JACKSON ENERGY
COOPERATIVE
A Touchstone Energy Cooperative

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PUBLIC SERVICE
COMMISSION

June 8, 2015

Mr. Jeff D. Cline
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

Dear Mr. Cline:

Enclosed please find a copy of Jackson Energy Cooperative's audit report for the period through February 28, 2015. This audit report was prepared by an independent certified public accountant. If you have any questions concerning this audit, please contact Sharon Carson at (606) 364-9239 or sharoncarson@jacksonenergy.com.

Sincerely,

Sharon K. Carson

Sharon K. Carson
CFO

DEAN DORTON ALLEN FORD, PLLC

JACKSON ENERGY COOPERATIVE AND SUBSIDIARY

Consolidated Financial Statements

Years Ended February 28, 2015 and 2014
with Report of Independent Auditors

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DEANDORTON
DEAN DORTON ALLEN FORD, PLLC

Report of Independent Auditors

To the Board of Directors
Jackson Energy Cooperative
McKee, Kentucky

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Jackson Energy Cooperative and Subsidiary (collectively, the Cooperative), which comprise the consolidated balance sheet as of February 28, 2015, and the related consolidated statements of revenue and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jackson Energy Cooperative and Subsidiary as of February 28, 2015, and the results of their operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2015 on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance and should be considered in assessing the results of our audit.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the Cooperative's consolidated financial statements. The consolidating schedules on pages 19 to 24 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 consolidated financial statements. The supplementary information as of and for the year ended February 28, 2015, has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with *Government Auditing Standards*. In our opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

The consolidated financial statements and related supplementary schedules of the Cooperative, as of and for the year ended February 28, 2014, were audited by another auditor whose report dated June 5, 2014 expressed an unmodified opinion on those statements and their related supplementary schedules.

Dean Dorton Allen Ford, PLLC

June 1, 2015
Lexington, Kentucky

JACKSON ENERGY COOPERATIVE AND SUBSIDIARY

Consolidated Balance Sheets

February 28, 2015 and 2014

	2015	2014
Assets		
Utility plant, net	**$ 164,381,458**	$ 165,747,272
Investments and other assets:		
Associated organizations	**49,597,672**	45,992,112
Goodwill	**262,177**	262,177
	49,859,849	46,254,289
Current assets:		
Cash and cash equivalents	**3,174,490**	2,996,959
Accounts receivable, less allowance for uncollectible accounts	**19,219,015**	18,692,774
Materials and supplies, at average cost	**1,714,282**	1,695,926
Prepayments	**988,822**	770,465
	25,096,609	24,156,124
Deferred property retirements	**13,274,310**	14,230,809
Total assets	**$ 252,612,226**	$ 250,388,494
Members' Equities and Liabilities		
Members' equities:		
Memberships and capital	**$ 1,299,140**	$ 1,299,355
Patronage capital and retained earnings	**85,493,397**	77,699,765
Accumulated and other comprehensive income	**(978,011)**	(1,179,611)
Other equities and noncontrolling interests	**5,307,850**	5,201,294
	91,122,376	83,020,803
Long-term debt	**126,324,612**	131,692,646
Accumulated postretirement benefit obligations	**8,702,004**	8,512,796
Current liabilities:		
Accounts payable	**9,098,369**	8,172,959
Short-term borrowings	**6,863,123**	8,512,694
Current portion of long-term debt	**6,277,883**	6,045,000
Consumer deposits	**726,252**	805,304
Other current and accrued liabilities	**3,117,296**	3,268,895
	26,082,923	26,804,852
Consumer advances for construction	**380,311**	357,397
Total members' equities and liabilities	**$ 252,612,226**	$ 250,388,494

The accompanying notes are an integral part of these statements.

JACKSON ENERGY COOPERATIVE AND SUBSIDIARY

Consolidated Statements of Revenue and Comprehensive Income

Years ended February 28, 2015 and 2014

	2015	2014
Operating revenues	$ 111,837,426	$ 110,475,456
Operating expenses:		
Cost of purchases	73,027,190	73,814,266
Distribution - operations and maintenance	11,459,404	11,342,014
Consumer accounts	3,358,014	3,502,749
Customer service and information	846,846	813,381
Administrative and general	4,849,121	4,827,969
Depreciation, excluding $647,090 in 2015 and $601,009 in 2014 charged to clearing accounts	9,148,048	8,916,756
Amortization of deferred property retirements	470,772	470,772
Taxes	352,353	195,910
Other	81,789	51,984
	103,593,537	103,935,801
Operating margins before interest charges	8,243,889	6,539,655
Interest charges:		
Interest on long-term debt	4,974,666	5,206,943
Other interest	149,350	88,470
	5,124,016	5,295,413
Operating margins after interest charges	3,119,873	1,244,242
Patronage capital assigned, associated organizations	5,148,850	5,952,498
Net operating margins	8,268,723	7,196,740
Nonoperating margins:		
Interest income	135,607	164,720
Subsidiary and others	16,129	50,803
	151,736	215,523
Net margins	8,420,459	7,412,263
Other comprehensive income:		
Postretirement benefit obligations	201,600	201,600
Noncontrolling interests	(45,585)	(72,058)
Total comprehensive income	$ 8,576,474	$ 7,541,805

The accompanying notes are an integral part of these statements.

