EAST KENTUCKY POWER COOPERATIVE
2018 ANNUAL REPORT

TOGETHER TRANSFORMING

Table of Contents

2018: Highlights

Financial (Dollars in Thousands)

	2018	2017	Increase/(Decrease) %
Operating Revenue	**$900,289**	$861,686	4.5
Operating Expenses	**$770,838**	$747,291	3.2
Net Margin	**$40,669**	$22,142	83.7
Members' Equities	**$663,790**	$612,445	8.4
Equity Ratio (%)	**17.4**	16.0	8.7

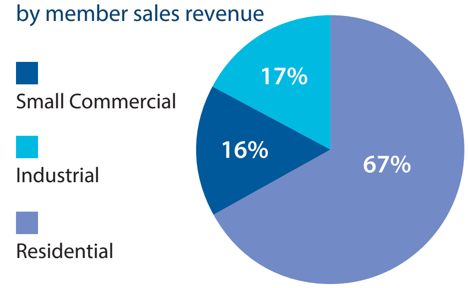
Operational

	2018	2017	Increase/(Decrease) %
Sales to Member Cooperatives (MWh) *	**13,401,688**	12,536,264	6.9
Member Revenue Per kWh Sold (mills/kWh) *	**63.66**	64.28	(1.0)
Cost of Owned Generation (mills/kWh)	**58.44**	65.44	(10.7)
System Peak Demand (MW)			
Winter Season **	**3,437**	2,871	19.7
Summer Season	**2,380**	2,311	3.0
Net Generation (MWh)	**9,100,511**	7,564,321	20.3

* *Includes steam sales*
** *Represents seasonal winter peaks achieved on 1/2/18 and 1/8/17*

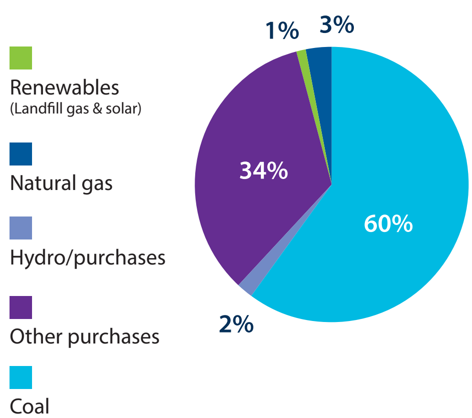
Customer Classes

by member sales revenue



Sources of Electricity

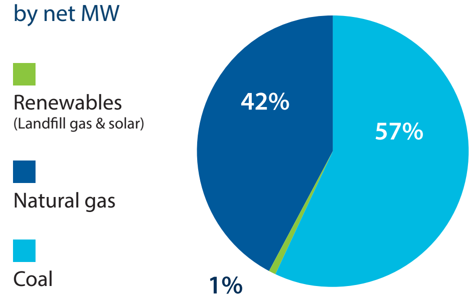
by MWh



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 reliable, affordable and sustainable energy to our 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 1.1 million Kentuckians across 87 counties. We're leaders in environmental stewardship. And we're committed to providing power to improve the lives of people in Kentucky.

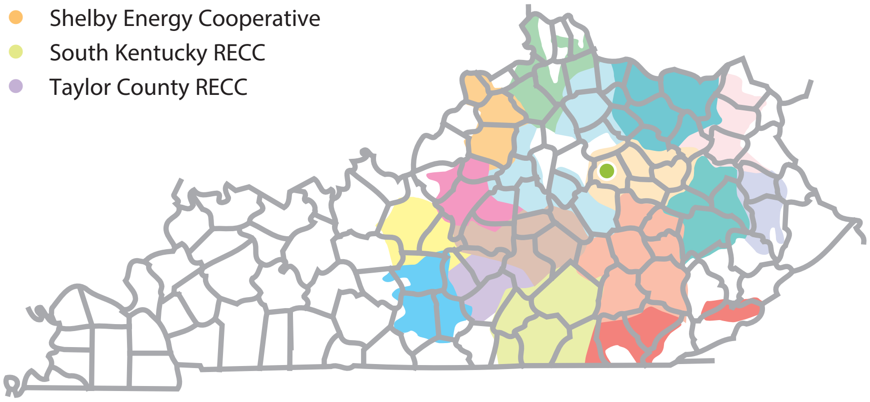
2018 at a glance

Total Energy Sales (GWh)	Energy Sales to Owner-Members (GWh)	Energy Sales to Non-members (GWh)	Total Operating Revenue ($ millions)	Net Margin ($ millions)	Assets ($ billions)	Average Wholesale Rate to Members ($/MWh)
14,113	13,402	711	900.3	40.7	3.8	63.7

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	Summer
Combustion	753 net MW
Turbine	Winter
Units	989 net MW
Bluegrass*	Summer
Combustion	501 net MW
Turbine	Winter
Units	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	540,993	1.1	3,437	2,864	685

TOGETHER TRANSFORMING

A message from the CEO and the Chairman

America's power industry is rapidly evolving, and East Kentucky Power Cooperative (EKPC) — along with our 16 owner-members — is also going through a period of transformation.

In 2018, we experienced another year in which the industry's sources of electricity generation further diversified and more of the nation's oldest coal generating units were retired. Our Board and Executive Staff evaluated new technologies emerging in batteries, renewables and other areas.

To prepare for the new world ahead, in 2018 EKPC updated its Strategic Plan. We worked closely with our legislative representatives in Congress on changes that have enabled us to greatly reduce EKPC's debt service requirements and to suspend plans to seek a base rate increase. We continued to upgrade our transmission infrastructure and worked with business partners whose announcements of new and expanding businesses hit an all-time record for the 87 counties served by the owner-member co-ops. We also continued to make safety our highest priority.

TRANSFORMING SAFETY

As a testament to the success of our ongoing safety journey, EKPC recorded one of its best safety records ever in 2018. For the first time, there were zero lost-time incidents. What makes this even more remarkable is that employees accomplished this while recording the second highest number of hours worked during a calendar year.

Our efforts to make safety everyone's job received national attention at several conferences, and through media accolades and awards.

While we celebrate these achievements, it's worth repeating: Our safety program is not about the numbers. Nor is it about awards. It's about preventing the pain and suffering that goes with injuries. It's about people. It's about protecting our employees and their families. That's why we will continue to be vigilant. We must remember that each of us is one distracted moment away from an incident that changes lives forever.

TRANSFORMING PERFORMANCE

Following months of discussions, the Board approved an updated Strategic Plan that will guide us for years to come. The Board added the delivery of sustainable energy to EKPC's mission and discussed issues such as cyber security infrastructure, transmission investments and generation diversification in order to develop a plan that addresses the changing marketplace.

TRANSFORMING THE WORKPLACE

To develop and maintain a high-performance workforce, EKPC has implemented a comprehensive strategy to prepare for the future. We are providing leadership training, mentoring programs and upward mobility for our all-star employees.

TRANSFORMING OPERATIONS

By being a member of PJM Interconnection, the operator of a competitive wholesale power market, EKPC again executed effective sales and purchases of power. In 2018 the PJM base residual auction for 2021/2022 delivery year capacity resulted in much higher clearing prices than expected. This will provide a revenue boost that will help to offset future plant operation and maintenance costs.

TRANSFORMING POWER SUPPLY

A great story the public rarely hears is that our power supply portfolio is becoming much more diversified with greater reliance upon power purchases and other sources of electricity. Coal declined from being the source of 82 percent of EKPC's power sources in 2010 to 60 percent in 2018. Plant emissions have declined over the past decade because of significant additions of air quality control equipment.

TRANSFORMING FINANCES

EKPC earned a net margin of $40.7 million on revenues of $900.3 million in 2018. Due to our strong performance and improved financial metrics, in 2019 our Board will evaluate the possibility of EKPC paying capital credits to its owner-members for the first time in its history.

Congress enacted a Farm Bill in 2018 that enables EKPC to prepay debt owed to the Rural Utilities Service (RUS) without penalty and significantly improves the outlook for the co-op's financial measurements. EKPC and our owner-members owe a debt of gratitude to U.S. Sen. Mitch McConnell and U.S. Reps. Hal Rogers, James Comer and Andy Barr for securing passage of the bill, and we thank President Donald Trump for signing the legislation into law.

Joe Spalding
Chairman of the Board

Anthony Campbell
President and CEO

A Kentucky Public Service Commission (PSC) ruling in September helped to protect EKPC's long-term wholesale power supply contract with its owner-members. To eliminate future cost shifting among owner-members, the order nullified an amendment to the wholesale power contract, which allowed EKPC's cooperatives to obtain replacement power from other sources.

TRANSFORMING THE ECONOMY

The economic development team for Kentucky's Touchstone Energy Cooperatives won the 2018 Organization Excellence Award from the National Rural Economic Developers Association (NREDA). The award recognized our use of cutting-edge technologies — including data from aerial drone flights, online videos and mobile mapping — to globally market rural Kentucky communities and to bring new businesses and jobs to our state.

The biggest announcement of 2018 occurred when Nucor Steel Gallatin confirmed plans to nearly double the capacity of its steel plant served by owner-member Owen Electric. The $650 million expansion will add a new arc furnace and 70 jobs, and a new galvanizing line will add another 75 jobs.

TRANSFORMING THE FUTURE

We overcame many challenges in 2018 to achieve success in safety, finances, economic development and other areas while preparing for the future. We thank all of our employees for making this possible! Together, we are positioning EKPC and our owner-members for continued success. Together, we are transforming EKPC for future success.


EKPC SAFETY IS
R.I.G.H.T.
REASON I GO HOME TONIGHT
SHADI MANASRA

TRANSFORMING SAFETY

EKPC had one of its best years ever for safety in 2018. For the first time, there were zero lost-time incidents.

