



Kentucky 18
Meade County Rural Electric
Cooperative Corporation
Brandenburg, Kentucky
Audited Financial Statements
October 31, 2011 and 2010

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ACCOUNTANCY

To the Board of Directors
Meade County Rural Electric Cooperative

I have audited the financial statements of Meade County Rural Electric Cooperative for the year ended October 31, 2011, and have issued my report thereon dated December 19, 2011. 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 Meade County for the year ended October 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 December 19, 2011, or summary of recommendations related to my audit have been furnished to management.

To the Board of Directors
Meade County Rural Electric Cooperative - 2

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 Meade County's internal control over financial reporting and its operation that I consider to be a material weakness as previously defined with respect to:

1. The accounting procedures and records;
2. 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;
3. the material controls.

However, I recommend corrective action be taken in the following area:

1. I noted an excessive difference in one of the inventory items. This item should have been recounted before the adjustment was made the inventory records. This difference would cause the current inventory to be misstated, along with the beginning balance for the next inventory. This item was subsequently recounted and an adjustment made the inventory records to reflect an accurate count.

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 October 31, 2011, of Meade County.
 1. Meade County 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 Meade County's records as of December 31, 2010.

The results of my tests indicate that, with respect to the items tested, Meade County 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 Meade County 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 RUS *Financial and Operating Report Electric Distribution*, as of December 31, 2010, 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, Meade County 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 Meade County, nothing came to my attention that caused me to believe that Meade County 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 October 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; 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.

The deferred credits are as follows:

Consumer advances for construction	<u>\$580,073</u>
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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
December 19, 2011

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Independent Auditor's Report

To the Board of Directors
Meade County Rural Electric Cooperative

I have audited the balance sheets of Meade County Rural Electric Cooperative, as of October 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 Meade County Rural Electric 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 Meade County Rural Electric Cooperative as of October 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 December 19, 2011, on my consideration of Meade County Rural Electric 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
December 19, 2011

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To the Board of Directors
Meade County Rural Electric Cooperative

I have audited the financial statements of Meade County Rural Electric as of and for the years ended October 31, 2011 and 2010, and have issued my report thereon dated December 19, 2011. 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 Meade County'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 Meade County's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Meade County'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 than 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 Meade County's financial statements are free of material misstatement, I 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 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 Board of Directors, 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
December 19, 2011

Meade County Rural Electric Cooperative Corporation

Balance Sheets, October 31, 2011 and 2010

<u>Assets</u>	<u>2011</u>	<u>2010</u>
Electric Plant, at original cost:		
In service	\$ 97,915,312	\$ 93,136,623
Under construction	2,419,896	2,169,785
	<u>100,335,208</u>	<u>95,306,408</u>
Less accumulated depreciation	28,017,908	26,150,475
	<u>72,317,300</u>	<u>69,155,933</u>
Investments in Associated Organizations	<u>2,335,397</u>	<u>2,321,725</u>
Current Assets:		
Cash and cash equivalents	11,616,442	7,129,069
Accounts receivable, less allowance for 2011 of \$412,224 and 2010 of \$441,646	2,407,536	2,214,590
Other receivables	93,213	234,134
Material and supplies, at average cost	1,220,439	1,224,531
Other current assets	441,618	463,252
	<u>15,779,248</u>	<u>11,265,576</u>
Total	<u>\$ 90,431,945</u>	<u>\$ 82,743,234</u>
<u>Members' Equities and Liabilities</u>		
Members' Equities:		
Memberships	\$ 94,400	\$ 98,435
Patronage capital	25,813,645	24,200,187
Other equities	949,821	933,119
Accumulated other comprehensive income	(187,349)	(202,707)
	<u>26,670,517</u>	<u>25,029,034</u>
Long Term Debt	<u>55,924,406</u>	<u>50,507,154</u>
Accumulated Postretirement Benefits	<u>1,299,455</u>	<u>1,130,066</u>
Current Liabilities:		
Accounts payable	1,790,682	1,664,026
Current portion of long term debt	2,750,000	2,700,000
Consumer deposits	753,500	710,266
Accrued expenses	663,312	431,181
	<u>5,957,494</u>	<u>5,505,473</u>
Consumer Advances	<u>580,073</u>	<u>571,507</u>
Total	<u>\$ 90,431,945</u>	<u>\$ 82,743,234</u>

