

OFFICIAL STATEMENT
KENTUCKY MUNICIPAL POWER AGENCY
\$36,980,000*
Power System Revenue Refunding Bonds
(Prairie State Project), Series 2018A

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 2018A (the "Series 2018A Bonds") in the aggregate principal amount of \$36,980,000, 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 2018A 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 March 1, 2018, between KMPA and Regions Bank, an Alabama banking corporation (the "Trustee").

The proceeds of the Series 2018A Bonds are to be used to (i) currently refund the Outstanding Kentucky Municipal Power Agency Power System Revenue Refunding Bonds (Prairie State Project), Series 2015B (SIFMA Floating Rate Tender Notes) (the "Series 2015B Bonds") issued under the Trust Indenture (the "2015B Indenture"), dated as of June 1, 2015, between KMPA and the Trustee, (ii) fund the debt service reserve, and (iii) pay the costs of issuance of the Series 2018A Bonds.

THE SERIES 2018A BONDS ARE LIMITED OBLIGATIONS OF KMPA AND ARE PAYABLE SOLELY OUT OF THE REVENUES, FUNDS AND OTHER ASSETS OF THE

*Preliminary, subject to change.

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 2018A 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 2018A ~~BONDS~~.

Brief descriptions of the security for the Series 2018A 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 2018A 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 2018A Bonds will be applied to refund the Series 2015B Bonds. KMPA has determined that refunding the Series 2015B Bonds will produce debt service savings and other financial benefits for KMPA and the Members.

Estimated Sources and Uses

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

Sources of Funds:

Par Amount of the Series 2018A Bonds	\$ _____
Accrued Interest	_____
Total Sources of Funds	\$ _____

Uses of Funds:

Refunding of Series 2015B Bonds	\$ _____
Debt Service Reserve Fund	_____
Cost of Issuance	_____
Underwriter's Discount	_____
Total Uses of Funds	\$ _____

SECURITY FOR THE SERIES 2018A BONDS

Pledge Under the Indenture

The Series 2018A 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 2010A (the "Series 2010A Bonds"), (ii) Taxable (Build America Bonds – Direct Pay) Power System Revenue Bonds (Prairie State Project), Series 2010B (the "Series 2010B Bonds"), (iii) Taxable Power System Revenue Bonds (Prairie State Project), Series 2010C (the "Series 2010C Bonds"), (iv) Power System Revenue Refunding Bonds (Prairie State Project), Series 2015A (the "Series 2015A Bonds"), and (v) Power System Revenue Refunding Bonds (Prairie State Project), Series 2016A (the "Series 2016A Bonds") (collectively, the "Prior Bonds") solely from and secured, to the extent and as provided in the Indenture, by a pledge to the Trustee for the benefit of the Bondholders of the following (the "Trust Estate"):

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

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

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

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

(C) all choses in action and all choses in possession now or hereafter existing to the benefit of or arising from the benefit of KMPA with respect to the Series 2018A 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 2018A 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 2018A 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 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, by and between KMPA and Regions Bank, as successor to U.S. Bank National Association, as Trustee (the “2007 Indenture”); the Trust Indenture, dated as of April 1, 2010, by and between KMPA and Regions Bank, as Trustee, successor to U.S. Bank National Association (the “2010 Indenture”); the Trust Indenture, dated as of March 1, 2015, by and between KMPA and Regions Bank, as Trustee (the “2015A Indenture”); the Trust Indenture, dated as of June 1, 2015, by and between KMPA and Regions Bank, as Trustee (the “2015B Indenture”); and the Trust Indenture, dated as of January 1, 2016, by and between KMPA and Regions Bank, as Trustee (the “2016A Indenture”) contain the amounts, as of March 13, 2018 which are available to the Bondholders of the Series 2018A Bonds on a parity basis with the holders of the Bonds:

Bond Fund	
Principal and Interest Account	\$ 3,592,262
Redemption Account	65,292
Operating Fund	11,693,536
Reserve Fund*	13,590,314
Capital Improvement Fund	2,460,118
Rate Stabilization Fund	3,300,000
Decommissioning Fund	165,000
Operating Reserve Fund	3,299,590

See Appendix G, “Definitions and Summary of Certain Provisions of the Indenture and the Form of Power Sales Agreement” for a description of the various Funds and Accounts in more detail and other provisions of the Indenture.

THE BONDS

General

Record Date. The Record Date with respect to the Series 2018A Bonds shall be the opening of business on the fifteenth (15th) calendar day immediately preceding any Interest Payment Date.

Book-Entry-Only System. The Series 2018A 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 2018A Bonds. Individual

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

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 2018A Bonds, all payments on those Series 2018A 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. The Series 2018A Bonds will accrue interest from the date of issuance and will mature on September 1, 2042. The Series 2018A Bonds will bear interest at the interest rate set forth on the inside front cover of this Official Statement payable semiannually on March 1 and September 1 of each year, commencing on September 1, 2018, until the earlier of redemption or September 1, 2042.

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

Notwithstanding anything to the contrary in this Official Statement, the Series 2018A Bonds shall not bear interest in excess of the lesser of (i) the Ceiling Rate (as hereinafter defined) or (ii) the maximum rate permitted by applicable law.

Transfers and Exchanges. So long as DTC is the securities depository for the Series 2018A Bonds, it will be the sole registered owner of the Series 2018A Bonds, and transfers of ownership interests in the Series 2018A 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 2018A 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 2018A Bonds and during any Flexible Term Rate 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 2018A 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) during each Fixed Rate Period, a date determined by the remarketing agent that is not more than twenty (20) nor less than two (2) days prior to the applicable Conversion Date relating to the Fixed Rate Period.

"*Conversion Date*" means each of the following dates:

- (i) the Initial Conversion Date;

- (ii) the date on which the Interest Rate then in effect is changed to another Interest Rate in accordance with an Interest Rate Determination Method set forth in the Indenture;
- (iii) the last day of each Flexible Term Rate Period; or
- (iv) the last day of each Fixed Rate Period.

"*Conversion Notice*" has the meaning ascribed to such term in the section set forth below under "THE BONDS – Conversion of Interest Rate Determination Mode – *Conversion Notice*."

"*Delayed Remarketing Purchase Date*" has the meaning ascribed to such term in the section set forth below under "THE BONDS – Consequences of a Failed Remarketing."

"*Failed Remarketing*" means an event in which the remarketing proceeds are insufficient to pay the purchase price of all Outstanding Series 2018A Bonds on the applicable Mandatory Purchase Date.

"*Failed Remarketing Rate*" has the meaning ascribed to such term in the section set forth below under "THE BONDS – Consequences of a Failed Remarketing."

"*Fixed Rate*" means the Fixed Rate or Fixed Rates established for the Series 2018A 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 any period during which the Series 2018A Bonds bear interest at a Fixed Rate, as may be determined by KMPA.

"*Flexible Term Rate*" means the Flexible Term Rate established for each of the Series 2018A Bonds in accordance with the Indenture.

"*Flexible Term Rate Index*" means 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 2018A Bonds.

"*Flexible Term Rate Period*" means any period during which the Series 2018A Bonds bear interest at a Flexible Term Rate.

"*Initial Conversion Date*" means March 1, 2026.

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

"*Initial Rate*" shall mean a rate equal to ___% per annum.

"*Interest Rate*" or "*Rate*" means the applicable Initial Rate, any Fixed Rate or any Flexible Term Rate.

“*Interest Rate Determination Method*” means any of the methods of determining the Interest **Rate** on the Series 2018A Bonds described in the Indenture.

“*Issue Date*” means _____, 2018.

“*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 2018A 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 2018A Bonds begin to bear interest at the LIBOR Index Rate or (b) if the Series 2018A 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 Conversion Date and (ii) the Maturity Date.

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

“*Mandatory Purchase Date*” means a proposed Conversion Date.

“*Rate Period*” means the Initial Period, any Flexible Term Rate Period or any 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 2018A Bonds begin to bear interest at the SIFMA Index Rate or (b) if the Series 2018A 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 2018A Bonds

Initial Rate—General. The Series 2018A Bonds shall bear interest from the Issue Date to the date of payment in full of the Series 2018A Bonds. Interest accrued on the Series 2018A Bonds shall be paid on each Interest Payment Date. The Interest Rate on the Series 2018A 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 2018A Bonds).

The Series 2018A Bonds shall bear interest during the Initial Period at the Initial Rate and interest on the Series 2018A Bonds shall be calculated on the principal amount of the Outstanding Series 2018A Bonds.

After the Initial Period, the Interest Rate in effect during any particular Rate Period shall continue in effect until the date on which such Interest Rate is changed pursuant to an Interest Rate Determination Method as described below. During any particular Rate Period, the same Interest Rate Determination Method shall apply to all Series 2018A Bonds. See “THE BONDS – Conversion of Interest Rate Determination Mode.”

After the Initial Conversion Date, interest on the Series 2018A Bonds will be as determined at a Flexible Term Rate or a Fixed Rate as described hereinafter, or in the case of a Failed Remarketing, at the Failed Remarketing Rate during any Delayed Remarketing Period.

Flexible Term Rate. During any Flexible Term Rate Period, each of the Series 2018A 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 which shall be applicable to each Series 2018A Bond on the applicable Computation Date. No Flexible Term Rate Period applicable to any Series 2018A Bond may (i) be less than 360 days in length, (ii) extend beyond any scheduled Conversion Date or the Maturity Date, or (iii) end on a day preceding a non-Business Day. For each Flexible Term Rate Period, the Flexible Term Rate shall be the variable rate of interest resulting from the addition of the Applicable Spread to the Flexible Term Rate Index, which, if borne by such Series 2018A 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 2018A 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 2018A Bond, be the interest rate necessary, but would not exceed the interest rate necessary, to enable the remarketing agent to place such Series 2018A 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 2018A Bonds shall not bear interest in excess of the lesser of the Ceiling Rate or the maximum rate permitted by applicable law. If for any reason the applicable Flexible Term Rate is (i) not established as aforesaid by the remarketing agent, (ii) no remarketing agent shall be serving as such or (iii) the Flexible Term Rate so established is held to be invalid or unenforceable, then the Interest Rate 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 2018A Bonds shall bear interest at the Failed Remarketing Rate until the Series 2018A 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 "THE BONDS – Interest Rates on Series 2018A Bonds – Fixed Rate," as directed by KMPA. The remarketing agent shall notify KMPA, the Trustee, the Calculation Agent and the Paying Agent if such a conversion is deemed to have occurred.

During each Flexible Term Rate Period, the Series 2018A Bonds will bear interest at the designated Flexible Term Rate, except as to any day on which the Failed Remarketing Rate shall apply.

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.

Fixed Rate. During any Fixed Rate Period, each of the Series 2018A Bonds will bear interest at a Fixed Rate. With respect to any Fixed Rate Period, KMPA will determine the Fixed Rate Period, and the remarketing agent will determine the Fixed Rate which shall be applicable to each Series 2018A Bond on the applicable Conversion Date. No Fixed Rate Period applicable to

any Series 2018A Bond may (i) be less than 360 days in length, (ii) extend beyond any scheduled Conversion Date or the Maturity Date, or (iii) end on a day preceding a non-Business Day. For each Fixed Rate Period, the Fixed Rate shall be the rate of interest which, if borne by such Series 2018A Bond for its applicable Fixed 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 2018A 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 Fixed Rate Period of such Series 2018A Bond, be the interest rate necessary, but would not exceed the interest rate necessary, to enable the remarketing agent to place such Series 2018A Bond at a price of par (plus accrued interest, if any) on the first Business Day of such Fixed Rate Period. If for any reason the applicable Fixed Rate is (i) not established as aforesaid by the remarketing agent, (ii) no remarketing agent shall be serving as such or (iii) the Fixed Rate so established is held to be invalid or unenforceable, then the Interest Rate 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 2018A Bonds shall bear interest at the Failed Remarketing Rate until the Series 2018A Bonds have been successfully remarketed by the remarketing agent at a Flexible Term Rate as provided above or at a Fixed Rate as provided herein, as directed by KMPA. The remarketing agent shall notify KMPA, the Trustee, the Calculation Agent and the Paying Agent if such a conversion is deemed to have occurred.

During each Fixed Rate Period, the Series 2018A Bonds shall bear interest at the designated Fixed Rate, except as to any day on which the Failed Remarketing Rate shall apply.

Notices of Rates and Rate Conversions. Promptly following the determination of any Flexible Term Rate or Fixed Rate, the remarketing agent shall give notice thereof to the Trustee, KMPA, the Calculation Agent and the Paying Agent. Promptly upon receipt from the remarketing agent of notice of any Flexible Term Rate or Fixed Rate, the Paying Agent shall give each Owner notice thereof. KMPA and any Owner may be informed of the Interest Rate for any Rate Period 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 conversion to a 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 2018A Bonds, notice of the Rate 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 2018A 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 prevailing Interest Rate for the Series 2018A Bonds may be changed from (i) the Initial Rate to any Flexible Term Rate or Fixed Rate; (ii) any Flexible Term Rate to a new Flexible Term Rate; (iii) any Flexible Term Rate to a Fixed Rate; (iv) any Fixed Rate to a Flexible Term Rate; or (v) any Fixed Rate to a new 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 2018A 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 (20) days prior to the proposed Conversion Date. Prior to sending the Conversion Notice, KMPA shall have inquired of the Calculation Agent and received written confirmation that the Calculation Agent is willing to continue to serve in such capacity or KMPA shall have appointed another Calculation Agent pursuant to the Indenture.

Each Conversion Notice shall state (i) that KMPA elects to change the prevailing Interest Rate to a new Interest Rate, (ii) the proposed Conversion Date, (iii) the Interest Rate Determination Method employed to determine the Interest Rate to be in effect from and after such Conversion Date and (iv) the Flexible Term Rate Period or Fixed Term Period 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 Flexible Term Rate Index and the Applicable Spread. The 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 2018A 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 a Fixed Rate Conversion Date (i) the Series 2018A 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 2018A 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 2018A 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 2018A Bond or any installment of interest thereon, the date specified in such Series 2018A Bond as the fixed date on which the principal of such Series 2018A 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 2018A 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, the remarketing agent and 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 for the Series 2018A 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 for the Series 2018A Bonds shall not be changed on the proposed Conversion Date.

No conversion of a prevailing Interest Rate to a 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 prevailing Interest Rate to a 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 prevailing Interest Rate is cancelled pursuant to the provisions of the two preceding paragraphs, all Series 2018A 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 2018A Bonds on such proposed Conversion Date, such failure will constitute a Failed Remarketing and, the Series 2018A Bonds will bear interest in accordance with the provisions of the Indenture summarized below under “THE BONDS – 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 any change in the Interest Rate on any of the Series 2018A Bonds or the requirement that the Series 2018A Bonds shall be tendered pursuant to the Indenture or extend the period for tendering any of the Series 2018A 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.

Tender of Series 2018A Bonds for Purchase

The Series 2018A 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 2018A Bonds are subject to mandatory tender for purchase on each Mandatory Purchase Date at the purchase price.

No Owner's Right to Tender. The Series 2018A Bonds are not subject to optional tender by the Owner.

Notice of Mandatory Purchase Date. 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 each Mandatory Purchase Date, the Trustee shall provide notice to the Owners as set forth above in "THE BONDS – Conversion of Interest Rate Determination Method – Notice of Conversions to Owners."

Remarketing of Series 2018A Bonds

Future Remarketing of Series 2018A Bonds. In accordance with the Indenture, on or before 45 days prior to any Conversion Date, KMPA expects to appoint a remarketing agent to remarket the Series 2018A 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 2018A 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 2018A Bonds at a price of par plus accrued interest, if any, on each date that such Series 2018A Bonds are required to be purchased pursuant to the provisions regarding tender in the Indenture and if such Series 2018A Bonds are not placed on such date, the remarketing agent shall continue to use commercially reasonable efforts to remarket the Series 2018A 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 2018A 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 2018A Bonds for which it has arranged placement, together with the principal amount of the Series 2018A 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 2018A Bonds are to be purchased the remarketing agent shall have remarketed all of the Outstanding Series 2018A Bonds, the remarketing agent shall provide to the Trustee the information necessary to enable the Trustee to prepare new Series 2018A Bond certificates with respect to the Series 2018A 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 2018A 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 2018A 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 2018A Bonds are to be purchased the remarketing agent is unable to remarket all of the Outstanding Series 2018A 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 2018A 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 2018A 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 2018A Bonds. The remarketing agent will give any person to whom Series 2018A Bonds are proposed to be remarketed written notice of any Mandatory Purchase Date, acceleration of maturity of Series 2018A Bonds or redemption of Series 2018A Bonds, notice of which has been given to Owners, prior to remarketing Series 2018A Bonds to such Person.

Source of Funds for Purchase of Series 2018A Bonds

Subject to the terms of the Indenture related to a Failed Remarketing, on each Mandatory Purchase Date KMPA shall purchase the Series 2018A 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 2018A 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 2018A 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 2018A Bonds Deemed Tendered

If with respect to a Mandatory Purchase Date, an Owner fails to deliver Owner's Series 2018A Bond to the Trustee on or before the Mandatory Purchase Date, then any such Series 2018A Bond (or portion thereof) that is not delivered to the Trustee shall be deemed to have been properly tendered (such Series 2018A Bond being herein 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 2018A Bonds will bear interest as set forth below in "THE BONDS – Consequences of a Failed Remarketing."

Delivery of Purchased Series 2018A Bonds

Series 2018A Bonds purchased pursuant to a remarketing of the Series 2018A Bonds shall be delivered as follows:

- (i) *Series 2018A Bonds Purchased from Remarketing Proceeds.* Series 2018A Bonds purchased with proceeds from the remarketing of such Series 2018A 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 2018A Bonds Purchased with Other Moneys.* Series 2018A 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 2018A Bonds are held under the Book Entry System, Series 2018A Bonds will not be delivered as set forth above describing the Series 2018A Bonds purchased from remarketing proceeds; rather, transfers of beneficial ownership and pledges of the Series 2018A 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, provided however, if requested 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 2018A Bonds of like dates and denominations and substantially in the form set forth in the Indenture, all in accordance with the Indenture.

Consequences of a Failed Remarketing

In the event that remarketing proceeds are insufficient to pay the purchase price of all Outstanding Series 2018A 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 2018A 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 2018A Bonds are successfully remarketed (the “Delayed Remarketing Period”) the Series 2018A Bonds, will bear interest at the lesser of the (i) Ceiling Rate or (ii) the maximum rate permitted by law (the “Failed Remarketing Rate”).

Following the Failed Remarketing on the applicable Mandatory Purchase Date, KMPA will direct the remarketing agent to continue to remarket the Series 2018A 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 2018A Bonds on terms satisfactory to KMPA not later than five Business Days prior to the new purchase date established by KMPA and the remarketing agent (the “Delayed Remarketing 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 2018A Bonds will continue to be a Flexible Term Rate stated therein or the Fixed Rate stated therein on and after the Delayed Remarketing Purchase Date; (2) that such Series 2018A Bonds will be subject to mandatory tender on the Delayed Remarketing Purchase Date; (3) the procedures for such mandatory tender; (4) the purchase price of such Series 2018A Bonds on the Delayed Remarketing Purchase Date; and (5) the consequences of another Failed Remarketing.

During the Delayed Remarketing Period, the Trustee may, upon direction of KMPA, apply moneys available therefor to the redemption of the Series 2018A 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 2018A Bonds shall be paid to the registered Owners thereof (i) on each Interest Payment Date 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.

Redemption of the Series 2018A Bonds – In General

The Series 2018A 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 2018A Bonds selected by lot for redemption and, in the case of any Series 2018A 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 2018A 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 Rate Period other than a Fixed Rate Period with a length in excess of ten (10) years, the Series 2018A 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 2018A Bonds to be redeemed plus accrued interest thereon to, but not including, the redemption date.

During any Fixed Rate Period with a length in excess of ten (10) years, the Series 2018A Bonds are subject to redemption prior to maturity, at the option of KMPA, on any date occurring on or after the tenth (10th) anniversary of the Conversion Date to the Fixed Rate, 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 Series 2018A Bonds called for redemption, plus accrued interest thereon to, but not including, the redemption date.

Extraordinary Optional Redemption. The Series 2018A 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 2018A 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.

Mandatory Redemption

The Series 2018A 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 2018A Bonds due September 1, 2042 shall be subject to mandatory sinking fund redemption prior to maturity (said Series 2018A 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	\$ _____
2039	_____
2040	_____
2041	_____
2042	_____

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 2018A 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 2018A 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 2018A Bonds to be redeemed, the principal amount of Series 2018A 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 2018A Bonds to be redeemed;
- (iv) the reason for the redemption;
- (v) that on the redemption date, the redemption price of each such Bond will become due and payable, that interest on each such Series 2018A Bond shall cease to accrue on and after such date, and that each such Series 2018A Bond will be deemed to have been redeemed;
- (vi) the place or places where such Series 2018A 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 2018A Bonds, no later than 7 days prior to the redemption date. Notice of redemption having been given, the Series 2018A 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 2018A Bonds shall cease to bear interest. Upon surrender of any such Series 2018A Bond for redemption in accordance with such notice, such Series 2018A Bond shall be paid at the redemption price thereof.

If KMPA shall default in the payment of the redemption price and any Series 2018A 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 2018A Bond immediately before the redemption date.

Any Series 2018A 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 2018A Bond, without service charge to the Owner, a new Series 2018A 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 2018A 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 2018A Bonds

The principal of and premium, if any, and interest on the Series 2018A 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 2018A Bonds. The principal of and premium, if any, on the Series 2018A Bonds will be paid upon surrender thereof at the corporate trust office of the Trustee in Nashville, Tennessee.

Interest on each Series 2018A 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 2018A 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 2018A 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 2018A 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 2018A 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 2018A BONDS.

Registration, Transfer and Exchange

The Trustee shall maintain books (the "Bond Register") for the registration and for the transfer of the Series 2018A Bonds.

Upon surrender for registration of transfer of any Series 2018A Bond at the principal office of the Trustee, the Trustee shall authenticate and shall deliver a new Series 2018A Bond or Series 2018A Bonds in the same aggregate principal amount as the Series 2018A Bond surrendered. No transfer of any Series 2018A Bond shall be binding upon the Trustee unless made at such office and shown on the Series 2018A 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 2018A 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 KMPA 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 "THE BONDS – 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 KMPA'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 KMPA 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 2018A 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 2018A 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 2018A Bonds. KMPA will appoint any successor remarketing agent for the Series

2018A 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 2018A 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 2018A 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 on Series 2018A Bonds	Gross Debt Service on Prior Bonds(2)(3)(4)	Total Debt Service	Federal Subsidies (Direct Pays)	Total Net Debt Service
2018				30,410,390	30,410,390	(2,537,563)	27,872,827
2019				30,408,944	30,408,944	(2,537,563)	27,871,381
2020				30,408,334	30,408,334	(2,537,563)	27,870,772
2021				34,845,320	34,845,320	(2,537,563)	32,307,757
2022				34,842,495	34,842,495	(2,537,563)	32,304,932
2023				34,843,620	34,843,620	(2,537,563)	32,306,057
2024				34,835,970	34,835,970	(2,528,339)	32,307,632
2025				34,782,540	34,782,540	(2,483,998)	32,298,542
2026				34,675,050	34,675,050	(2,381,068)	32,293,982
2027				34,524,897	34,524,897	(2,241,237)	32,283,660
2028				34,360,075	34,360,075	(2,093,046)	32,267,029
2029				34,195,176	34,195,176	(1,936,249)	32,258,927
2030				34,022,149	34,022,149	(1,771,011)	32,251,138
2031				33,837,645	33,837,645	(1,596,785)	32,240,861
2032				32,924,174	32,924,174	(1,412,283)	31,511,890
2033				32,716,447	32,716,447	(1,218,424)	31,498,023
2034				32,503,375	32,503,375	(1,016,237)	31,487,137
2035				32,269,044	32,269,044	(805,352)	31,463,691
2036				32,042,127	32,042,127	(585,344)	31,456,783
2037				31,793,753	31,793,753	(355,842)	31,437,911
2038				32,236,127	32,236,127	(119,339)	32,116,788
2039				27,540,145	27,540,145	-	27,540,145
2040				27,536,361	27,536,361	-	27,536,361
2041				27,540,544	27,540,544	-	27,540,544
2042				27,536,654	27,536,654	-	27,536,654
2043				27,537,269	27,537,269	-	27,537,269
Totals				\$835,168,620	\$835,168,620	(\$37,769,931)	\$797,398,68

Notes

- (1) The Series 2018A Bonds are to pay interest at the rate of ___% through March 1, 2026, a Mandatory Purchase Date.
(2) Gross Debt Service on Prior Bonds includes debt service on the Series 2015B Bonds that will be refunded by the Series 2018A Bonds. Additionally, Gross Debt Service on Prior Bonds includes debt service on the Series 2010A Bonds, Series 2010B Bonds, Series 2010C Bonds, Series 2015A Bonds and Series 2016A Bonds.
(3) A portion of the Series 2010A Bonds has been defeased using a combination of funds that include the funds that were released as a result of a partial replacement of the debt service reserve fund with a surety bond and sinking fund deposits made by KMPA. The principal amounts of the Series 2010A Bonds that have been defeased are as follows:

2018 3,835,000
2019 2,052,342

- (4) Direct Pays on the Series 2010B Bonds assume sequestration of 6.6%.

BOOK-ENTRY ONLY SYSTEM

The Series 2018A 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 2018A 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 2018A Bonds under the Indenture.

The following information about the Book-Entry Only System applicable to the Series 2018A 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 2018A Bonds. The Series 2018A 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 2018A 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 2018A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2018A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2018A 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 2018A 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 2018A Bonds, except in the event that use of the book-entry system for the Series 2018A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2018A 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 2018A 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 2018A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2018A 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 2018A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2018A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2018A Bond documents. For example, Beneficial Owners of Series 2018A Bonds may wish to ascertain that the nominee holding the Series 2018A 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 2018A 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 2018A 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 2018A 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 2018A 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 2018A Bonds purchased or tendered, through its Participant, to the Trustee and shall affect delivery of such Series 2018A Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2018A Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Series 2018A Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2018A Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2018A Bonds to the Trustee's DTC account. See "THE BONDS – Tender and Redemption Provisions for the Series 2018A 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 2018A 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 2018A BONDS OR THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2018A 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 2018A 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 2018A 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 2018A 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 2018A 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 2018A 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 2018A 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 2018A Bonds ("Replacement Series 2018A Bonds") directly to the Beneficial Owners of Series 2018A Bonds, other than DTC or its nominee, only in the event that DTC resigns or is removed as the securities depository for the Series 2018A 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 2018A 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 2018A 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 2018A Bonds. Transfer and exchange of such Replacement Series 2018A 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 2018A 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 2018A Bonds should analyze carefully the information contained in this Official Statement, including the Appendices hereto, and additional information in the form of the complete documents summarized herein and in Appendix G, copies of which are available as described herein.

The following sections of this caption provide brief discussions of some of the factors that affect the operations of KMPA and the electric utility systems operated by the Members. These discussions do not purport to be comprehensive or definitive, however, and the matters discussed are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the Series 2018A 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 and/or privacy intrusions from electric and magnetic fields associated with power lines, home appliances, meters and other sources, and emissions and pollution caused by the burning of fossil fuels, including the disposal of the resulting waste products.

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 national and state energy policies, including implementation of smart grid technologies, greater use of renewable energy resources and regulation of greenhouse gas emissions, (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 or sold into MISO (as hereinafter defined) at the PSEC node, and/or disparities between the price of energy purchased on the open market and that sold into MISO at the PSEC node, (n) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity, (o) other legislative changes, voter initiatives, referenda and statewide propositions, (p) effects of the changes in the economy, (q) effects of possible manipulation of the electric markets, (r) effects of acts of terrorism or malicious destruction of PSEC property or of the electric grid, (s) effects of organized disruptive actions of persons or entities opposed to the use of fossil fuels or to the rates or business practices of KMPA or its Members, (t) unexpected outages as a result of mechanical or transmission facility failures affecting PSEC, KMPA, Members or third parties, (u) natural disasters or other physical calamities, including, but not limited to, earthquakes and tornadoes, (v) technological advances in generation, energy storage, efficiency and emissions, (w) counterparty credit quality and ability to meet contractual obligations, and (x) information system outages or damage to equipment or facilities from hacking or other cyber threats.

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 83.87% and 16.13%, respectively. Each Member's entitlement percentage establishes the amounts due to KMPA under such Member's Power Sales Agreement and its "take or pay" obligations thereunder. As a

consequence, a default of Paducah Electric or Princeton Electric on its obligations under the Power Sales Agreements could materially adversely affect the operations and financial condition of KMPA.

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

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

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

Since the time KMPA purchased an ownership interest in PSEC on behalf of its Members and the Members committed to purchase power from KMPA, the United States suffered through a major economic recession, power demand and wholesale power market prices decreased significantly, and PSEC experienced construction cost overruns and delays in completion. The delay in PSEC entering into commercial operation and the subpar reliability of PSEC during its extended shakedown phase of operations resulted in the loss of appreciable revenues expected to be produced by PSEC and the incurrence of higher than forecasted costs and expenses to address the unforeseen early operational issues. These factors are among the principal reasons that caused KMPA to pass through to its Members higher than anticipated costs under the Power Sales Agreements. Paducah Electric and Princeton Electric, in turn, needed to raise their respective electric rates with the result that the Members' retail rates reached levels higher than those historically assessed by the 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 of March 2013 provided for three staggered increases in Paducah Electric's base rates: (i) making permanent a five percent (5%) system average rate increase that had been implemented in November 2012 on a provisional basis; (ii) scheduling an additional five percent (5%) system average increase in April 2013; and (iii) scheduling a five percent (5%) across the board rate increase in April 2014.

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

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

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

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

Since approval of the Recovery Plan, each of its action items has been accomplished. Paducah Electric engaged AMP to perform portfolio management services effective January 1, 2015. Paducah Electric successfully obtained a surety bond to replace its debt service reserve funds which have been placed in an escrow account for payment of the principal portion of sinking fund debt service payments. Paducah Electric successfully expanded its efforts to sell or otherwise dispose of its excess capacity and/or power supply resources by entering into an agreement with the Kentucky Municipal Energy Agency ("KyMEA") dated July 13, 2016, that requires Paducah Electric to supply a portion of KyMEA's peaking capacity and energy needs beginning in May

2019. Paducah Electric implemented all customer programs included in the Recovery Plan (including the “Round-up” program, energy audits, billing format changes to include daily usage, and commercial account excess demand reductions). In addition, Paducah Electric supported the efforts of KMPA to obtain \$22 million in surety bonds to replace a portion of KMPA’s debt service reserves and supported KMPA in connection with the issuance of KMPA’s Series 2015A Bonds, Series 2015B Bonds and Series 2016A Bonds to refund and restructure the Tax-Exempt Power System Revenue Bonds (Prairie State Project) Series 2007A (the “Series 2007A Bonds”) and to refund the Revenue Bond Anticipation Notes (Prairie State Project), Series 2012. Paducah Electric continues to support KMPA in connection with the issuance of the Series 2018A Bonds.

In June 2015, the Paducah Electric board moved from a quarterly calculation of the PCA rate to an annual calculation. Paducah Electric saw a reduction in the PCA in the fiscal years beginning July 1 of 2015 and 2016. Effective July 1, 2017, the PCA rate for the fiscal year ending June 30, 2018 was likewise reduced, this time to \$0.00997 per kwh. Additionally, for the period from July through September 2017, the PSEC has operated at a capacity factor averaging 85%. The surplus in Paducah Electric’s PCA collections, which as of June 30, 2017, was \$6.5 million increased to \$7.5 million as of September 30, 2017.

Below is a summary, from 2016 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.¹ This table illustrates that the 2016 average rates charged to customers by Paducah Electric and Princeton Electric were higher than the 2016 Kentucky and national average rates.

¹ For the current rate schedules of Paducah Electric and Princeton Electric see Appendix F “Operating and Financial Data for the Members.”

Residential Rate Comparison (cents/kWh)	Kentucky	National
Avg. IOU	10.27	13.36
Avg. CO-OP	10.83	12.50
Avg. Municipal	10.81	11.49
Paducah Electric	14.41	N/A ¹
Princeton Electric	12.90	N/A ¹

Commercial Rate Comparison (cents/kWh)	Kentucky	National
Avg. IOU	9.57	11.57
Avg. CO-OP	10.42	11.34
Avg. Municipal	10.48	10.90
Paducah Electric	13.81	N/A ¹
Princeton Electric	14.24	N/A ¹

Industrial Rate Comparison (cents/kWh)	Kentucky	National
Avg. IOU	6.52	8.57
Avg. CO-OP	6.71	9.11
Avg. Municipal	7.65	8.71
Paducah Electric	9.49	N/A ¹
Princeton Electric	12.55	N/A ¹

¹ Not available.

Exercise of Step-Up Remedies under Power Sales Agreements May Result in Deficit Payments. Each Power Sales Agreement contains a “step up” provision that requires, in the event of a default by a Member (the “Defaulting Member”), the non-defaulting Member (the “Non-Defaulting Member”) to purchase a pro rata share of the Defaulting Member’s entitlement percentage (based upon each Non-Defaulting Member’s entitlement percentage of KMPA’s share of the electric power and energy anticipated to be generated by PSEC), which, together with the shares to be purchased by any other Non-Defaulting Members, is equal to the Defaulting Member’s entitlement percentage (“Step Up Power”). Under the terms of each Power Sales Agreement, no Non-Defaulting Member is obligated to accept Step Up Power in excess of 20% of such Non-Defaulting Member’s original entitlement percentage. Paducah Electric’s original entitlement percentage was 83.89%, and Princeton Electric’s original entitlement percentage was 16.11%. If Paducah Electric were to default, under the terms of Princeton Electric’s Power Sales Agreement, Princeton Electric would not be required to purchase Paducah Electric’s full entitlement percentage, thereby creating a potential deficit in the amounts due KMPA in order to satisfy KMPA’s obligations, including debt service payments due on the Series 2018A 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 early operations, PSEC experienced numerous unscheduled outages and derates for equipment adjustments and breakdowns and other operational issues. In response, Prairie State Generating Company, an Indiana nonprofit corporation (“PSGC”), and the operator of PSEC, implemented numerous improved operational procedures, equipment upgrades and repairs in order to increase reliability, as well as significant management, structural and personnel changes.

