

Kentucky 27  
Inter-County Energy Cooperative Corporation  
Danville, Kentucky

Audited Financial Statements  
December 31, 2018 and 2017

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

## C O N T E N T S

Independent Auditors' Report	1 - 2
Financial Statements:	
Balance Sheets	3
Statements of Revenue and Comprehensive Income	4
Statements of Changes in Member's Equities	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 13
Supplementary Information:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	14 - 15
Independent Auditor's Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers	16 - 17

**ALAN M. ZUMSTEIN**  
**CERTIFIED PUBLIC ACCOUNTANT**

1032 CHETFORD DRIVE  
LEXINGTON, KENTUCKY 40509  
(859) 264-7147  
[zumstein@windstream.net](mailto:zumstein@windstream.net)

MEMBER  
• AMERICAN INSTITUTE OF CPA'S  
• KENTUCKY SOCIETY OF CPA'S  
• AICPA DIVISION FOR FIRMS

**Independent Auditor's Report**

To the Board of Directors  
Inter-County Energy Cooperative Corporation  
Danville, Kentucky 40422

**Report on the Financial Statements**

I have audited the accompanying financial statements of Inter-County Energy Cooperative Corporation, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of revenue and comprehensive income, changes in equities, and cash flows for the years 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**

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend 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, I 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.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

To the Board of Directors  
Inter-County Energy Cooperative Corporation

### **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Inter-County Energy Cooperative Corporation as of December 31, 2018 and 2017, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued a report dated March 21, 2019, on my consideration of Inter-County Energy Cooperative Corporation's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance.

*Alan Zumstein*

Alan M. Zumstein, CPA  
March 21, 2019

Inter-County Energy Cooperative Corporation  
Balance Sheets, December 31, 2018 and 2017

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Electric Plant, at original cost:		
In service	\$ 131,315,947	\$ 127,165,005
Under construction	286,852	342,269
	131,602,799	127,507,274
Less accumulated depreciation	40,139,486	37,387,444
	91,463,313	90,119,830
Investments in Associated Organizations	29,930,581	28,036,007
Current Assets:		
Cash and cash equivalents	1,848,059	5,463,646
Accounts receivable, less allowance for 2018 of \$325,711 and 2017 of \$439,608	5,645,935	5,742,612
Other receivables	270,417	168,476
Material and supplies, at average cost	542,004	451,464
Other current assets	399,917	463,269
	8,706,332	12,289,467
Deferred Pension Costs	919,326	1,135,638
Total	\$ 131,019,552	\$ 131,580,942
<u>Members' Equities and Liabilities</u>		
Members' Equities:		
Memberships	\$ 1,059,365	\$ 1,053,640
Patronage capital	44,502,767	43,643,662
Other equities	923,588	858,677
Accumulated other comprehensive income	(1,151,001)	(1,209,717)
	45,334,719	44,346,262
Long Term Debt	68,848,069	68,346,074
Accumulated Postretirement Benefits	4,807,802	4,719,435
Current Liabilities:		
Notes payable	3,000,000	5,000,000
Accounts payable	4,287,281	4,242,888
Current portion of long term debt	3,190,000	3,395,000
Consumer deposits	589,988	592,731
Accrued expenses	961,693	938,552
	12,028,962	14,169,171
Total	\$ 131,019,552	\$ 131,580,942

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

Inter-County Energy Cooperative Corporation  
Statements of Revenue and Patronage Capital  
for the years ended December 31, 2018 and 2017