Retired EKPC employee Harold Shelton spoke to employees during Safety Week about a farm incident that changed his life, stressing the importance of being safe at all times.

2018: Year in Review

Safety

Safety journey continues

The year began with a successful Safety Week when Joel Feldman told the story about his 21-year-old daughter Casey, who was killed by a distracted driver in 2010. Using the theme of "Drive it Home," Feldman and other speakers stressed the importance of safety at work and at home. EKPC also celebrated announcements of the employee Safety All-Stars.

A team of employees completed a new Safe Work Manual, while another team launched new safety incident management software. Also, staff conducted more than 4,700 safety observations.

In recognition of the positive impact its safety program has had on cooperatives across the nation, EKPC received the Claude Frazier Award. State and national conferences highlighted EKPC's safety journey at meetings in Alaska, Texas and Georgia.

4,700 Safety observations

6th Annual Safety Week

Rescue training

Safety education

Other safety highlights included:

Confined Space Rodeo. Five teams from Cooper, Smith and Spurlock Stations honed their safety and rescue skills at the 2018 Confined Space Rodeo. Smith Station won the friendly competition in three events that included first aid, horizontal retrieval and vertical retrieval.

Power Delivery Safety Day. Field and office employees heard the dramatic story of Bruce Stumpe and his wife Darla, who recounted his injury and recovery after he came in contact with energized substation equipment.

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

Family Safety Fair. EKPC hosted its annual safety fair for 300 employees and their family members. The fair actively engages family members in the safety culture. It also provides an opportunity to honor those who entered the Kids Safety Art Contest.

2018: A Good Year for Safety

EKPC achieved one of its best safety records ever in 2018 — a testament to the successful ongoing safety journey. For example, EKPC had its lowest rate ever for incidents that restrict employee work time.

Another indication that the program is headed in the right direction is that since the safety journey began in 2011, EKPC's average severity rate has plummeted. The severity rate measures days lost per hours worked.

The challenge is to continue making safety EKPC's top priority so that employees make it home safely each day.


EKPC SAFETY IS
R.I.G.H.T.
REASON I GO HOME TONIGHT
Kerri Dauteuil
EAST KENTUCKY
POWER COOPERATIVE
A Touchstone Energy Cooperative

TRANSFORMING THE FUTURE

EKPC and Kentucky's Touchstone Energy Cooperatives are harnessing solar energy for a bright future.

Located in Winchester along Interstate 64, Cooperative Solar Farm One is one of Kentucky's largest sun-to-electricity farms. More than 32,000 photovoltaic panels produce enough electricity to power about 1,000 Kentucky homes.

Operations

Cooperative Solar Farm One exceeds expectations

Since going commercial late in 2017, Cooperative Solar Farm One has exceeded generating expectations while creating positive publicity for Kentucky's Touchstone Energy Cooperatives.

Hundreds of students and citizens toured the farm, including groups from Leadership Central Kentucky and students from the Kentucky Governor's Scholar program.

Approval granted for Spurlock Station projects

Continuing EKPC's strong record of environmental stewardship, EKPC received approval from the PSC for a series of projects at Spurlock Station to ensure the plant remains in compliance with stringent environmental rules related to the handling and storage of coal ash, and the handling and discharge of wastewater.

The projects approved by the PSC included:

- New equipment for removing bottom ash from Units #1 and #2 that will convert each to dry handling systems.
- A new wastewater treatment plant will be constructed to treat water from scrubbers on Units #1 and #2.
- The existing 67-acre ash pond will be closed and approximately 1.75 million cubic yards of material will be removed and placed in Spurlock Station's ash landfill.
- A 17-acre pond will be established, along with a chemical treatment plant to process water.
- New ash storage silos will be constructed.

Environmental projects

Pollinator condo

Wildflower plantings

Honey bees

New barge firm leads to savings

A new company took over coal barge deliveries to Spurlock Station, saving over $10 million a year. The company is capable of moving more tonnage and provides access to more suppliers in the market.

The decision to change barge companies is among a series of improvements in recent years that have led to significant savings and enabled EKPC to have the lowest delivered coal price among utilities in Kentucky, and the second lowest delivered price for coal among all U.S. peers.

Spurlock Station's coal unloader prepares to descend into a barge to scoop up coal and place it onto a conveyor.

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.


R.I.G.H.T.
REASON I GO HOME TONIGHT
KERON MILLER
EAST KENTUCKY
POWER COOPERATIVE
A Touchstone Energy Cooperative

TRANSFORMING PERFORMANCE

EKPC updated its Strategic Plan to create a road map to a bright future.

A worker helps in the initial phase of a demolition project to remove the powerhouse and stacks at Dale Station, EKPC's first power plant.

Russell Marshall (left) and Cliff Harmon inspect equipment during the Dale Station demolition project.

Dale Station demolition

The Board approved the demolition of Dale Station at Ford on the Kentucky River. In preparation for the project, environmentally regulated materials such as asbestos were identified, removed and disposed of properly. Because the Dale switchyard and other transmission facilities are vital for maintaining the power delivery grid in the region, those facilities will continue to operate. The only structures to remain will be the office building and some outbuildings. Although Dale Station ceased to operate in 2016, the plant is being transformed into a valuable brownfield site.

Powering
1.1 million people

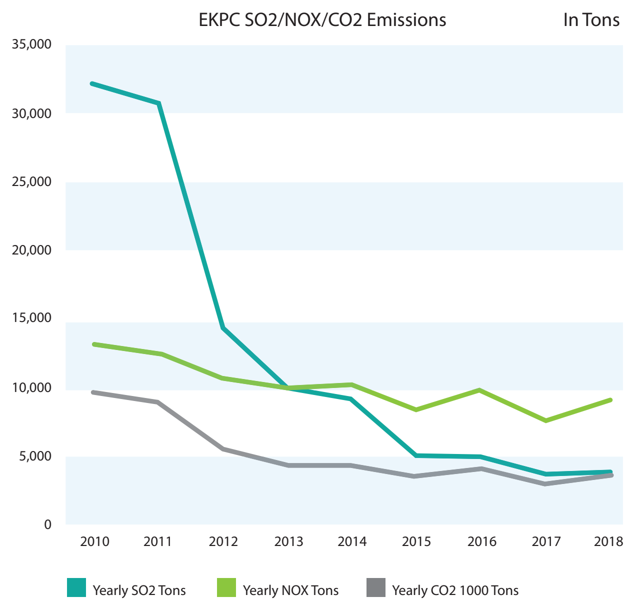
Plants achieve
high availability

Board approves final disposition of Smith Unit #1

Prior to the cancellation of a clean-coal generating unit at Smith Station in 2010, EKPC spent approximately $150 million on generating equipment and structural steel for the unit. Many of the components from the cancelled Smith Unit #1 are being used in identical units that are on-line at Spurlock Station. In October, the Board approved selling the remaining steel from the cancelled project.

EPA proposes replacement of Clean Power Plan

The EPA continued a more common-sense approach to protecting the environment by proposing the Affordable Clean Energy Rule (ACE), which would replace the Clean Power Plan as a way to reduce carbon emissions from existing plants. The ACE proposal promises greater flexibility for power plant owners and state regulators to achieve reductions by making prudent onsite efficiency upgrades. The proposal is expected to update the New Source Review rule.



Plant Emissions Decline

EKPC emissions of carbon, nitrogen and sulfur dioxide have decreased sharply with the addition of air-quality control equipment and greater reliance on off-system purchases.

Bluegrass Station will add a second fuel source by the end of 2020.

Plant seeks to add second fuel source

To comply with new performance standards at PJM, EKPC applied to the PSC for approval to add a second fuel source at Bluegrass Station in Oldham County. EKPC is seeking to add diesel by the end of 2020 to ensure the plant can operate in the event of a natural gas shortage or curtailment and reduce the risk of penalties from PJM in those circumstances. The PSC approved this project in early 2019.

Ruling reinforces decision to move ash

A federal court ruling in August, which mandated that all unlined ash ponds must close, reinforced EKPC's earlier decision to move coal ash from Dale Station to Smith Station in Clark County. In 2017, EKPC completed the relocation of the ash that was stored at Dale adjacent to the Kentucky River. If the project had not been completed, the court's ruling in 2018 would have required EKPC to move the ash in a short timeframe at a much higher cost.

Habitat for pollinators

Canada geese nesting platforms

Kestrel nesting boxes

Blue bird nesting boxes

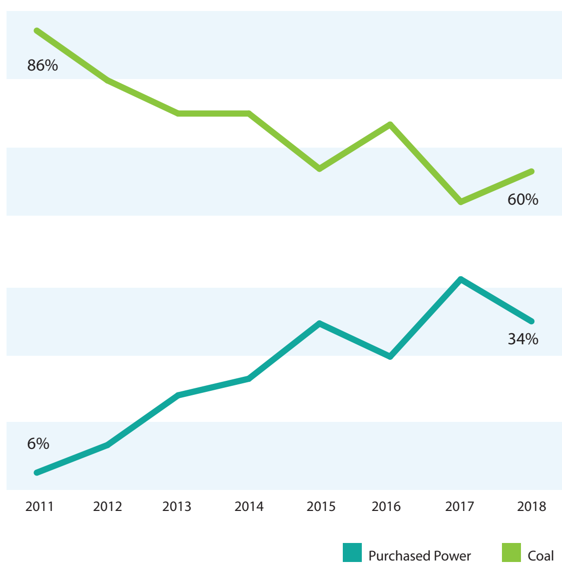
Projects benefit the environment

EKPC continued to demonstrate its ongoing commitment to the environment by participating in several KY Excel projects that included:

