EAST KENTUCKY POWER COOPERATIVE
2019 ANNUAL REPORT

PREPARATION
STRENGTH
RESILIENCE

Table of Contents

2019: Highlights

Financial (Dollars in Thousands)

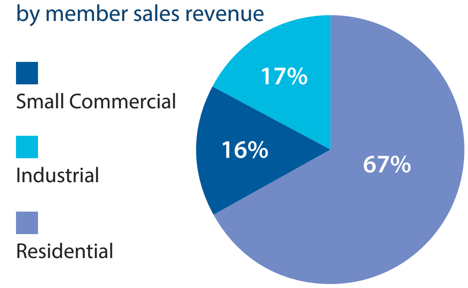
	2019	2018	Increase/(Decrease) %
Operating Revenue	**$860,123**	$900,289	(4.5)
Operating Expenses	**$726,702**	$768,575	(5.4)
Net Margin	**$44,204**	$40,669	8.7
Members' Equities	**$715,372**	$663,790	7.8
Equity Ratio (%)	**18.9**	17.4	8.6

Operational

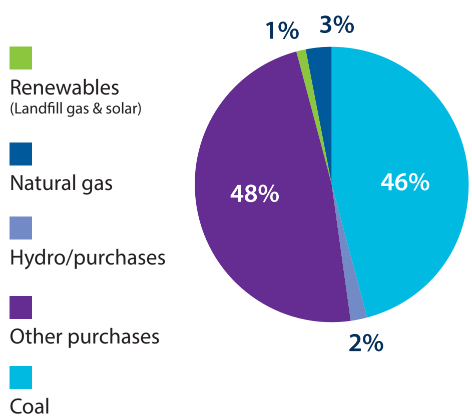
	2019	2018	Increase/(Decrease) %
Sales to Member Cooperatives (MWh) *	**12,971,681**	13,401,688	(3.2)
Member Revenue Per kWh Sold (mills/kWh) *	**63.63**	63.66	(0.0)
Cost of Owned Generation (mills/kWh)	**70.82**	58.44	21.2
System Peak Demand (MW)			
Winter Season **	**3,073**	3,437	(10.6)
Summer Season	**2,366**	2,380	(0.6)
Net Generation (MWh)	**6,853,879**	9,100,511	(24.7)

* *Includes steam sales*
** *Represents seasonal winter peaks achieved on 1/31/19 and 1/2/18*

Customer Classes
by member sales revenue

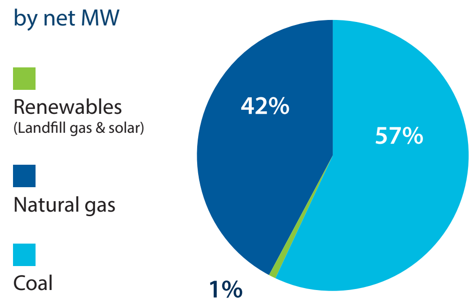


Sources of Electricity
by MWh



Note: Pie chart figures are rounded.

Power Plant Capacity *
by net MW



* Includes 1 net MW designated to serve a long-term PPA agreement and 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.

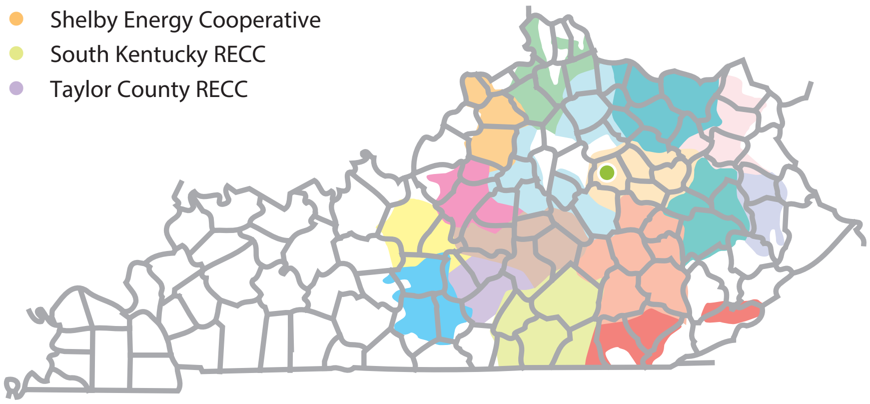
2019 at a glance

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)
13,564	12,972	592	860.1	44.2	3.8	63.6

EKPC's 16 owner-member cooperatives include:

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

- EKPC headquarters



East Kentucky Power Generation

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

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

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

Solar	Generation
Cooperative Solar Farm One	8.5 net MW

Hydro	Generation
Southeastern Power Adm. (SEPA)	170 MW

* Under an existing agreement, which continued until April 30, 2019, a third party received 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	545,476	1.1	3,073	2,865	689

PREPARATION. STRENGTH. RESILIENCE.

A message from the CEO and the Chairman

On the last day of 2019 when the World Health Organization first learned of dozens of pneumonia-like cases in Wuhan, China, the world had no idea that the coronavirus pandemic was about to spread rapidly to take thousands of lives — and close businesses —all across the globe.

As a result of years of effective strategic planning and enterprise risk management, along with the continuous improvement of operations and strengthening finances, East Kentucky Power Cooperative (EKPC) stood ready for the crisis that ensued. We accomplished it by using resources that employees, management and the Board had built for years and with a safety program that has enabled EKPC to stand on rock-solid ground.

KEEPING EMPLOYEES SAFE

After nearly a decade of making safety EKPC's number one priority, the state of Kentucky presented our Board with the Governor's Safety and Health Award in 2019. The award recognized employees for working 2.75 million hours without incident from the fall of 2017 to the summer of 2019.

We thank the governor for celebrating EKPC's safety performance. At the same time, however, we recognize that there were three lost-time incidents and that we did not achieve the record performance of the previous year. Because safety is a continuous journey, our safety program still needs to evolve, mature and improve. We must always be vigilant because we have witnessed how — in a split second — lives and families can be altered forever.

MANAGING RISKS, EMBRACING SUSTAINABILITY

Well before the end of 2019, EKPC's Enterprise Risk Management Program had identified, assessed and planned for hazards and potential disasters that could interfere with operations. The program conducts annual tabletop crisis exercises to put employees across the organization in simulated emergency situations.

In response to growing national interest in environmental, social and governance (ESG) issues, EKPC's Board made sustainability a high priority. EKPC formed a Sustainability Council and launched five employee-led sustainability teams that began meeting to prepare detailed action plans for the future.

It's important to note that our view of sustainability involves more than responsible environmental stewardship. We also believe it means having staying power and a strategy to support growth and owner-member success. It means managing the changing workforce, transitioning to greater use of renewables, sustaining financial health, minimizing environmental impacts and maintaining high system reliability. All are key to future success.

MAINTAINING PLANTS IN TOP CONDITION

Work to comply with EPA's Coal Combustion Residuals and Effluent Limitation Guidelines (CCR/ELG) at Spurlock Station — one of the more complex projects ever undertaken by EKPC — began in 2019. The project is needed to meet EPA rules governing coal ash and plant water discharges. It will convert Spurlock Units #1 and #2 to dry handling of coal ash and ultimately clean close the 67-acre ash pond.

At Bluegrass Generating Station, the expiration of a tolling agreement in April 2019 for one unit meant that this natural gas-fueled peaking unit became available to serve EKPC's load. Additionally, a $62.8 million project to add diesel as a secondary fuel source got underway at Bluegrass Station. This project will help to ensure that the plant can reliably operate if natural gas is unavailable and will satisfy the performance requirements in the PJM capacity market.

In 2019, EKPC completed the total site reclamation of our first power plant, Dale Station, a 1950s-era coal plant on the Kentucky River. When workers finished the Dale demolition in July, they had removed more than 12,000 tons of steel tubes and other material and sent 83 percent

Joe Spalding
Chairman of the Board

Anthony Campbell
President and CEO

of it to be beneficially reused. The demolition followed an earlier project that removed 36,000 truckloads of coal ash from Dale disposal sites near the Kentucky River to a new state-approved, lined and capped landfill at Smith Station. Dale Station ceased operations in 2016.

STRENGTHENING FINANCES

EKPC enhanced its liquidity position in 2019 with private financings and credit facility actions. The co-op posted a net margin of $44.2 million on revenues of $860.1 million in 2019. The equity-to-assets ratio continued the steady upward climb of recent years, rising to 18.9 percent.

As a result of access to low-cost power by being a member of PJM Interconnection, excellent cost controls and careful execution of our financing strategy, EKPC was able to pay $1.8 million in capital credits to the 16 owner-members for the first time ever in 2019.