	2018	2017
Operating Revenues:		
Sale of electric energy	\$ 49,288,518	\$ 45,274,348
Other electric revenue	1,541,062	1,427,551
	50,829,580	46,701,899
Operating Expenses:		
Cost of power	34,718,745	32,070,679
Distribution - operations	2,769,654	2,879,304
Distribution - maintenance	3,290,831	2,585,816
Consumer accounts	1,926,725	1,808,865
Customer services	366,577	393,262
Administrative and general	2,326,271	2,425,356
Depreciation, excluding \$340,531 in 2018 and \$370,941 in 2017 charged to clearing accounts:	4,326,326	4,215,522
Taxes	70,161	68,323
Interest on long-term debt	2,027,164	1,661,770
Other interest expense	116,061	51,131
Other deductions	10,479	34,838
Total cost of electric service	51,948,994	48,194,866
Operating margins (deficits)	(1,119,414)	(1,492,967)
Nonoperating Margins		
Interest income	96,570	94,200
Others	35,315	(3,154)
	131,885	91,046
Patronage Capital Credits		
Generation & Transmission	1,768,561	1,109,935
Others	235,068	50,880
	2,003,629	1,160,815
Net Margins (Loss)	1,016,100	(241,106)
Other Comprehensive Income:		
Postretirement benefits	58,716	(567,082)
Total Comprehensive Income	\$ 1,074,816	\$ (808,188)

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

Inter-County Energy Cooperative Corporation  
Statement of Changes in Members' Equities  
for the years ended December 31, 2017 and 2018

	Patronage Capital						Other Equities	Accumulated Comprehensive Income (Loss)	Total Members' Equities	
	Memberships	Assigned	Assignable	Unassigned	Prior Deficits	Retirements				Total
Balance - December 31, 2016	\$ 1,041,235	\$ 53,229,353	\$ 2,204,431	\$ 150,817	\$ -	\$ (10,563,728)	\$ 45,020,873	\$ 752,715	\$ (642,635)	\$ 46,172,188
Allocate margins 2016		2,204,431	(2,204,431)				-			-
Comprehensive income:										
Net margins			(241,106)				(241,106)			(241,106)
Postretirement benefit obligation										
Amortization								41,690		
Adjustments								(608,772)		(567,082)
Total comprehensive income										(808,188)
Net change in memberships	12,405									12,405
Refunds to estates						(224,089)	(224,089)			(224,089)
General retirements						(912,015)	(912,015)			(912,015)
Other equities								105,962		105,962
Balance - December 31, 2017	1,053,640	55,433,784	(241,106)	150,817	-	(11,699,832)	43,643,663	858,677	(1,209,717)	44,346,263
Allocate margins 2017		1,160,815	241,106		(1,401,921)		-			-
Comprehensive income:										
Net margins			1,016,100				1,016,100			1,016,100
Postretirement benefit obligation										
Amortization								58,716		
Adjustments								-		58,716
Total comprehensive income										1,074,816
Net change in memberships	5,725									5,725
Refunds to estates						(156,996)	(156,996)			(156,996)
General retirements						-	-			-
Other equities								64,911		64,911
Balance - December 31, 2018	\$ 1,059,365	\$ 56,594,599	\$ 1,016,100	\$ 150,817	\$ (1,401,921)	\$ (11,856,828)	\$ 44,502,767	\$ 923,588	\$ (1,151,001)	\$ 45,334,719

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

Inter-County Energy Cooperative Corporation  
 Statements of Cash Flows  
 for the years ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Net margins (loss)	\$ 1,016,100	\$ (241,106)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation:		
Charged to expense	4,326,326	4,215,522
Charged to clearing accounts	340,531	370,941
Patronage capital credits assigned	(2,003,629)	(1,160,815)
Accumulated postretirement benefits	147,083	154,948
Change in assets and liabilities:		
Receivables	(5,264)	(479,930)
Material and supplies	(90,540)	(42,521)
Other assets	279,664	181,541
Payables	44,393	(45,194)
Consumer deposits	(2,743)	855
Accrued expenses	23,141	(26,606)
	4,075,062	2,927,635
Cash Flows from Investing Activities:		
Plant additions	(5,570,959)	(5,245,704)
Plant removal costs	(496,345)	(491,360)
Salvage recovered from retired plant	56,965	43,866
Receipts from other investments, net	109,055	38,743
	(5,901,284)	(5,654,455)
Cash Flows from Financing Activities:		
Net increase in memberships	5,725	12,405
Refund of patronage capital to members	(156,996)	(1,136,104)
Increase (decrease) in other equities	64,911	105,962
Advances (repayments) of short term borrowings	(2,000,000)	4,000,000
Advances of long term debt	5,000,000	5,090,309
(Advance) applied cushion of credit payments	(1,310,182)	53,151
Principal payments on long term debt	(3,392,823)	(3,327,421)
	(1,789,365)	4,798,302
Net increase (decrease) in cash	(3,615,587)	2,071,482
Cash and cash equivalents, beginning of year	5,463,646	3,392,164
Cash and cash equivalents, end of year	\$ 1,848,059	\$ 5,463,646
Supplemental cash flows information:		
Interest paid on long-term debt	\$ 2,028,490	\$ 1,663,015