- Picking up trash along the Ohio River at Spurlock Station in partnership with Living Lands & Water
- Developing habitat on the headquarters campus to improve plant pollination
- Installing new nesting boxes for native Kentucky falcons in partnership with Fleming-Mason Energy and the state
- Building a nesting platform at Bluegrass Station for Canada geese

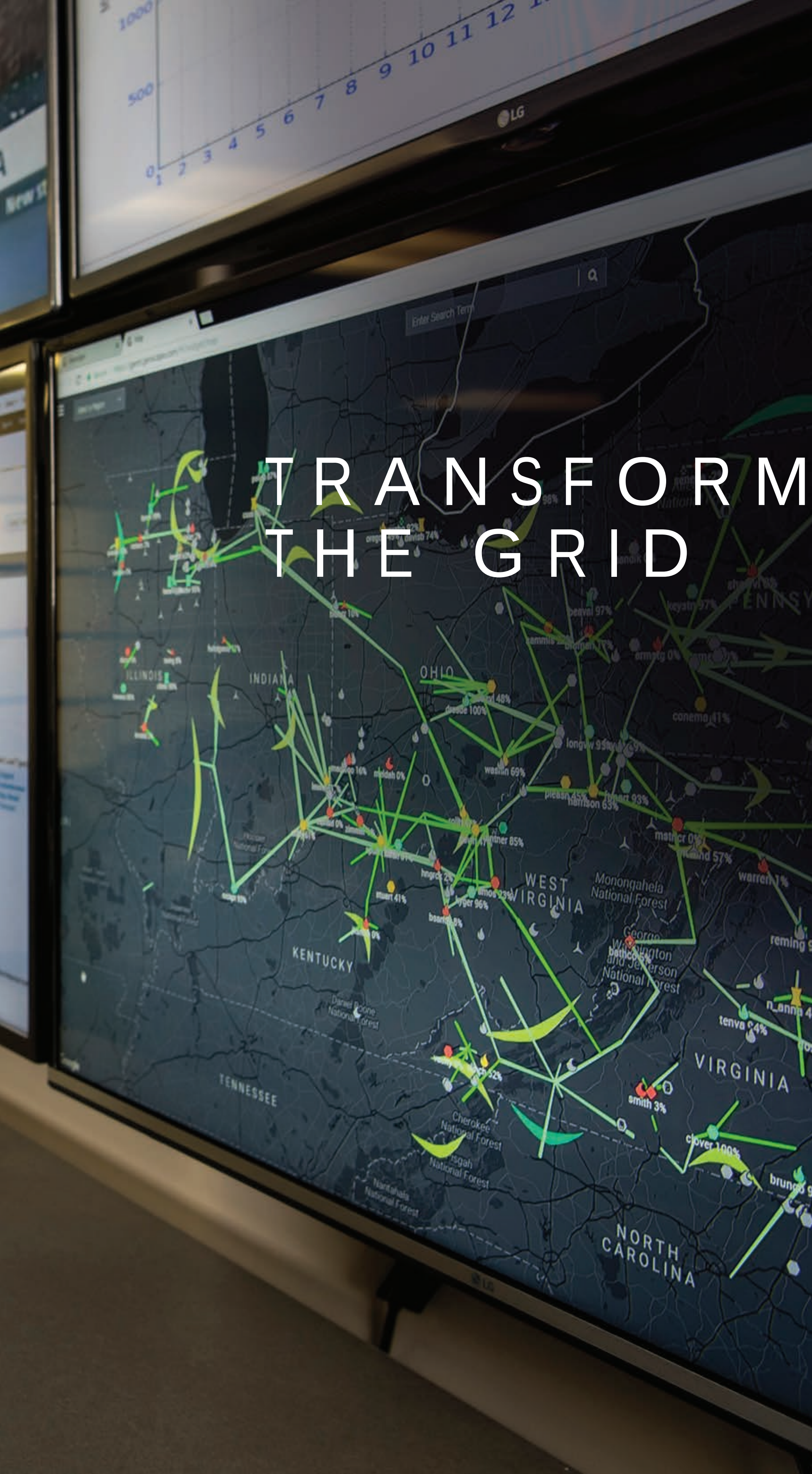
KY Excel is a program of the Kentucky Energy and Environment Cabinet to recognize stewardship efforts in the Commonwealth.

Sources of Electricity: Purchased Power vs. Coal



Transforming Power Supply

EKPC's use of coal as a source of generation has declined significantly, while off-system power purchases have increased.



TRANSFORMING THE GRID

EKPC invested almost $33 million in new transmission infrastructure in 2018.

Matt Robinson stands in front of the stockpile of tire-derived fuel (TDF), which consists of tires that have been cut up for use as a supplemental fuel at Spurlock Station.

An employee holds small chunks of TDF at Spurlock Station. The plant uses the equivalent of about 2.4 million tires a year by adding TDF as fuel to generate power. That's about half of all waste tires produced in Kentucky each year.

Plants lower costs and use alternative fuel

Cooper Station employees developed a new process that increased the efficient use of lime in plant scrubbers. The project saved operating expenses and made the plant more competitive in the power market.

At Spurlock Station, EKPC continues to supplement the coal used at the plant with TDF. In the past, worn-out tires from Kentucky automobiles were likely to end up in a landfill or in a creek. The TDF program at Spurlock uses the equivalent of 2.4 million tires a year, which is about half the waste tires generated in Kentucky annually. TDF arrives at the plant cut into small chunks with the metal bead wire removed.

Protecting critical infrastructure

$33 million in new transmission facilities

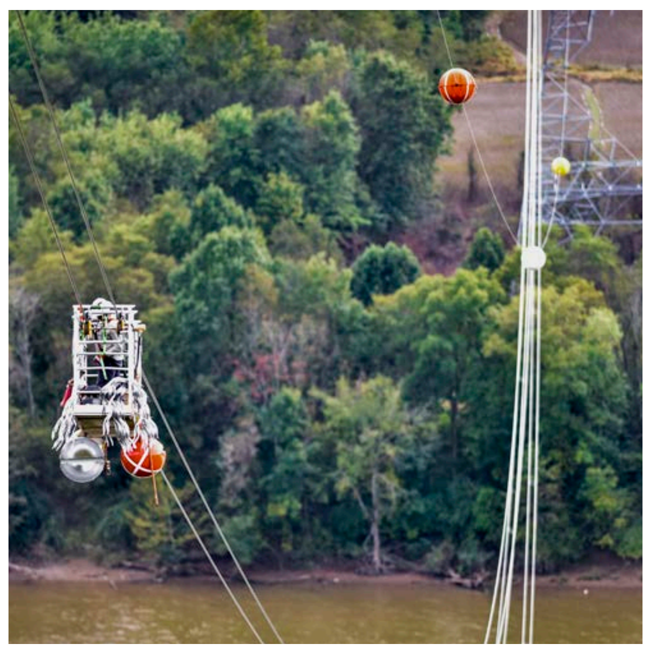
Team formed to focus on cyber security

Reports of increasing threats to America's electric grid prompted EKPC to establish a new team to monitor and protect critical infrastructure from cyberattacks. The new team integrates efforts from across EKPC and is one way EKPC is moving beyond standard compliance to proactively protect the computer systems that are key to operations.

Power Delivery boosts grid resilience

EKPC invested almost $33 million in 2018 in new transmission infrastructure to continue providing high reliability to owner-members. Projects included the addition of 11.5 miles of transmission lines, and the rebuilding of multiple substations and lines. EKPC continued replacing smaller lines built during the early years of the system's construction. Over the next decade, a plan to systematically upgrade aging infrastructure will be implemented.

During 2018, EKPC replaced the northern section of our telecom system that transmits data from radio towers, plants and the transmission system to the Energy Control Center. The work in 2018 was the last of three phases of the project that will give us greater visibility into the operation of the system.



A worker assists in a project to upgrade the transmission line and conductors spanning the Ohio River from Kentucky to Ohio at Spurlock Station. The project involved pulling a new line nearly 3,000 feet across the river.

EKPC added EVs to the co-op vehicle fleet to promote the cars and to show that co-ops are leading Kentucky to a bright future.

Josh Littrell plugs in the co-op's all-electric Chevrolet Bolt at a new charging station at EKPC headquarters.

charge kentucky

Ready for the electric vehicle era

EKPC installed electric vehicle (EV) charging stations on the headquarters campus and at three power plants. At the owner-member annual meetings and the Kentucky State Fair, the co-ops displayed the Chevy Bolt and Chevy Volt to help members learn more about EVs and the ways that electricity can help members to live cleaner, greener lives.


In Remembrance
Don B. Daily
1947-2009
Visitor
DANGER

TRANSFORMING THE ECONOMY

Businesses served by Kentucky's Touchstone Energy Cooperatives announced $2.5 billion in projects and 3,000 jobs in 2018, an all-time record.

Lion apparel Plant Manager Trevor Weaver (left) and employee Arleenna Prater discuss production of fire protection clothing with Licking Valley President and CEO Kerry Howard. Co-ops work hard to help create jobs and a better life for members.

Kentucky's Touchstone Energy Cooperatives receive the Organization Excellence Award from the National Rural Economic Developers Association.

Jobs and community support

Economic Development has a banner year
Announcements of new and expanding businesses in the 87 counties served by Kentucky's Touchstone Energy Cooperatives hit an all-time record in 2018, and the success won national acclaim.

During 2018, the owner-member cooperatives actively supported technology education programs to strengthen job skills and transform the economies of the service territories.

In the spring, high school teams sponsored by Kentucky's Touchstone Energy Cooperatives competed and won honors at the VEX Robotics World Championship in Louisville.