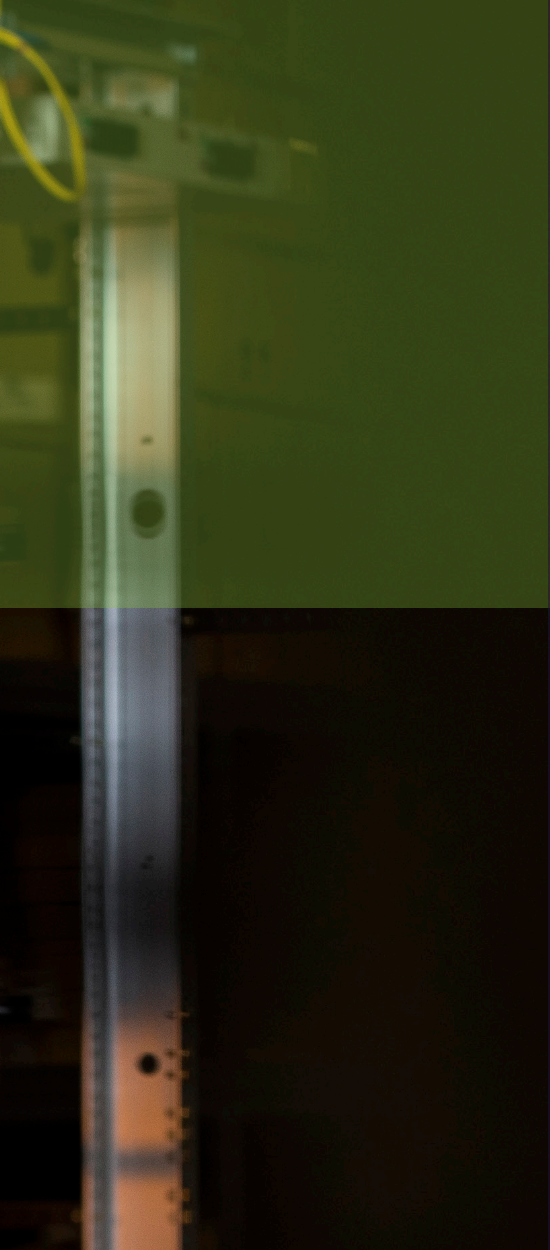
The recent trend of declining wholesale power costs has helped our owner-members offer rates that are competitive with all Kentucky neighboring utilities. We believe being competitive is a phenomenal achievement when you consider that our neighboring investor-owned utilities serve urban areas that on average have three times more customers per mile.

Competitive co-op rates have enabled Kentucky's Touchstone Energy Cooperatives to bring new jobs and investments to their service territories. The economic development team worked closely with state leaders and global businesses that announced projects worth nearly $468 million in new investments during 2019. These projects will create 1,551 jobs and build new facilities that will improve the quality of life for many people in the areas served by our owner-members.

While we had a successful year in bringing industries to the state, we know there is still much to do especially in areas of Eastern Kentucky that have been devastated by the massive loss of coal jobs over the last decade. EKPC and our owner-members continue to work hard and seek innovative opportunities that will help bring success to this very important region of Kentucky.

In conclusion, we closed 2019 ready with the resources necessary to continue operating even if the times got tough. We strategized and planned in order to ensure our employees remain safe, the lights stay on and our electric service remains affordable. We have prepared so that our organization will remain strong and resilient long into the future.


EAST KENTUCKY
POWER COOPERATIVE
A Touchstone Energy Cooperative



PREPARATION

EKPC finished 2019 well-prepared because of a long focus on safety, strategic planning and enterprise risk management, as well as continuous improvement of operations and finances.

Richard Steele from Clark Energy teaches children electric safety at the annual Safety Fair attended by hundreds of employee family members.

2019: Year in Review

Safety

Safety program reaches families

EKPC again made employee families a key part of the safety program. The safety slogan, The Reason I Go Home Tonight (R.I.G.H.T), reminded employees daily to be safe so that they can go home to their loved ones just as healthy as they were upon arrival at work.

The Communications and Activities Team sent safety newsletters to each employee household. EKPC also held a safety fair that was attended by 300 employees and family members to engage the children and grandchildren of employees in the safety culture and to honor those who won the Kids Safety Art Contest. The annual employee calendar featured the winning artwork.

In a Safety Week presentation, Iowa electrician Brandon Schroeder told the story of how he nearly lost his life by not wearing proper personal protective equipment and by not following correct safety procedures. Kevin Skillern, husband of employee Amber Skillern, relayed the story of a serious injury he sustained in a boating incident.

All the speakers emphasized the theme of the week, "Safety Is In Our Power," stressing that everyone has the responsibility to work safely. EKPC also named four employee Safety All-Stars and recognized them throughout the year.

One of the highlights occurred when a national publication, Safety & Health magazine, recognized Tony Campbell as a "CEO who gets it" about the importance of safety. Another highlight occurred when Campbell was selected to be the keynote speaker for a national webcast by the U.S. Occupational Safety & Health Administration (OSHA).

The year included these additional safety highlights:

Safety survey. EKPC conducted a survey of all employees to gather suggestions to shape the future of the safety program. The feedback will help to ensure continuous improvement toward meeting EKPC's goal of zero injury incidents.

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

Lineman's Rodeo. For the first time ever, EKPC employees competed and won an award at the annual statewide Lineman's Rodeo competition. Seven EKPC linemen demonstrated their agility, preparation and skill at the competition in Elizabethtown.

During Safety Week, Brandon Schroeder tells employees the story of how he nearly lost his life by not following safety rules.

Manager of Safety Mike Willoughby shows the prestigious Safety & Health magazine featuring CEO Tony Campbell.

Team members from Smith Station compete in vertical retrieval during the Confined Space Rodeo.


EKPC SAFETY IS
RIGHT
REASON I GO HOME TONIGHT
Kerri Dauteuil

STRENGTH

EKPC enhanced its liquidity position in 2019. The equity-to-assets ratio continued its upward climb, and EKPC paid capital credits for the first time ever.

Quinten Scott, left, discusses work for the CCR/ELG project at Spurlock Station with Richard Deatley.

Operations

One of the more complex projects in EKPC history goes into high gear

Work on the $262.4 million CCR/ELG project started at Spurlock Station early in the year. The project will require the closure of Spurlock's 67-acre unlined ash pond and the installation of new wastewater treatment facilities. When completed, nearly 2.2 million cubic yards of material will be removed from the existing ash pond and placed in Spurlock's permitted and lined ash landfill.

Contractors worked throughout the summer and fall on the project.

Throughout the summer and fall, foundations were poured for the project and structures rose for silos, steel tanks, a fly ash transfer station, a switchyard addition and more.

More than 450 contractors worked on the CCR/ELG project during the year. The wastewater treatment facility is scheduled to be in service by year-end 2021.

Fuel supply and emissions

Low natural gas prices continued to impact EKPC's fuel mix with coal becoming less dominant as a fuel source. The use of coal in EKPC's generating fleet has declined from 82 percent of our generation in 2010 to 46 percent in 2019. As a result, plant emissions — including sulfur dioxide, nitrogen oxide and carbon dioxide — also continued to decline. CO2 fell by 3.55 percent from 2010 levels.

Brent Wasson, left, and Cliff Harmon discuss work being done during the Dale Station demolition.

Dale Station demolition completed

A team of dedicated workers completed the demolition of Dale Station, filling and leveling the footprint where the plant stood.

The project involved the demolition of large boilers and massive brick walls, along with the meticulous cutting and collection of tons of pipes and equipment. The work completed the total reclamation and clean close of the Dale Station site.

EKPC is forever indebted to those who served at Dale Station, its first power plant, and the work they did to dramatically improve the lives of thousands of Kentuckians by safely providing reliable and affordable energy. For more than 60 years, the plant provided vital power to Kentuckians, and it was the first plant financed by the federal Rural Utilities Service.

The Dale Station demolition leveled the footprint of EKPC's first power plant.

EKPC gains availability of the third Bluegrass unit

Three natural gas-fueled generating units with a net capacity of 567 megawatts operate at Bluegrass Station in Oldham County. Until May 2019, one unit was subject to a tolling agreement with a neighboring utility that received all of its energy output. With the end of that agreement, all three units are available to serve EKPC's load.

Bluegrass Station Unit #3 became available to serve EKPC's load in 2019.


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

RESILIENCE

EKPC closed 2019 with a deep well of resources, ensuring that employees would remain safe, the lights stayed on and the organization would stand strong long into the future.

Workers lift the massive top of a new diesel fuel tank at Bluegrass Station.

Near the end of the largest outage in EKPC history, workers lift the Unit #4 turbine back into place.

Bluegrass begins backup fuel project

Installation of two 580,000-gallon tanks for diesel fuel and another 275,000-gallon tank for demineralized water commenced at Bluegrass Station. Pumps and infrastructure to deliver the fuel to the plant's generating units are also included in the project. When completed by the end of 2020, the project will provide a backup fuel supply to ensure the plant can operate in the event of a natural gas shortage.

Largest outage in EKPC history completed

Workers completed a $29.6 million scheduled outage on Spurlock Unit #4 with zero recordable safety incidents in the spring. During the outage for the unit's 10-year overhaul, all large systems received major rebuilds, component enhancements or were completely replaced.

Crews used materials valued at approximately $20.6 million from the previously canceled coal generating unit at EKPC's Smith Station to rebuild the Spurlock Unit #4 turbine/generator, reducing the carrying value of the Smith regulatory asset.

Cooperative Solar Farm One is one of Kentucky's largest sun-to-electricity projects.

EKPC seeks renewable energy tariff changes

EKPC and its owner-member co-ops filed an application seeking PSC approval to provide a renewable energy option for businesses and industries. The proposed tariffs are designed to help large companies meet sustainability goals. The tariffs would enable EKPC and owner-members to negotiate agreements providing a minimum 1 megawatt of renewable energy to qualified retail members.


Linemen T.J. Sublett and Blake Polson work on a project in Eastern Kentucky.

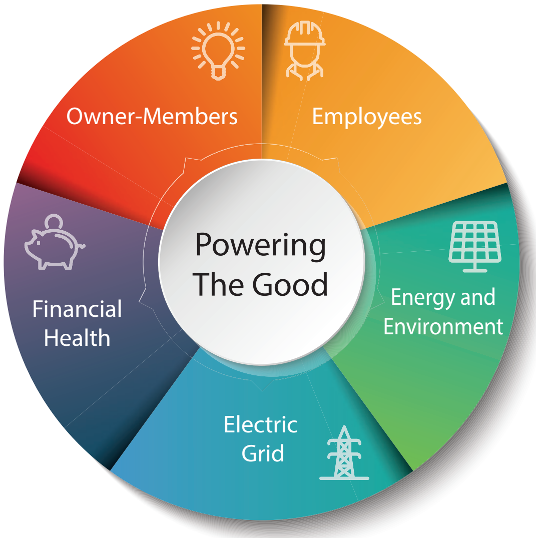
Power Delivery boosts grid resilience

EKPC invested more than $45 million in 2019 to upgrade or build new transmission lines, distribution substations and supporting infrastructure. The teams focused on areas where the aging infrastructure most needed upgrades.

