EAST KENTUCKY POWER COOPERATIVE
2017 ANNUAL REPORT

CONNECTED

EAST KENTUCKY POWER COOPERATIVE

A Touchstone Energy® Cooperative

CONNECTED

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On the cover:
Bluegrass Generating Station in Oldham County is one of four EKPC plants providing affordable, reliable power to 16 owner-member cooperatives serving farms, homes and industries in 87 counties.

2017: Highlights

Financial (Dollars in Thousands)

	2017	2016	Increase/(Decrease) %
Operating Revenue	**$861,686**	$887,419	(2.9)
Operating Expenses	**$747,291**	$737,131	1.4
Net Margin	**$22,142**	$53,708	(58.8)
Members' Equities	**$612,445**	$575,825	6.4
Equity Ratio (%)	**16.0**	15.5	3.2

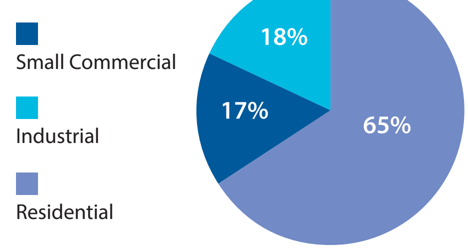
Operational

	2017	2016	Increase/(Decrease) %
Sales to Member Cooperatives (MWh) *	**12,536,264**	12,866,735	(2.6)
Member Revenue Per kWh Sold (mills/kWh) *	**64.28**	64.51	(0.4)
Cost of Owned Generation (mills/kWh)	**65.44**	56.25	16.3
System Peak Demand (MW)			
Winter Season **	**2,871**	2,890	(0.7)
Summer Season	**2,311**	2,293	0.8
Net Generation (MWh)	**7,564,321**	9,758,569	(22.5)

* *Includes steam sales*
** *Represents seasonal winter peaks achieved during each respective calendar year (1/8/17 and 1/18/16)*

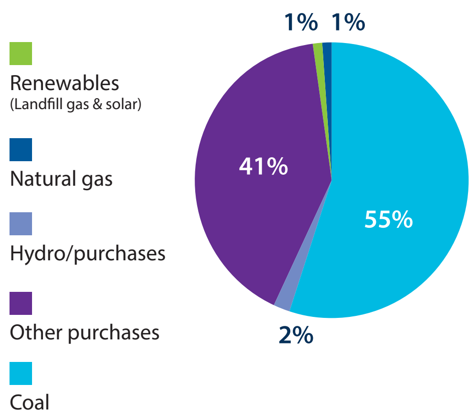
Customer Classes

by member sales revenue



Sources of Electricity

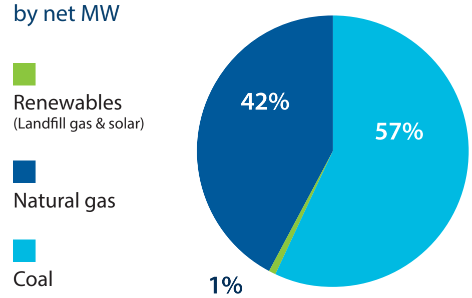
by MWh



Note: Pie chart figures are rounded.

Power Plant Capacity *

by net MW



* Includes 168 net MW designated to serve long-term tolling and PPA agreements, as well as, 8.5 net MW of solar available for licensing.

Located in the heart of the Bluegrass state, East Kentucky Power Cooperative is a not-for-profit generation and transmission (G&T) electric utility with headquarters in Winchester, Ky. Our cooperative has a vital mission: to safely generate and deliver affordable, reliable electric power to 16 owner-member cooperatives serving more than one million Kentuckians.

Together, with our 16 owner-members, we're known as Kentucky's Touchstone Energy Cooperatives. The member co-ops distribute energy to 588,636 meters and 1.1 million Kentuckians across 87 counties. We're leaders in energy efficiency and environmental stewardship. And we're committed to providing power to improve the lives of people in Kentucky.

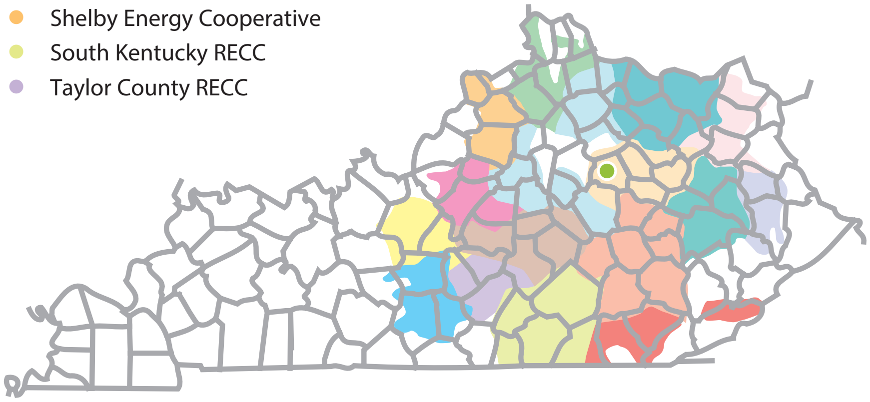
2017 at a glance

Total Energy Sales (GWh)	Energy Sales to Members (GWh)	Energy Sales to Non-members (GWh)	Total Operating Revenue ($ millions)	Net Margin ($ millions)	Assets ($ billions)	Average Wholesale Rate to Members ($/MWh)
13,085	12,536	549	861.7	22.1	3.8	64.3

EKPC's 16 owner-member cooperatives include:

- Big Sandy RECC
- Blue Grass Energy Cooperative
- Clark Energy Cooperative
- Cumberland Valley Electric
- Farmers RECC
- Fleming-Mason Energy Cooperative
- Grayson RECC
- Inter-County Energy
- Jackson Energy Cooperative
- Licking Valley RECC
- Nolin RECC
- Owen Electric Cooperative
- Salt River Electric Cooperative
- Shelby Energy Cooperative
- South Kentucky RECC
- Taylor County RECC

- EKPC headquarters



East Kentucky Power Generation

Coal	Generation
Spurlock	1,346 net MW
Cooper	341 net MW
Total Coal	**1,687 net MW**

Natural Gas	Generation
Smith Combustion Turbine Units	Summer 753 net MW Winter 989 net MW
Bluegrass* Combustion Turbine Units	Summer 501 net MW Winter 567 net MW
Total Natural Gas Summer	**1,254 net MW**
Total Natural Gas Winter	**1,556 net MW**

Landfill	Generation
Bavarian	4.6 net MW
Laurel Ridge	3.0 net MW
Green Valley	2.3 net MW
Hardin	2.3 net MW
Pendleton	3.0 net MW
Glasgow**	0.9 net MW
Total Landfill	**16.1 net MW**

Solar	Generation
Cooperative Solar Farm One	8.5 net MW

Hydro	Generation
Southeastern Power Adm. (SEPA)	170 MW

* Under an existing agreement, which continues until April 2019, a third party receives the output of one Bluegrass Generating Station unit.

** Effective December 2015, a third party began receiving the output of Glasgow in a 10-year power purchase agreement.

Number of Member Systems	Number of Member Meters	Member Populations Served (millions)	System Peak Demand (MW)	Miles of Transmission Lines	Employees
16	588,636	1.1	2,871	2,852	688

A message from the CEO and the Chairman

In today's world, the electricity provided by East Kentucky Power Cooperative (EKPC) and our 16 owner-members is more than a convenience. It's indispensable in order for Kentuckians to have the highest quality of life.

In a year marked by major transitions, especially in our industry's regulatory environment, EKPC once again improved lives. We further diversified our generation portfolio by building one of Kentucky's largest solar farms. We completed our largest maintenance outage ever, lowered the average cost billed to owner-members and worked with them to help recruit companies to our service territories that created nearly 2,000 jobs.

Safety journey continues

In support of our objective to achieve a zero-injury workplace, we completed over 4,100 safety observations in 2017, held our second annual Confined Space Rodeo competition, offered specialized safety training for field crews and conducted company-wide training during our annual Safety Week.

Our recordable incident count was slightly higher, but that only strengthened our commitment to safety. Our safety journey has never been about the numbers. It is about doing everything possible to ensure that every job is performed safely and that employees go home just as healthy as when they arrived at work.

Common-sense approach to environmental rules

The new U.S. EPA administration is taking a more common-sense approach to protecting and preserving the environment while allowing for a vibrant economy. This change should slow the rise of environmental costs for Kentucky residents and businesses, especially manufacturers, which employ 250,000 Kentuckians.

Ash relocation project completed

In 2017, EKPC completed a $25.3 million project to relocate coal ash from Dale Station's impoundments, which were in close proximity to the Kentucky River, to a new lined landfill at Smith Station. The project demonstrates the commitment of EKPC and its Board of Directors to Kentucky's environment.

Renewable power added

EKPC's Cooperative Solar Farm One was placed into operation on Nov. 12, 2017. This community solar farm is one of the largest solar projects in Kentucky, providing renewable power that is much more cost effective than private solar panels, and enables participants who want to support renewable power to be free of concerns about maintenance or bolting panels to their roofs.

Located in Winchester adjacent to Interstate 64, the 60-acre farm features 32,300 solar panels capable of producing up to 8.5 megawatts, enough electricity to provide all the power needs for about 1,000 Kentucky homes. Participants receive monthly bill credits based on their share of the value of the power produced, and they can easily monitor energy produced by the farm online.

Committed to continued reliability

Employees and contractors at Spurlock Station in Maysville tackled the largest maintenance outage in EKPC's history. Workers spent months overhauling the turbine/generator of Spurlock Unit #2 and replacing the bottom of the furnace. They replaced miles of steam tubes, disassembled and re-wound the generator and inspected the boiler.

EKPC also invested $22.1 million in 2017 to upgrade or build new transmission lines, distribution substations and supporting infrastructure. These projects will help to ensure continued high reliability for years to come.

Continued financial progress

Despite mild weather and lower margin in 2017, EKPC improved its equity-to-assets ratio from 15.5 percent in 2016 to 16.0 percent at December 31, 2017. EKPC posted a net margin of $22.1 million on revenues of $861.7 million for 2017.

Credit rating agencies recognized EKPC's continuing success. In the spring, Standard & Poor's (S&P) raised EKPC's issuer credit rating to 'A' with a stable outlook. This and other credit rating upgrades of recent years have directly lowered EKPC's costs of borrowing.

Focusing on affordability

As a member of the PJM Interconnection market, EKPC is able to execute economically advantageous sales and purchases of power, a valuable tool to help keep power costs in check for our 16 owner-members and the Kentucky homes and businesses they serve. These savings enable EKPC to meet budget expectations and surpass critical metrics for cost to member systems that are part of our Strategic Plan.

Economic development recognized

Kentucky's ideal location, skilled workforce and low business costs — including some of the nation's best electric rates — make it ideal for manufacturers to produce and ship products worldwide. In 2017, Kentucky's Touchstone Energy Cooperatives used the latest technologies to promote our service territories to manufacturers and businesses worldwide as sites to expand or relocate.

Kentucky's Touchstone Energy Cooperatives received the Excellence In Economic Development Award for our use of technologies to market industrial sites to companies around the globe. We also expanded access to Science, Technology, Engineering and Math (STEM) education for teachers and students all across Eastern Kentucky in our ongoing effort to establish a regional workforce that offers valuable skills to prospective industries.

Combining these initiatives with team effort and hard work over three years, EKPC and our owner-member co-ops successfully recruited companies that have invested more than $3 billion in Kentucky and created more than 7,800 jobs. These efforts are positively changing lives and will transform our state for generations to come.

Connected to people

In everything we did during the year, we strived to constantly remember how our not-for-profit cooperative impacts more than one million people at the end of the lines. They are farmers working the land, students in classrooms, business owners making products and coaches teaching life lessons. They remind us that our cooperative is much more than its power plants and lines.

President and CEO Anthony Campbell (left) with Chairman of the Board Joe Spalding.

Our co-op is our people. It's about our owner-members and their members. It's about families. It's about communities. They connect us to our mission. They connect us to our values and our goal to do everything we can to provide them the highest quality of life possible.

Anthony Campbell
President and CEO

Anthony Campbell

Joe Spalding
Chairman of the Board

Joe H. Spalding

The sun rises on Cooperative Solar Farm One, which was built by EKPC in 2017.

2017: Year in Review

Safety

Safety journey continues

The year began with a successful Safety Week when nationally renowned speaker Lee Shelby spoke to employees about an incident in August 1991 that nearly cost his life. On that day, Shelby came in contact with an overhead conductor energized at approximately 12,000 volts. He survived but had to have both arms amputated.

EKPC and the owner-members exist to make life better today and for future generations.

Also during Safety Week, EKPC introduced four new employee Safety All-Star award winners and held a variety of safety training programs.

