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To the Board of Directors
Inter County Energy Cooperative

I have audited the financial statements of Inter County Energy Cooperative for the year ended December 31, 2011, and have issued my report thereon dated March 8, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and 7 CFR Part 1773, Policy on audits of the Rural Utilities Service (RUS) Borrowers. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing my audit of the financial statements of Inter County Energy for the year ended December 31, 2011, I considered its internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting that I consider to be a material weakness.

7 CFR Part 1773.3 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions and other additional matters. I have grouped my comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, I performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, material control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.3(d)(1) related transactions, depreciation rates, a schedule of deferred debits and credits and a schedule of investments, upon which I express an opinion. In addition, my audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-.45. My Objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, I express no opinion thereon.

No reports, other than my independent auditor's report, and my independent auditor's report on internal control over financial reporting and compliance and other matters, all dated March 8, 2012, or summary of recommendations related to my audit have been furnished to management.

My comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions and other additional matters as required by 7 CFR Part 1773.33 are presented below.

Comments on Certain Specific Aspects of the Internal Control Over Financial Reporting

I noted no matters regarding Inter County Energy's internal control over financial reporting and its operation that I consider to be a material weakness as previously defined with respect to:

- The accounting procedures and records;
- the process for accumulating and recording labor, material and overhead costs, and the distribution of these costs to construction, retirement, and maintenance and other expense accounts, and;
- the material controls.

Comments on Compliance with Specific RUS Loan and Security Instrument Provisions

At your request, I have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, and contracts. The procedures I performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others for the year ended December 31, 2011, of Inter County Energy.
  1. Inter County Energy has not entered into any contract during the year for the operation or maintenance of its property, or for the use of its property by others as defined in 1773.33(e)(1)(i).
- Procedures performed with respect to the requirement to submit RUS *Financial and Operating Report Electric Distribution* to RUS:
  1. Agreed amounts reported in RUS *Financial and Operating Report Electric Distribution* to Inter County Energy's records as of December 31, 2011.

The results of my tests indicate that, with respect to the items tested, Inter County Energy complied in all material respects, with the specific RUS loan and security instrument provisions referred to below. With respect to items not tested, nothing came to my attention that caused me to believe that Inter County Energy had not complied, in all material respects, with those provisions. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- The borrower has submitted its RUS *Financial and Operating Report Electric Distribution* to RUS and the *Financial and Operating Report Electric Distribution* as of December 31, 2011, represented by the borrower as having been submitted to RUS appears to be in agreement with its audited records in all material respects.
- During the period of this review, Inter County Energy received no long term advances from CFC on loans controlled by the RUS/CFC Mortgage and Loan Agreement.

Comments on Other Additional Matters

In connection with my audit of Inter County Energy, nothing came to my attention that caused me to believe that Inter County Energy failed to comply with respect to:

- The reconciliation of continuing property records to controlling general ledger plant accounts addressed at 7 CFR Part 1773.33(c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.33(c)(2);
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4);
- Approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap addressed at 7 CFR Part 1773.33(c)(5);
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standard No. 57, Related party Transactions, for the year ended December 31, 2011, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR Part 1773.33(f);
- The depreciation rates addressed at 7 CFR Part 1773.33(g);
- The detailed schedule of deferred debits and deferred credits, of which there were none; and
- The detailed schedule of investments, of which there were none.

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of deferred debits and deferred credits required by 7 CFR Part 1773(h) and provided below is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, RUS, and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.

Alan M. Zumstein

Alan M. Zumstein, CPA
March 8, 2012

PUBLIC SERVICE COMMISSION
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Kentucky 27
Inter County Energy Cooperative
Danville, Kentucky

Audited Financial Statements
December 31, 2011 and 2010

Alan M. Zumstein
Certified Public Accountant
1032 Chetford Drive
Lexington, Kentucky 40509

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Independent Auditor's Report

To the Board of Directors
Inter County Energy Cooperative

I have audited the balance sheets of Inter County Energy Cooperative, as of December 31, 2011 and 2010, and the related statements of income and patronage capital and cash flows for the years then ended. These financial statements are the responsibility of Inter County Energy Cooperative's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and 7 CFR Part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Inter County Energy Cooperative as of December 31, 2011 and 2010, and the results of operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated March 8, 2012, on my consideration of Inter County Energy Cooperative's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audits.