EKPC also began a project to install a new land mobile radio system. The replacement system is expected to upgrade communications for owner-members, provide improved communications for EKPC field personnel, along with better security and greater operational flexibility.


Multiple crews from the service centers work near Prestonsburg.

EKPC invested more than $45 million to upgrade the power delivery infrastructure in 2019.



EKPC, ESG address sustainability plans for the future

Five employee-led teams began exploring how changes in the industry could affect the co-op and what EKPC can do to prepare for the future. The teams are focusing on various aspects of sustainability and are examining changes that will or could affect EKPC in coming decades. Their work will lead to initiatives that take advantage of opportunities and avoid threats. Several owner-members are participating in the effort because their future success is EKPC's future success.

The names of the teams are Electric Grid, Owner-Members, Energy and Environment, Financial Health and Employees. Among the areas being studied are how EKPC makes and delivers energy, how EKPC's workforce will evolve to meet future needs and how EKPC will adapt to better serve the changing needs of owner-members while helping them remain viable.

EKPC adds new business unit

EKPC formed a new Engineering and Construction business unit to centralize engineering, design, planning and construction management and to improve project management techniques. The reorganization enables EKPC to execute projects with the highest safety, quality and cost containment standards possible.

Construction Technician Zach Kelley works on the Hunt Switching Station in rural Clark County.

Team wins national award for software upgrade

Employees won a national award for delivering an entirely new and mobile-friendly upgrade of EKPC's business applications software during the summer. Staff on the PeopleSoft Continuous Improvement (CI) Team won the PeopleSoft Innovator Award from Oracle by building over 30 different PeopleSoft environments. They successfully tested and accepted the new software without needing outside consultant assistance.

Director of Information Technology Eddie McNutt addresses employees who upgraded EKPC's business applications.

Co-ops herald the era of the electric vehicle

Kentucky's Touchstone Energy Cooperatives celebrated the dawn of the electric vehicle (EV) era by sponsoring a goodwill tour of the Commonwealth driving the all-electric Chevrolet Bolt.

Three trips covered 710 miles and reached 176,000 people on social media with messages about the low cost for fuel and maintenance of EVs, along with information about the environmental benefits and improved driving ranges. Members of the participating teams were pleasantly surprised that charging the Bolt's battery for 700 miles cost less than $20 and said the trips showed that co-ops are embracing the future.

Co-op employees Leslie Neeley, left, and Sarah Fellows participated in the Great EV Road Trip.


EKPC SAFETY IS
R.I.G.H.T
REASON I GO HOME TONIGHT
FUTURE LINE
138kV LINE
N83-FUTBK
79CO TAGGING SW.
SEL
EAST KENTUCKY

WE ARE EKPC

EKPC and the 16 owner-member cooperatives are committed to people cooperating together to improve lives by safely delivering affordable, reliable power to 1.2 million Kentuckians.

Fifty employees spent a day in the fall picking up garbage along the banks of the Ohio River at Spurlock Station.

Students enjoy the Pollinator Station on Cooperative Solar Farm One. It provides habitat for native bees, butterflies and other insects.

Programs promote environmental stewardship

Employees from EKPC's leadership program picked up garbage, tires and other debris during a sweep of the Ohio River at Spurlock Station. Fifty employees worked with an organization called the Living Lands and Waters to demonstrate the co-op's commitment to the community and to sustainability.

EKPC also demonstrated its ongoing commitment to the environment by participating in several KY Excel projects, a program promoting stewardship from the Kentucky Energy and Environmental Cabinet. EKPC completed these Excel projects:

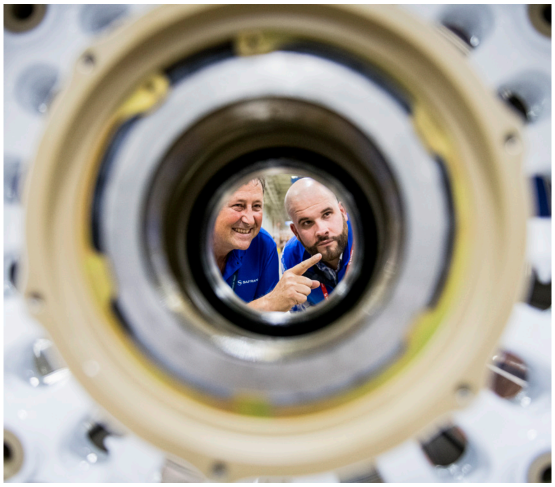
- Partnered with the Kentucky Department of Fish and Wildlife on a project to establish pollinator habitat at Grayson Lake Wildlife Management Area
- Established native pollinator habitat and a monarch butterfly waystation on Cooperative Solar Farm One
- Monitored amphibian populations and enhanced their habitat at Smith Station
- Nurtured endangered peregrine falcons in nesting boxes at Spurlock Station

Students learn about frogs during Conservation Clubhouse, which is sponsored by Kentucky's Touchstone Energy Cooperatives.

Eddie McNutt, right, and Troy Varner, check on honeybees they established on Cooperative Solar Farm One.

Biologist Josh Young walks through the "pollinator patch" located at EKPC headquarters.

A teacher talks with a student at the Barren County Innovation Zone in Glasgow. The center provides hands-on technology training and is supported by Kentucky's Touchstone Energy Cooperatives.



Owen Electric's Mike Stafford, right, talks to Safran Landing Systems CEO Phillipe Garnier at the Walton plant.

Jobs and community support

Economic Development has a banner year

Through the efforts of the economic development team, Kentucky's Touchstone Energy Cooperatives continued to recruit and announce many new and expanding businesses for the 87 counties served.

Over a four-year period ending in December 2019, businesses announced more than 11,500 new jobs in areas served by owner-member cooperatives. The 270 projects involved represent over $5.3 billion in new and expanded business investment in Kentucky.

Owner-member cooperatives actively supported technology education programs to strengthen job skills and bring transformational changes to the service territory. In the summer, 18 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 a world-class science, technology, engineering and math workforce in Kentucky.

Co-ops support local communities

EKPC and its owner-member cooperatives again sponsored Kentucky military veterans on an all-expenses-paid trip to Washington, D.C., to visit their war memorials. This was the ninth consecutive year the co-ops sponsored an Honor Flight, and more than 70 veterans took part in the 2019 flight.

The veterans and their guardians lifted off from Lexington's Blue Grass Airport early on Sept. 21. During the daylong trip, the group viewed memorials honoring those who served during World War II, the Korean War and the Vietnam War.

The co-ops also showed their commitment to local communities by providing:

- 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 2019 Special Olympics Summer Games at Eastern Kentucky University.
- Funds to support a wide variety of organizations, such as the University of Kentucky Markey Cancer Foundation, Habitat for Humanity, school Family Resource Centers, the Kentucky Community and Technical College System, Hospice providers and the Alzheimer's Association.

A special athlete runs during the 2019 Summer Games of Kentucky Special Olympics.

World War II veteran Henry Ledford was one of 70 veterans who participated in Honor Flight.

EKPC employees donated funds to support students at Knox Central High School.

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

Elbert Hampton

Cumberland Valley Electric

Landis Cornett

Jackson Energy

Board Treasurer

Danny Wallen

Big Sandy RECC

Chief Executive Officers

Non-voting members

Mike Cobb

Owen Electric

Tony Campbell

East Kentucky Power

Tim Sharp

Salt River Electric

External Committee Members

Non-voting members

Mike Steffes

ACES

Patrick Sterling

Texas Roadhouse

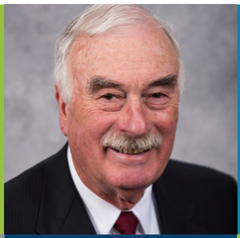
Strategic Issues Committee

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.

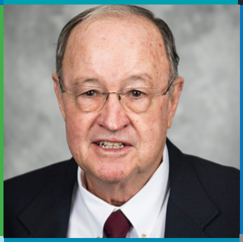
Board Members

Voting members

Bill Shearer
Clark Energy
Committee Chair



Jody Hughes
Blue Grass Energy
Board Secretary



Ted Holbrook
Licking Valley RECC

Boris Haynes
South Kentucky RECC

Randy Sexton
Farmers RECC

A.L. Rosenberger
Nolin RECC

Chief Executive Officers

Non-voting members

Jerry Carter
Inter-County Energy

Mike Williams
Blue Grass Energy

Bill Prather
Farmers RECC

Greg Lee
Nolin RECC

Chris Brewer
Clark Energy

Carol Wright
Jackson Energy

Bruce Aaron Davis
Big Sandy RECC

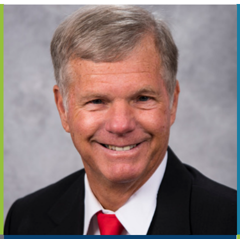
Governance Committee

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

Eddie Martin
Grayson RECC

Jimmy Longmire
Salt River Electric

Greg Corbin
Taylor County RECC

Chief Executive Officers

Non-voting members

Kerry Howard
Licking Valley RECC

Carol Fraley
Grayson RECC

Joni Hazelrigg
Fleming-Mason Energy

Ken Simmons
South Kentucky 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

Greg Corbin

Taylor County RECC

Chief Executive Officers

Non-voting members

Ted Hampton

Cumberland Valley Electric

Jack Bragg

Shelby Energy

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

2019: Financial Highlights

2019 Performance

EKPC's net margin was $44.2 million for the year ended December 31, 2019, an increase of $3.5 million in comparison to 2018. Operating revenues were $860.1 million for the year ended December 31, 2019, a decrease of $40.2 million from the prior year. Unfavorable weather and market conditions resulted in decreased member and off-system sales of $27.8 million and $9.0 million, respectively, while power sales arrangements classified as leases decreased $6.8 million due to the expiration of a tolling agreement on April 30, 2019. Improved auction prices resulted in PJM capacity market revenue increasing $2.8 million from the prior year.