EKPC's Central Safety Committee (CSC) continued providing strategic oversight and guidance for the safety program throughout 2017. The CSC is led by CEO Tony Campbell and also includes the entire executive staff, the manager of Corporate Safety and Security, the team leaders of our five safety process improvement teams, plant managers and other leaders from throughout the organization.

EKPC retiree Harold Shelton spoke to employees during Safety Week 2017 about a farm accident that resulted in his arm being amputated. He stressed the importance of being safe at all times.

Cooper Station employees participate in the Confined Space Rodeo to improve rescue skills. From left are Cory Bentley, Ronnie Jones, Billy Bell and John Ratliff.

Other safety highlights included:

- **Challenge Coin.** Employees received a new Safety Challenge Coin and were asked to carry the coin at all times as a daily reminder to focus on safety.

- **Kids Safety Art Contest.** To help bring the safety message home, employees' children and grandchildren competed in a safety art contest, and the winning artwork was featured in the employee calendar.

- **Family Safety Fair.** EKPC hosted its fifth annual safety fair for employees and their families. The fair actively engages family members in the safety culture and provides an opportunity to honor the children and grandchildren of employees who entered the Kids Safety Art Contest.

CEO Tony Campbell made a very visible demonstration of his support for safety when he called for a company-wide Safety Stand Down to emphasize the importance of not becoming complacent about safety. The meeting was broadcast live to all locations and stressed the need to stay focused on safety at all times.

Rhonda Morphew shows nieces Charlotte and Bella Rhodes how to use a fire extinguisher at the Family Safety Fair.

Operations

Cooperative Solar One dedicated

In a field adjacent to Interstate 64, EKPC built one of the state's largest solar farms and began generating sun-powered electricity beginning in late fall.

Named Cooperative Solar Farm One and located at EKPC headquarters, this community solar farm produces enough electricity to satisfy all the power needs of about 1,000 homes and has 32,300 solar panels.

Members of EKPC's 16 owner-member cooperatives can license solar panels for $460 each, and for the next 25 years, receive credit on their monthly power bills for their portion of the energy produced. By year-end, more than 500 panels had been licensed by co-op members.

Cooperative Solar

Cooperative Solar gives members of EKPC's 16 owner-member co-ops an easy way to benefit from sun power without the hassle, maintenance or expense of owning private solar panels.

Guy and Debbi Huelat

"The idea of someone else maintaining it was very attractive to us," said Guy Huelat, who licensed 77 panels for his Russell County home. "This is much more efficient than everyone trying to figure this out on their own."

Anne Cahill is an Owen Electric Cooperative member who lives in Erlanger. Cooperative Solar is a perfect program, she said, because the guidelines of her homeowner's association do not permit placing a solar panel on her townhome's roof.

"I think it's a great program," she said. "I'm talking it up with my neighbors."

Employees remove the generator field rotor of Spurlock Unit #2 as part of the largest maintenance outage in the history of the cooperative.

Spurlock Station completes major outage

In the fall and early winter, Spurlock Station employees and contractors completed major maintenance outages to ensure continued high unit reliability. Workers replaced 670 tubes in the lower section of the Unit #2 boiler — covering 6.5 miles in length — and performed over 1,350 tube welds. They also overhauled the unit's turbine/generator.

Application filed for compliance projects

EKPC filed an application with the Kentucky Public Service Commission seeking approval to convert the wet ash systems on Spurlock Units #1 and #2 to dry ash systems, to construct a new wastewater treatment plant and to retire the plant's 75-acre coal ash pond. These projects will ensure the long-term viability of Spurlock Station and continued compliance with more stringent federal environmental rules.

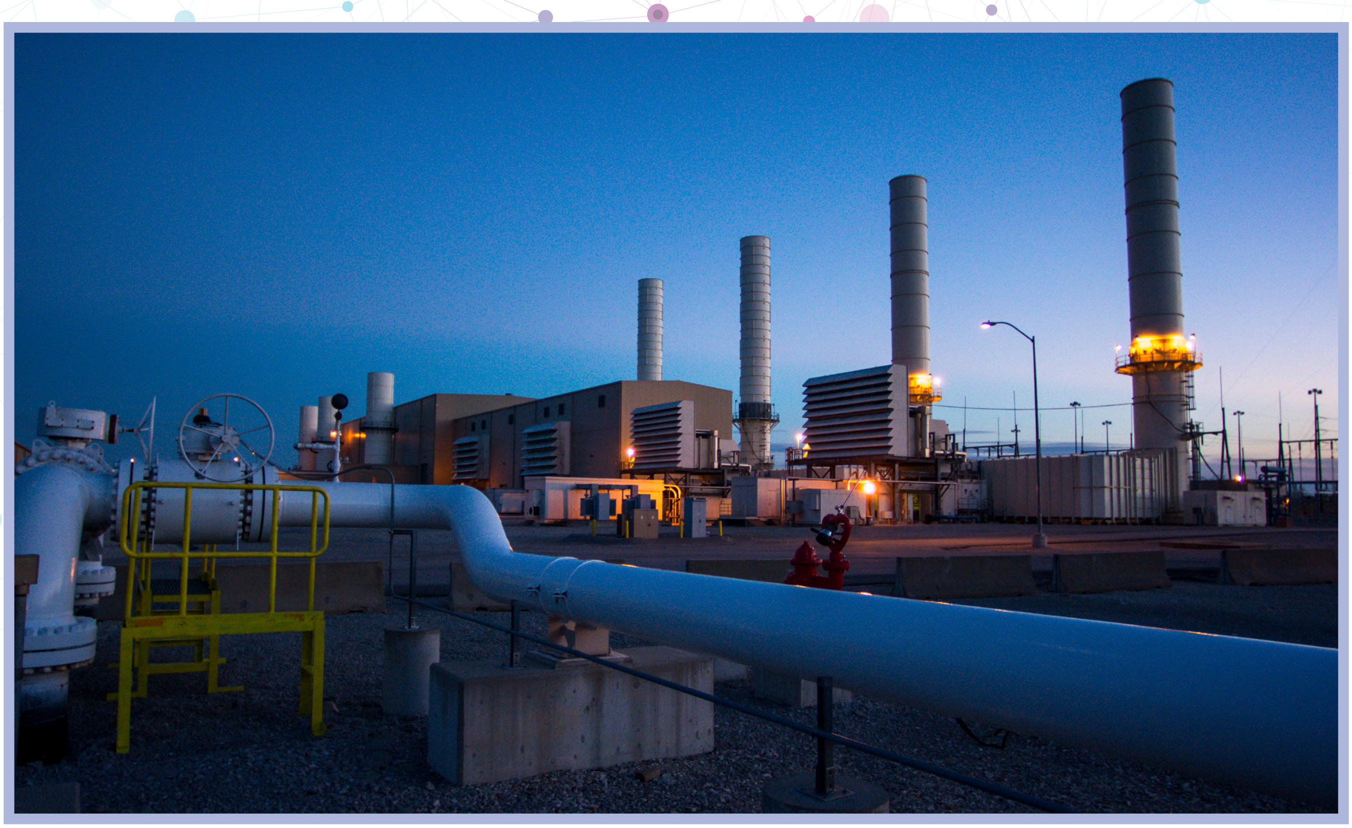
Co-ops improve lives by serving hospitals, industries and businesses.

Coal ash removal completed at Dale Station

Two and a half years after the project began, EKPC completed a project to move coal ash from disposal sites in close proximity to the Kentucky River at Dale Station to a new landfill at Smith Station. Since 2015, nearly 36,000 truckloads of ash were removed from the power plant site.

Dale Station is located beside the Kentucky River and most of the 80-acre site is located within the river's 100-year flood-plain. Dale Station ceased operation in 2016.

Workers finish a major project to relocate coal ash from close proximity to the Kentucky River to Smith Station.



Smith Station in Clark County has nine natural gas fueled units that help EKPC to meet peak system demand.

Green energy plant expansion dedicated

In early summer, EKPC and Bavarian Waste Services dedicated the expansion of the cooperative's plant that is fueled by methane gas from the landfill. The plant at Bavarian Landfill in Boone County, Ky., is the largest landfill gas power plant in the state, generating enough electricity to power more than 2,700 homes.

EKPC owns and operates five other landfill gas plants in Kentucky. They are located in Barren, Greenup, Hardin, Laurel and Pendleton counties. Together, these plants generate enough electricity to power more than 8,000 homes, and the production costs for the landfill gas plants are competitive with EKPC's traditional plant fleet.

Mary Jane Warner, right, discusses the expansion of the plant with officials from Bavarian Waste Services.

Power Delivery boosts grid resilience

EKPC invested significantly in new transmission infrastructure to continue providing high reliability to owner-members. Projects included the addition of two transmission lines and four distribution substations, and multiple line rebuilds and upgrades.

Bardstown Service Center employees work on a transmission line. EKPC invested $22.1 million in 2017 to ensure continued high reliability to owner-members.

The Telecommunications Team upgraded the southern portion of the system that brings data from radio towers, plants and the transmission system to EKPC's Energy Control Center. By 2019, EKPC will have a completely new telecommunications infrastructure in place and a system that will double the system's capacity.

To speed restoration of electric service to communities after catastrophic events, EKPC joined with 27 other utilities in a program to provide critical equipment to improve power restoration efforts during disasters.

Fog shrouds a line at Spurlock Station, which provides 42 percent of EKPC's generating capacity.

Wayne Prewitt of the Winchester Service Center works to lift a transmission pole.

The RESTORE program stands for Regional Equipment Sharing for Transmission Outage Restoration, and EKPC's participation improves regional cooperation.

In addition, EKPC participated in the North American Transmission Forum, a group of transmission owners that cooperates to improve reliability standards and practices at utilities in the United States and Canada.

EKPC's owner-members power schools across two-thirds of Kentucky.

Job and community support

Economic Development brings jobs and investments
Promoting business expansion and retention leads to new jobs, which enables neighborhoods, schools and businesses to prosper, providing a better quality of life for people served by co-op power lines.

In addition to gaining international recognition for technological innovation, the Economic Development team of Kentucky's Touchstone Energy Cooperatives helped to jumpstart growth in many counties by attracting new businesses and helping existing employers expand.

The co-op team worked with state and local agencies to attract 19 new facilities and assisted with 43 business expansions. That work resulted in companies investing almost $1.5 billion and created nearly 2,000 jobs in the owner-member service areas.

NACCO Materials Handling Group Plant Manager Rodney Wilson in Berea talks about the plant's forklift manufacturing with Blue Grass Energy President and CEO Mike Williams.

Holding the international Excellence in Economic Development Award for innovative use of technology are Assistant Manager of Economic Development Brad Thomas, Board Chairman Joe Spalding, CEO Tony Campbell and Manager of Economic Development Rodney Hitch.

Part of this success came from innovative use of technologies such as PowerMap, a project combining GPS mapping with an economic development database called StateBook, along with PowerVision, a first-of-its-kind tool that makes industrial sites visible to companies around the globe using drone-video technology.

Kentucky's Touchstone Energy Cooperatives also expanded access to Science, Technology, Engineering and Math (STEM) education during 2017 by partnering with Morehead State University, University of Pikeville, Union College and Project Lead The Way (PLTW), a transformative learning experience for students and teachers. The full K-12 program covers computer

Creating Building Blocks for Success

Will Carty does not fit the typical profile of a computer programmer. As a native of Magoffin County in coal country, he worked in the coal industry for 10 years. But like thousands of Kentuckians, Carty was laid off with the downturn in mining. To support his family, he worked at a gas station, mowed yards and thought he would have to move to find work.

But thanks to TechHire East Kentucky (TEKY), Carty and 36 other graduates began careers in computer coding with Interapt, a Louisville software company, in 2017. TEKY is a program that Kentucky's Touchstone Energy Cooperatives helped launch at Big Sandy Community and Technical College in Paintsville in partnership with Interapt, Shaping Our Appalachian Region (SOAR) and the Appalachian Regional Commission (ARC).

"This has given me the opportunity to take care of my family, and it's opening doors to stay home," Carty said.

The coding class is part of a larger effort called SOAR-STEM, a one-of-a-kind bold initiative to develop the world's largest science, technology, engineering and math (STEM) workforce in Kentucky.

and biomedical science, and engineering, allowing students to see the connections between the classroom and the real world.

The initiative is currently providing professional development to more than 100 teachers across 27 Eastern Kentucky counties, which includes advanced certifications with Teacher Leader Master's Degrees with National Board certification. The goal is to provide STEM certified training to 3,000 teachers and education to 100,000 Kentucky students over a 10-year period.