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

**Prairie State Energy Campus
Historical Performance Measures**

	Calendar Year Ending	Calendar Year Ending	Calendar Year Ending	Calendar Year Ending	Calendar Year Ending
	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Net Capacity Factor⁽¹⁾	58.39%	67.16%	77.71%	74.05%	75.72%
Equivalent Availability Factor⁽²⁾	62.67%	72.48%	80.88%	77.31%	77.79%

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

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

Considering the reliability performance improvement initiatives 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 in the coming years and should approach levels consistent with seasoned coal-fired power plants in the medium term. The PSEC Owners (as hereinafter defined) continue to make reliability improvements a priority of both PSEC's daily operations and of its short-to-medium term capital improvement plan. The PSEC Owners have placed special emphasis on projects that will improve the reliability of PSEC and the productivity of mining operations. There can be no assurance, however, 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 carbon dioxide ("CO₂"), create a potential significant exposure for fossil-fuel-fired electric generation facilities. In 2015, in light of the United States Environmental Protection Agency's ("EPA") prior finding that GHGs endanger public health, EPA established, for the first time, emission standards for CO₂ for newly constructed, modified, and reconstructed fossil-fuel-fired electric generating units ("EGUs") pursuant to Section 111(b) of the Clean Air Act.

Under certain circumstances, when EPA issues a Clean Air Act Section 111(b) standard for new sources, EPA must then prescribe Clean Air Act Section 111(d) regulations under which each state must submit a plan to establish standards for existing sources in the same category. EPA relied upon this authority when it issued the Clean Power Plan (the "CPP" or the "Rule"). The

Rule required states to submit plans specifically designed to limit CO₂ emissions from certain fossil-fuel-fired power plants, for the first time. The CPP established emission guidelines for states to follow in limiting CO₂ emissions from those plants. These emission guidelines included nationally uniform CO₂ emission performance rates for two subcategories of existing fossil-fuel-fired power plants: electric utility steam generating units and stationary combustion turbines. In the CPP, EPA determined that the Best System of Emission Reduction for CO₂ emissions from existing fossil-fuel-fired power plants under Clean Air Act Section 111(d) was the combination of emission rate improvements and limitations on overall emissions by affected power plants that can be accomplished through a combination of three sets of measures, which EPA termed “building blocks”. These building blocks included: (1) improving heat rate at affected coal-fired steam generating units; (2) substituting increased generation from lower-emitting existing natural gas combined cycle units for decreased generation from higher-emitting affected steam generating units; and (3) substituting increased generation from new zero-emitting renewable energy generating capacity for decreased generation from affected fossil-fuel-fired generating units.

By 2030, when the CPP was to be fully in place, carbon emissions from the fossil-fuel-fired power sector were expected to be reduced 870 million tons, an amount equivalent to a 32-percent reduction from 2005 levels.

Due to concerns about EPA’s legal authority and basis for promulgating the CPP, 27 states and a number of other parties sought judicial review of the Rule in the United States Court of Appeals for the District of Columbia Circuit (the “D.C. Circuit”). On February 9, 2016, the U.S. Supreme Court stayed the CPP, immediately halting implementation of the Rule.

The Trump Administration has approached the need for CO₂ regulation with a degree of skepticism. Initially, President Trump issued Executive Order 13783 (“EO 13783”) on March 28, 2017. The purpose of EO 13783 is to facilitate the development of U.S. energy resources and to reduce unnecessary regulatory burdens associated with the development of those resources. Pursuant to the EO 13783, EPA announced that it would be reviewing the CPP and provided advanced notice of forthcoming rulemaking proceedings consistent with President Trump’s policies. The D.C. Circuit has been holding the CPP litigation in abeyance since April 28, 2017.

On October 16, 2017, EPA published a proposed repeal of the CPP. In its notice, EPA proposed to change the legal interpretation of Clean Air Act Section 111(d) in a manner it perceives to be more consistent with historical understandings of the Clean Air Act and the intended statutory authority granted EPA therein. EPA has not proposed a replacement rule, but on December 28, 2017, EPA published an Advance Notice of Proposed Rulemaking to solicit comments on CO₂ emissions control measures that could be implemented at individual power plants. EPA extended the public comment period on the repeal of the CPP through April 26, 2018.

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 EGUs.

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 Clean Air Act 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 was April 15, 2016. After the MATS Rule was promulgated, industry, states, environmental organizations, and public health organizations challenged many aspects of EPA's appropriate and necessary finding and the final MATS Rule in the D.C. Circuit. Some industry and state petitioners sought further review, and 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 MATS Rule during its development. On June 29, 2015, the Supreme Court ruled that EPA acted unreasonably in its failure to consider the cost of compliance with the MATS Rule. The Supreme Court remanded the case to the D.C. Circuit for further proceedings. The D.C. Circuit remanded the MATS Rule to EPA for additional cost-benefit analysis without vacating it on December 15, 2015.

EPA published its supplemental finding on April 25, 2016, on the costs and benefits of MATS, and opponents again sought review of the rule in the D.C. Circuit. On April 18, 2017, EPA asked the Court to delay oral arguments, scheduled for May 18, 2017. On April 27, 2017, the D.C. Circuit removed the argument from its calendar, suspending the case indefinitely, and directed EPA to file 90-day status reports. EPA is continuing to review the Supplemental Finding to determine whether the MATS Rule should be maintained, modified, or otherwise reconsidered. The MATS Rule remains in effect pending the EPA evaluation of the cost of the MATS Rule. KMPA anticipates that operations at PSEC will comply with the MATS Rule.

Cross-State Air Pollution Rule ("CSAPR"). EPA finalized its CSAPR rule (formerly known as the Clean Air Transport Rule) in 2011. CSAPR was intended to replace the 2008 Clean Air Interstate Rule ("CAIR") to control cross-state transport of primarily sulfur dioxide ("SO₂") and nitrogen oxides ("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 D.C. Circuit vacated CSAPR, returning the rule to EPA to be rewritten. The court found that EPA exceeded its authority under the Clean Air Act 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 D.C. Circuit lifted the stay on CSAPR. EPA began implementing Phase 1 of the rule on January 1, 2015. Phase 2, which subjected certain states to stricter emissions limits, was scheduled to begin implementation on January 1, 2017.

On December 3, 2015, EPA proposed updates to the CSAPR rule to address the impact of emissions on the ability of downwind states to attain NAAQS. The proposed rule updated the CSAPR NOx ozone-season budgets for 23 states that affect downwind states' ability to comply with the 2008 ozone NAAQS. On September 7, 2016, EPA released its final CSAPR rule for the 2008 ozone NAAQS. The revised allowance budgets outlined in the final rule are effective for the 2017 ozone season which began on May 1, 2017. Numerous lawsuits continue over the 2008 ozone NAAQS rule update, the Federal Implementation Plan ("FIP") and the Phase 2 emissions budgets.

For purposes of CSAPR, PSEC is considered a "new unit" and, therefore, receives allowances under the new unit set aside ("NUSA") program. If the NUSA pool is exhausted, PSGC will have to purchase allowances from the market. PSEC was allocated sufficient allowances minimizing the possibility that PSEC will have to purchase allowances on 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 ("RCRA"). 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.

Subsequent to the promulgation of the CCR Rule, various environmental and industry groups submitted to the D.C. Circuit seven separate petitions for review, which have been consolidated into a single action. On April 18, 2016, EPA filed an unopposed motion to remand certain provisions back to EPA in order for EPA to revise or remove those provisions. On June 14, 2016, the D.C. Circuit granted EPA's motion and voided the provisions affecting inactive impoundments that were closed by April 17, 2018. As a result, previously exempted surface impoundments would now be required to comply with the post-closure requirements for existing impoundments. On July 26, 2016, then EPA Administrator McCarthy signed a direct final rule to extend compliance deadlines for owners and operators of the affected, inactive impoundments in order to provide them adequate time to comply. Because there were no adverse comments received, the extension went into effect on October 4, 2016.

On December 16, 2016, President Obama signed the Water Infrastructure Improvements for the Nation ("WIIN") Act, which included language giving state agencies the authority to implement and enforce coal ash regulations under the CCR Rule through EPA-approved state permit programs. The WIIN Act also gives EPA the authority to regulate coal ash in states that choose not to implement state permitting programs and in states whose permitting programs are determined to be inadequate by EPA.

On May 12, 2017, as a result of the WIIN Act, petitioners asked EPA to reconsider specific portions of the CCR Rule. On August 15, 2017, EPA issued Interim Final Guidance for State CCR Permit Programs. On September 14, 2017, EPA announced its intent to reconsider several substantive provisions of the CCR Rule, as part of its rulemaking pursuant to the D.C. Circuit remand. On November 20, 2017, oral arguments by industry, environmentalists, and EPA, were heard in the D.C. Circuit. The EPA and industry argued that the court should postpone adjudication until EPA completes the reconsideration process for affected provisions and remand certain subsections of the final CCR Rule to EPA for revisions. On January 26, 2018, EPA published a preliminary approval of Oklahoma's application to regulate coal ash, in lieu of the federal program. Oklahoma was the first state to seek this approval. The comment period for preliminary approval of Oklahoma's program has been extended until March 19, 2018.

On March 1, 2018, EPA proposed the first of two rules that will amend the regulations for the disposal of coal ash from electric utilities and independent power producers. The proposal would allow alternative performance standards for coal ash disposal units with operating permits issued under an approved state or federal coal ash permit program. The proposal also requested comment on whether a regulated facility could develop and implement similar alternative standards that would be subject to oversight and enforcement by EPA.

The CCR landfill at PSGC must comply with the applicable requirements of the federal CCR Rule until such time as the state receives regulatory approval under the WIIN Act to administer its own CCR permit program.

Ozone NAAQS. Ground-level ozone, or smog, is formed when pollution from vehicles, power plants, and other industrial sources reacts with sunlight. It can aggravate asthma and cause other respiratory problems, especially in children who are playing outdoors and people who already have lung problems. Effective October 1, 2015, EPA tightened the primary and secondary ozone NAAQS to 0.070 ppm (the "2015 Rule"). This final revised level was within the range that the Clean Air Scientific Advisory Committee had recommended to EPA. The new standards were subsequently challenged in the D.C. Circuit. On April 7, 2017, EPA asked the D.C. Circuit to delay the oral argument scheduled for April 19, 2017. EPA said it intended to review the 2015 Rule, and the prior positions taken by EPA with respect to the 2015 Rule may not necessarily reflect its ultimate conclusions after that review is complete. On April 11, 2017, the D.C. Circuit removed the argument from its calendar, and ordered EPA to provide status reports every 90 days, starting from the date of this order.

On June 6, 2017, EPA informed state governors that initial area designations for the 2015 Rule would be postponed until October 2018. Environmental groups and several states filed suit against EPA over the delay in implementation of the 2015 Rule. However, on August 3, 2017, EPA abandoned the one-year delay and reverted to the statutory deadline of October 1, 2017, to determine which areas of the country meet the 2015 Rule. While EPA did not meet the October 1, 2017, deadline, on November 16, 2017, EPA certified some 2,650 areas as in compliance (or in attainment) of the rule. It did not designate any non-attainment areas or release a timeline for doing so. On December 4-5, 2017, multiple states and a coalition of environmental and public health groups sued EPA for its failure to designate non-attainment areas. On December 19, 2017, the D.C. Circuit ordered EPA to file by January 12, 2018, a status report identifying with precision and specificity when it plans to file a final rule establishing air quality designations, for the areas which were not covered by the attainment designations. On December 22, 2017, EPA announced that it sent letters to areas not covered by the attainment designations, seeking further information from them in order to make a designation, with a 120-day deadline for response. On January 5,

2018, EPA published notice that it will make the remaining attainment designations by April 30, 2018 (with the exception of 8 Texas counties, which will be designated by August 10, 2018). The public comment period on EPA's attainment status designation recommendations for the 2015 Rule closed on February 5, 2018.

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's water quality standards, including sampling and monitoring of the waters around the plant.

Section 316(b) of the Clean Water Act requires 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 2014, 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. The legality of the rule was challenged in the Second Circuit Court of Appeals. The Second Circuit has been tasked with deciding whether to send the rule back to EPA for further revision based on environmentalists' argument that it is not protective enough, or to trim from it what industry groups argue are inappropriate components. Oral argument was heard on September 14, 2017.

In April 2014, EPA and the U.S. Army Corps of Engineers (the "Army Corps") proposed an expansion of regulatory authority under the Clean Water Act through broadening the definition of a "Water of the United States." The final "Clean Water Rule" was published in the Federal Register on June 29, 2015 and became effective on August 28, 2015. Over the next two days, 27 states sued EPA in four federal courts. Challengers eventually brought actions in eight federal courts of appeals and 18 federal district courts. On October 9, 2015, the Sixth Circuit Court of Appeals issued a stay postponing the nationwide implementation of the Clean Water Rule.

On February 22, 2016, the Sixth Circuit held that the Clean Water Rule challenge must be heard in the appeals courts and not in federal district courts. Each judge on the three-judge panel wrote a separate opinion. On January 13, 2017, the Supreme Court agreed to hear the question of which federal court should hear challenges to the Clean Water Rule.

On February 28, 2017, the President signed the "Executive Order on Restoring the Rule of Law, Federalism, and Economic Growth by Reviewing the 'Waters of the United States' Rule." The Executive Order calls on EPA Administrator and the Assistant Secretary of the Army for Civil Works to review the final Clean Water Rule and "publish for notice and comment a proposed rule rescinding or revising the rule. . . ." On March 6, 2017, EPA and the Army Corps published their intent to "review and rescind or revise" the Clean Water Rule. On March 9, 2017, EPA asked the Supreme Court to suspend the case while the EPA reviewed the rule. The Supreme Court denied EPA's request on April 3, 2017, meaning the case would proceed to determine where Clean Water Act challenges should be heard.

On June 27, 2017, EPA and the Army Corps proposed to rescind the Clean Water Rule and revert to the uncertainty that reigned before this rule was finalized. They proposed to come up with a new rule at a later date. In July 2017, EPA and the Army Corps published the proposal to rescind the rule in the Federal Register, with a comment period which ended on August 28, 2017,

but was extended to September 27, 2017. On November 16, 2017, EPA proposed to delay the effective date of the Clean Water Rule for two years after “the date of final action on this proposal.” This would likely push the effective date to 2020. Without a delay, the Obama-era rule could be effective in most states.

On January 22, 2018, the Supreme Court ruled that challenges to the Obama-era Clean Water Rule (finalized in 2015) must be heard in district courts, rather than appeals courts. It is unclear what effect this has on an October, 2015 stay the Sixth Circuit put on the Clean Water Rule.

On January 31, 2018, the EPA Administrator signed a finalized regulation delaying the effective date of the Clean Water Rule until 2020. During that time, the Trump EPA is expected to develop its own version of the Clean Water Rule.

Effluent Limitations Guidelines. Steam power plant wastewater discharges include arsenic, lead, mercury, selenium, chromium, and cadmium. Regulations for power plant discharges to surface waters were last updated in 1982 and did not focus on these toxic metals. Over the past 30 years, steam power plants—particularly coal-fired power plants—have begun generating new wastewater streams containing these pollutants, resulting from the installation and operation of air pollution control equipment and from the gasification of coal. On June 7, 2013, EPA finalized Effluent Limitations Guidelines (“ELG”) and Standards for the Steam Electric Power Generating Point Source Category.

On November 20, 2015, Southwestern Electric Power Company and an industry group, the Utility Water Act Group, challenged the ELGs in the Fifth Circuit Court of Appeals. On December 8, 2015, other similar cases were consolidated with the *Southwestern Electric Power Company case*. On March 24, 2017, the Utility Water Act Group petitioned EPA to reconsider the ELGs, and on April 5, 2017, the U.S. Small Business Administration also petitioned EPA to reconsider the ELGs. On April 24, 2017, in response to a request from EPA, the Fifth Circuit stayed litigation against the ELGs until August 12, 2017 to give EPA time to consider rewriting the ELGs. Power plants were set to begin meeting these new ELGs in 2018, but in an order issued on April 25, 2017, EPA put an indefinite hold on the ELG requirements, delaying future compliance deadlines in the ELGs for as long as litigation is pending.

On May 3, 2017, a coalition of environmental and public health groups sued EPA for unlawfully delaying compliance deadlines in the United States District Court for the District of Columbia (the “D.C. District Court”). On June 6, 2017, EPA proposed delaying compliance deadlines in the ELGs, perhaps for a period of two years—regardless of pending litigation. On June 14, 2017, the petitioners in the D.C. District Court case moved for summary judgment against EPA for unlawfully delaying compliance deadlines in the rule.

On August 11, 2017, EPA Administrator Pruitt wrote a letter to the Utility Water Act Group and the U.S. Small Business Administration suggesting EPA would issue new power plant effluent standards. On August 22, 2017, in response to a request from EPA, the Fifth Circuit agreed to sever the claims related to the delayed deadlines and to put those claims on hold while EPA revisits the underlying standards. EPA has noted elsewhere that it could take three years to issue new standards. On September 18, 2017, EPA finalized a rule to delay compliance deadlines of major portions of the ELGs by two years, to November 1, 2020 “unless the permitting authority establishes a later date.”

On September 21, 2017, EPA filed a motion to dismiss the May 3, 2017 lawsuit which accused EPA of unlawfully delaying compliance deadlines. On October 6, 2017 the environmental groups asked the court to deny EPA's motion to dismiss. On January 30, 2018, the Center for Biological Diversity sued EPA in the U.S. District Court for the District of Arizona, claiming that EPA failed to perform environmental and species impact reviews for its two-year delay of compliance deadlines in the power plant ELGs, as required by the Endangered Species Act and National Environmental Policy Act ("NEPA"). The Center for Biological Diversity's case will proceed in parallel with the already-pending suit where an array of environmentalists are trying to overturn the ELG delay in the D.C. District Court.

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 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.

Energy Independence and Security Act of 2007. The Energy Independence and Security Act of 2007 ("EISA 2007") was designed to boost energy independence and reduce dependence on imported oil. The most prominent features of the legislation were provisions updating the fuel economy standard for automobiles and expanding the renewable fuel standard for ethanol in gasoline. EISA 2007 included several elements impacting the electric utility sector. The legislation updated appliance efficiency standards for a wide array of consumer products. EISA 2007 also set lighting standards, including the discontinuation of incandescent light bulbs. In addition, the legislation began federal involvement in development of the "smart grid," including standard-setting on interoperability, establishment of federal research and development efforts, and creation of an advisory task force.

Consolidated Appropriations Act of 2016. In lieu of passing the 12 separate appropriations bills to fund the various functions of the federal government for its 2016 fiscal year, Congress enacted the Consolidated Appropriations Act of 2016 (the "Consolidated Appropriations Act"). In addition to setting spending levels for federal agencies, the legislation included a number of extensions of expired or expiring tax provisions, including the production tax credit for wind projects (the "Wind PTC"), which had expired December 31, 2015. The Consolidated Appropriations Act retroactively extended and phased out the Wind PTC. The Wind PTC is now available to projects that commence construction prior to December 31, 2020, with the credit reduced by 20% for projects commencing construction in 2017; 40% for projects commencing construction in 2018; and 60% for projects commencing construction in 2019. In addition, the Consolidated Appropriations Act extended and phased out the investment tax credit for solar projects (the "Solar ITC"), which was set to expire the end of 2016. Under the Consolidated Appropriations Act, the Solar ITC is extended for projects commencing construction prior to January 1, 2022 and gradually phases out the tax credit over five years. For eligible projects that commence construction in 2020, the Solar ITC will be reduced from 30% to 26%; the Solar ITC will be 22% for projects commencing construction in 2021 and the Solar ITC will decrease to 10% for projects commencing construction in 2022 and 2023. In addition, the Consolidated Appropriations Act includes the Cybersecurity Information Sharing Act of 2015, which enables information sharing between federal agencies and business and provides liability protection for information disclosure by businesses complying therewith. The legislation also authorizes municipal utilities to shield sensitive data and information from disclosure under public sunshine laws.

In 2015 and 2016, each of the House of Representatives and the Senate took action on separate energy legislation, none of which passed both chambers. In 2017, the energy oversight committee of the House of Representatives started a series of hearings on issues related to the Federal Power Act. Those hearings are expected to continue in 2018.

RTO-Operated Markets

In addition to coordinating wholesale transmission operations and services, regional transmission organizations (“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 2018A Bonds and Related Documents

Security for the Series 2018A Bonds. The Series 2018A 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 2018A Bond proceeds and income from the temporary investment thereof. The Series 2018A 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 2018A Bonds. A brief description of the Trust Estate is contained in Appendix G.

Default under a Power Sales Agreement. No representation or assurance can be made that KMPA will receive the revenues from each Member required to be paid 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 2018A 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.

Kentucky municipalities that operate an electric plant under the Little TVA Act are managed by a board consisting of four (4) residents of the municipality who have resided therein for not less than one (1) year next preceding the date of the appointment, appointed by the mayor or chief executive and approved by the governing body of the municipality. One (1) board member may be appointed who lives in a portion of the utility's service area that is not within the city if that portion contains ten percent (10%) or more of the utility's customers and that member is a customer of the utility for not less than one (1) year. In addition to those four (4) members so appointed, the mayor or chief executive shall also, with the approval of the governing body, designate a member of such governing body, or in his discretion the city manager, to serve as a fifth member of the board. The board has the power and capacity to perform any act not repugnant to law and has the express power and capacity to do any act or thing necessary or convenient for carrying out its statutory purpose.

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" received the exclusive right to provide retail electric service within its certified territory as defined by the PSC and evidenced on maps maintained by the PSC. 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.

Recent and 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 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 2018A 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 2018A Bonds upon application of the provisions regarding tender of the Series 2018A Bonds or to obtain additional financing to cover the tender obligations would result in KMPA having to pay interest on the Series 2018A Bonds at the Ceiling Rate and 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 2018A Bonds could cause purchasers of the Series 2018A 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 2018A 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 2018A 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 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 directors and their respective offices are as follows:

Hardy Roberts	Chairman
Rickie W. Williams	Vice Chairman
Dave Carroll	General Manager
Kevin Kizzee	Secretary and Assistant General Manager

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

Rickie W. Williams has served as Princeton Electric's designated representative on the KMPA Board since February 2005 and has held the office of Vice-Chairman during his tenure on the KMPA Board. Mr. Williams is a former member and Chairman of the Board of Directors of Princeton Electric. He is a practicing Certified Public Accountant having performed audits and financial consulting for utilities. He is a member of the Kentucky Society of CPAs and the AICPA. He has served on the Kentucky Society of Certified Public Accountants Board of Directors, received the Society's William A. Hifner, Jr. outstanding chapter president award, is a director of First Southern National Bank, Princeton Kentucky, and has served as past president

and board member of several local and civic organizations. Mr. Williams has over 30 years' experience in taxation, cash management and financial consulting. He is a licensed Series 6 and 63 registered representative. He received a Bachelor's degree in accounting from Murray State University in 1978.

Dave Carroll joined Paducah Electric in November 1998, served 19 years as the Director of Finance and Administration and served as Paducah Electric's power supply and sales analyst, overseeing Accounting, Budgeting, Rate Analysis, Human Resources, Customer Service, Meter Reading, Consumer Billing and Collections, Information Technology Support Contracts/Infrastructure and other administrative functions. In August 2017, Mr. Carroll was named General Manager of Paducah Electric.

Prior to joining Paducah Electric, Mr. Carroll worked seven years at Paducah Gaseous Diffusion Plant ("PGDP"), which enriches uranium fuel for nuclear power plants. During his tenure at PGDP, Mr. Carroll served with respect to the PGDP as the Chief Financial Officer for Bechtel Jacobs Company and Accounting Manager for Lockheed Martin Energy Systems.

Mr. Carroll holds a Bachelor Degree from the University of Kentucky, with a major in finance and a minor in economics.

Kevin Kizzee has served as the Assistant General Manager on the KMPA Board and the alternate KMPA representative on the PSGC Board of Directors since August 2016. He is the General Manager of the Princeton Electric Plant Board, where he has over 30 years of experience serving in the position of engineer and superintendent of operations. Mr. Kizzee graduated from Tennessee Technological University in Cookeville, Tennessee with a Bachelor's degree in electrical engineering in 1987. He is active in the American Public Power Association, the Kentucky Municipal Utility Association, is past president of the Power Engineers Association of Kentucky, and has served on several committees in the Tennessee Valley Public Power Association.

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 20 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 continues to serve on the PSEC Finance Committee after previously serving as its Chair. She also serves as a board member for several local charitable organizations.

Financial Statements

The financial statements of KMPA are audited by Williams, Williams & Lentz, LLP, Paducah, Kentucky.

KMPA's audited financial statements for the years ended June 30, 2016 and 2017 are included as Appendix A. KMPA files annual information with the Electronic Municipal Market Access system (see, DISCLOSURE COMPLIANCE herein). Such information will also be available by contacting KMPA at P.O. Box 180, Paducah, Kentucky 42002-0180 or by telephone at (270) 408-5020.

Historical Debt Service Coverage Ratio

KMPA has agreed under the trust indentures for the Bonds, pursuant to a rate covenant, to produce in each fiscal year during which the Bonds are Outstanding, a debt service coverage equal to at least 1.10:1. However, under the terms of the trust indentures, principal and interest payments on the long-term indebtedness incurred in connection with PSEC were not required to be included in the computation of the maximum annual debt service until the fiscal year in which the principal or interest first became payable from sources other than amounts deposited in trust, escrowed or otherwise exclusively set aside at the time of incurrence of such indebtedness (including capitalized interest). KMPA used capitalized interest and such other sources to make payments of interest on the Series 2010A Bonds, Series 2010B Bonds, and Series 2010C Bonds until September 1, 2012. The debt service coverage ratio for the fiscal year ending June 30, 2017 was 1.136. 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.

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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, 2016 and 2017 (with the exception of the following Tables A-1, A-2 and A-3 for which there has been added financial information for fiscal years ending 2013 and 2014 not covered in the Management's Discussion and Analysis of KMPA's audited financial statements for the fiscal years ended June 30, 2016 and 2017). 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. As a supplement to its audited financial statements for the fiscal years ended June 30, 2016 and 2017, also set forth below is Management's Discussion and Analysis of the three-month periods ended September 30, 2016 and 2017. 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, 2016 and 2017, 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, 2016 and June 30, 2017

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, 2017 and 2016. 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 \$14.7 million from fiscal year 2016 to fiscal year 2017, which primarily was a result of capital asset depreciation. Deferred outflows of resources decreased \$1.5 million in that time period due to amortization of regulatory assets related to the advanced refunding of the remaining Series 2007A Bonds. Total liabilities decreased by \$12 million from payment of maturing revenue bond principal. Deferred inflows of resources decreased by \$1.4 million from amortization of debt premiums. These events resulted in total net assets decreasing by \$2.7 million over the course of the year's operations compared to fiscal year 2016.
- KMPA had a negative change in net assets in the fiscal years 2017, 2016, and 2015 due to the use of surety bond proceeds to replace debt service charges billed to Members.

Required Financial Highlights

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

All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Position (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 2017, 2016, and 2015 was provided by surety bonds issued in 2015, revenue bonds issued in May 2010 (\$183.7 million), Bond Anticipation Notes issued during fiscal years 2012 and 2013 (\$35 million) and the sale of electricity to KMPA Members.

Financial Analysis of KMPA

The most common financial question posed to KMPA is "How did KMPA do financially from fiscal year 2016 to fiscal year 2017?" The Statements of Net Position (Deficit) and the Statements of Revenues, Expenses, and Changes in Net Position (Deficit) report information about KMPA's activities in a way that will help answer this question. These two statements report the net position (deficit) of KMPA and the changes to it. One can think of KMPA's net position (deficit) - the difference between assets and deferred outflows, liabilities and deferred inflows - as one way to measure financial health or financial position. Over time, increases or decreases in KMPA's net position are one indicator of whether the financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed governmental legislation. As KMPA was a developmental stage entity, it was expected and reasonable that net position continued to decrease until sales of electricity from PSEC began in June 2012 and KMPA began to bill its Members for power supply and costs. It was also reasonable for KMPA to have a negative net position during the front years of significant bond issues that were used to obtain assets, as KMPA experienced relatively high interest costs.

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

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

	2017	2016	2015	2014	2013	2016-2017 Dollar Change	2015-2016 Dollar Change	2014-2015 Dollar Change	2013-2014 Dollar Change
Current and other assets	\$ 59,477	\$ 65,048	\$ 66,040	\$ 77,787	\$ 82,493	\$ (5,571)	\$ (992)	\$ (11,747)	\$ (4,706)
Capital assets	405,913	415,030	424,709	435,010	443,600	(9,117)	(9,679)	(10,321)	(8,570)
Total assets	465,390	480,078	490,749	512,817	526,093	(14,688)	(10,671)	(22,068)	(13,276)
Deferred outflows	33,452	34,904	30,929	7,578	-	(1,452)	3,975	23,351	7,578
Revenue bonds	474,970	481,830	497,710	517,635	520,121	(6,860)	(15,880)	(19,925)	(2,486)
Other liabilities	18,773	23,948	19,559	14,028	21,936	(5,175)	4,389	5,531	(7,908)
Total liabilities	493,743	505,778	517,269	531,663	542,057	(12,035)	(11,491)	(14,394)	(10,394)
Deferred inflows	29,296	30,680	21,424	4,506	-	(1,384)	9,256	16,918	4,506
Invested in capital assets, net of related debt	(57,621)	(58,679)	(56,756)	(40,536)	(35,170)	(955)	130	(16,220)	(5,366)
Restricted	7,603	15,095	17,365	10,323	9,460	(16,204)	6,442	7,042	863
Unrestricted	25,821	22,108	22,376	14,419	9,746	14,478	(11,033)	7,937	4,693
Total Net Assets (Deficit)	\$ (24,197)	\$ (21,476)	\$ (17,015)	\$ (15,774)	\$ (15,964)	\$ (2,721)	\$ (4,461)	\$ (1,241)	\$ 190

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

	2017	2016	2015	2014	2013	2016-2017 Dollar Change	2015-2016 Dollar Change	2014-2015 Dollar Change	2013-2014 Dollar Change
Operating revenue	\$ 83,420	\$ 78,187	\$ 80,052	\$ 68,224	\$ 57,381	\$ 5,233	\$ (1,865)	\$ 11,828	\$ 10,843
Non-operating revenue	2,890	2,884	3,488	3,306	11,273	6	(604)	182	(8,067)
Total revenue	86,310	81,071	83,540	71,530	68,754	5,239	(2,469)	12,010	2,776
Other operating expense	64,807	60,930	58,864	44,915	49,786	3,877	2,066	13,949	(4,871)
Non-operating expense	24,224	24,602	25,917	26,425	26,624	(378)	(1,315)	(508)	(199)
Total expenses	89,031	85,532	84,781	71,340	76,410	3,499	751	13,441	(5,070)
Changes in net position	(2,721)	(4,461)	(1,241)	190	(7,656)	1,740	(3,220)	(1,431)	7,846
Beginning net position (deficit)	(21,476)	(17,015)	(15,774)	(15,964)	(8,308)	(4,461)	(1,241)	190	(7,656)
Ending net position (deficit)	(24,197)	(21,476)	\$ (17,015)	\$ (15,774)	\$ (15,964)	\$ (2,721)	\$ (4,461)	\$ (1,241)	\$ 190

While the Statements of Net Position (Deficit) show the net position (deficit) of KMPA, the Statements of Revenues, Expenses, and Changes in Net Position (Deficit) provide answers as to the nature and source of these changes. As illustrated in Table A-2, there was a negative change in net position for 2017, 2016, and 2015.

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

Non-operating revenues represent investment income from the bond funds related to KMPA's 2007, 2010, 2015, and 2016 bond issues as well as income relating to KMPA's Build America Bond ("BABS") subsidy. KMPA is entitled to a payment of 32.585% 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 each of 2017, 2016, and 2015.

Non-Operating Expenses are comprised mainly of interest paid on indebtedness related to KMPA's 2007, 2010, 2015, and 2016 bond issues.

In 2015, KMPA obtained surety bonds to replace debt service reserve funds relating to the Taxable Power System Revenue Bonds (Prairie State Project), Series 2007B (the "Series 2007B Bonds"), which were paid in full in September 2016, and the Series 2010A Bonds. KMPA used the funds released from the Debt Service Reserve Fund as part of the defeasance of the Series 2007A Bonds and Series 2010A Bonds. The funds released from the Debt Service Reserve Fund (as a result of the surety bond) relating to the taxable Series 2007B Bonds were credited to the Bond Fund. As such, beginning in January, 2015, KMPA did not bill its Members for debt service

which was covered by funds released from the Debt Service Reserve Fund (\$3.4 million in fiscal year 2015, \$4.8 million in fiscal year 2016, and \$4 million in fiscal year 2017). This release of funds resulted in a negative effect on net position in the financial statements.

Capital Assets

At the end of fiscal year 2017, KMPA had capital assets valued at \$406 million. There was a decrease in capital assets from fiscal year 2016 to fiscal year 2017 of \$9.1 million due to \$3.1 million in capital asset additions and \$12.2 million in additional depreciation. There was a decrease in capital assets from fiscal year 2015 to fiscal year 2016 of \$9.7 million due to \$2.3 million in capital asset additions and \$11 million in additional depreciation. Capital assets are entirely comprised of assets related to completed construction at PSEC.

The Capital Assets comparison among fiscal years 2017, 2016, 2015, 2014, and 2013, is shown in Table A-3.

