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December 20, 2018

RECEIVED

Ms. Gwen R. Pinson, Esq.
Executive Director
Kentucky Public Service Commission
P.O. Box 615
Frankfort, KY 40602-0615

DEC 20 2018

PUBLIC SERVICE
COMMISSION

**Re: Petition of Gibson Connect, LLC, for Designation as an Eligible
Telecommunications Carrier – Response to Commission Staff’s First Request
for Information to Gibson Connect, LLC**

Case No. 2018-00333

Dear Ms. Pinson:

On behalf of Gibson Connect, LLC (“Gibson Connect”), submitted herewith is one (1) original and five (5) copies of Gibson Connect’s response to Commission Staff’s First Request for Information to Gibson Connect, LLC (“Staff Request”). The Staff Request was issued on December 5, 2018, and specified that Gibson Connect’s response is due within fifteen (15) days of that date.

Please date stamp the enclosed duplicate of this submission, and return the stamped duplicate in the self-addressed, postage-prepaid envelope. Please direct any questions to undersigned counsel.

Very truly yours,

Stoll Keenon Ogden PLLC

A handwritten signature in blue ink that reads "Gerald Wuetcher".

Gerald Wuetcher

GEW
Enclosure

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DEC 20 2018

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PETITION OF GIBSON CONNECT, LLC FOR)
DESIGNATION AS AN ELIGIBLE) CASE NO. 2018-00333
TELECOMMUNICATIONS CARRIER)

NOTICE OF FILING

Gibson Connect LLC gives notice of the filing of its responses to Commission Staff's

First Request for Information.

Dated: December 20, 2018

Respectfully submitted,



Douglas F. Brent
Gerald E. Wuetcher
Stoll Keenon Ogden PLLC
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Louisville, Kentucky 40202
Email: douglas.brent@skofirm.com
Telephone: (502) 568-5734
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Counsel for Gibson Connect LLC

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

RECEIVED

DEC 20 2018

**PUBLIC SERVICE
COMMISSION**

In the Matter of:

**PETITION OF GIBSON CONNECT, LLC FOR)
DESIGNATION AS AN ELIGIBLE) CASE NO. 2018-00333
TELECOMMUNICATIONS CARRIER)**

**RESPONSE OF GIBSON CONNECT, LLC
TO
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
DATED DECEMBER 5, 2018**

FILED: DECEMBER 20, 2018

GIBSON CONNECT, LLC

**Response to Commission Staff's First Request for Information
December 5, 2018**

Case No. 2018-00333

Question No. 1

Witness: Charles L. Phillips, P.E.

Vice President of Technical Services of Gibson Electric Membership Corporation
("Gibson EMC")

And

Vice President of Operations of Gibson Connect, LLC
("Gibson Connect")

- Q-1.** Refer to the Application, Section III, Paragraph E, in which Gibson Connect commits to advertise the availability of Lifeline service. Describe in further detail Gibson Connect's marketing plan and the inclusion of print, radio, television, magazines, outdoor advertising, direct marketing, and internet advertisements. Provide all examples of marketing materials.
- A-1.** Marketing is well underway for Gibson Connect, LLC and we enthusiastically look forward to expanding our product offerings to include Lifeline services.

Once approved, we will advertise the availability of Lifeline service through a variety of communication channels, including the Kentucky Living magazine, a monthly publication mailed to all of Gibson EMC (Gibson Connect's parent company) consumers. We will regularly advertise and inform consumers utilizing the four-page, four-color section of Kentucky Living designated for Gibson EMC/Gibson Connect communication.

We also will display Lifeline service information on Gibson Connect's two websites (join.gibsonconnect.com and gibsonconnect.com), through which consumers can learn about our broadband business construction plan and our product offerings, as well as sign up to receive service. In addition, we will advertise Lifeline and inform consumers about out Lifeline offerings on our offices' electronic bulletin boards and we will add an on-hold message about Lifeline so members can learn about this service whenever they call any of our office locations.

Consumers will be encouraged to call any Gibson EMC/Gibson Connect office if they desire more information about Lifeline services. Gibson EMC/Gibson Connect staff will be available 24 hours a day, seven days a week, and they will be trained to answer questions about Lifeline service. We will regularly post messages about Lifeline on our social media platforms (Facebook and Twitter) and boost those posts for greater reach. We will distribute press releases to our Kentucky media (television, radio, and newspaper) at the launch of Lifeline service to our consumers. We will request public

service announcements of media on a quarterly basis and we will purchase advertising with newspaper and/or radio stations as needed. Once our local origination TV product is launched in March 2019, we also will regularly use that platform to market Lifeline and other Gibson Connect products and services.

During our Annual Members' Meeting, and during our annual Member Appreciation Events, we will provide Lifeline handouts to attendees and be available to answer questions related to the service. If we determine that it is needed, we will utilize other communication channels including outdoor advertising and direct marketing to reach area consumers with Lifeline information.

All Lifeline marketing will clearly state the basic eligibility requirements for participation in the program, and Gibson Connect will utilize the standard Federal Communications Commission application for documenting the consumers' eligibility. See Attachment A for an example of marketing used in the Kentucky Living magazine. Please reference join.gibsonconnect.com and join.gibsonconnect.com for web site marketing.

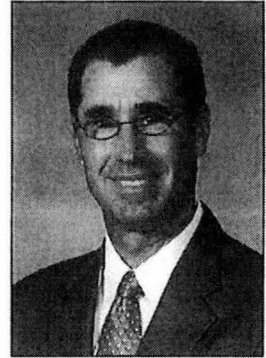
ATTACHMENT A

Working hard to serve you well

A Message from your Co-op's President and CEO

The past two years have flown by. It's hard to believe that our merger with the former Hickman-Fulton Counties Rural Electric Cooperative Corporation (HFCRECC) began on January 1, 2016. I sincerely appreciate the trust and patience you, our members, have shown as we've combined our organizations. I

also want to say "thank you" to our board members and employees who rolled up their sleeves and successfully worked us through the transition.



Dan Rodamaker
President and CEO
Gibson EMC

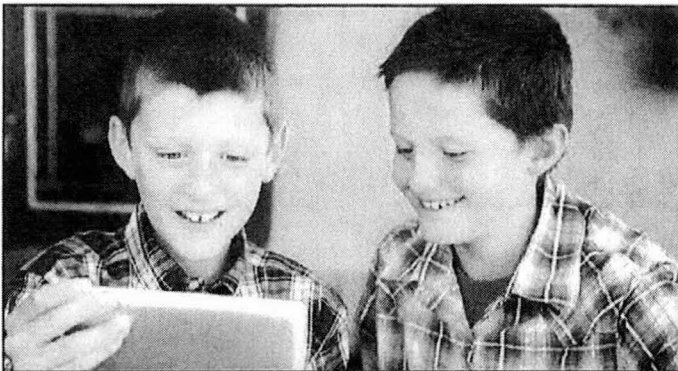
Our mission is to enhance your quality of life by providing exceptional services that are reliable, affordable, and safe.

Since the merger, we've been busy identifying areas where we can improve service reliability and implementing those changes. We have completed a coordination study of our physical electric system in Kentucky and we have implemented many of that study's recommendations. We've installed and are continuing to install equipment that communicates with our Supervisory Control and Data Acquisition (SCADA) System. This equipment enables our 24-hour dispatchers to monitor and control equipment in our Kentucky area. For you, our members, this means we can restore your power faster when there is an outage.

We've also honored our commitment to lower the distribution portion of your bill. This change has resulted in a cumulative savings of over \$2 million for our Kentucky members since the merger. We will be mailing a letter to members' homes and businesses in January to communicate individual savings through 2017.

Finally, your safety and that of our employees is a high priority and I'm pleased to say that in November we were awarded reaccreditation by the National Rural Electric Safety Achievement Program. To earn this credential, we follow specific guidelines and protocols for electrical safety that are considered leading practices in our industry.

As we begin our third year together, I want you to know how very much we appreciate the opportunity to serve you. We'll continue to work hard to serve you well in 2018 and we wish you a happy, healthy and safe year.



YOU ASKED FOR IT

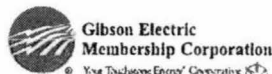
HIGH-SPEED | AFFORDABLE | RELIABLE INTERNET

Gibson Connect is ready to provide you with high-speed internet service with no data cap. We've divided our area into zones and determined the number of registrations needed to financially support a build-out. Now, it's up to you. Register today and encourage your neighbors to register too!



VISIT JOIN.GIBSONCONNECT.COM OR
CALL 844-859-6767 TO REGISTER

Powered by the same local people
you already know and trust.





Dan's Cans

Each year, Gibson EMC employees donate non-perishable food items in honor of Gibson EMC President and CEO Dan Rodamaker. In 2017, 1,120 pounds of food was donated to local food pantries throughout Northwest Tennessee and West Kentucky. Since its creation, "Dan's Cans" has provided 4,638 pounds of food to people within Gibson EMC's service area. At left is Compliance Coordinator Harry Elliott loading some of the food items donated by the Trenton office.

Gibson Connect – A natural extension

Broadband fiber is nothing new to Gibson Electric Membership Corporation. In fact, we installed fiber to each of our offices and substations over a decade ago.

"In 2005, Gibson EMC began the installation of an Automatic Metering Infrastructure (AMI) system so we could begin reading meters remotely and improve communication to our substations and offices," says Gibson EMC VP of Technical Services and Gibson Connect VP of Operations Charles Phillips. "Around the same time, the tragic 2006 tornados hit our system. During that event, we went almost a full day with very limited phone access. Not only did that situation keep us from being able to communicate with our members about outages, but it also presented a safety concern as it prevented us from relaying messages about downed wires, etc., to our members, employees and emergency personnel. As a result, we began the construction of fiber-optic connections between our offices and substations," Phillips says.

Through the process of fiber construction between Gibson EMC's offices and substations, we came to the realization that our service territory falls within an area that lacked commercial investment in fiber. There was not a lot of advanced telecommunications infrastructure in Northwest Tennessee at the time, and because of this, we were approached by entities who requested use of our constructed fiber.

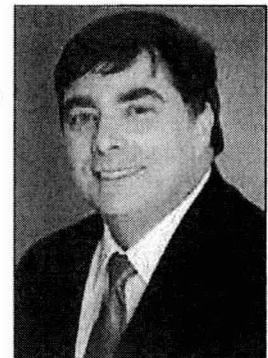
Gibson EMC began making excess dark fiber available to other entities. Even though the law restricted electric cooperatives from providing retail services, we were allowed to provide fiber connectivity to schools, agriculture-based businesses, banks and government facilities.

As the co-op gained new sources of revenue from leasing the excess capacity of our own assets, we further expanded and built more fiber for use in the electric grid.

"When the state legislature passed the Tennessee Broadband Accessibility Act in 2017, it was a natural lead-in for Gibson EMC to go from a wholesale provider of dark fiber to becoming a retail provider of internet and related telecommunications services. We have developed a lot of expertise with our staff, and we have employees who are very qualified to construct and maintain the system. More importantly, we have a membership that has expressed a strong need for high-speed, affordable and reliable internet service. The combination of these factors led to the start of Gibson Connect, a wholly-owned, not-for-profit subsidiary of Gibson EMC," Phillips explains.