Production operating expenses for the year ended December 31, 2019 were $504.6 million, a $41.7 million decline from the prior year. These expenses, which are comprised of fuel, operation and maintenance expenses, and purchased power, are grouped together for comparative purposes given that decisions to generate energy or purchase energy on the open market are based on reliability constraints and the most economic resources available within the PJM market. Decreased EKPC generation due to lower load requirements and the availability of lower priced power from the market resulted in total fuel expenses decreasing $46.8 million during the comparison period. Purchased power increased $4.9 million as compared to 2018, while total MWh purchased increased 31.7% in the same comparison period.

Fixed charges and other expenses were $112.1 million for the year ended December 31, 2019, a $3.4 million decrease from 2018. This change was primarily attributed to a decrease in interest expense due to the early payoff of $177.3 million in higher interest rate RUS loans from the Cooperative's investment in the Cushion of Credit in July 2019.

Nonoperating margin was $22.9 million for the year ended December 31, 2019, a decrease of $1.5 million in comparison to 2018. This change was primarily the result of the Cooperative having less funds invested in the Cushion of Credit to earn interest in the second half of the year.

EKPC's total cost billed to owner-members in 2019 was $63.65 mills per kilowatt-hour (mills/kWh). This cost was lower than the $64.04 mills/kWh achieved in 2018.

Regulatory Approvals

EKPC's Spurlock Station completed major maintenance projects and the replacement of minor components of property totaling $7.2 million in 2019. RUS approved EKPC's request for regulatory asset treatment of these expenses with an amortization period of eight years, which approximates the minimum cycle of major maintenance activities and the expected period of benefit for the approved projects.

Construction Activities

Construction in progress at December 31, 2019 was $247.4 million, a $154.1 million increase from 2018. Approximately $127.7 million of this change was attributed to a project underway at 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. The project is expected to continue through 2024. Bluegrass Station's dual fuel project to construct an on-site backup diesel fuel system was also underway at year-end. Approximately $26.6 million had been incurred on the project at year-end.

Financing Activities

The Cooperative entered into two new debt agreements and extended its existing credit facility in 2019. The new debt transactions included a $150 million Bond Purchase Agreement at 4.45% First Mortgage Bonds due to mature in April 2049 and a 30 year $100 million promissory note with CFC at a fixed rate of 4.30%. The existing $600 million unsecured credit facility was extended an additional year, resulting in a new maturity date of July 4, 2023.

On July 2, 2019, the Cooperative utilized provisions of the 2018 Farm Bill which allowed prepayment of RUS debt from the Cushion of Credit without penalty to pay off higher interest bearing loans totaling $177.3 million.

Financial Targets

EKPC improved its equity-to-assets ratio from 17.4% in 2018 to 18.9% at December 31, 2019. Using the RUS loan covenant methodology, which excludes the Cooperative's investment in the RUS Cushion of Credit from total assets, EKPC's equity-to-assets ratio for 2019 and 2018 was 20.9% and 20.1%, respectively. Because this ratio exceeded the requirements of our loan covenants, the Board of Directors authorized EKPC to retire capital credits of $1.8 million for the first time in the history of the Cooperative in 2019. This retirement represented margins allocated to owner-members from the inception of the Cooperative through 1967.

All of EKPC's other financial ratios were in compliance with the provisions outlined in its indenture and other debt agreements at December 31, 2019.

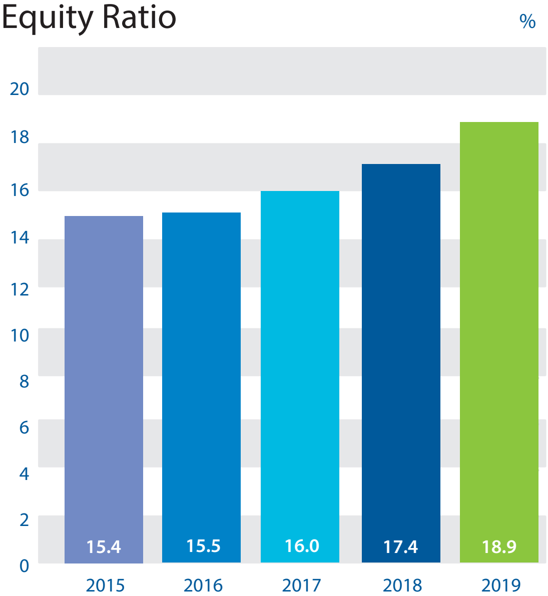
Five-Year Statistical Summary

	2019	2018	2017	2016	2015
Net Margin - in thousands	**$44,204**	$ 40,669	$22,142	$53,708	$49,290
TIER	**1.39**	1.35	1.19	1.48	1.44
DSC	**1.39**	1.34	1.26	1.33	1.26
Fuel Expense - in thousands	**$162,719**	$209,488	$179,335	$247,040	$228,372
Capital Expenditures - in thousands					
Generation	**$184,479**	$58,899	$65,634	$35,703	$163,988
Transmission & Distribution	**$45,303**	$32,593	$22,139	$29,963	$47,700
General	**$8,238**	$9,549	$10,170	$5,712	$4,125
Investment in Facilities - in thousands					
Original Cost	**$4,429,359**	$4,291,350	$4,236,618	$4,147,295	$3,999,314
Long-Term Debt - in thousands **	**$2,711,300**	$2,826,261	$2,882,216	$2,794,578	$2,499,815
Total Assets - in thousands **	**$3,776,381**	$3,810,802	$3,825,095	$3,718,233	$3,330,753
Number of Employees - full-time	**689**	685	688	696	670
Cost of Coal Purchased					
$/ton	**$45.03**	$44.86	$45.90	$51.56	$51.84
$/MBtu	**$1.94**	$1.91	$1.99	$2.24	$2.27
Amount of Coal Purchased - tons	**3,231,731**	3,795,924	3,492,169	3,821,064	3,927,446
Generation - MWh	**6,853,879**	9,100,511	7,564,321	9,758,569	8,618,586
System Peak Demand - MW					
Winter Season *	**3,073**	3,437	2,871	2,890	3,507
Summer Season	**2,366**	2,380	2,311	2,293	2,179
Sales to Other Utilities - MWh	**592,253**	711,447	548,528	717,130	711,081
Member Load Growth - %					
Energy	**(3.21)**	6.90	(2.57)	3.02	(4.80)
Demand	**2.26**	5.70	1.32	(4.81)	(0.67)
Load Factor - %	48	45	50	51	41
Miles of Line	**2,865**	2,864	2,852	2,847	2,838
Installed Capacity - kVA	**11,147,545**	11,022,945	11,017,745	10,861,447	10,810,447
Distribution Substations	**376**	373	373	369	366

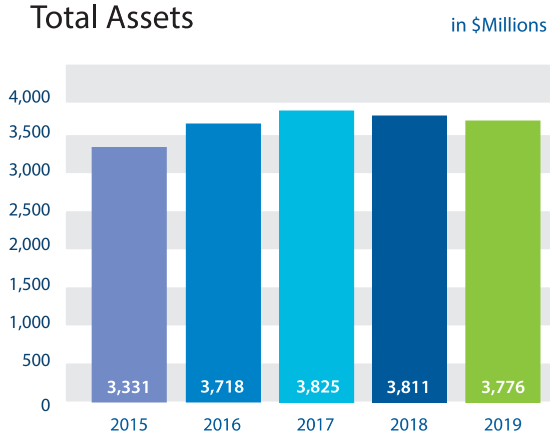
* *Data reported represents seasonal peak achieved during current calendar year*