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



Inter-County Energy Cooperative Corporation  
Notes to Financial Statements

**Note 1. Summary of Significant Accounting Policies**

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

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

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

	<u>2018</u>	<u>2017</u>
Distribution plant	\$115,719,658	\$111,996,838
General plant	<u>15,596,289</u>	<u>15,168,167</u>
Total	<u>\$131,315,947</u>	<u>\$127,165,005</u>

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

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

**Off Balance Sheet Risk** Inter-County maintains its cash balances, which may exceed the federally insured limit, with several financial institutions. These financial institutions have strong credit ratings and management believes that the credit risk related to the accounts is minimal.

**Revenue** Inter-County records revenue as billed to its consumers based on monthly meter-reading cycles. All consumers are required to pay a refundable deposit, however, it may be waived under certain circumstances. Inter-County’s sales are concentrated in a six county area of southeastern Kentucky. There were no consumers whose individual account balance exceeded 10% of outstanding accounts receivable at December 31, 2018 or 2017. Consumers must pay their bill within 20 days of billing, then are subject to disconnect after another 10 days. Accounts are written off when they are deemed to be uncollectible. The allowance for uncollectible accounts is based on the aging of receivables.

Inter-County is required to collect, on behalf of the State of Kentucky, sales taxes based on 6 percent of gross sales from non-residential consumers, a 3 percent school tax from certain counties on most gross sales, and franchise fees in certain cities. Inter-County’s policy is to exclude sales tax from revenue when collected and expenses when paid and instead, record collection and payment of sales taxes through a liability account.

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

Inter-County Energy Cooperative Corporation  
Notes to Financial Statements

**Note 1. Summary of Significant Accounting Policies**, continued

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

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

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities

Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3: Prices or valuations that require inputs that are both significant to the fair value measure and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

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

Inter-County may, and also does, invest idle funds in local banks and in National Rural Utilities Cooperative Finance Corporation ("CFC") commercial paper. The inputs used to measure idle funds are Level 1 measurements, as these funds are exchange traded funds in an active market.

**Income Tax Status** Inter-County is exempt from federal and state income taxes under provisions of Section 501(c)(12). Accordingly, the financial statements for Inter-County include no provision for income taxes. Inter-County's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Management believes Inter-County has no uncertain tax positions resulting in an accrual of tax expense or benefit. Inter-County recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Inter-County did not recognize any interest or penalties during the years ended December 31, 2018 and 2017. Inter-County's income tax return is subject to possible examination by taxing authorities until the expiration of related statutes of limitations on the return, which is generally three years.

Inter-County Energy Cooperative Corporation  
Notes to Financial Statements

**Note 1. Summary of Significant Accounting Policies, continued**

**Comprehensive Income** Comprehensive income includes both net margin and other comprehensive income. Other comprehensive income represents the change in funded status of the accumulated postretirement benefit obligation.

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

**Advertising** Inter-County expenses advertising costs as incurred.

**Subsequent Events** Management has evaluated subsequent events through March 21, 2019, the date the financial statements were available to be issued. There were no significant subsequent events to report.