Gibson Connect is now in the middle of a member-driven process to determine where we are going to start the construction of our fiber-to-the-home network, based on the number of people who sign up ahead of time. "The base need of communication for our electric system is still the most critical part of what we are doing, but we are also excited to move closer to accomplishing the goal of meeting our members' needs," Phillips says.

For more information on Gibson Connect or to register, visit join.gibsonconnect.com or call 1-844-859-6767.



Charles Phillips
Gibson EMC VP of
Technical Services &
Gibson Connect VP of
Operations



The Gibson Connect difference

What makes Gibson Connect different? Gibson Connect is powered by the very same people you already know and trust at Gibson Electric Membership Corporation. For us, it's not about profit; it's about providing you with excellent service and supporting our communities.

Our goal is to ultimately provide all of our eligible* members access to a 100 percent fiber network.

This is exciting for our members and our communities because fiber offers many important benefits:

3 Reliability: Fiber is less affected by weather than other sources.

3 Extremely Fast: Fiber gives you access up to 1 Gig (1,000 megabits per second). That's 100 times faster than the national average.

3 No Buffering: With our 1 Gig speed you can download a two-hour HD movie in less than a minute or a nine-hour audiobook in less than a second.

3 Not Just Internet: Gibson Connect plans to provide telephone and possibly TV/video (if there is enough interest) over the same connection. Our telephone offering will operate the same as your local telephone service, but it will include unlimited long distance and advanced calling features.

You and other members are driving our construction plans. If you want us to build fiber to your home or business, register at join.gibsonconnect.com today.

When a zone reaches the required participation level, our board of trustees will vote to approve the fiber build-out. Zones that demonstrate the highest levels of interest by exceeding the required participation levels will earn priority, so make sure to encourage others – your friends, neighbors and community – to register, too.

**Tennessee law prevents Gibson Connect from serving Gibson EMC members within the West Kentucky & Tennessee Telecommunications Cooperative service area (in Tennessee).*

Clearing for reliability

Gibson Electric Membership Corporation does many things to provide you with safe, reliable, and affordable electric service. One of the most impactful is right-of-way clearing or vegetation management.

A right of way (ROW) refers to a strip of land underneath or around power lines that your electric cooperative has the right and responsibility to maintain and clear. Trees must grow at a distance far enough from conductors so they will not cause harm to individuals or disruption to electrical service.

Specifications can vary, but a general guideline of maintaining a safe ROW is 15 feet of clearance on either side of the primary conductors and 20 feet of overhead clearance above the highest wire on the pole.

Clearing the ROW is critical to keeping our members' lights on. An average of 15 percent of power interruptions occur when trees,

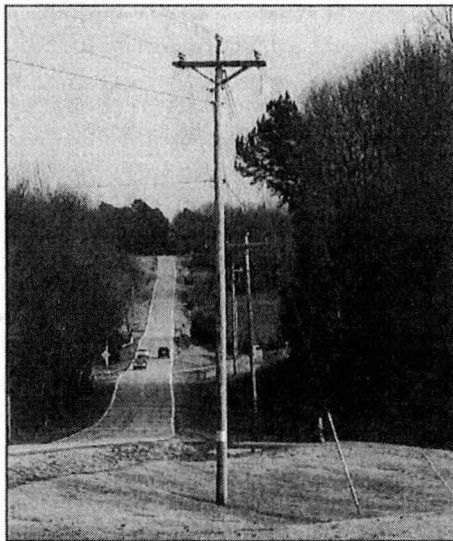
shrubs or bushes grow too close to power lines.

ROW clearing also keeps your family safe by ensuring that tree branches do not become energized due to close contact with a downed power line. Power lines can carry up to 24,940 volts, and an energized tree branch is incredibly dangerous – even deadly. Be mindful when you are

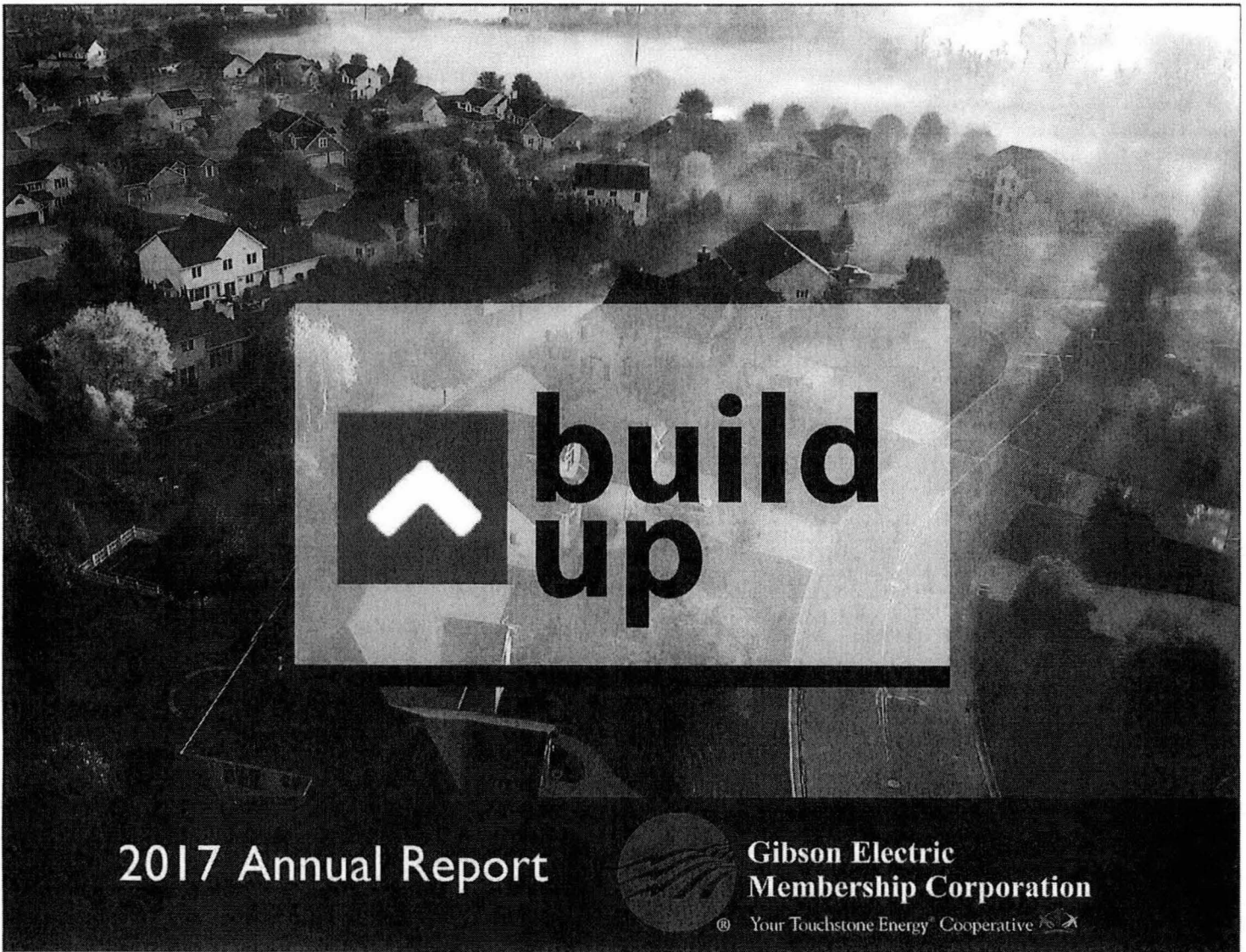
around trees close to power lines, and tell your children that climbing trees near power lines is dangerous.

Be sure to contact Gibson EMC before you trim or remove trees near any power service or line. If your equipment or the tree makes contact with the lines, you could be severely injured or killed. And never trim a tree in the right-of-way zone on your own.

ROW clearing just makes sense. Visit gibsonemc.com to find out more about our vegetation management program and to learn how you can help us keep your electric service safe and reliable.



A clear right of way helps Gibson EMC to provide safe, reliable and affordable electric service.



2017 Annual Report

**Gibson Electric
Membership Corporation**

® Your Touchstone Energy Cooperative

Introduction

Building up our communities defines Gibson Electric Membership Corporation's (Gibson EMC's) focus for 2017. We worked to create opportunities, positively impact families and position our Northwestern Tennessee and Western Kentucky communities to grow and prosper.

We love the communities we serve, and we take seriously our responsibility to improve everyday life for our members. We recruit jobs and economic investment; we help prepare the next generation of leaders; we give back through charitable donations, taxes and jobs; and we are on the leading edge of a movement to bring high-speed internet access to our communities.



Gibson Connect Launched in 2017

Forming Gibson Connect, a wholly-owned, not-for-profit subsidiary of Gibson EMC was a historically significant action we took in 2017. Through Gibson Connect, we hope to ultimately provide high-speed, reliable and affordable internet service access to all of our eligible members.

We want to fairly and responsibly provide access, so in mid-October we launched a participation model to guide our construction process. Members can register and get more information on this project at join.gibsonconnect.com or by calling 844-859-6767.

Access to this essential

service will improve educational opportunities, help create jobs, strengthen e-commerce, improve quality of life, provide more options for entertainment and enable our existing industry to better compete and help attract new industry.

We also applied for three grants with the state of Tennessee and were awarded one for most of rural Lake County and the far northwestern portion of Obion County. Work in this area (Samburg, Tiptonville and Ridgely zones) and the three zones that have met their participation goals (Medina, Dyer and Three Way) is underway.

Broadband buildout begins

An update from your Co-op's President and CEO

We've been especially busy at Gibson EMC and at Gibson Connect preparing to provide you with access to high-speed internet service. We are committed to doing this because access is vitally important to you, our members, and to our communities.

We're excited about building out this fiber infrastructure, and we appreciate all of you who have supported us by registering for this service at join.gibsonconnect.com. At the time I'm writing this (late May), we have more than 6,100 supporters registered in 27 zones.

It was just last July that our board voted to form Gibson Connect, Gibson EMC's not-for-profit subsidiary. In October, we launched join.gibsonconnect.com, a place where members register and, based on meeting their zones' participation requirements, guide the order of our fiber construction process.

In 2017, we applied for three Tennessee Broadband grants, and in January, we were notified that we had been approved for one that will help us serve Lake County and the far northwestern part of Obion County. Three of our zones met their participation goals by February, and our board approved moving forward with the first phase of construction. During Phase I, we will build out fiber to the three

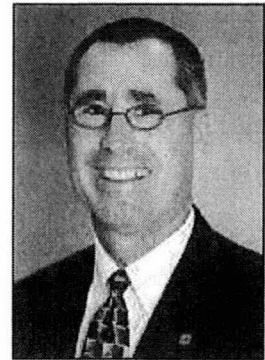
zones that first met their participation goals (Medina, Dyer and Three Way) and the zones covered by the grant (Tiptonville, Ridgely and Samburg).

In March, Gibson Connect bought the LitePipe division of Jones Telecommunications and hired former owner Tony Jones. Since then, we have hired more

Gibson Connect staff to help ensure we are well prepared to provide the internet service you need. We've also ordered materials, sent out requests for proposals and done engineering.

By the time you read this, we will have started construction. We hope to have Phase I completed and the engineering started for Phase II by the end of 2018 or by early 2019.