** *LT Debt and Total Assets are net of unamortized debt issuance costs*

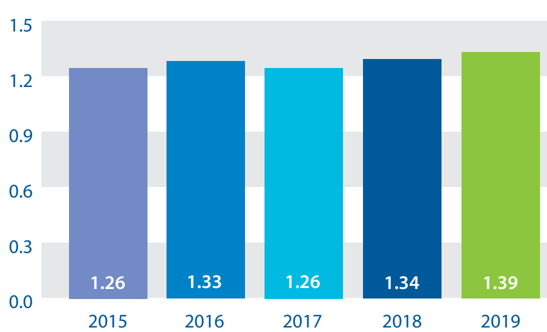
Equity Ratio



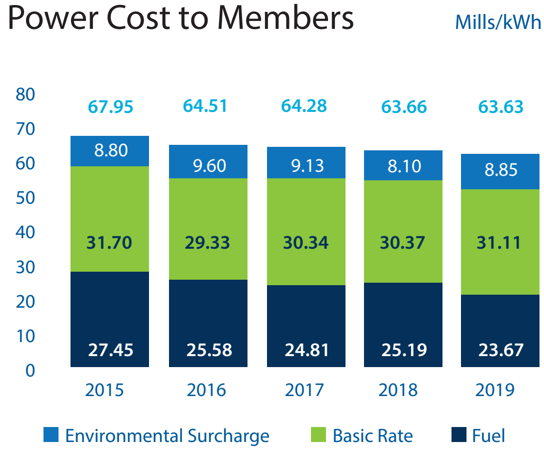
Total Assets



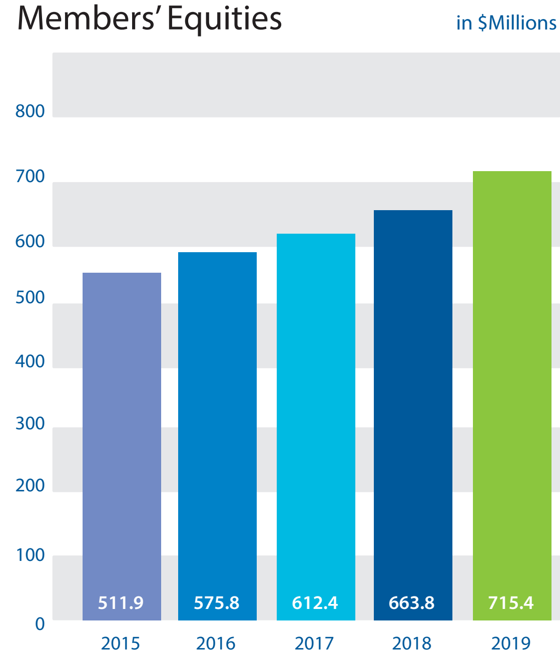
DSC



Power Cost to Members

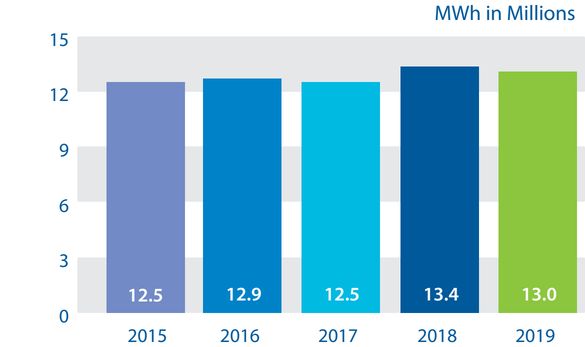


Members' Equities

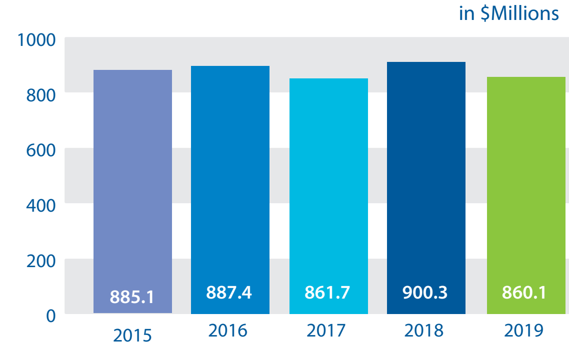


TIER

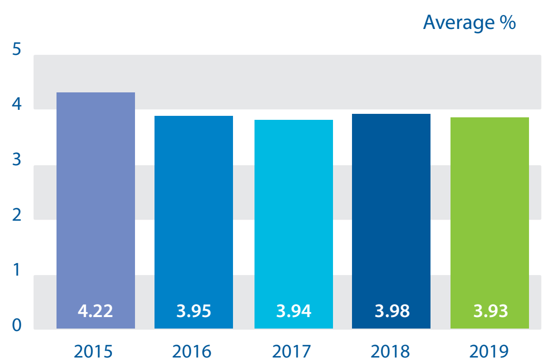
Energy Sales to Members



Operating Revenue

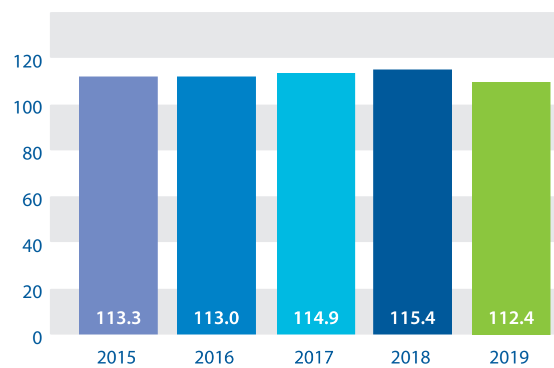


Average Interest Rate on Long-Term Debt Year-End



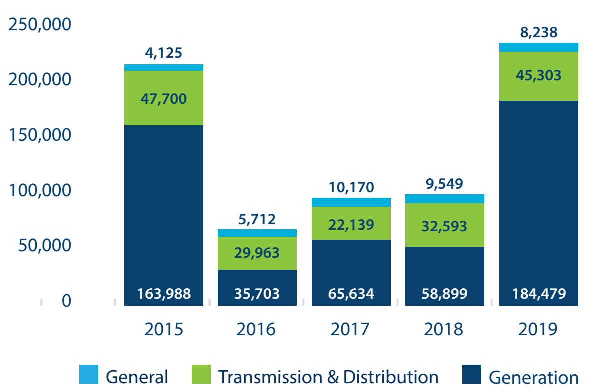
Interest Expense on Long-Term Debt

in $Millions

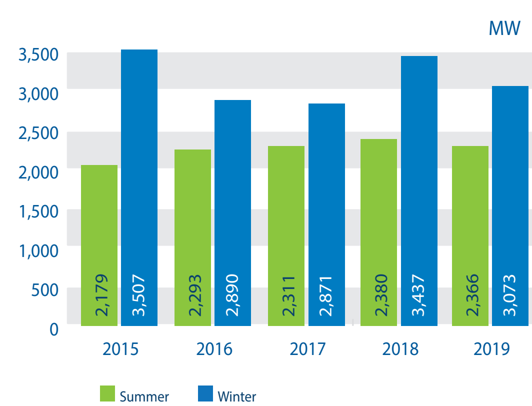


Capital Expenditures

in $Thousands



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	Mike McNalley
President and CEO	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, 2019 and 2018, 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 and schedules 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, 2019 and 2018, 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 31, 2020 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 31, 2020

East Kentucky Power Cooperative, Inc.

Balance Sheets
(Dollars in Thousands)

	December 31	
	2019	**2018**
Assets		
Electric plant:		
In-service	**$ 4,181,966**	$ 4,198,019
Construction-in-progress	**247,393**	93,331
	4,429,359	4,291,350
Less accumulated depreciation	**1,558,960**	1,554,632
Electric plant – net	**2,870,399**	2,736,718
Long-term accounts receivable	**1,535**	3,062
Restricted cash and cash equivalents	**–**	3,000
Restricted investments	**190,409**	328,196
Investment securities:		
Available-for-sale	**38,311**	40,086
Held-to-maturity	**8,125**	8,211
Current assets:		
Cash and cash equivalents	**132,525**	126,635
Restricted investment	**160,288**	178,545
Accounts receivable	**85,260**	88,158
Fuel	**67,432**	48,753
Materials and supplies	**63,733**	64,869
Other current assets	**13,464**	12,752
Total current assets	**522,702**	519,712
Regulatory assets	**134,897**	162,547
Deferred charges	**2,628**	2,147
Other noncurrent assets	**7,375**	7,123
Total assets	**$ 3,776,381**	$ 3,810,802
Members' equities and liabilities		
Members' equities:		
Memberships	**$ 2**	$ 2
Patronage and donated capital	**694,098**	651,708
Accumulated other comprehensive margin	**21,272**	12,080
Total members' equities	**715,372**	663,790
Long-term debt	**2,711,300**	2,826,261
Current liabilities:		
Current portion of long-term debt	**93,599**	92,499
Accounts payable	**116,121**	80,816
Accrued expenses	**20,177**	14,590
Regulatory liabilities	**3,774**	4,550
Total current liabilities	**233,671**	192,455
Accrued postretirement benefit cost	**55,375**	62,888
Asset retirement obligations and other liabilities	**60,663**	65,408
Total members' equities and liabilities	**$ 3,776,381**	$ 3,810,802

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	
	2019	2018
Operating revenue	**$ 860,123**	$ 900,289
Operating expenses:		
Production:		
Fuel	**162,719**	209,488
Other	**165,198**	164,970
Purchased power	**176,633**	171,743
Transmission and distribution	**46,837**	43,764
Regional market operations	**4,747**	5,244
Depreciation and amortization	**121,656**	119,704
General and administrative	**48,912**	53,662
Total operating expenses	**726,702**	768,575
Operating margin before fixed charges and other expenses	**133,421**	131,714
Fixed charges and other:		
Interest expense on long-term debt	**112,362**	115,439
Amortization of debt expense	**675**	473
Accretion and other	**(918)**	(426)
Total fixed charges and other expenses	**112,119**	115,486
Operating margin	**21,302**	16,228
Nonoperating margin:		
Interest income	**25,454**	27,745
Patronage capital allocations from other cooperatives	**635**	233
Other	**(3,187)**	(3,537)
Total nonoperating margin	**22,902**	24,441
Net margin	**44,204**	40,669
Other comprehensive margin:		
Unrealized gain (loss) on available-for-sale securities	**106**	(19)
Postretirement benefit obligation gain	**9,086**	10,695
	9,192	10,676
Comprehensive margin	**$ 53,396**	$ 51,345

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	Total Members' Equities
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
Net margin	**–**	**44,204**	**–**	**–**	**44,204**
Retirement of patronage capital	**–**	**(1,814)**	**–**	**–**	**(1,814)**
Unrealized gain on available for sale securities	**–**	**–**	**–**	**106**	**106**
Postretirement benefit obligation gain	**–**	**–**	**–**	**9,086**	**9,086**
Balance – December 31, 2019	**$ 2**	**$ 691,063**	**$ 3,035**	**$ 21,272**	**$ 715,372**

See notes to financial statements.

East Kentucky Power Cooperative, Inc.