Table A-3
Capital Assets
(000's)

	2017	2016	2015	2014	2013	2016-2017 Dollar Change	2015-2016 Dollar Change	2014-2015 Dollar Change	2013-2014 Dollar Change
Construction in progress	\$ 3,911	\$ 2,249	\$ 3,161	\$ 5,080	\$ 575	\$ 1,662	\$ (912)	\$ (1,919)	\$ 4,505
Property, plant, and equipment	460,610	459,160	456,871	453,159	454,227	1,450	2,289	3,712	(1,068)
Less accumulated depreciation	(58,608)	(46,379)	(35,323)	(23,209)	(11,202)	(12,229)	(11,056)	(12,114)	(12,007)
Total capital assets	\$ 405,913	\$ 415,030	\$ 424,709	\$ 435,030	\$ 443,600	\$ (9,117)	\$ (9,679)	\$ (10,321)	\$ (8,570)

Administration

The revenue bonds outstanding decreased to \$482 million in fiscal year 2017 from \$493 million in fiscal year 2016 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. The power sales to Paducah Electric and Princeton Electric are made pursuant to "take or pay" Power Sales Agreements with those entities. The terms of the Power Sales Agreements coincide with the term of KMPA's outstanding revenue bonds. KMPA recognized \$6.9 million in revenue bonds outstanding as a current liability in fiscal year 2017 as it paid bond holders this amount in principal on September 1, 2017.

Comparison of Three-Month Periods Ended September 30, 2016 and September 30, 2017

KMPA presents the following discussion and analysis to provide an overall review of KMPA's financial activities for the quarters ending September 30, 2017 and 2016.

For the three-month period ending September 30, 2017, total operating revenue was \$22,063,339 and total operating expenses were \$16,811,358, yielding operating income of \$5,251,981. For the three-month period ending September 30, 2016, total operating revenue was \$22,185,544 and total operating expenses were \$17,709,635, yielding operating income of

\$4,475,909. While the operating revenue during the periods remained consistent, the decrease in Prairie State Generation Campus production costs lowered total cost of power purchased to serve KMPA members. KMPA currently bills its members an amount for principal and interest on long term debt equal to the five-year average for fiscal years 2016 to 2020; therefore, KMPA recognizes a non-operating regulatory debit or credit equal to the difference in this average and actual principal and interest requirements for the period. This debit for the three-month period ending September 30, 2017 was \$671,802. In the three-month period ending September 30, 2016, KMPA recognized a regulatory credit of \$148,132. These factors are the primary drivers in KMPA's decrease of \$683,179 in net position for the three-month period ending September 30, 2017 and for the decrease of \$730,000 in net position for the three-month period ending September 30, 2016. Cash and Cash Reserves increased by \$3.8 million compared to the three-month period ending September 30, 2016. In accordance with existing Bond provisions, KMPA paid \$6,860,000 in principal payments on September 1, 2017. This payment resulted in outstanding long-term debt in the amount of \$474,970,000 as of September 30, 2017.

Recent KMPA Actions

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

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

KMPA also contracted with Assured and National Public Finance Guarantee Corporation to issue surety bonds to secure a portion of its debt service reserve fund obligations. The issuance of surety bonds made available \$22 million of cash which KMPA used to reduce its principal obligations on KMPA's Series 2010A and Series 2007B Bonds. A reduction in principal and interest of the outstanding KMPA bonds translates to a reduction of the Members' 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. In 2015, \$210.6 million of the Series 2007A Bonds were refunded, producing a cash flow savings of \$16.3 million over the life of the Series 2015A Bonds used to refund the Series 2007A Bonds. In 2016, \$71.2 million of the Series 2007A Bonds were refunded, producing a cash flow savings of \$9.6 million over the life of the Series 2016A 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 1960s until 2009 and 2010, respectively, Paducah Electric and Princeton Electric 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, the Members began receiving 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 22,522 total customers. Approximately 18,808, or 83%, are residential customers, approximately 3,296, 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 2008 through 2017 as prepared by Paducah Electric, based on actual sales data.

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

Year	Peak Demand (MW)	Percent Growth	Energy Requirements (MWh)	Percent Growth
2008	159.0	3.2%	657,178	5.7%
2009	150.0	-5.7%	606,178	-7.8%
2010	153.0	2.0%	612,217	0.9%
2011	157.0	2.6%	631,428	3.1%
2012	156.0	-0.6%	599,913	-5.0%
2013	157.0	0.6%	595,572	-0.7%
2014	147.0	-6.3%	580,995	-2.4%
2015	158.3	7.7%	581,501	0.1%
2016	139.0	-12.2%	546,664	-6.0%
2017	138.0	-0.7%	558,405	2.1%

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

Princeton Electric

The Princeton Electric system consists of approximately 3,869 total customers. Approximately 2,965, or 77%, are residential customers, approximately 890, or 22%, are small and large commercial customers, 14, or 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, 2008 through 2017 as prepared by Princeton Electric based on actual sales data.

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

Year	Peak Demand (MW)	Percent Growth	Energy Requirements (MWh)	Percent Growth
2008	26.7	4.3%	112,943	3.5%
2009	24.8	-7.1%	106,534	-5.7%
2010	26.6	5.6%	110,118	2.9%
2011	26.2	-1.5%	111,961	1.7%
2012	26.4	0.8%	111,758	-0.2%
2013	26.3	-0.5%	113,685	1.7%
2014	24.1	-8.3%	110,860	-2.5%
2015	24.2	0.4%	114,400	3.2%
2016	25.2	4.1%	102,766	-10.2%
2017	25.4	0.7%	113,422	10.4%

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

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

In addition, Appendix F provides pertinent operating and financial information for the Members and Appendix E provides general demographic and economic data regarding the areas where the Members provide their respective service. Paducah Electric's audited financial statements for the years ended June 30, 2016 and 2017 are included as Appendix C. Princeton Electric's audited financial statements for the years ended June 30, 2016 and 2017 are included as Appendix D.

Power Sales Agreements

Under the Power Sales Agreements, both Members agreed to purchase their respective entitlement percentages of KMPA's share of the electric power and energy anticipated to be generated by PSEC. Presently, Paducah Electric is entitled to purchase 83.9% of KMPA's share of PSEC and Princeton Electric is entitled to purchase the remaining 16.1%. Each of the Power Sales Agreements is a "take or pay" agreement under which each Member has agreed to pay for its portion of KMPA's share of PSEC at rates sufficient to enable KMPA to recover all of its costs in connection with KMPA's ownership interest in PSEC. The Members are obligated to pay for their respective portions of such costs whether or not PSEC is operable or operating and whether or not PSEC's output is suspended, interrupted, interfered with, reduced, curtailed or terminated in whole or in part.

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

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

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

Supplemental Power Purchases

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

Additional Power Supply Resources of the Members

In 2010, Paducah Electric completed construction and began commercial operation of a gas-fired combustion turbine peaking facility located within its system and adjacent to one of its existing 69 KV substations. The peaking plant consists of two 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 hydroelectric generation projects 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, 2013 through and including June 30, 2017.

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, 2013 through June 30, 2017.

Paducah Electric Historical Debt Service Coverage					
	Historical Fiscal Year				
	2013	2014	2015	2016	2017
Total Operating Revenues ⁽¹⁾	\$67,945,902	\$85,074,790	\$80,297,581	\$72,058,213	\$77,379,121
Total Operating Expenses (Less Amortization and Depreciation)	\$53,005,084	\$68,351,101	\$62,379,076	\$54,986,907	\$60,920,086
Revenue Available for Debt Service	\$14,940,818	\$16,723,689	\$17,918,505	\$17,071,306	\$16,459,035
Annual Debt Service ⁽²⁾	\$12,338,609	\$13,190,451	\$12,278,954	\$12,289,389	\$10,773,949
Total Debt Service Coverage (x)	1.21	1.27	1.46	1.39	1.53

Note:

⁽¹⁾ Includes "Investment Income" and "Nonoperating Income" from the Audited Financial Statements.

⁽²⁾ Annual Debt Service consists of payments of principal of and interest on Paducah Electric's Revenue Bonds, Series 1998, Series 2001, Series 2009A, Series 2009B, Series 2010 and Series 2016A. The Series 1998, Series 2001, and Series 2010 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, 2013 through June 30, 2017.

Princeton Electric Historical Debt Service Coverage					
	Historical Fiscal Year				
	2013	2014	2015	2016	2017
Total Operating Revenues ⁽¹⁾	\$13,084,617	\$15,038,941	\$15,213,894	\$14,171,110	\$14,930,928
Total Operating Expenses (Plus Depreciation and Amortization)	\$10,594,230	\$13,124,981	\$13,020,449	\$12,322,266	\$12,765,005
Revenue Available for Debt Service	\$ 2,490,387	\$ 1,913,960	\$ 2,193,445	\$1,848,844	\$2,165,925
Annual Debt Service ⁽²⁾	\$ 1,713,413	\$ 1,709,004	\$ 1,427,032	\$1,297,186	\$1,298,930
Total Debt Service Coverage (x)	1.45	1.12	1.53	1.43	1.67

Note:

⁽¹⁾ Includes "Investment Income" and "Nonoperating Income" from the Audited Financial Statements.

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

Management's Discussion and Analysis

Paducah Electric

Comparison of Three-Month Periods Ended September 30, 2016 and September 30, 2017

Paducah Electric's audited financial statements for the fiscal years ended June 30, 2016 and 2017, as well as the Management's Discussion and Analysis for those periods, are included as Appendix C. In this section, Paducah Electric presents the following discussion and analysis to provide an overall review of Paducah Electric's financial activities for the quarters ending September 30, 2017 and 2016.

For the quarter ending September 30, 2017, total operating revenue was \$21,616,423, total operating expenses were \$18,592,027, and total non-operating income was \$(1,646,346), resulting in a change in net position of \$1,378,050. For the quarter ending September 30, 2016, total operating revenue was \$22,204,531, total operating expenses were \$17,976,496, and total non-operating income was \$(425,100), resulting in a change in net position of \$3,802,935. The decrease in operating revenue between the quarter ending September 30, 2017 and the quarter ending September 30, 2016 is a result of a reduction in electric sales revenue due to a reduction in the power cost adjustment rate charged to retail customers from 1.273 cents to 0.00997 cents effective July 1, 2017, as well as to lower KWh sales. The increase in operating expenses between the quarter ending September 30, 2017 and the quarter ending September 30, 2016 is due, in part, to an increase in the cost of purchased power. The decrease in non-operating income between the quarter ending September 30, 2017 and the quarter ending September 30, 2016 is directly related to increases in interest expense. Cash and Cash Reserves increased by \$3.3 million compared to the quarter ending September 30, 2016. In February 2016, Paducah Electric purchased a surety bond from Assured Guaranty to replace the debt service reserve fund. The funds remaining in the debt service reserve fund were escrowed and continue to be utilized to pay the principal portion of payments on Paducah Electric long-term debt through fiscal year 2018. In June 2017, Paducah Electric completed an advance refunding of \$103 million of long-term debt, resulting in reduced debt service payments of \$8.4 million between fiscal years 2018 to 2036.

Princeton Electric

Comparison of Three-Month Periods Ended September 30, 2016 and September 30, 2017

Princeton Electric's audited financial statements for the fiscal years ended June 30, 2016 and 2017, as well as the Management's Discussion and Analysis for those periods, are included as Appendix D. In this section, Princeton Electric presents the following discussion and analysis to provide an overall review of Princeton Electric's financial activities for the quarters ending September 30, 2017 and 2016.

For the quarter ending September 30, 2017, total operating revenue was \$4,537,118, total operating expenses were \$3,795,553, and net non-operating income was \$(220,066), resulting in a change in net position of \$521,519. For the quarter ending September 30, 2016, total operating revenue was \$4,507,901, total operating expenses were \$3,606,784, and net non-operating income was \$(222,600), resulting in a change in net position of \$678,517. The increase in total operating expenses between the quarter ending September 30, 2017 and the quarter ending September 30, 2016 is due, in part, to an increase in the cost of purchased power. Cash and cash equivalents increased by \$416,234, or 10.75%, for the quarter ending September 30, 2017 compared to the

quarter ending September 30, 2016. Princeton Electric's assets exceeded its liabilities by \$9,550,226 (net position) at the close of the quarter ending September 30, 2017. Of this amount, \$5,319,784 (unrestricted net position) may be used to meet Princeton Electric's ongoing obligations to citizens and creditors.

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, Wabash Valley Power Association, an Indiana not for profit corporation ("WVPA"), MJMEUC, Prairie Power, Inc., an Illinois not for profit corporation ("PPT") 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
WVPA	<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.

On May 19, 2016, Lively Grove Energy Partners, LLC ("Lively Grove Energy"), a subsidiary of Peabody Energy and one of the original Prairie State owners, sold its interest in Prairie State to WVPA, an Indianapolis-based power generation and transmission cooperative. Under the Participation Agreement, the other Prairie State owners had a right of first refusal to purchase Lively Grove Energy's interest on the same terms as the WVPA offer. KMPA and the other Prairie State owners waived their right of first refusal. With the Lively Grove Energy's ownership sale to WVPA, PSEC is now under the ownership of public power and electric cooperative entities.

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 estimated quantity of coal has been determined by extensive drilling and sampling by PSGC and was confirmed by an independent mine consultant in a study dated February 3, 2005. Such findings were reaffirmed in an August 2007 study (the "2007 Mine Study"). 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.

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. The 2007 Mine Study indicated that the use of a single portal design was consistent with Illinois basin mines and should be adequate to supply PSEC. PSGC holds all the key permits required to operate the mine portal.

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 projected. However, in spite of restrictions imposed by the U.S. Department of Labor's Mine Safety and Health Administration, 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 sufficient for approximately 60 days of operations with additional storage for approximately 15 days of operation located at the mine. As of July 31, 2017, PSGC maintained sufficient coal storage to support approximately 38 days of operation. 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 monofill facility dedicated to the CCR disposal needs of the plant. The Near Field Site has a disposal life of approximately 30 years of the expected CCR to be generated by the PSEC Generating Station. Disposal cells are built incrementally as necessary to meet CCR disposal needs. All necessary permits for current operations at the Near Field Site have been secured. PSGC obtained a 401 Certification from IEPA and received from the Army Corps a Section 404 permit that authorized the relocation of 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 completed relocation construction activities regarding this stream.

Coal mine breaker byproducts are transported via truck to the Near Field Site after the related permit was modified and a new road constructed. Prior to 2017, coal mine breaker byproducts were 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. Since being issued approval from the IDNR to dispose of coalmine breaker byproducts at the Near Field Site, PSGC has reduced transportation costs. The Jordan Grove Site is permitted to receive CCR from the plant via existing rail infrastructure or by truck if there are any issues at the Near Field Site.

Recently, Prairie State has launched a CCR Beneficial Reuse Program, a program that markets and sells CCR byproducts. Prairie State is currently marketing and selling fly ash, gypsum and bottom ash. This allows for additional revenue offsetting costs as well as freeing up space in the landfills.

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 PSEC substation which are owned by the PSEC Owners. The substation is connected to an 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 946,000 natural gas customers throughout its 64,000-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 is authorized by the Participation Agreement to delegate certain of its powers to an "Administrative Committee" or other committees created by the Management Committee, but not, among other things, budget approvals, amendments to PSEC agreements, decisions respecting permits or other governmental approvals, major personnel decisions, agreement to site changes or rights in the site, or changes that would have a material adverse effect or a disproportionate impact on one or more of the PSEC Owners. Actions by the Management Committee on non-delegable items require a super-majority weighted vote of PSEC Owner representatives (75% - which would be adjusted downward were any one PSEC Owner to have an increased percentage ownership in PSEC that would give its Management Committee representative a veto where a super-majority vote is required). The President and CEO of WVPA 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 \$200 million in capital improvements over the next five years, of which KMPA's share will be approximately \$15.64 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 few years 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 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 2018A Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax under existing laws, regulations, rulings and decisions in effect on the date of delivery of the Series 2018A Bonds. However, for purposes of computing the alternative minimum tax imposed on certain corporations for taxable years that began prior to January 1, 2018, such interest is taken into account in determining adjusted current earnings.

The Code requires that KMPA comply on an ongoing basis with certain obligations in order for the Series 2018A Bonds not to be used in such a manner that would cause the Series

2018A Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and for the interest on the Series 2018A 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 2018A Bonds becoming subject to federal income taxation, retroactive to the date of the Series 2018A 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 2018A Bonds. Interest on the Series 2018A 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 2018A 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 2018A 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 2018A 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 2018A 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 2018A 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 2018A 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 2018A Bonds, prospective purchasers of the Series 2018A 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 2018A Bonds.

Backup Withholding

General information reporting requirements will apply to payments of principal and interest made on a Series 2018A Bond and the proceeds of the sale of a Series 2018A Bond to non-corporate holders of the Series 2018A Bonds, and “backup withholding” at a rate of 24% 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 2018A Bond that is a U.S. owner can obtain complete exemption from backup withholding by providing a properly completed IRS Form W-9 (Request for Taxpayer Identification Number and Certification).

Original Issue Premium

Certain of the Series 2018A Bonds (the “Premium Bonds”) may be offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. If a U.S. owner purchases a Premium Bond, that owner will be considered to have purchased such a Premium Bond with “amortizable bond premium” equal in amount to such excess. The U.S. owner may elect, in accordance with the applicable provisions of Section 171 of the Code, to amortize that premium as an offset to the interest payments on the Premium Bond using a constant yield to maturity method over the remaining term of the Premium Bond (or, if required by applicable Treasury Regulations, to an earlier call date). Pursuant to Section 67(b)(11) of the Code, the amortization of that premium is not considered a miscellaneous itemized deduction. Any amortization of bond premium will reduce the basis of the Premium Bond pursuant to Section 1016(a)(5) of the Code.

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

Nonresident Owners

Under the Code, interest and original issue discount (“OID”) on any Series 2018A 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 2018A 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 2018A 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 2018A 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 I. Certain legal matters will be passed upon for KMPA by its counsel, McMurtry & Livingston, PLLC, Paducah, Kentucky and B. Todd Wetzel, Esq., Princeton, Kentucky and for the Underwriter by its counsel, 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 2018A Bonds, or the collection of revenues pledged or to be pledged to pay the principal of and interest on the Series 2018A Bonds or (ii) in any way contesting or affecting the validity of the Series 2018A Bonds, the Indenture or the Power Sales Agreements, or the power to collect and pledge the revenues to pay the Series 2018A Bonds, or contesting the power or authority of KMPA to issue the Series 2018A 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. In February 2017, the SEC issued a no action letter to KMPA indicating that the agency's staff had concluded its investigation and that they do not intend to recommend an enforcement action by the SEC against KMPA.

On August 19, 2014, KMPA was informed of a putative class action lawsuit filed in the Circuit Court of Kane County, Illinois, on behalf of certain ratepayers receiving electric utility service from the City of Batavia, Illinois (the "Plaintiffs"). The City of Batavia is a member of NIMPA, one of the PSEC Owners. The lawsuit named KMPA solely as a "respondent in discovery" rather than as a defendant. The lawsuit was ultimately dismissed in August 2016.

DISCLOSURE COMPLIANCE

KMPA will comply with the requirements of the SEC regarding secondary market disclosure as set forth in Rule 15c2-12 (the "Rule"), as amended, under the Securities Exchange Act of 1934, as amended. Specifically, KMPA will enter into a Continuing Disclosure Agreement (the "Disclosure Agreement"), a form of which is attached as Appendix H hereto, in which it will covenant to provide notice in a timely manner, not later than ten business days after the event, to the Municipal Securities Rulemaking Board (the "MSRB"), and the appropriate state information depository, if any, of any of the types of events with respect to the Series 2018A 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 2018A 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, 2018, 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 2018A Bonds are Outstanding in accordance with their terms and (ii) KMPA remains an "obligated person" with respect to the Series 2018A 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 2018A 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 2018A 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. However, 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. However, 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. However, 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 2018A 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"). An explanation of the significance of the rating given by Moody's may be obtained from Moody's Investors 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 these ratings will continue for any given period of time or that they 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 2018A Bonds.

INDEPENDENT AUDITORS

The financial statements of KMPA, as of and for the years ended June 30, 2016 and 2017, 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. LLC has agreed, subject to certain conditions, to purchase all, but not less than all, of the Series 2018A Bonds from KMPA at a purchase price equal to \$_____ for the Series 2018A Bonds, which represents the aggregate principal amount of the Series 2018A Bonds, plus net original premium, less the Underwriter's discount. The Underwriter is committed to purchase all of the Series 2018A Bonds if any are purchased. The initial public offering prices may be changed from time to time by the Underwriter. Goldman Sachs & Co. LLC has not been engaged as the remarketing agent for KMPA in connection with any future remarketing of the Series 2018A Bonds. KMPA will designate a remarketing agent for any future remarketing of the Series 2018A 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 2018A 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 2018A Bonds nor this Official Statement is to be construed as constituting an agreement with the purchaser of the Series 2018A 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/
Chairman

Attest:

By: /s/
Secretary

APPENDIX A

KENTUCKY MUNICIPAL POWER AGENCY
POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2018A

Audited Financial Statements of the Kentucky Municipal Power Agency
for Fiscal Years ended June 30, 2016 and 2017

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KENTUCKY MUNICIPAL
POWER AGENCY

FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

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WILLIAMS WILLIAMS & LENTZ
CERTIFIED PUBLIC ACCOUNTANTS

J. David Bailey, III
Sue Cronch-Greenwell
Roger G. Harris
Michael F. Kaues
Mark A. Thomas
Ashley C. Grooms
Kelly D. Scruggs
Benjamin D. Teer

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, 2017 and 2016 and the related notes to the financial statements which comprise the Agency's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Kentucky Municipal Power Agency, as of June 30, 2017 and 2016, 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.

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Mayfield, KY 42066 Fx: 270.247.2028

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 9 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

The schedule of general operating expenses presented on page 29 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 general operating expenses presented on page 29 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2017 on our consideration of Kentucky Municipal Power Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kentucky Municipal Power Agency's internal control over financial reporting and compliance.

Williams, William F. Lentz

Paducah, Kentucky
November 10, 2017



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, 2017 and 2016. 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 \$14.7 million from fiscal year 2016 to fiscal year 2017, which primarily was a result of capital asset depreciation. Deferred outflows of resources decreased \$1.5 million in that time period due to amortization of regulatory assets related to the advanced refunding of the remaining Series 2007A bonds. Total liabilities decreased by \$12 million from payment of maturing revenue bond principal. Deferred inflows of resources decreased by \$1.4 million from amortization of debt premiums. These events resulted in total net assets decreasing by \$2.7 million over the course of the year's operations compared to fiscal year 2016.
- The Agency had a negative change in net assets in the fiscal years 2017, 2016, and 2015 due to the use of surety bond proceeds to replace debt service charges billed to members.

Overview of the Financial Highlights

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

Required Financial Highlights

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

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

The final required financial statements are the Statements of Cash Flows. The statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period. Cash for 2017, 2016 and 2015 was provided by surety bonds issued in 2015, 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.

(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 in fiscal year 2017 as compared to a fiscal year 2016?" The Statements of Net Position (Deficit) and the Statements of Revenues, Expenses, and Changes in Net Position (Deficit) report information about the Agency's activities in a way that will help answer this question. These two statements report the net position (deficit) of the Agency and the changes to it. One can think of the Agency's net position - the difference between assets/deferred outflows and liabilities/deferred inflows - as one way to measure financial health or financial position. Over time, increases or decreases in the Agency's net position are one indicator of whether the financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed governmental legislation. At the Agency was a developmental stage entity, it is expected and reasonable that net position continued to decrease until sales of electricity from the Prairie State Project begin in June 2012 and the Agency begins to bill its members for power supply and costs. It is also reasonable for the Agency to have a negative net position during the front years of significant bond issues that were used to obtain assets; as the Agency is experiencing high interest costs.

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

Table A-1 Statements of Net Position (Deficit) (000's)					
	2017	2016	2015	2016-2017 Dollar Change	2015-2016 Dollar Change
Current and other assets	\$ 59,477	\$ 65,048	\$ 66,040	\$ (5,571)	\$ (992)
Capital assets	405,913	415,030	424,709	(9,117)	(9,679)
Total assets	465,390	480,078	490,749	(14,688)	(10,671)
Deferred Outflows of Resources	33,452	34,904	30,929	(1,452)	3,975
Revenue bonds	474,970	481,830	497,710	(6,860)	(15,880)
Other liabilities	18,773	23,948	19,552	(5,175)	4,382
Total liabilities	493,743	505,778	517,262	(12,035)	(11,491)
Deferred Inflows of Resources	29,296	30,680	21,424	(1,384)	9,256
Invested in capital assets, net of related debt	(57,621)	(58,679)	(56,756)	(995)	130
Restricted	7,603	15,095	17,365	(16,204)	6,442
Unrestricted	25,821	22,108	22,376	14,478	(11,033)
Total Net Assets (Deficit)	\$ (24,197)	\$ (21,476)	\$ (17,015)	\$ (2,721)	\$ (4,461)

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the Agency

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2016-2017</u> <u>Dollar</u> <u>Change</u>	<u>2015-2016</u> <u>Dollar</u> <u>Change</u>
Operating revenue	\$ 83,420	\$ 78,187	\$ 80,052	\$ 5,233	\$ (1,865)
Non-operating revenue	<u>2,890</u>	<u>2,884</u>	<u>3,488</u>	<u>6</u>	<u>(604)</u>
Total revenue	<u>86,310</u>	<u>81,071</u>	<u>83,540</u>	<u>5,239</u>	<u>(2,469)</u>
Other operating expense	64,807	60,930	58,864	3,877	2,066
Non-operating expense	<u>24,224</u>	<u>24,602</u>	<u>25,917</u>	<u>(378)</u>	<u>(1,315)</u>
Total expenses	<u>89,031</u>	<u>85,532</u>	<u>84,781</u>	<u>3,499</u>	<u>751</u>
Changes in net assets	(2,721)	(4,461)	(1,241)	1,740	(3,220)
Beginning net assets (deficit)	<u>(21,476)</u>	<u>(17,015)</u>	<u>(15,774)</u>	<u>(4,461)</u>	<u>(1,241)</u>
Ending net assets (deficit)	<u>\$ (24,197)</u>	<u>\$ (21,476)</u>	<u>\$ (17,015)</u>	<u>\$ (2,721)</u>	<u>\$ (4,461)</u>

While the Statements of Net Position (Deficit) show the net position of the Agency, the Statements of Revenues, Expenses, and Changes in Net Position (Deficit) provide answers as to the nature and source of these changes. As illustrated in Table A-2, there was a negative change in net position for 2017, 2016, and 2015.

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

Non-operating revenues represent investment income from the 2007, 2010, 2015, and 2016 revenue bond funds as well as income relating to the Federal Build America Bond (BABS) subsidy. The Agency is entitled to a payment of 32.585% 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 2017, 2016, and 2015.

Non-Operating Expenses are comprised mainly of interest paid on indebtedness related to the 2007, 2010, 2015, and 2016 bond issues.

KENTUCKY MUNICIPAL POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS

In 2015, the Agency issued surety bonds to replace debt service reserve funds relating to the Series 2007B and Series 2010A Bonds. The Agency used the funds released from the Debt Service Reserve Fund as part of the defeasance of the Series 2007A Bonds and 2010A Bonds. The funds released from the Debt Service Reserve Fund (as a result of the surety bond) relating to the taxable Series 2007B Bonds are available for immediate credit to the Bond Fund. As such, beginning in January 2015, the Agency did not bill its members for debt service which is covered by funds released from the Debt Service Reserve Fund (\$3.4 million in FY 15, \$4.8 million in FY 16, and \$4 million in FY 17). This release of funds resulted in a negative effect on net position in the financial statements.

Capital Assets

At the end of fiscal year 2017, the Agency had \$406 million invested in capital assets. There was a decrease in capital assets from 2016 to 2017 of \$9.1 million due to \$3.1 million in capital asset additions and \$12 million in additional depreciation. There was a decrease in capital assets from 2015 to 2016 of \$9.7 million due to \$2.3 million in capital asset additions and \$11 million in additional depreciation. Capital assets are entirely comprised of assets related to completed construction at the Prairie State Energy Campus Plant.

The Capital Assets comparison between fiscal years 2017, 2016, and 2015 is shown in Table A-3.

	2017	2016	2015	2016-2017 Dollar Change	2015-2016 Dollar Change
Construction in progress	\$ 3,911	\$ 2,249	\$ 3,161	\$ 1,662	\$ (912)
Property, plant, and equipment	460,610	459,160	456,871	1,450	2,289
Less accumulated depreciation	(58,608)	(46,379)	(35,323)	(12,229)	(11,056)
Total capital assets	<u>\$ 405,913</u>	<u>\$ 415,030</u>	<u>\$ 424,709</u>	<u>\$ (9,117)</u>	<u>\$ (9,679)</u>

Administration

The revenue bonds outstanding decreased to \$482 million in fiscal year 2017 from \$493 million in fiscal year 2016 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 coincides with the term of the Agency's outstanding revenue bonds. The Agency recognized \$6.9 million in revenue bonds outstanding as a current liability in fiscal year 2017 as it will pay bond holders this amount in principal on September 1, 2017.

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

Economic Factors and Other Information

The Agency Formation

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

The Agency Organization

The Agency currently is comprised of two municipal utility members, Paducah Power System and Princeton Electric Plant Board. Additional members may be added if approved by the Agency Board and its members. The Board of Directors is currently comprised of four individuals: an appointee made by the Board of Directors of Paducah Power System, an appointee made by the Board of Directors of Princeton Electric Plant Board, and the general managers of each member electric system.

Members Wholesale Power Contracts

Both Paducah Power System and Princeton Electric Plant Board were full requirements wholesale distribution customers of the Tennessee Valley Authority (TVA) for more than four decades. In December 2004 and January 2005, Paducah Power System and Princeton Electric Plant Board, respectively, provided TVA with a five-year written notice of their decision to terminate their Wholesale Power Contracts. Subsequent to providing TVA with said notice, Paducah Power System and Princeton Electric Plant Board determined that they would meet their baseload wholesale power requirements through respective power sales agreements with the Agency. The Agency obtains the power necessary to meet those needs primarily through its participation and ownership in the Prairie State Energy Campus.

Prairie State Project

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

The Agency's current entitlement in the Project is 124 MW, of which Paducah Power System is entitled to 104 MW and Princeton Electric Plant Board is entitled to 20 MW. Other participants in the Project are American Municipal Power, Inc., Illinois Municipal Electric Agency, Indiana Municipal Power Agency, Missouri Joint Municipal Electric Utility Commission, Northern Illinois Municipal Power Agency, Prairie Power, Inc., Southern Illinois Power Cooperative, and Wabash Valley Power Association.

KENTUCKY MUNICIPAL POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Other Information

Bechtel was issued Full Notice to Proceed with construction of the Plant on October 1, 2007. As of the end of December 2016, 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 2016, 100 percent of construction activities on the Mine had been completed. One hundred percent of the expected total equipment and contract costs of the Mine had been committed to in the form of either actual purchases or signed commitments for equipment, materials and supplies, and construction services with fixed prices.

The Agency anticipates no additional costs to complete the construction and equipping of the Project.

Recent Agency Actions

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

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

The Agency also contracted with Assured Guaranty Municipal Corp. and National Public Finance Guarantee to issue surety bonds for a portion of its debt service reserve fund. The issuance of a surety bonds provided \$22 million of cash which the Agency will use to reduce its principal obligations on the Agency's 2010A and 2007B revenue bonds. As of the end of June 2017, \$2.7 million remains available to reduce principal of the outstanding Agency bonds and, therefore, a reduction to member power bills.

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.

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 Dave Carroll, General Manager, Kentucky Municipal Power Agency, P.O. Box 0180, Paducah, KY 42002-0180 or by telephone at 270.575.4000 or by email at dcarroll@paducahpower.com.

BASIC FINANCIAL STATEMENTS

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

ASSETS

	2017	2016
Current Assets:		
Cash and temporary cash investments	\$ 9,287,680	\$ 8,457,460
Accounts receivable	854,976	920,334
Working capital Prairie State	1,912,517	2,277,088
Other receivables	6,487,935	6,291,826
Inventory	3,457,946	3,206,174
Prepaid expenses	122,423	3,242
Total current assets	22,123,477	21,156,124
Restricted Assets:		
Principal and interest sinking fund	12,642,961	16,183,289
Redemption fund	2,670,609	6,725,419
Reserve fund	13,418,996	13,384,050
Pledged collateral	2,555,062	3,477,648
Interest receivable	73,318	114,084
Regulatory asset	844,658	-
Prairie State reserve funds	5,147,787	4,007,236
Total restricted assets	37,353,391	43,891,726
Capital Assets:		
Construction work in progress	3,911,140	2,248,838
Property, plant, and equipment	460,610,190	459,160,658
Less accumulated depreciation	(58,608,028)	(46,379,007)
Total capital assets	405,913,302	415,030,489
Total assets	465,390,170	480,078,339
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred bond refunding gain	25,662,031	26,743,442
Unamortized debt issuance costs	6,337,532	6,622,593
Unamortized debt discounts	1,452,820	1,538,107
Total deferred outflows of resources	33,452,383	34,904,142

See notes to financial statements.

