93% compared to the previous period.

In the *Long-Term Liabilities Outstanding* category, the balance decreased by \$1,781,031 or 8.88% from the previous period. The 2009 Series B Bonds were refunded in March 2015 and replaced with 2015 bonds.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2015**

Condensed Statements of Revenues, Expenses and Changes in Net Assets

As indicated in Table 2, the change in net position for the nine months ended March 31, 2015 was (\$36,714).

**TABLE 2
Condensed Statements of Revenues, Expenses and Changes in Net Position**

	Nine months ended March 31		Change in nine months ended March 31, 2015 to 2014	
	2015	2014	Amount	Percent
Operating revenues:				
Electric revenues	\$ 11,468,306	\$ 10,692,165	\$ 776,141	7.26%
Broadband revenues	22,493	75,408	(52,915)	-70.17%
Total operating revenues	11,490,799	10,767,573	723,226	6.72%
Operating expenses:				
Purchased power	7,740,845	7,981,473	(240,628)	-3.01%
Other expenses	3,010,419	2,870,454	139,965	4.88%
Total operating expenses	10,751,264	10,851,927	(100,663)	-0.93%
Net operating income	739,535	(84,354)	823,889	976.70%
Non-operating income, net	(776,249)	(799,752)	23,503	-2.94%
Change in net position	(36,714)	(884,106)	847,392	-95.85%
Net position, beginning	11,138,444	11,804,586	(666,142)	-5.64%
Net position, end of year	\$ 11,101,730	\$ 10,920,480	\$ 181,250	1.66%

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

Analysis of Revenue

For the nine months ended March 31, 2015, the *Operating Revenues* of the Board totaled \$11,490,799. This amount represented an increase of 6.72% more than the previous period's total of \$10,767,573.

In analyzing the increase in the *electric* revenue for the year, the main reason for the increase was a rate increase that went into effect October 1, 2013 as well as a higher average PCA throughout the 2015 period. KWh's sold increased by 575,793 or 0.68%.

Included in the *Non-Operating Revenues (Expenses) (net)* are interest income, interest expense and other miscellaneous revenues totaling (\$776,249).

Analysis of Expenses

The *Total Operating Expenses* for the nine month period ended March 31, 2015 were \$10,751,264. That amount represents a decrease of \$100,663 or about 1% less than the prior period total of \$10,851,927.

	Nine months ended March 31		Change in nine months ended March 31, 2015 to 2014	
	2015	2014	Amount	Percent
Cost of power	\$ 7,740,845	\$ 7,981,473	\$ (240,628)	-3.01%
Distribution - operation	448,958	407,543	41,415	10.16%
maintenance	381,415	353,010	28,405	8.05%
Maintenance - general	17,706	25,822	(8,116)	31.43%
Customer accounts	141,380	127,888	13,492	10.55%
Customer service and info	14,016	16,474	(2,458)	14.92%
Sales	7,284	10,106	(2,822)	27.92%
Administrative and general	499,917	523,394	(23,477)	-4.49%
Depreciation	912,269	820,106	92,163	11.24%
Taxes	587,474	586,112	1,362	0.23%
	<u>\$ 10,751,264</u>	<u>\$ 10,851,928</u>	<u>\$ (100,664)</u>	<u>-0.93%</u>

As indicated by the comparative information presented above, *Cost of Power* decreased by \$240,628 or 3.01% compared to the prior period. This decrease in operating expenses was principally due to decreased power costs due to the increased capacity of PSGC and savings from the KMPA surety bond transaction

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2015**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Included in the *Non-Operating Revenues (Expenses) (net)* are interest expense of \$877,068 amortization of debt expense of \$69,729, tax rebate from Build America Bonds of \$178,149, interest income of \$9,163 and other expenses of \$16,764.

Capital Assets

Princeton Electric Plant Board's investment in capital assets as of March 31, 2015 was \$20,691,203 (net of accumulated depreciation), as shown in the following table.

Schedule of Capital Assets (Net of Depreciation)

	March 31, 2015	March 31, 2014	Change
Land	\$ 1,104,842	\$ 1,104,842	\$ -
Construction in progress	76,580	1,807,571	(1,730,991)
Transmission plant	4,871,819	5,006,657	(134,838)
Distribution plant	12,435,108	11,142,787	1,292,321
General plant	1,989,893	2,251,185	(261,292)
Broadband plant	212,961	290,870	(77,909)
	<u>\$ 20,691,203</u>	<u>\$ 21,603,912</u>	<u>\$ (912,709)</u>

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2015**

Long-term Debt

At March 31, 2015 the Board had \$18,755,000 in debt outstanding, a decrease of \$2,335,000 or approximately 11% less than the previous period. A comparative schedule at March 31, 2015 and 2014 is shown in the tabular information provided below.

	<u>March 31, 2015</u>	<u>March 31, 2014</u>	<u>Change</u>
Tax-exempt Bonds Series 2009 A	\$ 7,240,000	\$ 7,430,000	\$ (190,000)
Taxable Bonds Series 2009 B	-	12,320,000	(12,320,000)
Taxable Bonds Series 2009 C	1,110,000	1,340,000	(230,000)
Tax-exempt Bonds Series 2015	10,405,000	-	10,405,000
	<u>\$ 18,755,000</u>	<u>\$ 21,090,000</u>	<u>\$ (2,335,000)</u>

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
STATEMENTS OF NET POSITION
MARCH 31, 2015 AND 2014**

ASSETS	<u>2015</u>	<u>2014</u>
Utility plant	\$ 31,848,478	\$ 31,575,637
Less accumulated depreciation	<u>11,155,275</u>	<u>9,971,725</u>
Net utility plant	<u>20,691,203</u>	<u>21,603,912</u>
Restricted assets		
Investments - special funds	<u>2,517,289</u>	<u>3,248,463</u>
Other assets		
Investment in affiliated organizations	145,491	106,327
Nonutility property	<u>754,993</u>	<u>777,036</u>
Total other assets and investments	<u>900,484</u>	<u>883,363</u>
Current assets		
Cash - general funds	3,027,084	3,655,196
Accounts receivable	1,116,121	1,280,728
Heat pump loans	"	1,094
Unbilled revenue	492,274	397,353
Inventories (at weighted-average cost)	306,716	396,338
Other current assets	<u>123,593</u>	<u>33,100</u>
Total current assets	<u>5,055,791</u>	<u>5,763,810</u>
Deferred charges	<u>2,362,654</u>	<u>2,185,216</u>
Total assets	<u>31,527,421</u>	<u>33,694,764</u>

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
STATEMENTS OF NET POSITION, continued
MARCH 31, 2015 AND 2014**

LIABILITIES

	<u>2015</u>	<u>2014</u>
Current liabilities		
Current maturities of long-term debt	575,000	500,000
Accounts payable - other	52,581	59,167
Accounts payable - related parties	577,703	879,214
Customer deposits	354,290	306,395
Accrued taxes - property	65,474	67,832
Accrued interest	194,012	506,745
Accrued payroll and other taxes	67,197	96,868
Deferred credits	54,515	109,840
Vacation and sick pay	199,800	180,979
Conservation advances	-	1,094
Other accrued liabilities	<u>3,926</u>	<u>3,926</u>
Total current liabilities	<u>2,144,498</u>	<u>2,712,060</u>
Noncurrent liabilities		
Long-term debt	<u>18,281,193</u>	<u>20,062,224</u>
Total noncurrent liabilities	<u>18,281,193</u>	<u>20,062,224</u>
Total liabilities	<u>20,425,691</u>	<u>22,774,284</u>
NET POSITION		
Invested in capital assets, net of related debt	1,835,010	1,041,688
Restricted		
Unrestricted	<u>9,266,720</u>	<u>9,878,792</u>
Total net position	<u>\$ 11,101,730</u>	<u>\$ 10,920,480</u>

