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

FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Electric Plant Board of the City of Paducah, Kentucky, d/b/a Paducah Power System, a component unit of the City of Paducah, Kentucky, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Paducah Power System, as of June 30, 2017 and 2016, and the respective changes in financial position and cash flows for the years then ended in accordance with the basis of accounting described in Note 1.

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Emphasis of matter

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of the financial reporting provisions prescribed by the Federal Energy Regulatory Commission, which is a basis of accounting other than principles generally accepted in the United States of America, to comply with the requirements of the Federal Energy Regulatory Commission. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The schedule of operating expenses presented on pages 32 and 33 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of operating expenses is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

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

Williams, Williams & Lentz LLP

Paducah, Kentucky
November 10, 2017

REQUIRED SUPPLEMENTARY INFORMATION

PADUCAH POWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of Paducah Power System, we offer readers of the electric system's financial statements this narrative overview and analysis of the company's financial performance during fiscal year ending June 30, 2017. Comparisons are available on several financial and supplemental statements throughout this analysis.

FINANCIAL HIGHLIGHTS

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

FORMATION OF KENTUCKY MUNICIPAL POWER AGENCY

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

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

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

(Continued)

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

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

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

FINANCIAL ANALYSIS OF THE UTILITY

One of the most important questions asked about the utility's finances is, "Is Paducah Power System, as a whole, better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position help us answer this question. One can think of the utility's net position - the difference between assets/deferred outflows and liabilities/deferred inflows - as one way to measure financial health or financial position. Over time, increases or decreases in the utility's net position is one indicator of whether its financial health is improving or deteriorating; however, one will need to consider other non-financial factors such as changes in local economic conditions, population growth, and new or changed regulations affecting the utility.

NET POSITION

To begin our analysis, a summary of Paducah Power System's Statements of Net Position is presented below.

CONDENSED STATEMENTS OF NET POSITION
For fiscal year ended June 30

	FY17	FY16
Current assets	$ 34,308,314	$ 28,742,016
Non-current assets	10,910,585	14,138,029
Capital assets	146,837,771	151,833,785
Total assets	192,056,670	194,713,830
Deferred Outflows of Resources	18,400,471	18,215,818
Current liabilities	14,314,728	15,089,562
Non-current liabilities	17,017,175	14,361,414
Long-term debt	151,844,666	157,639,794
Total liabilities	183,176,569	187,090,770
Deferred Inflows of Resources	114,224	189,870
Invested in capital assets, net of related debt	7,543,949	8,317,000
Restricted for debt service	5,344,377	10,306,112
Unrestricted net assets	14,278,022	7,025,896
TOTAL NET ASSETS	$ 27,166,348	$ 25,649,008

(Continued)

Current assets represent items such as cash and temporary investments, accounts receivable, materials and supplies, prepaid expenses, accrued interest receivable, and rents receivable. Current assets increased by approximately $5.6 million.

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

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

Other non-current assets include a Rate Stabilization Fund balance, unamortized debt discounts, unamortized research and development, and conservation loan receivables. With the termination of the TVA wholesale power contract, Energy Right conservation loans are no longer available to PPS customers resulting in a declining balance over time. FY17 also includes a total investment of $426 thousand for the startup of MuniNet. This includes PPS's portion of MuniNet's debt service payments and legal fees.

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

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

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

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

Long-term debt represents the long-term portion of revenue bonds, net of unamortized discounts and advanced refunding deferred charges. Outstanding revenue bonds include $3 million issued in October 2010 to defease a previous 2001 bond issue, $170 million issued in January 2009 for the construction of the peaking plant, gas-line, and transmission/substation upgrades and $103 million issued in June 2016 to advance refund a portion of the outstanding 2009 bond issue. A 2009A bond issue included a premium of $18.9 million. The long-term debt balance will decrease as the bonds are repaid.