LIABILITIES

	2017	2016
Current Liabilities:		
Accounts payable	\$ 3,836,974	\$ 3,730,029
Bonds held by public current portion	6,860,000	10,905,000
Other payables	293,225	1,385,495
Current liabilities payable from restricted assets:		
Accrued interest	7,783,510	7,927,471
Total current liabilities	18,773,709	23,947,995

Noncurrent Liabilities:

Long-term debts:		
Bonds held by public	474,970,000	481,830,000
Total noncurrent liabilities	474,970,000	481,830,000

Total liabilities	493,743,709	505,777,995
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DEFERRED INFLOWS OF RESOURCES

Unamortized debt premium	29,296,112	30,680,439
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NET POSITION

Net investment in capital assets	(57,621,365)	(58,679,325)
Restricted for debt service	7,603,378	15,095,320
Unrestricted - net	25,820,719	22,108,052
TOTAL NET POSITION (DEFICIT)	\$ (24,197,268)	\$ (21,475,953)

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

	2017	2016
Operating Revenues:		
Service revenue	<u>\$ 83,420,005</u>	<u>\$ 78,187,092</u>
Total operating revenues	<u>83,420,005</u>	<u>78,187,092</u>
Purchased Power and Operating Expenses:		
Purchased power cost	49,313,885	45,305,802
General operating expense	<u>15,493,436</u>	<u>15,624,329</u>
Total purchased power and operating expenses	<u>64,807,321</u>	<u>60,930,131</u>
Operating income	<u>18,612,684</u>	<u>17,256,961</u>
Nonoperating Revenues (Expenses):		
Interest paid on indebtedness	(23,977,419)	(24,224,383)
Investment income	359,834	366,336
Federal Build America Bond's subsidy	2,529,863	2,518,545
Net amortization discount and premium on debt	<u>(246,277)</u>	<u>(378,090)</u>
Total nonoperating revenues (expenses)	<u>(21,333,999)</u>	<u>(21,717,592)</u>
Change in net position	(2,721,315)	(4,460,631)
Net position (deficit), beginning of year	<u>(21,475,953)</u>	<u>(17,015,322)</u>
NET POSITION (DEFICIT), END OF YEAR	<u><u>\$(24,197,268)</u></u>	<u><u>\$(21,475,953)</u></u>

See notes to financial statements.

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

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$83,289,254	\$78,527,532
Payments to suppliers	(52,716,977)	(46,124,125)
Payments to employees	(1,029,246)	(984,452)
Net cash provided by operating activities	<u>29,543,031</u>	<u>31,418,955</u>
Cash Flows from Capital and Related Financing Activities:		
Capital expenditures	(3,114,461)	(2,357,899)
Long-term bond issuance cost	-	(132,758)
Deferred cost long-term bonds	-	(4,376,274)
Proceeds from issuance of bonds	-	82,152,514
Principal payments made on bonds	(10,905,000)	(86,506,715)
Interest payments on long-term debt	(24,121,380)	(23,579,342)
Federal Build America Bond's subsidy	<u>2,529,863</u>	<u>2,518,545</u>
Net cash used by capital and related financing activities	<u>(35,610,978)</u>	<u>(32,281,929)</u>
Cash Flows from Investing Activities:		
Purchases of investments	(25,420,657)	(45,380,492)
Proceeds from sale of investments	25,966,425	41,656,841
Investment income	<u>400,600</u>	<u>355,561</u>
Net cash provided (used) by investing activities	<u>946,368</u>	<u>(3,368,090)</u>
Net decrease in cash and cash equivalents	(5,121,579)	(4,231,064)
Cash and cash equivalents, beginning of year	<u>33,193,802</u>	<u>37,424,866</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$28,072,223</u>	<u>\$33,193,802</u>

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

	<u>2017</u>	<u>2016</u>
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities:		
Operating income	\$18,612,684	\$17,256,961
Depreciation expense	12,231,650	12,036,116
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	65,358	470,023
Other accounts receivable	(196,109)	(129,583)
Prepaid expenses	(119,181)	(193)
Other assets	112,799	102,226
Accounts payable	106,945	479,985
Other current and accrued liabilities	(1,271,115)	1,203,420
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$29,543,031</u>	<u>\$31,418,955</u>
Schedule of Noncash Financing Activities:		
Amortization of bond issue and discount costs	\$ (246,277)	\$ (378,090)

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

The Agency acquired an undivided interest in a "mine mouth", pulverized coal-fueled power generating facility on a site in Washington, Randolph, and St. Clair Counties, Illinois, (Prairie State Energy Campus) for the purpose of providing wholesale base load power to its members, Paducah Power System and Princeton Electric. The rates to be charged to Paducah Power System and Princeton Electric will be set by the Board through operating and power agreements.

Measurement Focus, Basis of Accounting and Basis of Presentation

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

The financial statements of the Agency are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and the principles established by the Federal Energy Regulatory Commission (FERC). The Agency 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 Agency 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 Agency accounts for revenues 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.

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

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

Deposits and Investments

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

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

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

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

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

Deposits and Investments

j. Shares of mutual funds, each of which have the following characteristics:

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

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

Receivables

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

Inventories

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

Prepayments

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

Restricted Assets

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

Capital Assets

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

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

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

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

Long-Term Obligations

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes them as outflows of resources or inflows of resources. In addition, the statement changes the method of reporting debt issuance costs. Prior to implementation of GASB Statement No. 65, the Agency reported debt issuance costs as deferred charges which were capitalized and amortized over the life of the related debt. Under GASB Statement No. 65, debt issuance costs for unregulated operations are to be recognized as an expense in the period incurred. However, GASB 65 provides an exception for regulated operations to allow certain incurred costs related to regulated activities, such as debt issuance costs, to be reported as a regulatory asset. Because the Agency meets the criteria of a ratemaking entity under the regulated operations provisions of GASB Statement No. 62, the Agency's debt issuance costs are capitalized and are shown as costs recoverable from future billings on the statement of net position. GASB Statement No. 65 also required the Agency to reclassify the deferred gain or loss on refunding from long-term debt to deferred inflows of resources and deferred outflows of resources, respectively, on the balance sheets for 2017.

Regulated Operations, Revenues and Expenses

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

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

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

Reclassification

Certain reclassifications have been made to the 2016 financial statements to make them conform to the 2017 presentation.

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

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, 2017 and 2016, 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>2017</u>	<u>2016</u>
Checking and savings	\$16,164,151	\$14,748,138
Mutual funds-money market	3,591,072	302,988
Commercial paper	-	1,663,702
Guaranteed investment security	9,948,016	11,556,415
Repurchase agreement	<u>15,193,472</u>	<u>22,777,691</u>
TOTAL CASH AND INVESTMENTS	<u>\$44,896,711</u>	<u>\$51,048,934</u>

Deposits

The financial institution balances of the Agency's deposits were \$44,896,711 for the year ended June 30, 2017. The book balance was \$44,896,711. Of the various financial institution balances at June 30, 2017, \$250,000 was insured by federal depository insurance, and the remaining balance of \$44,646,711 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 \$44,676,711 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 \$51,048,934 for the year ended June 30, 2016. The book balance was \$51,048,934. Of the various financial institution balances at June 30, 2016, \$250,000 was insured by federal depository insurance, and the remaining balance of \$50,798,934 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 \$50,798,934 was uninsured and collateralized by U.S. Treasury pooled investments not held in the Agency's name.

As of June 30, 2017 and 2016, \$0 and \$0 of the Agency's bank balances were known to be individually exposed to custodial credit risk at Citibank, N.A.

Credit Risk

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

As of June 30, 2017 and 2016, 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

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 2 - Deposits and Investments (Continued):

Concentration of Credit Risk

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

As of June 30, 2017, 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	12%
Bayerische Landesbank	Guaranteed investment certificate	35%
Regions Bank	Repurchase agreement	53%

As of June 30, 2016, 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	1%
Bayerische Landesbank	Guaranteed investment certificate	31%
Regions Bank	Repurchase agreement	63%
Visionary Funding, LLC	Commercial paper	5%

Interest Rate Risk

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

Fair Value Measurement - The Agency's investments are measured and reported at fair value and classified according to the following hierarchy:

Level 1 - Investments reflect prices quoted in active markets.

Level 2 - Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.

Level 3 - Investments reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk. Securities classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor.

All of the Agency's investments are level 1 investments.

As of June 30, 2017, 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	\$ 3,591,072	\$ 3,591,072	\$ -	\$ -
Commercial paper	-	-	-	-
Guaranteed investment certificates	9,948,016	9,948,016	-	-
Repurchase agreement	15,193,478	15,193,478	-	-
TOTALS	\$ 28,732,566	\$ 28,732,566	\$ -	\$ -

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 2 - Deposits and Investments (Continued):

Interest Rate Risk

As of June 30, 2016, the Agency's investments were as follows:

Investment Type	Fair Value	Maturity (In Years)		
		Less than 1 Year	1 - 5 Years	6 - 10 Years
Mutual funds-money market	\$ 302,988	\$ 302,988	\$ -	\$ -
Commercial paper	1,663,702	1,663,702	-	-
Guaranteed investment certificates	11,556,415	-	11,556,415	-
Repurchase agreement	22,777,691	22,777,691	-	-
TOTALS	\$ 36,300,796	\$ 24,744,381	\$ 11,556,415	\$ -

Note 3 - Restricted Assets:

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

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

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

The following calculation supports the amount of restricted net position:

	2017	2016
Restricted assets:		
Sinking and reserve funds	\$ 28,732,566	\$ 36,300,796
Accrued interest receivable	73,318	114,084
Less: restricted assets not funded by revenues:		
Cost of issuance fund	-	(8,039)
Reserve fund	(13,418,996)	(13,384,050)
Current liabilities payable from restricted assets	(7,783,510)	(7,927,471)
TOTAL RESTRICTED NET POSITION AS CALCULATED	\$ 7,603,378	\$ 15,095,320

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 3 - Restricted Assets (Continued):

GASB does not allow the presentation of negative restricted net position. The deficiency in restricted net position is netted against unrestricted net position in 2017 and 2016.

Note 4 - Capital Assets:

Capital asset activity for the year ended June 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 2,881,220	\$ -	\$ -	\$ 2,881,220
Construction in progress	<u>2,248,838</u>	<u>1,662,302</u>	<u>-</u>	<u>3,911,140</u>
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	\$ 5,130,058	\$ 1,662,302	\$ -	\$ 6,792,360
Capital Assets Being Depreciated Or Deleted:				
Land rights	\$ 2,505,415	\$ -	\$ -	\$ 2,505,415
Coal reserves	6,149,094	-	188,172	5,960,922
Non-utility property	17,816,349	224,936	-	18,041,285
Structures and improvements	39,925,176	133,762	-	40,058,938
Equipment	<u>382,883,403</u>	<u>1,379,719</u>	<u>100,713</u>	<u>391,162,409</u>
Total capital assets being depreciated	456,279,437	1,738,417	288,885	457,728,969
Less accumulated depreciation	<u>46,379,006</u>	<u>12,211,650</u>	<u>2,629</u>	<u>58,608,027</u>
Total capital assets being depreciated, net	<u>409,900,431</u>	<u>(10,493,233)</u>	<u>286,256</u>	<u>399,120,942</u>
TOTAL CAPITAL ASSETS, NET	\$415,030,489	\$ (8,830,931)	\$286,256	\$405,913,302

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 4 - Capital Assets (Continued):

Capital asset activity for the year ended June 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 2,851,033	\$ 30,187	\$ -	\$ 2,881,220
Construction in progress	<u>3,160,842</u>	<u>-</u>	<u>912,004</u>	<u>2,248,838</u>
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	\$ 6,011,875	\$ 30,187	\$ 912,004	\$ 5,130,058
Capital Assets Being Depreciated Or Deleted:				
Land rights	\$ 2,505,415	\$ -	\$ -	\$ 2,505,415
Coal reserves	6,342,461	-	193,367	6,149,094
Non-utility property	17,349,116	518,979	51,746	17,816,349
Structures and improvements	39,536,027	389,149	-	39,925,176
Equipment	<u>388,287,271</u>	<u>2,650,605</u>	<u>1,054,473</u>	<u>389,883,403</u>
Total capital assets being depreciated	454,020,290	3,558,733	1,299,586	456,279,437
Less accumulated depreciation	<u>35,323,460</u>	<u>12,183,923</u>	<u>1,128,376</u>	<u>46,379,007</u>
Total capital assets being depreciated, net	<u>418,696,830</u>	<u>(8,625,190)</u>	<u>171,210</u>	<u>409,900,430</u>
TOTAL CAPITAL ASSETS, NET	\$424,708,704	\$ (8,595,003)	\$1,083,214	\$415,030,488

Note 5 - Accounts Payable:

The elements comprising accounts payable are as follows:

	<u>2017</u>	<u>2016</u>
Due for purchased power	\$ 3,688,299	\$3,710,163
Accounts payable, general	<u>148,675</u>	<u>19,866</u>
TOTAL ACCOUNTS PAYABLE	\$ 3,836,974	\$3,730,029

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 6/30/17</u>
3/20/12	Finance Prairie State and working capital needs	9/1/18	Floating	\$35,000,000	\$ -

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 6 - Long-Term Indebtedness (Continued):

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

These notes are secured on a parity basis with the Agency's 2007 and 2010 bond issues. All revenues received by the Agency through Power Sales Agreements are pledged as collateral. The notes were paid off on June 1, 2016.

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 6/30/17</u>
9/20/07	Finance Prairie State and working capital needs	9/1/42	4.00-5.25%	\$291,065,000	\$ -
5/27/10	Finance Prairie State and working capital needs	9/1/24	2.00-4.00%	53,600,000	37,970,000
5/27/10	Finance Prairie State and working capital needs	9/1/37	5.56-6.39%	122,405,000	122,405,000
5/27/10	Finance Prairie State and working capital needs	9/1/19	2.47-5.06%	7,725,000	3,585,000
4/02/15	2007 Revenue Refunding	9/1/42	5.00%	210,600,000	210,600,000
6/01/15	Finance Prairie State and working capital needs	9/1/42	Floating	36,035,000	36,035,000
04/01/16	2007 Revenue Refunding	9/1/36	5.00%	<u>71,235,000</u>	<u>71,235,000</u>
TOTALS				<u>\$792,665,000</u>	<u>\$481,830,000</u>

For the years ended June 30, 2017 and 2016, bonds payable totaling \$509,673,292 and \$521,877,332, are recorded net of \$(1,452,820) and \$(1,538,170) of unamortized bond discount and \$29,296,112 and \$30,680,439 of unamortized bond premium, respectively.

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

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 6 - Long-Term Indebtedness (Continued):

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, 2017 and 2016, as defined are \$29,558,944 and \$38,024,710, 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 online during the fiscal year ended June 30, 2013. Interest paid for the years ended June 30, 2017 and 2016, was \$24,121,380 and \$23,579,343, respectively.

Changes in Long-term Debt and Maturities

Long-term obligation activity for the year ended June 30, 2017, 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	\$492,735,000	\$ -	\$10,905,000	\$481,830,000	\$ 6,860,000
Bond anticipation notes	-	-	-	-	-
Unamortized debt discount	(1,538,107)	-	(85,287)	(1,452,820)	-
Unamortized debt premium	<u>30,680,439</u>	<u>-</u>	<u>1,384,327</u>	<u>29,296,112</u>	<u>-</u>
TOTALS	\$521,877,332	\$ -	\$12,204,040	\$509,673,292	\$ 6,860,000

Long-term obligation activity for the year ended June 30, 2016, 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	\$506,555,000	\$71,235,000	\$85,055,000	\$492,735,000	\$10,905,000
Bond anticipation notes	-	-	-	-	-
Unamortized debt discount	(1,747,126)	(220,935)	(429,954)	(1,538,107)	-
Unamortized debt premium	<u>21,423,659</u>	<u>11,138,449</u>	<u>1,881,669</u>	<u>30,680,439</u>	<u>-</u>
TOTALS	\$526,231,533	\$82,152,514	\$86,506,715	\$521,877,332	\$10,905,000

Advance Refundings:

During fiscal year 2016, the Agency issued \$71,235,000 Power System Revenue Refunding Bonds (Prairie State Project) Series 2015A and 2015B. Of the proceeds, \$82,833,200 has been deposited into an irrevocable trust to provide for the future debt service payments on certain maturities of the Revenue Bonds, Series 2007A, maturing at various dates from 2017 through 2042. As a result, the refunded portion of the bonds is considered defeased and the escrowed assets and liability for the bonds have been removed from the financial statements.

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 6 - Long-Term Indebtedness (Continued):

Advance Refundings:

The defeased bonds still outstanding are shown below:

Outstanding 2007A Revenue Bonds **\$289,110,000**

Total debt service to maturity:

<u>Maturities</u>	<u>Principal</u>	<u>Interest</u>	<u>Subsidized Interest</u>	<u>Total</u>
2018	\$ 6,860,000	\$ 23,550,390	\$ 2,518,545	\$ 27,891,845
2019	7,130,000	23,278,944	2,518,545	27,890,399
2020	7,435,000	22,973,334	2,518,545	27,899,789
2021	12,325,000	22,520,320	2,518,545	32,326,775
2022	12,945,000	21,897,495	2,518,545	32,323,950
2023-2027	74,965,000	98,697,077	12,081,079	161,580,998
2028-2032	93,495,000	75,844,219	8,743,230	160,595,969
2033-2037	114,525,000	46,799,746	3,951,361	157,373,385
2038-2042	125,130,000	17,259,831	118,445	142,271,386
2043	27,020,000	517,269	-	27,537,269
TOTALS	\$ 481,830,000	\$ 353,338,625	\$ 37,486,860	\$ 797,681,765

Bond Covenant Disclosures

The following information is provided in compliance with the resolution creating the 2007 A and B revenue bonds, 2010 A, B, and C revenue bonds, and the 2017 A and B revenue bonds.

Insurance

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

The Agency is covered under the following insurance policies at June 30, 2017:

<u>Type</u>	<u>Coverage</u>	<u>Expiration</u>
General & Public Officials Liability	\$10,000,000	January 17, 2018

Note 7 - Net Position:

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

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

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 7 - Net Position (Continued):

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

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

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

The following calculation supports the Agency's net investment in capital assets:

	<u>2017</u>	<u>2016</u>
Property, plant, and equipment	\$ 460,610,190	\$ 459,160,658
Less accumulated depreciation	(58,608,028)	(46,379,007)
Working capital and collateral Prairie State	2,738,895	3,463,255
Construction work in progress	<u>3,911,140</u>	<u>2,248,838</u>
Sub-totals	<u>408,652,197</u>	<u>418,493,744</u>
Less: Capital related debt		
Bonds held by public	(481,830,000)	(492,735,000)
Deferred refunding gain	25,662,031	26,743,442
Unamortized bond issuance cost	6,337,532	6,622,593
Asset retirement obligation	(2,018,830)	(2,053,861)
Unamortized debt discount	1,452,820	1,538,107
Unamortized debt premium	<u>(29,296,111)</u>	<u>(30,680,439)</u>
Sub-totals	<u>(479,692,558)</u>	<u>(490,565,158)</u>
Add: Unspent debt proceeds		
Project fund	-	-
Reserve fund	13,418,996	13,384,050
Cost of issuance fund	<u>-</u>	<u>8,039</u>
Sub-totals	<u>13,418,996</u>	<u>13,392,089</u>
TOTAL NET INVESTMENT IN CAPITAL ASSETS	<u>\$ (57,621,365)</u>	<u>\$ (58,679,325)</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.

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 8 - Commitments and Contingencies (Continued):

Prairie State Energy Campus

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

Pursuant to the terms of the Project Development Agreement dated February 5, 2005, the Fee Agreement of the same date, and the AI Fee Agreement dated August 31, 2006, the Agency paid certain fees for the right to participate in the Prairie State Project and ultimately own its share of the coal reserves and other project assets at financial close. On June 19, 2007, the Agency executed, amended, and restated versions of the Project Development Agreement, the Fee Agreement, and the AI Fee Agreement. The amended agreements memorialized certain changes in the various percentage ownership interests of the participants in the Project and certain changes regarding the manner in which the Project will be developed. The Agency is also obligated under the agreements to pay its proportionate share of all ongoing costs and expenses associated with the Prairie State Project. The Agency's cost for participation in the project totals \$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 Illinois Power Marketing Agency on May 28, 2014. The price of the power purchased in these transactions was \$47.50/MWh for delivery to the LGEE/MISO interface of the Midwest Independent Transmission System Operator ("MISO") for the period June 1, 2015 - August 31, 2015. The price does not include the cost of transmitting the power to the Agency's members, the Electric Plant Boards of the Cities of Paducah and Princeton, Kentucky (the "Members") from the delivery point.

(Continued)

KENTUCKY MUNICIPAL POWER AGENCY
NOTES TO FINANCIAL STATEMENTS

Note 8 - Commitments and Contingencies (Continued):

Power Sales Agreement

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

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

Claims and Judgments

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

Note 9 - Disclosures Regarding the Statement of Cash Flows:

Accounting Policy

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

The composition of cash and cash investments at June 30, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Cash and temporary cash investments	\$ 9,287,680	\$ 8,457,460
Restricted cash and short-term investments:		
Project and reserve funds and pledged collateral	<u>18,784,543</u>	<u>24,735,342</u>
TOTAL CASH AND CASH INVESTMENTS	<u>\$28,072,223</u>	<u>\$33,192,802</u>

Note 10 - Subsequent Events:

The Agency did not have any subsequent events through November 10, 2017, 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, 2017.

SUPPLEMENTARY INFORMATION

KENTUCKY MUNICIPAL POWER AGENCY
GENERAL OPERATING EXPENSES
YEARS ENDED JUNE 30

General Operating Expenses:	2017	2016
Administrative and general:		
Payroll	\$ 1,029,246	\$ 984,452
Office supplies and expense	717,779	874,255
Outside services employment	856,062	951,776
Depreciation	12,231,650	12,036,116
Depletion	189,081	202,136
Insurance	259,374	319,362
Injuries and damages	131,236	109,482
General plant maintenance	79,008	146,748
Total administrative and general	<u>15,493,436</u>	<u>15,624,327</u>
TOTAL GENERAL OPERATING EXPENSES	<u>\$15,493,436</u>	<u>\$15,624,327</u>



WILLIAMS WILLIAMS & LENTZ
CERTIFIED PUBLIC ACCOUNTANTS

J. David Bailey, III
Sue Cronch-Greenwell
Roger G. Harris
Michael F. Kames
Mark A. Thomas
Ashley C. Grooms
Kelly D. Scruggs
Benjamin D. Teer

**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, 2017, and the related notes to the financial statements, which collectively comprise the Kentucky Municipal Power Agency's basic financial statements, and have issued our report thereon dated November 10, 2017.

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*.

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Purpose of this Report

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

Williams, Williams & Lentz

Paducah, Kentucky
November 10, 2017

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APPENDIX B

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KENTUCKY MUNICIPAL POWER AGENCY
POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2018A

Summary of Kentucky Municipal Power Agency Annual Debt Service Payments

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Kentucky Municipal Power Agency
Power System Refunding Revenue Bonds, Series 2018A
Semi-Annual Debt Service Payments
Series 2018A

Date	Coupon	Principal	Interest	Total	Fiscal Total
9/1/2018					
3/1/2019					
9/1/2019					
3/1/2020					
9/1/2020					
3/1/2021					
9/1/2021					
3/1/2022					
9/1/2022					
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3/1/2039					
9/1/2039					
3/1/2040					
9/1/2040					
3/1/2041					
9/1/2041					
3/1/2042					
9/1/2042					
Total					

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APPENDIX C

KENTUCKY MUNICIPAL POWER AGENCY
POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2018A

Audited Financial Statements of the Paducah Electric Plant Board
for Fiscal Years ended June 30, 2016 and 2017

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

**FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016**

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WILLIAMS WILLIAMS & LENTZ
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Benjamin D. Teer

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Electric Plant Board of the City of Paducah, Kentucky, *d/b/a* Paducah Power System, a component unit of the City of Paducah, Kentucky, as of and for the years ended June 30, 2017 and 2016, 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 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 statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Paducah Power System, as of June 30, 2017 and 2016, 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.

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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 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

The schedule of operating expenses presented on pages 32 and 33 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 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2017, on our consideration of Paducah Power System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Paducah Power System's internal control over financial reporting and compliance.

Williams, Williams & Lentz
Paducah, Kentucky
November 10, 2017



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, 2017. Comparisons are available on several financial and supplemental statements throughout this analysis.

FINANCIAL HIGHLIGHTS

- Reduced the power cost adjustment rate for retail customers from 1.273¢ to .00997¢ effective July 1, 2017.
- Purchased power cost increased by \$3.8 million.
- The FY17 power cost adjustment rate yielded a \$6.5 million Regulatory Liability.
- Cash and cash reserves increased by \$5.8 million during FY17.
- Paducah Power System's debt service reserve funds were replaced with a surety bond from Assured Guaranty. These funds continue to be utilized to pay the principle portion of payments on Paducah Power System long-term debt through calendar year 2018.
- Completed an advance refunding of \$103 million of long-term debt in June 2016, resulting in reduced debt service payments of \$8.4 million between fiscal years 2018 to 2036.

FORMATION OF KENTUCKY MUNICIPAL POWER AGENCY

Paducah Power System (PPS) was under a full-requirements power supply contract with the Tennessee Valley Authority (TVA) until December 21, 2009. In February 2005, Paducah Power System and the Princeton Electric Plant Board formed a joint action agency, Kentucky Municipal Power Agency (KMPA). KMPA will eliminate regulatory complications created by the outdated Public Utilities Holding Company Act passed in the 1930's.

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

With KMPA providing Paducah Power System's base and intermediate load requirements, PPS has constructed two 60 MW gas turbines to supply its peaking load requirements as well as provide opportunity for off-system sales when market prices are advantageous. In January 2009, Paducah Power System issued revenue bonds of approximately \$170 million to fund all construction cost related to the peaking units, associated gas line extension, and all necessary substation/transmission upgrades.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

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

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

PADUCAH POWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE UTILITY

One of the most important questions asked about the utility's finances is, "Is Paducah Power System, as a whole, better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position help us answer this question. One can think of the utility's net position - the difference between assets/deferred outflows and liabilities/deferred inflows - 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>FY17</u>	<u>FY16</u>
Current assets	\$ 34,308,314	\$ 28,742,016
Non-current assets	10,910,583	14,138,029
Capital assets	<u>146,837,771</u>	<u>151,833,783</u>
Total assets	<u>192,056,670</u>	<u>194,713,830</u>
Deferred Outflows of Resources	<u>18,400,471</u>	<u>18,215,818</u>
Current liabilities	14,314,728	15,089,562
Non-current liabilities	17,017,175	14,361,414
Long-term debt	<u>151,844,666</u>	<u>137,639,794</u>
Total liabilities	<u>183,176,569</u>	<u>187,090,770</u>
Deferred Inflows of Resources	<u>114,224</u>	<u>189,870</u>
Invested in capital assets, net of related debt	7,543,949	8,317,000
Restricted for debt service	5,344,377	10,306,112
Unrestricted net assets	<u>14,278,022</u>	<u>7,025,896</u>
TOTAL NET ASSETS	<u>\$ 27,166,348</u>	<u>\$ 25,649,008</u>

PADUCAH POWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

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 \$5.6 million.

Cash and cash reserves increased by \$5.8 million during FY17. This is partially the result of accumulating a credit power cost adjustment balance of \$6.5 million. Receivables decreased by \$250 thousand as a result of the power cost adjustment rate decrease compared to last year. FY17 materials and supplies inventory balance also decreased by \$24 thousand.

Non-current assets include restricted funds such as bond sinking funds and debt service reserve funds. These funds decreased during FY17 by \$5 million. In February 2016, Paducah Power System purchased a surety bond from Assured Guaranty to replace the debt service reserve fund. The cost of the bond was \$556 thousand. The remaining funds were escrowed and will be utilized to pay the principle portion of Paducah Power System's sinking fund payments into calendar year 2019. During FY17, \$4.4 million of the escrowed funds were utilized to offset sinking fund payments.

Other non-current assets include a Rate Stabilization Fund balance, unamortized debt discounts, unamortized research and development, 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. FY17 also includes a total investment of \$426 thousand for the startup of MuniNet. This includes PPS's portion of MuniNet's debt service payments and legal fees.

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

Deferred outflows of resources include pension liabilities and the net of items related to the 2016A Refunding Revenue Bonds, including debt premium, bond insurance, changes in unamortized debt expense and discount and principal savings.

Current liabilities represent items such as accounts payable, customer deposits, accrued taxes, interest payments, balance of the bank line-of-credit and the current portion of any long-term debts. PPS currently has a \$5 million line-of-credit with Regions Bank. The balance on the bank line-of-credit for FY17 and FY16 was \$0.

Non-current liabilities primarily represent Paducah Power System's proportionate share of the net pension liability of the County Employees' Retirement System (CERS), a cost-sharing, multiple-employer, defined benefit pension plan, which is administered by the Kentucky Retirement System. Under GASB 68, FY15 was the first year this was required to be reported resulting in a \$6.5 million increase in non-current liabilities. In FY16, the balance increased by \$1.8 million to \$8.3 million. During FY17, this amount increased by \$1.9 million for a total non-current liability of \$10.2 million.

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, \$170 million issued in January 2009 for the construction of the peaking plant, gas-line, and transmission/substation upgrades and \$103 million issued in June 2016 to advance refund a portion of the outstanding 2009 bond issue. A 2009A bond issue included a premium of \$18.9 million. The long-term debt balance will decrease as the bonds are repaid.

Net position is broken down into three major categories: Investment in Capital Assets, Restricted for Debt Service, and Unrestricted Net Position. Investment in Capital Assets experienced a change due to the issuance of the 2016A Refunding Bonds including a bond premium of \$18.9 million. Restricted net position includes debt service reserve funds and sinking funds deposits of \$5.3 million. Unrestricted net position increased by \$7.2 million. Unrestricted net position would have increased by another \$2.7 million but was offset by the inclusion of the net pension liability requirement of GASB 68 which began in FY15.

PADUCAH POWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

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>FY17</u>	<u>FY16</u>	<u>Change</u>	<u>% Change</u>
Electrical sales revenue	\$74,980,152	\$75,861,655	\$ (881,503)	(1.2)%
Miscellaneous revenue	<u>2,255,401</u>	<u>(3,944,615)</u>	<u>6,200,016</u>	<u>157.2%</u>
Total operating revenue	<u>77,235,553</u>	<u>71,917,040</u>	<u>5,318,513</u>	<u>7.4%</u>
Purchased power cost	46,936,630	43,173,928	3,762,702	8.7%
General operating expense	8,104,676	7,222,146	882,530	12.2%
Generation plant expense	2,422,919	1,286,365	1,136,554	88.4%
Maintenance expense	1,779,544	1,622,259	157,285	9.7%
Other operating expense	11,080,584	10,975,406	105,178	.96%
Non-operating expense	<u>5,393,860</u>	<u>7,323,097</u>	<u>(1,929,238)</u>	<u>(26.3)%</u>
Total expenses	<u>75,718,213</u>	<u>71,693,201</u>	<u>4,115,011</u>	<u>5.7%</u>
Changes in net position	1,517,340	313,839	1,203,502	
Beginning net position	25,649,008	25,335,169		
Prior period adjustment	-	(6,943,501)		
Net position, restated	<u>25,649,008</u>	<u>25,352,149</u>		
ENDING NET POSITION	<u>\$27,166,348</u>	<u>\$25,649,008</u>		

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

Paducah Power System's electric sales revenue decreased by \$882 thousand. This is the result of a reduction in the Power Cost Adjustment rate charged to retail customers.

Miscellaneous revenue increased by \$6.2 million over the FY16 figures. This increase was the result of a reduction in the collection of the Power Cost Adjustment. FiberNet services and late payment penalty and other miscellaneous service revenue increased by \$93 thousand.

Purchased power costs increased by 8.7% over FY16. This increase was due to a higher capacity factor than the previous year, and included payments of \$4 million on the AMP hydro project which became operational in FY17.

General operating expense increased by \$883 thousand or 12.2% over FY16 due to increased overhead line expenses and increased FiberNet expenses.

Generation plant expenses were increased by \$1.1 million or 88.4% over FY16. Total MWH generated increased from 12,776 in FY16 to 36,337 during FY17 as Paducah Power System was able to take advantage of lower natural gas prices during certain market conditions.

Maintenance expense increased by \$157 thousand or 9.7% over the FY16 figures due to an increase in overhead line maintenance expenses which included additional tree trimming.

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

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

(Continued)

PADUCAH POWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

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>FY17</u>	<u>FY16</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ 76,564,919	\$ 79,087,177
Payments to suppliers	(55,517,979)	(50,051,423)
Payments to employees	<u>(5,170,346)</u>	<u>(5,043,028)</u>
Net cash provided by operating activities	<u>15,876,594</u>	<u>23,992,726</u>
Cash Flows from Capital and Related Financing Activities:		
Capital expenditures	(4,184,557)	(4,299,450)
Proceeds from issuance of long-term debt	-	122,234,722
Principal payments on long-term debt	(5,240,000)	(109,718,165)
Interest payments on long-term debt	(6,484,925)	(7,171,818)
Bond insurance cost	-	(1,061,936)
Deferred savings on bond refunding	1,024,271	(16,618,426)
Non-utility property and other assets	(316,422)	4,072
Investment in hydro research and development	<u>-</u>	<u>(459,033)</u>
Net cash used by capital and related financing activities	<u>(15,201,633)</u>	<u>(17,090,036)</u>
Cash Flows from Investing Activities:		
Investment income	149,944	140,292
Non-operating income	<u>(6,375)</u>	<u>881</u>
Net cash provided by investing activities	<u>143,569</u>	<u>141,173</u>
Net increase in cash and cash equivalents	818,530	7,043,863
Cash and cash equivalents, beginning of year	<u>30,543,285</u>	<u>23,499,422</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 31,361,815</u>	<u>\$ 30,543,285</u>

(Continued)

PADUCAH POWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

Receipts from customers decreased with the reduction in the power cost adjustment rate during FY17. The increase in payments to suppliers and employees reflects the higher cost of purchased power from KMPA in FY17. Electric plant capital expenditures are historically in the \$4 to \$5 million range per year. Principle payments on long-term debt, Long-term debt bonds issued, Deferred savings on bond refunding, and Bond insurance represent the issuance of 2016A Revenue Bonds which was a partial advance refunding of the 2009A Revenue Bonds. Overall cash balances increased by \$1 million during FY17.

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 FY17 budget comparison and analysis is presented below, but is not included in the financial statements section of the auditor's report.