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE NINE MONTHS ENDED MARCH 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES	\$ 11,490,799	\$ 10,767,573
OPERATING EXPENSES		
Cost of power	7,740,845	7,981,473
Distribution - operation	448,958	407,543
- maintenance	381,415	353,010
Maintenance - general plant	17,706	25,822
Customer accounts	141,380	127,888
Customer service and information	14,016	16,474
Sales	7,284	10,106
Administrative and general	499,917	523,394
Depreciation	912,269	820,106
Taxes	587,474	586,112
Total operating expenses	<u>10,751,264</u>	<u>10,851,927</u>
Net operating revenues	<u>739,535</u>	<u>(84,354)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest expense	(876,832)	(917,352)
Other interest expense	(237)	(2,666)
Amortization of debt expense	(69,729)	(70,957)
Interest income	9,163	12,976
Tax rebate on Build America Bonds	178,149	195,138
Other expenses	(16,764)	(16,893)
Net nonoperating revenues (expenses)	<u>(776,249)</u>	<u>(799,753)</u>
CHANGE IN NET POSITION	(36,714)	(884,106)
NET POSITION, BEGINNING OF YEAR	<u>11,138,444</u>	<u>11,804,586</u>
NET POSITION, END OF YEAR	<u>\$ 11,101,730</u>	<u>\$ 10,920,480</u>

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED MARCH 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Receipts from customers and users	\$ 11,725,969	\$ 10,501,502
Payments to suppliers	(8,587,672)	(8,286,505)
Payments to employees	(901,998)	(965,364)
Payments of taxes	(657,663)	(641,835)
Net cash provided (used) by operating activities	<u>1,578,636</u>	<u>607,798</u>
Cash flows from non-capital financing activities		
Energy service loans advances	<u>773</u>	<u>1,020</u>
Net cash provided (used) by non-capital financing	<u>773</u>	<u>1,020</u>
Cash flows from capital financing activities		
Expenditures for utility plant	(315,742)	(605,097)
Net cost of retiring plant	(36,826)	(25,894)
Principal payments on long-term debt	(12,740,000)	(485,000)
Bond proceeds, net	10,773,150	-
Tax rebate on Build America Bonds	132,280	130,282
Interest paid	(885,753)	(618,575)
Net cash provided (used) by capital financing activities	<u>(3,072,892)</u>	<u>(1,604,284)</u>
Cash flows from investing activities		
Energy loans receivable	(773)	(1,020)
Investment in affiliated companies	(25,358)	(18,378)
Interest income	9,257	13,798
Interest and other revenues	(16,764)	(16,893)
Net cash provided (used) by investing activities	<u>(33,638)</u>	<u>(22,493)</u>
Net increase (decrease) in cash	(1,527,121)	(1,017,959)
Cash, beginning of year	<u>7,071,493</u>	<u>7,921,619</u>
Cash, end of year	<u>\$ 5,544,372</u>	<u>\$ 6,903,660</u>

APPENDIX D

KENTUCKY MUNICIPAL POWER AGENCY POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2015B

Demographic & Economic Data of KMPA's Members

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**PADUCAH, KENTUCKY
(McCracken County)**

Paducah, the county seat of McCracken County, is the major economic center and the largest urban area in west Kentucky's Jackson Purchase Region. Paducah is located at the confluence of the Ohio and Tennessee Rivers (the head of the Tennessee-Tombigbee Waterway) approximately 48 river miles east of the confluence of the Ohio and Mississippi Rivers. Paducah is located 139 miles northwest of Nashville, Tennessee; 167 miles southeast of St. Louis Missouri; and 215 miles southwest of Louisville, Kentucky.

McCracken County had an estimated 2014 population of 65,316 persons.

The Economic Framework

The total number of persons employed in McCracken County as of November 2014 averaged 27,833. In 2013, manufacturing firms in the county reported 2,967 employees; trade, transportation and utilities provided 11,677 jobs; 17,146 people were employed in service occupations; informational, financial activities and public administration accounted for 3,076 employees; and contract construction firms provided 1,426 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 February 2015) are listed below:

<u>Firm</u>	<u>Product</u>	<u>Average Employment</u>
Baptist Health Paducah	Healthcare	1,800
Lourdes Hospital	Healthcare	1,460
TeleTech Healthcare Solutions	Call center operation for healthcare insurer	400
James Marine Inc.	Headquarters	300
Credit Bureau Systems	Credit reporting, collections and billing services	298
Lynx Services LLC	Customer service center	265
Computer Services, Inc.	Headquarters and provider of data processing services, and supplies for banks	225
Dippin' Dots, Inc.	Ice cream & yogurt	185
VMV Paducahbilt	Re-manufactured locomotives and component parts	181
ViWinTech Window & Door Inc.	Headquarters, manufacturer of vinyl windows	177
Henry A Petter Supply Company	Headquarters, industrial supply/distribution	150
National Maintenance Repair of Kentucky Inc.	Barge repair	124

Sources: Kentucky Cabinet for Economic Development, Division of Research and Planning

**McCracken County Economic Statistics
2010-2014**

<u>Year</u>	<u>Per Capita Income</u>	<u>Median Family Income</u>	<u>Average Weekly Wage</u>	<u>Unemployment Rate</u>	<u>Employment</u>	<u>Civilian Labor Force</u>
2014	(1)	\$56,418	\$781.00	6.5% (2)	27,883(2)	29,819(2)
2013	(1)	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
2010	38,482	54,100	728.00	9.1	28,719	31,587

Source: Kentucky Department of Economic Development; U.S. Department of Housing and Urban Development

(1) Data not available.

(2) Preliminary, as of November 2014.

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PRINCETON, KENTUCKY
(Caldwell County)

Princeton, the county seat of Caldwell County, is located in the Pennyryle Region of Western Kentucky just east of Lake Barkley, the Land Between the Lakes and the vast Western Waterland area. Princeton, with an estimated 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 November 2014 averaged 6,118. In 2013, manufacturing firms in the County reported 846 employees; trade, transportation and utilities provided 864 jobs; 773 people were employed in service occupations; informational, financial activities and public administration accounted for 361 employees; agriculture, forestry, fishing and hunting provided 74 jobs; and contract construction firms provided 61 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 February 2015) are listed below:

<u>Firm</u>	<u>Product</u>	<u>Average Employment</u>
Bremner Food Group, Inc.	Cookies & crackers	631
Caldwell Medical Center	Healthcare	105
Hydro-Gear LP	Designs & manufactures hydrostatic pumps Transmissions & trans-axles for the lawn & garden industry	84
Special Metals Powder Division	Powdered metals and consolidations	60
Princeton Finishing, Inc.	Cotton athletic sock finishing	30
Bodycote Int Inc.	HIP (Hot isostatic pressing)	18
Times Leader & Pacesetter Printing	Twice weekly newspaper and sheet-fed commercial printing	12

Sources: Kentucky Cabinet for Economic Development

**Princeton, Kentucky
(Caldwell County)
Economic Statistics
2010-2014**

<u>Year</u>	<u>Per Capita Income</u>	<u>Median Family Income</u>	<u>Average Weekly Wage</u>	<u>Unemployment Rate</u>	<u>Employment</u>	<u>Civilian Labor Force</u>
2014	⁽¹⁾	\$51,101	\$579.80 ⁽²⁾	5.1% ⁽²⁾	6,118 ⁽²⁾	6,445 ⁽²⁾
2013	⁽¹⁾	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
2010	29,458	45,700	573.00	9.3	6,298	6,940

Source: Kentucky Department of Economic Development; U.S. Department of Housing and Urban Development

⁽¹⁾ Data not available.

⁽²⁾ Preliminary, as of November 2014.

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APPENDIX E

KENTUCKY MUNICIPAL POWER AGENCY POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2015B

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 22,350 customers. Of this number, approximately 18,603 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 \$201,227,888 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 February 2014, is shown below.