Because of the magnitude of this project—the cost, area to be covered and work required—we must do the fiber buildout in a way that is financially prudent and physically manageable. At best, this will be a multi-year project, but we will keep you informed. We appreciate your support and ask for your continued patience.



Dan Rodamaker
President and CEO of
Gibson EMC and
Gibson Connect



**GIBSON
CONNECT™**

Some answers about Gibson Connect

Q What is Gibson Connect?

A. Gibson Connect is a not-for profit subsidiary of Gibson EMC. Gibson Connect was formed to provide Gibson EMC members with access to high-speed, fiber-based internet service.

Q Why should I choose Gibson Connect?

A. Simply put, you own the company. As a member-owner of Gibson EMC, you will benefit from Gibson Connect's success. Gibson Connect is not-for-profit and any excess revenue will go back to Gibson EMC. This will help us keep your electric service affordable.

Q Why and how do I register?

A. Members are guiding the order of our construction through their registrations at join.gibsonconnect.com, by calling (844) 859-6767, or by contacting any Gibson EMC member service center. Registration costs \$20 and will be applied

to your first Gibson Connect bill. It also helps you avoid a \$200 connection fee later.

Q How can I find out how my zone is doing?

A. Go to join.gibsonconnect.com and click on "Zones," which takes you to a map of the 27 zones. Scroll down to see your zone and the number of registrations still needed to reach its goal.

Q Where can I learn about the products you're offering?

A. Visit join.gibsonconnect.com and click on "Products." The current product list includes internet and telephone, but we're planning to also offer TV. We'll add that information soon.

Q What if my zone never reaches its goal?

A. Ultimately, we hope to keep building out 3,000 miles of fiber until every member has access to high-speed, fiber-based internet service.

Change for the Community funds nonprofits

Gibson Electric Membership Corporation's Change for the Community committee recently presented \$8,000 to nonprofit organizations with money from Kentucky's Gibson EMC members who allow the utility to "round up" their electric bills.



The Change for the Community program has dispersed \$64,300 to 501(c)3 nonprofit organizations in Carlisle, Fulton, Graves and Hickman counties in Kentucky since it was started by the former Hickman-Fulton Counties RECC, currently Gibson EMC.

From left, are Jackie Beggs, Carlisle County Senior Citizen's Center; Ashley Wiseman, ARK; Gigi Milner, Good Samaritan Health and Wellness Center; Julia Davis, Fulton County Senior Citizen's Center; Hugh Caldwell, Ken-Tenn EMS; Linda Rice, Hope Center; Mike Gunn, Ken-Tenn EMS; Dorothy Benford, Hope Center; Kevin Kelly, Ken-Tenn EMS; Tina McAuliffe, Mission House; Tina Boaz, Clinton Hickman County Ambulance Service; Brad Buford, Ken-Tenn EMS; Tillie Wilson Coffman, Mission House; and Steven Whitmore, Ken-Tenn EMS.

"Our members make this wonderful program possible," says Debbie Weatherford, Gibson EMC Member Care manager. "Many are allowing us to round up their electric bills to the next dollar and donating that 'change' to help support organizations," Weatherford explains. "Their generosity is making a positive change in the lives of our members in this area. In fact, Gibson EMC is working on expanding the program to the counties it serves in Tennessee, too."

Members can opt into or opt out of the program by calling their local Gibson EMC member service center.

The organizations receiving funds in spring 2018 are Hope Center in Fulton County, \$500; Fulton County Senior Citizen's Center, \$1,000; Hickman County Senior Citizen's Center, \$1,000; Carlisle County Senior Citizen's Center, \$1,000; Mission House in Clinton, \$500; ARK Fulton County, \$500; Clinton/Hickman County EMS, \$750; Good Samaritan Health and Wellness Center, \$1,500; Carlisle County Extension Homemakers for Carlisle County Food Bank, \$500; and Twin City Ambulance Inc. DBA Ken-Tenn EMS, \$750.

Any 501(c)3 nonprofit organizations desiring to apply for future Change for the Community funds should contact Weatherford at (270) 236-2521.

Featherston achieves First Class Lineworker

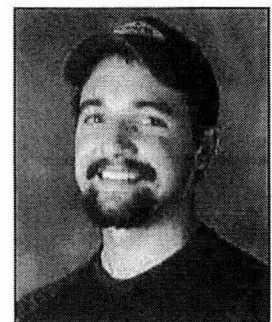
Payton Featherston, on left, has completed his apprenticeship and earned the title of First Class



Lineworker. To become a First Class Lineworker, Apprentice Lineworkers must complete technical courses, labs and four and a half years of on-the-job training. Barry Smith, Gibson EMC's VP of Engineering and Operations, presents a certificate of achievement to Featherston.

Jake Davis joins Gibson Connect

Jake Davis of Bradford has joined Gibson Connect as a Fiber Technician.



Jake attended Gibson County High School before working for AT&T for two and a half years as a Wire Technician. He and his wife, Casey, live in Bradford.

*Jake Davis
Fiber Technician*

"I am excited about the opportunity to work for Gibson Connect," Davis says. "I believe in the product we are installing, and I am happy to be a part of it. I am anxious to see how it will positively impact our communities."



From left, are Broadband Grant and Program Manager Crystal Ivey; Tennessee Department of Economic and Community Development Special Projects Director Amanda Martin; Gibson EMC Board Members Joan Mouser, Wray Pulliam and Don Leathers; Gibson EMC Attorney Jim Ryal (partially hidden); Tennessee Gov. Bill Haslam; Gibson EMC Board Chairman Steve Sanders; Lake Co. Mayor Denny Johnson; Board Members Rana Buchannan and Tony

Bargery (partially hidden); President and CEO of Gibson EMC and Gibson Connect Dan Rodamaker; Board Secretary-Treasurer Richard Skiles; Board Member Larry Hicks; Board Assistant Secretary-Treasurer Bob McCurdy; Board Vice-Chairman Keith Heglar (partially hidden); Gibson Connect VP of Operations and Gibson EMC VP of Technical Services Charles Phillips; and Tennessee Department of Economic and Community Development Commissioner Bob Rolfe.

Excel and Gibson Connect announcements

Tennessee Gov. Bill Haslam brought good news to Gibson Electric Membership Corporation members when he visited Lake County in late April.

He was joined by Department of Economic and Community Development Commissioner Bob Rolfe, Excel Boat Company officials, Lake County Mayor Denny Johnson and City of Ridgely Mayor Steve Jones in the announcement that Excel Boats will invest \$9 million in a new manufacturing facility in Ridgely.

Excel, a premier aluminum boat manufacturer, plans to create 200 to 300 jobs over the next five years.

“This is phenomenal news for our members in Northwest Tennessee and Southwest Kentucky,” says Dan Rodamaker, president and CEO of Gibson Electric Membership Corporation and Gibson Connect. “As a not-for-profit, member-owned and member-controlled cooperative, we are committed to improving the quality of life for our members; and Excel will help make this happen.”

“We appreciate the work of Emily Sullivan, Gibson EMC vice president of Economic Development and Community Relations, and the many others who played a part in Excel’s decision to locate in our area; and we look

forward to the positive impact it will have on Lake County and the surrounding area.”

Gov. Haslam also recognized Gibson Electric Membership Corporation for being awarded a \$1.35 million broadband grant.

“We are so thankful for this grant and thrilled that it will help us to provide members in Lake County and a small part of northwestern Obion County (Samburg area) with access to high-speed, fiber-based internet service,” Rodamaker says. “We already have begun engineering work and plan to start construction this summer.”

Rodamaker says that Gibson EMC will apply for more grants in both Kentucky and Tennessee.

Gibson Connect continues to accept registrations for unlimited, high-speed, fiber-based internet. Registering now for service costs \$20, and the \$20 will be applied to your first Gibson Connect bill when that service is provided. Registering now also enables you to avoid a \$200 connection fee later.

Go to join.gibsonconnect.com for more information and to register.

Happy Independence Day!

Gibson Electric Membership Corporation will be closed Wednesday, July 4, in observance of Independence Day. As always, cooperative employees will be on duty to answer your emergency calls.

Join us at the polls on Election Day

Our co-op's number one priority is providing our members with safe, reliable and affordable electricity. But doing this job requires a lot more than stringing and maintaining power lines throughout our service territory. It requires political engagement. That may seem far removed from our core mission, but it's absolutely essential to serving you, our members.

That's why Gibson Electric Membership Corporation is participating in a national program of America's electric cooperatives called Co-ops Vote.

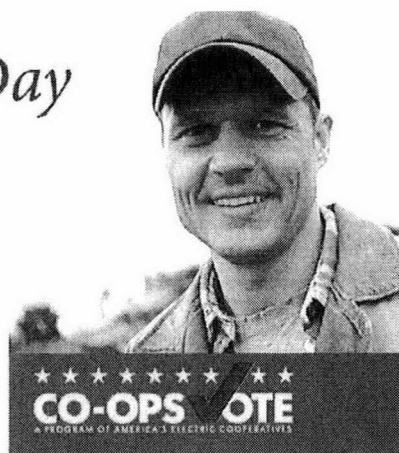
Co-ops Vote encourages all co-op members to participate in national, state and local elections while educating political candidates and elected officials about the important role played by electric cooperatives in their communities.

The National Rural Electric Cooperative Association, the service

organization representing the nation's electric co-ops, launched Co-ops Vote in 2016 as a national, non-partisan, get-out-the-vote initiative that helped drive rural voter turnout in the 2016 presidential election.

"Through this program, electric co-ops realized they had a unique advantage: As co-ops, the civic virtue of voting is in our DNA," said President and CEO of Gibson EMC and Gibson Connect Dan Rodamaker. "We show concern for community – one of the seven cooperative principles – through participation in our democracy."

Co-ops have another advantage, he said. "Elected officials and decision-makers across the political spectrum trust us because of the work the electric cooperative family has put into political engagement. When we all get involved, we can make things happen politically and in our local communities."



issues remain part of the national discussion – and are supported by our elected officials. But Co-ops Vote isn't just for co-ops. It's for co-op members just like you."

You can participate by registering to vote and committing to cast your ballot on Nov. 6. If you want to get more involved, call us or visit www.vote.coop to learn more about the upcoming elections and access online tools that can help you participate. We look forward to seeing you at the polls on Election Day!



Did you hear?
Fast is getting faster

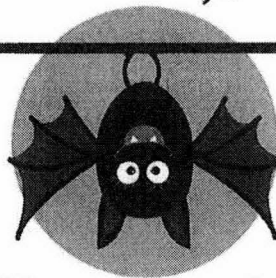
Gibson Connect has exciting news! We are increasing the speed of our initial 100 Mbps symmetrical internet offering to 250 Mbps symmetrical for the same low price of \$49.95/month.

Orders from members who have previously signed up for 100 Mbps will automatically be updated to reflect 250 Mbps for the same price. Of course, we also still offer a one Gig symmetrical service for just \$69.95/month.

If you have not yet registered for Gibson Connect services, sign up today at join.gibsonconnect.com! Come to your local Member Appreciation Event (page 24A) for an update on Gibson Connect's efforts to provide members access to high-speed, fiber-based internet service.

Slay your energy vampires

Even when your electronics are turned off, they still use energy if they're plugged in. We call it "vampire energy." What better time to slay those vampires than at Halloween? Here's how:



tertop kitchen appliances and cell phone chargers when they are not in use.