BUDGET VERSUS ACTUAL				
	FY17			
	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>Percent</u>
Revenue:				
Electric sales	\$74,980,152	\$73,915,996	\$ 1,064,156	1.4%
Miscellaneous revenue	<u>2,255,401</u>	<u>6,592,592</u>	<u>(4,337,191)</u>	-65.8%
Total operating revenue	<u>77,235,553</u>	<u>80,508,588</u>	<u>(3,273,035)</u>	-4.1%
Expenses:				
Purchased power cost	<u>46,936,630</u>	<u>51,516,294</u>	<u>(4,579,664)</u>	-8.9%
Generation plant expense	<u>2,422,919</u>	<u>1,315,460</u>	<u>1,107,459</u>	84.2%
General operating expense	8,104,676	7,302,060	802,616	11.0%
Maintenance expense	1,779,544	1,537,502	242,042	13.1%
Other operating expense	11,080,584	11,116,118	(35,534)	-3%
Non-operating expense	<u>5,393,860</u>	<u>5,658,476</u>	<u>(264,617)</u>	-4.7%
Total expenses	<u>75,718,213</u>	<u>78,445,910</u>	<u>(2,727,698)</u>	-3.5%
NET GAIN/(LOSS)	<u>\$ 1,517,340</u>	<u>\$ 2,062,678</u>	<u>\$ (545,332)</u>	-26.4%

Electric sales were 1.4% higher than the FY17 budget. KWh sales were 2.3% higher than budgeted. The large decrease in miscellaneous revenue is strictly due to only collecting \$766 thousand in the power cost adjustment balance that was a reduction in the accrued revenue during FY17.

Purchased power was 8.9% under budget due to lower than forecasted power cost and higher than budgeted capacity factor from KMPA. Revenue from excess Prairie State energy sold into the market has been low due to the market price of power in the MISO area as well as across the country. This revenue is used to offset the cost of purchased power to meet the PFS electric load requirement. Additionally, PPS has experienced a price differential between the node where Prairie State energy is liquidated in the market and the node where PPS purchases it power from the market. This is often referred to as transmission congestion. In January 2016, PPS implemented a Rate Recovery Plan to lower cost by reducing KMPA's debt service payments and other cost such as transmission congestion. The plan has been successful in reducing power cost and the power cost adjustment balance.

(Continued)

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

Generation plant expense was higher than budgeted due to higher use of excess capacity. In FY17 36,337 MW were generated compared to 12,776 MW in FY16.

While PPS has seen an upward shift between General operating and General maintenance expenses, other operating expenses and non-operating expenses have been in line with or below budget forecast.

CAPITAL ASSETS

The electric industry as a whole is a capital intensive business. Transmission and distribution assets typically include, but are not limited to, poles, towers, overhead conductors, underground conductors, underground conduit, line transformers, service wire, meters, street lighting, security lighting, and substation equipment, etc. Examples of general plant items include office, maintenance and warehouse buildings, office furniture and equipment, communication equipment, electrical system control equipment, tools and equipment, vehicles, heavy equipment and bucket trucks. Construction in progress represents mostly capital construction projects which are not currently completed. Following is a summary of the capital assets and changes that occurred during FY17.

**CAPITAL ASSETS
FY17**

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Land	\$ 2,634,929	\$ -	\$ -	\$ 2,634,929
Construction in progress	896,185	-	96,526	799,659
Transmission system	10,472,920	24,718	-	10,497,638
Distribution system	86,670,161	3,360,751	1,162,123	88,868,789
General plant	19,408,075	821,676	-	20,229,751
Generation plant	<u>110,695,826</u>	<u>73,939</u>	<u>-</u>	<u>110,769,765</u>
Total capital assets	230,778,096	4,281,084	1,258,649	233,800,531
Accumulated depreciation	<u>78,944,311</u>	<u>9,180,571</u>	<u>1,162,123</u>	<u>86,962,760</u>
NET CAPITAL ASSETS	<u>\$151,833,785</u>	<u>\$ (4,899,487)</u>	<u>\$ 96,526</u>	<u>\$146,837,771</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.

(Continued)

PADUCAH POWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

June 23, 2016, Paducah Power System issued \$103.4 million in revenue refunding bonds with an interest rate of 5% in order to advance refund \$106.9 million of the 2009 revenue bonds. All proceeds were deposited in an irrevocable trust to provide for all future debt service obligations thereby defeasing a portion of the 2009 revenue bonds. The savings realized during FY17 due to this refunding was \$1.6 million in interest.

Paducah Power System maintains sinking funds in an amount determined by the bond covenants to cover future debt service payments. Below is a summary of debt service requirements for the 2009, 2010 and 2016 bond series.

	<u>Total Series</u>	<u>Series 2016A</u>	<u>Series 2009A</u>	<u>Series 2010</u>
Balance at				
June 30, 2016	\$145,035,000	\$103,375,000	\$41,140,000	\$520,000
Increases	-	-	-	-
Decreases	5,240,000	-	4,720,000	520,000
Refunding	-	-	-	-
 BALANCE AT JUNE 30, 2017	 <u>\$139,795,000</u>	 <u>\$103,375,000</u>	 <u>\$36,420,000</u>	 <u>\$ -</u>
 Maturities		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018		\$ 4,870,000	\$ 6,634,755	\$ 11,504,755
2019		5,035,000	6,478,915	11,513,915
2020		5,220,000	6,307,725	11,527,725
2021		5,445,000	6,104,925	11,549,925
2022		5,685,000	5,857,675	11,542,675
2023-2037		<u>113,540,000</u>	<u>44,471,688</u>	<u>158,011,688</u>
 TOTALS		 <u>\$139,795,000</u>	 <u>\$ 75,855,683</u>	 <u>\$215,650,683</u>

FINANCIAL OUTLOOK AND ELECTRIC RATE CHANGES
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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.

PADUCAH POWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

Purchased power costs were significantly higher than projected resulting in increased power cost adjustment rates to retail customers in previous years. 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 up to \$9/MW. Additionally, Prairie State continued to battle startup issues related to plant which resulted in lower than projected capacity ratings. Performance and output from the plant has improved significantly in recent months with a change in management and operating philosophy.

To address the increased power cost and associated rate impacts to customers, in November 2014, the PPS Board of Directors approved an Action Plan with several key goals. The first goal was to stabilize the PPS finances and power cost. Additional goals for FY16 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 included reductions in debt service for KMPA and Paducah by replacing portions of the Debt Service Reserve Funds with Surety Bonds. These funds were used to effectively defease principal payments over the next several years. Additionally, KMPA advance refunded a portion of its 2007 A&B bond issue which reduced debt service cost. Reductions in KMPA debt service and improved performance from Prairie State were realized as reductions in power cost to its members including PPS.

The portfolio management contract with American Municipal Power includes efforts to market the generation assets held by KMPA and PPS in order to eliminate excess capacity from the total portfolio. PPS, through its assets and contracts with AMP and KMPA, has a total MW capacity of approximately 241MW.

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

During fiscal year 2016, Paducah Power System realized continued improvement in reducing power cost. Several factors contributing to the improvement were increased capacity factor of Prairie State generating units and better management of transmission congestion cost. PPS was also able to take advantage of lower natural gas prices and utilize the peaking plant to generate energy avoiding higher market peak pricing. The PCA rate was reduced from 1.656¢ to 1.273¢ during FY16. Paducah Power System financials reflect a debt service coverage ratio of 1.4 and a \$12.1 million increase in cash and cash reserves. Due to a successful advance refunding bond issue in June 2016, PPS has reduced future debt service obligations by \$10 million dollars through 2036.

During fiscal year 2017, Paducah Power System once again was able to reduce the PCA from 1.273¢ to .00997¢ effective July 1, 2017. The debt service coverage ratio continued its upward trend to 1.6 for FY17. PPS was also able to take advantage of lower natural gas prices, and through the sale of excess capacity the peaking plant generated 37,336 MW during FY17 compared to 12,776 MW during FY16. The ending cash balance for FY17 was about \$1 million higher than the previous year. Due to support ending for the plant metering system, the plant board decided to invest in a new radio frequency AMI system with installation beginning in the spring of 2017 and continuing through the fall of 2018.

Due to the decrease in the power cost adjustment which lowered the electric rates for customers, FY 2018 is projected to see a decrease in cash. Additional investment in the radio frequency AMI system, as well as increased payments for the AMP hydro project will also contribute to the reduction of cash on hand. The projected debt service coverage ratio is 1.46 for FY18 remains above the required coverage ratio of 1.2 per the bond covenant.

PADUCAH POWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

Following is a summary of the retail rate changes effective on June 30 of 2017 and 2016.

SUMMARY OF RETAIL RATES

	June 2017 Rate Tariff	June 2016 Rate Tariff
<u>Residential</u>		
Customer Charge	\$14.75	\$14.75
All KWH	\$0.11153	\$0.11153
Power Cost Adjustment	\$0.00997	\$0.01656
<u>Small Commercial</u>		
Customer Charge	\$22.00	\$22.00
All KWH	\$0.12217	\$0.12217
Power Cost Adjustment	\$0.00997	\$0.01656
<u>Mid-Sized Commercial</u>		
Customer Charge	\$115.00	\$115.00
1 st 15,000 KWH	\$0.11938	\$0.11938
Power Cost Adjustment (1 st 15,000)	\$0.00997	\$0.01656
Additional KWH	\$0.07495	\$0.07495
Power Cost Adjustment (Add KWH)	\$0.00997	\$0.01656
1 st 50 KW Demand	\$0.00	\$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	\$0.06736
0 - 1,000 KW Demand	\$15.25	\$15.25
1,001 - 5,000 KW Demand	\$17.62	\$17.62
Power Cost Adjustment	\$0.00997	\$0.01656
<u>Industrial</u>		
Customer Charge	\$275.00	\$275.00
All KWH	\$0.05270	\$0.05270
All KW Demand	\$18.38	\$18.38
Power Cost Adjustment	\$0.00997	\$0.01656
<u>Outdoor Lighting</u>		
All KWH	\$0.08425	\$0.08425
Power Cost Adjustment	\$0.00997	\$0.01656
Customer Charge	Depends on type and size of light	

CONTACTING THE PADUCAH POWER SYSTEM FINANCIAL MANAGER

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

BASIC FINANCIAL STATEMENTS

PADUCAH POWER SYSTEM
STATEMENTS OF NET POSITION
JUNE 30

<u>ASSETS</u>		
	2017	2016
Current Assets:		
Cash and temporary cash investments	\$ 13,050,318	\$ 12,648,589
Cash reserves	10,992,925	7,588,484
Accounts receivable - net of allowance for doubtful accounts of \$32,914 in 2017 and \$33,302 in 2016	6,154,504	6,404,810
Receivable from MusiNet Fiber Agency	32,252	32,252
Materials and supplies	1,267,660	1,292,107
Prepaid expenses	709,261	662,846
Accrued interest receivable	4,479	14,302
Rent receivable	<u>96,915</u>	<u>98,526</u>
Total current assets	<u>34,308,314</u>	<u>28,742,016</u>
Noncurrent Assets:		
Restricted assets:		
Sinking Fund	<u>5,344,377</u>	<u>10,306,112</u>
Total restricted assets	<u>5,344,377</u>	<u>10,306,112</u>
Utility plant:		
Land	2,634,929	2,634,929
Transmission system	10,497,638	10,472,920
Distribution system	88,868,789	86,670,161
General plant	20,232,751	19,408,075
Generation plant	110,769,765	110,695,826
Construction work in progress	799,658	896,185
Less accumulated depreciation	<u>(86,962,759)</u>	<u>(78,944,311)</u>
Total utility plant	<u>146,837,771</u>	<u>151,833,785</u>
Other Assets:		
Investment in CSA	26,740	26,740
Investment in SEDC	175,436	163,051
Investment in MusiNet Fiber Agency	426,541	385,589
Unamortized debt discount	2,590,841	2,744,583
Regulatory assets	1,586,912	-
Other miscellaneous assets	286,768	20,723
Unemployment Trust Fund	29,154	29,154
Unamortized research and development cost	443,734	459,035
Non-utility property	<u>82</u>	<u>1,042</u>
Total other assets	<u>5,566,208</u>	<u>3,831,917</u>
Total noncurrent assets	<u>157,748,356</u>	<u>165,971,814</u>
Total assets	<u>192,056,670</u>	<u>194,713,830</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred savings on bond refunding	15,755,131	16,618,426
Deferred pension plan outflows	1,924,077	982,483
Deferred pension plan contributions	<u>721,263</u>	<u>614,909</u>
Total deferred outflows	<u>18,400,471</u>	<u>18,215,818</u>

See notes to financial statements.

<u>LIABILITIES</u>			
Current Liabilities:			
Accounts payable	2017	2016	
	\$ 5,282,050	\$ 5,399,622	
Customer deposits	770,091	835,086	
Accrued taxes and equivalents	926,793	951,702	
Accrued interest	1,677,953	1,801,373	
Other current and accrued liabilities	787,841	861,779	
Bonds payable	4,870,000	5,240,000	
	<u>14,314,728</u>	<u>15,089,562</u>	
Total current liabilities			
Noncurrent Liabilities:			
Long-term debts:			
Bonds held by public	151,844,666	157,639,794	
Other unearned revenues	336,819	337,801	
Other regulatory liabilities	6,461,368	5,703,492	
Net pension liability	10,218,988	8,318,121	
	<u>168,861,841</u>	<u>172,001,208</u>	
Total noncurrent liabilities			
Total liabilities	<u>183,176,569</u>	<u>187,090,770</u>	
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred pension plan inflows	114,224	189,870	
<u>NET POSITION</u>			
Investment in capital assets	8,469,077	8,317,000	
Restricted for:			
Debt service	5,344,377	10,306,112	
Unrestricted - net position	<u>13,352,894</u>	<u>7,025,896</u>	
TOTAL NET POSITION	<u>\$ 27,166,348</u>	<u>\$ 25,649,008</u>	

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

	2017	2016
Operating Revenues:		
Charges for services:		
Residential	\$29,750,655	\$29,758,030
Large lighting and power	34,938,684	35,748,218
Small lighting and power	8,687,541	8,721,456
Street and outdoor	1,603,272	1,633,951
Total charges for services	<u>74,980,152</u>	<u>75,861,655</u>
Miscellaneous:		
Forfeited discounts	404,317	435,746
Service revenue	2,606,360	2,481,950
Regulatory credits	(755,876)	(6,862,911)
Other electric revenue	600	600
Total miscellaneous	<u>2,255,401</u>	<u>(3,944,615)</u>
Total operating revenues	<u>77,235,553</u>	<u>71,917,040</u>
Purchased Power and Operating Expenses:		
Purchased power cost	46,936,630	43,173,928
General operating expense	8,104,676	7,222,146
Generation plant expense	2,422,919	1,286,365
Maintenance expense	1,779,544	1,622,259
Other operating expense	11,080,584	10,975,406
Total purchased power and operating expenses	<u>70,324,353</u>	<u>64,280,104</u>
Operating income	<u>6,911,200</u>	<u>7,636,936</u>
Nonoperating Revenues (Expenses):		
Interest paid on indebtedness	(5,436,377)	(7,171,818)
Investment income	149,944	140,292
Net amortization discount and premium on debt	(101,051)	(292,452)
Nonoperating income	<u>(6,376)</u>	<u>881</u>
Total nonoperating revenues (expenses)	<u>(5,393,860)</u>	<u>(7,323,097)</u>
Change in net position	<u>1,517,340</u>	<u>313,839</u>
Net position, beginning	<u>25,649,008</u>	<u>25,335,169</u>
NET POSITION, ENDING	<u><u>\$27,166,348</u></u>	<u><u>\$25,649,008</u></u>

See notes to financial statements.

PADUCAH POWER SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

	2017	2016
Cash Flows from Operating Activities:		
Receipts from customers	\$76,564,919	\$ 79,087,177
Payments to suppliers	(55,294,283)	(50,051,423)
Payments to employees	(5,170,346)	(5,043,028)
Net cash provided by operating activities	<u>16,100,290</u>	<u>23,992,726</u>
Cash Flows from Capital and Related Financing Activities:		
Capital expenditures	(4,408,253)	(4,299,450)
Principal payments on long-term debt	(5,240,000)	(109,718,165)
Interest payments on long-term debt	(6,484,925)	(7,171,818)
Long-term debt bonds issued	-	122,234,722
Deferred savings on bond refunding	1,024,271	(16,618,426)
Investment in hydro reasearch and development	-	(459,035)
Bond insurance cost	-	(1,061,936)
Non-utility property and other assets	<u>(316,422)</u>	<u>4,072</u>
Net cash used by capital and related financing activities	<u>(15,425,329)</u>	<u>(17,090,036)</u>
Cash Flows from Investing Activities:		
Investment income	149,944	140,292
Non-operating income	<u>(6,376)</u>	<u>881</u>
Net cash provided by investing activities	<u>143,568</u>	<u>141,173</u>
Net increase in cash and cash equivalents	818,529	7,043,863
Cash and cash equivalents, beginning of year	<u>30,543,285</u>	<u>23,499,422</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$31,361,814</u></u>	<u><u>\$ 30,543,285</u></u>

PADUCAH POWER SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

	<u>2017</u>	<u>2016</u>
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities:		
Operating income	\$ 6,911,200	\$ 7,636,936
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	9,404,267	9,293,197
Changes in operating assets and liabilities:		
Accounts receivable	250,306	244,770
Net change in regulatory asset	(1,586,912)	1,157,419
Deferred pension cost	1,047,948	243,193
Interest receivable	9,823	(7,660)
Materials and supplies	24,447	55,232
Prepaid expenses	(46,415)	(650,128)
Rent receivable	1,611	-
Other miscellaneous assets	(266,045)	590
Accounts payable	(117,572)	288,251
Customer deposits	(64,995)	20,800
Accrued taxes and equivalents	(24,909)	41,656
Change in regulatory liability	755,876	5,705,492
Accrued interest payable	(123,420)	(36,339)
Other current and accrued liabilities	(73,938)	13,682
Other miscellaneous liabilities	(982)	(14,365)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$16,100,290</u></u>	<u><u>\$ 23,992,726</u></u>
Supplemental Disclosure of Noncash Financing Activities:		
Amortization of bond issue and discount costs	<u>\$ 101,051</u>	<u>\$ 292,452</u>
Supplemental Disclosure of Cash Paid For:		
Interest	<u><u>\$ 5,559,797</u></u>	<u><u>\$ 7,208,157</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.

Operating Revenues and Expenses

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

Utility Plant

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

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

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

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

Utility Plant

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

Other Property and Investments

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

Receivables and Credit Policies

Accounts receivable are uncollateralized customer obligations due under normal trade terms requiring payment within 20 days from the invoice mailing date. Unpaid accounts receivable with invoice mailing dates over 20 days old are subject to a 5% penalty on the outstanding balance. Customers are subject to disconnection after 30 days past invoice mailing date. Reconnections are subject to collection and reconnect fees.

Accounts receivable are stated at amounts billed to the customer plus any accrued penalties. Customer account balances with invoices dated over 60 days old are considered delinquent and subject to write-off. As of June 30, 2017 and 2016, receivables of \$45,762 and \$25,797 were over 60 days old.

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

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

Investments

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

Materials and Supplies

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

Net Position

Net position is displayed in three components:

- a. Investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation, and unpaid debt financing.
- b. Restricted net position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

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

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

Use of Estimates

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

Compensated Absences

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

Deferred Outflows and Deferred Inflows

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

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employee's Retirement System (CERS) and additions to/deductions from the plan's fiduciary net position has been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Concentration of Credit Risk

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

Subsequent Events

Subsequent events were evaluated through November 10, 2017, which is the date the financial statements were available to be issued.

Note 2 - Deposits and Investments:

The investment policies of the System are governed by the State statute. In general, this requires that all deposits and investments, not covered by FDIC insurance, are to be collateralized. For the years ended June 30, 2017 and 2016, the System's operating and investment accounts were fully collateralized as required by State statute.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 2 - Deposits and Investments (Continued):

Deposits

The financial institution balances of the System's deposits were \$32,974,532 for the year ended June 30, 2017. The book balance was \$32,948,727 including \$2,900 of petty cash. Of the various financial institution balances at June 30, 2017, \$500,000 was insured by federal depository insurance, and the remaining balance of \$32,474,532 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 \$32,474,532 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 \$31,183,477 for the year ended June 30, 2016. The book balance was \$30,543,285 including \$2,900 of petty cash. Of the various financial institution balances at June 30, 2016, \$500,000 was insured by federal depository insurance, and the remaining balance of \$30,683,477 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 \$30,683,477 was uninsured and collateralized by U.S. Treasury pooled investments not held in the System's name.

Investments

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

	<u>2017</u>	<u>2016</u>
Restricted Investments:		
Sinking Fund:		
Money Market Fund	\$5,344,377	\$10,306,112
Total sinking fund	<u>5,344,377</u>	<u>10,306,112</u>
TOTAL RESTRICTED INVESTMENTS	\$5,344,377	\$10,306,112

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 2017 and 2016, the System invested \$40,952 and \$55,081, respectively, as a member in MuniNet Fiber Agency and this combined amount of \$426,541 is reflected as an investment on the System's Statement of Net Position at June 30, 2017. The System purchases inventory for MuniNet Fiber Agency and bills for the inventory when it is used. The receivable from MuniNet Fiber Agency was \$32,252 and \$32,252 as of June 30, 2017 and 2016, respectively.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 3 - Capital Assets:

Capital assets activity for the year ended June 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 2,634,929	\$ -	\$ -	\$ 2,634,929
Construction in progress	896,185	-	96,526	799,659
Total capital assets not being depreciated	3,531,114	-	96,526	3,434,588
Capital Assets Being Depreciated:				
Transmission system	10,472,920	24,718	-	10,497,638
Distribution system	86,670,161	3,360,751	1,162,123	88,868,789
General plant	19,408,075	821,676	-	20,229,751
Generation plant	110,695,826	73,939	-	110,769,765
Total capital assets being depreciated	227,246,982	4,281,084	1,162,123	230,365,943
Less accumulated depreciation	78,944,311	9,180,571	1,162,123	86,962,760
Total capital assets being depreciated, net	148,302,671	(4,899,487)	-	143,403,183
TOTAL CAPITAL ASSETS, NET	\$151,833,785	\$(4,899,487)	\$ 96,526	\$146,837,771

Depreciation expense totaled \$9,180,571 for the fiscal year ended June 30, 2017.

Capital assets activity for the year ended June 30, 2016, 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	\$ -	\$ 1,300	\$ 2,634,929
Construction in progress	904,999	-	8,814	896,185
Total capital assets not being depreciated	3,541,228	-	10,114	3,531,114
Capital Assets Being Depreciated:				
Transmission system	10,374,351	119,836	21,267	10,472,920
Distribution system	84,670,049	2,724,495	724,383	86,670,161
General plant	18,541,240	1,030,666	163,831	19,408,075
Generation plant	110,661,988	33,838	-	110,695,826
Total capital assets being depreciated	224,247,628	3,908,835	909,481	227,246,982
Less accumulated depreciation	70,961,324	9,293,197	1,310,210	78,944,311
Total capital assets being depreciated, net	153,286,304	(5,384,362)	(400,729)	148,302,671
TOTAL CAPITAL ASSETS, NET	\$156,827,532	\$(5,384,362)	\$(390,615)	\$151,833,785

Depreciation expense totaled \$9,293,197 for the fiscal year ended June 30, 2016.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 4 - Accounts Payable:

The elements comprising accounts payable are as follows:

	<u>2017</u>	<u>2016</u>
Due KMPA for purchased power	\$4,453,012	\$4,028,577
Accounts payable, general	<u>829,038</u>	<u>1,371,045</u>
TOTAL ACCOUNTS PAYABLE	<u>\$5,282,050</u>	<u>\$5,399,622</u>

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.

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.

On June 23, 2016, the system issued \$103,375,000 in advance refunding revenue bonds with interest rate of 5.00%. The System issued the bonds to advance refund \$106,910,000 of the outstanding series 2009 revenue refunding bonds with interest rates between 3.00% and 5.25% which were secured by a pledge on the net revenues of the System. The proceeds from these Securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 2009 series bonds maturing on or after 2024. As a result, that portion of the 2009 series bonds is considered defeased, and the System has removed the liability from its Statement of Net Position.

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 5 - Long-Term Indebtedness (Continued):

Changes in outstanding bonds:

	<u>Total Series</u>	<u>Series 2016</u>	<u>Series 2009A</u>	<u>Series 2010</u>
Balance at				
June 30, 2015	<u>\$153,670,000</u>	<u>\$ -</u>	<u>\$152,635,000</u>	<u>\$1,035,000</u>
Increases	103,375,000	103,375,000	-	-
Decreases	<u>112,010,000</u>	<u>-</u>	<u>111,495,000</u>	<u>515,000</u>
BALANCE AT				
JUNE 30, 2016	<u>\$145,035,000</u>	<u>\$103,375,000</u>	<u>\$ 41,140,000</u>	<u>\$ 520,000</u>
Balance at				
June 30, 2016	<u>\$145,035,000</u>	<u>\$103,375,000</u>	<u>\$ 41,140,000</u>	<u>\$ 520,000</u>
Increases	-	-	-	-
Decreases	<u>5,240,000</u>	<u>-</u>	<u>4,720,000</u>	<u>520,000</u>
BALANCE AT				
JUNE 30, 2017	<u>\$139,795,000</u>	<u>\$103,375,000</u>	<u>\$ 36,420,000</u>	<u>\$ -</u>
Balance due in				
One year	<u>\$ 4,870,000</u>	<u>\$ -</u>	<u>\$ 4,870,000</u>	<u>\$ -</u>

Total bond service to maturity:

<u>Maturities</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 4,870,000	\$ 6,634,755	\$ 11,504,755
2019	5,035,000	6,478,915	11,513,915
2020	5,220,000	6,307,725	11,527,725
2021	5,445,000	6,104,925	11,549,925
2022	5,685,000	5,857,675	11,542,675
2023-2027	31,845,000	24,729,350	56,574,350
2028-2032	40,820,000	15,525,125	56,345,125
2033-2037	<u>40,875,000</u>	<u>4,217,213</u>	<u>45,092,213</u>
TOTALS	<u>\$139,795,000</u>	<u>\$75,855,683</u>	<u>\$215,650,683</u>

For the years ended June 30, 2017 and 2016, bonds payable totaling \$156,714,666 and \$162,879,794, respectively, are recorded net of \$960,330 and \$1,014,928, respectively, in unamortized bond (premium) discount and advance refunding deferred charges; as well as premiums of \$17,879,996.

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.

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 7 - Pension Plan:

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

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

The CERS also provides other post-employment benefits through the Kentucky Retirement Systems Insurance Fund (Insurance Fund), which was established to provide hospital and medical insurance for members receiving benefits from CERS. The Insurance Fund is a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the Kentucky Retirement Systems. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The amount of contribution paid by the Insurance Fund is based upon years of services. All participants enrolled in CERS are automatically enrolled in both the Insurance Fund and the pension fund. Information regarding the Insurance Fund is contained in the financial statements of the Kentucky Retirement Systems.

Funding policies. Contribution rates are established by the Kentucky Revised Statutes. Non-hazardous plan members of CERS are required to contribute 5.000% of their annual creditable compensation, and Paducah Power Systems provides a contribution of 18.68% of annual creditable compensation. The required contribution rates for fiscal years ending June 30, 2016 and 2015 were 17.06% and 17.67%, respectively. The contribution rate is a combined rate for both the pension plan and the Insurance Fund. For fiscal year ended June 30, 2017, the pension plan portion and the Insurance Fund portions were 13.95% and 4.73%. These percentages were 12.42% and 4.64% for fiscal year ended June 30, 2016 and 12.75% and 4.92% for fiscal year ended June 30, 2015. For employees hired on September 1, 2008, or thereafter, an additional 1% must be contributed by employees to a health insurance account. The pension contributions for fiscal years ended June 30, 2017, 2016, and 2015 were \$721,263, \$614,909, and \$575,515, respectively. The insurance contributions for fiscal years ended June 30, 2017, 2016, and 2015 were \$244,557, \$229,724, and \$222,080, respectively.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. At June 30, 2017, Paducah Power Systems reported a liability of \$10,218,988 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Paducah Power Systems' proportion of the net pension liability was based on a projection of Paducah Power Systems' share of contributions to the pension plan relative to the total contributions of all participating employers. At June 30, 2016, Paducah Power Systems' proportion was 0.207555%.

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 7 - Pension Plan (Continued):

As a result of its requirement to contribute to CERS, Paducah Power System recognized pension expenses of \$1,473,290 for the year ended June 30, 2017. At June 30, 2017, Paducah Power System reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirements to contribute to CERS:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Net differences between projected and actual earnings on pension plan investments	\$ 960,689	\$ -
Difference between expected and actual experience	44,614	-
Change in assumptions	541,347	-
Change in proportion and differences between employer contributions and proportionate share of contributions	377,427	114,224
Contributions subsequent to the measurement date	721,263	-
TOTALS	<u>\$7,645,340</u>	<u>\$114,224</u>

Deferred outflows of resources in the amount of \$721,263 related to pensions resulting from Paducah Power System's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	
2018	\$647,195
2019	507,018
2020	440,812
2021	214,827

The net pension liability as of June 30, 2017, is based on the June 30, 2016, actuarial valuation. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Deferred outflows and inflows related to differences between expected and actual experience and change in assumptions are amortized over a period of 3.41 years.

Actuarial assumptions: The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation - 3.25%

Salary increases - 4.0%, average including inflation

Investment rate of return - 7.5%, net of pension plan investment expense including inflation

The actuarial valuation date upon which the total pension liability was based is June 30, 2016. An expected total pension liability is determined as of June 30, 2016, using standard roll forward techniques. The roll forward calculation adds the annual cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year; then applies the expected investment rate of return for the year. The procedure was used to determine the total pension liability as of June 30, 2016.

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 7 - Pension Plan (Continued):

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Discount rate. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117. The target allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	2%	(.25)%
Total	100%	

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2013. The long term assumed investment rate of return and discount rate was based upon an analysis adopted by the Board of Trustees on December 3, 2015. The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the actuarially determined contribution rate of projected compensation over the remaining 27 year amortization period of the unfunded actuarial accrued liability. Once the unfunded actuarial accrued liability is fully amortized, the employer will only contribute the normal cost rate and the administrative expense rate on the close payroll for existing members.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 7 - Pension Plan (Continued):

Sensitivity of the Paducah Power Systems' proportionate share of the net pension liability to changes in the discount rate. The following presents Paducah Power Systems' proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what Paducah Power Systems' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% <u>6.5%</u>	Current <u>7.5%</u>	1% <u>8.5%</u>
Paducah Power System's proportionate share of the net pension liability	\$12,734,491	\$10,218,988	\$8,062,667

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, 2017, four prior employees were receiving healthcare benefits. Post-retirement healthcare benefits totaled approximately \$7,100 for the year ended June 30, 2017.

For the year ended June 30, 2016, five prior employees were receiving healthcare benefits. Post-retirement healthcare benefits totaled approximately \$8,000 for the year ended June 30, 2016.

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 \$107,661 and \$106,783, and rental income was \$2,168,372 and \$2,052,168 for the fiscal years ended June 30, 2017 and 2016, 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 Net Position.

Note 10 - Commitments:

As described further in Note 12, 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.

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 12 - 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 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.

(Continued)

PADUCAH POWER SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 12 - Joint Venture (Continued):

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

The System began buying purchased power from KMPA in December 2009. The System purchased power from KMPA in the amounts of \$43,310,615 and \$51,803,706 during the fiscal years ending June 30, 2017 and 2016, respectively. Of these amounts, \$4,028,577 and \$4,103,646 were payable to KMPA as of June 30, 2017 and 2016, respectively. The System also had a receivable due from KMPA as of June 30, 2017, for refunds and other credits related to purchased power in the amount of \$0; there was a receivable due from KMPA as of June 30, 2016 in the amount of \$0.

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, 2017. Complete financial statements for KMPA can be obtained from Paducah Power's Accounting Department, P.O. Box 180, Paducah, Kentucky 42002-0180.

Note 13 - 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, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Cash and temporary cash investments	\$27,630,155	\$20,237,173
Restricted cash and short-term investments:		
Sinking and Depreciation Funds	<u>\$,344,377</u>	<u>10,306,112</u>
TOTAL CASH AND CASH INVESTMENTS	<u>\$32,974,532</u>	<u>\$30,543,285</u>

Note 14 - Contingency:

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

Note 15 - New Governmental Accounting Standards:

In June 2015, the *Governmental Accounting Standards Board (GASB)* issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which replaces GASB Statement No. 45. The new standard addresses several issues regarding other postemployment benefits, including the liabilities reported and the disclosure requirements of those plans. The standard is effective for Paducah Power Systems for the fiscal year beginning July 1, 2017. The new standard requires Paducah Power System to report its proportionate share of the total net other postemployment benefit (OPEB) liability which consists of the insurance portion of the County Employee Retirement System Plan as a liability on the statement of net position and to recognize the appropriate expense on the statement of revenues, expenses, and changes in net position. The standard also requires the deferral of changes in the net OPEB liability and amortization of those changes over set periods. The total effect it will have on Paducah Power Systems has yet to be determined.

REQUIRED SUPPLEMENTARY INFORMATION

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

	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.207550%	0.193466%	0.200828%
Employer's proportionate share of the net pension liability (asset)	\$ 10,218,988	\$ 8,318,121	\$ 6,515,620
Employer's covered payroll	\$ 4,950,959	\$ 4,513,829	\$ 4,607,316
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	206.40%	184.28%	141.42%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.80%

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

Notes to Schedule

The total pension liability was determined by applying procedures to the actuarial valuation as of June 30, 2016. The financial reporting actuarial valuation used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation date:	June 30, 2016
Experience study:	July 1, 2008 - June 30, 2013
Actuarial cost method:	Entry age
Amortization method:	Level percentage of payroll, closed
Remaining amortization period:	27 years
Asset valuation method:	5 year smoothed market
Inflation:	3.25%
Salary increase:	4.0%, average, including inflation
Investment rate of return:	7.5%, net of pension plan investment expense, including inflation

This schedule is based on the last measurement date of the net pension liability.