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

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A summary of Paducah Power System's Statements of Revenues, Expenses, and Changes in Net Position is as follows:

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	FY17	FY16	Change	% Change
Electrical sales revenue	$74,980,152	$75,861,655	$ (881,503)	(1.2)%
Miscellaneous revenue	2,255,401	(3,944,615)	6,200,016	157.2%
Total operating revenue	77,235,553	71,917,040	5,318,513	7.4%
Purchased power cost	46,936,630	43,173,928	3,762,702	8.7%
General operating expense	8,104,676	7,222,146	882,530	12.2%
Generation plant expense	2,422,919	1,286,365	1,136,554	88.4%
Maintenance expense	1,779,544	1,622,259	157,285	9.7%
Other operating expense	11,080,584	10,975,406	105,178	.96%
Non-operating expense	5,393,860	7,323,097	(1,929,238)	(26.3)%
Total expenses	75,718,213	71,603,201	4,115,011	5.7%
Changes in net position	1,517,340	313,839	1,203,502	
Beginning net position	25,649,008	25,335,169		
Prior period adjustment	-	(6,943,501)		
Net position, restated	25,649,008	25,355,149		
ENDING NET POSITION	$27,166,348	$25,649,008		

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

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

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

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

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

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

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

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

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

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CASH FLOWS

The Statements of Cash Flows show what impact the utility's activities had on cash and cash equivalents. This financial statement can often reflect the liquidity situation of the utility. If a trend of decreasing cash balances over a period of years occurs without any additional capital funding or change in revenues and expenses, the entity may become unable to meet its short-term obligations to creditors. Increases in cash over a one-year time frame may be nothing more than financing of a capital project that will be constructed over a period of years. A scenario of decreasing cash position may occur if an entity self-funds a capital asset that is anticipated to generate returns in future periods thereby increasing cash flows.

A summary of Paducah Power System's Statements of Cash Flows is presented below.

STATEMENTS OF CASH FLOWS

	FY17	FY16
Cash Flows from Operating Activities:		
Receipts from customers	$ 76,564,919	$ 79,087,177
Payments to suppliers	(55,517,979)	(50,051,423)
Payments to employees	(5,170,346)	(5,043,028)
Net cash provided by operating activities	15,876,594	23,992,726
Cash Flows from Capital and Related Financing Activities:		
Capital expenditures	(4,184,557)	(4,299,450)
Proceeds from issuance of long-term debt	-	122,234,722
Principal payments on long-term debt	(5,240,000)	(109,718,165)
Interest payments on long-term debt	(6,484,925)	(7,171,818)
Bond insurance cost	-	(1,061,936)
Deferred savings on bond refunding	1,024,271	(16,618,426)
Non-utility property and other assets	(316,422)	4,072
Investment in hydro research and development	-	(459,035)
Net cash used by capital and related financing activities	(15,201,633)	(17,090,036)
Cash Flows from Investing Activities:		
Investment income	149,944	140,292
Non-operating income	(6,375)	881
Net cash provided by investing activities	143,569	141,173
Net increase in cash and cash equivalents	818,530	7,043,863
Cash and cash equivalents, beginning of year	30,543,285	23,499,422
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 31,361,815	$ 30,543,285

(Continued)

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

BUDGETARY HIGHLIGHTS

Paducah Power System adopts a current year Operating Budget and a Three-Year Capital Plan annually. The Operating Budget includes projected operating and non-operating revenues and expenses. The utility's budget remains in effect the entire year, but may be revised throughout the year as major assumptions or conditions change. A FY17 budget comparison and analysis is presented below, but is not included in the financial statements section of the auditor's report.

BUDGET VERSUS ACTUAL
FY17

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

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

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

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

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

CAPITAL ASSETS

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

CAPITAL ASSETS
FY17

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

Construction in progress decreased due to fewer capital improvement projects throughout the system.

Distribution system increases are slightly lower than historical averages, but consist of replacement of existing assets including line extensions and new services.

General plant increases include FiberNet additions, network equipment, and vehicle replacements.

Generation plant increases represent additional capital purchases for assets related to the gas-fired turbine facility.

Total capital assets decreased during the fiscal year due to the depreciation of PPS's largest asset, the gas turbine generation station.

DEBT ADMINISTRATION

November 1, 1998, Paducah Power System issued $3.35 million in special revenue refunding bonds with interest rates between 3.75% and 4.20% in order to advance refund an outstanding series of 1991 general obligation bonds with an interest rate of 6.30%. All proceeds from the 1998 series were invested in U.S. Government Securities thereby defeasing the 1991 series.