JACKSON ENERGY COOPERATIVE AND SUBSIDIARY

Statement of Changes in Members' Equities

Years ended February 28, 2014 and 2015

	Memberships and Capital	Patronage Capital and Retained Earnings	Accumulated and Other Comprehensive Income	Other Equities and Noncontrolling Interests	Total Members' Equities
Balance - February 28, 2013	$ 1,297,560	$ 70,939,930	$ (1,381,211)	$ 4,929,561	$ 75,785,840
Comprehensive income	-	7,340,205	201,600	-	7,541,805
Refunds of capital credits	-	(439,233)	-	-	(439,233)
Transfers to other equities and noncontrolling interests	-	(141,137)	-	-	(141,137)
Memberships, net	1,795	-	-	-	1,795
Other equities	-	-	-	271,733	271,733
Balance - February 28, 2014	1,299,355	77,699,765	(1,179,611)	5,201,294	83,020,803
Comprehensive income	-	8,374,874	201,600	-	8,576,474
Refunds of capital credits	-	(368,047)	-	-	(368,047)
Transfers to other equities and noncontrolling interests	-	(213,195)	-	-	(213,195)
Memberships, net	(215)	-	-	-	(215)
Other equities	-	-	-	106,556	106,556
Balance - February 28, 2015	$ 1,299,140	$ 85,493,397	$ (978,011)	$ 5,307,850	$ 91,122,376

The accompanying notes are an integral part of these statements.

JACKSON ENERGY COOPERATIVE AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended February 28, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities:		
Net margins	$ 8,420,459	$ 7,412,263
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization:		
Charged to expense	9,618,820	9,387,528
Charged to clearing accounts	647,090	601,009
Patronage capital allocated	(5,034,791)	(5,952,498)
Accumulated postretirement benefits	390,808	473,886
Changes in assets and liabilities:		
Receivables	(526,226)	(1,103,098)
Material and supplies	(18,356)	21,411
Prepayments and deferreds	267,370	(6,293,061)
Payables	925,395	(474,358)
Consumer deposits and advances	(56,138)	(202,685)
Accrued expenses	(151,599)	153,562
Net cash provided by operating activities	14,482,832	4,023,959
Cash Flows from Investing Activities:		
Plant additions	(7,358,049)	(9,942,625)
Plant removal costs	(1,162,420)	(1,341,799)
Salvage recovered from plant retirements	91,145	85,167
Other investments, net	1,429,231	(639,307)
Net cash used in investing activities	(7,000,093)	(11,838,564)
Cash Flows from Financing Activities:		
Memberships, capital and other equities	45,370	112,528
Retirement of patronage capital	(565,856)	(431,578)
Additional long-term borrowings	1,000,000	8,000,000
Payments on long-term debt	(6,135,151)	(5,876,046)
Short-term borrowings (repayments)	(1,649,571)	6,802,412
Net cash (used in) provided by financing activities	(7,305,208)	8,607,316
Net increase in cash	177,531	792,711
Cash and cash equivalents - beginning of period	2,996,959	2,204,248
Cash and cash equivalents - end of period	$ 3,174,490	$ 2,996,959
Supplemental disclosure of cash flow information:		
Interest paid on long-term debt	$ 5,141,869	$ 5,220,190
Income taxes paid	181,307	50,726

The accompanying notes are an integral part of these statements.

JACKSON ENERGY COOPERATIVE AND SUBSIDIARY

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Jackson Energy Cooperative and Subsidiary (collectively, the "Cooperative") 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 with generally accepted accounting principles as applied to regulated entities. The more significant of these policies are as follows:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Jackson Energy Cooperative ("Jackson Energy"), Jackson Energy Service Corporation ("Service Corporation") and Jackson Energy Propane Plus, LLC ("Propane Plus"). Jackson Energy owns 75% and East Kentucky Power Cooperative ("East Kentucky") owns 25% of Service Corporation's outstanding stock. Service Corporation owns 100% of the outstanding stock of Propane Plus. All significant intercompany accounts and transactions have been eliminated. Jackson Energy operates on a fiscal year ending of February 28. Service Corporation and Propane Plus ("collectively, the Subsidiary") operate on a fiscal year ending December 31. The consolidated financial statements reflect the year end of February 28 for Jackson Energy and December 31 for the Subsidiary, respectively.