<u>Customer Class</u>	<u>Retail Rates</u>	<u>Power Cost Adjustment</u>	<u>Effective Rate</u>
<u>Residential</u>			
Customer Charge	\$14.75		\$14.75
All KWH	\$0.11153	\$0.02150	\$0.133030
<u>Small Commercial</u>			
Customer Charge	\$22.00		\$22.00
All KWH	\$0.12217	\$0.02150	\$0.143670
<u>Mid-Sized Commercial</u>			
Customer Charge	\$115.00		\$115.00
1 st 15,000 KWH	\$0.11938	\$0.02150	\$0.140880
Additional KWH	\$0.07495	\$0.02150	\$0.096450
1 st 50 KW Demand	\$0.00		-
51-1,000 KW Demand	\$16.49		\$16.49
<u>Large Commercial</u>			
Customer Charge	\$275.00		\$275.00
All KWH	\$0.06736	\$0.02150	\$0.088860
0-1,000 KW Demand	\$15.25		\$15.25
1,001 – 5,000 KW Demand	\$17.62		\$17.62
<u>Industrial</u>			
Customer Charge	\$275.00		\$275.00
All KWH	\$0.05257	\$0.02150	\$0.07407
All KW Demand	\$18.38		\$18.38
<u>Outdoor Lighting</u>			
All KWH	\$0.08425	\$0.02150	\$0.105750
Customer Charge	See Note		

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 2014.

<u>Customer</u>	<u>Usage (Kilowatt Hrs.)</u>	<u>Dollar Sales</u>
Western Baptist Hospital	32,465,194	\$6,658,566.92
Lourdes Hospital	22,948,726	2,535,215.84
HB Fuller Co.	11,032,800	1,126,443.51
West Kentucky Community and Technical College	7,897,778	1,043,960.27
Walmart Stores, Inc.	7,607,343	902,654.27
VMV Paducah Bilt	6,631,589	884,243.78
City of Paducah	6,485,789	1,057,716.35
Paducah Water Works	5,961,861	735,241.84
Kroger Stores	5,605,721	663,229.28
Dippin Dots Inc.	5,359,744	612,971.90

Source: Paducah Power System

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

	FY14	FY13	FY12	FY11	FY10
Residential	18,603	18,612	18,677	18,699	18,706
Commercial	3,282	3,291	3,282	3,291	3,300
Lighting	466	471	448	449	448
Total	22,351	22,374	22,407	22,439	22,454
MWH Sold	580,995	595,572	599,913	631,428	612,217
Peak MWH	147	157	156	157	153

Source: Paducah Power System

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Financial Information

The following is a five year presentation of Paducah Electric's finances to include balance sheets and statements of revenues, expenses and changes in retained earnings. Please refer to Appendix B for Paducah Electric's 2013-2014 Audited Financial Statements.

BALANCE SHEETS

	ASSETS				
	June 30,				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
UTILITY PLANT					
Transmission system	\$ 10,372,166	\$ 10,365,605	\$ 8,314,588	\$ 8,315,685	\$ 3,020,991
Distribution system	81,519,079	79,292,296	73,800,089	71,984,076	65,013,948
Land	2,636,229	2,636,229	2,611,629	2,604,129	2,302,955
Generation plant	110,661,988	110,631,286	110,365,697	110,964,638	119,057,980
General plant	17,164,508	16,841,496	15,705,629	15,047,200	15,365,818
	222,353,970	219,766,912	210,797,632	208,915,728	204,761,692
Less accumulated depreciation	(63,070,143)	(55,207,547)	(48,016,771)	(41,096,103)	(35,232,658)
	159,283,827	164,559,365	162,780,861	167,819,625	169,529,034
Construction work in progress	2,874,790	3,211,472	5,915,561	2,305,176	1,995,443
Total Utility Plant	\$ 162,158,617	\$ 167,770,837	\$ 168,696,422	\$ 170,124,801	\$ 171,524,477
OTHER PROPERTY AND INVESTMENTS					
Sinking Fund	19,784,370	20,094,904	19,103,925	17,792,523	13,781,894
Investment in SEDC	140,508	94,324	102,208	84,528	68,803
Investment in MuniNet Fiber Agency	253,720	146,930	122,417	35,059	-
Depreciation Fund	823,068	899,378	917,332	912,222	905,497
Construction Fund	-	-	-	9,272,391	31,774,851
Investment in CSA	26,740	26,740	26,740	26,740	26,740
Non-utility property	2,999	3,977	4,956	5,934	6,913
Total Other Property and Investments	\$ 21,031,405	\$ 21,266,253	\$ 20,277,578	\$ 28,129,397	\$ 46,564,698
CURRENT ASSETS					
Cash and temporary cash investments	1,727,434	3,096,994	8,693,373	2,696,072	3,692,876
Accounts receivable (net of allowance for doubtful accounts)	8,240,041	6,092,799	4,935,507	5,022,971	5,100,854
Materials and supplies	1,473,321	1,542,843	1,570,685	1,731,578	1,662,975
Prepaid expenses	16,030	14,462	41,936	85,442	517,195
Receivable from KMPA	-	-	325,794	-	1,133,581
Receivable from MuniNet Fiber Agency	32,252	32,252	510,515	865,028	-
Grants receivable	-	365,042	365,042	389,320	389,320
Unamortized software maintenance	-	-	-	-	-
Receivable from TVA	-	-	-	-	-
Accrued interest receivable	29,226	25,476	21,854	25,248	61,880
Rent receivable	98,526	97,343	95,338	95,338	82,187
Total Current Assets	\$ 11,616,830	\$ 11,267,211	\$ 16,560,044	\$ 10,910,997	\$ 12,640,868
DEFERRED DEBITS					
Unamortized debt discount	2,636,229	2,636,229	2,661,819	2,794,674	2,812,613
Receivable for conservation	-	15,956	35,077	63,697	171,307
Unemployment Trust Fund	29,154	29,154	29,154	29,154	29,154
Other deferred debits	19,045	(32,038)	98,603	21,453	42,350
Total Deferred Debits	\$ 2,684,428	\$ 2,649,301	\$ 2,824,653	\$ 2,908,978	\$ 3,055,424
TOTAL ASSETS	\$ 201,227,888	\$ 202,846,337	\$ 208,358,697	\$ 212,074,173	\$ 233,785,467

Source: Paducah Power System Audited Financial Statements

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

BALANCE SHEETS

	LIABILITIES				
	June 30,				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES					
Accounts payable	\$ 6,308,307	\$ 5,242,373	\$ 4,626,243	\$ 5,072,377	\$ 5,761,219
Line of credit	3,000,000	-	-	-	-
Customer deposits	794,596	814,408	842,243	754,362	718,186
Accrued taxes and equivalents	1,024,117	1,094,667	1,240,276	1,413,601	733,365
Accrued interest	1,876,502	1,932,770	1,978,712	2,022,137	2,090,865
Accrued generation plant liabilities	-	-	-	374,885	12,906,315
Other current and accrued liabilities	817,286	811,125	815,222	790,278	731,965
Bonds payable	4,945,000	5,635,000	4,590,000	4,430,000	435,000
Total Current Liabilities	<u>\$ 18,765,808</u>	<u>\$ 15,530,343</u>	<u>\$ 14,092,696</u>	<u>\$ 14,857,640</u>	<u>\$ 23,376,915</u>
NON-CURRENT LIABILITIES					
Bonds held by public	151,000,043	155,809,740	61,301,558	165,748,377	170,026,880
Advances for conservation loans	15,220	23,865	51,755	82,014	119,815
Note payable	-	-	-	-	-
Other deferred credits	370,247	375,733	98,910	101,242	95,180
Total Non-Current Liabilities	<u>\$151,385,510</u>	<u>\$156,209,338</u>	<u>\$161,452,223</u>	<u>\$165,931,633</u>	<u>\$170,241,875</u>
TOTAL LIABILITIES	<u>\$170,151,318</u>	<u>\$171,739,681</u>	<u>\$175,544,919</u>	<u>\$180,789,273</u>	<u>\$193,618,790</u>
NET ASSETS					
Invested in capital assets, net of related debt	6,213,574	6,326,097	2,804,864	(428,461)	(11,843,718)
Restricted for:					
Capital projects	-	-	-	9,272,391	31,774,851
Debt service	19,784,370	20,994,282	20,021,257	18,704,745	14,687,391
Unrestricted - net deficit	5,078,626	3,786,277	9,987,657	3,736,225	5,548,153
Total Net Assets	<u>\$ 31,076,570</u>	<u>\$ 31,106,656</u>	<u>\$ 32,813,778</u>	<u>\$ 31,284,900</u>	<u>\$ 40,166,677</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$201,227,888</u>	<u>\$202,846,337</u>	<u>\$208,358,697</u>	<u>\$212,074,173</u>	<u>\$233,785,467</u>