64 teachers obtain advanced certifications

STEM education camps

In the summer, 64 teachers graduated from a cooperative-sponsored program to propel the state's economy to the top. Called SOAR-STEM, the program's goal is to build the world's largest science, technology, engineering and math workforce in Kentucky. The effort is a partnership with Morehead State University, University of Pikeville, Union College, Kentucky Department for Local Government, Kentucky Council on Postsecondary Education, the Appalachian Regional Commission, Toyota Foundation, Shaping Our Appalachian Region (SOAR), Kentucky Valley Education Cooperative and Project Lead the Way, a national curriculum that features fun, hands-on learning.

SOAR-STEM partners provided advanced teacher training for three years. This training enabled teachers to obtain master's degrees, STEM education certification and national board certification. At the graduation ceremonies, co-op CEOs presented each teacher with a laptop computer and software to assist them in teaching STEM in their school districts.

2018: A Banner Year for Economic Development

Businesses announced projects worth nearly $2.5 billion in investments and 3,000 jobs.

About half of all projects announced in Kentucky were in areas served by Kentucky's Touchstone Energy Cooperatives.

The three largest projects — Nucor Steel Gallatin, Makers Mark and Jim Beam — are served by co-ops.

Scott Sells is one of EKPC's brand ambassadors. He oversees the Energy Control Center, where operators help coordinate field crew responses to outages and make sure power lines are not overloaded.

Employees showcase work through EKPC Life

EKPC launched a program called EKPC Life designed to keep employees engaged and to attract the best new employee candidates possible. Four employee teams developed plans to showcase the co-op brand.

Another group of 30 employees also highlighted EKPC's brand to external audiences. On their personal social media pages, these brand ambassadors showed how EKPC is connected to owner-members and to the communities that co-ops serve, while sharing the message that EKPC is shaping the future of Kentucky.

Special Olympics

Honor Flight Kentucky

Ronald McDonald House

Commitment to Communities

Co-ops support local communities

EKPC and owner-member staff celebrated the 20-year anniversary of Touchstone Energy Cooperatives, the unifying national co-op network that EKPC and owner-members helped to launch in 1998. The brand emphasizes the cooperative difference and has become the gold standard of excellence in the energy industry.

In 2018, Kentucky's Touchstone Energy Co-ops continued serving local people and communities by providing:

- Discounts on medical prescriptions, along with local, state and national business deals, through the Co-op Connections Card
- An all-expense paid Honor Flight trip for 68 veterans who served during World War II, the Korean War and the Vietnam War to see their memorials in Washington, D.C.
- Funds and volunteers to support sick children and families lodging at the Ronald McDonald Houses in Louisville and Lexington
- Volunteers and the title sponsorship of the 2018 Special Olympics Summer Games at Eastern Kentucky University
- Business training for service excellence and energy solutions to better serve co-op staff, key accounts and end-use members

A best-in-class model was introduced in 2018 by Touchstone Energy to measure and improve performance and member engagement through advertising, social media and local economic development. The American Customer Satisfaction Index (ACSI) again confirmed that electric co-ops provide unmatched service compared to other utilities and industries.

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

Voting members

Wayne Stratton
Shelby Energy
Committee Chair

Joe Spalding
Inter-County Energy
Board Chairman

Raymond Rucker
Taylor County RECC

Landis Cornett
Jackson Energy
Board Treasurer

Ted Holbrook
Licking Valley RECC

Chief Executive Officers

Non-voting members

Bill Prather
Farmers RECC

Tony Campbell
East Kentucky Power

Tim Sharp
Salt River Electric

External Committee Members

Non-voting members

Mike Steffes
ACES

Patrick Sterling
Texas Roadhouse

Strategic Issues Committee

Serves as a catalyst of business strategies and 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

Voting members

Bill Shearer
Clark Energy
Committee Chair

Jody Hughes
Blue Grass Energy
Board Secretary

Elbert Hampton
Cumberland Valley Electric

Boris Haynes
South Kentucky RECC

Ken Arrington
Grayson RECC

A.L. Rosenberger
Nolin RECC

Chief Executive Officers

Non-voting members

Jerry Carter
Inter-County Energy

Mike Williams
Blue Grass Energy

Mark Stallons
Owen Electric

Chris Brewer
Clark Energy

Ted Hampton
Cumberland Valley Electric

Kerry Howard
Licking Valley RECC

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

Voting members

Tim Eldridge
Fleming-Mason Energy
Committee Chair

Alan Ahrman
Owen Electric
Board Vice Chairman

Randy Sexton
Farmers RECC

Jimmy Longmire
Salt River Electric

Danny Wallen
Big Sandy RECC

Chief Executive Officers

Non-voting members

Jack Bragg
Shelby Energy

Carol Fraley
Grayson RECC

Carol Wright
Jackson Energy

Greg Lee
Nolin RECC

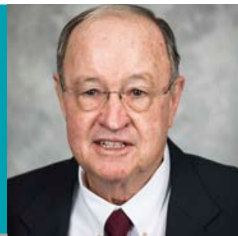
Bruce Aaron Davis
Big Sandy RECC

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

Voting members



Ted Holbrook
Licking Valley RECC
Committee Chair

Bill Shearer
Clark Energy

Wayne Stratton
Shelby Energy

Landis Cornett
Jackson Energy
Board Treasurer

Tim Eldridge
Fleming-Mason Energy

Chief Executive Officers

Non-voting members

Joni Hazelrigg
Fleming-Mason Energy

Dennis Holt
South Kentucky RECC

Barry Myers
Taylor County RECC

EKPC Executive Staff

Back row, from left, are:
***Craig Johnson**, Senior Vice President of Power Production; **Thomas Stachnik**, Vice President of Finance and Treasurer; **David Smart**, General Counsel; **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:
***Ann Bridges**, Vice President of Strategic Planning and External Affairs; **Denver York**, Senior Vice President of Power Delivery and System Operations; **Jerry Purvis**, Vice President of Environmental Affairs; and **Mary Jane Warner**, Vice President of Engineering and Construction.*

Mission Statement

EKPC exists to serve its member-owned cooperatives by safely delivering reliable, affordable and sustainable energy and related services.

Values

These are the shared beliefs and culture that underlie everything we do at EKPC:

Safety

Service

Honesty and Integrity

Respect

Teamwork

Environmental Stewardship

TRANSFORMING FINANCES

EKPC significantly improved its financial outlook and the Board will evaluate paying capital credits for the first time in its history.

2018: Financial Highlights

2018 Performance

EKPC's net margin was $40.7 million for the year ended December 31, 2018, an increase of $18.6 million in comparison to 2017. Operating revenues were $900.3 million for the year ended December 31, 2018, an increase of $38.6 million from the prior year. Favorable weather and market conditions resulted in increased member and off-system sales of $47.3 million and $10.6 million, respectively. Lower auction prices resulted in PJM capacity market revenue declining $19.6 million from the prior year.

Production operating expenses for the year ended December 31, 2018 were $547.4 million, a $40.6 million increase 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. Increased EKPC generation due to higher load requirements resulted in total fuel expense increasing $30.2 million. Higher market prices and demand resulted in purchased power increasing by $5.2 million for the year ended December 31, 2018.

Transmission and distribution expenses for the years ended December 31, 2018 and 2017 totaled $44.3 million and $58.9 million, respectively, a decrease of $14.6 million. This decrease was largely due to changes in PJM's tariff for transmission enhancements, which was effective beginning on July 1, 2018 based upon a settlement approved by the Federal Energy Regulatory Commission (FERC).

Nonoperating margin was $26.7 million for the year ended December 31, 2018, an increase of $3.2 million in comparison to 2017. This increase was primarily attributed to earnings from additional funds invested in the RUS cushion of credit program.

EKPC's total cost billed to owner-members in 2018 was $64.04 mills per kilowatt-hour (mills/kWh). This cost was lower than the $64.34 mills/kWh achieved in 2017.

Financial Targets

EKPC improved its equity-to-assets ratio from 16.0% in 2017 to 17.4% at December 31, 2018. EKPC achieved a 20.1% equity-to-assets ratio using the RUS loan covenant methodology, which excludes the Cooperative's investment in the RUS Cushion of Credit from total assets. Because this ratio now exceeds the requirements of our loan covenants, the Board of Directors will evaluate the possibility of retiring capital credits for the first time in the history of the Cooperative in 2019.

All of EKPC's other financial ratios were in compliance with the provisions outlined in its indenture and other debt agreements at December 31, 2018.

Financing Activities

In 2018, the Cooperative entered into an agreement with RUS to refinance $62.4 million of existing higher interest advances, plus a $6.3 million make-whole premium, at favorable current interest rates, and extended the maturity date to January 3, 2051 under the Federal Financing Bank (FFB) Pilot Refinancing Program.

The Cooperative also provided notice to RUS on December 20, 2018 to prepay all notes bearing interest rates greater than 5%, totaling approximately $178 million, on or as soon as possible after January 2, 2019 from the Cushion of Credit, pursuant to the provisions of the Farm Bill signed into law on that same day, which enabled RUS borrowers to use funds in the Cushion of Credit to prepay RUS/FFB loans with no prepayment penalty through September 30, 2020. The loans are expected to pay off in 2019.

These efforts to reduce the Cooperative's debt service requirements enabled EKPC to suspend plans to seek an increase in base rates from the PSC.

Regulatory Approvals

On May 18, 2018, the PSC granted the Cooperative a certificate of public convenience and necessity (CPCN) and also authorized an amendment to its environmental compliance plan to include a project that is necessary for Spurlock Station to comply with the final rules on Coal Combustion Residuals (CCR) and Effluent Limitation Guidelines (ELG). The 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 will be substantially recovered through the Cooperative's environmental surcharge mechanism. EKPC plans to begin construction of the project in January 2019 with an estimated completion date of November 2024.