Preparing for the era of the electric car

With car manufacturers dramatically expanding available models of electric vehicles (EVs), Kentucky's Touchstone Energy Cooperatives began preparing in 2017 for the electrifying future ahead. Dropping vehicle prices, fuel savings, improved technology and longer driving ranges are just a few of the reasons for growing interest in EVs.

EKPC and the owner-members began preparing for the era of the electric vehicle by developing plans to inform members about the changes that are coming. In addition, EKPC purchased a Chevy Bolt and Chevy Volt in 2017 to learn more about EVs and the ways that electricity can help members live cleaner and greener lives.

Josh Littrell recharges one of the electric cars that was added to EKPC's fleet in 2017.

Cooper Station in Somerset features cutting-edge air quality control equipment.

Runners charge down the track at the 2017 Special Olympics Kentucky Summer Games at EKU.

Co-ops support communities and charities

EKPC employees donated nearly $32,000 to 15 charitable organizations during 2017, and Kentucky's Touchstone Energy Cooperatives sponsored five programs that support the mission of service to local communities. Major sponsorships included the Kentucky Special Olympics Summer Games, the American Red Cross, an Honor Flight for veterans, 4-H Summer Camps and Conservation Clubhouse environmental education programs for schools.

More than 1,400 athletes, 600 coaches and 500 family members participated in the 2017 Special Olympics Summer Games at Eastern Kentucky University (EKU). Victims of disasters benefited from an emergency response vehicle and trailer, along with supplies, that the co-ops provided to the Kentucky Chapter of the American Red Cross.

People depend on affordable, reliable co-op power in communities across 87 counties served by the owner-members.

The co-ops replaced the aging fluorescent lighting at four Kentucky 4-H camps with new, energy-efficient LED (light-emitting diode) lamps. The program dramatically improved the lighting for 40,000 youth attending summer camps while also sharply reducing 4-H energy costs.

In September, the co-ops joined with Honor Flight Kentucky to sponsor 67 veterans who served during World War II, the Korean War or the Vietnam War to see their memorials in Washington, D.C. More than 2,000 people packed Blue Grass Airport for an unforgettable welcome home to Kentucky for the veterans.

Teams work to improve employee retention, training and recruitment

In the fall, four teams of employees began work to determine strategies to keep employees engaged, while filling open positions with the best candidates. The teams' work built on the results of two surveys conducted early in 2017. The employees are addressing compensation, performance appraisals, recruitment and other workplace issues.

In addition, EKPC held a series of career job fairs to highlight co-op careers and recruit potential employees who served in the branches of the U.S. military.

Board Risk Oversight Committee

Assists the Board in fulfilling its risk oversight responsibilities by reviewing enterprise-wide risks, reviewing risk tolerances and recommending risk-management policies to the Board.

Board Members

Shelby Energy
Committee Chair

Wayne
Stratton

Inter-County Energy
Board Chairman

Joe
Spalding

Taylor County RECC

Raymond
Rucker

Jackson Energy
Board Treasurer

Landis
Cornett

South Kentucky RECC

Boris
Haynes

Voting members

Chief Executive Officers

Blue Grass Energy

Mike
Williams

East Kentucky Power

Tony
Campbell

Jackson Energy

Carol
Wright

Non-voting members

External Committee Members

ACES

Mike
Steffes

Texas Roadhouse

Patrick
Sterling

Non-voting members

Strategic Issues Committee

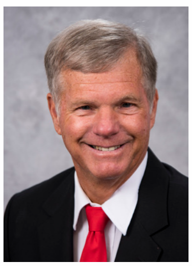
Serves as a catalyst of business strategies, monitors the development and implementation of those strategies, while working with management to develop Board focus on issues that will further strategic planning and execution of those plans.

Board Members

Tim Eldridge
Fleming-Mason Energy
Committee Chair

Bill Shearer
Clark Energy

Elbert Hampton
Cumberland Valley Electric



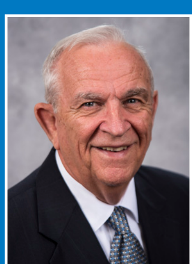
Alan Ahrman
Owen Electric
Board Vice-Chairman

Ken Arrington
Grayson RECC

Kelly Shepherd
Big Sandy RECC

Voting members

Chief Executive Officers



Ted Hampton
Cumberland Valley Electric

Joni Hazelrigg
Fleming-Mason Energy

Mark Stallons
Owen Electric

Tim Sharp
Salt River Electric

Carol Fraley
Grayson RECC

Chris Brewer
Clark Energy

Non-voting members

Governance Committee

Assists the Board in fulfilling its governance oversight by: ensuring that the Board meets its fiduciary duties, upholds governance guiding principles and is fully engaged; maintaining the integrity of Board governance; developing, updating and recommending corporate governance principles and policies; and monitoring compliance with those principles and policies.

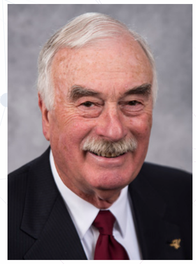
Board Members

Farmers RECC
Committee Chair

Paul
Hawkins

Salt River Electric

Jimmy
Longmire



Blue Grass Energy
Board Secretary

Jody
Hughes

Nolin RECC

A.L.
Rosenberger

Licking Valley RECC

Ted
Holbrook

Voting members

Chief Executive Officers

Shelby Energy

Debbie
Martin

Inter-County Energy

Jim
Jacobus

Licking Valley RECC

Kerry
Howard

South Kentucky RECC

Dennis
Holt

Big Sandy RECC

Bobby
Sexton

Non-voting members

Audit Committee

Assists the Board in performing oversight of: the quality and integrity of financial statements; compliance with legal and regulatory requirements related to finances; the independent auditor's qualifications and independence; the performance of EKPC's internal audit function and the oversight of the independent auditors; fraud detection and related procedures; and conflict-of-interest policies.

Board Members

Clark Energy
Committee Chair

Bill
Shearer

Fleming-Mason Energy

Tim
Eldridge

Shelby Energy

Wayne
Stratton

Jackson Energy
Board Treasurer

Landis
Cornett

Licking Valley RECC

Ted
Holbrook

Voting members

Chief Executive Officers

Farmers RECC

Bill
Prather

Nolin RECC

Mickey
Miller

Taylor County RECC

Barry
Myers

Non-voting members

EKPC Executive Staff

Back row, from left, are:
***Barry Lindeman**, Director of Human Resources and Support Services; **David Smart**, General Counsel; **Barry Mayfield**, Vice President of Strategic Planning and External Affairs; **Craig Johnson**, Senior Vice President of Power Production; **David Crews**, Senior Vice President of Power Supply; **Mike McNalley**, Executive Vice President and CFO; **Tony Campbell**, President and CEO; **Don Mosier,** Executive Vice President and COO.*

Front row, from left, are:
***Thomas Stachnik**, Vice President of Finance and Treasurer; **Denver York**, Senior Vice President of Power Delivery and System Operations; **Jerry Purvis**, Vice President of Environmental Affairs; and **Lesli Yates**, Internal Auditor.*

EKPC Financial Leadership

Clockwise, from left, are:
***Thomas Stachnik,** Vice President of Finance and Treasurer;*
***Mike McNalley**, Executive Vice President and CFO;*
***Robin Hayes**, Director of Financial Planning and Analysis;*
***Narmada Nanjundan**, Director of Risk Management;*
*and **Michelle Carpenter**, Controller.*

EKPC Operational Leadership

Clockwise, from left, are:
***Denver York**, Senior Vice President of Power Delivery and System Operations;*
***David Crews**, Senior Vice President of Power Supply;*
***Don Mosier**, Executive Vice President and COO;*
***Jerry Purvis**, Vice President of Environmental Affairs; and*
***Craig Johnson**, Senior Vice President of Power Production.*

2017: Financial Highlights

EKPC's net margin was $22.1 million for the year ended December 31, 2017, a decrease of $31.6 million in comparison to 2016. Operating revenues were $861.7 million for the year ended December 31, 2017, a decrease of $25.7 million from the prior year. Mild weather and less favorable market conditions resulted in decreased member and off-system sales of $24.5 million and $1.0 million, respectively. Lower auction prices also resulted in PJM capacity market revenue declining $2.4 million from the prior year. However, these decreases were partially offset by a $2.2 million increase in other electric revenue and power sales arrangements classified as operating leases.

Production operating expenses for the year ended December 31, 2017 were $506.8 million, a $6.3 million decrease from the prior year. These expenses, which are comprised of fuel, operation and maintenance expenses, and purchased power, are grouped together for comparative purposes given that decisions to generate energy or purchase energy on the open market are based on reliability constraints and the most economic resources available within the PJM market. Decreased EKPC generation due to mild weather coupled with favorable market prices in comparison to units available to serve load resulted in total fuel expenses decreasing by $67.7 million and purchased power increasing by $51.6 million for the year ended December 31, 2017. Production maintenance expense for the year ended December 31, 2017 was $83.0 million, an increase of $12.8 million over the prior year. The majority of this increase was from the Spurlock Unit 2 major maintenance outage.

Depreciation and amortization expense for the year ended December 31, 2017 was $121.5 million, an increase of $15.1 million over the prior year. Approximately $12.0 million of this increase was due to the amortization of the Smith Unit #1 regulatory asset, which began on January 1, 2017.

Non-operating margin was $23.5 million for the year ended December 31, 2017, an increase of $6.3 million in comparison to 2016. This increase was primarily attributed to earnings from additional funds invested in the RUS cushion of credit program.

EKPC surpassed its 2017 target set for total cost billed to owner-members. The target was set at $65.95 mills per kilo-watt-hour. EKPC achieved $64.34 mills/kWh, which was also lower than the $64.77 mills/kWh achieved in 2016.

Despite mild weather and lower margin in 2017, EKPC improved its equity-to-assets ratio from 15.5 percent in 2016 to 16.0 percent at December 31, 2017. All of EKPC's other financial ratios were in compliance with the provisions outlined in its indenture and other debt agreements at December 31, 2017.

In the spring, Standard & Poor's (S&P) raised EKPC's issuer credit rating to 'A' with a stable outlook. In announcing the upgrade, S&P said the rating upgrade reflected a track record of strong debt service coverage (DSC) during the past five years of at least 1.25x and an improved debt-to-capitalization ratio, which dropped from 92 percent in 2009 to 83 percent in 2015.

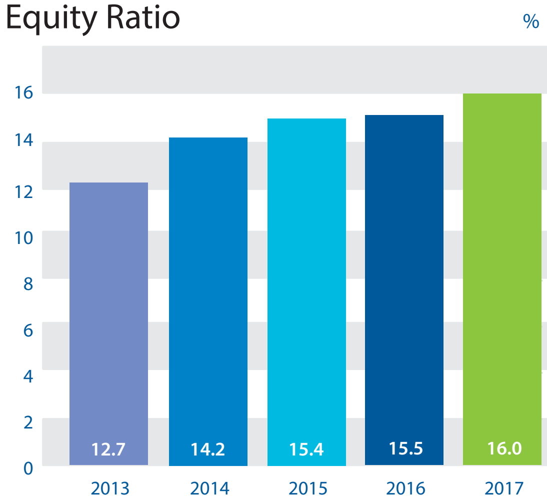
Five-Year Statistical Summary

	2017	2016	2015	2014	2013
Net Margin - in thousands	$22,142	$53,708	$49,290	$64,845	$68,903
TIER	1.19	1.48	1.44	1.56	1.61
DSC	1.26	1.33	1.26	1.30	1.34
Fuel Expense - in thousands	$179,335	$247,040	$228,372	$297,399	$292,918
Capital Expenditures - in thousands					
Generation	$65,634	$35,703	$163,988	$41,793	$25,105
Transmission & Distribution	$22,139	$29,963	$47,700	$20,937	$25,779
General	$10,170	$5,712	$4,125	$10,172	$1,851
Investment in Facilities - in thousands					
Cost	$4,236,618	$4,147,295	$3,999,314	$3,867,127	$3,804,664
Long-Term Debt - in thousands **	$2,882,216	$2,794,578	$2,499,815	$2,632,276	$2,680,289
Total Assets - in thousands **	$3,825,095	$3,718,233	$3,330,753	$3,403,556	$3,370,055
Number of Employees - full-time	688	696	670	666	643
Cost of Coal Purchased					
$/ton	$45.90	$51.56	$51.84	$55.49	$58.01
$/MBtu	$1.99	$2.24	$2.27	$2.44	$2.55
Amount of Coal Purchased - tons	3,492,169	3,821,064	3,927,446	4,288,956	4,571,750
Generation - MWh	7,564,321	9,758,569	8,618,586	10,462,583	10,127,954
System Peak Demand - MW					
Winter Season *	2,871	2,890	3,507	3,425	2,597
Summer Season	2,311	2,293	2,179	2,192	2,199
Sales to Other Utilities - MWh	548,528	717,130	711,081	805,511	509,140
Member Load Growth - %					
Energy	(2.57)	3.02	(4.80)	3.72	3.89
Demand	1.32	(4.81)	(0.67)	3.23	3.18
Load Factor - %	50	51	41	44	56
Miles of Line	2,852	2,847	2,838	2,835	2,816
Installed Capacity - kVA	11,017,745	10,861,447	10,810,447	10,779,247	9,508,311
Distribution Substations	373	369	366	364	363