Source: Paducah Power System Audited Financial Statements

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

COMBINED STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS

	Years Ending June 30,				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
OPERATING REVENUES					
Charges for services:					
Residential	\$31,611,977	\$25,942,162	\$ 23,520,042	\$ 24,403,769	\$ 21,074,348
Large lighting and power	36,078,042	30,848,216	29,647,756	29,439,282	26,013,725
Small lighting and power	8,814,194	7,249,722	6,901,797	6,966,622	6,390,578
Street and outdoor	1,622,309	1,364,324	1,252,568	1,233,159	1,213,190
Total Charges for Services	<u>\$78,126,522</u>	<u>\$65,404,424</u>	<u>\$ 61,322,163</u>	<u>\$ 62,042,832</u>	<u>\$ 54,691,841</u>
Miscellaneous:					
Forfeited discounts	479,047	364,870	347,405	368,526	288,654
Service revenue	2,095,002	1,844,872	1,507,138	1,439,842	1,299,423
Regulatory credits	3,976,727	-	-	-	-
Other electric revenue	600	15,025	14,423	14,720	14,712
Total Miscellaneous	<u>\$ 6,551,376</u>	<u>\$ 2,224,767</u>	<u>\$ 1,868,966</u>	<u>\$ 1,823,088</u>	<u>\$ 1,602,789</u>
TOTAL OPERATING REVENUES	<u>\$84,677,898</u>	<u>\$67,629,191</u>	<u>\$ 63,191,129</u>	<u>\$63,865,920</u>	<u>\$ 56,294,630</u>
PURCHASED POWER AND OPERATING EXPENSES					
Purchased power cost	56,629,518	41,246,986	32,446,316	44,472,463	44,436,067
General operating expense	7,254,708	7,167,898	7,016,723	6,436,143	5,810,344
Generation plant expense	1,239,850	1,195,714	2,477,582	2,873,063	1,092,816
Maintenance expense	1,438,592	1,379,719	1,350,675	1,359,103	1,103,105
Other operating expense	10,811,174	10,727,728	10,594,100	9,885,342	4,791,883
Total Purchased Power and Operating Expenses	<u>\$77,373,842</u>	<u>\$61,718,045</u>	<u>\$ 53,885,396</u>	<u>\$65,026,114</u>	<u>\$ 57,234,215</u>
OPERATING INCOME	<u>\$ 7,304,056</u>	<u>\$ 5,911,146</u>	<u>\$ 9,305,733</u>	<u>\$(1,160,194)</u>	<u>\$ (939,585)</u>
NONOPERATING REVENUES/EXPENSES					
Interest paid on indebtedness	(7,462,876)	(7,658,943)	(7,821,206)	(7,960,692)	(2,196,526)
Interest earned on investments	362,982	271,045	288,356	496,049	1,208,501
Net amortization discount and premium on debt	(268,158)	(276,036)	(276,036)	(287,416)	(287,625)
Nonoperating income	33,910	45,666	32,031	30,476	38,475
Total Nonoperating Revenues/Expenses	<u>\$(7,334,142)</u>	<u>\$(7,618,268)</u>	<u>\$(7,776,855)</u>	<u>\$(7,721,583)</u>	<u>\$ (1,237,175)</u>
CHANGES IN NET ASSETS	<u>\$ (30,086)</u>	<u>\$(1,707,122)</u>	<u>\$ 1,528,878</u>	<u>\$(8,881,777)</u>	<u>\$ (2,176,760)</u>
NET ASSETS, BEGINNING OF YEAR	<u>\$31,106,656</u>	<u>\$32,813,778</u>	<u>\$ 31,284,900</u>	<u>\$ 40,166,677</u>	<u>\$ 42,343,437</u>
NET ASSETS, END OF YEAR	<u>\$31,076,570</u>	<u>\$31,106,656</u>	<u>\$ 32,813,778</u>	<u>\$ 31,284,900</u>	<u>\$ 40,166,677</u>

Source: Paducah Power System Audited Financial Statements

PRINCETON ELECTRIC PLANT BOARD ("PEPB")

Organization and Powers

The Electric Plant Board of the City of Princeton, Kentucky ("PEPB") was created by an ordinance duly enacted on August 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 3,884 customers. Of this number, approximately 3,023 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 \$33,844,088, 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.

Electric Rates

The current schedule for electric rates, shown below, became effective July 1, 2014.

<u>Customer Class</u>	<u>Effective Rate</u>
<u>Residential</u>	
Customer Charge	\$14.89
All KWH	\$0.11298
<u>GSA-1</u>	
Customer Charge	\$27.85
All KWH	\$0.12428
<u>GSA-2</u>	
Customer Charge	\$127.66
1 st 50 KW Demand	--
51-1,000 KW Demand	\$15.71
1 st 15,000 KWH	\$0.10278
Additional KWH	\$0.10278
<u>GSA-3</u>	
Customer Charge	\$294.15
1 st 1,000 KWH	\$15.46
Additional KWH	\$17.88
1 st 550 KW Demand	\$0.08478
Additional KWH	\$0.08478
<u>Outdoor Lighting</u>	
All KWH	\$.08757

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 2014.

<u>Customer</u>	<u>Usage (Kilowatt Hrs.)</u>	<u>Dollar Sales</u>
Bremner	23,394,255	\$2,885,137
Special Metals	5,960,400	861,903
Hydrogear	3,369,600	463,541
Bodycote Int Inc.	3,028,800	464,341
Walmart	3,105,000	409,938
Caldwell Co. Hospital	3,038,400	385,981
Food Giant Supermarket	1,448,040	320,784
Water & Sewer Commission	1,197,200	147,918
City of Princeton	1,286,597	132,246
Caldwell Co. Board of Education	1,092,900	172,825

Source: Princeton Electric Plant Board

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

	FY14	FY13	FY12	FY11	FY10
Residential	3,023	3,032	3,071	3,090	3,083
Commercial	847	877	846	819	829
Lighting	14	14	14	13	13
Total	3,884	3,923	3,931	3,922	3,925
MWH Sold	110,921	113,638	111,758	111,961	110,118
Peak MW	24.47	26.6	26.4	26.2	26.6

Source: Princeton Electric Plant Board

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Financial Information

The following is a five year presentation of Princeton Electric's finances to include balance sheets and statements of revenues, expenses and changes in retained earnings. Please refer to Appendix C for Princeton Electric's 2013-2014 Audited Financial Statements.