Statements of Cash Flows
(Dollars in Thousands)

	Year Ended December 31	
	2019	**2018**
Operating activities		
Net margin	**$ 44,204**	$ 40,669
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation and amortization	**121,656**	119,704
Amortization of debt issuance costs	**1,272**	1,039
Changes in operating assets and liabilities:		
Accounts receivable	**2,898**	4,063
Fuel	**(18,679)**	933
Materials and supplies	**1,136**	(3,339)
Regulatory assets/liabilities	**(1,105)**	453
Accounts payable	**12,507**	8,139
Accrued expenses	**5,537**	(25,550)
Accrued postretirement benefit cost	**1,573**	1,071
Other	**(8,055)**	(4,063)
Net cash provided by operating activities	**162,944**	143,119
Investing activities		
Additions to electric plant	**(202,608)**	(96,123)
Maturities of debt service reserve securities	**4,349**	4,288
Purchases of debt service reserve securities	**(4,366)**	(4,306)
Maturities of available-for-sale securities	**39,953**	60,555
Purchases of available-for-securities	**(38,072)**	(64,257)
Maturities of held-to-maturity securities	**86**	96
Additional deposits with RUS restricted investment	**(21,311)**	(89,369)
Maturities of RUS restricted investment	**177,372**	89,859
Other	**831**	(3,023)
Net cash used in investing activities	**(43,766)**	(102,280)
Financing activities		
Proceeds from long-term debt	**391,883**	197,030
Principal payments on long-term debt	**(504,945)**	(245,047)
Retirement of patronage capital	**(1,814)**	–
Debt issuance costs	**(1,412)**	(6,646)
Net cash used in financing activities	**(116,288)**	(54,663)
Net change in cash, cash equivalents, and restricted cash	**2,890**	(13,824)
Cash, cash equivalents, and restricted cash – beginning of year	**129,635**	143,459
Cash, cash equivalents, and restricted cash – end of year	**$ 132,525**	$ 129,635
Supplemental disclosure of cash flow		
Cash paid for interest	**$ 108,319**	$ 139,805
Noncash investing transactions:		
Additions to electric plant included in accounts payable	**$ 47,157**	$ 24,359
Unrealized gain (loss) on available-for-sale securities	**$ 106**	$ (19)

See notes to financial statements.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

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 was 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 2019 and 2018 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 2019 and 2018.

Depreciation and amortization expense was $121.7 million and $119.7 million for 2019 and 2018, respectively. Depreciation and amortization expense includes amortization expense of $12.2 million in 2019 and $12.6 million in 2018 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 $5.8 million and $6.3 million in 2019 and 2018, 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, 2019 or 2018.

Restricted Investments

Restricted 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 investments are shown as noncurrent on the balance sheets. Restricted 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 prohibited new deposits to the cushion of credit and enabled balance holders to use existing cushion of credit funds to prepay RUS/FFB debt without a prepayment penalty through September 30, 2020. The Cooperative utilized this new provision to pay off higher interest loans totaling $177.3 million on July 2, 2019. Existing cushion of credit account balances will continue to earn 5% interest until October 1, 2020, at which time the interest rate will be reduced to 4%.

1. Summary of Significant Accounting Policies (continued)

Restricted investments at December 31, 2019 and 2018, consisted of the following (dollars in thousands):

	2019	2018
Debt service reserve (Note 6)	**$ 1,103**	$ 1,087
Noncurrent restricted investment – RUS cushion of credit	**189,306**	327,109
Restricted investments – noncurrent	**190,409**	328,196
Current restricted investment – RUS cushion of credit	**160,288**	178,545
Total restricted investments	**$ 350,697**	$ 506,741

Cash, Cash Equivalents, and Restricted Cash

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, 2019 and 2018, consisted primarily of money market mutual funds and investments in commercial paper.

Restricted cash represented funds pledged as collateral with a third party in conjunction with a capacity purchase and tolling agreement that ended on April 30, 2019. The remaining collateral was refunded to the Cooperative in May 2019.

The Cooperative adopted the Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230) – Restricted Cash*, in 2019, which required the statement of cash flows to present 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 are 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 also required a reconciliation of cash and cash equivalents and restricted cash and cash equivalents within the balance sheet and the amounts shown in the statement of cash flows.

1. Summary of Significant Accounting Policies (continued)

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the balance sheets that sum to the total of the same amounts shown in the statements of cash flows (dollars in thousands):

	2019	2018
Cash and cash equivalents	**$ 132,525**	$ 126,635
Restricted cash	–	3,000
Total	**$ 132,525**	$ 129,635

ASU 2016-18 was adopted using a retrospective transition method, which requires each comparative period to reflect the application of the amendment in the statements of cash flows. Accordingly, for the year ended December 31, 2018, net cash used by investing activities increased $1.5 million; net change in cash, cash equivalents, and restricted cash decreased $1.5 million; and beginning of year and end of year cash, cash equivalents, and restricted cash increased $4.5 million and $3.0 million, respectively.

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 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. Included in the available-for-sale securities on the following table are securities held in connection with the directors' and certain employees' elective deferred compensation programs and the supplemental executive retirement plan covering certain executives. These assets are included in other noncurrent assets on the balance sheets.

1. Summary of Significant Accounting Policies (continued)

Estimated fair values of the Cooperative's financial instruments as of December 31, 2019 and 2018, were as follows (dollars in thousands):

	Fair Value December 31, 2019	Fair Value at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	**$ 111,000**	**$ 111,000**	**$ –**	**$ –**
Available-for-sale securities	**41,758**	**41,758**	**–**	**–**
Debt service reserve	**1,103**	**1,103**	**–**	**–**

	Fair Value December 31, 2018	Fair Value at Reporting Date Using: 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	44,372	44,372	–	–
Debt service reserve	1,087	1,087	–	–

1. Summary of Significant Accounting Policies (continued)

The estimated fair values of the Cooperative's financial instruments carried at cost at December 31, 2019 and 2018, were as follows (dollars in thousands):

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Held-to-maturity investments	**$ 8,125**	**$ 11,954**	$ 8,211	$ 10,613
Long-term debt	**2,804,899**	**3,139,309**	2,918,760	3,175,389

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 $825.4 million and $853.2 million for 2019 and 2018, respectively. Accounts receivable at December 31, 2019 and 2018, were primarily from billings to member cooperatives.

At December 31, 2019 and 2018, individual accounts receivable balances that exceeded 10% of total accounts receivable are as follows (dollars in thousands):

	2019	2018
Owen Electric Cooperative	**$ 11,791**	$ 12,744
Blue Grass Energy Cooperative	**9,145**	9,270
South Kentucky RECC	**9,050**	9,381

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. Physical adjustments of fuel inventories are charged to expense over the subsequent six months and recovered or refunded, as required, through the fuel adjustment clause.

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 2019 and 2018 are primarily related to changes in the estimated cost to settle ash disposal sites to comply with the closure and post-closure requirements of the Coal Combustion Residuals (CCR) Rule and the estimated cost to abate asbestos at Cooper Station, respectively. Settlement activities are associated with the abatement of asbestos at Dale Station and capping of ash disposal sites.

The Cooperative continues to evaluate the useful lives of its plants and the 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):

	2019	**2018**
Balance – beginning of year	**$ 60,280**	$ 56,309
Liabilities settled	**(7,293)**	24
Estimated cash flow revisions	**1,722**	2,413
Accretion	**1,610**	1,534
Balance – end of year	**$ 56,319**	$ 60,280

1. Summary of Significant Accounting Policies (continued)

As discussed in Note 5, the PSC granted regulatory asset treatment of accretion and depreciation associated with AROs on EKPC's books by type and location beginning in January 2014. These regulatory assets will be charged to accretion expense and depreciation expense as recovery of settlement costs occurs.

Accretion charged to regulatory assets in 2019 and 2018 was $1.6 million and $1.5 million, respectively. Accretion expense recognized in 2019 was $0.4 million which represented the recovery of settlement costs associated with the Dale Station reclamation project and capping activities at Cooper Station and Spurlock Station. 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.

Revenue Recognition

The Cooperative adopted Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, or ASU 2014-09 as of January 1, 2019. 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 was adopted using the modified retrospective approach. There was no material impact on revenue recognition as a result of adopting this ASU and accordingly, no cumulative effective adjustment was recognized. ASU 2014-09 also requires expanded disclosures to enable users of the financial statements to understand the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers. Related disclosures are outlined below.

Operating revenues are primarily derived from sales of electricity to members. These sales, which comprise approximately 96 percent of EKPC's operating revenues, are pursuant to identical long-term wholesale power contracts maintained with RUS and each of the Cooperative's 16 members that extend through December 31, 2050. The wholesale power contract obligates each member to pay EKPC for demand and energy furnished in accordance with rates established by the PSC. Energy and demand have the same pattern of transfer to members as one cannot be provided without the other. Therefore, these components of electric power sales to members are considered one performance obligation. Electricity revenues are recognized over time as energy is delivered based upon month-end meter readings and rates set forth in EKPC's tariffs, as approved by the PSC.

1. Summary of Significant Accounting Policies (continued)

Non-member revenues are primarily comprised of PJM Interconnection, LLC (PJM) electric and capacity revenues, and other revenues. In the PJM market, electricity sales are separately identifiable from participation in the capacity market as the two can be transacted independently of one another. Therefore PJM electric sales are considered a separate contract with a single performance obligation and revenue is recognized based upon the megawatt-hours delivered in each hour at the market price. Capacity revenues represent compensation received from PJM for making generation capacity available to satisfy system integrity and reliability requirements. Capacity is a stand-ready obligation to deliver energy when called upon and is considered a single performance obligation. Revenue is recognized over time based upon megawatts and the prices set by the PJM competitive auction for the delivery year.

Other revenues primarily consist of transmission, wheeling, and leasing activities. Transmission and wheeling are related to contractual agreements with PJM and other electric utilities for transmitting electricity over EKPC's transmission lines. Each of these services are provided over time with progress measured using the output method. Lease revenue is related to power sales arrangements that are required to be accounted for as leases since the arrangement conveys the right to the output of specific plant facilities for a stated period of time. See Note 10.