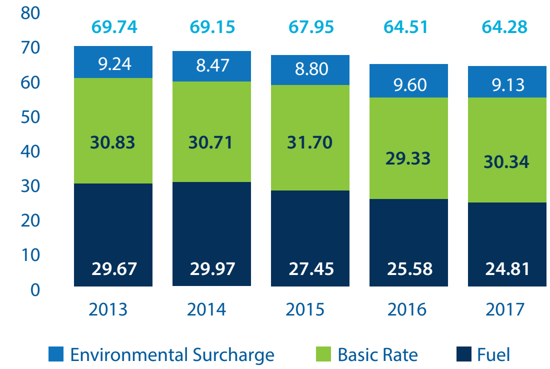
* *Data reported represents seasonal peak achieved during current calendar year*

** *Beginning in 2015, LT Debt and Total Assets are net of unamortized debt issuance costs*

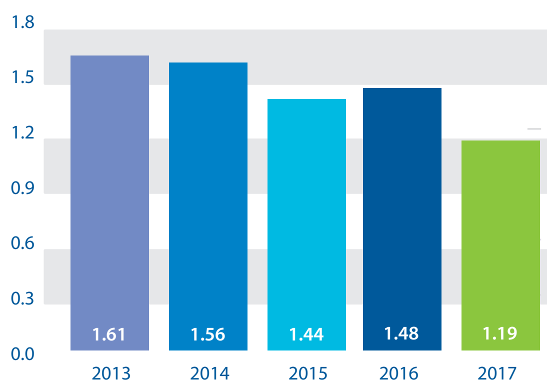
Equity Ratio



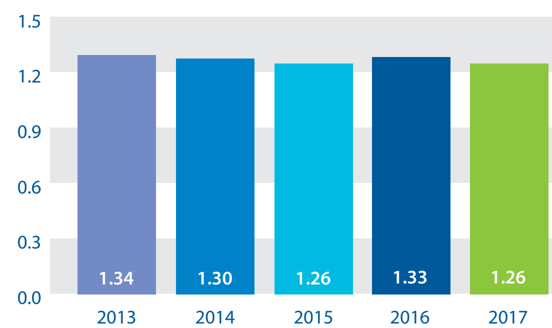
Power Cost to Members



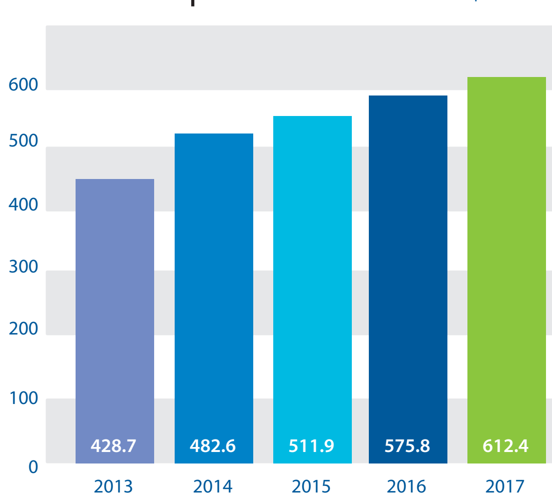
TIER



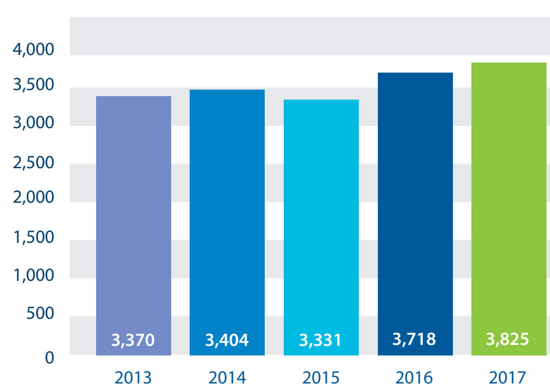
DSC



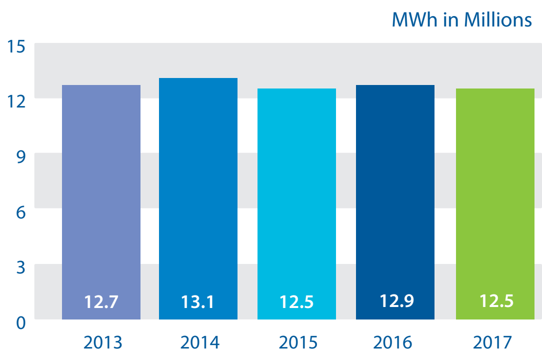
Members' Equities



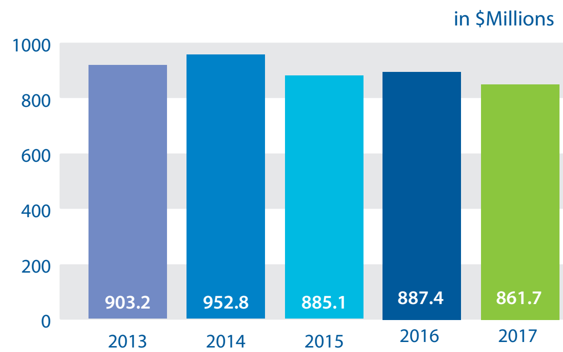
Total Assets



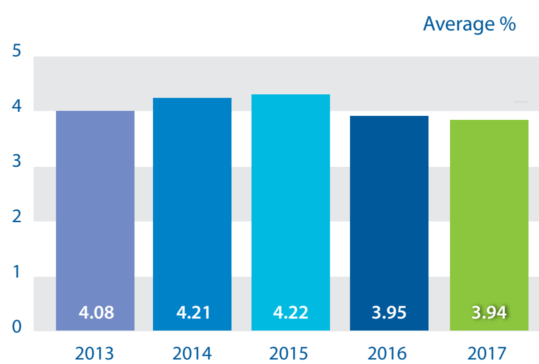
Energy Sales to Members



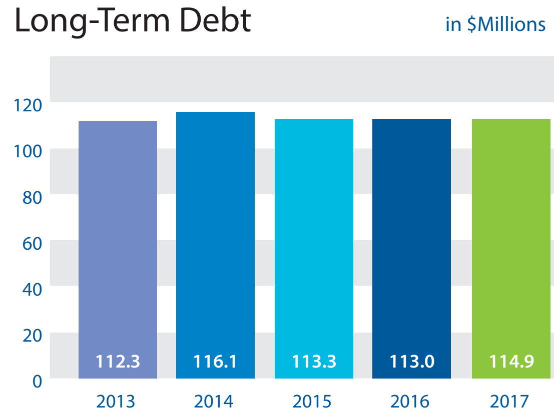
Operating Revenue



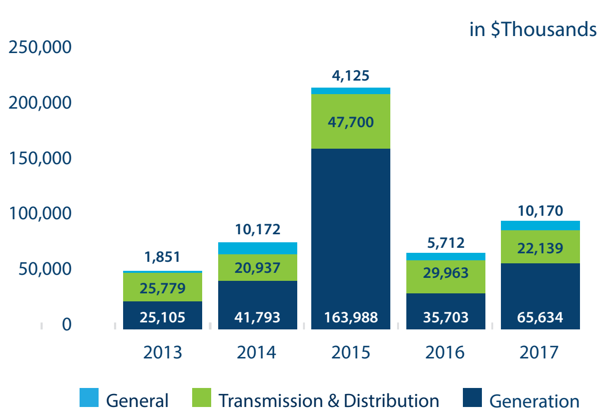
Average Interest Rate on Long-Term Debt Year-End



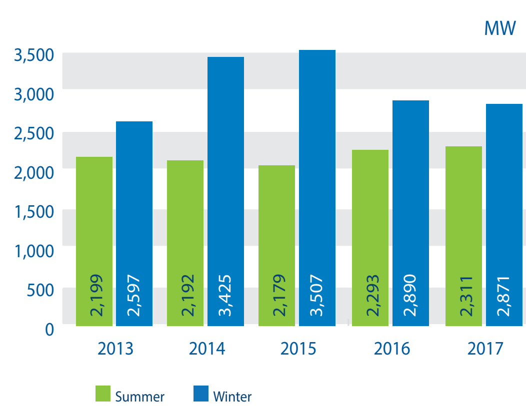
Interest Expense on Long-Term Debt



Capital Expenditures



System Coincident Peak



Report of Management

The accompanying financial statements of East Kentucky Power Cooperative, Inc. were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with accounting principles generally accepted in the United States of America and include amounts that are based on management's best judgments and estimates. The other financial information included in this annual report is consistent with the financial statements.

The cooperative maintains a system of internal controls, including accounting controls and internal auditing. The system of controls provides for appropriate division of responsibility and the application of policies and procedures that are consistent with high standards of accounting and administration. The cooperative believes that its system of internal controls provides reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are reliable for use in preparing financial statements.

The financial statements have been audited by the cooperative's independent certified public accountants, Ernst & Young LLP, whose opinion appears on the next page.

The Board of Directors, through its Audit Committee consisting solely of directors and member system CEOs, meets with Ernst & Young LLP, representatives of management and the internal auditor to review their activities and to discuss accounting, auditing and financial matters and the carrying out of responsibilities and duties of each group.
Ernst & Young LLP has full and free access to meet with the Audit Committee to discuss their audit results and opinions, without management representatives present, to allow for complete independence.

Anthony Campbell
President and CEO

Mike McNalley
Executive Vice President and CFO

Ernst & Young LLP
Suite 1200
400 West Market Street
Louisville, KY 40202

Tel: +1 502 585 1400
ey.com

Report of Independent Auditors

The Board of Directors
East Kentucky Power Cooperative, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of East Kentucky Power Cooperative, Inc., which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of revenue and expenses and comprehensive margin, changes in members' equities, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit 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 East Kentucky Power Cooperative, Inc. at December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated March 27, 2018 on our consideration of the East Kentucky Power Cooperatives, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering East Kentucky Power Cooperative, Inc.'s internal control over financial reporting and compliance.

Ernst + Young LLP

March 27, 2018

East Kentucky Power Cooperative, Inc.

Balance Sheets
(Dollars in Thousands)

	December 31 2017	December 31 2016
Assets		
Electric plant:		
In-service	**$ 4,203,541**	$ 4,113,181
Construction-in-progress	**33,077**	34,114
	4,236,618	4,147,295
Less accumulated depreciation	**1,495,332**	1,388,803
Electric plant – net	**2,741,286**	2,758,492
Long-term accounts receivable	**1,015**	1,225
Restricted cash and investments	**333,244**	232,176
Investment securities:		
Available-for-sale	**36,403**	33,735
Held-to-maturity	**8,307**	8,397
Current assets:		
Cash and cash equivalents	**138,959**	124,116
Restricted investment	**178,469**	174,749
Accounts receivable	**92,221**	89,231
Fuel	**49,686**	47,392
Materials and supplies	**61,530**	61,112
Regulatory assets	**1,538**	863
Other current assets	**6,052**	6,563
Total current assets	**528,455**	504,026
Regulatory assets	**165,683**	168,958
Deferred charges	**2,834**	3,170
Other noncurrent assets	**7,868**	8,054
Total assets	**$ 3,825,095**	$ 3,718,233
Members' equities and liabilities		
Members' equities:		
Memberships	**$ 2**	$ 2
Patronage and donated capital	**611,039**	588,897
Accumulated other comprehensive margin (loss)	**1,404**	(13,074)
Total members' equities	**612,445**	575,825
Long-term debt	**2,882,216**	2,794,578
Current liabilities:		
Current portion of long-term debt	**90,815**	89,650
Accounts payable	**62,752**	66,170
Accrued expenses	**40,140**	38,973
Regulatory liabilities	**2,096**	1,759
Total current liabilities	**195,803**	196,552
Accrued postretirement benefit cost	**72,512**	83,159
Asset retirement obligations and other liabilities	**62,119**	68,119
Total members' equities and liabilities	**$ 3,825,095**	$ 3,718,233

See notes to financial statements.

East Kentucky Power Cooperative, Inc.