Alan M. Zumstein

Alan M. Zumstein, CPA
March 8, 2012

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To the Board of Directors
Inter County Energy Cooperative

I have audited the financial statements of Inter County Energy Cooperative as of and for the years ended December 31, 2011 and 2010, and have issued my report thereon dated March 8, 2012. I conducted my audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Inter County Energy's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Inter County Energy's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Inter County Energy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more that a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Inter County Energy's financial statements are free of material misstatement, I performed test 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, the Rural Utilities Service, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties.

Alan M. Zumstein

Alan M. Zumstein, CPA
March 8, 2012

Inter County Energy Cooperative
Balance Sheets, December 31, 2011 and 2010

Assets	2011	2010
Electric Plant, at original cost:		
In service	$ 103,724,928	$ 100,654,392
Under construction	226,806	283,211
	103,951,734	100,937,603
Less accumulated depreciation	23,812,988	22,213,509
	80,138,746	78,724,094
Investments in Associated Organizations	14,784,027	12,315,594
Current Assets:		
Cash and cash equivalents	3,098,001	1,865,541
Accounts receivable, less allowance for 2011 of $80,000 and 2010 of $75,308	4,254,810	3,896,344
Other receivables	457,203	509,319
Material and supplies, at average cost	322,805	275,972
Other current assets	487,246	520,071
	8,620,065	7,067,247
Total	$ 103,542,838	$ 98,106,935

Members' Equities and Liabilities		
Members' Equities:		
Memberships	$ 1,022,385	$ 1,019,470
Patronage capital	34,472,453	30,394,467
Other equities	(825,178)	(993,320)
Accumulated other comprehensive income	(365,676)	(413,676)
	34,303,984	30,006,941
Long Term Debt	58,543,603	57,048,161
Accumulated Postretirement Benefits	2,845,285	2,678,408
Current Liabilities:		
Accounts payable	3,837,488	4,516,132
Current portion of long term debt	2,500,000	2,300,000
Consumer deposits	453,441	426,381
Accrued expenses	1,059,037	1,130,912
	7,849,966	8,373,425
Total	$ 103,542,838	$ 98,106,935

The accompanying notes are an integral part of the financial statements.

Statements of Revenue and Patronage Capital
for the years ended December 31, 2011 and 2010

	2011	2010
Operating Revenues	$ 48,713,052	$ 47,524,906
Operating Expenses:		
Cost of power	32,725,937	32,154,679
Distribution - operations	2,663,837	2,141,244
Distribution - maintenance	1,599,643	1,689,461
Consumer accounts	1,976,026	1,932,873
Customer services	530,336	539,230
Administrative and general	2,054,229	1,978,455
Depreciation, excluding $281,155 in 2010 and $280,818 in 2010 charged to clearing accour	3,481,123	3,155,656
Taxes	48,083	44,774
Other deductions	19,589	27,752
	45,098,803	43,664,124
Operating margins before interest charges	3,614,249	3,860,782
Interest Charges:		
Long-term debt	1,700,192	1,722,446
Other	31,384	28,448
	1,731,576	1,750,894
Operating margins after interest charges	1,882,673	2,109,888
Nonoperating Margins		
Interest income	80,733	81,372
Others	(19,642)	2,299
	61,091	83,671
Patronage Capital Credits	2,505,016	1,433,948
Net Margins	4,448,780	3,627,507
Patronage Capital, beginning of year	30,394,467	27,101,877
Refunds to estates of deceased members	(205,272)	(191,890)
Transfers to prior year's deficits and other equities	(165,522)	(143,027)
Patronage Capital, end of year	$ 34,472,453	$ 30,394,467

The accompanying notes are an integral part of the financial statements.