▶ Unplug any appliance or electronic device when you're not using it, unless there's some reason to leave it plugged in.

For example, it is not practical to unplug your cable box and wireless router, but you can unplug your laptop, coun-

▶ Plug the devices that can be turned off into power strips so all you have to do is turn one thing off.

▶ Set computers and video game consoles to sleep mode in case you forget to unplug them at the end of the day. It will save some energy.

▶ Choose new appliances and electronics that use less "standby" power. Any equipment marked with the Energy Star seal has that feature.

Gibson Connect awarded \$1.22 million

Gibson Connect, the wholly-owned, not-for-profit subsidiary of Gibson Electric Membership Corporation, is among 33 cooperatives nationwide who are winners of the Federal Communications Commission (FCC) Connect American Fund II (CAF II) reverse auction in August.

Winning electric cooperatives will collectively receive \$220 million over ten years to help defray the costs of deploying broadband in unserved areas.

The CAF II auction marks the first time that the FCC allowed electric cooperatives to bid for funding as broadband service providers. Gibson Connect will receive a total of \$1.22 million distributed over 10 years (\$41,000 per year for its Kentucky service area and \$81,000 per year for its Tennessee service area). Program requirements must be met to receive funds from the Universal Service Fund.

"Gibson Connect's award will aid in making fiber-based service at a speed of 1 Gbps available to over 300 rural locations in Kentucky and Tennessee at our normal retail rates," said Charles Phillips, Gibson EMC VP of Technical Services and Gibson Connect VP of Operations.

"These auction results highlight the power of cooperative partnerships as electric co-ops work



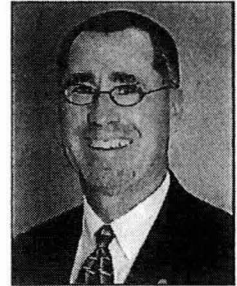
to bring broadband to unserved communities in rural America," said National Rural Electric Cooperative Association CEO Jim Matheson.

"We thank the FCC for allowing electric co-ops to participate in this auction and look forward to building on this success. We are committed to continuing the rural broadband conversation and working with policymakers at the federal, state and local level on technology and funding solutions that will enrich the lives of rural Americans."

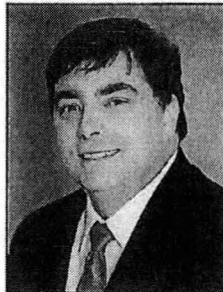
"We are happy to share the news of this achievement with our members," said Gibson Connect and Gibson Electric Membership Corporation President and CEO Dan Rodamaker.

"As Gibson Connect continues to use a participation model enabling members to determine the order of our advanced broadband communication system buildout, we also will continue to explore all possible resources for funding. This is your cooperative, and we are committed to doing all we can to improve the quality of our members' lives. Today, this means providing our members and our communities with access to high-speed, fiber-based internet service."

To learn more about Gibson and to register for service, go to join.gibsonconnect.com or call or visit any of Gibson EMC's member service centers.



Dan Rodamaker
President and CEO
of Gibson EMC and
Gibson Connect



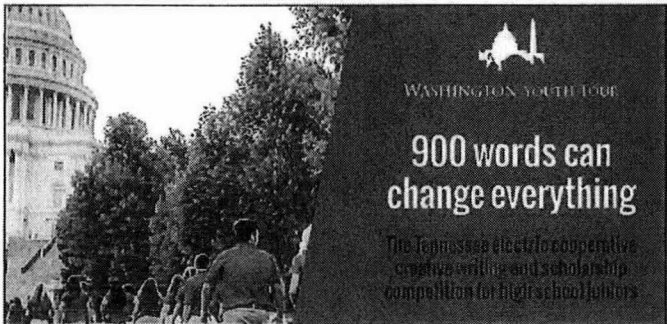
Charles Phillips
Gibson EMC VP
of Technical Services
and Gibson Connect
VP of Operations

Washington Youth Tour presentations underway

Each summer, Gibson Electric Membership Corporation sends a group of high school juniors to Washington, D.C., to spend a week exploring the capital, learning about government and cooperatives and developing their leadership skills. A strong partnership with area high schools and English teachers helps make the trip possible.

Besides the opportunity to win an expense-paid trip to D.C., students also have the opportunity to win a share of \$16,000 in scholarships from Gibson EMC and Tennessee Electric Cooperative Association. Union University also offers 24 scholarships of \$4,000 per year and one scholarship of \$10,000 per year to winners of Tennessee's Washington Youth Tour Creative Writing Competition.

"We see value in helping prepare our youth for leadership roles," said Key Accounts Representative Cynthia McClure. "We appreciate the support of our schools, and we urge par-

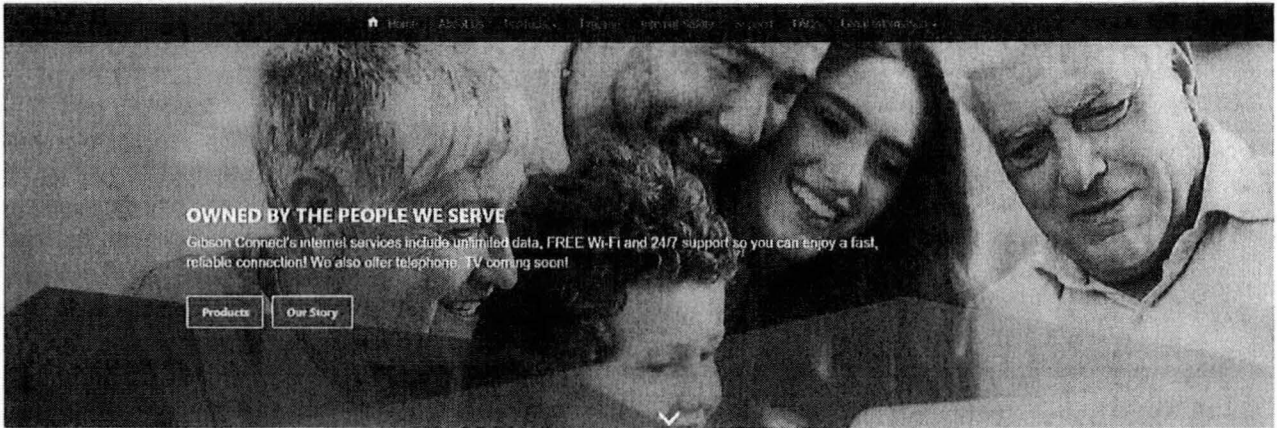


ents to encourage their children to participate."

Gibson EMC employees are already visiting schools to make presentations about the creative writing contest.

If we are not in your school yet, ask your principal or English teacher to consider participation. If you know a high school junior who is a talented writer, encourage him or her to participate. That student could be just 900 words from the trip of a lifetime. Homeschooled students can call their local Gibson EMC member service center.

Visit youthtour.tnelectric.org to learn more.



Gibson Connect launches new website

Gibson Connect, a wholly-owned, not-for-profit subsidiary of Gibson Electric Membership Corporation, has a new home on the internet.

“At www.gibsonconnect.com, members can conveniently pay their

Gibson Connect bill, access project news, browse product offerings, check their current internet speed and more,” said Vice President of Human Resources and Member Services Rita Alexander. “Members also can check the progress of their zone, make

comments and ask questions.”

Members will still need to register for Gibson Connect internet, phone and TV services at join.gibsonconnect.com.

If you haven’t yet visited the website or registered for Gibson Connect, do it today!

The power of a vote

A recent Pew Research Center survey found that most Americans believe that voting is a fundamental part of American democracy. When asked what was required to be a good citizen, voting polled higher than following the law, helping others and knowing the “Pledge of Allegiance.”

Voting has the ability to affect policy, impact war and shape your everyday life through taxes, education and health care. Casting a ballot is a small action with mighty consequences.

Voting has the ability to affect policy, impact war and shape your everyday life through taxes, education and health care.

On Tuesday, Nov. 6, Kentuckians and Tennesseans will cast their ballots. This is a powerful opportunity to influence the direction of our states and nation, and we hope you will join your neighbors and friends at the polls. It is an important part of being an American citizen.

Voting is also fundamental to your electric cooperative. Gibson Electric Membership Corporation is led by a board of trustees composed of members of our community – people like you who buy their energy from the co-op. The board establishes and oversees our policies and procedures and has the



ultimate responsibility for the decisions made here.

The leadership and oversight of our board ensures that Gibson EMC is responsive to the needs and desires of the communities we serve.

Our co-op needs wise and conscientious decision-makers to serve on the board, and this means that voting is important for your co-op as well. We appreciate the members of our board for the time and counsel they provide, but, more importantly, we want to thank each member who took the time to elect them.

Voting has power – for our country, our community and our co-op.

Gibson Electric Membership Corporation and Gibson Connect will be closed Thursday and Friday, Nov. 22 and 23, so employees may enjoy Thanksgiving with their families. As always, staff will be available to answer your calls and respond to problems if needed.

GIBSON CONNECT, LLC

**Response to Commission Staff's First Request for Information
December 5, 2018**

Case No. 2018-00333

Question No. 2

Witness: Charles L. Phillips

- Q-2.** Refer to the Application, Section III, Paragraph F, in which Gibson Connect states that it possesses the financial and technical capabilities to pay for all start-up expenses through its parent, Gibson EMC.
- a. Provide the most recent audited financial statements of Gibson EMC.
 - b. Provide the construction cost estimates and timelines to construct the network.
 - c. Describe how Gibson Connect will secure right-of-way and pole attachments to complete the project.
 - d. Describe in detail the persons who will be responsible for the design, construction, and engineering of the network. Include any previous experience these persons have in telecommunications or in designing networks.
- A-2.**
- a. The requested financial statements for Gibson EMC are included in Attachment B.
 - b. The complete network build schedule for Tennessee and Kentucky is included in the table below, sorted by order of the estimated phase build. Please visit join.gibsonconnect.com for information regarding the zones listed in the table.