PADUCAH POWER SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)
LAST FOUR FISCAL YEARS*

	2017	2016	2015	2014
Contractually required contribution	\$ 721,263	\$ 614,909	\$ 575,513	\$ 633,045
Contributions in relation to the contractually required contribution	721,263	614,909	577,623	633,045
Contribution deficiency (excess)	\$ -	\$ -	\$ (2,110)	\$ -
Employer's covered payroll	\$ 5,170,346	\$ 4,950,959	\$ 4,513,829	\$ 4,607,316
Contributions as a percentage of covered payroll	13.95%	12.42%	12.75%	13.74%

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

SUPPLEMENTARY INFORMATION

PADUCAH POWER SYSTEM
OPERATING EXPENSES
YEARS ENDED JUNE 30

General Operating Expenses:	2017	2016
Transmission:		
Supervision and engineering	\$ 10,114	\$ 9,993
Rent	6,582	6,519
Total transmission	<u>16,696</u>	<u>16,512</u>
Distribution expense:		
Supervision and engineering	204,454	208,877
Station expense	80,680	88,783
Overhead line expense	232,823	142,764
Underground line expense	93,761	95,742
Street lighting and signal expense	44,678	41,122
Meter expense	445,620	436,817
Customer installations expense	143,373	144,067
Miscellaneous	886,479	828,912
Rent/lease/purchase	107,661	106,783
Total distribution expense	<u>2,239,529</u>	<u>2,093,867</u>
Customer account expense:		
Meter reading expense	210,049	212,286
Customer records and collections	1,401,123	1,339,934
Uncollectible accounts	130,140	198,404
Total customer account expense	<u>1,741,312</u>	<u>1,750,624</u>
Sales expense:		
Demonstration and selling	254,702	287,278
Advertising	104,446	83,188
Total sales expense	<u>359,148</u>	<u>370,466</u>
Administrative and general:		
Salaries	824,791	874,277
Office supplies and expense	631,618	543,828
Outside services employment	159,704	130,096
Property insurance	494,506	516,662
Company use of electricity	(210,443)	(205,100)
Miscellaneous and general expense	1,847,815	1,130,914
Total administrative and general	<u>3,747,991</u>	<u>2,990,677</u>
TOTAL GENERAL OPERATING EXPENSES	<u>\$ 8,104,676</u>	<u>\$ 7,222,146</u>

(Continued)

PADUCAH POWER SYSTEM
OPERATING EXPENSES
YEARS ENDED JUNE 30

Generation Plant Expense:	2017	2016
Generation expense	\$ 1,134,502	\$ 871,347
Generation fuel	1,288,417	415,018
TOTAL GENERATION PLANT EXPENSE	\$ 2,422,919	\$ 1,286,365
Maintenance Expense:		
Transmission:		
Supervision and engineering	\$ 10,114	\$ 9,994
Total transmission	10,114	9,994
Distribution:		
Supervision and engineering	42,450	44,682
Maintenance of station equipment	461,278	495,445
Maintenance of overhead lines	1,045,048	874,381
Maintenance of underground lines	95,831	47,071
Maintenance of line transformers	(14,153)	23,964
Street lighting and signals	287	596
Maintenance of meters	23,075	22,268
Maintenance of miscellaneous plant	674	597
Total distribution	1,654,490	1,509,004
Administrative and general	114,940	103,261
TOTAL MAINTENANCE EXPENSE	\$ 1,779,544	\$ 1,622,259
Other Operating Expenses:		
Depreciation	\$ 9,180,571	\$ 9,078,821
Taxes and equivalents	1,900,013	1,896,585
TOTAL OTHER OPERATING EXPENSES	\$11,080,584	\$10,975,406



WILLIAMS WILLIAMS & LENTZ
CERTIFIED PUBLIC ACCOUNTANTS

J. David Bailey, III
Sue Cronch-Greenwell
Roger G. Harris
Michael F. Karnes
Mark A. Thomas
Ashley C. Grooms
Kelly D. Scruggs
Benjamin D. Teer

**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 Electric Plant Board of the City of Paducah, Kentucky, d/b/a Paducah Power System as of and for the year ended June 30, 2017, 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 November 10, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Paducah Power System's financial statements are free 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*.

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Purpose of this Report

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

Williams, Williams & Lentz

Paducah, Kentucky
November 10, 2017



WILLIAMS
WILLIAMS
& LENTZ

APPENDIX D

KENTUCKY MUNICIPAL POWER AGENCY
POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2018A

Audited Financial Statements of the Princeton Electric Plant Board
for Fiscal Years ended June 30, 2016 and 2017

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ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
FINANCIAL STATEMENTS
YEARS ENDED
JUNE 30, 2017 AND 2016

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY**

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YORK, NEEL & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Princeton Electric Plant Board of the City of Princeton, Kentucky (PEPB) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Princeton Electric Plant Board of the City of Princeton, Kentucky's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Princeton Electric Plant Board of the City of Princeton, Kentucky as of June 30, 2017 and 2016, 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 and other required supplemental information on pages 4-14 and 43-46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

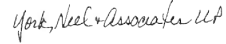
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Electric Plant Board of the City of Princeton, Kentucky's basic financial statements. The accompanying additional information on pages 47-52 is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2017, 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.

York, Neel & Associates, LLP



Certified Public Accountants
Hopkinsville, Kentucky

October 20, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

As management of Princeton Electric Plant Board of the City of Princeton (PEPB, the "Board"), we offer readers of the PEPB's financial statements this narrative overview and analysis of the financial activities of the PEPB for the year ended June 30, 2017. Management's discussion and analysis (MD&A) is intended to serve as an introduction to the PEPB's financial statements. 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 2017 fiscal year by \$9,028,707 (*net position*). Of this amount, \$5,017,652 (*unrestricted net position*) may be used to meet the Board's ongoing obligations to citizens and creditors.
- The Board's total net position increased by \$165,714 during the period. The components of this increase was an increase in net position of electric operations of \$165,714.
- Total operating revenues for the 2017 fiscal year increased by \$753,786 or about 5.32% compared to the previous period. This increase in operating revenues was principally due to higher kwh sales (a 3.3% increase from the prior year) and ten months of a higher power cost adjustment. The increase was implemented September 1, 2016.
- FY 2017 operating expenses totaled \$13,874,861 which was \$365,160 or about 2.70% more than the previous year's amount. This increase in operating expenses was principally due to an increase in power cost.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements. The PEPB's basic financial statements are comprised of two components: (1) basic financial statements and (2) notes to basic financial statements. The basic financial statements and notes to these statements reflect the combined accounts and activities of both the electric and broadband divisions. The report also contains other supplementary information in addition to the basic financial statements. The supplementary information section contains statements that present the results of operations for the separate divisions.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

REQUIRED FINANCIAL STATEMENTS

The financial statements of the PEPB report information utilizing the full accrual basis of accounting. This method of accounting recognizes revenues when earned instead of when received and recognizes expenses when incurred rather than when paid. The financial statements conform to accounting principles which are generally accepted in the United States of America.

Statement of Net Position

The Statement of Net Position presents information on the Board's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between them reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

Statement of Revenues, Expenses and Changes in Net Position

While the Statement of Net Position provides information about the nature and amount of resources and obligations at year-end, the Statement of Revenues, Expenses and Changes in Net Position presents the results of the Board's operations over the course of the operating cycle. This statement can be used to determine whether the Board has successfully recovered all of its actual costs including depreciation through user fees and other charges. All changes in net position are reported during the period in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, such as delayed collection of operating revenues and delayed payment of current year expenses.

Statement of Cash Flows

The Statement of Cash Flows provides information about the Board's cash receipts and cash payments, and net changes in cash resulting from operations, investing, and financing activities. From the Statement of Cash Flows, the reader can obtain information on the source and use of cash and the change in the cash balance for the operating cycle.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Financial Analysis of the Fiscal Year Ended June 30, 2017

Over the past year, total assets of the Board decreased by \$322,431 while total liabilities decreased by \$76,242. And for the current period, the net operating income of the Board totaled \$1,035,619.

Condensed Statements of Net Position

Summary

The Board's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$9,028,707 at fiscal year-end, an increase of \$165,714 or 1.87% from the prior year.

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 2016 to FY 2017	
	2017	2016	Amount	Percent
Current and other assets	\$ 11,581,130	\$ 11,223,922	\$ 357,208	3.18%
Capital assets	19,011,164	19,690,803	(679,639)	-3.45%
TOTAL ASSETS	30,592,294	30,914,725	(322,431)	-1.04%
Deferred outflows	825,786	433,976	391,810	90.28%
Current liabilities	2,433,448	2,461,274	(27,826)	-1.13%
Long-term liabilities	19,853,207	19,901,623	(48,416)	-0.24%
TOTAL LIABILITIES	22,286,655	22,362,897	(76,242)	-0.34%
Deferred inflows	102,718	122,811	(20,093)	-16.36%
Invested in utility plant, net of related debt	1,273,133	1,414,089	(140,956)	-9.97%
Restricted for debt service	2,737,922	2,698,143	39,779	1.47%
Unrestricted	5,017,652	4,750,761	266,891	5.62%
TOTAL NET POSITION	\$ 9,028,707	\$ 8,862,993	\$ 165,714	1.87%

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Analysis of Net Position

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

**TABLE 2
Components of Net Position**

	Fiscal Year		Change FY 2016 to FY 2017	
	2017	2016	Amount	Percent
Invested in capital assets, net of related debt	\$ 1,273,133	\$ 1,414,089	\$ (140,956)	-9.97%
Restricted	2,737,922	2,698,143	39,779	1.47%
Unrestricted	5,017,652	4,750,761	266,891	5.62%
	<u>\$ 9,028,707</u>	<u>\$ 8,862,993</u>	<u>\$ 165,714</u>	<u>1.87%</u>

For the 2017 fiscal year, *Net Position Invested in Capital Assets, Net of Related Debt* decreased by \$140,956 or 9.97% 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.

In comparing the total amount of *Restricted Net Position* with the previous fiscal year, there was an increase of \$39,779 or 1.47%. The components of this category consist of Series 2009 A and C and Series 2015 bond reserve funds, customer deposits and capital improvement fund.

Compared to the prior year's balance, there was an increase in the *Unrestricted Net Position* category of \$266,891 or 5.62%.

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

Analysis of Current Assets

The textbook definition of "current assets" is balance sheet items which equal the sum of cash and cash equivalents, accounts receivable, inventory, marketable securities, prepaid expenses, and other assets that could be converted to cash in less than one year. Current assets are important in any financial analysis because it is from current assets that a business funds its ongoing, day-to-day operations. A comparison of the June 30, 2017 and 2016 balances by asset classification are shown in the table below.

PRINCETON ELECTRIC PLANT BOARD
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TABLE 3
Components of Current Assets

	Fiscal Year		Change from FY 2016 to FY 2017	
	2017	2016	Amount	Percent
Cash and cash equivalents	\$ 3,823,674	\$ 3,452,457	\$ 371,217	10.75%
Accounts receivable	1,136,153	1,050,188	85,965	8.19%
Unbilled revenue	393,002	445,569	(52,567)	-11.80%
Inventories	274,413	286,773	(12,360)	-4.31%
Other current assets	23,766	23,389	377	1.61%
	<u>\$ 5,651,008</u>	<u>\$ 5,258,376</u>	<u>\$ 392,632</u>	7.47%

Analysis of Noncurrent Assets

Noncurrent assets represent assets that are not reasonably expected to be realized in cash or sold or consumed during the next fiscal year. When making the distinction between whether an asset should be considered current or noncurrent, liquidity or nearness to cash is not the proper basis for determining the classification. In making this determination, any encumbrances on the use of the asset must be considered. Thus, cash investments intended for liquidation of liabilities due beyond the one-year period are noncurrent assets, as are assets segregated or restricted for the liquidation of long-term debts (including amounts due within the next operating cycle). Assets designated to be used to acquire, construct, or improve capital assets would also be noncurrent.

PRINCETON ELECTRIC PLANT BOARD
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TABLE 4
Components of Noncurrent Assets

	Fiscal Year		Change from FY 2016 to FY 2017	
	2017	2016	Amount	Percent
Restricted:				
Investments	\$ 2,737,922	\$ 2,698,143	\$ 39,779	1.47%
Investment in affiliated organizations	228,751	188,890	39,861	21.10%
Other noncurrent asset	89,512	91,807	(2,295)	-2.56%
Nonutility property (net)	705,394	727,438	(22,044)	-3.03%
Deferred charges	2,168,543	2,259,268	(90,725)	-4.02%
Capital assets (net)	<u>19,011,164</u>	<u>19,690,803</u>	<u>(679,639)</u>	-3.45%
	<u>\$ 24,941,286</u>	<u>\$ 25,656,349</u>	<u>\$ (715,063)</u>	-2.79%

The table above demonstrates the relatively large investment that the Board has made in capital assets. At the end of the 2017 fiscal year, capital assets represented about 76.22% of the noncurrent assets.

In examining the balance for the Restricted Noncurrent Assets category at June 30, 2017, it shows an increase of \$39,779 or 1.47% compared to the previous fiscal year.

**PRINCETON ELECTRIC PLANT BOARD
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Analysis of Liabilities

In financial accounting, the term "liability" is defined as an obligation of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future. To put it in more simplistic terms, this section analyzes the various claims that creditors have against the Board's assets.

**TABLE 5
Comparison of Current Liabilities from Unrestricted Net Position**

	Fiscal Year		Change from FY 2016 to FY 2017	
	2017	2016	Amount	Percent
Revenue bonds payable	\$ 555,000	\$ 535,000	\$ 20,000	3.74%
Accounts payable - other	36,206	45,047	(8,841)	-19.63%
Accounts payable - related parties	836,665	876,247	(39,582)	-4.52%
Customer deposits	414,572	393,081	21,491	5.47%
Accrued taxes	129,285	134,835	(5,550)	-4.12%
Accrued interest	125,718	128,924	(3,206)	-2.49%
Accrued payroll and benefits	83,887	75,353	8,534	11.33%
Deferred credits	(11,698)	(5,862)	(5,836)	99.56%
Vacation and sick pay	201,912	240,158	(38,246)	-15.93%
Other accrued liabilities	61,901	38,491	23,410	60.82%
	<u>\$ 2,433,448</u>	<u>\$ 2,461,274</u>	<u>\$ (27,826)</u>	-1.13%

Current Liabilities Payable from Unrestricted Assets had a net decrease in its various components of \$27,826 or about 1.13% compared to the previous fiscal year's balance.

PRINCETON ELECTRIC PLANT BOARD
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Condensed Statements of Revenues, Expenses and Changes in Net Assets

As indicated in Table 6, the change in net position for the fiscal year ended June 30, 2017 was \$165,714.

TABLE 6
Condensed Statements of Revenues, Expenses and Changes in Net Position

	Fiscal Year		Changes from FYE 2016 To FYE 2017	
	2017	2016	Amount	Percent
Operating revenues:				
Electric revenues	\$ 14,910,480	\$ 14,130,420	\$ 780,060	5.52%
Broadband revenues	-	26,274	(26,274)	-100.00%
Total operating revenues	<u>14,910,480</u>	<u>14,156,694</u>	<u>753,786</u>	5.32%
Operating expenses:				
Purchased power	9,741,821	9,206,075	535,746	5.82%
Other expenses	<u>4,133,040</u>	<u>4,303,626</u>	<u>(170,586)</u>	-3.96%
Total operating expenses	<u>13,874,861</u>	<u>13,509,701</u>	<u>365,160</u>	2.70%
Net operating income	1,035,619	646,993	388,626	60.07%
Non-operating income, net	<u>(869,905)</u>	<u>(1,001,794)</u>	<u>131,889</u>	-13.17%
Change in net position	165,714	(354,801)	520,515	-146.71%
Net position, beginning of year	<u>8,862,993</u>	<u>9,217,794</u>	<u>(354,801)</u>	-3.85%
Net position, end of year	<u>\$ 9,028,707</u>	<u>\$ 8,862,993</u>	<u>\$ 165,714</u>	1.87%

**PRINCETON ELECTRIC PLANT BOARD
OF THE
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Analysis of Revenue

For the 2017 fiscal year, the *Operating Revenues* of the Board totaled \$14,910,480. This amount represented an increase of 5.32% more than the previous year's total of \$14,156,694.

Included in the *Non-Operating Revenues (Expenses) (net)* of (\$869,905) are interest expense of \$760,988, amortization expense of \$115,064, interest income of \$20,448, and other expenses of \$14,301.

Analysis of Expenses

The *Total Operating Expenses* for FY 2017 were \$13,874,861. That amount represents an increase of \$365,160 or about 2.70% more than the prior fiscal year total of \$13,509,701. The nine major categories of Operating Expenses are shown in the chart below.

**TABLE 7
Comparison of Operating Expenses**

	Fiscal Year		Change from FY 2016 to FY 2017	
	2017	2016	Amount	Percent
Cost of power	\$ 9,741,821	\$ 9,206,075	\$ 535,746	5.82%
Distribution - operation	518,966	536,595	(17,629)	-3.29%
- maintenance	691,929	599,092	92,837	15.50%
Maintenance - general plant	28,654	38,332	(9,678)	-25.25%
Customer accounts	208,332	223,745	(15,413)	-6.89%
Customer service and information	18,062	24,927	(6,865)	-27.54%
Sales	7,509	8,127	(618)	-7.60%
Administrative and general	783,408	920,922	(137,514)	-14.93%
Depreciation	1,124,157	1,208,613	(84,456)	-6.99%
Taxes	752,023	743,273	8,750	1.18%
	<u>\$ 13,874,861</u>	<u>\$ 13,509,701</u>	<u>\$ 365,160</u>	<u>2.70%</u>

As indicated by the comparative information presented above, *Cost of Power* increased by \$535,746 or 5.82% compared to the prior year.

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Princeton Electric Plant Board's investment in capital assets as of June 30, 2017 was \$19,011,164 (net of accumulated depreciation), as shown in the following table.

TABLE 8
Schedule of Capital Assets (Net of Depreciation)

	Fiscal Year		Increase (Decrease)
	2017	2016	
Land	\$ 1,104,842	\$ 1,104,842	\$ -
Construction in progress	60,857	56,500	4,357
Transmission plant	3,820,076	4,021,291	(201,215)
Distribution plant	12,432,883	12,743,540	(310,657)
General plant	1,592,506	1,764,630	(172,124)
	<u>\$ 19,011,164</u>	<u>\$ 19,690,803</u>	<u>\$ (679,639)</u>

Additional detailed information concerning the Board's capital assets can be found in Note 5 in the notes to the financial statements.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Long-term Debt

At June 30, 2017, the Board had \$17,645,000 in debt outstanding, a decrease of \$535,000 or approximately 2.94% less than the previous fiscal year. A comparative schedule at June 30, 2017 and 2016 is shown in the tabular information provided below.

**TABLE 9
Changes in Long Term Debt**

	Fiscal Year		Increase (Decrease)	Percent
	2017	2016		
Tax-Exempt Revenue Bonds Series 2009A	\$ 6,840,000	\$ 7,045,000	\$ (205,000)	-2.91%
Taxable Revenue Bonds Series 2009C	895,000	1,025,000	(130,000)	-12.68%
Taxable Revenue Bonds Series 2015	<u>9,910,000</u>	<u>10,110,000</u>	<u>(200,000)</u>	-1.98%
	<u>\$ 17,645,000</u>	<u>\$ 18,180,000</u>	<u>\$ (535,000)</u>	-2.94%

Additional detailed information concerning the Board's liabilities can be found in the notes to the financial statements, Note 9.

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 Kevin Kizzee, General Manager, Princeton Electric Plant Board, 304 East Legion Drive, P.O. Box 608, Princeton, KY 42445.

FINANCIAL STATEMENTS

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016

ASSETS	2017	2016
Utility plant	\$ 31,500,179	\$ 31,290,247
Less accumulated depreciation	<u>12,489,015</u>	<u>11,599,444</u>
Net utility plant	<u>19,011,164</u>	<u>19,690,803</u>
Restricted assets		
Investments	<u>2,737,922</u>	<u>2,698,143</u>
Other assets		
Investment in affiliated organizations	228,751	188,890
Nonutility property (net)	705,394	727,438
Other noncurrent asset	<u>89,512</u>	<u>91,807</u>
Total other assets and investments	<u>1,023,657</u>	<u>1,008,135</u>
Current assets		
Cash - general funds	3,823,674	3,452,457
Accounts receivable	1,136,153	1,050,188
Unbilled revenue	393,002	445,569
Inventories (at weighted-average cost)	274,413	286,773
Other current assets	<u>23,766</u>	<u>23,389</u>
Total current assets	<u>5,651,008</u>	<u>5,258,376</u>
Deferred charges	<u>2,168,543</u>	<u>2,259,268</u>
Total assets	<u>30,592,294</u>	<u>30,914,725</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension amounts	<u>825,786</u>	<u>433,976</u>

See accompanying notes to financial statements

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
STATEMENTS OF NET POSITION, continued
JUNE 30, 2017 AND 2016

LIABILITIES	2017	2016
Current liabilities		
Revenue bonds payable	555,000	535,000
Accounts payable - other	36,206	45,047
Accounts payable - related parties	836,665	876,247
Customer deposits	414,572	393,081
Accrued taxes	129,285	134,835
Accrued interest	125,718	128,924
Accrued payroll and benefits	83,887	75,353
Deferred credits	(11,698)	(5,862)
Vacation and sick pay	201,912	240,158
Other accrued liabilities	61,901	38,491
Total current liabilities	<u>2,433,448</u>	<u>2,461,274</u>
Noncurrent liabilities		
Revenue bonds payable	17,183,031	17,741,714
Net pension liability	<u>2,670,176</u>	<u>2,159,909</u>
Total noncurrent liabilities	<u>19,853,207</u>	<u>19,901,623</u>
Total liabilities	<u>22,286,655</u>	<u>22,362,897</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred pension amounts	<u>102,718</u>	<u>122,811</u>
NET POSITION		
Invested in capital assets, net of related debt	1,273,133	1,414,089
Restricted	2,737,922	2,698,143
Unrestricted	<u>5,017,652</u>	<u>4,750,761</u>
Total net position	<u>\$ 9,028,707</u>	<u>\$ 8,862,993</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, 2017 AND 2016

	2017	2016
OPERATING REVENUES	<u>\$ 14,910,480</u>	<u>\$ 14,156,694</u>
OPERATING EXPENSES		
Cost of power	9,741,821	9,206,075
Distribution - operation	518,966	536,595
- maintenance	691,929	599,092
Maintenance - general plant	28,654	38,332
Customer accounts	208,332	223,745
Customer service and information	18,062	24,927
Sales	7,509	8,127
Administrative and general	783,408	920,922
Depreciation	1,124,157	1,208,613
Taxes	<u>752,023</u>	<u>743,273</u>
Total operating expenses	<u>13,874,861</u>	<u>13,509,701</u>
Net operating revenues	<u>1,035,619</u>	<u>646,993</u>
NONOPERATING REVENUES (EXPENSES)		
Interest expense on long-term debt	(757,040)	(775,625)
Other interest expense	(3,948)	(3,688)
Amortization of debt expense	(90,725)	(90,725)
Amortization - other	(24,339)	(22,043)
Interest income	20,448	13,931
Tax rebate on Build America Bonds	-	485
Gain (loss) on disposal of equipment	-	(102,951)
Other expenses	<u>(14,301)</u>	<u>(21,178)</u>
Net nonoperating revenues (expenses)	<u>(869,905)</u>	<u>(1,001,794)</u>
CHANGE IN NET POSITION	165,714	(354,801)
NET POSITION, BEGINNING OF YEAR	<u>8,862,993</u>	<u>9,217,794</u>
NET POSITION, END OF YEAR	<u><u>\$ 9,028,707</u></u>	<u><u>\$ 8,862,993</u></u>

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, 2017 AND 2016

	2017	2016
Cash flows from operating activities		
Receipts from customers and users	\$ 14,876,705	\$ 14,210,646
Payments to suppliers	(10,629,982)	(10,181,338)
Payments to employees	(1,297,046)	(1,288,377)
Payments of taxes	(757,573)	(739,385)
Net cash provided (used) by operating activities	<u>2,192,104</u>	<u>2,001,546</u>
Cash flows from capital financing activities		
Expenditures for utility plant	(394,955)	(451,449)
Net cost of retiring plant	(49,562)	(52,146)
Principal payments on long-term debt	(535,000)	(515,000)
Tax rebate on Build America Bonds	-	90,494
Interest paid	(767,877)	(785,875)
Net cash provided (used) by capital financing activities	<u>(1,747,394)</u>	<u>(1,713,976)</u>
Cash flows from investing activities		
Investment in affiliated companies	(39,861)	(36,530)
Interest income	20,448	14,055
Interest and other revenues	(14,301)	(21,178)
Net cash provided (used) by investing activities	<u>(33,714)</u>	<u>(43,653)</u>
Net increase (decrease) in cash	410,996	243,917
Cash, beginning of year	<u>6,150,600</u>	<u>5,906,683</u>
Cash, end of year	<u>6,561,596</u>	<u>6,150,600</u>
Less restricted funds	<u>(2,737,922)</u>	<u>(2,698,143)</u>
Cash per statement of net position	<u>\$ 3,823,674</u>	<u>\$ 3,452,457</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, 2017 AND 2016

	2017	2016
Reconciliation of operating income to net cash provided by operating activities:		
Net operating revenues	\$ 1,035,619	\$ 646,993
Adjustments to reconcile net operating revenues to net cash provided by operating activities:		
Depreciation	1,124,157	1,208,613
Changes in assets and liabilities:		
Receivables	(85,966)	54,140
Unbilled revenues	52,567	(189)
Materials and supplies	12,360	14,999
Other assets	(377)	(91,807)
Accounts payable	(48,423)	29,987
Deferred pension amounts	98,364	218,750
Other current and accrued liabilities	23,410	(236)
Accrued payroll and other taxes	8,534	(122,096)
Vacation and sick pay	(38,246)	29,333
Accrued taxes - property	(5,550)	3,888
Customer deposits	21,491	30,979
Deferred credits	(5,836)	(21,808)
Total adjustments	1,156,485	1,354,553
	<u>\$ 2,192,104</u>	<u>\$ 2,001,546</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, 2017 AND 2016**

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). Revenues and expenses are recognized on the accrual basis.

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.

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.

Investments

Investment purchases and sales are recorded as of the trade date. Dividend income is recognized on the ex-dividend date. Other investment income is recognized when earned.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Investments are reported at fair value. Fair value is the amount reasonably expected to be received for an investment in a current sale between a willing buyer and a willing seller. Fixed income securities, real estate investment trust (REITS), derivatives, and common and preferred stocks are valued based on published market prices and quotations from national security exchanges and security pricing services. International stocks are then adjusted to reflect the current exchange rate of the underlying currency. Investments, for which no national exchanges or pricing services exist, such as private equity assets, are valued at fair value by the investment partnership based on the valuation methodology outlined in the partnership agreement. Real estate may be valued by the manager or independent appraisers. Commingled assets that are not traded on a national exchange are valued by the commingled manager. The Board performs due diligence reviews of the investment pricing, process, and infrastructure of private equity, commingled, and real estate investments to assure that the asset values provided by the managers are available.

Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the beginning of the year and the end of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expenses consist of external expenses directly related to the Board's investment operations, as well as the internal administrative expenses associated with the Board's investment program.

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, 2017 and 2016.

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.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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.

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, 2017 and 2016.

Pensions

For purposes of measuring the net pension liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position of the County Employees Retirement System ("CERS"), and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Board has one item that qualifies for reporting in this category. The deferred outflows of resources relates to the net pension liability described in Note 10.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Board has one item that qualifies for reporting in this category: The deferred inflows of resources relates to the net pension liability as described in Note 10.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Revenues and Expenses

Proprietary funds distinguish between operating and non-operating items. Operating revenues generally result from providing services, producing, and delivering goods in connection with the Board's principal ongoing operations. The principal operating revenues of the Board are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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.

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

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 20, 2017, which is the date the financial statements were available to be issued.

PRINCETON ELECTRIC PLANT BOARD
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NOTE 2 – CASH – GENERAL FUNDS

The carrying amounts are reflected in the financial statements as follows:

	2017	2016
Change funds	\$ 4,933	\$ 5,206
Operating reserve fund	3,100,462	2,667,852
Unemployment insurance fund	-	35,464
Other special funds	75,000	75,000
Revenue fund general	643,279	668,935
	<u>\$ 3,823,674</u>	<u>\$ 3,452,457</u>

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, 2017, the Board's deposits (including restricted funds in Note 3) in depository institutions had a carrying amount of \$8,548,187 and bank balances of \$6,619,550. At June 30, 2017, the deposits were covered entirely by FDIC insurance or a properly executed collateral security agreement. At June 30, 2016, the Board's deposits in depository institutions had a carrying amount of \$6,150,600 and bank balances of \$6,165,856. At June 30, 2016, the deposits were covered entirely by FDIC insurance or a properly executed collateral security agreement.

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NOTE 3 – RESTRICTED ASSETS

Restricted assets at June 30 consisted of:

	2017	2016
Customer deposits	\$ 414,572	\$ 393,081
Debt service reserve fund	1,326,788	1,319,469
2009 bond principal and interest	496,562	485,593
Capital improvement fund	500,000	500,000
Total restricted special funds	<u>\$ 2,737,922</u>	<u>\$ 2,698,143</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.

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, 2017 and 2016, the capital improvement fund was fully funded.

As of June 30, 2017, the Board had investments of \$1,823,350 in repurchase agreements. The guaranteed investment contracts are used as sinking funds and debt service reserves for the Series 2015 and 2009 bond issues.

Fair Value Measurement

The Board measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1 – Quoted prices for identical investments in active markets;
- Level 2 – Observable inputs other than quoted market prices; and,
- Level 3 – Unobservable inputs.

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NOTE 3 – RESTRICTED ASSETS, continued

At June 30, 2017, the Board had the following recurring fair value measurements.

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
Bayerische Landesbank Investment Repurchase Agreement	\$ 1,823,350	\$ -	\$ -
Total investment measured at fair value	\$ 1,823,350	\$ -	\$ -

Debt and equity securities in Level 1 are valued using prices quoted in active markets for those securities.

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. The Board's investments are in repurchase agreements comprised of securities representing high-quality, liquid debt, limiting the Board's exposure to interest rate risk.

Custodial Credit Risk for Investments: 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 highest 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.

Credit Risk for Investments: Credit risk for investments is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. The Board does not have an investment policy for credit risk but follows the investment policy statutes of the State of Kentucky. The repurchase agreements of the Board have high quality credit ratings of A3 (Moody's Investor Service), which minimize the Board's credit risk.

Concentration of Credit Risk: The Board places no limit on the amount the Board may invest in any one issuer. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments are exempt from concentration of credit risk disclosures. As of June 30, 2017, the Board held \$1,823,350 in a repurchase agreement that comprises U.S. securities only.

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NOTE 4 - INVESTMENT IN AFFILIATED ORGANIZATIONS

Investment in affiliated organizations consisted of the following at June 30, 2017 and 2016:

	2017	2016
Central Service Association	\$ 13,409	\$ 12,869
MuniNet	215,342	176,021
Total	<u>\$ 228,751</u>	<u>\$ 188,890</u>

Central Service Association is a computer technology company that serves municipalities throughout the region and provides them with software and support tailored to the electric industry.

MuniNet is a partnership of electric utilities that is working to provide fiber service throughout western Kentucky (See Note 20).

NOTE 5 - UTILITY PLANT AND DEPRECIATION PROCEDURES

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

	Balance June 30, 2016	Reclassifications/ Additions	Reclassifications/ Retirements	Balance June 30, 2017
Utility plant not depreciated:				
Land	\$ 1,104,842	\$ -	\$ -	\$ 1,104,842
Construction in progress	56,500	533,982	529,625	60,857
Total utility plant not depreciated	<u>1,161,342</u>	<u>533,982</u>	<u>529,625</u>	<u>1,165,699</u>
Utility plant depreciated:				
Transmission plant	5,652,956	-	-	5,652,956
Distribution plant	20,526,115	311,819	71,175	20,766,759
General plant	3,949,834	78,779	113,848	3,914,765
Total utility plant depreciated	<u>30,128,905</u>	<u>390,598</u>	<u>185,023</u>	<u>30,334,480</u>
Accumulated depreciation	(11,599,444)	(1,124,157)	234,586	(12,489,015)
Total utility plant depreciated, net	<u>18,529,461</u>	<u>(733,559)</u>	<u>(49,563)</u>	<u>17,845,465</u>
Total utility plant	<u>\$ 19,690,803</u>	<u>\$ (199,577)</u>	<u>\$ 480,062</u>	<u>\$ 19,011,164</u>

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NOTE 5 – UTILITY PLANT AND DEPRECIATION PROCEDURES, continued

Depreciation charged to expense was \$1,124,157 and \$1,208,613 for June 30, 2017 and 2016.

Major outlays for capital assets and improvements are capitalized as projects are constructed. A total of \$60,857 and \$56,500 of assets were under construction and shown as construction in progress in the capital assets information above as of June 30, 2017 and 2016.

In accordance with accounting standards prescribed by the Federal Energy Regulatory Commission, applicable to electric utilities, cost of removal of assets are reported as reductions of accumulated depreciation and evaluated periodically for valuation.

NOTE 6 – RECEIVABLES

Net receivables include the following at June 30:

	<u>2017</u>	<u>2016</u>
Accounts Receivable		
Electric	\$ 1,160,871	\$ 1,069,185
YTD even pay	<u>(47,272)</u>	<u>(43,671)</u>
	<u>1,113,599</u>	<u>1,025,514</u>
Other receivables	<u>22,554</u>	<u>24,674</u>
Total	<u>\$ 1,136,153</u>	<u>\$ 1,050,188</u>

NOTE 7 – 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 \$2,281 and (\$2,193) as of June 30, 2017 and 2016, respectively.