**Note 2. Investments in Associated Organizations**

Investments in associated organizations consist of:

	<u>2018</u>	<u>2017</u>
East Kentucky, patronage capital	\$27,451,801	\$25,683,240
CFC, patronage capital and CTCs	1,301,999	1,290,517
Others	<u>1,176,781</u>	<u>1,062,250</u>
Total	<u>\$29,930,581</u>	<u>\$28,036,007</u>

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

The Capital Term Certificates (“CTCs”) of CFC are recorded at cost. The CTCs were purchased from CFC as a condition of obtaining long-term financing. The CTCs bear interest at 3% and 5% and are scheduled to mature at varying times from 2022 to 2080.

**Note 3. Patronage Capital**

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30% of total assets, except that distributions may be made to estates of deceased patrons. The debt agreement provides, however, that should such distributions to estates not exceed 25% of the net margins for the next preceding year, Inter-County may distribute the difference between 25% and the payments made to such estates. The equity at December 31, 2018 was 34% of total assets.

**Note 4. Long Term Debt**

The long term debt is due in quarterly and monthly installments of varying amounts through 2045. The 6.05% to 6.50% notes due CFC are available for repricing every 7 years to either a variable or fixed rate. RUS assesses 12.5 basis points to administer the Federal Financing Bank (“FFB”) loans. Inter-County has a loan application pending with FFB in the amount of \$21 million. During 2016 Inter-County refinanced \$17,952,269 of RUS notes with proceeds from National Bank for Cooperatives (“CoBank”). The 2.25% interest rate notes to CoBank are for the accelerated R&S payment to NRECA as described in Note 6.

Inter-County Energy Cooperative Corporation  
Notes to Financial Statements

**Note 4. Long Term Debt, continued**

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

	<u>2018</u>	<u>2017</u>
RUS:		
1.375% - 5.125%	\$2,953,983	\$3,114,582
Cushion of credit, earns 5%	<u>(2,106,148)</u>	<u>(795,965)</u>
	847,835	2,318,617
FFB, 2.399% and 2.748%	48,122,663	44,691,511
CFC, 6.20% to 6.50% notes	3,079,649	3,333,064
CoBank, 4.55% and 4.48%	3,254,239	3,670,729
CoBank, 2.25%	128,214	507,067
CoBank, 3.80%	16,511,639	17,087,166
East Kentucky, 1.75% various 5 years	<u>93,830</u>	<u>132,920</u>
	72,038,069	71,741,074
Less current portion	<u>3,190,000</u>	<u>3,395,000</u>
Long term portion	<u>\$68,848,069</u>	<u>\$68,346,074</u>

As of December 31, 2018, the annual principal portion of long term debt outstanding for the next five years are as follows: 2019 - \$3,190,000; 2020 - \$3,115,000; 2021 - \$3,170,000; 2022 - \$3,225,000; 2023 - \$3,285,000.

**Note 5. Short Term Borrowings**

At December 31, 2018, Inter-County Energy had a short term line of credit of \$5,000,000 available from CFC and \$3,000,000 from CoBank. Inter-County Energy has advances against the line of credit with CoBank in the amount of \$3,000,000 with an interest rate of 4.66%.

**Note 6. Pension Plan**

All eligible employees of Inter-County participate in the NRECA Retirement and Security Plan (“R&S Plan”), a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The Plan sponsor’s identification number is 53-0116145 and the Plan Number is 333. A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Inter-County’s contributions to the R&S Plan in 2018 and 2017 represent less than 5 percent of the total contributions made to the plan by all participating employers. Inter-County made contributions to the plan of \$727,059 in 2018 and \$715,134 in 2017. There have been no significant changes that affect the comparability of 2018 and 2017.

Inter-County Energy Cooperative Corporation  
Notes to Financial Statements

**Note 6. Pension Plan, continued**

In the R&S 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 R&S Plan was approximately 80 percent funded at January 1, 2018 and 2017 based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the R&S 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.