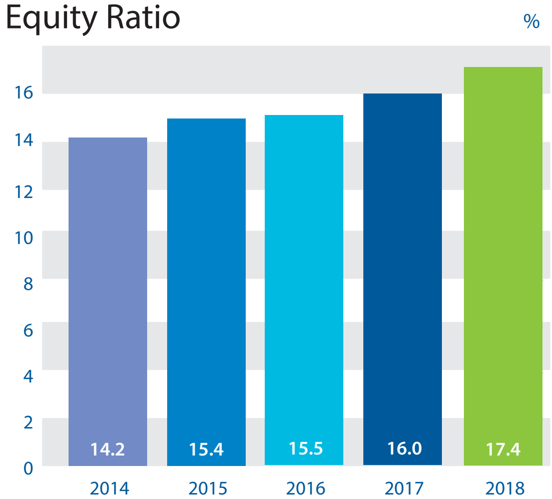
Five-Year Statistical Summary

	2018	2017	2016	2015	2014
Net Margin - in thousands	**$ 40,669**	$22,142	$53,708	$49,290	$64,845
TIER	**1.35**	1.19	1.48	1.44	1.56
DSC	**1.34**	1.26	1.33	1.26	1.30
Fuel Expense - in thousands	**$209,488**	$179,335	$247,040	$228,372	$297,399
Capital Expenditures - in thousands					
Generation	**$58,899**	$65,634	$35,703	$163,988	$41,793
Transmission & Distribution	**$32,593**	$22,139	$29,963	$47,700	$20,937
General	**$9,549**	$10,170	$5,712	$4,125	$10,172
Investment in Facilities - in thousands					
Original Cost	**$4,291,350**	$4,236,618	$4,147,295	$3,999,314	$3,867,127
Long-Term Debt - in thousands **	**$2,826,261**	$2,882,216	$2,794,578	$2,499,815	$2,632,276
Total Assets - in thousands **	**$3,810,802**	$3,825,095	$3,718,233	$3,330,753	$3,403,556
Number of Employees - full-time	**685**	688	696	670	666
Cost of Coal Purchased					
$/ton	**$44.86**	$45.90	$51.56	$51.84	$55.49
$/MBtu	**$1.91**	$1.99	$2.24	$2.27	$2.44
Amount of Coal Purchased - tons	**3,795,924**	3,492,169	3,821,064	3,927,446	4,288,956
Generation - MWh	**9,100,511**	7,564,321	9,758,569	8,618,586	10,462,583
System Peak Demand - MW					
Winter Season *	**3,437**	2,871	2,890	3,507	3,425
Summer Season	**2,380**	2,311	2,293	2,179	2,192
Sales to Other Utilities - MWh	**711,447**	548,528	717,130	711,081	805,511
Member Load Growth - %					
Energy	**6.90**	(2.57)	3.02	(4.80)	3.72
Demand	**5.70**	1.32	(4.81)	(0.67)	3.23
Load Factor - %	**45**	50	51	41	44
Miles of Line	**2,864**	2,852	2,847	2,838	2,835
Installed Capacity - kVA	**11,022,945**	11,017,745	10,861,447	10,810,447	10,779,247
Distribution Substations	**373**	373	369	366	364

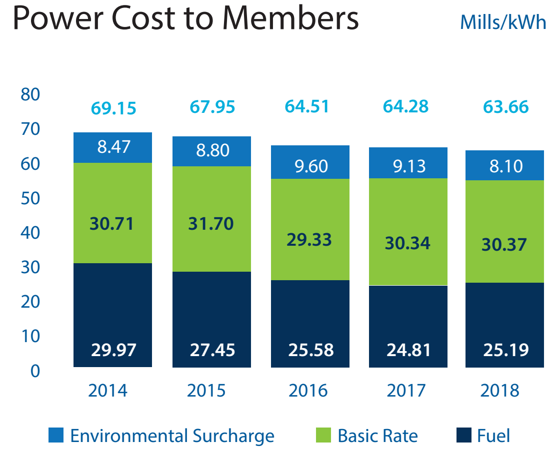
* *Data reported represents seasonal peak achieved during current calendar year*

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

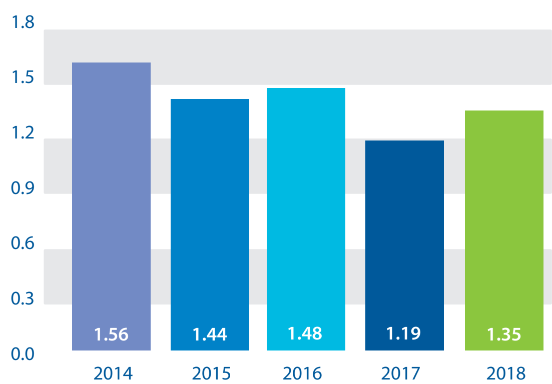
Equity Ratio



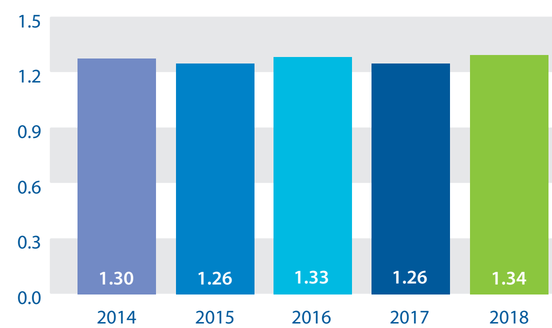
Power Cost to Members



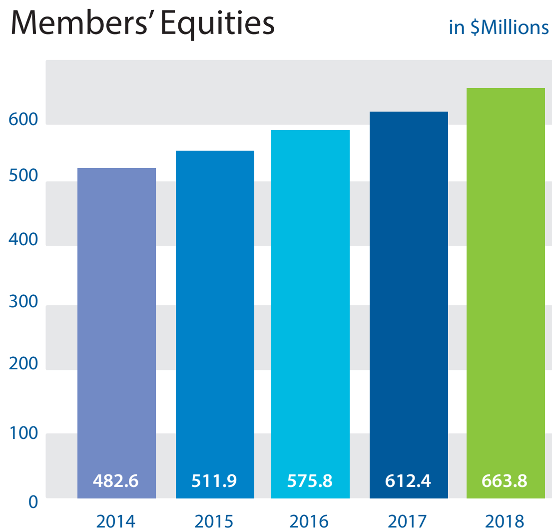
TIER



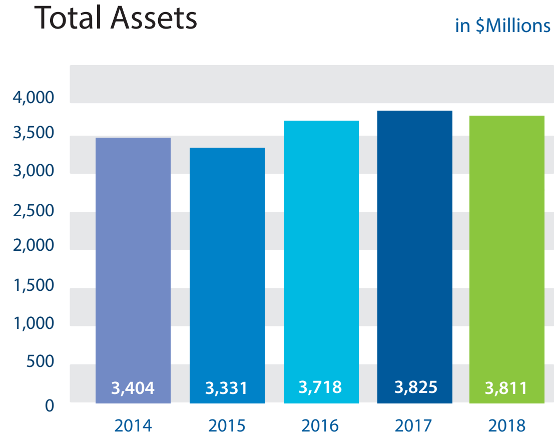
DSC



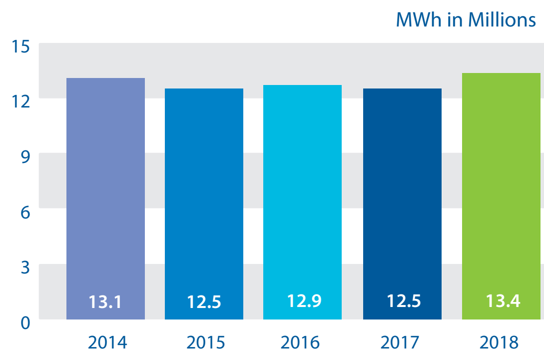
Members' Equities



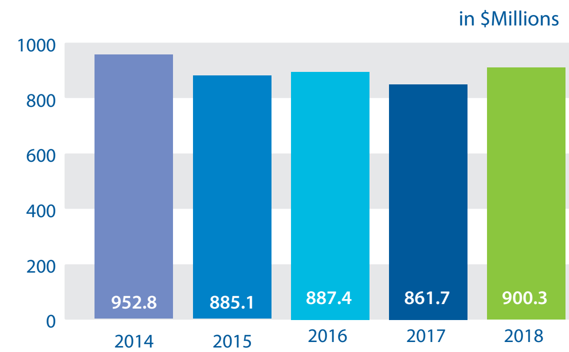
Total Assets



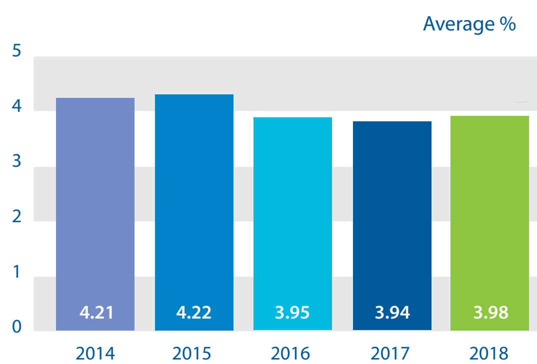
Energy Sales to Members



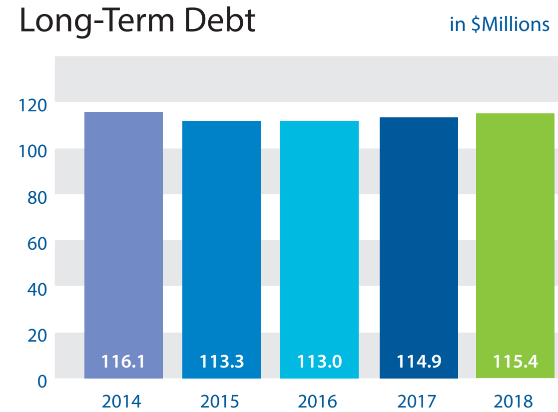
Operating Revenue



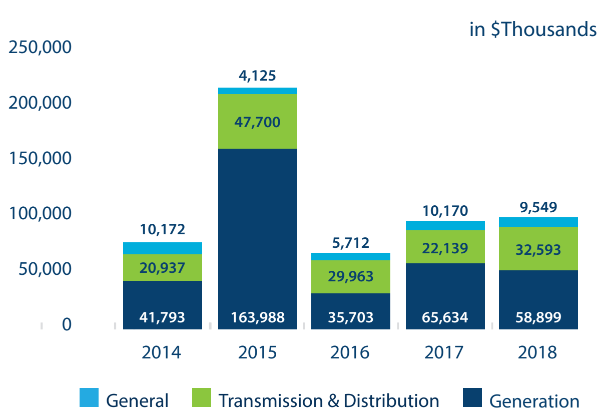
Average Interest Rate on Long-Term Debt Year-End