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NOTE 8 – DEFERRED CHARGES

Deferred Charges at June 30 consisted of:

	2017	2016
Unamortized debt discount/expense - 2009	\$ 902,701	\$ 937,580
Unamortized debt discount/expense - 2015	<u>1,265,842</u>	<u>1,321,688</u>
Total	<u>\$ 2,168,543</u>	<u>\$ 2,259,268</u>

NOTE 9 – BONDED DEBT

Issue Date	Proceeds	Rates	Maturity Date
2009A	\$ 7,965,000	2.00%-5.00%	11/1/2037
2009C	1,935,000	3.25%-6.07%	11/1/2022
2015	10,405,000	3.00%-3.70%	11/1/2041

All the revenue bonds are payable solely from and secured by a first pledge of the net electric revenues. So long as any of the bonds are outstanding and unpaid, PEPB will ensure that the electric plant be continuously operated and maintained in good condition, and rates and charges for services rendered will be imposed and collected so that gross revenues will be sufficient at all times to provide for the payment of the operation and maintenance of the electric plant.

The 2009 and 2015 bonds require that earnings from the system be greater than 1.1 times the revenue bond annual debt service based on the bond year. The coverage requirement was met for June 30, 2017 and 2016.

Accrued interest on the 2009 (A & C) and 2015 bonded indebtedness represents the liability for the periods from May 1, the last payment date, to June 30. The accrued interest is \$125,718 and \$128,924 at June 30, 2017 and 2016, respectively.

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NOTE 9 – BONDED DEBT, continued

The changes in outstanding debt are as follows:

	Balance July 1, 2016	New Issues	Debt Payments and Refunds	Balance June 30, 2017
Tax - Exempt Revenue Bonds				
Series 2009A	\$ 7,045,000	\$ -	\$ 205,000	\$ 6,840,000
Taxable Revenue Bonds				
Series 2009C	1,025,000	-	130,000	895,000
Taxable Revenue Bonds				
Series 2015	10,110,000	-	200,000	9,910,000
	<u>\$ 18,180,000</u>	<u>\$ -</u>	<u>\$ 535,000</u>	<u>17,645,000</u>
Plus: Unamortized premium				248,254
Less: Unamortized discount				<u>(155,223)</u>
Net total				<u>\$ 17,738,031</u>

The cost of issuance and discount associated with the issuance of the revenue bonds payable is being amortized on the straight-line method over the term of the bonds. Amortization for the year ending June 30 was expensed as follows:

	Discount/Premium			Cost of Issuance	
	2017	2016		2017	2016
Interest			Amortization		
Series 2009 A	\$ 6,509	\$ 6,509	Series 2009	\$ 34,879	\$ 34,879
Series 2009 C	760	760	Series 2015	55,846	55,846
Series 2015	<u>(10,952)</u>	<u>(10,952)</u>		<u>\$ 90,725</u>	<u>\$ 90,725</u>
	<u>\$ (3,683)</u>	<u>\$ (3,683)</u>			

**PRINCETON ELECTRIC PLANT BOARD
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NOTE 9 – BONDED DEBT, continued

The following represents principal and interest payments on outstanding debt.

	2009A			2009C		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 210,000	\$ 309,852	\$ 519,852	\$ 135,000	\$ 46,905	\$ 181,905
2019	220,000	302,322	522,322	140,000	39,837	179,837
2020	225,000	294,143	519,143	150,000	32,383	182,383
2021	235,000	285,224	520,224	155,000	23,824	178,824
2022	245,000	275,502	520,502	155,000	14,416	169,416
2023-2027	1,380,000	1,207,976	2,587,976	160,000	4,856	164,856
2028-2032	1,700,000	863,826	2,563,826	-	-	-
2033-2037	2,135,000	399,375	2,534,375	-	-	-
2038-2042	490,000	12,250	502,250	-	-	-
	<u>\$ 6,840,000</u>	<u>\$3,950,470</u>	<u>\$ 10,790,470</u>	<u>\$ 895,000</u>	<u>\$ 162,221</u>	<u>\$ 1,057,221</u>

	2015			GRAND TOTAL		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 210,000	\$ 387,363	\$ 597,363	\$ 555,000	\$ 744,120	\$ 1,299,120
2019	215,000	380,988	595,988	575,000	723,147	1,298,147
2020	225,000	374,388	599,388	600,000	700,914	1,300,914
2021	240,000	367,413	607,413	630,000	676,461	1,306,461
2022	250,000	357,563	607,563	650,000	647,481	1,297,481
2023-2027	1,615,000	1,604,181	3,219,181	3,155,000	2,817,013	5,972,013
2028-2032	2,035,000	1,274,484	3,309,484	3,735,000	2,138,310	5,873,310
2033-2037	2,480,000	832,422	3,312,422	4,615,000	1,231,797	5,846,797
2038-2042	2,640,000	221,600	2,861,600	3,130,000	233,850	3,363,850
			-	-	-	-
	<u>\$ 9,910,000</u>	<u>\$5,800,402</u>	<u>\$ 15,710,402</u>	<u>\$ 17,645,000</u>	<u>\$ 9,913,093</u>	<u>\$ 27,558,093</u>

PRINCETON ELECTRIC PLANT BOARD
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NOTE 10 – PENSION PLAN

The Board's employees are provided a pension plan through the County Employees Retirement System.

General information about the County Employees Retirement System Non-Hazardous ("CERS")

Plan description – CERS is a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

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NOTE 10 – PENSION PLAN, continued

Contributions – Required contributions by the employee are based on the tier:

	<u>Required contributions</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

Pension Liabilities, Pension Expense, and Deferred Outflows or Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017 and 2016, the Board reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the Board as its proportionate share of the net pension liability and the total portion of the net pension liability that was associated with the Utility were as follows:

	<u>2017</u>	<u>2016</u>
Board's proportionate share of the CERS net pension liability	<u>\$ 2,670,176</u>	<u>\$ 2,159,909</u>

The net pension liability of the plan was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The Board's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2017 and 2016, the Utility's proportion was .054230% and .050240%, respectively.

For the year ended June 30, 2017 and 2016, the Board recognized pension expense of \$402,900 and \$236,826 related to CERS. At June 30, 2017 and 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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NOTE 10 – PENSION PLAN, continued

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
County Employees Retirement System				
Differences between expected and actual experience	\$ 20,096	\$ -	\$ 14,360	\$ -
Changes in assumptions	243,843	-	174,242	-
Net difference between projected and actual earnings on pension plan investments	212,437	73,600	15,490	110,400
Changes in proportion and differences between EPB contributions and proportionate share of contributions	106,986	29,118		12,411
PEPB contributions subsequent to the measurement date	242,424	-	229,884	-
Total	<u>\$ 825,786</u>	<u>\$ 102,718</u>	<u>\$ 433,976</u>	<u>\$ 122,811</u>

The amount of \$242,424 reported as deferred outflows of resources related to pensions resulting from Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

The collective amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred Amounts to be recognized in fiscal years following the reporting date:

Year 1	\$ 113,741
Year 2	113,741
Year 3	150,540
Year 4	102,622
Year 5	-
Thereafter	-

Actuarial assumptions – The total pension liability in the June 30, 2016 and 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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NOTE 10— PENSION PLAN, continued

	Measurement Period	
	2016	2015
Inflation	3.25%	3.25%
Projected salary increases, average, including inflation	4.00%	4.00%
Investment rate of return, net of plan investment expense, including inflation	7.50%	7.50%

For the June 30, 2016 actuarial valuation, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumption used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

Long term rate of return - The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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NOTE 10 – PENSION PLAN, continued

Measurement Period		
2016	Target	Long-term
Asset Class	Allocation	Expected Real Rate
Combined equity	44.00%	5.40%
Combined fixed income	19.00%	1.50%
Real return (diversified		
inflation strategies)	10.00%	3.50%
Real estate	5.00%	4.50%
Absolute return (diversified		
hedge funds)	10.00%	4.25%
Private equity	10.00%	8.50%
Cash equivalent	2.00%	-0.25%
Total	<u>100.00%</u>	

Measurement Period		
2015	Target	Long-term
Asset Class	Allocation	Expected Real Rate
Combined equity	44.00%	5.40%
Combined fixed income	19.00%	1.50%
Real return (diversified		
inflation strategies)	10.00%	3.50%
Real estate	5.00%	4.50%
Absolute return (diversified		
hedge funds)	10.00%	4.25%
Private equity	10.00%	8.50%
Cash equivalent	2.00%	-0.25%
Total	<u>100.00%</u>	

Discount rate – The discount rate used to measure the total pension liability for the measurement periods with years ended June 30, 2016 and 2015 was 7.50% and 7.50%, respectively. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan employees were projected through 2117. Projected inflows from investment earnings were calculated using the long-term assumed investment return for the years ended June 30, 2016 and 2015 of 7.50% and 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 10 – PENSION PLAN, continued

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate – The following table presents the Board's proportionate share of the net pension liability, calculated using the discount rates selected by each pension system, as well as what the Board's proportionate share of net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
2017	6.50%	7.50%	8.50%
PEPB's proportionate share of net pension liability	\$ 3,327,350	\$ 2,670,176	\$ 2,106,666
2016	6.50%	7.50%	8.50%
PEPB's proportionate share of net pension liability	\$ 2,757,613	\$ 2,159,909	\$ 1,648,349

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of CERS.

NOTE 11 – POST-EMPLOYMENT HEALTH CARE BENEFITS

Retired Board employees receive some health care benefits depending on their length of service. In accordance with Kentucky Revised Statutes, these benefits are provided and advanced-funded on an actuarially determined basis through the CERS plan.

NOTE 12 – ACCRUED VACATION AND SICK PAY

PEPB allows employees to accumulate unused vacation to maximum of 270 hours during a calendar year end. As of June 30, 2017 and 2016, the liability for accrued vacation was \$127,400 and \$144,345.

Upon termination, PEPB will compensate an employee 25 percent of all unused sick days at their regular rate of pay. As of June 30, 2017 and 2016 the liability for accrued sick pay was \$74,512 and \$95,813.

NOTE 13 – RATE CHANGES

PEPB implemented a base rate increase effective for bills rendered from meter readings taken on or after October 1, 2013. PEPB's base rate increase included adjustments in customer charges and energy charges to reflect increased operating cost. PEPB continues to utilize a power cost adjustment (PCA) to track variable cost.

**PRINCETON ELECTRIC PLANT BOARD
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NOTE 14 – RISK MANAGEMENT AND LITIGATION

The Board is exposed to various risks of loss related torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Board carries commercial insurance for the risks of loss, including worker's compensation, and property and casualty loss insurance. Settled claims resulting from PEPB risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Limits of insurance coverage remain unchanged in the past three years.

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

NOTE 15 – OTHER CURRENT ASSETS AND ACCRUED LIABILITIES

Following is a summary of the amounts recorded as other current assets and other accrued liabilities as of June 30, 2017 and 2016:

	2017	2016
<u>Other current assets</u>		
Interest receivable	\$ 312	\$ 312
Rent receivable	23,454	23,077
	<u>\$ 23,766</u>	<u>\$ 23,389</u>
<u>Other current liabilities</u>		
Accrued pole rentals	\$ 7,981	\$ 7,852
Sanitation payable	30,831	30,639
Unearned pole rental cable	23,089	-
	<u>\$ 61,901</u>	<u>\$ 38,491</u>

NOTE 16 – SANITATION CONTRACT

During 2004, PEPB entered into a contract with the City of Princeton, Kentucky to provide a collection service for sanitation fees charged by the City to its residents. PEPB charges the City a fee of 3.0% of the total collection received for providing this service and remits the remaining collection to the City on a monthly basis. Service fees recognized in revenue were \$11,610 and \$11,655 for the fiscal years ended 2017 and 2016.

**PRINCETON ELECTRIC PLANT BOARD
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JUNE 30, 2017 AND 2016**

NOTE 17 – RELATED PARTY TRANSACTIONS

Princeton Electric Plant Board (PEPB) and Paducah Power System (PPS) formed Kentucky Municipal Power Agency (KMPA) which is participating in the development and ownership of the Prairie State Energy Campus located in Southern Illinois. KMPA will provide power to the municipal agencies. PEPB pays KMPA director salaries directly and is reimbursed by KMPA. KMPA also reimburses PEPB for incidental expenses related to KMPA board meetings.

During the fiscal years ending June 30, 2017 and 2016, PEPB expensed \$9,688,249 and \$9,241,475 to KMPA for purchased power.

As of June 30, 2017 and 2016, PEPB owed \$836,665 and \$876,247 to KMPA for power purchased.

During the fiscal years ending June 30, 2017 and 2016, KMPA paid to PEPB the following:

	2017	2016
Directors' salaries	\$ 28,078	\$ 27,883
Miscellaneous reimbursements	269	417
	<u>\$ 28,347</u>	<u>\$ 28,300</u>

NOTE 18 – KENTUCKY MUNICIPAL POWER AGENCY (KMPA)

On February 5, 2005, Princeton Electric Plant Board and Paducah Power System (members) established Kentucky Municipal Power Agency (KMPA or Agency) to acquire resources necessary to generate or transmit electrical energy for the parties involved. In addition, the agency was formed for the purpose of pooled financing or borrowing to provide the necessary resources. KMPA, under the inter-local agreement, has the power to purchase or construct assets, issue debt, exercise the power of eminent domain and enter into, on its own behalf, contracts and agreements. The Inter-local Agreement specifically addressed that debts of KMPA are not debts of the parties to the Agreement.

The Inter-local Agreement dictates that KMPA records are required to be audited annually. A copy of the most recent audit can be obtained from KMPA offices, PO Box 0180, Paducah, KY 42002-0180.

The KMPA Board of Directors is composed of two directors designated by each member of the Agency, one of whom shall be the chief executive officer of the member. The duration of the Agency is perpetual and shall continue in full force and effect. Dissolution may occur only after all bonds, notes or indebtedness has been paid or adequate provision of payment has been made. In the event of dissolution, assets and property of the agency shall be distributed to the participating agencies in the proportion of 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 of PEPB and KMPA are detailed in Note 17 Related Party Transactions.

**PRINCETON ELECTRIC PLANT BOARD
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CITY OF PRINCETON, KENTUCKY
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NOTE 19 – PRAIRIE STATE PROJECT

Peabody Energy, the world's largest private sector coal company, has participated in the development of the Prairie State Campus in Washington County, Illinois and will fire the campus by more than 6 million tons of coal produced each year from an adjacent underground mine, Lively Grove, Inc.

Other interest group partners include the Indiana Municipal Power Agency (IMPA), Northern Illinois Municipal Power Agency, American Municipal Power (AMP), Missouri Joint Municipal Electric Utility Company (JMEUC), Prairie Power, Southern Illinois Power Cooperative, and Illinois Municipal Electric Agency that serve retail customers in more than nine different states.

NOTE 20 – MUNINET

MuniNet Fiber Agency ("MuniNet") was formed to undertake the financing, acquisition, construction, management, operation, utilization and ownership of fiber network projects and any and all facilities, including all equipment, structures, machinery, and tangible and intangible property, real or personal, useful for such projects, either within or without the Commonwealth of Kentucky. Projects are approved by the MuniNet Board on a project-specific basis. After a project is approved, MuniNet and the individual MuniNet members that desire to participate in the project enter into a Project Participation Agreement which sets forth the terms and conditions of the project's development and operation and establishes each participant's rights and obligations with respect to the project.

MuniNet Project 2 ("Project 2") consists of the development of a fiber optic cable system and a contractual arrangement for a connection to an Internet Access Provider (IAP) located in Nashville, Tennessee that will provide each project participant with high speed access to the Internet. The estimated cost of Project 2 is \$3,173,049.

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 is on the Project Committee. The Superintendent/General Manager of the Participant also appoints one other member to the 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
OF THE
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 20 – MUNINET, continued

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 to be amortized over 20 years with no interest. 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, 2017.

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 \$39,321 for administrative and operating costs during fiscal year ended June 30, 2017.

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

	2017	2016
Initial investment	\$ 5,000	\$5,000
<u>Project 2 investment in Muninet</u>		
Beginning balance July 1	\$ 171,021	\$ 135,145
Costs incurred	<u>39,321</u>	<u>35,876</u>
Ending balance June 30	<u>210,342</u>	<u>\$ 171,021</u>
Total investment in MuniNet	<u>\$ 215,342</u>	<u>\$176,021</u>

NOTE 21 – UPCOMING PRONOUNCEMENTS

In June 2015, the GASB issued Statement No. 75, *Accounting and Reporting for Postemployment Other Than Pensions*. The provisions of this statement are effective for fiscal years beginning after June 15, 2017. This statement establishes new accounting and financial reporting requirements of OPEB plans provided to employees of state and local governments. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit OPEB, this Statement identifies the methods and assumptions required to project benefit payments, discount projected benefit payments to actuarial present value, and attribute present value to periods of employee service. Note disclosure and required supplementary information requirements of defined benefit OPEB also are addressed. PEPB is currently evaluating the impact that will have on the financial statements when adopted.

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 21 – UPCOMING PRONOUNCEMENTS, continued

In March 2016, the GASB issued GASB Statement No. 82 *Pension Issues – An Amendment of GASB Statements No. 67, 68 and 73*. The objective of the statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. PEPB is currently evaluation the impact this standard will have on the financial statements when adopted. GASB 82 is effective for fiscal years beginning after June 15, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
County Employees Retirement System

	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015
Board's proportion of the net pension liability (asset)	0.054230%	0.050240%	0.050838%
Board's proportionate share of the net pension liability (asset)	\$ 2,670,176	\$ 2,159,909	\$ 1,685,800
State's proportionate share of the net pension liability (asset) associated with PEPB	-	-	-
Total	<u>\$ 2,670,176</u>	<u>\$ 2,159,909</u>	<u>\$ 1,685,800</u>
Board's covered-employee payroll	\$ 1,203,302	\$ 1,293,709	\$ 1,148,872
Board's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	221.90%	166.95%	146.74%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.80%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built
Ultimately, 10 years of data will be presented.

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN
County Employees Retirement System

	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015
Contractually required contribution	\$ 242,424	\$ 229,884	\$ 203,006
Contributions in relation to the contractually required contribution	242,424	229,884	203,006
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Board's covered employee payroll	\$ 1,203,302	\$ 1,293,709	\$ 1,148,872
Contributions as a percentage of covered employee payroll	20.15%	17.77%	17.67%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN
JUNE 30, 2017 AND 2016**

Changes of benefit terms

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

- Tiered Structure for benefit accrual rates
- New retirement eligibility requirements
- Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for member whose participation date is on or after January 1, 2014

Changes of assumption

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2015

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

Method and assumptions used in calculations of actuarially determined contributions. The actuarially determined contribution rates are determined on an annual basis beginning with the fiscal year ending 2018, determined as of July 1, 2016. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

PRINCETON ELECTRIC PLANT BOARD
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CITY OF PRINCETON, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN
JUNE 30, 2017 AND 2016, continued

Actuarial cost method	Entry age
Amortization method	Level of percentage of payroll, closed
Remaining amortization period	27 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.00, average including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

ADDITIONAL INFORMATION

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
COMBINED SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017**

	ELECTRIC	BROADBAND	TOTAL
OPERATING REVENUES	<u>\$ 14,910,480</u>	<u>\$ -</u>	<u>\$ 14,910,480</u>
OPERATING EXPENSES			
Cost of power	9,741,821	-	9,741,821
Distribution - operation	518,966	-	518,966
- maintenance	691,929	-	691,929
Maintenance - general plant	28,654	-	28,654
Customer accounts	208,332	-	208,332
Customer service and information	18,062	-	18,062
Sales	7,509	-	7,509
Administrative and general	783,408	-	783,408
Depreciation and amortization	1,124,157	-	1,124,157
Taxes	752,023	-	752,023
Total operating expenses	<u>13,874,861</u>	<u>-</u>	<u>13,874,861</u>
Net operating revenues	<u>1,035,619</u>	<u>-</u>	<u>1,035,619</u>
NONOPERATING REVENUES (EXPENSES)			
Interest expense	(757,040)	-	(757,040)
Other interest expense	(3,948)	-	(3,948)
Amortization of debt expense	(90,725)	-	(90,725)
Amortization - other	(24,339)	-	(24,339)
Interest income	20,448	-	20,448
Other income (expenses)	(14,301)	-	(14,301)
Total nonoperating revenues (expenses)	<u>(869,905)</u>	<u>-</u>	<u>(869,905)</u>
CHANGE IN NET POSITION	<u>165,714</u>	<u>-</u>	<u>165,714</u>
NET POSITION, BEGINNING OF YEAR	<u>9,984,785</u>	<u>(1,121,792)</u>	<u>8,862,993</u>
NET POSITION, END OF YEAR	<u>\$ 10,150,499</u>	<u>\$ (1,121,792)</u>	<u>\$ 9,028,707</u>

**PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES - ELECTRIC
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	ELECTRIC 2017	ELECTRIC 2016	VARIANCE FAVORABLE (UNFAVORABLE)
OPERATING REVENUES	<u>\$ 14,910,480</u>	<u>\$ 14,130,420</u>	<u>\$ 780,060</u>
OPERATING EXPENSES			
Cost of power	9,741,821	9,206,075	(535,746)
Distribution - operation	518,966	535,175	16,209
- maintenance	691,929	599,092	(92,837)
Maintenance - general plant	28,654	38,032	9,378
Customer accounts	208,332	222,744	14,412
Customer service and information	18,062	24,927	6,865
Sales	7,509	8,127	618
Administrative and general	783,408	920,922	137,514
Depreciation	1,124,157	1,120,605	(3,552)
Taxes	752,023	743,273	(8,750)
Total operating expenses	<u>13,874,861</u>	<u>13,418,972</u>	<u>(455,889)</u>
Net operating revenues	<u>1,035,619</u>	<u>711,448</u>	<u>324,171</u>
NONOPERATING REVENUES (EXPENSES)			
Interest expense	(757,040)	(775,625)	18,585
Other interest expense	(3,948)	(3,688)	(260)
Amortization of debt expense	(90,725)	(90,725)	-
Amortization - other	(24,339)	(22,043)	(2,296)
Interest income	20,448	13,931	6,517
Tax rebate on Build America Bonds	-	485	(485)
Other revenues (expenses)	<u>(14,301)</u>	<u>(21,178)</u>	<u>6,877</u>
Total nonoperating revenues (expenses)	<u>(869,905)</u>	<u>(898,843)</u>	<u>28,938</u>
CHANGE IN NET POSITION	<u>\$ 165,714</u>	<u>\$ (187,395)</u>	<u>\$ 353,109</u>

PRINCETON ELECTRIC PLANT BOARD
OF THE
CITY OF PRINCETON, KENTUCKY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES - BROADBAND
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	BROADBAND 2017	BROADBAND 2016	VARIANCE FAVORABLE (UNFAVORABLE)
OPERATING REVENUES	<u>\$ -</u>	<u>\$ 26,274</u>	<u>\$ (26,274)</u>
OPERATING EXPENSES			
Distribution - operation	-	1,420	1,420
Maintenance - general plant	-	300	300
Customer accounts	-	1,001	1,001
Depreciation and amortization	<u>-</u>	<u>88,008</u>	<u>88,008</u>
Total operating expenses	<u>-</u>	<u>90,729</u>	<u>90,729</u>
Net operating revenues	<u>-</u>	<u>(64,455)</u>	<u>64,455</u>
NONOPERATING REVENUES (EXPENSES)			
Gain (loss) on disposal of equipment	<u>-</u>	<u>(102,951)</u>	<u>(102,951)</u>
Total nonoperating revenues (expenses)	<u>-</u>	<u>(102,951)</u>	<u>(102,951)</u>
CHANGE IN NET POSITION	<u>\$ -</u>	<u>\$ (167,406)</u>	<u>\$ 167,406</u>

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

	For the Year Ended June 30, 2017		For the Year Ended June 30, 2016		Increase (Decrease)
	Amount	Percent	Amount	Percent	
Distribution					
Supervision & engineering	\$ 42,716	0.29 %	\$ 60,189	0.43 %	\$ (17,473)
Station expense	183,530	1.23	170,056	1.20	13,474
Overhead lines expense	104,560	0.70	91,975	0.65	12,585
Underground line expense	-	0.00	(8,717)	(0.06)	8,717
Street light & signal system expense	2,619	0.02	3,185	0.02	(566)
Meter expense	95,330	0.64	98,719	0.70	(3,389)
Customer installation expense	1,587	0.01	1,277	0.01	310
Miscellaneous distribution expense	72,535	0.49	102,787	0.73	(30,252)
Rents	16,089	0.11	15,704	0.11	385
Total distribution	<u>\$ 518,966</u>	<u>3.49 %</u>	<u>\$ 535,175</u>	<u>3.79 %</u>	<u>\$ (16,209)</u>
Maintenance expense					
Distribution:					
Supervision & engineering	\$ 51,425	0.34 %	\$ 75,311	0.53 %	\$ (23,886)
Station expense	20,932	0.14	5,064	0.04	15,868
Overhead lines	487,923	3.27	415,051	2.94	72,872
Underground services	54,108	0.36	38,804	0.27	15,304
Street light & signal system	2,656	0.02	6,676	0.05	(4,020)
Pole inspecting	13,049	0.09	1,307	0.01	11,742
Miscellaneous distribution plant	61,836	0.41	56,879	0.40	4,957
Total distribution maintenance	<u>\$ 691,929</u>	<u>4.63 %</u>	<u>\$ 599,092</u>	<u>4.24 %</u>	<u>\$ 92,837</u>
Customer accounts					
Motor reading	\$ 5,451	0.04 %	\$ 8,413	0.06 %	(2,962)
Customer records & collection expense	183,020	1.23	180,392	1.28	2,628
Uncollectible accounts	7,358	0.05	18,890	0.13	(11,532)
Miscellaneous customer accounting expense	12,503	0.08	15,049	0.11	(2,546)
Customer assistance expense	5,057	0.03	13,669	0.10	(8,612)
Information & instructional advertising	13,005	0.09	11,258	0.08	1,747
Total customer accounts	<u>\$ 226,394</u>	<u>1.52 %</u>	<u>\$ 247,671</u>	<u>1.76 %</u>	<u>\$ (21,277)</u>

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

	For the Year Ended June 30, 2017			For the Year Ended June 30, 2016		Increase (Decrease)
	Amount	Percent		Amount	Percent	
Sales expense						
Demonstrating and selling expense	\$ 1,550	0.01 %	\$	2,800	0.02 %	\$ (1,250)
Advertising expense	3,397	0.02		2,480	0.02	917
Miscellaneous	<u>2,562</u>	<u>0.02</u>		<u>2,847</u>	<u>0.02</u>	<u>(285)</u>
Total sales	<u>\$ 7,509</u>	<u>0.05 %</u>	<u>\$</u>	<u>8,127</u>	<u>0.06 %</u>	<u>\$ (618)</u>
Administrative and general						
Administrative & office salaries	\$ 128,313	0.86 %	\$	146,512	1.04 %	\$ (18,199)
Office supplies & expense	135,111	0.91		158,929	1.12	(23,818)
Outside services employed	60,055	0.40		45,298	0.32	14,757
Insurance	55,824	0.37		66,293	0.47	(10,469)
Injuries & damages	55,696	0.37		58,350	0.41	(2,654)
Employees pension & other benefits	516,194	3.46		605,498	4.29	(89,304)
Duplicate charges (credit)	(187,856)	(1.26)		(180,605)	(1.28)	(7,251)
Miscellaneous general expense	<u>20,071</u>	<u>0.13</u>		<u>20,647</u>	<u>0.15</u>	<u>(576)</u>
Total administrative and general	<u>\$ 783,408</u>	<u>5.24 %</u>	<u>\$</u>	<u>920,922</u>	<u>6.52 %</u>	<u>\$ (137,514)</u>

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

	For the Year Ended June 30, 2017		For the Year Ended June 30, 2016		Increase (Decrease)
	Amount	Percent	Amount	Percent	
Distribution					
Operation:					
Overhead expense	\$ -	- %	\$ -	- %	\$ -
Customer installations	-	-	-	-	-
Miscellaneous distribution expense	-	-	1,420	5.40	(1,420)
Total distribution	<u>\$ -</u>	<u>- %</u>	<u>\$ 1,420</u>	<u>5.40 %</u>	<u>\$ (1,420)</u>
Maintenance expense					
Distribution:					
Maintenance of installed modem	\$ -	- %	\$ -	- %	\$ -
Total distribution maintenance	<u>\$ -</u>	<u>- %</u>	<u>\$ -</u>	<u>- %</u>	<u>\$ -</u>
Maintenance general					
Maintenance of general plant	\$ -	- %	\$ 300	1.14 %	\$ (300)
Total maintenance general	<u>\$ -</u>	<u>- %</u>	<u>\$ 300</u>	<u>1.14 %</u>	<u>\$ (300)</u>
Customer accounts					
Uncollectible accounts	<u>\$ -</u>	<u>- %</u>	<u>\$ 1,001</u>	<u>3.81%</u>	<u>\$ (1,001)</u>
Administrative and general					
Office supplies & expense	\$ -	- %	\$ -	- %	\$ -
Total administrative and general	<u>\$ -</u>	<u>- %</u>	<u>\$ -</u>	<u>- %</u>	<u>\$ -</u>

COMPLIANCE AND INTERNAL CONTROL



YORK, NEEL & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS 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 City of Princeton, Kentucky as of and for the years ended June 30, 2017 and 2016, 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 20, 2017.

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.

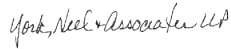
Compliance and Other Matters

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.

York, Neel & Associates, LLP



Certified Public Accountants
Hopkinsville, Kentucky

October 20, 2017

APPENDIX E

KENTUCKY MUNICIPAL POWER AGENCY
POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2018A

Demographic and Economic Data of KMPA's Members

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PADUCAH, KENTUCKY
(McCracken County)

Paducah, the county seat of McCracken County, is the major economic center and the largest urban area in west Kentucky's Jackson Purchase Region. Paducah is located at the confluence of the Ohio and Tennessee Rivers (the head of the Tennessee-Tombigbee Waterway) approximately 48 river miles east of the confluence of the Ohio and Mississippi Rivers. Paducah is located 139 miles northwest of Nashville, Tennessee; 167 miles southeast of St. Louis Missouri; and 215 miles southwest of Louisville, Kentucky. Paducah had an estimated 2016 population of 25,145 persons.

McCracken County had an estimated 2016 population of 65,162 persons.

The Economic Framework

The total estimated number of persons employed in McCracken County as of December 2017 was 27,841. As of first quarter 2017, manufacturing firms in the county reported 1,980 employees; trade, transportation and utilities provided 10,616 jobs; 18,325 people were employed in service occupations; informational and financial services accounted for 2,304 employees; 3,563 accounted for state and local government employees; and contract construction firms provided 1,716 jobs.

Labor Supply

There is a current estimated labor supply of 119,681 persons available for industrial jobs in the labor market area, which is defined as all counties that substantially fall within a 60-minute drive of the target county's county seat.

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 2018) are listed below:

*

<u>Firm</u>	<u>Product</u>	<u>Employment</u>
Marquette Transportation	Inland marine	880
James Marine	Inland marine/barge mfg	550
TeleTech	Call Center	400
Lynx Services	Call Center	317
Credit Bureau Systems	Credit reporting/collections	276
Computer Services Inc. (CSI)	Processing solutions for Financial Institutions	225
ViWin Tech Window & Door Inc.	Window manufacturer	200
Dippin' Dots LLC	Ice cream franchise	185
UACJ Automotive Whitehall Industries	Aluminum automotive parts	151
Henry A Petter Supply Company LLC	Industrial supply/distribution	150

Sources: Paducah Economic Development

McCracken County Economic Statistics

2013-2017

<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>
2017	⁽¹⁾	\$51,500	\$801.00 ⁽²⁾	5.2% ⁽³⁾	27,841 ⁽³⁾	29,357 ⁽³⁾
2016	\$45,927	53,700	806.00	5.7	27,219	28,851
2015	44,815	60,500	797.00	5.7	26,980	28,620
2014	42,365	56,400	781.00	7.1	27,272	29,359
2013	41,934	64,300	766.00	8.0	28,535	31,033

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

⁽¹⁾ Data not available.

⁽²⁾ Estimated as of 2nd quarter 2017.

⁽³⁾ Preliminary as of December 2017.

PRINCETON, KENTUCKY

(Caldwell County)

Princeton, the county seat of Caldwell County, is located in the Pennyrite Region of Western Kentucky just east of Lake Barkley, the Land Between the Lakes and the vast Western Waterland area. Princeton, with an estimated 2016 population of 6,119, 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 12,568 in 2016.

The Economic Framework

The total estimated number of persons employed in Caldwell County in December 2017 was 5,209. In first quarter of 2017, manufacturing firms in the County reported 931 employees; trade, transportation and utilities provided 916 jobs; 1,130 people were employed in service occupations; state and local government provided 646 jobs; financial activities accounted for 223 employees; agriculture, forestry, fishing and hunting provided 68 jobs; and contract construction firms provided 75 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 128,328 persons available for industrial jobs in the labor market area, which is defined as all counties that substantially fall within a 60-minute drive of the target county's county seat. Major employers in Princeton (as of February 2018) are listed below:

<u>Firm</u>	<u>Product</u>	<u>Employment</u>
TreeHouse Foods Inc.	Cookies & crackers	548
Hydro-Gear LP	Designs & manufactures hydrostatic pumps, transmissions & trans-axles for the lawn & garden industry	170
Special Metals Corporation	Metal powder & nickel base metal alloy billets	64
Princeton Finishing, Inc.	Cotton athletic sock finishing	26
Bodycote Int Inc.	HIP (Hot isostatic pressing)	20
Rogers Group	Crushed limestone	17
Times Leader & Pacesetter Printing	Twice weekly newspaper and sheet-fed commercial printing	9

Sources: Kentucky Cabinet for Economic Development and Other Sources

Princeton, Kentucky

(Caldwell County)

Economic Statistics

2013-2017

<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>
2017	⁽¹⁾	\$57,100	\$637.00 ⁽²⁾	3.7% ⁽³⁾	5,209 ⁽³⁾	5,411 ⁽³⁾
2016	\$33,760	49,800	613.00	5.3	5,112	5,397
2015	33,760	48,400	\$99.00	5.5	5,069	5,364
2014	33,760	51,100	588.00	6.5	5,099	5,454
2013	33,760	51,300	589.00	8.2	5,173	5,637

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

⁽¹⁾ Data not available.

