Financial Statements

East Kentucky Power Cooperative, Inc.
Years Ended December 31, 2019 and 2018
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

East Kentucky Power Cooperative, Inc.

Financial Statements

Years Ended December 31, 2019 and 2018

Contents

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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.

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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	December 31 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.

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 at Reporting Date Using		
	Fair Value December 31, 2019	**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 at Reporting Date Using		
	Fair Value December 31, 2018	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash equivalents	$ 95,000	$ 95,000	$ –	$ –
Available-for-sale securities	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 (CO2) 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.

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