Statements of Cash Flows

for the years ended December 31, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities:		
Net margins	$ 4,448,780	$ 3,627,507
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation:		
Charged to expense	3,481,123	3,155,656
Charged to clearing accounts	281,155	280,818
Patronage capital credits assigned	(2,505,016)	(1,433,948)
Accumulated postretirement benefits	214,877	200,699
Change in assets and liabilities:		
Receivables	(306,350)	(4,836)
Material and supplies	(46,833)	(18,750)
Other assets	32,825	(22,646)
Payables	(678,644)	835,548
Consumer deposits	27,060	22,715
Accrued expenses	(71,875)	151,743
	4,877,102	6,794,506
Cash Flows from Investing Activities:		
Plant additions	(4,773,440)	(7,489,254)
Plant removal costs	(516,341)	(546,957)
Salvage recovered from retired plant	112,851	91,416
Receipts from other investments, net	36,583	22,477
	(5,140,347)	(7,922,318)
Cash Flows from Financing Activities:		
Net increase in memberships	2,915	(1,555)
Refund of patronage capital to members	(205,272)	(191,890)
Increase in other equities	2,620	4,271
Advances of long term debt	4,000,000	4,509,000
Payments on long term debt	(2,304,558)	(2,296,663)
	1,495,705	2,023,163
Net increase in cash	1,232,460	895,351
Cash and cash equivalents, beginning of year	1,865,541	970,190
Cash and cash equivalents, end of year	$ 3,098,001	$ 1,865,541
Supplemental cash flows information:		
Interest paid on long-term debt	$ 1,700,938	$ 1,730,271

The accompanying notes are an integral part of the financial statements.

Note 1. Summary of Significant Accounting Policies

Inter County Energy Cooperative ("Inter County Energy") maintains its records in accordance with the policies prescribed or permitted by the Kentucky Public Service Commission ("PSC") and the United States Department of Agriculture, Rural Utilities Service ("RUS"), which conform in all material respects with generally accepted accounting principles. The more significant of these policies are as follows:

Electric Plant Electric plant is stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead cost including any construction period interest and taxes. There was no interest required to be capitalized during the year.

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

	2011	2010
Distribution plant	$90,695,652	$87,934,546
General plant	13,029,276	12,719,846
Total	$103,724,928	$100,654,392

Depreciation Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Distribution plant depreciation is based on a composite rate of 3.35% per annum. General plant rates range from 2.5% to 18%.

Cash and Cash Equivalents Inter County Energy considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

Off Balance Sheet Risk Inter County Energy has off-balance sheet risk in that they maintain cash deposits in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2011, the financial institutions reported deposits in excess of the $250,000 FDIC insured limit on several of the accounts.

Revenue Inter County Energy records revenue as billed to its consumers based on monthly meter-reading cycles. All consumers are required to pay a refundable deposit, however, it may be waived under certain circumstances. Inter County Energy's sales are concentrated in a six county area of southeastern Kentucky. There were no consumers whose individual account balance exceeded 10% of outstanding accounts receivable at December 31, 2011 or 2010. Consumers must pay their bill within 20 days of billing, then are subject to disconnect after another 10 days. Accounts are written off when they are deemed to be uncollectible. The allowance for uncollectible accounts is based on the aging of receivables.

Cost of Power Inter County Energy is one of sixteen members of East Kentucky Power Cooperative, Inc. ("East Kentucky"). Under a wholesale power agreement, Inter County Energy is committed to purchase its electric power and energy requirements from East Kentucky until 2051. The rates charged by East Kentucky are subject to approval of the PSC. The cost of purchased power is recorded monthly during the period in which the energy is consumed, based upon billings from East Kentucky.

Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the preparation of the financial statements.

Note 1. Summary of Significant Accounting Policies, continued

Fair Value Measurements The Fair Value Measurements and Disclosures Topic of the FASB ASC 820, *Fair Value Measurements and Disclosures,* defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. The Fair Values Measurements Topic establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three levels of inputs used to measure fair value are as follows:

> Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices of similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect an organization's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The carrying amounts of Inter County Energy's cash and cash equivalents, other receivables, investments, inventories, other assets, trade accounts payable, accrued expenses and liabilities, and other liabilities approximate fair value due to their short maturity. Investments in associated organizations are not considered a financial instrument because they represent nontransferable interests in associated organizations. Other assets and liabilities are not considered financial instruments because they represent activities specifically related to Inter County Energy. Long term debt can not be traded in the market, and is specifically for electric cooperatives and, therefore, a value other than its outstanding principal cannot be determined.