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the Retirement Security (“R&S”) Plan ( a defined benefit multiemployer pension plan) to make a prepayment and reduce future required contributions. The prepayment amount is a cooperative share, as of January 1, 2013, of future contributions required to fund the R&S Plan’s unfunded value of benefits earned to date using Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative’s annual R&S Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. However, changes in interest rates, asset returns and other plan experience different from that expected, plan assumptions changes, and other factors may have an impact on the differential in billing rates and the 15 year period.

Two prepayment options were available to participating cooperatives:

1. Use current assets to make the prepayment over a period of not more than 4 years, or,
2. Borrow funds sufficient to make the prepayment in a lump sum, with the prepayment of the borrowed amount determined by the loan’s amortization schedule.

On February 14, 2013, RUS issued a memorandum to all of its borrowers regarding the proper accounting treatment of the R&S Plan prepayment. RUS stipulated that the prepayment shall be recorded as a long term prepayment in Account 186, Miscellaneous Deferred Debits. This prepaid expense shall be amortized to Account 926, Employee Pensions and Benefits, over a ten year period. Alternatively, RUS borrowers may calculate the amortization period by subtracting the cooperative’s average age of its workforce as provided by NRECA from the cooperative’s normal retirement age under the R&S Plan, up to a maximum period of 20 years. If the entity chooses to finance the prepayment, interest expense associated with the loan shall be recorded in the year incurred as is required under the RUS Uniform System of Accounts (“USoA”).

Section 6.13(e) of the RUS Loan Contract limits the amount of unsecured debt that a borrower may incur to 15% on Net Utility Plant if the equity level of the borrower, after considering such unsecured debt, is below 30% of its Total Assets, unless the borrower obtains RUS consent. RUS will consider any unsecured debt associated with the R&S Plan prepayment to be “Permitted Debt” and accordingly, it will be excluded from the application of Section 6.13(e). On April 22, 2013 Inter-County made a prepayment of \$2,163,206 to the R&S Plan. The amount is being amortized over 10 years.

**Note 7. Postretirement Benefits**

Inter-County sponsors a defined benefit plan that provides medical insurance coverage to retirees and their dependents. Participating retirees and dependents do not contribute to the projected cost of coverage until eligible for Medicare at which time they contribute 50% of the cost of coverage. For measurement purposes, an annual rate of increase of 5% in 2018, then decreasing by 0.5% per year until 5% per year, in the per capita cost of covered health care benefit was assumed. The discount rate used in determining the accumulated

Inter-County Energy Cooperative Corporation  
Notes to Financial Statements

**Note 7. Postretirement Benefits**, continued

postretirement benefit obligation was 4.5%. There have been no significant changes that affect the comparability of 2018 and 2017.

The funded status of the plan is as follows:

	<u>2018</u>	<u>2017</u>
Projected benefit obligation	(\$4,807,802)	(\$4,719,435)
Plan assets at fair value	-	-
Total	<u>(\$4,807,802)</u>	<u>(\$4,719,435)</u>

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

	<u>2018</u>	<u>2017</u>
Benefit obligation at beginning of year	<u>\$4,719,435</u>	<u>\$3,997,405</u>
Components of net periodic benefit cost:		
Service cost	101,644	102,808
Interest cost	<u>215,636</u>	<u>182,788</u>
Net periodic benefit cost	317,280	285,596
Benefits paid	(228,913)	(172,338)
Actuarial adjustment	<u>0</u>	<u>608,772</u>
Benefit obligation at end of year	<u>\$4,807,802</u>	<u>\$4,719,435</u>

Amounts recognized in the balance sheet consists of:

Noncurrent liabilities	<u>\$4,807,802</u>	<u>\$4,719,435</u>
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Amounts included in accumulated other comprehensive income:

Unrecognized actuarial gain (loss)	<u>(\$1,151,001)</u>	<u>(\$1,209,717)</u>
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Effect of 1% increase in the health care trend:

Postemployment benefit obligation	\$5,120,000
Net periodic benefit cost	338,000

Projected retiree benefit payments for the next five years are expected to be as follows: 2019 - \$183,000; 2020 - \$175,000; 2021 - \$172,000; 2022 - \$169,000; 2023 - \$161,000.