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

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

	<u>2011</u>	<u>2010</u>
Operating Revenues	<u>\$ 35,672,830</u>	<u>\$ 33,909,226</u>
Operating Expenses:		
Cost of power	20,171,324	18,559,412
Distribution - operations	2,585,271	2,262,728
Distribution - maintenance	2,885,003	2,977,495
Consumer accounts	1,388,980	1,308,680
Customer services	253,519	225,150
Administrative and general	1,572,561	1,465,258
Depreciation, excluding \$274,354 in 2011 and \$291,449 in 2010 charged to clearing account	3,186,325	3,030,276
Taxes, other than income	33,467	32,950
Other deductions	9,650	12,855
	<u>32,086,100</u>	<u>29,874,804</u>
Operating margins before interest charges	<u>3,586,730</u>	<u>4,034,422</u>
Interest Charges:		
Long-term debt	2,128,676	2,204,947
Other	6,979	25,497
	<u>2,135,655</u>	<u>2,230,444</u>
Operating margins after interest charges	<u>1,451,075</u>	<u>1,803,978</u>
Nonoperating Margins		
Interest income	157,142	161,647
Others	109,677	20,452
	<u>266,819</u>	<u>182,099</u>
Patronage Capital Credits	<u>92,150</u>	<u>174,900</u>
Net Margins	1,810,044	2,160,977
Patronage Capital, beginning of year	24,200,187	22,200,195
Refunds to estates of deceased members	<u>(196,586)</u>	<u>(160,985)</u>
Patronage Capital, end of year	<u><u>\$ 25,813,645</u></u>	<u><u>\$ 24,200,187</u></u>

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

Statements of Cash Flows
for the years ended October 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Net margins	\$ 1,810,044	\$ 2,160,977
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation:		
Charged to expense	3,186,325	3,030,276
Charged to clearing accounts	274,354	291,449
Patronage capital credits assigned	(92,150)	(174,900)
Accumulated postretirement benefits	184,747	307,228
Change in assets and liabilities:		
Receivables	(52,025)	756,526
Material and supplies	4,092	161,783
Other assets	21,634	(59,779)
Payables	126,656	(374,609)
Consumer deposits and advances	51,800	7,451
Accrued expenses	232,131	(177,398)
	<u>5,747,608</u>	<u>5,929,004</u>
Cash Flows from Investing Activities:		
Plant additions	(6,194,843)	(5,877,068)
Plant removal costs	(736,564)	(673,804)
Salvage recovered from retired plant	309,361	264,550
Receipts from other investments, net	78,478	90,334
	<u>(6,543,568)</u>	<u>(6,195,988)</u>
Cash Flows from Financing Activities:		
Net increase in memberships	(4,035)	(3,525)
Refund of patronage capital to members	(196,586)	(160,985)
Increase in other equities	16,702	(1,892)
Payments on long term debt	(2,695,152)	(2,658,489)
Advances of long term debt	8,750,000	4,636,000
Advance payment on long term debt	(587,596)	2,496,292
	<u>5,283,333</u>	<u>4,307,401</u>
Net increase in cash	4,487,373	4,040,417
Cash and cash equivalents, beginning of year	<u>7,129,069</u>	<u>3,088,652</u>
Cash and cash equivalents, end of year	<u>\$ 11,616,442</u>	<u>\$ 7,129,069</u>
Supplemental cash flows information:		
Interest paid on long-term debt	\$ 2,148,360	\$ 2,225,891

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

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Meade County Rural Electric Cooperative Corporation (“Meade County”) 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:

	<u>2011</u>	<u>2010</u>
Distribution plant	\$90,217,156	\$85,678,217
General plant	<u>7,698,156</u>	<u>7,458,406</u>
Total	<u><u>\$97,915,312</u></u>	<u><u>\$93,136,623</u></u>

Depreciation Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Meade County uses a composite depreciation rate of 3.36% for distribution plant. General plant rates are as follows:

Structures and improvements	2.5% - 3%
Transportation equipment	12.5% - 25%
Other general plant	5% - 14.3%

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

Off Balance Sheet Risk Meade County 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 October 31, 2011, the financial institutions reported deposits in excess of the \$250,000 FDIC insured limit on several of the accounts.

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.

Revenue Meade County 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. Meade County’s sales are concentrated in a six county area of western Kentucky. There were no consumers whose individual account balance exceeded 10% of outstanding accounts receivable at October 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.

Note 1. Summary of Significant Accounting Policies, continued

Cost of Power Meade County is one of three (3) members of Big Rivers Electric Corporation, Inc. (“Big Rivers”). Under a wholesale power agreement, Meade County is committed to purchase its electric power and energy requirements from Big Rivers until 2043. The rates charged by Big Rivers 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 Big Rivers.