Inter County Energy may, and also does, invest idle funds in CFC Commercial Paper and with local banks. These investments are classified as held-to-maturity in accordance with provisions of the *Financial Instruments Topic* of FASB ASC 320. Held-to-maturity securities are presented at amortized cost. The fair value of held-to-maturity securities approximates cost at 2011 and 2010.

Risk Management Inter County Energy is exposed to various forms of losses of assets associated with, but not limited to, fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, workers compensation, etc. Each of these areas is covered through the purchase of commercial insurance.

Income Tax Status Inter County Energy is exempt from federal and state income taxes under provisions of Section 501(c)(12). Accordingly, the financial statements include no provision for income taxes.

Effective January 1, 2008, Inter County Energy adopted the provisions of the *Income Taxes Topic* of the FASB ASC that pertains to accounting for uncertainty in income taxes. Inter County Energy had no prior unrecognized tax benefits as a result of the implementation. Management evaluates its potential exposures from tax positions taken that have or could be challenged by taxing authorities. These potential exposures result because taxing authorities may take positions that differ from those taken by management in the interpretation and application of statures, regulations, and rules. There are no tax positions for which the ultimate deductibility is highly uncertain included in the accompanying financial statements. Inter County Energy recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Inter County Energy did not recognize any interest or penalties during the years ended December 31, 2011 or 2010.

Note 1. Summary of Significant Accounting Policies, continued

Advertising Inter County Energy expenses advertising costs as incurred.

Subsequent Events Management has evaluated subsequent events through March 17, 2012, the date the financial statements were available to be issued. There were no significant subsequent events to report.

Note 2. Investments in Associated Organizations

Investments in associated organizations consist of:

	2011	2010
East Kentucky, patronage capital	$12,741,610	$10,346,607
CFC, patronage capital	249,522	232,442
CFC, CTC's	983,586	986,041
Others	809,309	750,504
Total	$14,784,027	$12,315,594

Inter County Energy records patronage capital assigned by associated organizations in the year in which such assignments are received.

The Capital Term Certificates ("CTCs") of CFC are recorded at cost. The CTCs were purchased from CFC as a condition of obtaining long-term financing. The CTCs bear interest at 3% and 5% and are scheduled to mature at varying times from 2020 to 2080.

Note 3. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30% of total assets, except that distributions may be made to estates of deceased patrons. The debt agreement provides, however, that should such distributions to estates not exceed 25% of the net margins for the next preceding year, Inter County Energy may distribute the difference between 25% and the payments made to such estates.

Included in other equities are $899,557 losses that will be offset with future years' non operating margins. The equity at December 31, 2011 was 33% of total assets.

Patronage capital consists of:

	2011	2010
Assigned to date	$34,846,980	$31,046,228
Assignable margins	4,448,780	3,627,507
Unassigned	150,817	150,817
Retirements to date	(4,974,124)	(4,430,085)
Total	$34,472,453	$30,394,467

Note 4. Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income, which includes the effects of applying the provisions of accumulated postretirement benefits, are as follows:

	2011	2010
Balance, beginning of period	($413,676)	($491,676)
Amortize	48,000	78,000
Initially apply and adjust	-	-
Total	($365,676)	($413,676)

Note 5. Long Term Debt

The long term debt is due in quarterly and monthly installments of varying amounts through 2039. The 6.25% to 6.46% notes due CFC are available for repricing every 7 years to either a variable or fixed rate. RUS assesses 12.5 basis points to administer the Federal Financing Bank ("FFB") loans. Inter County Energy has loan funds available from FFB in the amount of $11,000,000. These funds will be used for future plant additions. Inter County refinanced $2,354,391 during 2011 and $5,002,175 during 2010 of 5% interest notes from RUS with proceeds from National Bank for Cooperatives ("CoBank").