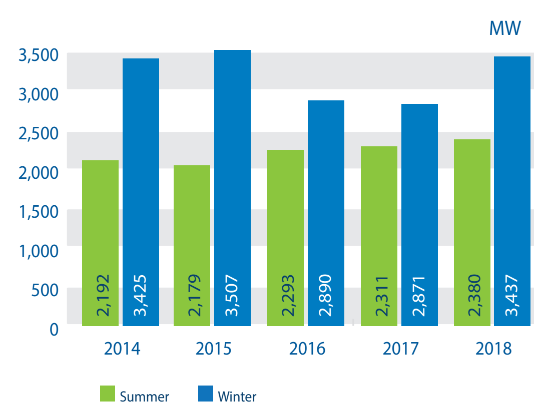
Interest Expense on Long-Term Debt



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, 2018 and 2017, 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, 2018 and 2017, 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, 2019 on our consideration of 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 solely 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 effectiveness of East Kentucky Power Cooperative, Inc.'s 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, 2019

East Kentucky Power Cooperative, Inc.

Balance Sheets
(Dollars in Thousands)

	December 31 2018	December 31 2017
Assets		
Electric plant:		
In-service	**$ 4,198,019**	$ 4,203,541
Construction-in-progress	**93,331**	33,077
	4,291,350	4,236,618
Less accumulated depreciation	**1,554,632**	1,495,332
Electric plant – net	**2,736,718**	2,741,286
Long-term accounts receivable	**3,062**	1,015
Restricted cash and investments	**331,196**	333,244
Investment securities:		
Available-for-sale	**40,086**	36,403
Held-to-maturity	**8,211**	8,307
Current assets:		
Cash and cash equivalents	**126,635**	138,959
Restricted investment	**178,545**	178,469
Accounts receivable	**88,158**	92,221
Fuel	**48,753**	49,686
Materials and supplies	**64,869**	61,530
Regulatory assets	**–**	1,538
Other current assets	**12,752**	6,052
Total current assets	**519,712**	528,455
Regulatory assets	**162,547**	165,683
Deferred charges	**2,147**	2,834
Other noncurrent assets	**7,123**	7,868
Total assets	**$ 3,810,802**	$ 3,825,095
Members' equities and liabilities		
Members' equities:		
Memberships	**$ 2**	$ 2
Patronage and donated capital	**651,708**	611,039
Accumulated other comprehensive margin	**12,080**	1,404
Total members' equities	**663,790**	612,445
Long-term debt	**2,826,261**	2,882,216
Current liabilities:		
Current portion of long-term debt	**92,499**	90,815
Accounts payable	**80,816**	62,752
Accrued expenses	**14,590**	40,140
Regulatory liabilities	**4,550**	2,096
Total current liabilities	**192,455**	195,803
Accrued postretirement benefit cost	**62,888**	72,512
Asset retirement obligations and other liabilities	**65,408**	62,119
Total members' equities and liabilities	**$ 3,810,802**	$ 3,825,095

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 2018	2017
Operating revenue	**$ 900,289**	$ 861,686
Operating expenses:		
Production:		
Fuel	**209,488**	179,335
Other	**166,122**	160,935
Purchased power	**171,743**	166,505
Transmission and distribution	**44,253**	58,943
Regional market operations	**5,244**	4,730
Depreciation and amortization	**119,704**	121,475
General and administrative	**54,284**	55,368
Total operating expenses	**770,838**	747,291
Operating margin before fixed charges and other expenses	**129,451**	114,395
Fixed charges and other:		
Interest expense on long-term debt	**115,439**	114,915
Amortization of debt expense	**473**	477
Accretion and other	**(426)**	352
Total fixed charges and other expenses	**115,486**	115,744
Operating margin (loss)	**13,965**	(1,349)
Nonoperating margin:		
Interest income	**27,745**	23,113
Patronage capital allocations from other cooperatives	**233**	554
Regulatory settlements	**–**	(10)
Other	**(1,274)**	(166)
Total nonoperating margin	**26,704**	23,491
Net margin	**40,669**	22,142
Other comprehensive margin:		
Unrealized gain (loss) on available-for-sale securities	**(19)**	6
Postretirement benefit obligation gain	**10,695**	14,472
	10,676	14,478
Comprehensive margin	**$ 51,345**	$ 36,620

See notes to financial statements.

East Kentucky Power Cooperative, Inc.

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, 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
Net margin	**–**	**40,669**	**–**	**–**	**40,669**
Unrealized loss on available for sale securities	**–**	**–**	**–**	**(19)**	**(19)**
Postretirement benefit obligation gain	**–**	**–**	**–**	**10,695**	**10,695**
Balance – December 31, 2018	**$ 2**	**$ 648,673**	**$ 3,035**	**$ 12,080**	**$ 663,790**

See notes to financial statements.

East Kentucky Power Cooperative, Inc.

Statements of Cash Flows

(Dollars in Thousands)

	Year Ended December 31 2018	2017
Operating activities		
Net margin	**$ 40,669**	$ 22,142
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation and amortization	**119,704**	121,475
Amortization of loan costs	**1,039**	1,077
Changes in operating assets and liabilities:		
Accounts receivable	**4,063**	(2,990)
Fuel	**933**	(2,294)
Materials and supplies	**(3,339)**	(418)
Regulatory assets/liabilities	**453**	(353)
Accounts payable	**8,139**	(3,612)
Accrued expenses	**(25,550)**	1,167
Accrued postretirement benefit cost	**1,071**	3,825
Other	**(4,063)**	(6,583)
Net cash provided by operating activities	**143,119**	133,436
Investing activities		
Additions to electric plant	**(96,123)**	(100,134)
Restricted deposits held in escrow	**1,500**	1,500
Maturities of debt service reserve securities	**4,288**	4,247
Purchases of debt service reserve securities	**(4,306)**	(4,250)
Maturities of available-for-sale securities	**60,555**	34,035
Purchases of available-for-securities	**(64,257)**	(36,697)
Maturities of held-to-maturity securities	**96**	90
Additional deposits with RUS restricted investment	**(89,369)**	(241,202)
Maturities of RUS restricted investment	**89,859**	134,917
Other	**(3,023)**	227
Net cash used in investing activities	**(100,780)**	(207,267)
Financing activities		
Proceeds from long-term debt	**197,030**	368,568
Principal payments on long-term debt	**(245,047)**	(279,894)
Debt issuance costs	**(6,646)**	–
Net cash provided by (used in) financing activities	**(54,663)**	88,674
Net change in cash and cash equivalents	**(12,324)**	14,843
Cash and cash equivalents – beginning of year	**138,959**	124,116
Cash and cash equivalents – end of year	**$ 126,635**	$ 138,959
Supplemental disclosure of cash flow		
Cash paid for interest	**$ 139,805**	$ 114,697
Noncash investing transactions:		
Additions to electric plant included in accounts payable	**$ 24,359**	$ 14,434
Unrealized gain (loss) on available-for-sale securities	**$ (19)**	$ 6

See notes to financial statements.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements

Years Ended December 31, 2018 and 2017

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 2018 and 2017 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 2018 and 2017.

Depreciation and amortization expense was $119.7 million and $121.5 million for 2018 and 2017, respectively. Depreciation and amortization expense includes amortization expense of $12.6 million in 2018 and 2017 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 $6.3 million and $13.6 million in 2018 and 2017, 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, 2018 or 2017.

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. Prior to December 20, 2018, RUS borrowers could make voluntary irrevocable deposits into a special account that earned 5% interest per year. The balance (deposits and earned interest) could only be used to repay scheduled principal and interest payments on loans made or guaranteed by the RUS. On December 20, 2018, President Trump signed the Agriculture Improvement Act of 2018 ("the Farm Bill") which included provisions that modified the cushion of credit program. The Farm Bill prohibits new deposits to cushion of credit and enables balance holders to use existing cushion of credit funds to prepay RUS/FFB debt without a prepayment penalty through September 30, 2020. Existing cushion of credit account balances will continue to earn 5% interest until October 1, 2020.

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, 2018 and 2017 consisted of the following (dollars in thousands):

	2018	2017
Debt service reserve (Note 6)	**$ 1,087**	$ 1,068
Funds restricted by tolling agreement	**3,000**	4,500
Noncurrent restricted investment – RUS cushion of credit	**327,109**	327,676
Restricted cash and investments – noncurrent	**331,196**	333,244
Current restricted investment – RUS cushion of credit	**178,545**	178,469
Total restricted cash and investments	**$ 509,741**	$ 511,713

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, 2018 and 2017, 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, 2018 and 2017, were as follows (dollars in thousands):

	Fair Value at Reporting Date Using			
	Fair Value December 31, 2018	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash equivalents	**$ 95,000**	**$ 95,000**	**$ –**	**$ –**
Available-for-sale securities	**40,086**	**40,086**	**–**	**–**
Debt service reserve	**1,087**	**1,087**	**–**	**–**

	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	–	–

1. Summary of Significant Accounting Policies (continued)

The estimated fair values of the Cooperative's financial instruments carried at cost at December 31, 2018 and 2017, were as follows (dollars in thousands):

	2018		2017	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Held-to-maturity investments	**$ 8,211**	**$ 10,613**	$ 8,307	$ 11,120
Long-term debt	**2,918,760**	**3,175,389**	2,973,031	3,316,224

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 $853.2 million and $805.8 million for 2018 and 2017, respectively. Accounts receivable at December 31, 2018 and 2017, were primarily from billings to member cooperatives.