November 9, 2001, Paducah Power System issued $3.32 million in special revenue bonds with interest rates between 3.00% and 4.25%. Proceeds from the 2001 series are for the construction of a fiber optic network and substation communication upgrade.

(Continued)

January 29, 2009, Paducah Power System issued $161.7 million and $8.5 million in special revenue bonds with interest rates between 3.0% and 5.25%. Proceeds from the 2009 issues have been used to construct the peaking plant, high pressure gas lines, and associated substation/transmission upgrades.

October 14, 2010, Paducah Power System issued $3 million in revenue refunding bonds with interest rates between 0.6% and 2.2% in order to advance refund the balance of the 2001 revenue bonds with interest rates between 3.00% and 4.25%. All proceeds were invested in U.S. Government Securities thereby defeasing the 2001 series.

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

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

	Total Series	Series 2016A	Series 2009A	Series 2010
Balance at June 30, 2016	$145,035,000	$103,375,000	$41,140,000	$520,000
Increases	-	-	-	-
Decreases	5,240,000	-	4,720,000	520,000
Refunding	-	-	-	-
BALANCE AT JUNE 30, 2017	$139,795,000	$103,375,000	$36,420,000	$ -

Maturities	Principal	Interest	Total
2018	$ 4,870,000	$ 6,634,755	$ 11,504,755
2019	5,035,000	6,478,915	11,513,915
2020	5,220,000	6,307,725	11,527,725
2021	5,445,000	6,104,925	11,549,925
2022	5,685,000	5,857,675	11,542,675
2023-2037	113,540,000	44,471,688	158,011,688
TOTALS	$139,795,000	$ 75,855,683	$215,650,683

FINANCIAL OUTLOOK AND ELECTRIC RATE CHANGES

In 2013, The Board hired Black & Veatch to complete a retail rate study based on anticipated power cost from Prairie State Generating Company, South East Power Administration, AMP hydro projects and PPS gas-turbines. The Board of Directors voted to implement the recommended rate increases in November 2012, April 2013 and April 2014. Included in the Board action was the implementation of a Power Cost Adjustment (PCA) clause beginning in November 2014. The PCA is intended to account for any difference (plus or minus) in the actual power cost and the power cost included in the base retail rates.

(Continued)

Purchased power costs were significantly higher than projected resulting in increased power cost adjustment rates to retail customers in previous years. Low market prices have produced less revenue from the sale of Prairie State energy into the market. This revenue is used to offset the cost of purchased power to meet PPS electric load. PPS also realized price differentials between the node where Prairie State energy is liquidated in the MISO market and the node where PPS purchases its power from the market. This price differential or transmission congestion has averaged up to $9/MW. Additionally, Prairie State continued to battle startup issues related to plant which resulted in lower than projected capacity ratings. Performance and output from the plant has improved significantly in recent months with a change in management and operating philosophy.

To address the increased power cost and associated rate impacts to customers, in November 2014, the PPS Board of Directors approved an Action Plan with several key goals. The first goal was to stabilize the PPS finances and power cost. Additional goals for FY16 included no increase in the PCA rate of 2.15¢ while eliminating the PCA balance by year end. As part of the plan, PPS changed portfolio managers approving a contract with American Municipal Power. The plan also included reductions in debt service for KMPA and Paducah by replacing portions of the Debt Service Reserve Funds with Surety Bonds. These funds were used to effectively defease principal payments over the next several years. Additionally, KMPA advance refunded a portion of its 2007 A&B bond issue which reduced debt service cost. Reductions in KMPA debt service and improved performance from Prairie State were realized as reductions in power cost to its members including PPS.