⁽²⁾ Estimated as of 2nd quarter 2017.

⁽³⁾ Preliminary as of December 2017.

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APPENDIX F

KENTUCKY MUNICIPAL POWER AGENCY
POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2018A

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 22,522 customers. Of this number, approximately 18,808 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 \$192,056,670 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 July 1, 2017, 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	\$0.009970	\$0.121500
<u>GSA-1</u>			
Customer Charge	\$22.00		\$22.00
All KWH	\$0.12217	\$0.009970	\$0.132140
<u>GSA-1 Seasonal</u>			
Customer Charge	\$22.00		\$22.00
All KWH	\$0.13883	\$0.009970	\$0.148800
<u>GSA-2</u>			
Customer Charge	\$115.00		\$115.00
1 st 15,000 KWH	\$0.11938	\$0.009970	\$0.129350
Additional KWH	\$0.07495	\$0.009970	\$0.084920
1 st 50 KW Demand	\$0.00		-
51-1,000 KW Demand	\$16.49		\$16.49
<u>GSA-2 Seasonal</u>			
Customer Charge	\$115.00		\$115.00
1 st 15,000 KWH	\$0.13529	\$0.009970	\$0.145260
Additional KWH	\$0.09086	\$0.009970	\$0.100830
1 st 50 KW Demand	\$0.00		-
51-1,000 KW Demand	\$20.69		\$20.69
<u>GSA-3</u>			
Customer Charge	\$275.00		\$275.00
All KWH	\$0.06736	\$0.009970	\$0.077330
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	\$0.009970	\$0.06254
All KW Demand	\$18.38		\$18.38
<u>Drainage Pumps</u>			
Customer Charge	\$65.00		\$65.00
All KWH	\$0.09391	\$0.009970	\$0.103880
<u>Outdoor Lighting</u>			
All KWH	\$0.08425	\$0.009970	\$0.094220
Customer Charge	See Note		
<u>City Street Lighting</u>			
All KWH	\$0.10625	\$0.009970	\$0.11622

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 2017.

<u>Customer</u>	<u>Usage (Kilowatt Hrs.)</u>	<u>Dollar Sales</u>
Baptist Health Paducah Hospital	30,519,557	3,431,794
Lourdes Hospital	22,848,262	2,512,353
HB Fuller Co	10,551,000	1,063,938
West KY Community & Technical College	8,285,678	1,110,118
Walmart Stores	7,791,194	928,759
Genova Kentucky	7,740,000	459,960
Paducah Water Works	6,661,122	825,518
City of Paducah	6,652,869	1,066,363
Dippin Dots Inc	6,153,492	638,224
Kroger	5,666,819	671,704

Source: Paducah Power System

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

	<u>FY17*</u>	<u>FY16</u>	<u>FY15</u>	<u>FY14</u>	<u>FY13</u>
Residential	18,808	18,814	18,675	18,603	18,612
Commercial	3,296	3,307	3,286	3,282	3,291
Lighting	418	422	436	466	471
Total	22,522	22,543	22,397	22,351	22,374
MWH Sold	558,405	546,664	556,184	580,995	595,572
Peak MWH	138	139	134	147	157

Source: Paducah Power System

*as of June 30, 2017

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Financial Information

The following is a five year presentation of Paducah Electric's finances to include balance sheets, statements of revenues, expenses and changes in retained earnings, and calculations of debt service coverage based on historical revenues. Please refer to Appendix C for Paducah Electric's 2016-2017 Audited Financial Statements.

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

BALANCE SHEETS

	ASSETS				
	June 30,				
	2017	2016	2015	2014	2013
UTILITY PLANT					
Transmission system	\$ 10,497,638	\$ 10,472,920	\$ 10,374,351	\$ 10,372,166	\$ 10,365,605
Distribution system	88,868,789	86,670,161	84,670,049	81,519,079	79,292,296
Land	2,634,929	2,634,929	2,636,229	2,636,229	2,636,229
Generation plant	110,769,765	110,695,826	110,661,988	110,661,988	110,631,286
General plant	20,229,751	19,408,075	18,541,240	17,164,508	16,841,496
	233,000,872	229,881,911	226,883,857	22,353,970	219,766,912
Less accumulated depreciation	(86,962,759)	(78,944,311)	(70,961,324)	(63,070,143)	(55,207,547)
	146,038,113	150,937,600	155,922,533	159,283,827	164,559,365
Construction work in progress	799,658	896,185	904,999	2,874,790	3,211,472
Total Utility Plant	\$146,837,771	\$151,833,785	\$156,827,532	\$162,158,617	\$167,770,837
OTHER PROPERTY AND INVESTMENTS					
Sinking Fund	5,344,377	10,306,112	15,356,869	19,784,370	20,094,904
Investment in SEDC	175,436	165,051	159,421	140,508	94,324
Investment in MunNet Fiber Agency	426,541	385,589	330,508	253,720	146,930
Investment in CSA	26,740	26,740	26,740	26,740	26,740
Non-utility property	82	1,042	2,021	2,999	3,977
Total Other Property and Investments	\$ 5,973,176	\$ 10,884,534	\$ 15,875,559	\$ 20,208,337	\$ 20,366,875
CURRENT ASSETS					
Cash and temporary cash investments	15,050,318	12,648,689	3,905,965	1,727,434	3,096,994
Cash reserve fund	10,992,925	7,588,484	4,236,588	823,068	899,378
Accounts receivable (net of allowance for doubtful accounts)	6,154,504	6,404,810	6,649,580	8,240,041	6,092,799
Materials and supplies	1,267,660	1,292,107	1,347,339	1,473,321	1,542,843
Prepaid expenses	709,261	662,846	12,718	16,030	14,462
Receivable from MunNet Fiber Agency	32,252	32,252	32,252	32,252	32,252
Grants receivable	-	-	-	-	365,042
Accrued interest receivable	4,479	14,302	6,642	29,226	25,476
Rent receivable	96,915	98,526	98,526	98,526	97,343
Total Current Assets	\$ 34,308,314	\$ 28,742,016	\$ 16,289,610	\$ 12,439,898	\$ 12,166,589
DEFERRED DEBITS					
Unamortized debt discount	2,590,841	2,744,583	2,808,387	2,396,110	2,528,964
Regulatory credits	1,586,912	-	1,157,419	3,976,727	-
Receivable for conservation	-	-	-	-	15,956
Unemployment Trust Fund	29,154	29,154	29,154	29,154	29,154
Unamortized research and develop cost	443,734	459,035	-	-	-
Other deferred debits	286,768	20,723	21,313	19,045	(32,038)
Total Deferred Debits	\$ 4,937,409	\$ 3,253,495	\$ 4,016,273	\$ 6,421,036	\$ 2,542,036
TOTAL ASSETS	\$192,056,670	\$194,713,830	\$193,008,974	\$201,227,888	\$202,846,337
DEFERRED OUTFLOWS OF RESOURCES					
Deferred pension plan contributions	\$ 721,263	\$ 614,909	\$ 575,515	\$ -	\$ -
Deferred savings on bond refunding	15,755,131	16,618,426	-	-	-
Deferred pension plan outflows	1,924,077	982,483	-	-	-

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,				
	2017	2016	2015	2014	2013
CURRENT LIABILITIES					
Accounts payable	\$ 5,282,050	\$ 5,399,622	\$ 5,111,371	\$ 6,308,307	\$ 5,242,373
Line of credit	-	-	-	3,000,000	-
Customer deposits	770,091	835,086	814,286	794,596	814,408
Accrued taxes and equivalents	926,793	951,702	910,046	1,024,117	1,094,667
Accrued interest	1,677,953	1,801,373	1,837,712	1,876,502	1,932,770
Other current and accrued liabilities	787,841	861,779	848,097	817,286	811,125
Bonds payable	4,870,000	5,240,000	5,100,000	4,945,000	5,635,000
Total Current Liabilities	<u>\$ 14,314,728</u>	<u>\$ 15,089,562</u>	<u>\$ 14,621,512</u>	<u>\$ 18,765,808</u>	<u>\$ 15,530,343</u>
NON-CURRENT LIABILITIES					
Bonds held by public	151,844,666	157,639,794	146,032,721	151,000,043	155,809,740
Advances for conservation loans	-	-	-	15,220	23,865
Other unearned revenues	336,819	337,801	-	-	-
Other regulatory liabilities	6,461,368	5,705,492	352,166	370,247	375,733
Net pension liability	10,218,988	8,318,121	6,515,620	-	-
Total Non-Current Liabilities	<u>\$168,861,841</u>	<u>\$172,001,208</u>	<u>\$152,900,507</u>	<u>\$151,385,510</u>	<u>\$156,209,338</u>
TOTAL LIABILITIES	<u>\$183,176,569</u>	<u>\$187,090,770</u>	<u>\$167,522,019</u>	<u>\$170,151,318</u>	<u>\$171,739,681</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred pension plan inflows	\$ 114,224	\$ 189,870	\$ 727,301	-	-
NET ASSETS					
Invested in capital assets, net of					
Related debt	8,469,077	8,317,000	5,694,811	6,213,574	6,326,097
Restricted for:					
Capital projects	-	-	-	-	-
Debt service	5,344,377	10,306,112	15,356,869	19,784,370	20,994,282
Unrestricted - net deficit	13,352,894	7,025,896	4,283,489	3,078,626	3,786,277
Total Net Assets	<u>\$ 27,166,348</u>	<u>\$ 25,649,008</u>	<u>\$ 25,335,169</u>	<u>\$ 31,076,570</u>	<u>\$ 31,106,656</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$210,457,141</u>	<u>\$212,929,648</u>	<u>\$193,584,489</u>	<u>\$201,227,888</u>	<u>\$202,846,337</u>

Source: Paducah Power System Audited Financial Statements

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

COMBINED STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS

	Years Ending June 30,				
	2017	2016	2015	2014	2013
OPERATING REVENUES					
Charges for services:					
Residential	\$29,750,655	\$29,758,030	\$31,647,468	\$31,611,977	\$25,942,162
Large lighting and power	34,938,684	35,748,218	37,575,679	36,078,042	30,848,216
Small lighting and power	8,687,541	8,721,456	9,190,800	8,814,194	7,249,722
Street and outdoor	1,603,272	1,633,951	1,693,631	1,622,309	1,364,324
Total Charges for Services	<u>\$74,980,152</u>	<u>\$75,861,655</u>	<u>\$80,107,578</u>	<u>\$78,126,522</u>	<u>\$65,404,424</u>
Miscellaneous:					
Forfeited discounts	404,317	435,746	472,781	479,047	364,870
Service revenue	2,606,360	2,481,950	2,328,907	2,095,002	1,844,872
Regulatory credits	(755,876)	(6,862,911)	(2,819,308)	3,976,727	-
Other electric revenue	600	600	600	600	15,025
Total Miscellaneous	<u>\$ 2,255,401</u>	<u>\$ (3,944,615)</u>	<u>\$ (17,020)</u>	<u>\$ 6,551,376</u>	<u>\$ 2,224,767</u>
TOTAL OPERATING REVENUES	<u>\$77,235,553</u>	<u>\$71,917,040</u>	<u>\$80,090,558</u>	<u>\$84,677,898</u>	<u>\$67,629,191</u>
PURCHASED POWER AND OPERATING EXPENSES					
Purchased power cost	46,936,630	43,173,928	50,457,469	56,629,518	41,246,986
General operating expense	8,104,676	7,222,146	7,292,640	7,254,708	7,167,898
Generation plant expense	2,422,919	1,286,365	1,480,592	1,239,850	1,195,714
Maintenance expense	1,779,544	1,622,259	1,393,068	1,438,592	1,379,719
Other operating expense	11,080,584	10,975,406	10,856,868	10,811,174	10,727,728
Total Purchased Power and Operating Expenses	<u>\$70,324,353</u>	<u>\$64,280,104</u>	<u>\$71,480,637</u>	<u>\$77,373,842</u>	<u>\$61,718,045</u>
OPERATING INCOME	<u>\$ 6,911,200</u>	<u>\$ 7,636,936</u>	<u>\$ 8,609,921</u>	<u>\$ 7,304,056</u>	<u>\$ 5,911,146</u>
NONOPERATING					
Interest paid on indebtedness	(5,436,377)	(7,171,818)	(7,338,095)	(7,462,876)	(7,658,943)
Interest earned on investments	149,944	140,292	194,308	362,982	271,045
Net amortization discount and premium on debt	(101,051)	(292,452)	(276,749)	(268,158)	(276,036)
Nonoperating income	(6,376)	881	12,715	33,910	45,666
Total Nonoperating Revenues/Expenses	<u>\$(5,393,860)</u>	<u>\$(7,323,097)</u>	<u>\$(7,407,821)</u>	<u>\$(7,334,142)</u>	<u>\$(7,618,268)</u>
CHANGES IN NET ASSETS	<u>\$ 1,517,340</u>	<u>\$ 313,839</u>	<u>\$ 1,202,100</u>	<u>\$ (30,086)</u>	<u>\$ (1,707,122)</u>
NET ASSETS, BEGINNING OF YEAR	<u>\$25,649,008</u>	<u>\$25,335,169</u>	<u>\$31,076,570</u>	<u>\$31,106,656</u>	<u>\$32,813,778</u>
Prior period adjustment	-	\$ -	\$(6,943,501)	\$ -	\$ -
NET ASSETS, END OF YEAR	<u>\$27,166,348</u>	<u>\$25,649,008</u>	<u>\$25,335,169</u>	<u>\$31,076,570</u>	<u>\$31,106,656</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 3,869 customers. Of this number, approximately 2,965 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 has total assets of \$30,592,294, with 112 miles of line with 36 customers per mile, and an average residential usage of 1,000 kilowatt-hours per month.

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

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Electric Rates

The current schedule for electric rates, shown below, became effective July 1, 2017.

<u>Customer Class</u>	<u>Effective Rate, July 1, 2017</u>
<u>Residential</u>	
Customer Charge	\$14.89
All KWH	\$0.11248
<u>GSA-1</u>	
Customer Charge	\$27.85
All KWH	\$0.12378
<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	\$0.10220
Additional KWH	\$0.10220
<u>GSA-3</u>	
Customer Charge	\$294.15
1 st 1,000 KWH	\$15.46
Additional KWH	\$17.88
1 st 550 KW Demand	\$0.08428
Additional KWH	\$0.08428
<u>Outdoor Lighting</u>	
All KWH	\$0.08707

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 2016 (as of June 30, 2016).

<u>Customer</u>	<u>Usage (Kilowatt Hrs.)</u>	<u>Dollar Sales</u>
Bremner	22,618,800	2,849,823.53
Special Metals	7,028,400	977,524.26
Hydro-Gear	5,983,500	756,063.23
Wal-Mart	3,662,400	516,930.26
Caldwell Co. Hospital	3,404,340	514,142.57
Bodycote	3,484,800	488,237.31
Food Giant	3,314,700	450,265.47
City of Princeton	1,445,760	199,001.11
Water & Sewer Commission	1,131,000	147,320.19
Bremner	1,278,071	133,025.20

Source: Princeton Electric Plant Board

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

	<u>FY17*</u>	<u>FY16</u>	<u>FY15</u>	<u>FY14</u>	<u>FY13</u>
Residential	2,965	3,010	3,025	3,023	3,032
Commercial	890	840	866	847	877
Lighting	14	13	14	14	14
Total	3,869	3,863	3,905	3,884	3,923
MWH Sold	112,000	108,413	111,137	110,921	113,638
Peak MW	25.27	25.55	25.31	24.47	26.6

Source: Princeton Electric Plant Board

*as of June 30, 2017

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Financial Information

The following is a five year presentation of Princeton Electric's finances to include balance sheets, statements of revenues, expenses and changes in retained earnings, and calculations of debt service coverage based on historical revenues. Please refer to Appendix D for Princeton Electric's 2016-2017 Audited Financial Statements.

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

BALANCE SHEETS

	ASSETS				
	Years Ending June 30,				
	2017	2016	2015	2014	2013
CURRENT ASSETS					
Cash - general funds	\$3,823,674	\$3,452,457	\$3,325,363	\$3,981,340	\$4,867,586
Special funds	-	-	-	-	-
Accounts receivable	1,136,153	1,050,188	1,194,338	1,294,242	938,714
Other receivables	-	-	-	-	-
TVA heat pump loans	-	-	-	773	2,114
Unbilled revenue	393,002	445,569	445,380	482,273	397,353
Inventories (at weighted-average cost)	274,413	286,773	301,772	296,027	516,056
Prepaid expenses	-	-	-	-	-
Other current assets	23,766	23,389	23,513	380,337	23,359
Total Current Assets	\$5,651,008	\$5,258,376	\$5,290,366	\$6,434,992	\$6,745,182
NONCURRENT ASSETS					
Utility plant	\$31,500,179	\$31,290,247	\$31,942,622	\$31,564,968	\$31,074,285
Construction in progress	-	-	-	-	-
Less accumulated depreciation	12,489,015	11,599,444	11,443,850	10,314,064	9,281,258
Net utility plant	\$19,011,164	\$19,690,803	\$20,498,772	\$21,250,904	\$21,793,027
RESTRICTED ASSETS					
Investments - special funds	\$2,737,922	\$2,698,143	\$2,581,320	\$3,090,153	\$3,054,033
OTHER ASSETS					
Investment in affiliated organizations	\$228,751	\$188,890	\$152,360	\$120,133	\$87,949
Nonutility property	705,394	727,438	749,481	771,525	793,568
Other noncurrent asset	89,512	91,807	-	-	-
Total other assets and investments	\$1,023,657	\$1,008,135	\$901,841	\$891,658	\$881,517
Deferred charges	2,168,543	2,259,268	2,349,993	2,176,381	2,251,723
TOTAL ASSETS	\$30,592,294	\$30,914,725	\$31,622,292	\$33,844,088	\$34,725,482
DEFERRED OUTFLOWS OF					
Deferred pension amounts	\$825,786	\$433,976	\$ 203,006	\$ -	\$ -

Source: Princeton Electric Plant Board Audited Financial Statements

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

BALANCE SHEETS

	LIABILITIES				
	Years Ending June 30,				
	2017	2016	2015	2014	2013
CURRENT LIABILITIES					
Current maturities of long-term debt	\$555,000	\$535,000	\$ 515,000	\$ 485,000	\$ 485,000
Accounts payable - other	36,206	45,047	63,364	55,910	92,527
Accounts payable - related parties	836,665	876,247	827,943	1,017,869	828,006
Customer deposits	414,572	393,081	362,102	323,616	290,468
Accrued taxes	129,285	134,835			
Accrued interest	125,718	128,924	131,803	202,697	205,303
Accrued payroll and other taxes	83,887	75,353	328,396	220,649	186,163
Deferred credits	(11,698)	(5,862)	15,946	77,352	20,679
Vacation and sick pay	201,912	240,138	210,825	201,123	201,289
Conservation advances - TVA	-	-	0	773	2,114
Other current & accrued liabilities	61,901	38,491	38,727	38,614	61,572
Total Current Liabilities	\$2,433,448	\$2,461,274	\$2,494,106	\$2,623,603	\$2,373,121
NONCURRENT LIABILITIES					
Long-term debt	\$17,183,031	\$17,741,714	\$18,280,398	\$20,082,041	\$20,547,775
Pension liability	2,670,176	2,159,909	1,685,800	-	-
Advances from others	-	-	-	-	-
Conservation advances - TVA	-	-	-	-	-
Total Noncurrent Liabilities	\$19,853,207	\$19,901,623	\$19,966,198	\$20,082,041	\$20,547,775
TOTAL LIABILITIES	\$22,286,655	\$22,362,897	\$22,460,304	\$22,705,644	\$22,920,896
DEFERRED INFLOWS OF RESOURCES					
Deferred pension amounts	\$102,718	\$122,811	\$147,200	\$ -	\$ -
NET ASSETS					
Invested in capital assets, net of related debt	\$1,273,133	\$1,414,089	\$1,703,374	\$ 683,863	\$ 760,252
Restricted	2,737,922	2,698,143	2,581,320	3,090,153	3,054,033
Unrestricted	5,017,652	4,750,761	4,935,100	7,354,428	7,990,301
Total Net Assets	\$9,028,707	\$8,862,993	\$9,217,794	\$11,138,444	\$11,804,586

Source: Princeton Electric Plant Board Audited Financial Statements

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

BALANCE SHEETS

COMBINED STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS

	Years Ending June 30,				
	2017	2016	2015	2014	2013
OPERATING REVENUES					
Total Operating Revenues	\$14,910,480	\$14,156,694	\$15,035,745	\$14,759,975	\$12,794,889
OPERATING EXPENSE					
Cost of power	\$9,741,821	\$9,206,075	\$10,235,071	\$10,276,577	\$7,870,088
Distribution – operation	518,966	536,595	600,913	572,118	540,768
Maintenance	691,929	599,092	575,513	543,835	485,107
Customer accounts	208,332	223,745	192,478	189,151	171,163
Maintenance – general plant	28,654	38,332	-	-	-
Customer service and information	18,062	24,927	19,572	23,864	-
Sales promotion	7,509	8,127	7,959	11,411	34,231
Administrative and general	783,408	920,922	630,330	702,772	720,706
Depreciation	1,124,157	1,208,613	1,214,091	1,261,191	1,089,543
Taxes	752,023	743,273	758,613	764,724	750,746
Total Operating Expenses	\$13,874,861	\$13,509,791	\$14,234,540	\$14,345,643	\$11,662,352
OPERATING INCOME	\$1,035,619	\$646,993	\$801,205	\$414,332	\$1,132,537
NONOPERATING REVENUES/EXPENSES					
Interest expense	(\$757,040)	(\$775,625)	(\$1,085,177)	(\$1,240,666)	(\$1,230,082)
Other interest expense	(3,948)	(3,688)	(3,325)	(2,902)	-
Amortization of debt expense	(90,725)	(90,725)	(80,471)	(75,343)	(94,610)
Amortization-other	(24,339)	(22,043)	(22,044)	(22,044)	-
Interest income	20,448	13,931	10,078	17,616	18,817
Tax rebate on Build America Bonds	-	485	178,149	261,350	270,911
Other expenses	(14,301)	(21,178)	(18,065)	(18,485)	(21,421)
Gain (Loss) on disposal of assets	-	(102,951)	-	-	-
Total Nonoperating Revenues/Expenses	(\$69,905)	(\$1,001,794)	(\$1,020,855)	(\$1,080,474)	(\$1,056,385)
TOTAL NET ASSETS, BEGINNING OF YEAR	\$8,862,993	\$9,217,794	\$11,138,444	\$11,804,586	\$11,728,434
Implementation of GASB 68	-	-	(\$1,701,000)	-	-
NET INCOME	165,714	(354,801)	(\$219,650)	(\$666,142)	\$76,152
TOTAL NET ASSETS, END OF YEAR	\$9,028,707	\$8,862,993	\$9,217,794	\$11,138,444	\$11,804,586

Source: Princeton Electric Plant Board Audited Financial Statements

APPENDIX G

KENTUCKY MUNICIPAL POWER AGENCY
POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2018A

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 2018A Bonds and during any Flexible Term Rate 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 2018A Bonds to be remarketed at par.

"*Approving Opinion*" means, with respect to any action relating to the Series 2018A 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 2018A 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 2018A 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 2018A 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) during each Fixed Rate Period, a date determined by the

Remarketing Agent that is not more than twenty (20) nor less than two (2) days prior to the applicable Conversion Date relating to the Fixed Rate Period.

"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 of the following dates:

- (i) the Initial Conversion Date;
- (ii) the date on which the Interest Rate then in effect is changed to another Interest Rate in accordance with an Interest Rate Determination Method set forth in the Indenture;
- (iii) the last day of each Flexible Term Rate Period; or
- (iv) the last day of each Fixed Rate Period.

"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 2018A Bonds, the date the Series 2018A 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.

"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 2018A 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 2018A Bonds.

"Flexible Term Rate" means the Flexible Term Rate established for each of the Series 2018A Bonds in accordance with the Indenture.

"Flexible Term Rate Bond" means any Series 2018A Bond bearing interest at a Flexible Term Rate.

"Flexible Term Rate Index" means 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 2018A Bonds.

"Flexible Term Rate Period" means any period during which the Series 2018A 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, 2018, 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 March 1, 2026.

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

"Initial Rate" shall mean a rate equal to ____% per annum.

"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 2018A Bonds bearing interest at a Flexible Term Rate, the first Business Day of each month, beginning on the first Business Day immediately succeeding (i) the Initial Conversion Date, (ii) the last day of each Flexible Term Rate Period or (iii) the last day of a Fixed Rate Period, and with respect to Series 2018A Bonds bearing interest at the Initial Rate or 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" or "Rate" means the applicable Initial Rate, any Flexible Term Rate or any Fixed Rate.

"Interest Rate Determination Method" means any of the methods of determining the interest rate on the Series 2018A 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.

"Issue Date" means _____, 2018.

"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 2018A 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 2018A Bonds begin to bear interest at the LIBOR Index Rate or (b) if the Series 2018A 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 Conversion Date and (ii) 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 a proposed Conversion Date.

"Maturity Date" means September 1, 2042, the due date of the final maturity of the Series 2018A 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 2018A 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 2010 Bonds, the Series 2015A Bonds and the Series 2016A Bonds.

"Prior Indenture" collectively refers to the Series 2007 Indenture, the Series 2010 Indenture, the Series 2015A Indenture, the Series 2015B Indenture and the Series 2016A 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 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.

"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 2018A 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.

"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 2018A 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 Series 2015B Indenture.

"*Series 2015B Indenture*" means the Trust Indenture, dated as of June 1, 2015, by and between the Issuer and the Trustee, as amended and supplemented from time to time.

"*Series 2016A Bond*" or "*Series 2016A Bonds*" means the Kentucky Municipal Power Agency Power System Revenue Refunding Bonds (Prairie State Project), Series 2016A, authorized by, and at any time Outstanding, pursuant to the Series 2016A Indenture.

"*Series 2016A Indenture*" means the Trust Indenture, dated as of January 1, 2016, by and between the Issuer and the Trustee, as amended and supplemented from time to time.

"*Series 2018A Bond*" or "*Series 2018A Bonds*" means the Kentucky Municipal Power Agency Power System Revenue Refunding Bonds (Prairie State Project), Series 2018A, 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 2018A Bonds begin to bear interest at the SIFMA Index Rate or (b) if the Series 2018A 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, the Series 2015B Bonds, the Series 2016A Bonds and the Series 2018A 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.

"Undervriter" means, collectively, Goldman Sachs & Co. LLC and any other initial purchasers of the Series 2018A Bonds.

"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 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 2018A 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 2018A Bonds to purchasers (other than the Issuer or any other Person obligated (as guarantor or otherwise) to make payments on the Series 2018A 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 2018A Bonds and, except as otherwise expressly provided in the Indenture, shall be used solely for the payment of the Purchase Price of the Series 2018A 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 2018A 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 2018A Bonds, or provision having been made for payment of the Series 2018A 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 (c) 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 2018A Bonds and that the Series 2018A 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.

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 2018A 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 2018A Bonds. The Issuer shall appoint any successor Remarketing Agent for the Series 2018A 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 2018A Bonds delivered to it under the Indenture in trust for the benefit of the respective Owners of Series 2018A Bonds that delivered such Series 2018A Bonds until moneys representing the Purchase Price of such Series 2018A Bonds are delivered to or for the account of or to the order of such Owners of Series 2018A Bonds; (ii) to hold all moneys delivered to it under the Indenture for the purchase of Series 2018A Bonds in trust for the benefit of the person or entity that has delivered such moneys until the Series 2018A 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 2018A 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 2018A 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 2018A Bonds to be insured and, if needed, to provide 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 such Bond Insurer substantially greater rights than have been afforded other bond insurers that insure or guaranty other Bonds that are Outstanding and are on a parity with the Series 2018A 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.

APPENDIX H

KENTUCKY MUNICIPAL POWER AGENCY
POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2018A

Form of Continuing Disclosure Agreement

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement"), is executed and delivered as of April __, 2018 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 2018A (the "Series 2018A Bonds"). The Series 2018A Bonds are being issued pursuant to a Trust Indenture, dated as of March 1, 2018 (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 2018A 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 2018A 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 2018A 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 2018A 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 March __, 2018 relating to the Series 2018A Bonds.

“Participating Underwriter” shall mean the Underwriter of the Series 2018A Bonds required to comply with the Rule in connection with the offering of such Series 2018A Bonds.

“Rule” shall mean Rule 15c2-12 adopted by the SEC under the Exchange Act.

“SEC” means the United States Securities and Exchange Commission.

3. PROVISION OF ANNUAL REPORTS.

3.1 KMPA shall, or shall cause the Dissemination Agent to, provide to the MSRB via EMMA and to any bond insurer insuring the Series 2018A Bonds an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Such Annual Report shall be filed on a date (the “Filing Date”) that is not later than December 31 after the end of each Fiscal Year commencing with the report for the Fiscal Year ending June 30, 2018. 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 after the occurrence of a Listed Event, to the MSRB via EMMA, if any, notice of any of the Listed Events and will also provide a copy of any such notice to any bond insurer insuring the Series 2018A Bonds.

6. TERMINATION OF REPORTING OBLIGATION. KMPA's obligations under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance or final retirement of all the Series 2018A 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 2018A 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 2018A 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 2018A Bonds, and shall create no rights in any other person or entity

KENTUCKY MUNICIPAL POWER
AGENCY

By: _____
Title: _____

EXHIBIT A

ANNUAL INFORMATION

- (a) Updates for the previous fiscal year of the Schedule for Electric Rates, Ten Largest Electric Customers and Customer Statistics by Category for each MOP, consistent with the presentation of such tables in Appendix F to the Official Statement.
- (b) The audited financial statements for KMPA and each MOP. The basis of presentation of such financial statements shall be generally accepted accounting principles or such other manner of presentation as may be required by law.

EXHIBIT B

NOTICE OF FAILURE TO FILE ANNUAL REPORT

RE: Kentucky Municipal Power Agency Revenue Refunding Bonds (Prairie State Project), Series 2018A ("Series 2018A Bonds")

CUSIP NOS. _____

Dated: _____, 2018

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 2018A Bonds issued pursuant to that certain Trust Indenture, dated as of March 1, 2018, between KMPA and Regions Bank, Nashville, Tennessee, as trustee. KMPA anticipates that the Annual Report will be filed by _____.

Dated: _____

KENTUCKY MUNICIPAL POWER
AGENCY

By: _____
Title: _____

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APPENDIX I

KENTUCKY MUNICIPAL POWER AGENCY
POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2018A

Form of Opinion of Bond Counsel

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March __, 2018

Kentucky Municipal Power Agency
Paducah, Kentucky

Regions Bank, as trustee
Nashville, Tennessee

Re: \$36,980,000 Power System Revenue Refunding Bonds (Prairie State Project),
Series 2018A

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 2018A (the "Bonds"), dated the date of issuance. In addition, we have examined such portions of the Constitution, Statutes and laws of the United States, the Constitution, Statutes and laws of the Commonwealth of Kentucky (the "Commonwealth"), and such applicable court decisions, regulations, rulings and opinions as we have deemed necessary or relevant for the purposes of the opinions set forth below.

We have also examined records and the transcript of proceedings relating to the authorization and issuance of the Bonds, including specimen bonds, and other relevant matters. We have also made such investigation as we have deemed necessary for the purposes of such opinions, and relied upon certificates of officials of the Commonwealth and KMPA as to certain factual matters.

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly Chapters 65 and 96 of the Kentucky Revised Statutes (collectively, the "Act"), in accordance with a Trust Indenture dated as of March 1, 2018 (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) Tax-Exempt Power System Revenue Bonds (Prairie State Project) Series 2010A, dated May 27, 2010; (ii) Taxable (Build America Bonds - Direct Pay) Power System Revenue Bonds (Prairie State Project) Series 2010B, dated May 27, 2010; (iii) Taxable Power System Revenue Bonds (Prairie State Project) Series 2010C, dated May 27, 2010; (iv) Power System Revenue Refunding Bonds (Prairie State Project), Series 2015A, dated April 2, 2015; (v) Power System Revenue Refunding Bonds (Prairie State Project), Series 2015B (SIFMA Floating Rate Tender Notes), dated June 25, 2015; and (vi) Power System Revenue Refunding Bonds (Prairie State Project), Series 2016A, dated February 11, 2016, by a pledge of, a first lien on the Trust Estate, as defined in the Indenture. The Bonds do not pledge the general credit or taxing power, if any, of the Commonwealth or any agency or political subdivision of the Commonwealth (other than KMPA). KMPA does not have taxing powers.

4. The Bonds are "state or local bonds" as defined and described in Section 103(c)(1) of the Internal Revenue Code of 1986, as amended.

5. Under federal statutes, decisions, regulations and rulings existing on this date, the interest on the Bonds is excludable from gross income for purposes of federal income taxation pursuant to Section 103 of the Code. This opinion relates only to the exclusion from gross income of interest on the Bonds for federal income tax purposes under Section 103 of the Code and is conditioned on continuing compliance by KMPA with certain covenants relating to the tax exempt status of the Bonds as set forth and required in the Indenture. Failure to comply with those covenants could cause interest on the Bonds to lose the exclusion from gross income for purposes of federal income taxation retroactive to the date of issuance of the Bonds.

6. The interest on the Bonds is exempt from income taxation and the Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

Our opinion set forth above is subject to the qualification that the enforceability of the Indenture, the Bonds and agreements relating thereto may be limited by bankruptcy, reorganization, moratorium, insolvency, or other similar laws relating to or affecting the enforcement of creditors' rights, whether now in effect or hereafter enacted, and to the exercise of judicial discretion in accordance with general equitable principles.

RUBIN & HAYS

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