**ELECTRIC PLANT BOARD OF THE
CITY OF PRINCETON, KENTUCKY
PRINCETON ELECTRIC PLANT BOARD (PEPB)**

BALANCE SHEETS

	ASSETS				
	Years Ending June 30,				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
CURRENT ASSETS					
Cash - general funds	\$3,981,340	\$4,867,586	\$4,286,027	\$1,740,827	\$978,590
Special funds	-	-	-	-	172,319
Accounts receivable	1,294,242	938,714	899,242	746,946	1,618,951
Other receivables	-	-	-	-	188,565
TVA heat pump loans	773	2,114	4,889	13,445	-
Unbilled revenue	482,273	397,353	540,659	459,810	-
Inventories (at weighted-average cost)	296,027	516,056	323,752	261,532	264,646
Prepaid expenses	-	-	-	-	63,672
Other current assets	380,337	23,359	24,974	19,581	-
Total Current Assets	<u>\$6,434,992</u>	<u>\$6,745,182</u>	<u>\$6,079,543</u>	<u>\$3,242,141</u>	<u>\$3,286,743</u>
NONCURRENT ASSETS					
Utility plant	\$31,564,968	\$31,074,285	\$30,290,564	\$29,283,004	\$17,112,933
Construction in progress	-	-	-	-	12,047,401
Less accumulated depreciation	10,314,064	9,281,258	8,249,740	7,486,907	6,885,486
Net utility plant	<u>\$21,250,904</u>	<u>\$21,793,027</u>	<u>\$22,040,824</u>	<u>\$21,796,097</u>	<u>\$22,274,848</u>
RESTRICTED ASSETS					
Investments - special funds	<u>\$3,090,153</u>	<u>\$3,054,033</u>	<u>\$3,436,275</u>	<u>\$4,491,863</u>	<u>\$5,176,901</u>
OTHER ASSETS					
Investment in affiliated organizations	\$120,133	\$87,949	\$17,103	\$10,833	-
Nonutility property	771,525	793,568	913,900	938,600	-
Total other assets and investments	<u>\$891,658</u>	<u>\$881,517</u>	<u>\$931,003</u>	<u>\$949,433</u>	<u>-</u>
Deferred charges	<u>2,176,381</u>	<u>2,251,723</u>	<u>2,327,066</u>	<u>2,402,408</u>	<u>3,101,394</u>
TOTAL ASSETS	<u>\$33,844,088</u>	<u>\$34,725,482</u>	<u>\$34,814,711</u>	<u>\$32,881,942</u>	<u>\$33,839,886</u>

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,				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES					
Current maturities of long-term debt	\$500,000	\$485,000	\$475,000	\$170,000	\$23,038
Accounts payable - other	55,910	92,527	119,138	104,878	163,702
Accounts payable - related parties	1,017,869	828,006	612,045	795,283	1,425,142
Customer deposits	323,616	290,468	315,569	309,192	275,248
Accrued interest	202,697	205,303	207,501	208,067	221,607
Accrued payroll and other taxes	220,649	186,163	142,381	135,775	129,628
Deferred credits	77,352	20,679	(35,104)	(45,045)	7,573
Vacation and sick pay	201,123	201,289	170,163	162,616	173,514
Conservation advances - TVA	773	2,114	4,889	-	-
Other current & accrued liabilities	38,614	61,572	61,187	58,001	55,003
Total Current Liabilities	\$2,638,603	\$2,373,121	\$2,072,769	\$1,898,767	\$2,474,455
NONCURRENT LIABILITIES					
Long-term debt	\$20,067,041	\$20,547,775	\$21,013,508	\$21,469,241	\$22,220,000
Advances from others:					
Conservation advances - TVA	-	-	-	13,295	25,921
Total Noncurrent Liabilities	\$20,067,041	\$20,547,775	\$21,013,508	\$21,482,536	\$22,245,921
TOTAL LIABILITIES	\$22,705,644	\$22,920,896	\$23,086,277	\$23,381,303	\$24,720,376
NET ASSETS					
Invested in capital assets, net of related debt	\$683,863	\$760,252	\$552,316	\$156,856	\$31,810
Restricted	3,090,153	3,054,033	3,436,275	4,491,863	4,895,590
Unrestricted	7,364,428.00	7,990,301	7,739,843	4,851,920	4,192,110
Total Net Assets	\$11,138,444	\$11,804,586	\$11,728,434	\$9,500,639	\$9,119,510

Source: Princeton Electric Plant Board Audited Financial Statements

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

COMBINED STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS

	Years Ending June 30,				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
OPERATING REVENUES					
Total Operating Revenues	\$14,759,975	\$12,794,889	\$13,086,572	\$12,472,157	\$10,745,810
OPERATING EXPENSE					
Cost of power	\$10,276,577	\$7,870,088	\$6,083,593	\$7,316,092	\$8,313,272
Distribution - operation	572,118	540,768	524,951	520,534	404,482
Maintenance	543,835	485,107	731,869	506,144	434,940
Customer accounts	189,848	171,163	177,210	225,524	222,578
Sales promotion	34,578	34,231	36,858	286,103	113,341
Administrative and general	702,772	720,706	800,859	735,444	703,808
Depreciation	1,261,191	1,089,543	1,017,205	784,123	719,420
Taxes	786,768	750,746	598,246	598,720	177,861
Total Operating Expenses	<u>\$14,367,687</u>	<u>\$11,662,352</u>	<u>\$9,970,791</u>	<u>\$10,972,684</u>	<u>\$11,089,702</u>
OPERATING INCOME	<u>\$392,288</u>	<u>\$1,132,537</u>	<u>\$3,115,781</u>	<u>\$1,499,473</u>	<u>(\$343,892)</u>
NONOPERATING REVENUES/EXPENSES					
Interest expense	(\$1,240,666)	(\$1,230,082)	(\$1,246,141)	(\$1,248,554)	(\$651,170)
Amortization of debt expense	(78,245)	(94,610)	(94,610)	(93,940)	-
Interest income	17,616	18,817	37,784	60,331	68,204
Tax rebate on Build America Bonds	261,350	270,911	285,394	332,960	200,569
Other expenses	(18,485)	(21,421)	(18,775)	(19,918)	(16,033)
Gain (Loss) on disposal of assets	-	-	-	(861)	13,776
Total Nonoperating Revenues/Expenses	<u>(\$1,058,430)</u>	<u>(\$1,056,385)</u>	<u>(\$1,036,348)</u>	<u>(\$969,982)</u>	<u>(\$384,654)</u>
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>\$11,804,586</u>	<u>\$11,728,434</u>	<u>\$9,649,001</u>	<u>\$9,119,510</u>	<u>\$9,848,056</u>
NET INCOME	<u>(\$666,142)</u>	<u>\$76,152</u>	<u>\$2,079,433</u>	<u>\$529,491</u>	<u>(\$728,546)</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$11,138,444</u>	<u>\$11,804,586</u>	<u>\$11,728,434</u>	<u>\$9,649,001</u>	<u>\$9,119,510</u>

Source: Princeton Electric Plant Board Audited Financial Statements

APPENDIX F

KENTUCKY MUNICIPAL POWER AGENCY POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2015B

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 96.901 of the Kentucky Revised Statutes, as amended.

"*Annual Budget*" means the budget adopted by the Issuer at the beginning of each Fiscal Year, as the same may be amended from time to time.

"*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.

"*Applicable Spread*" means, with respect to the Series 2015B Bonds, the following:

- (i) During the Initial Period, 140 basis points (1.40%); and
- (ii) During any Flexible Term Rate Period other than the Initial Period, the number of basis points determined by the Remarketing Agent on or before the first day of such Flexible Term Rate Period designated by the Issuer in accordance with the Indenture as will, when added to the Flexible Term Rate Index for such Flexible Term Rate Period, enable the Outstanding Series 2015B Bonds to be remarketed at par.

"*Approving Opinion*" means, with respect to any action relating to the Series 2015B 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 2015B 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 2015B 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.

"*Calculation Agent*" means Regions Bank and if Regions Bank shall decline to act as Calculation Agent means any other Person appointed by the Issuer, in its sole discretion, to serve as Calculation Agent for the Series 2015B Bonds.

"*Calculation Agent Agreement*" has the meaning ascribed to such term in the Indenture.

"*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.

"*Ceiling Rate*" means 12% per annum.

"*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.

"Computation Date" means (i) during each SIFMA Index Rate Period, the first day of such period and thereafter Wednesday of each week, (ii) during each LIBOR Index Rate Period, the second London Business Day preceding each LIBOR Index Reset Date and (iii) a date determined by the Remarketing Agent that is not more than twenty (20) nor less than two (2) days prior to any Conversion Date relating to conversion to a Fixed Rate.

"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.

"Conversion Date" means each date on which the Interest Rate Determination Method then in effect is changed to another Interest Rate Determination Method as provided in the Indenture.

"Conversion Notice" has the meaning ascribed to such term in the Indenture.

"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 2015B Bonds, the date the Series 2015B 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.

"Delayed Remarketing Period" has the meaning ascribed to such term in the Indenture.

"Depository" means any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a book entry system to record ownership of book entry interests in the Bonds, and to effect transfers of book entry interests in the Bonds in book entry form, and includes and means initially The Depository Trust Company (a limited purpose trust company), New York, New York.