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

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

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

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

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

(Continued)

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

SUMMARY OF RETAIL RATES

	June 2017 Rate Tariff	June 2016 Rate Tariff
Residential		
Customer Charge	$14.75	$14.75
All KWH	$0.11153	$0.11153
Power Cost Adjustment	$0.00997	$0.01656
Small Commercial		
Customer Charge	$22.00	$22.00
All KWH	$0.12217	$0.12217
Power Cost Adjustment	$0.00997	$0.01656
Mid-Sized Commercial		
Customer Charge	$115.00	$115.00
1st 15,000 KWH	$0.11938	$0.11938
Power Cost Adjustment (1st 15,000)	$0.00997	$0.01656
Additional KWH	$0.07495	$0.07495
Power Cost Adjustment (Add KWH)	$0.00997	$0.01656
1st 50 KW Demand	$0.00	$0.00
51 - 1,000 KW Demand	$16.49	$16.49
Large Commercial		
Customer Charge	$275.00	$275.00
All KWH	$0.06736	$0.06736
0 - 1,000 KW Demand	$15.25	$15.25
1,001 - 5,000 KW Demand	$17.62	$17.62
Power Cost Adjustment	$0.00997	$0.01656
Industrial		
Customer Charge	$275.00	$275.00
All KWH	$0.05270	$0.05270
All KW Demand	$18.38	$18.38
Power Cost Adjustment	$0.00997	$0.01656
Outdoor Lighting		
All KWH	$0.08425	$0.08425
Power Cost Adjustment	$0.00997	$0.01656
Customer Charge	Depends on type and size of light	

CONTACTING THE PADUCAH POWER SYSTEM FINANCIAL MANAGER

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

BASIC FINANCIAL STATEMENTS

PADUCAH POWER SYSTEM
STATEMENTS OF NET POSITION
JUNE 30

ASSETS

	2017	2016
Current Assets:		
Cash and temporary cash investments	$ 15,050,318	$ 12,648,689
Cash reserves	10,992,925	7,588,484
Accounts receivable - net of allowance for doubtful accounts of $32,914 in 2017 and $33,302 in 2016	6,154,504	6,404,810
Receivable from MuniNet Fiber Agency	32,252	32,252
Materials and supplies	1,267,660	1,292,107
Prepaid expenses	709,261	662,846
Accrued interest receivable	4,479	14,302
Rent receivable	96,915	98,526
Total current assets	34,308,314	28,742,016
Noncurrent Assets:		
Restricted assets:		
Sinking Fund	5,344,377	10,306,112
Total restricted assets	5,344,377	10,306,112
Utility plant:		
Land	2,634,929	2,634,929
Transmission system	10,497,638	10,472,920
Distribution system	88,868,789	86,670,161
General plant	20,229,751	19,408,075
Generation plant	110,769,765	110,695,826
Construction work in progress	799,658	896,185
Less accumulated depreciation	(86,962,759)	(78,944,311)
Total utility plant	146,837,771	151,833,785
Other Assets:		
Investment in CSA	26,740	26,740
Investment in SEDC	175,436	165,051
Investment in MuniNet Fiber Agency	426,541	385,589
Unamortized debt discount	2,590,841	2,744,583
Regulatory assets	1,586,912	-
Other miscellaneous assets	286,768	20,723
Unemployment Trust Fund	29,154	29,154
Unamortized research and development cost	443,734	459,035
Non-utility property	82	1,042
Total other assets	5,566,208	3,831,917
Total noncurrent assets	157,748,356	165,971,814
Total assets	192,056,670	194,713,830

DEFERRED OUTFLOWS OF RESOURCES

	2017	2016
Deferred savings on bond refunding	15,755,131	16,618,426
Deferred pension plan outflows	1,924,077	982,483
Deferred pension plan contributions	721,263	614,909
Total deferred outflows	18,400,471	18,215,818

See notes to financial statements.

LIABILITIES

	2017	2016
Current Liabilities:		
Accounts payable	$ 5,282,050	$ 5,399,622
Customer deposits	770,091	835,086
Accrued taxes and equivalents	926,793	951,702
Accrued interest	1,677,953	1,801,373
Other current and accrued liabilities	787,841	861,779
Bonds payable	4,870,000	5,240,000
Total current liabilities	14,314,728	15,089,562
Noncurrent Liabilities:		
Long-term debts:		
Bonds held by public	151,844,666	157,639,794
Other unearned revenues	336,819	337,801
Other regulatory liabilities	6,461,368	5,705,492
Net pension liability	10,218,988	8,318,121
Total noncurrent liabilities	168,861,841	172,001,208
Total liabilities	183,176,569	187,090,770

DEFERRED INFLOWS OF RESOURCES

	2017	2016
Deferred pension plan inflows	114,224	189,870

NET POSITION

	2017	2016
Investment in capital assets	8,469,077	8,317,000
Restricted for:		
Debt service	5,344,377	10,306,112
Unrestricted - net position	13,352,894	7,025,896
TOTAL NET POSITION	$ 27,166,348	$ 25,649,008

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

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

See notes to financial statements.