Statements of Revenue and Expenses and Comprehensive Margin

(Dollars in Thousands)

	Year Ended December 31	
	2017	**2016**
Operating revenue	**$ 861,686**	$ 887,419
Operating expenses:		
Production:		
Fuel	**179,335**	247,040
Other	**160,935**	151,105
Purchased power	**166,505**	114,954
Transmission and distribution	**58,943**	55,866
Regional market operations	**4,730**	4,524
Depreciation and amortization	**121,475**	106,366
General and administrative	**55,368**	57,276
Total operating expenses	**747,291**	737,131
Operating margin before fixed charges and other expenses	**114,395**	150,288
Fixed charges and other:		
Interest expense on long-term debt	**114,915**	113,042
Amortization of debt expense	**477**	458
Accretion and other	**352**	314
Total fixed charges and other expenses	**115,744**	113,814
Operating margin (loss)	**(1,349)**	36,474
Nonoperating margin:		
Interest income	**23,113**	17,233
Patronage capital allocations from other cooperatives	**554**	194
Regulatory settlements	**(10)**	(20)
Other	**(166)**	(173)
Total nonoperating margin	**23,491**	17,234
Net margin	**22,142**	53,708
Other comprehensive margin:		
Unrealized gain (loss) on available-for-sale securities	**6**	(42)
Postretirement benefit obligation gain	**14,472**	10,212
	14,478	10,170
Comprehensive margin	**$ 36,620**	$ 63,878

See notes to financial statements.

Statements of Changes in Members' Equities

(Dollars in Thousands)

	Memberships	Patronage Capital	Donated Capital	Accumulated Other Comprehensive Margin (Loss)	Total Members' Equities
Balance – December 31, 2015	$ 2	$ 532,154	$ 3,035	$ (23,244)	$ 511,947
Net margin	–	53,708	–	–	53,708
Unrealized loss on available for sale securities	–	–	–	(42)	(42)
Postretirement benefit obligation gain	–	–	–	10,212	10,212
Balance – December 31, 2016	2	585,862	3,035	(13,074)	575,825
Net margin	**–**	**22,142**	**–**	**–**	**22,142**
Unrealized gain on available for sale securities	**–**	**–**	**–**	**6**	**6**
Postretirement benefit obligation gain	**–**	**–**	**–**	**14,472**	**14,472**
Balance – December 31, 2017	**$ 2**	**$ 608,004**	**$ 3,035**	**$ 1,404**	**$ 612,445**

See notes to financial statements.

Statements of Cash Flows

(Dollars in Thousands)

	Year Ended December 31	
	2017	**2016**
Operating activities		
Net margin	**$ 22,142**	$ 53,708
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation and amortization	**121,475**	106,366
Amortization of loan costs	**1,077**	1,132
Changes in operating assets and liabilities:		
Accounts receivable	**(2,990)**	(14,907)
Fuel	**(2,294)**	24,135
Materials and supplies	**(418)**	(3,903)
Regulatory assets/liabilities	**(353)**	1,869
Accounts payable	**(3,612)**	7,002
Accrued expenses	**1,167**	24,394
Accrued postretirement benefit cost	**3,825**	4,841
Other	**(6,583)**	(13,102)
Net cash provided by operating activities	**133,436**	191,535
Investing activities		
Additions to electric plant	**(100,134)**	(74,634)
Restricted deposits held in escrow	**1,500**	–
Maturities of debt service reserve securities	**4,247**	4,246
Purchases of debt service reserve securities	**(4,250)**	(4,248)
Maturities of available-for-sale securities	**34,035**	60,531
Purchases of available-for-securities	**(36,697)**	(59,037)
Maturities of held-to-maturity securities	**90**	91
Additional deposits with RUS restricted investment	**(241,202)**	(474,225)
Maturities of RUS restricted investment	**134,917**	136,560
Other	**227**	136
Net cash used in investing activities	**(207,267)**	(410,580)
Financing activities		
Proceeds from long-term debt	**368,568**	784,000
Principal payments on long-term debt	**(279,894)**	(491,167)
Debt issuance costs	**–**	(1,145)
Net cash provided by financing activities	**88,674**	291,688
Net change in cash and cash equivalents	**14,843**	72,643
Cash and cash equivalents – beginning of year	**124,116**	51,473
Cash and cash equivalents – end of year	**$ 138,959**	$ 124,116
Supplemental disclosure of cash flow		
Cash paid for interest	**$ 114,697**	$ 88,631
Noncash investing transactions:		
Additions to electric plant included in accounts payable	**$ 14,434**	$ 14,240
Unrealized gain (loss) on available-for-sale securities	**$ 6**	$ (42)

See notes to financial statements.

1. Summary of Significant Accounting Policies

Nature of Operations

East Kentucky Power Cooperative (the Cooperative or EKPC) is a not-for-profit electric generation and transmission cooperative incorporated in 1941 that provides wholesale electric service to 16 distribution members with territories that include parts of 87 counties in Kentucky. The majority of customers served by members are residential. Each of the members has entered into a wholesale power agreement with the Cooperative, which remains in effect until 2051. The rates charged to members are regulated by the Kentucky Public Service Commission (PSC or Commission).

The Cooperative owns and operates two coal-fired generation plants, twelve combustion turbines, six landfill gas plants, and a solar farm. In addition, the Cooperative has rights to 170 megawatts of hydroelectric power from the Southeastern Power Administration. One simple cycle natural gas unit is designated to serve a capacity purchase and tolling agreement through April 30, 2019. The capacity and energy from one landfill gas plant is designated to serve a member system through a ten-year purchase power agreement. A portion of the solar farm panels are licensed to customers of our members.

Basis of Accounting

The financial statements are prepared in accordance with policies prescribed or permitted by the Commission and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform with accounting principles generally accepted in the United States of America (GAAP) in all material respects. As a rate-regulated entity, the Cooperative's financial statements reflect actions of regulators that result in the recording of revenues and expenses in different time periods than enterprises that are not rate regulated in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 980, *Regulated Operations.*

Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

1. Summary of Significant Accounting Policies (continued)

Electric Plant in Service

Electric plant is stated at original cost, which is the cost of the plant when first dedicated to public service by the initial owner, plus the cost of all subsequent additions. The cost of assets constructed by the Cooperative includes material, labor, contractor and overhead costs.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to electric plant. The cost of units replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

Depreciation and Amortization

Depreciation for the generating plants and transmission facilities is provided on the basis of estimated useful lives at straight-line composite rates. Rates applied to electric plant in service for both 2017 and 2016 are:

Transmission and distribution plant	0.71%–3.42%
General plant	2.0%–20.00%

The production plant assets are depreciated on a straight-line basis from the date of acquisition to the end of life of the respective plant, which ranged from 2030 to 2051 in 2017 and 2016.

Depreciation and amortization expense was $121.5 million and $106.4 million for 2017 and 2016, respectively. Depreciation and amortization expense includes amortization expense of $12.6 million in 2017 and $0.7 million in 2016 related to plant abandonments granted regulatory asset treatment (Note 5).

The Cooperative received PSC approval to charge depreciation associated with asset retirement obligations to regulatory assets. These regulatory assets are charged to depreciation expense as recovery occurs. Depreciation charged to regulatory assets was $13.6 million and $10.5 million in 2017 and 2016, respectively.

1. Summary of Significant Accounting Policies (continued)

Asset Impairment

Long-lived assets held and used by the Cooperative are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Specifically, the evaluation for impairment involves comparison of an asset's carrying value to the estimated undiscounted cash flows the asset is expected to generate over its remaining life. If this evaluation were to conclude that the carrying value of the asset is impaired, an impairment charge would be recorded as a charge to operations based on the difference between the asset's carrying amount and its fair value. No impairment was recognized for long-lived assets during the years ended December 31, 2017 or 2016.

Restricted Cash and Investments

Restricted cash and investments represent funds restricted by contractual stipulations or other legal requirements. Funds designated for the repayment of debt within one year are shown as current assets on the balance sheets. All other restricted cash and investments are shown as noncurrent on the balance sheets. Restricted cash and investment activity is classified as investing activities on the statements of cash flows.

The Cooperative participates in the cushion of credit program administered by the RUS. Under the cushion of credit program, RUS borrowers may make voluntary irrevocable deposits into a special account. The account balance accrues interest at a rate of five percent per year. The amounts in the cushion of credit account (deposits and earned interest) can only be used to make scheduled principal and interest payments on loans made or guaranteed by the RUS. At December 31, 2017 and 2016, the balances in the cushion of credit program were $506.1 million and $399.9 million, respectively.

On December 29, 2015, the Cooperative became the lessor in a capacity purchase and tolling agreement that is effective through April 30, 2019. As part of the agreement, the Cooperative was required to pledge cash collateral with a third party that will be refunded over the term of the contract.

1. Summary of Significant Accounting Policies (continued)

Restricted cash and investments at December 31, 2017 and 2016 consisted of the following (dollars in thousands):

	2017	2016
Debt service reserve (Note 6)	**$ 1,068**	$ 1,065
Funds restricted by tolling agreement	**4,500**	6,000
Noncurrent restricted investment – RUS cushion of credit	**327,676**	225,111
Restricted cash and investments – noncurrent	**333,244**	232,176
Current restricted investment – RUS cushion of credit	**178,469**	174,749
Total restricted cash and investments	**$ 511,713**	$ 406,925

Cash and Cash Equivalents

The Cooperative considers temporary investments having an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents at December 31, 2017 and 2016, consisted primarily of money market mutual funds and investments in commercial paper.

Investment Securities

Investment securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investment securities are classified as available-for-sale when they might be sold before maturity. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported in other comprehensive margin (loss) on the statements of revenue and expenses and comprehensive margin.

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Investment securities are written down to fair value when a decline in fair value is other-than-temporary.

1. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The carrying amount of cash, receivables and certain other current liabilities approximates fair value due to the short maturity of the instruments.

The Cooperative uses fair value to measure certain financial instruments. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Observable inputs or unobservable inputs, defined by ASC Topic 820*, Fair Value Measurements and Disclosures*, may be used in the calculation of fair value. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below:

- *Level 1* – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

- *Level 2* – Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

- *Level 3* – Prices or valuations that require inputs that are both significant to the fair value measure and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The inputs used to measure cash equivalents are Level 1 measurements, as the money market funds are exchange traded funds in an active market. The inputs used to measure the available-for-sale and debt service reserve investments are Level 1 measurements, as the securities are based on quoted market prices for identical investments or securities.

1. Summary of Significant Accounting Policies (continued)

Estimated fair values of the Cooperative's financial instruments as of December 31, 2017 and 2016, were as follows (dollars in thousands):

	Fair Value at Reporting Date Using			
	Fair Value December 31, 2017	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash equivalents	**$ 123,000**	**$ 123,000**	**$ –**	**$ –**
Available-for-sale securities	**36,403**	**36,403**	**–**	**–**
Debt service reserve	**1,068**	**1,068**	**–**	**–**

	Fair Value at Reporting Date Using			
	Fair Value December 31, 2016	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash equivalents	$ 100,000	$ 100,000	$ –	$ –
Available for sale securities	33,735	33,735	–	–
Debt service reserve	1,065	1,065	–	–

1. Summary of Significant Accounting Policies (continued)

The estimated fair values of the Cooperative's financial instruments carried at cost at December 31, 2017 and 2016, were as follows (dollars in thousands):

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Held-to-maturity investments	**$ 8,307**	**$ 11,120**	$ 8,397	$ 9,868
Long-term debt	**2,973,031**	**3,316,224**	2,884,228	3,201,920

The inputs used to measure held-to-maturity investment securities are considered Level 2 and are based on third-party yield rates of similarly maturing instruments determined by recent market activity. The fair value of long-term debt, including current maturities and prepayment costs, is calculated using published interest rates for debt with similar terms and remaining maturities and is a Level 2 fair value measurement.

Concentration of Credit Risk

Credit risk represents the risk of loss that would occur if suppliers or customers did not meet their contractual obligations to EKPC. Concentration of credit risk occurs when significant suppliers or customers possess similar characteristics that would cause their ability to meet contractual obligations to be affected by the same events.

The Cooperative's sales are primarily to its member cooperatives and totaled approximately $805.8 million and $830.0 million for 2017 and 2016, respectively. Accounts receivable at December 31, 2017 and 2016, were primarily from billings to member cooperatives.

At December 31, 2017 and 2016, individual accounts receivable balances that exceeded 10% of total accounts receivable are as follows (dollars in thousands):

	2017	2016
Owen Electric Cooperative	**$ 12,044**	$ 12,272
South Kentucky RECC	**9,995**	9,698
Blue Grass Energy Cooperative	**9,743**	9,506

1. Summary of Significant Accounting Policies (continued)

Inventories

Inventories of fuel and materials and supplies are valued at the lower of average cost or market. Upon removal from inventory for use, the average cost method is used.