"Depository Bank" means a bank or trust company, designated by the Issuer, in which one or more of the Funds referred to in the Indenture will be established and maintained; provided, however, that by appropriate action the Issuer, from time to time, may designate a different bank or trust company.

"Determination of Taxability" means the receipt by the Trustee (1) of written notice of any final determination, decision or decree, all applicable appeal periods with respect to which shall have expired, made by the Commissioner or any District Director of the Internal Revenue Service or by any court of competent jurisdiction, or (2) of an opinion of Tax Counsel, in either case to the effect that interest on the Tax-Exempt Bonds is not excludable for regular federal income tax purposes under Section 103(a) of the Code from gross income of any Owner of the Tax-Exempt Bonds (other than an Owner who is a substantial user of the Project or related person as defined in the Code) or (3) of notice that, as a result of any amendment, modification, addition or change made in Section 103 or any other provision of the Code or in any regulation or proposed regulation thereunder, or any ruling issued or revoked by the Internal Revenue Service, or any other action taken by the Internal Revenue Service, the Department of the Treasury or any other governmental agency, authority or instrumentality, or any opinion of any federal court or of the United States Tax Court rendered, Tax Counsel is unable to give an opinion that the interest payable on any Tax-Exempt Bond on or after a date specified in such notice is excludable from gross income of the taxpayer named therein (other than any such-taxpayer who is a "substantial user" or a "related person," within the meaning of Section 147(a) of the Code) for regular federal income tax purposes.

"Direct Participant" means a Participant as defined in the Letter of Representations.

"Entitlement Capacity Share" means each Participating Member's Entitlement Percentage of available Capacity associated with the Project. An estimate of the Participating Member's Entitlement Capacity Share is included in the Power Sales Agreement.

"Entitlement Percentage" means with respect to a Participating Member, the percentage as set forth for such Participating Member in the Power Sales Agreement, as may be adjusted as provided for pursuant to the Power Sales Agreement.

"Event of Default" means any of the events specified in the Indenture.

"Excess Capacity" has the meaning given that term in the Power Sales Agreement.

"Failed Remarketing" has the meaning ascribed to such term in the Indenture.

"Failed Remarketing Rate" has the meaning ascribed to such term in the Indenture.

"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.

"First Date of Redemption Period" has the meaning ascribed to such term in the Indenture.

"Fiscal Year" means the period of twelve complete, consecutive calendar months ending on June 30 of each year.

"Fixed Rate" means the Fixed Rate or Fixed Rates established for the Series 2015B Bonds in accordance with the Indenture.

"Fixed Rate Conversion Date" means the Conversion Date on which a change of the Interest Rate Determination Method to the Fixed Rate becomes effective.

"Fixed Rate Period" means the period from and including the Fixed Rate Conversion Date to and including the date of payment in full of the Series 2015B Bonds.

"Flexible Term Rate" means the Flexible Term Rate established for each of the Series 2015B Bonds in accordance with the Indenture.

"Flexible Term Rate Bond" means any Series 2015B Bond bearing interest at a Flexible Term Rate.

"Flexible Term Rate Index" means initially the SIFMA Index and thereafter either the SIFMA Index or the LIBOR Index as determined in accordance with the provisions of the Indenture to be in existence during a Flexible Term Rate Period for the Series 2015B Bonds.

"*Flexible Term Rate Period*" means any period during which the Series 2015B Bonds bear interest at a Flexible Term Rate, as may be determined by the Issuer pursuant to the Indenture.

"*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 March 1, 2015, 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.

"Initial Conversion Date" means September 1, 2018.

"Initial Period" means the initial period commencing on the Issue Date and ending on the day immediately preceding the Initial Conversion Date.

"Initial Period Rate" shall mean the SIFMA Index Rate.

"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 2015B Bonds bearing interest at a Flexible Term Rate, the first Business Day of each month, beginning August 3, 2015 or the first Business Day immediately succeeding the last day of each Flexible Term Rate Period, and with respect to Series 2015B Bonds bearing interest at a Fixed Rate, March 1 and September 1 of each year, 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.

"Interest Rate Determination Method" means any of the methods of determining the interest rate on the Series 2015B Bonds described in the Indenture.

"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.

"LIBOR Index" means the rate per annum determined on the basis of the rate of deposits in United States dollars of amounts equal to or comparable to the principal amount of the Series 2015B Bonds, offered for a term of one month, which rate appears on the display designated as Reuters Screen LIBOR01 Page (or such other page as may replace Reuters Screen LIBOR01 Page or such other service or services as may be nominated by the British

Bankers' Association for the purpose of displaying London interbank offered rates for United States dollar deposits), determined as of approximately 11:00 a.m., London time, on each Computation Date in effect on the next succeeding LIBOR Index Reset Date, or if such rate is not available, another rate determined in accordance with the provisions of the Indenture which most clearly resembles the LIBOR Index and is generally available; provided that if such alternative is in effect, it will remain in effect until the LIBOR Index reappears and is available for determining the rate on the first Computation Date thereafter during any LIBOR Index Rate Period.

"*LIBOR Index Rate*" means a per annum rate of interest established on each Computation Date equal to the sum of the Applicable Spread plus the LIBOR Index.

"*LIBOR Index Rate Conversion Date*" means (a) the date on which the Series 2015B Bonds begin to bear interest at the LIBOR Index Rate or (b) if the Series 2015B Bonds have previously borne interest at the LIBOR Index Rate during a LIBOR Index Rate Period then ending, the Mandatory Purchase Date occurring at the end of the then ending LIBOR Index Rate Period.

"*LIBOR Index Rate Period*" means each period from and including a LIBOR Index Rate Conversion Date to and including the day immediately preceding the earliest of (i) the immediately succeeding Mandatory Purchase Date, (ii) the immediately succeeding Conversion Date and (iii) the Maturity Date.

"*LIBOR Index Reset Date*" means the first Business Day of each month.

"*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.

"*Mandatory Purchase Date*" means (i) a proposed Conversion Date and (ii) with respect to each Series 2015B Bond then bearing interest at a Flexible Term Rate, the first Business Day immediately succeeding the last day of each Flexible Term Rate Period applicable to such Series 2015B Bond.

"*Maturity Date*" means September 1, 2042, the due date of the final maturity of the Series 2015B Bonds.

"*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 and the Series 2015A Bonds.

"Prior Indenture" collectively refers to the Series 2007 Indenture, the Series 2010 Indenture and the Series 2015A 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.

"Purchase Price" means an amount equal to 100% of the principal amount of any Bond tendered or deemed tendered for purchase pursuant to the Indenture, plus accrued and unpaid interest thereon to the date of purchase.

"Rate" means the Initial Period Rate, any Flexible Term Rate or the Fixed Rate.

"Rate Period" means the Initial Period, any Flexible Term Rate Period or Fixed Rate Period.

"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 Series 2007A Bonds being refunded by the Series 2015A Bonds and as identified in the Indenture.

"*Related Documents*" means the Power Sales Agreements.

"*Remarketing Agent*" means any Person appointed and serving in such capacity pursuant to the Indenture and the successors thereof.

"*Remarketing Agreement*" means any agreement between the Issuer and a Remarketing Agent relating to the Series 2015B Bonds, as such agreement may be amended, restated, supplemented or otherwise modified from time to time pursuant to its terms.

"*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.

"*Requisition Certificate*" means the Requisition for Payment of Project Costs in substantially the form set forth as Exhibit C attached to the Indenture.

"*Reserve Account Insurance Policy*" refers to an insurance policy issued by or approved in writing by the Bond Insurer guaranteeing the payment of whatever reserve account or commitment related thereto is described in such insurance policy.

"*Reserve Fund*" means the fund of that name created and established pursuant to the Indenture.

"*Reserve Fund Withdrawal*" means a withdrawal of moneys from the Reserve Fund to pay the principal of and interest on the Bonds.

"*Resolution*" means the Resolution enacted by the Issuer, approving the execution of the Indenture and authorizing the issuance of the Series 2015 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, 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 2012 Indenture*" means the Trust Indenture, dated as of March 20, 2012, by and between the Issuer and the Trustee, as amended and supplemented from time to time.