Utility Plant

Jackson Energy's 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.

Propane Plus' fixed assets consist primarily of propane tanks located on customers' premises, bulk tanks, and trucks used in the delivery of propane.

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.

Depreciation

Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Depreciation rates range from 1.44% to 10.0%, with a composite rate of 4.1% for distribution plant. General plant rates range from 2.5% to 20%. Propane Plus' depreciation is computed using the straight-line method over the useful lives of its assets.

1. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

Jackson Energy considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

Off Balance Sheet Risk

Jackson Energy has off-balance sheet risk in that they maintain cash deposits in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC). At February 28, 2015, the financial institutions reported deposits in excess of the $250,000 FDIC insured limit several times during the audit period. These financial institutions have strong credit ratings and management believes that credit risk related to the accounts is minimal.

Estimates

The preparation of consolidated 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 consolidated 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 consolidated financial statements.

Revenue

Jackson Energy records revenue as billed to its consumers based on monthly meter-reading cycles. All consumers are required to pay a refundable deposit, however, it may be waived under certain circumstances. Jackson Energy's sales are concentrated in a fifteen (15) county area of southeastern Kentucky. Consumers must pay their bill within 20 days of billing, at which time a disconnect notice is sent with payment to be within 10 days. If not paid then consumers are subject to disconnect. Accounts are written off when they are deemed to be uncollectible. The allowance for uncollectible accounts is based on the aging of receivables. The balance in the allowance account was $159,216 and $143,528 at February 28, 2015 and 2014, respectively.

Propane Plus recognizes revenue when earned, regardless of the period in which customers are billed. Propane sales are recognized when deliveries are made, tank rental each month, and sales of related accessories at the time of sale. Accounts are written off when they are deemed to be uncollectible. The balance in the allowance account was $10,400 and $26,008 at December 31, 2014 and 2013, respectively.

The Cooperative is required to collect, on behalf of the Commonwealth 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.

The Cooperative'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.

1. Summary of Significant Accounting Policies, continued

Advertising

The Cooperative expenses advertising costs as incurred. Advertising costs were $79,441 and $114,693 for the years ended February 28, 2015 and 2014, respectively.

Cost of Power

Jackson Energy is one of sixteen (16) members of East Kentucky. Under a wholesale power agreement, Jackson Energy is committed to purchase its electric power and energy requirements from East Kentucky until 2051. The rate charges 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.

Cost of Propane

Propane Plus purchases all of its propane requirements from an unrelated party through Kentucky Propane Plus, LLC, a related party. Propane is delivered in bulk tanks owned by Propane Plus, then delivered to customers on an as needed basis.

Propane Inventory

Propane is measure at the end of each month and valued based on the current purchase price of propane.

Fair Value Measurements

The *Fair Value Measurements and Disclosures* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, 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. FASB ASC 820 establishes a three-level fair value hierarchy that prioritized the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three level 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 observable.

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

Fair Value Measurements, continued

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

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

Deferred Property Retirements

During 1994, Jackson Energy initiated a Geographic Information System ("GIS") project to establish detailed maps of its distribution electric system and provide a database containing detailed information on the facilities and quantities installed. A physical inventory was performed and the difference between the facilities reported on the GIS base map and the accounting records resulted in an adjustment to decrease plant by $14,535,593, and a reduction in accumulated depreciation of $2,530,647.

This resulted in a net adjustment of $12,004,946. The PSC required this amount to be amortized over 25.5 years, which results in annual amortization of $470,772.

Risk Management

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

1. Summary of Significant Accounting Policies, continued

Environment Contingency

Jackson Energy, from time to time, is required to work with and handle polychlorinated biphenyl's (PCBs)(e.g. man-made chemicals that are commonly used in electric equipment), herbicides, automotive fluids, lubricants, and other hazardous materials in the normal course of business. As a result, there is a possibility that environmental conditions may arise which would require Jackson Energy to incur cleanup costs. The likelihood of such an event, or the amount of such costs if any, cannot be determined at this time. However, management does not believe such costs, if any, would materially affect Jackson Energy's financial position or its future cash flows.

Income Tax Status

Jackson Energy is exempt from federal and state income taxes under provisions of Section 501(c)(12). Accordingly, the financial statements for Jackson Energy include no provision for income taxes. Income taxes for Service Corporation are provided on income as reported in the accompanying statements regardless of when such taxes are payable. Propane Plus is a limited liability company treated as a partnership for federal income tax purposes. All tax related issues would be passed on to Service Corporation. Propane Plus uses the same depreciation for book and taxes, therefore, deferred taxes are considered immaterial and are not recorded.