Zone #	Zone Name	State	County	Phase	Year	Cost Estimate
7	Samburg	TN	Obion	1	2018/2019	\$711,304.00
20	Medina	TN	Obion, Madison	1	2018/2019	\$3,664,433.80
17	Dyer	TN	Gibson	1	2018/2019	\$2,004,120.68
21	Three Way	TN	Madison	1	2018/2019	\$1,411,000.00
5	Tiptonville	TN	Lake	1	2018/2019	\$3,167,809.53
6	Ridgely	TN	Lake, Obion	1	2018/2019	\$3,178,350.86
19	Gibson	TN	Gibson	2	2019/2020	\$3,363,625.22
22	Gadsden	TN	Crockett, Gibson	2	2019/2020	\$1,579,612.94
9	Hornbeak	TN	Obion	2	2019/2020	\$3,346,884.16
8	Woodland Mills	TN	Obion	2	2019/2020	\$3,464,107.91
18	Trenton North	TN	Gibson	2	2019/2020	\$3,296,175.83
27	Trenton South	TN	Gibson	2	2019/2020	\$2,220,932.69
23	Bells	TN	Crockett	3	2020/2021	\$2,641,500.00
15	Kenton	TN	Obion, Gibson	3	2020/2021	\$1,901,903.97
10	Troy	TN	Obion	3	2020/2021	\$3,581,968.92
16	Rutherford	TN	Gibson	3	2020/2021	\$2,687,923.49
2	Clinton	KY	Hickman, Graves	3	2020/2021	\$4,290,109.29
4	Hickman	KY, TN	Fulton KY, Obion TN	3	2020/2021	\$3,465,111.49
24	Alamo	TN	Crockett	4	2021/2022	\$3,891,883.27
25	Muary City	TN	Crockett	4	2021/2022	\$2,685,604.13
13	Obion	TN	Obion	4	2021/2022	\$2,036,020.53
26	Friendship	TN	Crockett, Dyer	4	2021/2022	\$2,236,001.47
12	South Fulton	TN	Obion	4	2021/2022	\$2,554,259.81
14	Newbern	TN	Dyer, Gibson	4	2021/2022	\$2,354,969.20
11	Union City/Rives	TN	Obion	5	2022/2023	\$3,076,491.37
3	Fulton	KY, TN	Fulton KY, Obion, TN	5	2022/2023	\$2,937,980.74
1	Arlington	KY	Carlisle	5	2022/2023	\$2,376,615.27

- c. Gibson Connect is a wholly owned direct subsidiary of Gibson Electric Membership Corporation (“Gibson EMC”), and contractually has access to the rights-of-way, and to poles and similar structures, held by Gibson EMC. Since Gibson Connect will be operating within the electric footprint of its parent company, Gibson Connect will have access to all potential customers within the parent’s service area, and it will be able to utilize Gibson EMC’s rights-of-way, and have access to Gibson EMC’s poles and similar structures, throughout its service area.

The fiber optic cable is being placed in the “power” space of utility poles (10 inches below the distribution neutral wire) to minimize pole congestion and the amount of make-ready work. This approach to placement on the poles minimizes the need to move telecommunication carriers that have their equipment in the “communications” space. In addition, attaching non-conducting fiber cable in the power space maximizes vertical clearance over roads, driveways, and fields.

- d. Gibson EMC has been designing, constructing, and maintaining its fiber plant since 2005, using its in-house engineering and operations personnel. The network includes 350 miles of fiber connecting its 6 member service centers and 19 substations throughout NW Tennessee and western Kentucky.

This internal staff is responsible for oversight of the engineering and construction contractors of the new Fiber-to-the-Home network which began Phase 1 construction in July 2018 in Gibson and Madison counties of Tennessee. For Phase 1, the engineering firm is Quanta Telecom Services (“Quanta Telecom”) and the construction firm also is Quanta Telecom. Quanta Telecom is an international company and has been involved in a multitude of projects including the WK&T West Kentucky and Tennessee Telecommunications Cooperative project that borders the Gibson service area. Quanta Telecom’s website is located at <http://www.quantatelcom.com/>.

As noted on its website, Quanta Telecom has considerable experience in engineering and constructing fiber networks, with proven capabilities for managing all aspects of fiber network design and build-out strategies and approaches, and for determining best network paths and best construction methods to accommodate environmental, budgetary, and other considerations. Quanta Telecom offers construction management, construction of underground structures, inspection services related to construction of underground structures, and all services necessary for the complete installation, maintenance, and repair of underground structures.

ATTACHMENT B

**GIBSON ELECTRIC MEMBERSHIP
CORPORATION**

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

**GIBSON ELECTRIC MEMBERSHIP CORPORATION
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Alexander Thompson Arnold PLLC

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Independent Auditor's Report

Board of Directors
Gibson Electric Membership Corporation
Trenton, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Gibson Electric Membership Corporation, which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statements of revenue and patronage capital and cash flows for the year then ended, and the related notes to the financial statements. We have also audited the accompanying financial statements of Gibson Electric Membership Corporation, which comprise the balance sheet as of December 31, 2016, and the related statements of revenue and patronage capital and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in 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 audits. We conducted our audits 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 audits 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 on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Directors
Gibson Electric Membership Corporation

Opinion

In our opinion, the 2017 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gibson Electric Membership Corporation as of December 31, 2017, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the 2016 financial statements present fairly, in all material respects, the financial position of Gibson Electric Membership Corporation as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet, consolidating statement of revenue and patronage capital, and schedule of deferred debits and deferred credits are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated 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 April 4, 2018, on our consideration of Gibson Electric Membership Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Gibson Electric Membership Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Gibson Electric Membership Corporation's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Union City, Tennessee
April 4, 2018

GIBSON ELECTRIC MEMBERSHIP CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 2017 and 2016

ASSETS			EQUITIES AND LIABILITIES		
	<u>2017</u>	<u>2016</u>		<u>2017</u>	<u>2016</u>
Utility plant			Equities		
Electric plant in service	\$ 175,768,597	\$ 169,637,436	Memberships	\$ 262,481	\$ 259,786
Construction work in progress	<u>2,177,603</u>	<u>4,164,097</u>	Patronage capital	<u>96,899,382</u>	<u>94,743,875</u>
Total utility plant	177,946,200	173,801,533	Total equities	<u>97,161,863</u>	<u>95,003,661</u>
Accumulated depreciation	<u>(75,515,367)</u>	<u>(73,520,042)</u>			
Net utility plant	<u>102,430,833</u>	<u>100,281,491</u>	Long-term debt		
Other assets	<u>2,215,874</u>	<u>2,526,914</u>	Mortgage notes payable	21,452,832	23,221,462
Current assets			Current portion of long-term debt	<u>(2,996,742)</u>	<u>(2,682,682)</u>
Cash and working funds	1,380,812	17,651	Net long-term debt	<u>18,456,090</u>	<u>20,538,780</u>
Restricted cash - relending program	255,149	210,000			
Short-term investments	<u>12,824,630</u>	<u>15,171,441</u>	Current liabilities		
Total cash and cash equivalents	14,460,591	15,399,092	Accounts payable	7,722,093	7,740,024
Accounts receivable, net of			Customer deposits - includes interest	1,061,764	1,024,306
accumulated provision	4,763,353	4,686,238	Accrued property taxes	1,306,362	1,419,783
Rents receivable	673,999	670,360	Accrued compensated absences	1,198,816	1,171,878
Materials and supplies	1,386,763	1,438,531	Other current liabilities	539,299	530,396
Other current assets	<u>243,558</u>	<u>419,418</u>	Current portion of long-term debt	<u>2,996,742</u>	<u>2,682,682</u>
Total current assets	<u>21,528,264</u>	<u>22,613,639</u>	Total current liabilities	<u>14,825,076</u>	<u>14,569,069</u>
Deferred charges			Deferred credits		
Loans receivable, net	2,937,266	2,904,978	Deferred interest and credits	<u>867,279</u>	<u>922,045</u>
Prepaid pension contributions	2,193,132	2,624,568			
Sale of plant, debt expense, surveys	<u>4,939</u>	<u>81,965</u>	Total equities and liabilities	<u>\$ 131,310,308</u>	<u>\$ 131,033,555</u>
Total deferred charges	<u>5,135,337</u>	<u>5,611,511</u>			
Total assets	<u>\$ 131,310,308</u>	<u>\$ 131,033,555</u>			

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

GIBSON ELECTRIC MEMBERSHIP CORPORATION
CONSOLIDATED STATEMENTS OF REVENUE AND PATRONAGE CAPITAL
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenue	\$ 91,877,941	\$ 93,080,600
Operating expenses		
Cost of power	66,363,061	68,204,447
Transmission and distribution	4,322,807	4,077,704
Maintenance	5,171,972	5,134,402
Customer accounts	2,222,420	2,201,071
Customer information and sales	732,582	627,452
Administrative and general	2,659,443	2,562,081
Depreciation	6,438,156	6,104,172
Taxes	<u>1,609,849</u>	<u>1,616,030</u>
Total operating expenses	<u>89,520,290</u>	<u>90,527,359</u>
Operating margins before fixed charges	2,357,651	2,553,241
Fixed charges		
Interest on long-term debt	<u>1,511,304</u>	<u>1,561,753</u>
Net operating margins	<u>846,347</u>	<u>991,488</u>
Non-operating margins		
Interest income	1,095,873	1,074,461
Other revenue	<u>213,287</u>	<u>250,648</u>
Total non-operating margins	<u>1,309,160</u>	<u>1,325,109</u>
Net margins	2,155,507	2,316,597
Patronage capital - beginning of year	94,743,875	79,431,994
Patronage capital from merger - see Note 1A	<u>-</u>	<u>12,995,284</u>
Patronage capital - end of year	<u>\$ 96,899,382</u>	<u>\$ 94,743,875</u>

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

GIBSON ELECTRIC MEMBERSHIP CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Cash received from customers	\$ 91,797,187	\$ 92,433,334
Cash payments to suppliers for goods and services	(73,840,905)	(73,669,840)
Cash payments to employees for services	<u>(8,078,185)</u>	<u>(7,787,661)</u>
Net cash provided by operating activities	<u>9,878,097</u>	<u>10,975,833</u>
 Cash flows from noncapital financing activities		
Increase (decrease) in customer deposits	<u>37,458</u>	<u>(61,183)</u>
 Cash flows from capital and related financing activities		
Additions to utility plant	(8,302,013)	(8,195,315)
Removal and reintegration costs	(1,014,976)	(931,758)
Proceeds from note payable	500,000	750,000
Payments on principal of long-term debt	(1,392,526)	(1,101,846)
Interest payments on long-term debt	(1,511,304)	(1,561,753)
Increase (decrease) in memberships	2,695	(48,800)
Net increase (decrease) in deferred interest and credits	(54,766)	303,295
Other revenue	<u>61,814</u>	<u>36,377</u>
Net cash used by capital and related financing activities	<u>(11,711,076)</u>	<u>(10,749,800)</u>
 Cash flows from investing activities		
Net change in conservation loans made to customers	(32,288)	133,300
Net change in deferred sales of plant, debt expense, surveys	77,026	10,044
Payments received on notes receivable	363,142	402,850
Patronage capital received	99,371	174,471
Cash received in merger	-	1,265,470
Interest received	<u>349,769</u>	<u>283,685</u>
Net cash provided by investing activities	<u>857,020</u>	<u>2,269,820</u>
 Net increase (decrease) in cash and cash equivalents	(938,501)	2,434,670
 Cash and cash equivalents - beginning	<u>15,399,092</u>	<u>12,964,422</u>
 Cash and cash equivalents - ending	<u>\$ 14,460,591</u>	<u>\$ 15,399,092</u>

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

GIBSON ELECTRIC MEMBERSHIP CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

Reconciliation of operating margins to cash flows from operating activities

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Operating margins before fixed charges	\$ 2,357,651	\$ 2,553,241
Adjustments to reconcile operating margins to net cash provided by operating activities:		
Depreciation	7,043,221	6,710,299
Amortization	431,436	377,531
Provision for uncollectible accounts	4,512	24,422
(Increase) decrease in current assets:		
accounts receivable	(81,627)	(675,669)
rents receivable	(3,639)	3,981
materials and supplies	176,194	314,798
other current assets	45,860	171,320
Increase (decrease) in current liabilities:		
accounts payable	(17,931)	1,569,016
accrued property taxes	(113,421)	5,923
accrued compensated absences	26,938	242,187
other current liabilities	8,903	(321,216)
Total adjustments	<u>7,520,446</u>	<u>8,422,592</u>
Net cash provided by operating activities	<u>\$ 9,878,097</u>	<u>\$ 10,975,833</u>

Noncash investing, capital and related financing activities

Interest earned on RUS cushion of credit, which offsets outstanding debt	\$ 746,104	\$ 790,776
Cushion of credit applied against outstanding debt	1,538,873	1,539,919
Patronage capital allocation	37,868	39,800
Non-cash change in other current assets	130,000	
Non-cash items due to merger - see Note 3C		
Utility plant		\$ (15,628,389)
Other assets		(308,460)
Current assets		(1,327,644)
Deferred charges		(614,745)
Equity		13,056,414
Long-term debt		4,250,028
Current liabilities		1,729,625
Deferred credits		108,641
Cash received in merger		<u>\$ 1,265,470</u>

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

GIBSON ELECTRIC MEMBERSHIP CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The Gibson Electric Membership Corporation is a rural electric cooperative serving northwest Tennessee and southwest Kentucky. It is a member-owned cooperative and is subject to the regulatory authority of the Tennessee Valley Authority (TVA) and the Rural Utilities Service (RUS). By providing electric power only in its assigned geographical area, there is a regional concentration of credit risk in accounts receivable. The following comprise the Corporation's significant accounting policies.