PADUCAH POWER SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

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

(Continued)

PADUCAH POWER SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

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

See notes to financial statements.

Note 1 - Summary of Significant Accounting Policies:

Entity

The Electric Plant Board of the City of Paducah, Kentucky, d/b/a Paducah Power System (the System) is a municipal electric corporation organized and existing pursuant to the Little TVA Act, KRS 96.550-96-901. The System is governed by a five-person board, the members of which are appointed by the mayor subject to the approval of the city commission of Paducah, Kentucky. The System provides electrical service to consumers within the city limits of Paducah, Kentucky, and portions of McCracken County, Kentucky, beyond the city limits. The System maintains its records in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. As the System is a distinct corporate entity from the City of Paducah, Kentucky, the accompanying financial statements present only the financial position, results of operations, and cash flows of the System.

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

The major accounting differences between GAAP and FERC are as follows:

- The System accounts for changes in plant in accordance with FERC accounting principles. Plant additions are recorded at cost less any contributions received, and gains and losses from plant retirements are charged to accumulated depreciation. Under GAAP accounting principles, plant additions are recorded at historical cost, contributions for plant additions are recognized as nonoperating revenue, and gains and losses from plant retirements are recognized in the income statement.

- The System accounts for revenues and purchased power in accordance with FERC accounting principles. Revenues are recognized under cycle billing and the cost of purchased power reflects costs through the last day of each reporting period. Accordingly, no accrual for unbilled revenues would be reflected in the financial statements. Under GAAP accounting principles, revenues and expenses are recognized as incurred. Accordingly, an accrual for unbilled revenues would be reflected in the financial statements.

Revenue and Expense Recognition

Paducah Power System utilizes cycle billing. At the end of each accounting period, revenue from electric service which has been rendered since the latest date of each cycle meter reading is not reflected in the current period operations. All operating expenses are recorded under the accrual method of accounting.

Operating Revenues and Expenses

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

Utility Plant

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

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

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

Utility Plant

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

Other Property and Investments

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

Receivables and Credit Policies

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

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

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

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

Investments

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

Materials and Supplies

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

Net Position

Net position is displayed in three components:

a. Investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation, and unpaid debt financing.

b. Restricted net position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

(Continued)

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

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

Use of Estimates

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

Compensated Absences

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

Deferred Outflows and Deferred Inflows

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

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

Pensions

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

Concentration of Credit Risk

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

Subsequent Events

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

Note 2 - Deposits and Investments:

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

(Continued)

Note 2 - Deposits and Investments (Continued):

Deposits

The financial institution balances of the System's deposits were $32,974,532 for the year ended June 30, 2017. The book balance was $32,948,727 including $2,900 of petty cash. Of the various financial institution balances at June 30, 2017, $500,000 was insured by federal depository insurance, and the remaining balance of $32,474,532 was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The remaining balance of $32,474,532 was uninsured and collateralized by U.S. Treasury pooled investments not held in the System's name.

The financial institution balances of the System's deposits were $31,183,477 for the year ended June 30, 2016. The book balance was $30,543,285 including $2,900 of petty cash. Of the various financial institution balances at June 30, 2016, $500,000 was insured by federal depository insurance, and the remaining balance of $30,683,477 was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The remaining balance of $30,683,477 was uninsured and collateralized by U.S. Treasury pooled investments not held in the System's name.

Investments

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

Restricted Investments:	**2017**	**2016**
Sinking Fund:		
Money Market Fund	$5,344,377	$10,306,112
Total sinking fund	5,344,377	10,306,112
TOTAL RESTRICTED INVESTMENTS	$5,344,377	$10,306,112

The System's investment in CSA (Central Services Association, a former associated organization) reflects the System's proportionate share of CSA's excess revenues over expenses to help finance a new headquarters and reengineering software costs. Cash distributions net of accrued interest from the former associated organization reduce the investment account.