The following represents operating revenues by revenue stream for the years ended December 31, 2019 and 2018 (dollars in thousands):

	Year Ended December 31	
	2019	**2018**
Member electric sales	**$ 825,410**	$ 853,175
Non-member sales:		
Electric	**19,580**	28,550
Capacity	**6,330**	3,508
Other	**8,803**	15,056
Total operating revenues	**$ 860,123**	$ 900,289

1. Summary of Significant Accounting Policies (continued)

Rate Matters

The base rates charged by the Cooperative to its members 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. 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 and is included in member electric sales. The regulatory asset or liability represents the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

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 and is included in member electric sales. 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, as defined by RUS. In addition, provisions of certain financing documents prohibit the retirement of capital until stipulated requirements related to aggregate margins and equities are met.

On April 9, 2019, the Cooperative's Board of Directors authorized the retirement of patronage capital in the amount of $1.8 million, which represented margins assigned to members from the inception of the Cooperative through 1967.

1. Summary of Significant Accounting Policies (continued)

Comprehensive Margin

Comprehensive margin includes both net margin and other comprehensive margin. Other comprehensive margin 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 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.

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 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.

1. Summary of Significant Accounting Policies (continued)

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.

New Accounting Guidance

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 2021. The Company is currently assessing the impact of adopting this guidance.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, a new standard to replace the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The standard is effective for the Company on January 1, 2023, and early adoption is permitted. The Company is currently evaluating the impact the new standard will have on its financial statements.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current presentation. The changes in classification were due to the adoption of ASU 2016-18 (see Cash, Cash Equivalents, and Restricted Cash above), and the adoption of ASU 2017-07 (see Note 7).

2. Electric Plant in Service

Electric plant in service at December 31, 2019 and 2018, consisted of the following (dollars in thousands):

	2019	2018
Production plant	**$ 3,082,196**	$ 3,133,868
Transmission plant	**847,023**	832,891
General plant	**137,387**	132,548
Completed construction, not classified, and other	**115,360**	98,712
Electric plant in service	**$ 4,181,966**	$ 4,198,019

Acquisition adjustments of $4 million were included in electric plant in service at December 31, 2019 and 2018. 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 certain 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 make certain repairs to the steam system. The amount is being reimbursed to the Cooperative 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, 2019 and 2018, were as follows (dollars in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2019				
U.S. Treasury Bill/Note	**$ 20,551**	**$ 29**	**$ –**	**$ 20,580**
Zero coupon bond	**17,695**	**36**	**–**	**17,731**
	$ 38,246	**$ 65**	**$ –**	**$ 38,311**

	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

Proceeds from maturities of securities were $40.0 million and $60.6 million in 2019 and 2018, respectively.

4. Investment Securities (continued)

Amortized cost and estimated fair value of held-to-maturity investment securities at December 31, 2019 and 2018, are as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2019				
National Rural Utilities Cooperative Finance Corporation:				
3%–5% capital term certificates	**$ 7,656**	**$ 3,806**	**$ –**	**$ 11,462**
6.5875% subordinated term certificate	**165**	**32**	**–**	**197**
0% subordinated term certificate	**304**	**–**	**(9)**	**295**
	$ 8,125	**$ 3,838**	**$ (9)**	**$ 11,954**

	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

4. Investment Securities (continued)

The amortized cost and fair value of securities at December 31, 2019, 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	$ 38,246	$ 38,311
	$ 38,246	$ 38,311
Held-to-maturity:		
Due in one year or less	$ 658	$ 665
Due after one year through five years	469	492
Due after ten years	6,998	10,797
	$ 8,125	$ 11,954

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. In 2019, EKPC began focused mitigation and salvage efforts by utilizing compatible components from Smith Unit 1 valued at $20.6 million at Spurlock Station and selling parts for salvage totaling $2.0 million. The balance of the regulatory asset at December 31, 2019, was $88.8 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 incurred to settle EKPC's ash disposal 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. Amortization of this asset ended on June 30, 2019. 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.

The RUS authorized the Cooperative to establish a $7.2 million regulatory asset at December 31, 2019, for the costs related to major maintenance and the replacement of minor components of property incurred at Spurlock Station in 2019 and to amortize the balance over eight years. Management believes it is probable that the PSC will authorize recovery of any remaining balance in the Cooperative's next rate case.

Regulatory assets (liabilities) were comprised of the following as of December 31, 2019 and 2018 (dollars in thousands):

	2019	2018
Plant abandonment – Smith Unit 1	**$ 88,847**	$ 123,506
Plant abandonment – Dale Station	**750**	1,012
ARO-related depreciation and accretion expenses	**38,056**	38,029
Major maintenance projects – Spurlock Station	**7,244**	–
	$ 134,897	$ 162,547
Environmental cost recovery	**$ (1,033)**	$ (874)
Fuel adjustment clause	**(2,741)**	(3,676)
	$ (3,774)	$ (4,550)

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, 2019 and 2018, consisted of the following (dollars in thousands):

	2019	2018
First mortgage notes:		
1.91%–4.95%, payable quarterly to Federal Financing Bank (FFB) in varying amounts through 2050, weighted average 3.84%	**$ 2,171,907**	$ 2,387,597
5.13% payable quarterly to RUS in varying amounts through 2024	**–**	4,184
First Mortgage Bonds, Series 2014A, fixed rate of 4.61%, payable semi-annual, matures February 6, 2044	**179,000**	184,000
First Mortgage Bonds, Series 2019, fixed rate of 4.45%, payable semi-annual, matures April 19, 2049	**150,000**	–
First Mortgage Promissory Note, fixed rate of 4.30%, payable semi-annual, matures April 30, 2049	**100,000**	–
Tax-exempt bonds:		
Solid Waste Disposal Revenue Bonds, Series 1993B, variable rate bonds, due August 15, 2023 1.40% and 1.88% at December 31, 2019 and 2018, respectively	**2,700**	3,300
Clean Renewable Energy Bonds, fixed rate of 0.40% payable quarterly to CFC to December 1, 2023	**1,777**	2,221
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%	**17,397**	17,705
Promissory notes:		
Variable rate notes payable to CFC, 2.70% at December 31, 2019	**185,000**	320,000
5.05%–5.50% fixed rate notes payable to National Cooperative Services Corporation, weighted average 5.22%	**5,575**	7,411
Total debt	**2,813,356**	2,926,418
Less debt issuance costs	**(8,457)**	(7,658)
Total debt adjusted for debt issuance costs	**2,804,899**	2,918,760
Less current maturities	**(93,599)**	(92,499)
Total long-term debt	**$ 2,711,300**	$ 2,826,261

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, 2019. The amounts outstanding under these notes are $2.2 billion at December 31, 2019.

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; $11.5 million was advanced in 2019. As of December 31, 2019, $16.3 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; $25.4 million was advanced in 2019. As of December 31, 2019, $92.2 million of the loan remained available for advance.

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.

On December 20, 2018, the Cooperative gave notice to RUS to pay off approximately $178 million in higher interest loans on or after January 2, 2019, from the Cushion of Credit, pursuant to the provisions of the 2018 Farm Bill. On July 2, 2019, these higher interest loans totaling $177.3 million were paid off using funds from the Cushion of Credit.

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 $179.0 million at December 31, 2019.

6. Long-Term Debt (continued)

On April 18, 2019, the Cooperative entered into a bond purchase agreement for $150 million at 4.45% First Mortgage Bonds, Series 2019 due to mature on April 19, 2049. The transaction closed and was funded on April 18, 2019. The debt is secured on equal footing with the Cooperative's other secured debt under the Indenture. The amount outstanding under these bonds is $150 million at December 31, 2019.

On April 19, 2019, the Cooperative signed a promissory note to CFC for $100 million at a fixed rate of 4.30% with a maturity date of April 30, 2049. The debt is secured and on equal footing with other secured debt. The balance on the loan was $100 million at December 31, 2019.

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 2019 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 investments on the accompanying Balance Sheets and have a fair value of approximately $1.1 million at December 31, 2019 and 2018.

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, 2019, is $1.8 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, 2019, is $17.4 million.

6. Long-Term Debt (continued)

Promissory Notes

On July 5, 2019, 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 4, 2023, and is to be utilized for general corporate purposes including capital construction projects. As of December 31, 2019, the Cooperative had outstanding borrowings of $185 million (including the $100 million unsecured term loan). As of December 31, 2019, the availability under the credit facility was $415 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, 2019, the amount outstanding under these notes is $5.6 million.

Estimated annual maturities of long-term debt adjusted for debt issuance costs for the five years subsequent to December 31, 2019, are as follows (dollars in thousands):

Years ending December 31:	
2020	$ 93,599
2021	96,307
2022	99,917
2023	102,972
2024	103,474
Thereafter	2,308,630
	$ 2,804,899

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, 2019 and 2018.

As of December 31, 2019, 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, 2019, 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 2019 and 2018 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 $7.9 million and $8.3 million in 2019 and 2018, respectively.

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, 2019 and 2018, 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 $4.0 million and $3.8 million to the plan for the years ended December 31, 2019 and 2018, 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 certain 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 Cooperative adopted the Accounting Standards Update (ASU) 2017-07, *Compensation – Retirement Benefits (Topic 715) – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, in 2019. The adoption of this guidance requires the presentation of non-service cost components of net periodic benefit costs outside of operating income. The ASU also stipulates that only the service cost component of net benefit cost is eligible for capitalization. ASU 2017-07 was adopted using a retrospective transition method, which requires each comparative period to reflect the application of the amendment in the statements of revenues, expenses, and comprehensive margin. Accordingly, $2.3 million in non-service costs were reclassified from operating expenses to other non-operating expenses in 2018.