Regulatory Assets and Liabilities

ASC Topic 980 applies to regulated entities for which rates are designed to recover the costs of providing service. In accordance with this topic, certain items that would normally be reflected in the statements of revenue and expenses are deferred on the balance sheets. Regulatory assets represent probable future revenues associated with certain incurred costs, which will be recovered from customers through the rate-making process. Regulatory assets are charged to earnings as collection of the cost in rates is recognized or when future recovery is no longer probable. Conversely, regulatory liabilities represent future reductions in revenues associated with amounts that are to be credited to customers through the rate-making process.

Debt Issuance Costs

Debt issuance costs are presented as a direct deduction from long-term debt with the exception of those issuance costs associated with line-of-credit arrangements which are classified as a deferred charge asset on the balance sheet.

Debt issuance costs are amortized to interest expense over the life of the respective debt using the effective interest rate method or the straight-line method when results approximate the effective interest rate method.

1. Summary of Significant Accounting Policies (continued)

Asset Retirement Obligations

ASC Topic 410, *Asset Retirement Obligations*, requires legal obligations associated with the retirement of long-lived assets to be recognized at fair value when incurred and capitalized as part of the related long-lived asset, including asset retirement obligations where an obligation exists even though the method or timing of settlement may be conditional. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. When the asset is retired, the entity settles the obligation for its recorded amount or incurs a gain or loss.

Fair value of each respective ARO, when incurred, is determined by discounting expected future cash outflows associated with required retirement activities using a credit adjusted risk-free rate. Cash outflows for retirement activities are based upon market information, historical information and management's estimates and would be considered Level 3 under the fair value hierarchy.

The Cooperative's asset retirement obligations (ARO) represent the requirements related to asbestos abatement and reclamation and capping of ash disposal sites at its coal-fired plants. Estimated cash flow revisions in 2017 and 2016 are primarily related to changes in the estimated cost to settle ash disposal sites to comply with the closure and post-closure requirements contained in the EPA's final rule regulating the management of coal combustion residuals (CCR). Settlement activities are associated with the reclamation and capping of ash disposal sites.

The Cooperative continues to evaluate the useful lives of its plants and costs of remediation required by law.

The following table represents the details of asset retirement obligation activity as reported on the accompanying Balance Sheets (dollars in thousands):

	2017	2016
Balance – beginning of year	**$ 63,434**	$ 56,408
Liabilities incurred	**–**	1,153
Liabilities settled	**(9,594)**	(12,934)
Estimated cash flow revisions	**651**	17,343
Accretion	**1,818**	1,464
Balance – end of year	**$ 56,309**	$ 63,434

1. Summary of Significant Accounting Policies (continued)

As discussed in Note 5, the PSC granted regulatory asset treatment of accretion and depreciation associated with AROs on EKPC's books by type and location beginning in January 2014. These regulatory assets will be charged to accretion expense and depreciation expense as recovery of settlement costs occurs. On March 8, 2018, the PSC approved the Cooperative's application to seek regulatory asset treatment for all accretion and depreciation associated with a new ARO obligation established at December 31, 2016.

Accretion charged to regulatory assets in 2017 and 2016 was $1.8 million and $1.5 million, respectively. Accretion expense recognized in 2017 and 2016 was $0.4 million and $0.3 million, respectively, which represented the recovery of settlement costs associated with the Dale Station ash transfer project.

Rate Matters

Operating revenues from sales to members consist primarily of electricity sales pursuant to long-term wholesale power contracts which are maintained with each of the Cooperative's members. These wholesale power contracts obligate each member to pay EKPC for demand and energy furnished in accordance with rates established by the PSC. Electricity revenues are recognized when energy is provided. Energy provided is determined based on month-end meter readings.

The base rates charged by the Cooperative are regulated by the PSC. Any change in base rates requires that EKPC file an application with the PSC and interested parties may seek intervention in the proceeding if they satisfy certain regulatory requirements. After reviewing all the documentation in the case, the Commission has ten months to complete its processing of the application and issue an order. EKPC's last base rate case was authorized by the PSC on January 14, 2011.

The PSC has adopted a uniform fuel adjustment clause for all electric utilities within its jurisdiction. Under this clause, fuel cost above or below a stated amount per kWh is charged or credited to the member cooperatives for all energy sales during the month following actual fuel costs being incurred. The regulatory asset or liability represents the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

1. Summary of Significant Accounting Policies (continued)

The PSC has an environmental cost recovery mechanism that allows utilities to recover certain costs incurred in complying with the Federal Clean Air Act as amended and those federal, state, and local environmental requirements which apply to coal combustion wastes and byproducts from facilities utilized for the production of energy from coal. This environmental surcharge is billed on a percentage of revenue basis, one month following the actual costs incurred. The regulatory asset or liability represents the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

Members' Equities

Memberships represent contributions to the Cooperative made by members. Should the Cooperative cease business, these amounts, if available, will be returned to the members.

Patronage capital represents net margin allocated to the Cooperative's members on a contribution-to-gross margin basis pursuant to the provisions of its bylaws. The Cooperative's bylaws prohibit the retirement of capital contributed by or allocated to members unless, after any proposed retirement, the total capital of the Cooperative equals or exceeds 20% of total assets.

In addition, provisions of certain financing documents prohibit the retirement of capital until stipulated requirements related to aggregate margins and equities are met. Accordingly, at December 31, 2017 and 2016, no patronage capital was available for refund or retirement.

Comprehensive Margin

Comprehensive margin includes both net margin and other comprehensive margin (loss). Other comprehensive margin (loss) represents the change in unrealized gains and losses on available-for-sale securities, as well as the change in the funded status of the accumulated postretirement benefit obligation. The Cooperative presents each item of other comprehensive margin (loss) on a net basis in the Statements of Revenue and Expenses and Comprehensive Margin. Reclassification adjustments are disclosed in Note 8. For any item required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period, the affected line item(s) on the Statements of Revenue and Expenses and Comprehensive Margin are provided.

1. Summary of Significant Accounting Policies (continued)

Income Taxes

The Cooperative is exempt under Section 501(c)(12) of the Internal Revenue Code from federal income tax for any year in which at least 85% of its gross income is derived from members but is responsible for income taxes on certain unrelated business income. ASC Topic 740, *Income Taxes*, clarifies the accounting for uncertainty in income taxes recognized in the financial statements. This interpretation requires financial statement recognition of the impact of a tax position if a position is more likely than not of being sustained on audit, based on the technical merits of the position. Additionally, ASC Topic 740 provides guidance on measurement, recognition, classification, accounting in interim periods, and disclosure requirements for uncertain tax positions. The Cooperative has determined that more than 85% of its gross income is derived from members and it meets the exemption status under the Section 501(c)(12).

Regional Transmission Organization

The Cooperative is a transmission-owning member of PJM Interconnection, LLC (PJM) and functional control of certain transmission facilities is maintained by PJM. Open access to the EKPC transmission system is managed by PJM pursuant to the FERC approved PJM Open Access Transmission Tariff and the Cooperative is an active participant in PJM's Regional Transmission Planning process, which develops a single approved transmission plan for the entire PJM footprint. Energy related purchases and sales transactions within PJM are recorded on an hourly basis with all transactions within each market netted to a single purchase or sale for each hour.

Power Sales Arrangements

The Cooperative is the lessor under power sales arrangements that are required to be accounted for as operating leases due to the terms of the agreements. The details of those agreements are discussed in Note 10. The revenues from these arrangements are included in operating revenues on the Statements of Revenue and Expenses and Comprehensive Margin.

1. Summary of Significant Accounting Policies (continued)

New Accounting Guidance

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, or ASU 2014-09. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will supersede the revenue recognition requirements in the Revenue Recognition Topic 605 of the ASC and most industry-specific guidance, and creates the Revenue from Contracts with Customers Topic 606 of the ASC. In August 2015, the FASB issued Accounting Standards Update No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* to provide a one year delay in the effective date of ASU 2014-09. ASU 2014-09 will be effective for the Cooperative beginning in 2019. Early adoption is permitted. The Company is currently assessing the impact of adopting this guidance, as well as the transition method it will use.

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases (Topic 842)* or ASU 2016-02. The core principle of this revised accounting guidance requires that lessees recognize all leases (other than leases with a term of twelve months or less) on the balance sheet as lease liabilities, based upon the present value of the lease payments, with corresponding right of use assets. ASU 2016-02 also makes targeted changes to other aspects of the current guidance, including the lease classification criteria and the lessor accounting model. The amendments in ASU 2016-02 will be effective for the Cooperative beginning in 2020. Early adoption is permitted. The Company is currently assessing the impact of adopting this guidance.

In August 2016, the FASB issued Accounting Standards Update 2016-15, *Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Payments*, or ASU 2016-15. This amendment provides specific guidance on certain cash flow presentation and classification issues in order to reduce diversity in practice on the statement of cash flows. This amendment will be effective for the Cooperative beginning in 2019. Early adoption is permitted. The guidance requires application using a retrospective transition method. The Company is currently assessing the impact that this amendment will have on its statements of cash flows.

1. Summary of Significant Accounting Policies (continued)

In November 2016, the FASB issued Accounting Standards Update 2016-18, *Statement of Cash Flows (Topic 230) – Restricted Cash,* or ASU 2016-18. This amendment requires the statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts described as restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This amendment will be effective for the Cooperative beginning in 2019. Early adoption is permitted. The guidance is applied using a retrospective transition method to each period presented. The Company is currently assessing the impact that this amendment will have on its statements of cash flows.

In March 2017, the FASB issued Accounting Standards Update 2017-07, *Compensation – Retirement Benefits (Topic 715) – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, or ASU 2014-07. This amendment requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost, including amortization of prior service cost/credit, and settlement and curtailment effects, are to be included in nonoperating expenses. The ASU also stipulates that only the service cost component of net benefit cost is eligible for capitalization. This amendment will be effective for the Cooperative beginning in 2019. Early adoption is permitted. Retrospective application of the change in income statement presentation is required, while the change in capitalized benefit cost is to be applied prospectively. The Company is currently assessing the impact of adopting this guidance.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. Such reclassifications had no effect on previously reported net margin.

2. Electric Plant in Service

Electric plant in service at December 31, 2017 and 2016, consisted of the following (dollars in thousands):

	2017	2016
Production plant	**$ 3,115,171**	$ 3,064,104
Transmission plant	**815,878**	800,931
General plant	**126,252**	118,929
Completed construction, not classified, and other	**146,240**	129,217
Electric plant in service	**$ 4,203,541**	$ 4,113,181

Acquisition adjustments of $4 million were included in electric plant in service at December 31, 2017 and 2016. Acquisition adjustments represent the difference between the net book value of the original owner and the fair value of the assets at the date of acquisition.

3. Long-Term Accounts Receivable

Long-term accounts receivable represents interest-bearing notes to three of the Cooperative's member systems for the buyout of EKPC's joint ownership of their propane companies. The member systems make principal and interest (prime rate minus one-half of one percent, adjusted annually) payments. The notes are payable in full in 2025.

4. Investment Securities

Cost and estimated fair value of available-for-sale investment securities at December 31, 2017 and 2016, were as follows (dollars in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2017				
U.S. Treasury Bill	**$ 24,136**	**$ –**	**$ (1)**	**$ 24,135**
Zero coupon bond	**12,289**	**–**	**(21)**	**12,268**
	$ 36,425	**$ –**	**$ (22)**	**$ 36,403**

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2016				
U.S. Treasury Bill	$ 25,176	$ –	$ (23)	$ 25,153
Zero coupon bond	8,587	–	(5)	8,582
	$ 33,763	$ –	$ (28)	$ 33,735

Proceeds from maturities of securities were $34.0 million and $60.5 million in 2017 and 2016, respectively.