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

(Continued)

Note 3 - Capital Assets:

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

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

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

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	$ 2,636,229	$ -	$ 1,300	$ 2,634,929
Construction in progress	904,999	-	8,814	896,185
Total capital assets not being depreciated	3,541,228	-	10,114	3,531,114
Capital Assets Being Depreciated:				
Transmission system	10,374,351	119,836	21,267	10,472,920
Distribution system	84,670,049	2,724,495	724,383	86,670,161
General plant	18,541,240	1,030,666	163,831	19,408,075
Generation plant	110,661,988	33,838	-	110,695,826
Total capital assets being depreciated	224,247,628	3,908,835	909,481	227,246,982
Less accumulated depreciation	70,961,324	9,293,197	1,310,210	78,944,311
Total capital assets being depreciated, net	153,286,304	(5,384,362)	(400,729)	148,302,671
TOTAL CAPITAL ASSETS, NET	$156,827,532	$(5,384,362)	$ (390,615)	$151,833,785

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

(Continued)

Note 4 - Accounts Payable:

The elements comprising accounts payable are as follows:

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

Note 5 - Long-Term Indebtedness:

Bonds

On November 1, 1998, the System issued $3.35 million in special revenue refunding bonds with interest rates between 3.75% and 4.20%. The System issued the bonds to advance refund $3.06 million of the outstanding series 1991 general obligation bonds with a 6.30% interest rate and were secured by all assets of the System. The System used the net proceeds along with other resources to purchase U.S. Government Securities. These Securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 1991 series bonds maturing on or after January 1, 2002. As a result, that portion of the 1991 series bonds is considered defeased, and the System has removed the liability from its Statement of Net Position.

On November 9, 2001, the System issued $3.32 million in special revenue refunding bonds with interest rates between 3.00% and 4.25% which are secured by a first pledge of the net revenues of the System. The System issued the bonds to finance construction of a fiber optic network in the community.

On January 29, 2009, the System issued $161,730,000 of exempt special revenue bonds (Series 2009A) and $8,525,000 of taxable special revenue bonds (Series 2009B) with interest rates between 3.00% and 5.25% which are secured by a second pledge on the net revenues of the System. The System issued the bonds to finance construction of a peaking plant to provide electric service to the community during times of peak energy consumption.

On October 14, 2010, the System issued $3,015,000 in revenue refunding bonds with interest rates between 0.60% and 2.20%. The System issued the bonds to advance refund $3,045,000 of the outstanding series 2001 revenue bonds with interest rates between 3.00% and 4.25% which were secured by a first pledge of the net revenues of the System. The System used the net proceeds along with other resources to purchase State and Local Government Series Securities, which matured on January 1, 2011. The remaining principal outstanding and accumulated interest payable for the series 2001 revenue bonds were paid in full on January 1, 2011, the call date for the series 2001 revenue bonds. This portion of the series 2001 revenue bonds is considered defeased, and the System has removed the liability from its Statement of Net Position.

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

(Continued)

Note 5 - Long-Term Indebtedness (Continued):

Changes in outstanding bonds:

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

Total bond service to maturity:

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

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

Note 6 - Tax Equivalents:

Kentucky Revised Statutes provides that Paducah Power System pay tax equivalents. Taxes are paid to several local taxing authorities on property values. Income taxes are not levied against the System due to its municipal nature.

(Continued)

Note 7 - Pension Plan:

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

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

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

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

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. At June 30, 2017, Paducah Power Systems reported a liability of $10,218,988 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Paducah Power Systems' proportion of the net pension liability was based on a projection of Paducah Power Systems' share of contributions to the pension plan relative to the total contributions of all participating employers. At June 30, 2016, Paducah Power Systems' proportion was 0.20755%.