All assets, except vehicles, are pledged as collateral on the long term debt to RUS, FFB, CFC, and CoBank under a joint mortgage agreement. First mortgage notes consist of:

	2011	2010
RUS:		
5% notes	$0	$2,442,156
0.50% (0.25% in 2010)- 5.125%	23,659,105	24,137,690
Cushion of credit	(616,725)	(586,836)
	23,042,380	25,993,010
FFB, 0.14% - 0.22% (0.164% in 2010)	26,393,784	23,307,495
CFC, 6.0% to 6.50% notes	4,967,133	5,279,278
CoBank, 4.55% and 4.48%	6,584,037	4,735,794
East Kentucky, 1.5% various 5 years	56,269	32,584
	61,043,603	59,348,161
Less current portion	2,500,000	2,300,000
Long term portion	$58,543,603	$57,048,161

As of December 31, 2011, the annual principal portion of long term debt outstanding for the next five years are as follows: 2012 - $2,500,000; 2013 - $2,500,000; 2014 - $2,575,000; 2015 - $2,650,000; 2016 - $2,750,000.

Note 6. Short Term Borrowings

At December 31, 2011, Inter County Energy had a short term line of credit of $5,000,000 available from CFC. Inter County Energy has repaid all advances against the line of credit with CFC during the audit period.

Note 7. Pension Plan

All eligible employees of Inter County Energy participate in the NRECA Retirement and Security Program, a defined benefit pension plan qualified under section 401 and tax-exempt under section 501(a) of the Internal Revenue Code. Inter County Energy makes annual contributions to the Program equal to the amounts accrued for pension expense. In this multiemployer plan, which is available to all member corporations of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. Contributions were $818,051 for 2011 and $793,542 for 2010.

Note 8. Postretirement Benefits

Inter County Energy sponsors a defined benefit plan that provides medical insurance coverage to retirees and their dependents. Participating retirees and dependents do not contribute to the projected cost of coverage until eligible for Medicare at which time they contribute 50% of the cost of coverage. For measurement purposes, an annual rate of increase of 8% in 2010, then decreasing by 0.5% per year until 5% per year, in the per capita cost of covered health care benefit was assumed. The discount rate used in determining the accumulated postretirement benefit obligation was 6.5%.

The funded status of the plan is as follows:

	2011	2010
Projected benefit obligation	($2,845,285)	($2,678,408)
Plan assets at fair value	-	-
Total	($2,845,285)	($2,678,408)

The components of net periodic postretirement benefit costs are as follows:

	2011	2010
Benefit obligation at beginning of year	$2,678,408	$2,555,709
Components of net periodic benefit cost:		
Service cost	149,907	88,976
Interest cost	138,093	157,024
Net periodic benefit cost	288,000	246,000
Benefits paid	(121,123)	(123,301)
Accumulated other comprehensive income	-	-
Benefit obligation at end of year	$2,845,285	$2,678,408

Projected retiree benefit payments for the next five years are expected to be as follows: 2012 - $183,000; 2013 - $185,000; 2014 - $187,000; 2015 - $189,000; 2016 - $181,000.

Note 9. Related Party Transactions

Several of the Directors of Inter County Energy and its President & General Manager are on the Boards of Directors of various associated organizations.

Note 10. Commitments

Inter County Energy is contingently liable as guarantor for approximately $78,000 of long term obligations of East Kentucky to RUS and CFC. Substantially all assets of Inter County Energy are pledged as collateral for this guarantee, in addition to the pledge in the mortgage agreement referred to in Note 5. This contingent liability was part of an overall financing plan for the construction of generating facilities near Maysville, Kentucky.

Inter County Energy has various other agreements outstanding with local contractors. Under these agreements, the contractors will perform certain construction and maintenance work at specified hourly rates or unit cost, or on an as needed basis. The duration of these contracts are one to three years.

Note 11. Environmental Contingency

Inter County Energy from time to time is required to work with and handle PCBs, herbicides, automotive fluids, lubricants, and other hazardous materials in the normal course of business. As a result, there is the possibility that environmental conditions may arise which would require Inter County Energy to incur cleanup costs. The likelihood of such an event, or the amount of such costs, if any, cannot be determined at this time. However, management does not believe such costs, if any, would materially affect Inter County Energy's financial position or its future cash flows.

Note 12. Rate Matters

East Kentucky increased its base rates to Inter County Energy during August 2007, by 2%, in April 2009, by another 7% and again in January 2011 by another 5%. Inter County Energy passed East Kentucky's increases on to its customers using the methodology prescribed by the PSC.

Note 13. Contingencies

Inter County Energy is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

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