4. Investment Securities (continued)

Amortized cost and estimated fair value of held-to-maturity investment securities at December 31, 2017 and 2016, are as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2017				
National Rural Utilities Cooperative Finance Corporation:				
3%–5% capital term certificates	**$ 7,656**	**$ 2,798**	**$ –**	**$ 10,454**
6.5875% subordinated term certificate	**225**	**48**	**–**	**273**
0% subordinated term certificate	**426**	**–**	**(33)**	**393**
	$ 8,307	**$ 2,846**	**$ (33)**	**$ 11,120**

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2016				
National Rural Utilities Cooperative Finance Corporation:				
3%–5% capital term certificates	$ 7,656	$ 1,438	$ –	$ 9,094
6.5875% subordinated term certificate	250	69	–	319
0% subordinated term certificate	491	–	(36)	455
	$ 8,397	$ 1,507	$ (36)	$ 9,868

4. Investment Securities (continued)

All investment securities held to maturity with unrealized losses at December 31, 2017 and 2016, have maturities of 12 months or more. The amortized cost and fair value of held-to-maturity securities at December 31, 2017, by contractual maturity, are shown below (dollars in thousands). All available-for-sale securities have maturities due in one year or less. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Held-to-maturity:		
Due after one year through five years	$ 682	$ 693
Due after five years through ten years	627	642
Due after ten years	6,998	9,785
	$ 8,307	$ 11,120

5. Regulatory Assets and Liabilities

On February 28, 2011, the PSC authorized the establishment of a $157.1 million regulatory asset at December 31, 2010 for the construction costs incurred and the Cooperative's estimate of the costs to unwind vendor contracts associated with the cancelled Smith Unit 1 coal-fired plant. The Cooperative negotiated final settlement of the Smith Unit 1 contracts, which resulted in a reduction of the regulatory asset balance to $150.8 million at December 31, 2011. Additional minimal costs have been incurred each year to maintain the assets. The balance of the regulatory asset was reduced for parts used by another EKPC generating unit for maintenance and by the amount of a non-refundable exclusivity payment received from a prospective buyer. Effective January 1, 2017, the PSC approved a Stipulation and Recommendation Agreement between EKPC and intervenors which enabled EKPC to begin amortizing the regulatory asset balance, net of estimated mitigation and salvage efforts, over a period of ten years. PJM capacity market revenues through delivery year 2019 will be used to offset the expense until EKPC's next base rate case. The amortization associated with the remaining balance of the regulatory asset will be included for recovery in EKPC's next general base rate case. The balance of the regulatory asset at December 31, 2017 was $135.6 million.

5. Regulatory Assets and Liabilities (continued)

In 2015, the PSC approved EKPC's request to recognize depreciation and accretion expenses related to its asbestos abatement and ash disposal AROs in existence at December 31, 2014 as regulatory assets for 2014 and all subsequent years. Also, in a separate proceeding, the PSC approved recovery of the costs that will settle the Dale Station ash disposal ARO through the environmental surcharge mechanism. The associated regulatory asset is being expensed as recovery occurs. While the Cooperative has not yet requested recovery of the other ARO related regulatory assets, management believes it is probable that the PSC will allow the Cooperative to recover the full amount through rates or other mechanisms.

On February 11, 2016, the PSC authorized the Cooperative to establish two regulatory assets for the abandonment of Dale Station at December 31, 2015, representing its net book value of $3.2 million. One regulatory asset was established in the amount of $2.4 million with a forty-two month amortization, which was consistent with the remaining depreciable life of the asset included in current rates. The balance of this regulatory asset was $0.8 million at December 31, 2017. A separate regulatory asset of $0.8 million, which represents the balance of capital projects remaining to be recovered in the environmental surcharge at December 31, 2015, will be considered for recovery, along with an associated return, during EKPC's next rate case.

Regulatory assets (liabilities) were comprised of the following as of December 31, 2017 and 2016 (dollars in thousands):

	2017	**2016**
Plant abandonment – Smith Unit 1	**$ 135,618**	$ 148,834
Plant abandonment – Dale Station	**1,561**	2,414
ARO-related depreciation and accretion expenses	**28,504**	17,710
Fuel adjustment clause	**1,538**	863
	$ 167,221	$ 169,821
Environmental cost recovery	**$ (2,096)**	$ (1,759)
	$ (2,096)	$ (1,759)

6. Long-Term Debt

The Cooperative executed an Indenture of Mortgage, Security Agreement and Financing Statement, dated as of October 11, 2012 (Indenture) between the Cooperative, as Grantor, to U.S. Bank National Association, as Trustee. The Indenture provides first mortgage note holders and tax-exempt bond holders with a pro-rated interest in substantially all owned assets.

Long-term debt outstanding at December 31, 2017 and 2016, consisted of the following (dollars in thousands):

	2017	2016
First mortgage notes:		
2.30%–6.67%, payable quarterly to Federal Financing Bank (FFB) in varying amounts through 2049, weighted average 4.09%	**$ 2,431,348**	$ 2,261,098
5.13% payable quarterly to RUS in varying amounts through 2024	**4,877**	5,534
Variable rate, 3.30% at December 31, 2017 and 2016, payable quarterly to CFC in varying amounts through 2024	**5,347**	6,425
First Mortgage Bonds, Series 2014A, fixed rate of 4.61%, payable semi-annual, matures February 6, 2044	**189,000**	194,000
Tax-exempt bonds:		
Solid Waste Disposal Revenue Bonds, Series 1993B, variable rate bonds, due August 15, 2023 1.35% and 0.95% at December 31, 2017 and 2016, respectively	**3,900**	4,500
Clean Renewable Energy Bonds, fixed rate of 0.40% payable quarterly to CFC to December 1, 2023	**2,665**	3,109
New Clean Renewable Energy Bonds, fixed rate of 4.5% payable annually to CFC to January 31, 2047 reimbursed by IRS annually of up to 2.94% for a net rate of 1.56%	**18,000**	–
Promissory notes:		
Variable rate notes payable to CFC, 2.39% at December 31, 2017	**310,000**	400,000
4.65%–5.50% fixed rate notes payable to National Cooperative Services Corporation, weighted average 5.03%	**9,298**	11,094
Total debt	**2,974,435**	2,885,760
Less debt issuance costs	**(1,404)**	(1,532)
Total debt adjusted for debt issuance costs	**2,973,031**	2,884,228
Less current maturities	**(90,815)**	(89,650)
Total long-term debt	**$ 2,882,216**	$ 2,794,578

6. Long-Term Debt (continued)

First Mortgage Notes and Bonds

The Cooperative received loan funds in varying amounts through its first mortgage notes payable to RUS and the Federal Financing Bank. All such loans are subject to certain conditions outlined by RUS. Listed below are descriptions of those loan applications for which additional funds were advanced to the Cooperative during the year and the status of any remaining funds approved and available for advance at December 31, 2017. The amounts outstanding under these notes are $2.4 billion and $4.9 million at December 31, 2017.

In May 2015, the Cooperative submitted to RUS a loan application in the amount of $90.6 million for various transmission projects. The loan documents were subsequently executed in January 2017 with a maturity date of December 31, 2049; $58.5 million was advanced in 2017. As of December 31, 2017, $32.1 million of the loan remained available for advance.

In June 2015, the Cooperative submitted to RUS a loan application in the amount of $238.9 million for various generation projects. The loan was revised to $221.8 million and approved by RUS in September 2015. The loan documents were subsequently executed in January 2017 with a maturity date of December 31, 2049; $63.3 million was advanced in 2017. As of December 31, 2017, $158.5 million of the loan remained available for advance.

In August 2015, a loan application was submitted for the acquisition of the assets of Bluegrass Generation Company, LLC in the amount of $131.8 million. The loan was approved by RUS in February 2016. The loan documents were executed in January 2017 with a maturity date of December 31, 2035; $128.8 million was advanced in 2017. As of December 31, 2017, $3 million of the loan remained available for advance.

In 1984, 1995 and 1998, EKPC entered into secured loans with CFC that initially totaled $20.5 million. As of December 31, 2017, the amount outstanding under these notes is $5.3 million.

On December 11, 2013, the Cooperative entered into a Bond Purchase Agreement for $200 million 4.61% First Mortgage Bonds, Series 2014A due February 2044. The transaction closed and funded on February 6, 2014. The debt is secured on equal footing with the Cooperative's other secured debt under the Indenture. The amount outstanding under these notes is $189.0 million at December 31, 2017.

6. Long-Term Debt (continued)

Tax-Exempt Bonds

The interest rate on the Series 1993B Solid Waste Disposal Revenue Bonds is subject to change semiannually. The interest rate adjustment period on the variable rate bonds may be converted to a weekly, semiannual, annual or three-year basis, or to a fixed-rate basis, at the option of the Cooperative. A $5 million CFC guarantee secures payment of the Series 1993B bonds and has an expiration date of August 15, 2023. The 1993B solid waste disposal revenue bonds require that debt service reserve funds be on deposit with a trustee throughout the term of the bonds in the amount of $1.1 million. In addition, mandatory sinking fund payments are required ranging from $0.6 million in 2017 to $0.7 million in 2024. Debt service reserve and construction funds are held by a trustee and are invested primarily in U.S. Government securities and CFC promissory notes. These funds are included in restricted cash and investments on the accompanying Balance Sheets and have a fair value of approximately $1.1 million at December 31, 2017 and 2016.

In January 2008, EKPC was approved to receive up to $8.6 million to finance certain qualified renewable energy projects with Clean Renewable Energy Bonds. The loan was fully advanced in July 2009. The amount outstanding at December 31, 2017 is $2.7 million.

In September 2016, EKPC was authorized by the IRS to issue $19.8 million in New Clean Renewable Energy Bonds to finance a planned community solar facility. In February 2017, EKPC issued an $18 million note to CFC, which is the amount outstanding as of December 31, 2017, and has been designated as a New Clean Renewable Energy Bond. The remainder of the authorization expired on March 14, 2017.

Promissory Notes

On July 6, 2016, the Cooperative entered into a $600 million unsecured credit facility with CFC as the lead arranger, replacing its previously existing $500 million unsecured revolving credit facility. The facility consists of a $500 million revolving tranche and a $100 million term loan tranche. This facility matures on July 6, 2021 and is to be utilized for general corporate purposes including capital construction projects. The agreement allows the Cooperative to request two one-year maturity extensions and/or an increase in revolving commitments of up to $200 million. In 2016, the Cooperative used proceeds from the facility to repay the remaining $340 million of outstanding borrowings on the previously existing credit facility. As of December 31, 2017, the Cooperative had outstanding borrowings of $310 million (including the $100 million unsecured term loan). As of December 31, 2017, the availability under the credit facility was $290 million.

6. Long-Term Debt (continued)

In December 2010, the Cooperative entered into an unsecured loan agreement with the National Cooperative Services Corporation for $23.8 million to refinance indebtedness to RUS. As of December 31, 2017, the amount outstanding under these notes is $9.3 million.

Estimated annual maturities of long-term debt adjusted for debt issuance costs for the five years subsequent to December 31, 2017, are as follows (dollars in thousands):

Years ending December 31:	
2018	$ 90,815
2019	101,029
2020	103,636
2021	106,725
2022	111,541
Thereafter	2,459,285
	$ 2,973,031

The Indenture and certain other debt agreements contain provisions which, among other restrictions, require the Cooperative to maintain certain financial ratios. The Cooperative was in compliance with these financial ratios at December 31, 2017 and 2016.

As of December 31, 2017, the Cooperative has $3.3 million outstanding in a letter of credit with the Commonwealth of Kentucky for Worker's Compensation.

As of December 31, 2017, the Cooperative has pledged securities of $12.1 million with the United States Department of Labor for Federal Longshore Harbor Workers and the Commonwealth of Kentucky.

7. Retirement Benefits

Pension Plan

Pension benefits for employees hired prior to January 1, 2007, are provided through participation in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Plan (RS Plan). The plan is a defined benefit pension plan qualified under Section 401 and tax exempt under Section 501(a) of the Internal Revenue Code. It is considered a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

7. Retirement Benefits (continued)

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Cooperative's contributions to the RS Plan in 2017 and 2016 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made annual contributions to the plan of $8.3 million in 2017 and 2016. There have been no significant changes that affect the comparability of 2017 and 2016 contributions.

For the RS Plan, a "zone status" determination is not required and therefore, not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded on January 1, 2017 and January 1, 2016, based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

Retirement Savings Plan

The Cooperative offers a Retirement Savings Plan for all employees who are eligible to participate in the Cooperative's benefit programs. The plan allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. For employees hired prior to January 1, 2007, the Cooperative makes matching contributions to the account of each participant up to 2.0% of the participant's compensation. For employees hired on or after January 1, 2007, the Cooperative will automatically contribute 6.0% of base wages and match the employee contribution up to 4.0%. The Cooperative contributed approximately $3.5 million and $3.1 million to the plan for the years ended December 31, 2017 and 2016, respectively. Employees vest immediately in their contributions and the contributions of the Cooperative.

7. Retirement Benefits (continued)

Supplemental Executive Retirement Plan

The Cooperative provides a 457(f) Supplemental Executive Retirement Plan to executives of the organization. The plan is considered a defined contribution plan whereby annual contributions are made based upon a percentage of base salary. Participants become 100% vested and the account balance paid out upon attaining age 62 or if separation occurs due to involuntary termination without cause, disability, or death. Separation for any other reason before age 62 will result in participants forfeiting their benefits.

Supplemental Death Benefit Plan

The Cooperative provides a Supplemental Death Benefit Plan to all employees eligible to participate in the pension plan. The supplemental death benefit is payable to a deceased employee's beneficiary if the lump sum value of a 100% survivor benefit under the pension plan exceeds the pension plan benefits plus the Cooperative's group life insurance proceeds. Management believes that any liability related to this plan will not have a material effect on the financial statements.