(Continued)

Note 7 - Pension Plan (Continued):

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

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Net differences between projected and actual earnings on pension plan investments	$ 960,689	$ -
Difference between expected and actual experience	44,614	-
Change in assumptions	541,347	-
Change in proportion and differences between employer contributions and proportionate share of contributions	377,427	114,224
Contributions subsequent to the measurement date	721,263	-
TOTALS	$2,645,340	$114,224

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

Year Ended June 30	
2018	$647,195
2019	507,018
2020	440,812
2021	214,827

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

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

Inflation - 3.25%
Salary increases - 4.0%, average including inflation
Investment rate of return - 7.5%, net of pension plan investment expense including inflation

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

(Continued)

Note 7 - Pension Plan (Continued):

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

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

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

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

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

(Continued)

Note 7 - Pension Plan (Continued):

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

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

Note 8 - Post Retirement Healthcare Benefits:

In addition to the pension benefits described in Note 7, the System provides post-retirement healthcare benefits to employees who retired prior to the System's participation in the County Employee's Retirement System. The System pays 50% of the premiums for the employees for life. These benefits are financed on a pay-as-you-go basis.

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

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

Note 9 - Leases:

The System has a joint rental agreement with AT&T/Bellsouth to share poles during the year. The contract is negotiated annually and rent paid or received from South Central Bell depends on amounts owed or due annually or semi-annually, respectively. In addition, the System has pole attachment agreements with other telecommunications and electric companies which are negotiated annually. The System also leases bandwidth from FiberNet, their fiber optic network.

The System's rental expense was $107,661 and $106,783, and rental income was $2,168,372 and $2,052,168 for the fiscal years ended June 30, 2017 and 2016, respectively. Rental expense is reflected in general operating expense, and rental income is reflected in service revenue in the Statement of Revenues, Expenses, and Changes in Net Position.

Note 10 - Commitments:

As described further in Note 12, the System also entered into a financing agreement with Kentucky Municipal Power Agency as of June 30, 2005.

Note 11 - Insurance and Related Activities:

The System is exposed to various forms of loss of assets associated with the risk of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The System has purchased certain policies which are retrospectively rated including workmen's compensation insurance.

(Continued)

Note 12 - Joint Venture:

The System in conjunction with the Electric Plant Board of the City of Princeton, Kentucky (Princeton), is a member of the Kentucky Municipal Power Agency (KMPA), a joint venture formed in 2005 by an Interlocal Agreement entered into by the System and Princeton pursuant to the Kentucky Interlocal Cooperation Act. KMPA was formed to permit the System and Princeton to participate, along with a number of other public, cooperative, and private participants, in the development and ownership of the Prairie State Energy Campus (Project). The Project is a mine-mouth pulverized coal-fueled power generating facility in Washington and St. Clair Counties in Illinois with a nominal net output of approximately 800 MW for each of its two units.

On September 28, 2007, KMPA purchased a 7.82% interest in the Prairie State Project. KMPA owns its interest in the Project as a tenant in common along with the other Project participants. At the closing, KMPA acquired not only an interest in the equipment and intangible property, such as permits, comprising the Project, but also its proportional share of the coal reserves surrounding the Prairie State plant. The coal reserves are estimated to be sufficient to fuel the plant's operations for at least 30 years. At the closing, KMPA also entered into a Participation Agreement with the other Project participants under which KMPA is responsible for its proportional share of the construction costs of the generating plant, waste disposal site, and associated coal mine.

KMPA on September 20, 2007, issued its tax-exempt Power System Revenue Bonds (Prairie State Project), Series 2007A, in the amount of $291,065,000, and its Taxable Power System Revenue Bonds (Prairie State Project), Series 2007B, in the amount of $16,645,000. The proceeds of these bonds were used primarily to fund the purchase of KMPA's interest in the Project and KMPA's share of the ongoing Project construction costs. The remaining proceeds of the Series 2007A and Series 2007B bonds were used or will be used to (i) pay the costs of certain transmission facilities applicable to the interconnection of the Project to the regional bulk transmission grid, (ii) retire indebtedness (including KMPA Bond Anticipation Notes (Prairie State Project) Series 2005, Series 2005B, and Series 2006 in the respective amounts of $3 million, $1.5 million, and $8.4 million) issued to pay pre-closing Project development costs, (iii) fully fund the Debt Service Reserve Requirement, as defined in the Trust Indenture for the 2007A and Series 2007B bond issues, and capitalize a portion of the interest due on those bonds, (iv) make deposits into funds to provide working capital and into the Capital Improvement Fund to provide for extraordinary expenses of the Project, and (v) pay the costs of issuance related to the Series 2007A and Series 2007B bonds.