At December 31, 2018 and 2017, individual accounts receivable balances that exceeded 10% of total accounts receivable are as follows (dollars in thousands):

	2018	2017
Owen Electric Cooperative	**$ 12,744**	$ 12,044
South Kentucky RECC	**9,381**	9,995
Blue Grass Energy Cooperative	**9,270**	9,743

1. Summary of Significant Accounting Policies (continued)

Inventories

Inventories of fuel and materials and supplies are valued at the lower of average cost or net realizable value. 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 2018 and 2017 are primarily related to changes in the estimated cost to abate asbestos at Cooper Station and to settle ash disposal sites to comply with the closure and post-closure requirements of the Coal Combustion Residuals (CCR) Rule, respectively. Settlement activities are associated with the abatement of asbestos at Dale Station and 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):

	2018	2017
Balance – beginning of year	**$ 56,309**	$ 63,434
Liabilities settled	**24**	(9,594)
Estimated cash flow revisions	**2,413**	651
Accretion	**1,534**	1,818
Balance – end of year	**$ 60,280**	$ 56,309

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. 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 for the Smith Landfill. These regulatory assets will be charged to accretion expense and depreciation expense as recovery of settlement costs occurs.

Accretion charged to regulatory assets in 2018 and 2017 was $1.5 million and $1.8 million, respectively. Accretion expense recognized in 2018 was $(.02) million which represented the net impact of a PSC-ordered credit for accretion expense recognized in 2017 on an ARO before regulatory asset treatment was granted by the PSC and recovery of settlement costs associated with the Dale Station ash transfer and reclamation projects. Accretion expense recognized in 2017 was $0.4 million, 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 permit the Board of Directors to retire capital contributed by or allocated to members when, 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. At December 31, 2018 and 2017, no patronage capital was refunded or retired.

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 be effective for the Cooperative beginning in 2019. Approximately 94 percent of our revenue is derived from identical wholesale power contracts with our sixteen member cooperatives. We do not expect revenue recognition pursuant to the wholesale power contracts to change as a result of the new revenue standard. We are currently finalizing our analysis of other contracts within the scope of Topic 606 and do not anticipate a significant impact from adopting this standard. We will adopt the standard on January 1, 2019.

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.

2. Electric Plant in Service

Electric plant in service at December 31, 2018 and 2017, consisted of the following (dollars in thousands):

	2018	2017
Production plant	**$ 3,133,868**	$ 3,115,171
Transmission plant	**832,891**	815,878
General plant	**132,548**	126,252
Completed construction, not classified, and other	**98,712**	146,240
Electric plant in service	**$ 4,198,019**	$ 4,203,541

Acquisition adjustments of $4 million were included in electric plant in service at December 31, 2018 and 2017. 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 includes 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 monthly principal and interest (prime rate minus one-half of one percent, adjusted annually) payments. The notes are payable in full in 2025. Additionally, in 2018, EKPC entered into an agreement with an industrial customer that utilizes steam from Spurlock Station in its manufacturing processes to be reimbursed for certain repairs made to the steam system over 41 months at an interest rate of 4.5%.

4. Investment Securities

Cost and estimated fair value of available-for-sale investment securities at December 31, 2018 and 2017, were as follows (dollars in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2018				
U.S. Treasury Bill/Note	**$ 22,437**	**$ –**	**$ (34)**	**$ 22,403**
Zero coupon bond	**17,690**	**–**	**(7)**	**17,683**
	$ 40,127	**$ –**	**$ (41)**	**$ 40,086**

	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

Proceeds from maturities of securities were $60.6 million and $34.0 million in 2018 and 2017, respectively.

4. Investment Securities (continued)

Amortized cost and estimated fair value of held-to-maturity investment securities at December 31, 2018 and 2017, are as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2018				
National Rural Utilities Cooperative Finance Corporation:				
3%–5% capital term certificates	**$ 7,656**	**$ 2,387**	**$ –**	**$ 10,043**
6.5875% subordinated term certificate	**195**	**37**	**–**	**232**
0% subordinated term certificate	**360**	**–**	**(22)**	**338**
	$ 8,211	**$ 2,424**	**$ (22)**	**$ 10,613**

	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

4. Investment Securities (continued)

The amortized cost and fair value of securities at December 31, 2018, by contractual maturity, are shown below (dollars in thousands). 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
Available-for-sale:		
Due in one year or less	$ 39,913	$ 39,879
Due after one year through five years	214	207
	$ 40,127	$ 40,086
Held-to-maturity:		
Due in one year or less	$ 15	$ 15
Due after one year through five years	852	895
Due after five years through ten years	346	324
Due after ten years	6,998	9,379
	$ 8,211	$ 10,613

5. Regulatory Assets and Liabilities

The PSC authorized the establishment of a regulatory asset at December 31, 2010 for the costs incurred on the cancelled construction of the Smith Unit 1 coal-fired plant. 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, 2018 was $123.5 million.

5. Regulatory Assets and Liabilities (continued)

The PSC has authorized EKPC to recognize depreciation and accretion expenses related to its asbestos abatement and ash disposal AROs as regulatory assets. The associated regulatory assets are expensed as recovery occurs. In separate proceedings, the PSC authorized recovery of the costs that will settle the Dale Station and Spurlock Station ash pond AROs through the environmental surcharge mechanism. 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.

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 $0.2 million at December 31, 2018. 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, 2018 and 2017 (dollars in thousands):

	2018	2017
Plant abandonment – Smith Unit 1	**$ 123,506**	$ 135,618
Plant abandonment – Dale Station	**1,012**	1,561
ARO-related depreciation and accretion expenses	**38,029**	28,504
Fuel adjustment clause	**–**	1,538
	$ 162,547	$ 167,221
Environmental cost recovery	**$ (874)**	$ (2,096)
Fuel adjustment clause	**(3,676)**	–
	$ (4,550)	$ (2,096)

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, 2018 and 2017, consisted of the following (dollars in thousands):

	2018	2017
First mortgage notes:		
2.30%–5.68%, payable quarterly to Federal Financing Bank (FFB) in varying amounts through 2051, weighted average 3.97%	**$ 2,387,597**	$ 2,431,348
5.13% payable quarterly to RUS in varying amounts through 2024	**4,184**	4,877
Variable rate, 3.30% at December 31, 2017 to CFC; paid in full in 2018	**–**	5,347
First Mortgage Bonds, Series 2014A, fixed rate of 4.61%, payable semi-annual, matures February 6, 2044	**184,000**	189,000
Tax-exempt bonds:		
Solid Waste Disposal Revenue Bonds, Series 1993B, variable rate bonds, due August 15, 2023 1.88% and 1.35% at December 31, 2018 and 2017, respectively	**3,300**	3,900
Clean Renewable Energy Bonds, fixed rate of 0.40% payable quarterly to CFC to December 1, 2023	**2,221**	2,665
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%	**17,705**	18,000
Promissory notes:		
Variable rate notes payable to CFC, 3.38% at December 31, 2018	**320,000**	310,000
4.85%–5.50% fixed rate notes payable to National Cooperative Services Corporation, weighted average 5.13%	**7,411**	9,298
Total debt	**2,926,418**	2,974,435
Less debt issuance costs	**(7,658)**	(1,404)
Total debt adjusted for debt issuance costs	**2,918,760**	2,973,031
Less current maturities	**(92,499)**	(90,815)
Total long-term debt	**$ 2,826,261**	$ 2,882,216

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 the Federal Financing Bank and RUS. 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, 2018. The amounts outstanding under these notes are $2.4 billion and $4.2 million at December 31, 2018.

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; $4.4 million was advanced in 2018. As of December 31, 2018, $27.8 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; $40.9 million was advanced in 2018. As of December 31, 2018, $117.6 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; $3 million was advanced in 2018. As of December 31, 2018, all loan funds had been advanced.

On June 8, 2018, the Cooperative accepted a conditional offer from RUS to participate in their Federal Financing Bank (FFB) Pilot Refinancing Program. On December 21, 2018, the Cooperative entered into an agreement with RUS to refinance $62.4 million of existing higher interest advances, plus a $6.3 million make whole premium, at favorable current interest rates and extended the maturity date to January 3, 2051.

In 1984, 1995 and 1998, EKPC entered into secured loans with CFC that initially totaled $20.5 million. During 2018, the remaining amount owed on these loans was paid in full.

6. Long-Term Debt (continued)

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 $184.0 million at December 31, 2018.

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 2018 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, 2018 and 2017.

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, 2018 is $2.2 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. The amount outstanding as of December 31, 2018 is $17.7 million.

Promissory Notes

On July 6, 2018, the Cooperative exercised its option to extend its existing $600 million unsecured credit facility with CFC as the lead arranger, for an additional year. The facility consists of a $500 million revolving tranche and a $100 million term loan tranche. This facility matures on July 6, 2022 and is to be utilized for general corporate purposes including capital construction projects. The agreement allows the Cooperative to request one more one-year maturity extension

6. Long-Term Debt (continued)

and/or an increase in revolving commitments of up to $200 million. As of December 31, 2018, the Cooperative had outstanding borrowings of $320 million (including the $100 million unsecured term loan). As of December 31, 2018, the availability under the credit facility was $280 million.