Postretirement Medical Benefits

The Cooperative sponsors a defined benefit plan that provides medical and life insurance coverage to retirees and their dependents. Participating retirees and dependents contribute 50% of the projected cost of coverage. For purposes of the liability estimates, the substantive plan is assumed to be the same as the written plan. The plan is not funded.

The following sets forth the accumulated postretirement benefit obligation, the change in plan assets, and the components of accrued postretirement benefit cost and net periodic benefit cost as of December 31, 2017 and 2016 (dollars in thousands):

7. Retirement Benefits (continued)

	2017	2016
Change in benefit obligation:		
Accumulated postretirement benefit obligation – beginning of year	**$ 86,869**	$ 92,546
Service cost	**1,526**	1,690
Interest cost	**3,809**	4,201
Participants' contributions	**1,332**	1,301
Plan amendment – prior service credit	**(5,634)**	–
Benefits paid	**(3,544)**	(3,575)
Actuarial gain	**(8,552)**	(9,294)
Accumulated postretirement benefit obligation – end of year	**$ 75,806**	$ 86,869
Change in plan assets:		
Fair value of plan assets – beginning of year	**$ –**	$ –
Employer contributions	**2,212**	2,274
Participant contributions	**1,332**	1,301
Benefits paid	**(3,544)**	(3,575)
Fair value of plan assets – end of year	**–**	–
Funded status – end of year	**$ (75,806)**	$ (86,869)
Amounts recognized in balance sheet consists of:		
Current liabilities	**$ 3,294**	$ 3,710
Noncurrent liabilities	**72,512**	83,159
Total amount recognized in balance sheet	**$ 75,806**	$ 86,869
Amounts included in accumulated other comprehensive margin (loss):		
Prior service credit	**$ 5,634**	$ –
Unrecognized actuarial loss	**(4,208)**	(13,046)
Total amount in accumulated other comprehensive margin (loss)	**$ 1,426**	$ (13,046)
Net periodic benefit cost:		
Service cost	**$ 1,526**	$ 1,690
Interest cost	**3,809**	4,201
Amortization of net actuarial loss	**286**	918
Net periodic benefit cost	**$ 5,621**	$ 6,809
Amounts included in other comprehensive margin:		
Prior service credit arising during the year	**$ 5,634**	$ –
Net gain arising during the year	**8,552**	9,294
Amortization of net actuarial loss	**286**	918
Net gain recognized in other comprehensive margin	**$ 14,472**	$ 10,212
Amounts expected to be realized in next fiscal year:		
Amortization of net loss	**$ –**	$ (286)
Amortization of prior service credit	**412**	–
	$ 412	$ (286)

7. Retirement Benefits (continued)

The Cooperative increased medical plan deductibles and copays effective January 2018. These plan changes, along with improved claims experience over 2016 resulted in a decrease in the December 31, 2017 obligation of $22.6 million which was offset by an increase in the obligation of $8.4 million due to changes in the discount rate and participant data.

The discount rate used to determine the accumulated postretirement benefit obligation was 3.76% and 4.48% for 2017 and 2016, respectively.

The Cooperative expects to contribute approximately $3.3 million to the plan in 2018. The expected benefit payments from the plan, which reflect anticipated future service, are (dollars in thousands):

Years ending December 31:		
2018	$	3,294
2019		3,285
2020		3,081
2021		3,204
2022		3,299
2023 – 2027		17,982

For measurement purposes, a 6.40% annual rate of increase in the per capita cost of covered health care benefits was used for the year ended December 31, 2017. The rate is assumed to decline to 4.5% after 18 years. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, a 1% increase in the health care trend rate would increase the service and interest costs by $1.0 million and increase the postretirement benefit obligation by $12.2 million. A 1% decrease in the health care trend rate would decrease total service and interest costs by $0.8 million and decrease the postretirement benefit obligation by $9.8 million.

8. Changes in Accumulated Other Comprehensive Margin (Loss) by Component

The following table represents the details of accumulated other comprehensive margin (loss) activity by component (dollars in thousands):

	Postretirement Benefit Obligation	Unrealized Gain (Loss) on Investments Available for Sale	Accumulated Other Comprehensive Margin (Loss)
Balance – December 31, 2015	$ (23,258)	$ 14	$ (23,244)
Other comprehensive gain (loss) before reclassifications	9,294	(42)	9,252
Amounts reclassified from accumulated other comprehensive margin	918	–	918
Net current period other comprehensive gain (loss)	10,212	(42)	10,170
Balance – December 31, 2016	(13,046)	(28)	(13,074)
Other comprehensive gain (loss) before reclassifications	**14,186**	**6**	**14,192**
Amounts reclassified from accumulated other comprehensive margin	**286**	**–**	**286**
Net current period other comprehensive gain	**14,472**	**6**	**14,478**
Balance – December 31, 2017	**$ 1,426**	**$ (22)**	**$ 1,404**

The postretirement benefit obligation reclassification noted above represents the amortization of actuarial loss that is included in the computation of net periodic postretirement benefit cost. See Note 7 – Retirement Benefits for additional details.

9. Commitments and Contingencies

The Cooperative periodically enters into long-term agreements for the purchase of power. Payments made under long-term power contracts in 2017 and 2016 were $6.0 million and $11.4 million, respectively. One long-term agreement remained in effect at December 31, 2017 and will continue until either party gives a three year notice of termination. Total minimum payment obligations related to this contract are as follows (dollars in thousands):

Years ending December 31:	
2018	$ 3,947
2019	3,964
2020	3,964

9. Commitments and Contingencies (continued)

The Cooperative is committed to purchase coal for its generating plants under long-term contracts that extend through 2020. Coal payments under contracts for 2017 and 2016 were $109.7 million and $170.9 million, respectively. Total minimum purchase obligations for the next three years are as follows (dollars in thousands):

Years ending December 31:		
2018	$	87,252
2019		42,973
2020		22,391

The minimum cost of the coal purchases, based on the latest contractual prices, is subject to escalation clauses that are generally based on government-published indices and market price.

The Cooperative is also committed to purchase limestone and lime for its coal-fired generating plants under all requirements contracts that extend through 2018. These contracts set forth pricing and quantity maximums for each product but do not require minimum purchases. Given that annual quantities purchased will vary according to the generation produced at each plant, minimum purchase obligations for the next two years cannot be determined.

The supply agreements are not accounted for as derivatives based upon the Normal Purchases Normal Sales exception as permitted by ASC 815, *Derivatives and Hedging*.

There are pending civil claims in litigation against the Cooperative. Under the Cooperative's general liability insurance program, it is responsible for a deductible amount up to $1 million for each occurrence. Neither the probable outcome nor ultimate liability resulting from any claims and litigation can be readily determined at this time. Accruals have been made when appropriate and management believes that any liability for such matters will, in any case, not have a material effect on the financial statements.

10. Power Sales Arrangements

In December 2015, the Cooperative became the lessor under two power sales arrangements that are required to be accounted for as operating leases due to the specific terms of the agreements. One arrangement is a capacity purchase and tolling agreement that entitles a third party to 165 MW of firm generation and capacity from Bluegrass Generation Station Unit 3 through April 30, 2019. The third party is responsible for the delivery of natural gas and also for securing electric transmission service in their balancing area. The other arrangement is an agreement to sell the capacity and energy from the Glasgow landfill gas plant to a member system for a period of ten years. The generating units used in these arrangements have asset values and accumulated depreciation of $53.1 million and $21.8 million, respectively, at December 31, 2017 and $53.1 million and $20.3 million, respectively, at December 31, 2016. The revenue associated with these arrangements for 2017 and 2016 was $10.5 million and $9.0 million, respectively, and is included in operating revenue on the Statements of Revenue and Expenses and Comprehensive Margin for the years ended December 31, 2017 and 2016. The minimum future revenues under these arrangements are as follows (dollars in thousands):

Years ending December 31:		
2018	$	10,162
2019		3,708
2020		460
2021		452
2022		452

11. Environmental Matters

On April 17, 2015, the EPA published its final rule regulating management of CCR under the Resource Conservation and Recovery Act and it became effective on October 14, 2015. The final rule applies to owners and operators of landfills and surface impoundments and establishes minimum national criteria for the safe disposal of solid waste CCR. The criteria address a wide spectrum of activities related to CCR solid waste disposal. Areas addressed include location restrictions, structural integrity requirements, liner design criteria, operations, groundwater monitoring, closure and post-closure requirements. Also, the closure and post-closure requirements resulted in the Cooperative revising its asset retirement obligations. Certain provisions of the CCR rule were remanded back to EPA by the United States Federal Court of Appeals for the D.C. Circuit of Appeals for further action on June 14, 2016. On March 15, 2018, EPA proposed a rule addressing these remanded issues. Comments are due April 30, 2018. No result of this rulemaking can be predicted at this time.

11. Environmental Matters (continued)

The EPA published the Effluent Limitations Guidelines (ELG) final rule on November 3, 2015, which governs the quality of the wastewater that can be discharged from power plants. ELG phases in more stringent effluent limits for arsenic, mercury, selenium, and nitrogen discharged from wet scrubber systems and zero discharge of pollutants in ash transport water. Power plants must comply between 2018 and 2023, depending upon when new Clean Water Act permits are required for each respective plant. On February 24, 2017, President Trump issued an Executive Order (EO 13777) that required agencies to review regulations that create undue burden on regulated entities. As part of this process, EPA is reviewing the ELG rule and reconsidering a number of issues. The result of this reconsideration will be addressed in a future rule. At this time, future revisions to the ELG rule cannot be determined.

On November 20, 2017, EKPC filed an application with the PSC requesting a certificate of public convenience and necessity (CPCN) and authorization to amend its environmental compliance plan to include a project that is necessary for Spurlock Station to comply with the final rules on CCR and ELG. The proposed project, which also includes the closure of the Spurlock ash pond and settlement of the corresponding asset retirement obligation, is estimated at $262.4 million and is expected to be recovered through the Cooperative's environmental surcharge mechanism. EKPC plans to begin construction in January 2019 with an estimated completion date of November 2024.

On March 28, 2017, President Trump signed an Executive Order (EO 17833), entitled "Promoting Energy Independence and Economic Growth," directing EPA to review and, if appropriate, suspend, revise, or rescind the Clean Power Plan (CPP). EPA proposed a rule repealing the CPP on October 16, 2017. Comments on the proposed repeal rule are due April 26, 2018. EPA also issued an Advanced Notice of Proposed Rulemaking (ANPR) on December 28, 2017, seeking comments on a potential CPP Replacement rule. Comments on the ANPR were submitted on February 26, 2018. The timeframe for the issuance and the content of the proposed rule is unknown at this time. The Cooperative will continue to evaluate the impact of the proposed rule on its fleet of coal-fired units.

EPA's December 20, 2017 notice to the State of Kentucky lowered the 8-hour NAAQS Ozone Standard from 0.075 parts per million (ppm) to 0.070 ppm. On January 5, 2018, EPA published a notification, opening the public comment period concerning the state designation recommendations for the 2015 NAAQS Ozone Standard. The Kentucky Nonattainment Designation Letter identified certain counties in Kentucky that EPA determined violate the 2015 NAAQS Ozone Standard and nearby areas that contribute to the violating areas. EKPC's Bluegrass Station is located in one of the identified counties. The impact of this designation cannot be determined at this time.

12. Related Party Transactions

The Cooperative is a member of CFC, which provides a portion of the Cooperative's financing and is also a joint lead arranger and an 18.3% participant in the Cooperative's $600 million unsecured credit facility. Held-to-maturity investments included CFC capital term certificates of $8.3 million and $8.4 million at December 31, 2017 and 2016, respectively. CFC Patronage capital assigned to EKPC was $1.4 million and $1.3 million at December 31, 2017 and 2016, respectively.

The Cooperative is also a member of CoBank, which is a 15% participant in the Cooperative's $600 million unsecured credit facility. The balance of CoBank patronage capital assigned to EKPC was $0.4 million and $0.3 million at December 31, 2017 and 2016, respectively.

EKPC is a member of ACES LLC (ACES), which provides various energy marketing, settlement and risk management related services to its members and clients. An EKPC director and EKPC's CEO serve as ACES Board Members. EKPC accounts for its investment in ACES on the cost basis of accounting. At December 31, 2017 and 2016, the balance of EKPC's investment in ACES was approximately $0.6 million. Payments to ACES were $2.2 million in 2017 and in 2016.

13. Subsequent Events

Management has evaluated subsequent events through March 27, 2018, which is the date these financial statements were available to be issued.

EAST KENTUCKY
POWER COOPERATIVE
A Touchstone Energy® Cooperative

4775 Lexington Road, 40391
P.O. Box 707,
Winchester, KY 40392-0707
Telephone: 859-744-4812
Fax: 859-744-6008
www.ekpc.coop