A. Gibson Connect, LLC

During 2017, Gibson Electric Membership Corporation organized Gibson Connect, LLC, a wholly-owned nonprofit limited liability company, for the purpose of providing certain community utility services as set forth under the Tennessee Rural Electric and Community Services Cooperative Act. These services include but are not limited to broadband internet access and telecommunications services. As Gibson Connect, LLC is a wholly-owned subsidiary of Gibson Electric Membership Corporation, the financial statements presented are on a consolidated basis, with all significant balances and transactions between the two entities eliminated.

B. Method of Accounting

The books of account are kept in accordance with the provisions of the power contract between the Corporation and the Tennessee Valley Authority and meet the requirements of the Federal Power System chart of accounts as modified by RUS Bulletin 1767B-1. The Corporation uses the accrual method of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

The System recognizes income based on cycle billings. This results in recognizing as income the energy usage through each respective cycle each month, which may not coincide with the last day of the fiscal year. Non-recognition of unbilled income from energy sales as a result of cycle billing is a common industry practice.

C. Electric Plant and Depreciation Procedures

Electric plant in service and under construction is stated substantially at original cost. The Corporation provides for depreciation on a straight-line basis at rates recommended by the Tennessee Valley Authority. These rates purport to depreciate the property over its estimated useful life. Depreciation for the year ended December 31, 2017, consisted of \$6,438,156 charged to depreciation expense and \$605,065 cleared through other accounts, for a total accrual of \$7,043,221. The accrual for the prior year totaled \$6,710,299, with \$6,104,172 charged to expense and \$606,127 allocated to clearing accounts. It is the Corporation's policy not to capitalize interest during construction of electric plant in service, unless the construction period exceeds 12 months.

D. Concentrations of Credit Risk for Deposits and Investments

The Corporation has cash deposits at several local banks. Accounts at each institution are insured by federal depository insurance up to \$250,000. At December 31, 2017, there were uninsured deposits of \$151,105. The Corporation has short-term investments with CFC and CoBank, which are unsecured. At December 31, 2017 and 2016, uninsured investments were \$12,824,630 and \$15,171,441, respectively.

GIBSON ELECTRIC MEMBERSHIP CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

E. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Corporation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

F. Accounts receivable

Accounts receivable are reported at the amount management expects to collect from outstanding balances. Estimated uncollectible accounts are reported in a valuation account, with offsetting entries to results of operations.

G. Inventories

Materials and supplies inventories are valued at an average cost, not to exceed market. A perpetual inventory system is maintained, with a physical inventory conducted at least annually.

H. Income Taxes

The Corporation is exempt from federal and state income taxes and files Form 990, "Return of Organization Exempt from Income Tax." The Corporation has been exempted under section 501(c)12 of the Internal Revenue Code as a mutual electric cooperative.

I. Compensated Absences

All permanent full-time employees accrue vacation leave based on a 40-hour workweek. Also, all permanent full-time employees who have completed three months of continuous employment accrue sick leave at the rate of eight hours per month based on a 40-hour workweek. Accrued compensated absences have been recorded in the balance sheets as of December 31, 2017 and 2016, for \$1,198,816 and \$1,171,878 respectively.

J. Postretirement Benefits

The Corporation does allow for postretirement benefits for employees who retire between the ages of 62 and 65. An accrual for these postretirement benefits was not included in the financial statements as the amount was not material as of the balance sheet dates. There is also a benefit restoration plan that is being accrued over the expected future working lifetime of plan participants. However, this plan does not have a material impact on the Corporation's financial statements.

K. Merger

As of January 1, 2016, Gibson Electric Membership Corporation (GEMC) merged with Hickman-Fulton Rural Electric Cooperative Corporation (HFRECC). HFRECC serves south western Kentucky and is adjacent to GEMC on the Tennessee/Kentucky border. All operations are conducted under the name Gibson Electric Membership Corporation subsequent to the merger and therefore are included in the financial statements presented for both 2017 and 2016.

L. Date of Management's Review

Subsequent events have been evaluated through April 4, 2018, which is the date the financial statements were available to be issued.

GIBSON ELECTRIC MEMBERSHIP CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 2 – DETAILED NOTES ON ACCOUNTS

A. Short-Term Investments

The Corporation has short-term investments through CoBank with Invesco Investment Services, Inc. The Corporation purchases shares of Premier-Institutional fund each day and earns dividends at rates that can vary daily. This account had a balance of \$9,753,387 and \$12,035,329 at December 31, 2017 and 2016, respectively. These investments are uninsured.

The National Rural Utilities Cooperative Finance Corporation (CFC) account is invested in commercial paper. As of December 31, 2017, the balance was \$3,071,243 with an interest rate of 1.40% maturing on January 19, 2018. As of December 31, 2016, CFC investments were \$3,036,112 with an interest rate of .65%. These investments are also uninsured.

At December 31, 2016, The Corporation had \$100,000 invested with Homestead Funds in a money market account with an interest rate of .01%.

B. Receivables

As of December 31, 2017 and 2016, the Corporation had the following receivables, net of accumulated provisions for uncollectible accounts:

	<u>2017</u>	<u>2016</u>
Current receivables		
Accounts receivable, net of \$17,600 and \$30,688	\$ 4,423,310	\$ 4,469,506
Grants and customer construction contributions receivable	38,846	29,500
Other receivables, net of \$24,781 and \$24,601	301,197	187,232
Net accounts receivable	<u>\$ 4,763,353</u>	<u>\$ 4,686,238</u>
Deferred receivables		
Loans receivable - heat pumps, net of \$83,617 and \$87,079	<u>\$ 2,937,266</u>	<u>\$ 2,904,978</u>

GIBSON ELECTRIC MEMBERSHIP CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

C. Utility Plant

Capital asset activity during the current year was as follows:

Description	Balance 1/1/2017	Increases	Decreases	Balance 12/31/2017
Capital assets, not being depreciated				
Land - transmission plant	\$ 161,397	\$ -	\$ -	\$ 161,397
Land - distribution plant	307,002	13,294	-	320,296
Land - general plant	368,759	130,499	-	499,258
Construction work in progress	4,164,097	-	(1,986,494)	2,177,603
Total not being depreciated	<u>5,001,255</u>	<u>143,793</u>	<u>(1,986,494)</u>	<u>3,158,554</u>
Capital assets, being depreciated				
Transmission plant	1,423,967	4,246	(1,378)	1,426,835
Distribution plant	142,065,439	7,994,818	(1,840,072)	148,220,185
General plant	25,310,872	2,145,650	(2,315,896)	25,140,626
Total being depreciated	<u>168,800,278</u>	<u>10,144,714</u>	<u>(4,157,346)</u>	<u>174,787,646</u>
Less accumulated depreciation				
Transmission plant	1,180,971	57,105	(2,595)	1,235,481
Distribution plant	60,048,133	5,592,812	(2,750,316)	62,890,629
General plant	12,290,938	1,393,304	(2,294,985)	11,389,257
Total accumulated depreciation	<u>73,520,042</u>	<u>7,043,221</u>	<u>(5,047,896)</u>	<u>75,515,367</u>
Total being depreciated, net	<u>95,280,236</u>	<u>3,101,493</u>	<u>890,550</u>	<u>99,272,279</u>
Total capital assets, net	<u>\$ 100,281,491</u>	<u>\$ 3,245,286</u>	<u>\$ (1,095,944)</u>	<u>\$ 102,430,833</u>

D. Other Assets

The following is a schedule of other assets as of December 31:

	<u>2017</u>	<u>2016</u>
CoBank stock	\$ 640,415	\$ 602,547
Note receivable – Everett Stewart Airport	151,708	183,676
Note receivable – Port Authority	-	8,542
Note receivable – Williams Sausage	277,475	351,479
Note receivable – Crockett County	320,788	458,296
Note receivable – Advantage Manufacturing	527,740	638,860
CFC Capital Term Certificate	296,743	282,509
Other Investments	1,005	1,005
Total	<u>\$ 2,215,874</u>	<u>\$ 2,526,914</u>

GIBSON ELECTRIC MEMBERSHIP CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

E. Debt

Long-term debt consists of mortgage notes payable as follows:

	Note Number	Maturity Date	Interest Rate	Payment Terms	Balance 12/31/17	Balance 12/31/16
Rural Utilities Service	FFB0363	12/31/25	7.770%	quarterly	\$ 602,318	\$ 654,883
	FFB00020002	12/31/31	4.737%	quarterly	2,051,028	2,152,375
	FFB00020001	12/31/25	4.737%	quarterly	2,394,049	2,512,232
	FFB00020003	12/31/31	4.763%	quarterly	5,936,921	6,229,665
	F00030001	9/30/39	4.403%	quarterly	1,785,481	1,821,741
	F00030002	12/31/43	3.295%	quarterly	4,881,653	4,999,078
	RD	3/05/17	n/a	monthly	-	8,542
	RD	9/30/22	n/a	monthly	527,740	638,860
	RD	5/06/20	n/a	monthly	215,788	308,296
	RD	10/20/21	n/a	monthly	277,475	351,479
	RD	10/31/23	n/a	monthly	151,759	183,715
					Total RUS notes	18,824,212
				Less cushion of credit*	14,448,397	15,111,167
				Net payable to RUS	\$ 4,375,815	\$ 4,749,699
CoBank	2831031	8/20/26	3.66%	monthly	\$ 3,987,625	\$ 4,375,070
	2947094	1/20/26	3.12%	monthly	619,498	686,505
	262701	1/20/25	3.35%	monthly	367,390	413,115
	2766875	1/20/24	4.00%	monthly	323,904	370,647
	422917	6/20/21	2.72%	quarterly	240,911	271,518
	425904	2/15/22	2.72%	monthly	428,188	545,362
	426094	2/15/22	2.72%	monthly	428,935	546,314
	3030921	2/3/27	3.55%	monthly	461,029	-
	1257334	11/21/26	2.72%	monthly	2,150,471	2,281,523
	2438774	9/20/21	3.61%	monthly	1,804,709	2,257,150
	2679974	2/08/23	2.93%	monthly	270,198	319,653
	2684981	2/20/23	2.94%	monthly	1,868,594	2,206,493
					Total CoBank	\$12,951,452
CFC	209001001	11/30/43	2.90%	quarterly	\$ 1,023,161	\$1,050,387
	Note 3C 209002001	5/31/45	5.70%	quarterly	3,102,404	3,148,026
				Total CFC	\$ 4,125,565	\$ 4,198,413

*The Corporation established a cushion of credit with RUS that earns interest and is used to offset the long-term debt owed to RUS.