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 Meade County’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 Meade County. 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.

Meade County may, and also does, invest idle funds in local banks and occasionally in National Rural Utilities Cooperative Finance Corporation (“CFC”) commercial paper. These investments are classified as held-to-maturity in accordance with fair value measurements and disclosures topic. Held-to-maturity securities are presented at amortized cost. The fair value of held-to-maturity securities approximates cost at 2011 and 2010.

Environmental Contingency Meade County 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 Meade County 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 Meade County’s financial position or its future cash flows.

Note 1. Summary of Significant Accounting Policies, continued

Generation and Transmission Corporation As discussed in the preceding notes, Meade County purchases electric power from Big Rivers, a generation and transmission cooperative association. The membership of Big Rivers is comprised of Meade County and two other distribution cooperatives.

On July 16, 2009, Big Rivers consummated an “unwind” transaction with E.ON US under which Big Rivers will assume from E.ON US full responsibility for operating its three generation facilities and the obligation to serve two aluminum smelters through Kenergy Corp. E.ON US provided cash payments, asset transfers and other benefits to Big Rivers, which resulted in Big Rivers booking extraordinary income of \$537,978,000 in 2009. These economic benefits allowed Big Rivers to pay down approximately \$140,000,000 of debt, provide \$253,000,000 of rate stabilization funds, and increase its equity to a positive \$379,391,000 from a deficit of (\$154,602,000) at December 31, 2009. After consideration of all relevant facts and information Meade County has elected to continue valuing the non-cash allocations received from Big Rivers at zero for financial accounting purposes, a practice it has followed since Big Rivers emerged from bankruptcy in 1998 during which all previous booked non-cash allocations were reduced to zero. Meade County will continue to make memorandum entries in its patronage subsidiary ledger of the face amount of the allocations received from Big Rivers. Refer to the subsequent footnote for the income tax treatment of these non-cash allocations.

Risk Management Meade County 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.

Advertising Meade County expenses advertising costs as incurred.

Income Tax Status Meade County is exempt from federal and state income taxes under section 501(c)(12) of the Internal Revenue Code and accordingly, the accompanying financial statements include no provision for such taxes. When applying the 85 percent test of IRC 501(c)(12), Meade County excludes the Big Rivers non-cash allocations from “gross income”.

Effective January 1, 2008, Meade County adopted the provisions of the *Income Taxes Topic* of the FASB ASC that pertains to accounting for uncertainty in income taxes. Meade County 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 statutes, regulations, and rules. There are no tax positions for which the ultimate deductibility is highly uncertain included in the accompanying financial statements. Meade County recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Meade County did not recognize any interest or penalties during 2011 or 2010.

Subsequent Events Management has evaluated subsequent events through December 19, 2011, the date the financial statements were available to be issued. There were no significant subsequent events to report.

Note 2. Investments in Associated Organizations

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

Notes to Financial Statements

Note 2. Investments in Associated Organizations, continued

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 0%, 3%, and 5% and are scheduled to mature at varying times from 2020 to 2080. Member Capital Securities have a 7.5% fixed interest rate and mature 35 years from the issuance date. Interest is paid each April 1 and October 1.

Investments in associated organizations consist of:

	<u>2011</u>	<u>2010</u>
CFC, patronage capital	\$343,520	\$317,287
CFC, CTC's	944,556	975,728
CFC, Member Capital Security	310,000	310,000
Others	<u>737,321</u>	<u>718,710</u>
Total	<u>\$2,335,397</u>	<u>\$2,321,725</u>

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, Meade County may distribute the difference between 25% and the payments made to such estates. The equity at October 31, 2011 was 29% of total assets.

Patronage capital consists of:

	<u>2011</u>	<u>2010</u>
Assigned to date	\$33,107,578	\$31,246,648
Assignable margins	1,458,734	1,961,119
Unassigned	3,760,131	3,308,633
Retirements to date	<u>(12,512,798)</u>	<u>(12,316,213)</u>
Total	<u>\$25,813,645</u>	<u>\$24,200,187</u>

Note 4. Accumulated Other Comprehensive Income

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

	<u>2011</u>	<u>2010</u>
Balance, beginning of period	(\$202,707)	(\$249,457)
Amortization	15,358	46,750
Adjustments	<u>-</u>	<u>-</u>
Total	<u>(\$187,349)</u>	<u>(\$202,707)</u>

Notes to Financial Statements

Note 5. Long Term Debt

All assets, except vehicles, are pledged as collateral on the long term debt to RUS, Federal Financing Bank (“FFB”), and CFC under a joint mortgage agreement. The long term debt is due in quarterly and monthly installments of varying amounts through 2041. Meade County has unadvanced loan funds available from FFB in the amount of \$9,810,000 at October 31, 2011. RUS assess 12.5 basis points to administer the FFB loans.