On September 1, 2007, KMPA and the System entered a Power Sales Agreement under which the System is responsible for 83.89% of KMPA's share of the Prairie State Project's construction costs and operation/maintenance expenses. The System is likewise entitled to 83.89% of KMPA's share of the electric power and energy produced by the plant. The Power Sales Agreement is a "take or a pay" contract under which the System must pay its proportional share of the costs of the Prairie State Project regardless of how much power and energy, if any, is produced by the Prairie State generating plant. The Power Sales Contract also contains a step-up provision under which the System could be required to pay the Project costs associated with Princeton's 16.11% of KMPA's interest in the Project in the event of a default by Princeton under its Power Sales Contract with KMPA. In the event of such a default by Princeton, the System would be entitled to receive Princeton's 16.11% of the generating plant's output associated with KMPA's interest in the Project.

On May 27, 2010, KMPA issued its tax-exempt Power System Revenue Bonds (Prairie State Project), Series 2010A, in the amount of $53,600,000, its taxable (Build America Bonds-Direct Pay) Power System Revenue Bonds (Prairie State Project), Series 2010B, in the amount of $122,405,000, and its taxable Power System Revenue Bonds (Prairie State Project), Series 2010C, in the amount of $7,725,000. The proceeds of these bonds were used primarily to fund the ongoing Project construction costs. The remaining proceeds of the Series 2010A, Series 2010B, and Series 2010C bonds were used or will be used to (i) finance the completion of the acquisition, construction, development, and equipping of KMPA's undivided interest in the Project (ii) settle KMPA's Qualified Hedge which locked in interest rates in 2007 with Deutsche Bank; the hedge settlement amount was $7,263,000, (iii) fully fund the Debt Service Reserve Requirement, as defined in the Trust Indenture for the Series 2010A, Series 2010B, and Series 2010C bond issues, and capitalize a portion of the interest due on those bonds, (iv) make deposits into funds to provide working capital and into the Capital Improvement Fund to provide for extraordinary expenses of the Project, and (v) pay the costs of issuance related to the Series 2010A, Series 2010B, and Series 2010C bonds.

(Continued)

Note 12 - Joint Venture (Continued):

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

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

The System and the Electric Plant Board of Princeton, Kentucky do not have any equity interest in the joint venture; therefore, no equity interest has been reflected in the System's financial statements at June 30, 2017. Complete financial statements for KMPA can be obtained from Paducah Power's Accounting Department, P.O. Box 180, Paducah, Kentucky 42002-0180.

Note 13 - Disclosures Regarding the Statement of Cash Flows:

Accounting Policy

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

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

	2017	2016
Cash and temporary cash investments	$27,630,155	$20,237,173
Restricted cash and short-term investments:		
Sinking and Depreciation Funds	5,344,377	10,306,112
TOTAL CASH AND CASH INVESTMENTS	$32,974,532	$30,543,285

Note 14 - Contingency:

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

Note 15 - New Governmental Accounting Standards:

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

REQUIRED SUPPLEMENTARY INFORMATION

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

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

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

Notes to Schedule

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

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

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

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

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

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

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

SUPPLEMENTARY INFORMATION

PADUCAH POWER SYSTEM
OPERATING EXPENSES
YEARS ENDED JUNE 30

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

(Continued)

PADUCAH POWER SYSTEM
OPERATING EXPENSES
YEARS ENDED JUNE 30

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

WILLIAMS WILLIAMS & LENTZ
CERTIFIED PUBLIC ACCOUNTANTS

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

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Electric Plant Board of the City of Paducah, Kentucky, d/b/a Paducah Power System as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Paducah Power System's basic financial statements, and have issued our report thereon dated November 10, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Paducah Power System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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Purpose of this Report

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

Williams, Williams & Lentz LLP

Paducah, Kentucky
November 10, 2017