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, 2019 and 2018 (dollars in thousands):

7. Retirement Benefits (continued)

		2019		2018
Change in benefit obligation:				
Accumulated postretirement benefit obligation – beginning of year	**$**	**66,053**	$	75,806
Service cost		**1,163**		1,503
Interest cost		**2,869**		2,788
Participants' contributions		**1,542**		1,462
Plan amendment – prior service credit		**(17,509)**		(4,692)
Benefits paid		**(4,237)**		(4,399)
Actuarial loss (gain)		**7,672**		(6,415)
Accumulated postretirement benefit obligation – end of year	**$**	**57,553**	$	66,053
Change in plan assets:				
Fair value of plan assets – beginning of year	**$**	**–**	$	–
Employer contributions		**2,695**		2,937
Participant contributions		**1,542**		1,462
Benefits paid		**(4,237)**		(4,399)
Fair value of plan assets – end of year		**–**		–
Funded status – end of year	**$**	**(57,553)**	$	(66,053)
Amounts recognized in balance sheet consists of:				
Current liabilities	**$**	**2,178**	$	3,165
Noncurrent liabilities		**55,375**		62,888
Total amount recognized in balance sheet	**$**	**57,553**	$	66,053
Amounts included in accumulated other comprehensive margin:				
Prior service credit	**$**	**26,671**	$	9,914
Unrecognized actuarial gain (loss)		**(5,464)**		2,207
Total amount in accumulated other comprehensive margin	**$**	**21,207**	$	12,121
Net periodic benefit cost:				
Service cost	**$**	**1,163**	$	1,503
Interest cost		**2,869**		2,788
Amortization of net actuarial (gain) loss		**(751)**		(412)
Net periodic benefit cost	**$**	**3,281**	$	3,879
Amounts included in other comprehensive margin:				
Prior service credit arising during the year	**$**	**17,509**	$	4,692
Net (loss) gain arising during the year		**(7,672)**		6,415
Amortization of net actuarial (gain) loss		**(751)**		(412)
Net gain recognized in other comprehensive margin	**$**	**9,086**	$	10,695
Amounts expected to be realized in next fiscal year:				
Amortization of prior service credit	**$**	**2,020**	$	751
Amortization of net gain		**407**		–
	$	**2,427**	$	751

7. Retirement Benefits (continued)

Effective January 1, 2020, the plan changed post-65 participant coverage to an insured Medicare Advantage product, which resulted in a prior service credit of $17.5 million. This prior service credit will be amortized over 13.79 years, which represents the average future years of service to full eligibility.

The discount rate used to determine the accumulated postretirement benefit obligation was 3.45% and 4.45% for 2019 and 2018, respectively. The decline in the discount rate resulted in a $7.9 million actuarial loss while changes in mortality and other assumptions resulted in an actuarial gain of $0.2 million.

The Cooperative expects to contribute approximately $2.2 million to the plan in 2020. The expected benefit payments from the plan, which reflect anticipated future service, are (dollars in thousands):

Years ending December 31:		
2020	$	2,178
2021		2,256
2022		2,306
2023		2,446
2024		2,490
2025–2029		12,899

For measurement purposes, a 5.9% annual rate of increase in the per capita cost of covered health care benefits was used for the year ended December 31, 2019. 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 $0.7 million and increase the postretirement benefit obligation by $9.3 million. A 1% decrease in the health care trend rate would decrease total service and interest costs by $0.6 million and decrease the postretirement benefit obligation by $7.5 million.

8. Changes in Accumulated Other Comprehensive Margin by Component

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

	Postretirement Benefit Obligation	Unrealized Gain (Loss) on Investments Available for Sale	Accumulated Other Comprehensive Margin
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
Other comprehensive gain before reclassifications	**9,837**	**106**	**9,943**
Amounts reclassified from accumulated other comprehensive margin	**(751)**	**–**	**(751)**
Net current period other comprehensive gain	**9,086**	**106**	**9,192**
Balance – December 31, 2019	**$ 21,207**	**$ 65**	**$ 21,272**

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 2019 and 2018 were $6.5 million and $6.4 million, respectively. One long-term agreement remained in effect at December 31, 2019, 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:		
2020	$	3,756
2021		3,906
2022		3,998

The Cooperative is committed to purchase coal for its generating plants under long-term contracts that extend through 2022. Coal payments under contracts for 2019 and 2018 were $96.2 million and $85.5 million, respectively. Total minimum purchase obligations for the next three years are as follows (dollars in thousands):

Years ending December 31:		
2020	$	87,626
2021		42,845
2022		1,925

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 2021. 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*.

10. Power Sales Arrangements

In December 2015, the Cooperative became the lessor under two power sales arrangements that were required to be accounted for as operating leases due to the specific terms of the agreements. One arrangement, was a capacity purchase and tolling agreement that entitled a third party to 165 MW of firm generation and capacity from Bluegrass Generation Station Unit 3 through April 30, 2019. The third party was 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 revenue associated with these arrangements for 2019 and 2018 was $4.0 million and $10.8 million, respectively, and is included in operating revenue on the Statements of Revenue and Expenses and Comprehensive Margin for the years ended December 31, 2019 and 2018.

The minimum future revenues under the remaining arrangement is as follows (dollars in thousands):

Years ending December 31:		
2020	$	460
2021		452
2022		452
2023		452
2024		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. 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. In 2019, the EPA published additional rules that proposed substantial changes to the CCR federal regulatory scheme. Although, in each of these proposals,

11. Environmental Matters (continued)

the EPA has suggested significant changes and additions to the CCR Rule provisions for beneficial use, reporting, website posting, and impoundment liners, the proposed rules concerning closure have the potential for the most impact on the Company's CCR compliance strategy. The Closure Part A Rule proposes to move the closure commencement deadline for unlined or clay-lined impoundments from October 2020 to August 2020. The Rule provides for short-term and long-term extensions for facilities that cannot secure capacity for CCR storage by the deadline of August 2020. The Company's Spurlock Station surface impoundment is unlined per the CCR rule. The Closure Part A Rule dictates that EKPC cease placement of CCR material in the impoundment by August 2020 or seek EPA approval under the alternate closure plan by June 2020. The Company plans to seek EPA approval under the alternative closure plan by June 2020.

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. 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 November 4, 2019, the EPA published a proposal to revise the ELG Rule for flue-gas desulfurization (FGD) wastewater and bottom ash transporter (BAT) water. The proposed rule puts forward BAT limitations that are more stringent than Best Practicable Control Technology limitations but extends compliance as far out as December 31, 2023 (BA Transport Water) or December 31, 2025 (FGD Wastewater), depending on NPDES renewal dates. Comments were due on January 21, 2020, and a final rule is expected in 2020. The Company's Spurlock Station will be in compliance with ELG prior to the deadlines articulated in the Proposed Rule.

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 did not affect EKPC beginning the construction project in January 2019 with an estimated completion date of November 2024.

11. Environmental Matters (continued)

On September 6, 2019, the EPA's Affordable Clean Energy rule (ACE) became effective. The intent of ACE is to provide existing coal-fired electric utility generating units, (EGUs), with achievable and realistic standards for reducing greenhouse gas (GHG) emissions. This action was finalized in conjunction with three related, but separate and distinct rulemakings: 1) the repeal of the Clean Power Plan (CPP), 2) the replacement of the Clean Power Plan by the ACE that will set new standards of performance based upon the Best Emission System of Reductions (BSER) and 3) revisions to the Clean Air Act Section 111(d) implementation regulations that shift greater discretion to the states for the implementation of ACE. New emission guidelines within ACE will influence the state's development of standards of performance to reduce carbon dioxide (CO_2) emissions from existing coal-fired EGUs – consistent with EPA's role as defined under the CAA. EKPC will continue to evaluate the impact of this rule on its existing coal-fired fleet and remain actively engaged with the Kentucky Environmental Cabinet and EPA to understand their interpretation of the standards of performance.

12. Related Party Transactions

The Cooperative is a member of CFC, which provides a portion of the Cooperative's financing, including a $100 million fixed rate loan executed in 2019. CFC 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 $8.1 million and $8.2 million at December 31, 2019 and 2018, respectively. CFC Patronage capital assigned to EKPC was $1.5 million and $1.3 million at December 31, 2019 and 2018, 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 $0.5 million and $0.4 million at December 31, 2019 and 2018, respectively.

EKPC is a member of ACES LLC (ACES), which provides various energy marketing, settlement and risk management related services to its members and clients. 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, 2019 and 2018, the balance of EKPC's investment in ACES was approximately $0.6 million. Payments to ACES were $2.3 million in 2019 and in 2018.

13. Subsequent Events

On March 10, 2020, the Cooperative gave notice to RUS that the Cooperative will prepay approximately $358 million in higher interest rate loans on August 14, 2020 from the Cushion of Credit, pursuant to the provisions of the 2018 Farm Bill which enables RUS borrowers to use funds in the Cushion of Credit to prepay RUS/FFB loans with no prepayment penalty through September 30, 2020.

In March 2020, the outbreak of COVID-19 (coronavirus) caused by a novel strain of the coronavirus was recognized as a pandemic by the World Health Organization. The federal government and the Commonwealth of Kentucky both declared states of emergency. The outbreak has become increasingly widespread in the United States and has begun to have a notable impact on general economic conditions, including early indications of reduced consumer spending due to both job losses and temporary business closures as well as other effects attributable to the coronavirus and various regulatory governmental actions. The Company continues to monitor the coronavirus outbreak and its impacts closely. The extent to which the coronavirus outbreak will impact the Company’s operations or financial results is uncertain. However the Company believes it has sufficient equity and liquidity to sustain through and beyond the event.

Management has evaluated subsequent events through March 31, 2020, 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