All assets of the Corporation are pledged as security on these notes. Principal payments due for the next five years are approximately:

2018	\$2,996,742
2019	\$3,002,924
2020	\$3,052,845
2021	\$2,915,224
2022	\$2,564,613

GIBSON ELECTRIC MEMBERSHIP CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

Changes in long-term debt during the year ended December 31, 2017, are summarized as follows:

	Balance 1/01/2017	Advances/ Increase in Cushion	Interest Earned	Payments/ Cushion Applied	Balance 12/31/2017
RUS notes	\$ 19,860,866	\$ -	\$ -	\$ 1,036,654	\$ 18,824,212
Less cushion of credit	<u>15,111,167</u>	<u>-</u>	<u>876,104</u>	<u>(1,538,874)</u>	<u>14,448,397</u>
Net payable to RUS	4,749,699	-	(876,104)	(502,220)	4,375,815
CoBank notes	14,273,350	500,000	-	1,821,898	12,951,452
CFC notes	<u>4,198,413</u>	<u>-</u>	<u>-</u>	<u>72,848</u>	<u>4,125,565</u>
Total	<u>\$ 23,221,462</u>	<u>\$ 500,000</u>	<u>\$ (876,104)</u>	<u>\$ 1,392,526</u>	<u>\$ 21,452,832</u>

The Corporation had \$10,000,000 available under an agreement with CoBank that matured 12/31/17 and had a variable interest rate option established by CoBank on the first business day of each week, or a fixed interest rate option for amounts in increments of \$100,000 or multiples thereof, with the maximum number of fixes in place at any one time being five. The line was extended with a maturity date of March 31, 2018. There were no outstanding draws against this line as of December 31, 2017 or 2016.

There was \$10,000,000 available under a line of credit with CFC that automatically renews each year. The interest rate is equal to the CFC Line of Credit Rate as published by CFC from time to time. There were no outstanding draws against this line as of December 31, 2017 or 2016.

NOTE 3 – OTHER INFORMATION

A. Pension Plan

Narrative Description – The Corporation participates in the Retirement Security Plan (RS Plan) sponsored by the National Rural Electric Cooperative Association (NRECA). The RS Plan is a multi-employer defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. The plan sponsor's employer identification number is 53-0116145 and the plan number is 333.

A unique characteristic of a multi-employer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Plan Information – Gibson Electric Membership Corporation's contributions to the RS Plan in 2017 and 2016 represented less than 5 percent of the total contributions made to the plan by all participating employers. Gibson Electric Membership Corporation made contributions to the RS Plan of \$1,893,490 in 2017 and \$1,713,186 in 2016. There have been no significant changes that affect the comparability of 2017 and 2016 contributions.

For the RS Plan, a "zone status" determination is not required, and therefore, not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, The RS Plan was over 80 percent funded on January 1, 2017 and 2016, based on the PPA funding target and PPA actuarial value of assets on those dates.

GIBSON ELECTRIC MEMBERSHIP CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

RS Plan Prepayment Option – At its December 2012 meeting, the I&FS Committee of the NRECA Board of Directors approved an option to allow participating cooperatives in the RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual required contribution as of January 1, 2013. After making the prepayment, the billing rate for most cooperatives was reduced by approximately 25% retroactive to the year in which the amount was paid to the RS Plan. The 25% differential in billing rates is expected to continue for approximately 15 years from January 1, 2013. However, changes in interest rates, asset returns and other plan experience different from expected, plan assumption changes, and other factors may have an impact on the differential in billing rates and the 15-year period. In accordance with the guidance provided by the Rural Utilities Service to its borrowers, the Corporation created a prepaid asset for the \$4,055,753 prepayment. These amounts are being amortized over 10 years. Amortization for the years ended December 31, 2017 and 2016, was \$431,436 and \$377,531, respectively.

B. 401(k) Plan

The Corporation also participates in a 401(k) plan which is available to bargaining unit employees after completing six months of employment and to non-bargaining unit employees after completing three months of employment. The Corporation makes matching contributions to the plan for up to 2% of the employee's salary. Total contributions for the years ended December 31, 2017 and 2016, were \$133,202 and \$128,801, respectively.

SUPPLEMENTARY INFORMATION

GIBSON ELECTRIC MEMBERSHIP CORPORATION
CONSOLIDATING BALANCE SHEET
December 31, 2017

	<u>GEMC</u>	<u>Gibson Connect LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>
ASSETS				
Utility plant				
Electric plant in service	\$ 175,768,597	\$ -	\$ -	\$ 175,768,597
Construction work in progress	2,177,603	-	-	2,177,603
Total utility plant	177,946,200	-	-	177,946,200
Accumulated depreciation	(75,515,367)	-	-	(75,515,367)
Net utility plant	102,430,833	-	-	102,430,833
Other assets				
Equity from earnings of subsidiary	635,773	-	(635,773)	-
Other assets	2,215,874	-	-	2,215,874
Total other assets	2,851,647	-	(635,773)	2,215,874
Current assets				
Cash and working funds	731,470	649,342	-	1,380,812
Restricted cash - relending program	255,149	-	-	255,149
Short-term investments	12,824,630	-	-	12,824,630
Total cash and cash equivalents	13,811,249	649,342	-	14,460,591
Accounts receivable, net of accumulated provision	4,664,398	98,955	-	4,763,353
Rents receivable	673,999	-	-	673,999
Materials and supplies	1,386,763	-	-	1,386,763
Other current assets	279,312	1,647	(37,401)	243,558
Total current assets	20,815,721	749,944	(37,401)	21,528,264
Deferred charges				
Loans receivable, net	2,937,266	-	-	2,937,266
Prepaid pension contributions	2,193,132	-	-	2,193,132
Sale of plant, debt expense, surveys	4,939	-	-	4,939
Total deferred charges	5,135,337	-	-	5,135,337
Total assets	\$ 131,233,538	\$ 749,944	\$ (673,174)	\$ 131,310,308
EQUITIES AND LIABILITIES				
Equities				
Memberships	\$ 262,481	\$ -	\$ -	\$ 262,481
Patronage capital	96,899,382	-	-	96,899,382
Member's equity	-	635,773	(635,773)	-
Total equities	97,161,863	635,773	(635,773)	97,161,863
Long-term debt				
Mortgage notes payable	21,452,832	-	-	21,452,832
Current portion of long-term debt	(2,996,742)	-	-	(2,996,742)
Net long-term debt	18,456,090	-	-	18,456,090
Current liabilities				
Accounts payable	7,722,093	37,401	(37,401)	7,722,093
Customer deposits - includes interest	997,464	64,300	-	1,061,764
Accrued property taxes	1,306,362	-	-	1,306,362
Accrued compensated absences	1,198,816	-	-	1,198,816
Other current liabilities	526,829	12,470	-	539,299
Current portion of long-term debt	2,996,742	-	-	2,996,742
Total current liabilities	14,748,306	114,171	(37,401)	14,825,076
Deferred credits				
Deferred interest and credits	867,279	-	-	867,279
Total equities and liabilities	\$ 131,233,538	\$ 749,944	\$ (673,174)	\$ 131,310,308

See independent auditor's report

GIBSON ELECTRIC MEMBERSHIP CORPORATION
CONSOLIDATING STATEMENT OF INCOME
For the Year Ended December 31, 2017

	<u>GEMC</u>	<u>Gibson Connect LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating revenue	\$90,951,663	\$ 926,278	\$ -	\$ 91,877,941
Operating expenses				
Cost of power	66,363,061	-	-	66,363,061
Transmission and distribution	4,279,731	43,076	-	4,322,807
Maintenance	5,166,664	5,308	-	5,171,972
Customer accounts	2,194,541	27,879	-	2,222,420
Customer information and sales	707,547	25,035	-	732,582
Administrative and general	2,472,212	187,231	-	2,659,443
Depreciation	6,437,097	1,059	-	6,438,156
Taxes	1,609,544	305	-	1,609,849
Total operating expenses	<u>89,230,397</u>	<u>289,893</u>	<u>-</u>	<u>89,520,290</u>
Operating margins before fixed charges	1,721,266	636,385	-	2,357,651
Fixed charges				
Interest on long-term debt	1,511,113	191	-	1,511,304
Net operating margins	210,153	636,194	-	846,347
Non-operating margins				
Interest income	1,095,761	112	-	1,095,873
Income from subsidiary	635,773	-	(635,773)	-
Other revenue	213,820	(533)	-	213,287
Total non-operating margins	<u>1,945,354</u>	<u>(421)</u>	<u>(635,773)</u>	<u>1,309,160</u>
Net margins	2,155,507	635,773	(635,773)	2,155,507
Patronage capital - beginning of year	94,743,875	-	-	94,743,875
Patronage capital - end of year	<u>\$96,899,382</u>	<u>\$ 635,773</u>	<u>\$ (635,773)</u>	<u>\$ 96,899,382</u>

See independent auditor's report

GIBSON ELECTRIC MEMBERSHIP CORPORATION
SCHEDULE OF DEFERRED DEBITS AND DEFERRED CREDITS
As of December 31, 2017

Deferred Debits		Deferred Credits	
Heat pump loans receivable	\$ 3,020,882	Funds received for Direct Load Control project from TVA in 2012.	\$ 351,381
Allowance for bad debts	<u>(83,616)</u>	Deferred fiber revenue	181,631
Net loans receivable	<u>2,937,266</u>	Deferred payments	98,895
Prepaid pension contributions	<u>2,193,132</u>	Deferred employee benefits	227,156
RUS workplan being amortized	3,443	Other	<u>8,216</u>
Other	<u>1,496</u>		
Total	<u>4,939</u>		
Total deferred debits	<u>\$ 5,135,337</u>	Total deferred credits	<u>\$ 867,279</u>

See independent auditor's report

INTERNAL CONTROL AND COMPLIANCE



Alexander Thompson Arnold PLLC

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Independent Auditor's Report

Board of Directors
Gibson Electric Membership Corporation
Trenton, Tennessee

We have audited, in accordance with the 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 consolidated financial statements of Gibson Electric Membership Corporation, which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statements of revenue and patronage capital and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 4, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Gibson Electric Membership Corporation'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Gibson Electric Membership Corporation'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 Gibson Electric Membership Corporation'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*.

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.

Alexander Thompson Arnold PLLC

Union City, Tennessee
April 4, 2018

GIBSON CONNECT, LLC

**Response to Commission Staff's First Request for Information
December 5, 2018**

Case No. 2018-00333

Question No. 3

Witness:

Q-3. Provide a map in suitable scale depicting the service area in Exhibit A1 and A2. Include on the map the Incumbent Local Exchange Carriers (ILECs) that provide service in the same area.

A-3. The map is provided in Attachment C.