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, 2018, the amount outstanding under these notes is $7.4 million.

Estimated annual maturities of long-term debt adjusted for debt issuance costs for the five years subsequent to December 31, 2018, are as follows (dollars in thousands):

Years ending December 31:	
2019	$ 92,499
2020	95,549
2021	98,756
2022	103,033
2023	105,722
Thereafter	2,423,201
	$ 2,918,760

On December 20, 2018, the Cooperative provided notice to RUS to prepay all notes bearing interest rates greater than 5%, totaling approximately $178 million, on or as soon as possible after January 2, 2019 from the Cushion of Credit, pursuant to the provisions of the Farm Bill signed into law on that same day which enabled RUS borrowers to use funds in the Cushion of Credit to prepay RUS/FFB loans with no prepayment penalty through September 30, 2020. The loans are expected to pay off by April 30, 2019.

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, 2018 and 2017.

As of December 31, 2018, 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, 2018, the Cooperative has pledged securities of $17.5 million with the Commonwealth of Kentucky and the United States Department of Labor.

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.

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 2018 and 2017 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 2018 and 2017.

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, 2018 and 2017, 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 $3.8 million and $3.5 million to the plan for the years ended December 31, 2018 and 2017, 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, 2018 and 2017 (dollars in thousands):

7. Retirement Benefits (continued)

	2018	2017
Change in benefit obligation:		
Accumulated postretirement benefit obligation – beginning of year	**$ 75,806**	$ 86,869
Service cost	**1,503**	1,526
Interest cost	**2,788**	3,809
Participants' contributions	**1,462**	1,332
Plan amendment – prior service credit	**(4,692)**	(5,634)
Benefits paid	**(4,399)**	(3,544)
Actuarial gain	**(6,415)**	(8,552)
Accumulated postretirement benefit obligation – end of year	**$ 66,053**	$ 75,806
Change in plan assets:		
Fair value of plan assets – beginning of year	**$ –**	$ –
Employer contributions	**2,937**	2,212
Participant contributions	**1,462**	1,332
Benefits paid	**(4,399)**	(3,544)
Fair value of plan assets – end of year	**–**	–
Funded status – end of year	**$ (66,053)**	$ (75,806)
Amounts recognized in balance sheet consists of:		
Current liabilities	**$ 3,165**	$ 3,294
Noncurrent liabilities	**62,888**	72,512
Total amount recognized in balance sheet	**$ 66,053**	$ 75,806
Amounts included in accumulated other comprehensive margin (loss):		
Prior service credit	**$ 9,914**	$ 5,634
Unrecognized actuarial gain (loss)	**2,207**	(4,208)
Total amount in accumulated other comprehensive margin	**$ 12,121**	$ 1,426
Net periodic benefit cost:		
Service cost	**$ 1,503**	$ 1,526
Interest cost	**2,788**	3,809
Amortization of net actuarial (gain) loss	**(412)**	286
Net periodic benefit cost	**$ 3,879**	$ 5,621
Amounts included in other comprehensive margin:		
Prior service credit arising during the year	**$ 4,692**	$ 5,634
Net gain arising during the year	**6,415**	8,552
Amortization of net actuarial (gain) loss	**(412)**	286
Net gain recognized in other comprehensive margin	**$ 10,695**	$ 14,472
Amounts expected to be realized in next fiscal year:		
Amortization of prior service credit	**$ 751**	$ 412
	$ 751	$ 412

7. Retirement Benefits (continued)

A change in the coordination of benefits provision within the medical plan, effective January 1, 2019, resulted in a prior service credit of $4.7 million. The discount rate used to determine the accumulated postretirement benefit obligation was 4.45% and 3.76% for 2018 and 2017, respectively. The increase in the discount rate, along with changes in mortality assumptions resulted in an actuarial gain of $7.8 million while changes in participant data and claims experience resulted in a $1.4 million actuarial loss.

The Cooperative expects to contribute approximately $3.2 million to the plan in 2019. The expected benefit payments from the plan, which reflect anticipated future service, are (dollars in thousands):

Years ending December 31:		
2019	$	3,165
2020		2,932
2021		3,066
2022		3,140
2023		3,303
2024 – 2028		17,436

For measurement purposes, a 6.2% annual rate of increase in the per capita cost of covered health care benefits was used for the year ended December 31, 2018. 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 $0.8 million and increase the postretirement benefit obligation by $9.9 million. A 1% decrease in the health care trend rate would decrease total service and interest costs by $0.7 million and decrease the postretirement benefit obligation by $8.1 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, 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
Other comprehensive gain (loss) before reclassifications	**11,107**	**(19)**	**11,088**
Amounts reclassified from accumulated other comprehensive margin	**(412)**	–	**(412)**
Net current period other comprehensive gain (loss)	**10,695**	**(19)**	**10,676**
Balance – December 31, 2018	**$ 12,121**	**$ (41)**	**$ 12,080**

The postretirement benefit obligation reclassification noted above represents the amortization of actuarial (gain) 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 2018 and 2017 were $6.4 million and $6.0 million, respectively. One long-term agreement remained in effect at December 31, 2018 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:	
2019	$ 3,974
2020	4,050
2021	4,146

9. Commitments and Contingencies (continued)

The Cooperative is committed to purchase coal for its generating plants under long-term contracts that extend through 2021. Coal payments under contracts for 2018 and 2017 were $85.5 million and $109.7 million, respectively. Total minimum purchase obligations for the next three years are as follows (dollars in thousands):

Years ending December 31:		
2019	$	88,765
2020		68,696
2021		26,986

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 2019. 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 $52.9 million and $23.2 million, respectively, at December 31, 2018 and $53.1 million and $21.8 million, respectively, at December 31, 2017. The revenue associated with these arrangements for 2018 and 2017 was $10.8 million and $10.5 million, respectively, and is included in operating revenue on the Statements of Revenue and Expenses and Comprehensive Margin for the years ended December 31, 2018 and 2017. The minimum future revenues under these arrangements are as follows (dollars in thousands):

Years ending December 31:		
2019	$	3,708
2020		460
2021		452
2022		452
2023		452

11. Environmental Matters

On August 21, 2018, the United States Court of Appeals for the District of Columbia rendered a decision in a case involving a number of consolidated petitions, namely Utility Solid Waste Activities Group, et al., against the U.S. Environmental Protection Agency (EPA). These petitioners challenged the EPA's 2015 Final Rule governing the disposal of coal combustion residuals (CCR) produced by electric utilities and independent power plants. EPA is currently in the process of revising the CCR Rule to address the issues identified by the Court of Appeals and is expected to issue a proposed rule in 2019. The 2015 Rule currently in effect establishes minimum national criteria for the safe disposal of solid waste CCR and includes location restrictions, structural integrity requirements, liner design criteria, operations, groundwater monitoring, closure and post-closure requirements. The closure and post-closure requirements contained within this rule resulted in the Cooperative revising its asset retirement obligations in 2016.

11. Environmental Matters (continued)

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 Effluent Limitations Guidelines (ELG) rule and reconsidering a number of issues. EPA is expected to issue a proposed rule in 2019. The ELG rule currently in effect 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 May 18, 2018, the PSC granted the Cooperative a certificate of public convenience and necessity (CPCN) and also authorized an amendment to 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 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 will be substantially recovered through the Cooperative's environmental surcharge mechanism. The EPA's review and potential changes to the CCR and ELG rules will not affect EKPC plans to begin the construction project in January 2019 with an estimated completion date of November 2024.

On August 21, 2018, EPA published a proposed rule to replace the Clean Power Plan (CPP). The proposal, entitled the "Affordable Clean Energy (ACE) Rule", would establish a framework for controlling CO2 emissions from existing power plants through guidelines that determine the Best System of Emission Reduction (BSER). The proposed rule empowers states to make decisions about how to implement the ACE, clarifies that the CPP exceeded the EPA's statutory authority, and focuses on technologies that could be cost-effectively implemented at facilities. It is projected that the rule will become final in the spring of 2019. The Cooperative will continue to evaluate the impact of the proposed rule on its fleet of coal-fired units.

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 $8.2 million and $8.3 million at December 31, 2018 and 2017, respectively. CFC Patronage capital assigned to EKPC was $1.3 million and $1.4 million at December 31, 2018 and 2017, 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 December 31, 2018 and 2017.

EKPC is a member of ACES LLC (ACES), which provides various energy marketing, settlement and risk management related services to its members and clients. EKPC's Chairman of the Board 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, 2018 and 2017, the balance of EKPC's investment in ACES was approximately $0.6 million. Payments to ACES were $2.3 million and $2.2 million in 2018 and in 2017, respectively.

13. Subsequent Events

As discussed in Note 6, on December 20, 2018, the Cooperative gave notice to RUS to pay off approximately $178 million in higher interest rate loans on or after January 2, 2019, pursuant to the provisions in the Farm Bill which was signed into law on that same day. The loans are expected to be paid off by April 30, 2019.

On January 18, 2019, the Cooperative made an initial offering of $150 million 4.45% first mortgage bonds due April 2049. The transaction is scheduled to close and fund on April 18, 2019.

The Cooperative entered into a rate lock agreement with NRUCFC for a 30-year $100 million loan at a fixed rate of 4.3% in January 2019. The loan is expected to be executed and funded in April 2019.

On February 28, 2019, the PSC granted a Certificate of Public Convenience and Necessity (CPCN) for the Cooperative to construct an on-site backup fuel oil system at Bluegrass Station. The project, estimated at $62.8 million, is expected to be completed by December 31, 2020.

Management has evaluated subsequent events through March 27, 2019, 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