"*Series 2012 Note*" or "*Series 2012 Notes*" means the Kentucky Municipal Power Agency Power System Revenue Bond Anticipation Notes (Prairie State Project), Series 2012, authorized by, and at any time Outstanding, pursuant to the Series 2012 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 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.

"*SIFMA Index*" means, for any Computation Date, the index generally referred to as the "SIFMA Index" which is issued weekly and which is compiled from the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meet specific criteria established from time to time by the Securities Industry and Financial Markets Association and issued on Wednesday of each week, or if any Wednesday is not a Business Day, the next succeeding Business Day. If the SIFMA Index is no longer published or otherwise available, then "SIFMA Index" shall mean the "S&P Weekly High Grade Index" (formerly the J.J. Kenny Index) maintained by Standard & Poor's Securities Evaluation Inc. for a 7-day maturity as published on the Computation Date or the most recently published prior to the SIFMA Rate Reset Date. If neither such index is any longer available, then the "SIFMA Index" shall mean the prevailing rate determined in accordance with the provisions of the Indenture for tax-exempt state and local government bonds comparable under the circumstances to the criteria used by the Securities Industry and Financial Markets Association to determine the SIFMA Index immediately prior to the date on which the Securities Industry and Financial Markets Association ceased publication of the SIFMA Index; provided that if such alternative is in effect, it will remain in effect until the SIFMA Index reappears and is available for determining the rate on the first Computation Date thereafter during any SIFMA Index Rate Period.

"*SIFMA Index Rate*" means a per annum rate of interest established on each Computation Date equal to the sum of the Applicable Spread plus the SIFMA Index.

"*SIFMA Index Rate Conversion Date*" means (a) the date on which the Series 2015B Bonds begin to bear interest at the SIFMA Index Rate or (b) if the Series 2015B Bonds have previously borne interest at the SIFMA Index Rate during a Flexible Term Rate Period then ending, the Mandatory Purchase Date occurring at the end of the then ending SIFMA Index Rate Period.

"*SIFMA Index Rate Period*" means each period from and including a SIFMA Index Rate Conversion Date to and including the day immediately preceding the earliest of (a) the immediately succeeding Mandatory Purchase Date, (b) the immediately succeeding Conversion Date and (c) the Maturity Date.

"*SIFMA Rate Reset Date*" means Thursday of each week.

"*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.

"*Stated Maturity*" has the meaning ascribed to such term in the Indenture.

"*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 2007A Bonds, the Series 2010A Bonds, the Series 2015A Bonds and the Series 2015B 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 2015 Bonds.

"*Unremarketed Series 2015B Bonds*" has the meaning ascribed to such term in the Indenture.

"*Unscheduled Redemptions*" has the meaning ascribed to such term in the Indenture.

"*Untendered Bond*" means any Untendered Bond as described in the Indenture.

"*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;
 - (ii) the Redemption Account; and
 - (iii) the Bond Purchase 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 20th 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 - Bond Purchase Account

There is established and created with the Trustee a subaccount of the Bond Fund to be known as the Bond Purchase Account. There shall be deposited in the Bond Purchase Account all moneys required to be paid by the Issuer to provide for the payment of the Purchase Price of Series 2015B Bonds pursuant to the Indenture, together with any other moneys received by the Trustee pursuant to the Indenture or otherwise that are required or directed to be paid into the Bond Purchase Account. The Trustee shall establish with the Paying Agent a separate subaccount of the Bond Purchase Account into which the proceeds of the remarketing of Series 2015B Bonds to purchasers (other than the Issuer or any other Person obligated (as guarantor or otherwise) to make payments on the Series 2015B Bonds) will be deposited. Neither the Trustee nor the Paying Agent shall commingle amounts in either of such subaccounts with any other funds.

Moneys in the Bond Purchase Account shall be held in trust for the Owners of the Series 2015B Bonds and, except as otherwise expressly provided in the Indenture, shall be used solely for the payment of the Purchase Price of the Series 2015B Bonds required to be purchased as set forth in the Indenture.

The Trustee is authorized and directed, and the Trustee agrees, to withdraw and to transfer to the Paying Agent from available funds in the Bond Purchase Account as contemplated by the Indenture by 1:00 p.m., Central Time, on each date that Series 2015B Bonds are to be purchased pursuant to the Indenture from the Bond Purchase Account to pay the Purchase Price of Bonds tendered (or deemed tendered) for purchase pursuant to the Indenture. The Trustee shall give the Remarketing Agent prompt telephonic notice if, for whatever reason, such transfer is not made.

After payment in full of the Series 2015B Bonds, or provision having been made for payment of the Series 2015B Bonds pursuant to the Indenture, and payment of all other amounts required to be paid under the Indenture, any amounts remaining in the Bond Purchase Account shall be paid to the Issuer.

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 20th 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 2015B Bonds and that the Series 2015B 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.

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 2015 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 2015 Bonds or the Trustee for the benefit of the holders of the Series 2015 Bonds under the Indenture, including, without limitation, (i) the right to accelerate the principal of the Series 2015 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 such date, the Trustee shall have no further duties and obligations under the Indenture or any Power Sales Agreement.

Removal of Trustee

(a) Subject to the provisions of the Indenture, the Trustee may be removed at any time, either with or without cause, by the Owners of a majority in aggregate principal amount of Outstanding Bonds, provided that all fees 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.

Remarketing Agent

A Remarketing Agent may, and, pursuant to the applicable provision of the Indenture, prior to any Conversion Date converting the Series 2015B Bonds to a Flexible Term Rate Period or a Fixed Rate Period, shall be appointed by the Issuer. The Issuer shall give written notice to the Trustee of such an appointment, and the Trustee, in turn, shall cause written notice of such appointment to be given to the Owners of the Series 2015B Bonds. The Issuer shall appoint any successor Remarketing Agent for the Series 2015B Bonds (except for assignees permitted under the following sentence), subject to the conditions set forth in the Indenture. To the extent permitted by any Remarketing Agreement then in effect, the Remarketing Agent may at any time transfer all of its duties and obligations as Remarketing Agent under the Indenture to an affiliate of such Remarketing Agent that satisfies the conditions set forth in the Indenture and, upon such transfer, such affiliate shall automatically become the Remarketing Agent under the Indenture without any further action.

Any Remarketing Agent shall designate to the Issuer and the Trustee its designated office for purposes of the Indenture, which shall be the office of such Remarketing Agent at which all notices and other communications in connection therewith may be delivered to it, and signify its acceptance of the duties and obligations imposed upon it under the Indenture by a written instrument of acceptance delivered to the Issuer, the Trustee, and the Bond Insurer, if any, under which such Remarketing Agent shall agree particularly (i) to hold all Series 2015B Bonds delivered to it under the Indenture in trust for the benefit of the respective Owners of Series 2015B Bonds that delivered such Series 2015B Bonds until moneys representing the Purchase Price of such Series 2015B Bonds are delivered to or for the account of or to the order of such Owners of Series 2015B Bonds; (ii) to hold all moneys delivered to it under the Indenture for the purchase of Series 2015B Bonds in trust for the benefit of the person or entity that has delivered such moneys until the Series 2015B Bonds purchased with such moneys are delivered to or for the account of such person or entity; and (iii) to keep books and records with respect to its activities under the Indenture available for inspection by the Issuer, the Trustee, and the Bond Insurer, if any, at all reasonable times.

Qualifications of Remarketing Agent; Resignation; Removal

The Remarketing Agent shall be a financial institution or registered broker/dealer authorized by law to perform all the duties imposed upon it by the Indenture. The Remarketing Agent may at any time resign and be discharged of its duties and obligations created by the Indenture by giving at least thirty (30) days' notice to the Issuer, the Trustee, and the Bond Insurer, if any. The Remarketing Agent may be removed at any time, upon not less than thirty (30) days' notice, at the direction of the Issuer and filed with the Remarketing Agent, the Trustee, and the Bond Insurer, if any; provided that no such removal shall be effective until a successor Remarketing Agent has been appointed in accordance with the Indenture and such successor Remarketing Agent has accepted such appointment.