GIBSON CONNECT, LLC

**Response to Commission Staff's First Request for Information
December 5, 2018**

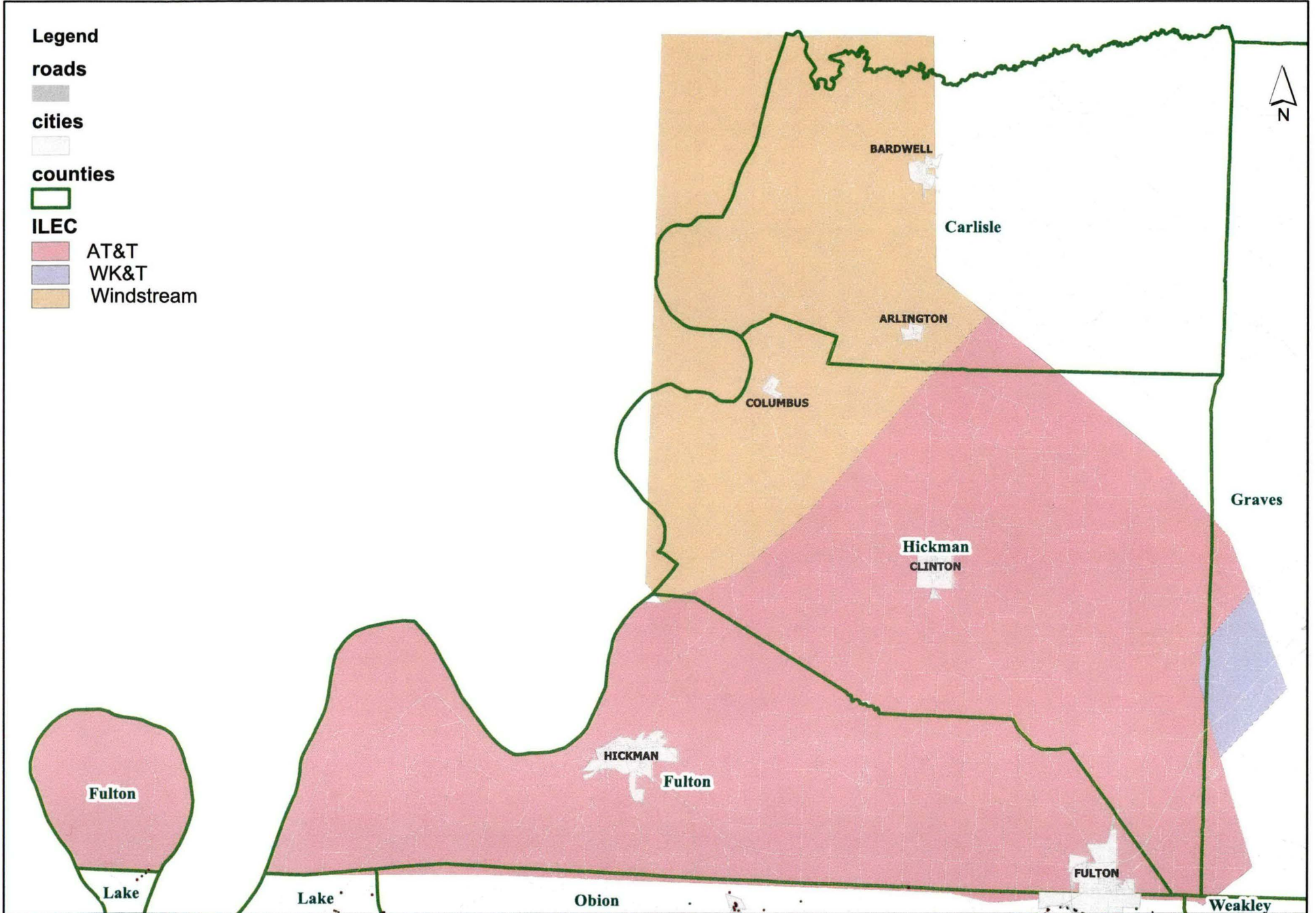
Case No. 2018-00333

Question No. 3

Witness: Charles L. Phillips

- Q-3.** Provide a map in suitable scale depicting the service area in Exhibit A1 and A2. Include on the map the Incumbent Local Exchange Carriers (ILECs) that provide service in the same area.
- A-3.** The map is provided in Attachment C.

ATTACHMENT C



GIBSON CONNECT, LLC

**Response to Commission Staff's First Request for Information
December 5, 2018**

Case No. 2018-00333

Question No. 4

Witness: Charles L. Phillips

- Q-4.** Describe the training, education, and qualifications of the persons who will market Gibson Connect's Lifeline service and state whether they will be employees or sub-contractors.
- A-4.** Please see Attachment D. The individuals listed in Attachment D will market Gibson Connect's Lifeline services as well as its other services. As shown in Attachment D, each listed individual is an employee of Gibson Connect.

ATTACHMENT D

ATTACHMENT D

The following employees will market the Gibson Connect services:

Dan Rodamaker

**B.A., Business Management, University of Northern Iowa
President and CEO of Gibson Connect, LLC and Gibson EMC**

31 years of experience as an electric utility President and CEO

Responsible for managing a multi-state corporation serving 8 counties in Tennessee and 4 counties in Kentucky, with \$95 million in annual sales, \$179 million in assets, 97 employees and 5 district offices

Leadership skills have led to:

- Annual savings of \$1.1 million through the merger for members
- Annual savings of \$2.8 million for commercial/industrial members over default TVA rates by using coincident peak pricing
- Annual income of \$1.2 million in fiber middle-mile transport business to help lower electric members' bills
- Annual savings of \$300k on bad debt expense with implementation of pre-pay program
- Just one 3% distribution rate increase in 14 years

Charles Phillips, P.E.

**B.S., Civil Engineering, University of Tennessee at Knoxville
VP of Operations of Gibson Connect, LLC and VP of Technical Services of Gibson EMC**

21 years with Gibson EMC and 1 year with Gibson Connect (dual role)

Experience in IT and network management including:

- Wide Area Network management
- Telecommunications infrastructure; internal and external
- Automated metering infrastructure
- Data Center Operations
- Voice Radio system
- Information systems management

Experience in design, construction, and operation of fiber optic networks including:

- 350-mile, multi-node, 10Gbps network
- Operated larger 1000-mile multi-utility MPLS network
- Internal and external dark fiber and lit transport customers

Experience in the design and construction of the Gibson EMC Gigabit Passive Optical Network

Experience in electric distribution system design

Bridge Engineer for Federal Highway Administration and WV Department of Transportation

Project management for several large bridge projects

Program management for the federal bridge inspection program

Program management for the federal bridge replacement program

Construction specification development

Rita Alexander, SPHR, SHRM-SCP, CCC

B.A., English-Journalism major and Speech minor, Union University, Jackson, Tennessee

Vice President of Human Resources and Member Services

35 years of experience with Gibson Electric Membership Corporation and 1 year of experience with Gibson Connect, LLC (dual role)

Experience including:

- Employment and employee development
- Employee compensation and benefits administration
- Compliance with federal and state laws/regulations
- Policy Writing
- Labor relations and contract negotiation
- Communications (internal)

Experience in Member Services and Marketing including:

- Member assistance
- Policies (member) and Bylaws
- Communications (external)
- Marketing/advertising
- Member programs administration

GIBSON CONNECT, LLC

**Response to Commission Staff's First Request for Information
December 5, 2018**

Case No. 2018-00333

Question No. 5

Witness: Charles L. Phillips

- Q-5.** Confirm that Gibson Connect will collect or otherwise contribute the Kentucky Universal Service Fund (USF) per-line surcharge, currently \$0.09 per line per month, for each Gibson Connect Kentucky customer for both Lifeline and non-Lifeline service.
- A-5.** Confirmed. Gibson Connect will collect and contribute the Kentucky USF per-line surcharge for each Gibson Connect Kentucky voice customer for both Lifeline and non-Lifeline service.

GIBSON CONNECT, LLC

**Response to Commission Staff's First Request for Information
December 5, 2018**

Case No. 2018-00333

Question No. 6

Witness: Charles L. Phillips

- Q-6.** Confirm that Gibson Connect will collect or otherwise contribute the Kentucky Telecommunications Relay Service/Telecommunications Access Program surcharge, currently \$.03 per line per month, for each Gibson Connect Kentucky customer for both Lifeline and non-Lifeline Service.
- A-6.** Confirmed. Gibson Connect will collect and contribute the Kentucky Telecommunications Relay Service/Telecommunications Access Program surcharge for each voice customer of Gibson Connect in Kentucky for both Lifeline and non-Lifeline Service.

GIBSON CONNECT, LLC

**Response to Commission Staff's First Request for Information
December 5, 2018**

Case No. 2018-00333

Question No. 7

Witness: Charles L. Phillips

- Q-7.** Confirm that Gibson Connect will collect or otherwise contribute to the appropriate 911 emergency service authority in its service area.
- A-7.** Confirmed. Gibson Connect will collect and contribute to the appropriate 911 emergency service authority in its service area.

GIBSON CONNECT, LLC

**Response to Commission Staff's First Request for Information
December 5, 2018**

Case No. 2018-00333

Question No. 8

Witness: Charles L. Phillips

- Q-8.** Confirm that Gibson Connect will comply with the annual assessment and gross earnings reports requirements pursuant to KRS 278.130-150.
- A-8.** Confirmed. Gibson Connect will comply with the annual assessment and gross earnings reporting requirements pursuant to KRS 278.130 (assessments against utilities – applications for adjustment), KRS 278.140 (report of gross earnings from intrastate business), and KRS 278.150 (payment of assessments – certification of deduction by commission – administration of funds collected).

GIBSON CONNECT, LLC

**Response to Commission Staff's First Request for Information
December 5, 2018**

Case No. 2018-00333

Question No. 9

Witness: Charles L. Phillips

- Q-9.** Explain whether Gibson Connect has begun negotiations for or plans to enter into any interconnection agreements with ILECs.
- A-9.** Gibson Connect has no plans to negotiate or enter into any direct interconnection agreements with any incumbent local exchange carrier. The required interconnection agreements with ILECs are managed by Momentum Telecom, a company that serves as Gibson Connect's wholesale Voice over Internet Protocol (VoIP) provider.

GIBSON CONNECT, LLC

**Response to Commission Staff's First Request for Information
December 5, 2018**

Case No. 2018-00333

Question No. 10

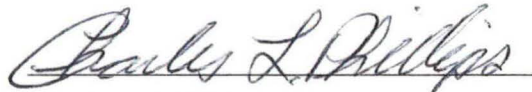
Witness: Charles L. Phillips

- Q-10.** Provide the date by which Gibson Connect will file the FCC Form 683 application.
- A-10.** Gibson Connect filed FCC Form 683 (Application for Connect America Fund Phase II Auction Support) on October 12, 2018.


VERIFICATION

STATE OF TENNESSEE)
) SS:
COUNTY OF GIBSON)

The undersigned, Charles L. Phillips, P.E., Vice President of Technical Services of Gibson Electric Membership Corporation, and Vice President of Operations of Gibson Connect, LLC, being duly sworn, deposes and states that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief formed after reasonable inquiry.


Charles L. Phillips

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 19 day of December 2018.


Notary Public

My Commission Expires: 5/11/21

(SEAL)