Long term debt consists of:

	<u>2011</u>	<u>2010</u>
RUS:		
1.89% to 5.06%	\$34,053,184	\$34,776,616
Advance payments unapplied	(580,804)	(3,707)
	<u>33,472,380</u>	<u>34,772,909</u>
FFB, 0.283% to 6.049%	<u>17,812,445</u>	<u>9,294,801</u>
CFC:		
2.9% to 5.85% fixed rate notes	4,452,559	4,733,911
Refinance RUS loans 6.8% to 6.05%	2,937,022	4,405,533
	<u>7,389,581</u>	<u>9,139,444</u>
	58,674,406	53,207,154
Less current portion	<u>2,750,000</u>	<u>2,700,000</u>
Long term portion	<u><u>\$55,924,406</u></u>	<u><u>\$50,507,154</u></u>

As of October 31, 2011, the annual principal portion of long term debt outstanding for the next five years are as follows: 2012 - \$2,750,000; 2013 - \$2,800,000; 2014 - \$1,500,000; 2015 - \$1,600,000; 2016 - \$1,700,000.

Note 6. Short Term Borrowings

At October 31, 2011, Meade County had a short term line of credit of \$5,000,000 available from CFC. There were no advances against this line of credit during the audit period.

Note 7. Pension Plans

All eligible employees of Meade County 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. Eligible employees include employees hired prior to August 31, 2002. Non-eligible employees are those hired after August 31, 2002. Meade County makes annual contributions to the Program equal to the amounts accrued for pension expense. Contributions to this plan were \$591,365 for 2011 and \$520,359 for 2010. 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. A portion of this cost is allocated to construction of electric plant.

Notes to Financial Statements

Note 8. Retirement Savings Plans

Meade County participates in the NRECA Savings Plan, a multiemployer, defined contribution master pension plan. All employees are eligible to participate in the Savings Plan upon completion of one month employment. Eligible employees, as defined above, participate in the Savings Plan with Meade County contributing 3% of annual base pay, and the employee contributing from 1% to 3%. Non-eligible employees, as defined above, participate in the Savings Plan with Meade County contributing 12% of annual base pay, and the employee contributing from 1% to 3%. Employer contributions to the plan were \$238,889 for 2011 and \$201,749 for 2010, and vest immediately. A portion of this cost is allocated to construction of electric plant.

Note 9. Postretirement Benefits

Meade County sponsors a defined benefit plan that provides medical insurance coverage to retirees by contributing 50% of the cost of a single policy. For measurement purposes, an annual rate of increase of 8.5%, 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 6.50%. A portion of the net periodic benefit cost is allocated to construction of electric plant.

The funded status of the plan is as follows:

	<u>2011</u>	<u>2010</u>
Projected benefit obligation	(\$1,299,455)	(\$1,130,066)
Plan assets at fair value	-	-
Funded status	<u>(\$1,299,455)</u>	<u>(\$1,130,066)</u>

The reconciliation of the benefits obligations of postretirement benefits are as follows:

	<u>2011</u>	<u>2010</u>
Benefit obligation - beginning of period	\$1,130,066	\$869,588
Adjust comprehensive income		176,310
Net periodic benefit cost:		
Service cost	161,361	58,095
Interest cost	<u>51,388</u>	<u>51,388</u>
Net periodic benefit cost	<u>212,749</u>	<u>109,483</u>
Benefit payments to participants	<u>(43,360)</u>	<u>(25,315)</u>
Benefit obligation - end of period	<u>\$1,299,455</u>	<u>\$1,130,066</u>

Projected retiree benefit payments for the next five years are expected to be as follows: 2012 - \$25,500; 2013 - \$27,000; 2014 - \$27,000; 2015 - \$26,000; 2016 - \$26,000.

Note 10. Related Party Transactions

Several of the Directors of Meade County and its President & CEO are on the Boards of Directors of various associated organizations.

Notes to Financial Statements

Note 11. Commitments

Meade County 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 16. Rate Matters

Meade County was granted a general rate increase by the PSC in the amount of approximately \$1,000,000, or 3% of base revenues. Big Rivers increased its base rates to Meade County during September 2011 by approximately 7%. Meade County passed this increase on to its customers using the methodology prescribed by the PSC.

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