Calculation Agent

For so long as the Series 2015B Bonds shall bear interest at a Flexible Term Rate, a Calculation Agent shall be appointed by the Issuer. Regions Bank shall serve as the initial Calculation Agent under the Indenture. The Issuer shall appoint any successor Calculation Agent for the Series 2015B Bonds (except for assignees permitted under the following sentence), subject to the conditions set forth in the Indenture. To the extent permitted by any agreement entered into by and between the Issuer and the Calculation Agent (the "Calculation Agent Agreement") then in effect, the Calculation Agent may at any time transfer all of its duties and obligations as Calculation Agent hereunder to an affiliate of such Calculation Agent that satisfies the conditions set forth in the Indenture and, upon

such transfer, such affiliate shall automatically become the Calculation Agent under the Indenture without any further action.

Any Calculation Agent shall designate to the Issuer and the Trustee its designated office for purposes of the Indenture, which shall be the office of such Calculation Agent at which all notices and other communications in connection with the Indenture may be delivered to it, and signify its acceptance of the duties and obligations imposed upon it under the Indenture by a written instrument of acceptance delivered to the Issuer, the Trustee and the Bond Insurer, if any, under which such Calculation Agent shall agree particularly (i) to calculate the Flexible Term Rate on each Computation Date and (ii) to keep books and records with respect to its activities hereunder available for inspection by the Issuer, the Trustee, and the Bond Insurer, if any, at all reasonable times.

If on a Computation Date the Flexible Term Rate Index is not published or announced, or if such rate is not available, the Remarketing Agent, or if a Remarketing Agent has not been appointed then by the Underwriter, Financial Advisor and Bond Counsel, shall determine another index or rate of which the Issuer has received written notice which, in the opinion of the Remarketing Agent or the Underwriter, Financial Advisor and Bond Counsel, as the case may be, most clearly resembles the Flexible Term Rate Index then in effect. The Calculation Agent shall not be liable with respect to any action taken or omitted to be taken by it in good faith in determining an alternative index or rate under the Indenture.

The Calculation Agent shall not be liable with respect to any action taken or omitted to be taken hereunder in good faith; provided, that:

(a) in the absence of willful misconduct on the part of the Calculation Agent, the Calculation Agent may conclusively rely upon (i) any certificate or opinion furnished to the Calculation Agent conforming to the procedural requirements of the Indenture or any Calculation Agent Agreement, and as to the truth and the correctness of the statements therein, and (ii) any publication or announcement of any Flexible Term Rate Index and as to the correctness of the publication and announcement but in the case of any such certificate or opinion which by any provision is specifically required to be furnished to the Calculation Agent, the Calculation Agent shall be under a duty to examine the same to determine whether or not it conforms to the procedural requirements of this Indenture or a Calculation Agent Agreement; and

(b) the Calculation Agent shall not be liable for any error of judgment made in good faith by the Calculation Agent unless it shall be proved that the Calculation Agent was negligent in ascertaining the pertinent facts.

The Calculation Agent may rely, and shall be protected in acting, upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

Any request, direction, election, order, certification or demand of the Issuer shall be sufficiently evidenced by an instrument signed by an Authorized Representative of the Issuer (unless specifically prescribed otherwise in the Indenture), and any resolution of the Issuer may be evidenced to the Calculation Agent by a certified resolution.

The Calculation Agent may consult with its counsel, Bond Counsel or counsel to the Issuer and the legal advice or Opinion of Counsel or Bond Counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with such legal advice or Opinion of Counsel or Bond Counsel.

The Issuer, to the extent permitted by law, covenants and agrees to indemnify, hold harmless and defend the Calculation Agent, its officers, directors, agents and employees, and each person, if any, who controls the Calculation Agent, against any loss, liability, claim, damage or expense whatsoever (i) arising out of its duties under the Indenture or the calculation of any Flexible Term Rate to the extent of the aggregate amount paid in settlement of any litigation, commenced or threatened, arising from a claim; and (ii) reasonably incurred in investigating, preparing or defending against any litigation, commenced or threatened, arising from a claim, to the extent that any

such expense is not paid pursuant to the preceding clauses of this sentence; provided, however, that the Issuer shall not be liable for such indemnification if any such loss, liability, claim, damage or expense results from the gross negligence, willful misconduct or bad faith of the Calculation Agent. The obligations of the Issuer under this section shall survive any termination of the Indenture or any Calculation Agent Agreement.

Qualifications of Calculation Agent; Resignation; Removal

The Calculation Agent shall be a financial institution or registered broker/dealer authorized by law to perform all the duties imposed upon it by the Indenture. The Calculation Agent may at any time resign and be discharged of its duties and obligations created by the Indenture by giving at least thirty (30) days' notice to the Issuer, the Trustee, and the Bond Insurer, if any. The Calculation Agent may be removed at any time, upon not less than thirty (30) days' notice, at the direction of the Issuer and filed with the Calculation Agent, the Trustee, and the Bond Insurer, if any; provided that no such removal shall be effective until a successor Calculation Agent has been appointed in accordance with the Indenture and such successor Calculation Agent has accepted such appointment.

Several Capacities

Anything in the Indenture to the contrary notwithstanding, the same entity may serve under the Indenture as the Trustee, the Paying Agent, the Registrar, the Calculation Agent and the Remarketing Agent and in any other combination of such capacities, to the extent permitted by law.

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 2015B Bonds to be insured or to provide the Bond Insurer 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 the 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 2015B 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 G

KENTUCKY MUNICIPAL POWER AGENCY POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2015B

Form of Continuing Disclosure Agreement

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FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement"), is executed and delivered as of June 25, 2015 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 2015B (SIFMA Floating Rate Tender Notes) (the "Series 2015B Bonds"). The Series 2015B Bonds are being issued pursuant to a Trust Indenture, dated as of June 1, 2015 (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 2015B 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 2015B 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 2015B 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 2015B 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 June 9, 2015 relating to the Series 2015B Bonds.

“Participating Underwriter” shall mean the Underwriter of the Series 2015B Bonds required to comply with the Rule in connection with the offering of such Series 2015B 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 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, 2015. 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.

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 2015B 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 2015B 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 2015B 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 2015B 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 E 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 2015B ("Series 2015B Bonds")

CUSIP NOS. _____

Dated: _____, 2015

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 2015B Bonds issued pursuant to that certain Trust Indenture, dated as of June 1, 2015, 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 H

KENTUCKY MUNICIPAL POWER AGENCY POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2015B

Form of Opinion of Bond Counsel

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_____, 2015

Kentucky Municipal Power Agency
Paducah, Kentucky

Regions Bank, as trustee
Nashville, Tennessee

Re: \$_____ Power System Revenue Refunding Bonds (Prairie State
Project), Series 2015B (SIFMA Floating Rate Tender Notes)

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 2015B (SIFMA Floating Rate Tender Notes) [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, 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 of Kentucky (the "Commonwealth"), including particularly Chapters 65 and 96 of the Kentucky Revised Statutes (collectively, the "Act"), in accordance with a Trust Indenture dated as of June 1, 2015 (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) Power System Revenue Bonds (Prairie State Project) Series 2007A, dated September 20, 2007; (ii) Taxable Power System Revenue Bonds (Prairie State Project) Series 2007B, dated September 20, 2007; (iii) Tax-Exempt Power System Revenue Bonds (Prairie State Project) Series 2010A, dated May 27, 2010; (iv) Taxable (Build America Bonds - Direct Pay) Power System Revenue Bonds (Prairie State Project) Series 2010B, dated May 27, 2010; (v) Taxable Power System Revenue Bonds (Prairie State Project) Series 2010C, dated May 27, 2010; and (vi) Power System Revenue Refunding Bonds (Prairie State Project) Series 2015A, dated April 2, 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'

Kentucky Municipal Power Agency
Regions Bank, as trustee
_____, 2015
Page 3

rights, whether now in effect or hereafter enacted, and to the exercise of judicial discretion in accordance with general equitable principles.

RUBIN & HAYS

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