**Note 8. Commitments**

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

**Note 9. Related Party Transactions**

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

Inter-County Energy Cooperative Corporation  
Notes to Financial Statements

**Note 10. Environmental Contingency**

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

**Note 11. Contingencies**

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

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**ALAN M. ZUMSTEIN**  
**CERTIFIED PUBLIC ACCOUNTANT**

1032 CHETFORD DRIVE  
LEXINGTON, KENTUCKY 40509  
(859) 333-1695  
[zumstein@windstream.net](mailto:zumstein@windstream.net)

MEMBER  
• AMERICAN INSTITUTE OF CPA'S  
• KENTUCKY SOCIETY OF CPA'S  
• AICPA DIVISION FOR FIRMS

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

To the Board of Directors  
Inter-County Energy Cooperative Corporation  
Danville, Kentucky 40422

I 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 financial statements of Inter-County Energy Cooperative Corporation ("Cooperative"), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of revenue and comprehensive income, members' equities and cash flows for the years then ended, and related notes to the financial statements, and have issued my report thereon dated March 21, 2019.

**Internal Control Over Financial Reporting**

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

My 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 my audit I did not identify any deficiencies in internal control that I 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 the Cooperative's financial statements are free of material misstatement, I performed test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on



To the Board of Directors  
Inter-County Energy Cooperative Corporation

the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Alan Zumstein*

Alan M. Zumstein, CPA  
March 21, 2019

**ALAN M. ZUMSTEIN**  
**CERTIFIED PUBLIC ACCOUNTANT**

1032 CHETFORD DRIVE  
LEXINGTON, KENTUCKY 40509  
(859) 333-1695  
[zumstein@windstream.net](mailto:zumstein@windstream.net)

MEMBER  
• AMERICAN INSTITUTE OF CPA'S  
• KENTUCKY SOCIETY OF CPA'S  
• AICPA DIVISION FOR FIRMS

Independent Auditor's Report on Compliance with Aspects of Contractual  
Agreements and Regulatory Requirements for Electric Borrowers

Board of Directors  
Inter-County Energy Cooperative Corporation  
Danville, Kentucky 40422

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Inter-County Energy Cooperative Corporation ("Cooperative"), which comprise the balance sheet as of December 31, 2018, and the related statements of revenue and comprehensive income, patronage capital, and changes in cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated March 21, 2019. In accordance with *Government Auditing Standards*, we have also issued my report dated March 21, 2019, on my consideration of the Cooperative's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above have been furnished to management.

In connection with my audit, nothing came to my attention that caused me to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2013, insofar as they relate to accounting matters as enumerated below. However, my audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had I performed additional procedures, other matters may have come to my attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with my audit, I noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over material and supplies;
- Prepare accurate and timely Financial and Operating Reports;

Board of Directors  
Inter-County Energy Cooperative Corporation

- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements ("See RUS Bulletin 183-1, Depreciation Rates and Procedures");
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and
- Comply with the requirements for the detailed schedule of investments, of which there were none.

Deferred debits are as follows:

Prepaid pension cost	<u><u>\$919,326</u></u>
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The purpose of this report is solely to communicate, in connection with the audit of the financial statements, on compliance with aspects of contractual agreements and the regulatory requirements for electric borrowers based on the requirements of 7 CFR Part 1773, Policy on Audits of Rural Utilities Service Borrowers and Grantees. Accordingly, this report is not suitable for any other purpose.

*Alan Zumstein*

Alan M. Zumstein, CPA  
March 21, 2019