Management evaluates its potential exposures from tax positions taken that have or could be challenged by taxing authorities. These potential exposures result because taxing authorities may take positions that differ from those taken by management in the interpretation and application of statutes, regulations, and rules. There are no tax positions for which the ultimate deductibility is highly uncertain included in the accompanying financial statements. Jackson Energy recognizes interest accrued related to unrecognized tax benefits in interest expenses and penalties in operating expenses. Jackson Energy did not recognize any interest or penalties during the year ended December 31, 2014 or 2013. Jackson Energy'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.

Comprehensive Income

Comprehensive income includes both net margins and other comprehensive income. Other comprehensive income represents the change in funded status of the accumulated postretirement benefit obligations and noncontrolling interests.

Reclassifications

Certain 2014 amounts have been reclassified to conform with the 2015 consolidated financial statement presentation with no impact to net margins or members' equities.

1. Summary of Significant Accounting Policies, continued

Subsequent Events

Management has evaluated subsequent events through June 1, 2015, the date the financial statements were available to be issued.

2. Utility Plant

Utility plant consists of:

	2015	2014
Electric Plant:		
Distribution plant	$ 208,002,808	$ 202,379,611
General plant	22,296,911	22,437,033
	230,299,719	224,816,644
Plant under construction	466,123	1,550,767
	230,765,842	226,367,411
Less accumulated depreciation	68,983,769	63,357,139
Net electric plant	161,782,073	163,010,272
Propane Plant:		
Propane tanks on customers' premises	1,867,910	1,844,524
Bulk tanks	694,010	685,322
Delivery and other trucks	967,535	955,422
Buildings and land	587,426	580,072
Office and other equipment	172,365	170,208
	4,289,246	4,235,548
Less accumulated depreciation	1,689,861	1,498,548
Net propane plant	2,599,385	2,737,000
Net utility plant	$ 164,381,458	$ 165,747,272

3. Investments in Associated Organizations

Jackson Energy records patronage capital assigned by associated organizations in the year in which such assignments are received. The Capital Term Certificates ("CTCs") issued by the NRUCFC are recorded at cost. The CTCs were purchased from NRUCFC as a condition of obtaining long-term financing. The CTCs bear interest at 0%, 3%, and 5% and are scheduled to mature at varying times from 2020 to 2080. The NRUCFC Member Capital Securities matured during 2015. Investments in associated organizations consist of:

	2015	2014
East Kentucky, patronage capital	$ 42,426,037	$ 37,597,877
NRUCFC - CTC's	1,811,025	1,851,863
NRUCFC - Member Capital Securities	-	980,000
Other associated organizations	2,924,355	2,723,740
Economic development loans	2,436,255	2,838,632
	$ 49,597,672	$ 45,992,112

4. 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, Jackson Energy may distribute the difference between 25% and the payments made to such estates. The equity at February 28, 2015 was 36% of total assets. Prior year's deficits are being carried forward and will be offset with future years' nonoperating margins.

Patronage capital consists of:

	2015	2014
Assigned to date	$ 108,879,686	$ 100,914,706
Assignable	1,323,951	1,331,691
Prior year's deficits	(2,068,237)	(2,394,701)
Retired to date	(22,642,003)	(22,151,931)
	$ 85,493,397	$ 77,699,765

5. Long-Term Debt

Substantially all assets, except vehicles, are pledged as collateral on the long-term debt to RUS, Federal Financing Bank ("FFB"), and NRUCFC under a joint mortgage agreement. Under the terms of the loan agreements, Jackson Energy is required to meet certain financial performance covenants. The Cooperative is in compliance with these covenants at February 28, 2015 and 2014.

The economic development loans are due to RUS and are secured by a portion of the assets pledged by Jackson Energy's consumers. The amounts due East Kentucky are for the residential marketing loan program for consumers.

The interest rates on the notes to FFB are subject to change every seven years from the repricing date for each individual note. The long-term debt is due in quarterly and monthly installments for varying amounts through 2039. Jackson Energy has loan funds available from FFB in the amount of $26,940,000. The RUS assesses 12.5 basis points to administer the FFB loans.

Long-term debt consists of:

	2015	2014
Notes due RUS, 4.125% to 5%	$ 28,042,317	$ 28,824,343
Notes due FFB, 0.069% to 4.51%	85,641,686	87,175,381
Economic development loans due RUS, 0% interest	2,527,691	2,804,375
Notes due CFC:		
5.95% to 6.70%	9,989,513	10,626,418
Refinance RUS loans, 5.85% to 6.05%	6,343,234	8,151,692
	132,544,441	137,582,209
Current portion	6,219,829	5,950,000
Long-term portion for Jackson Energy	126,324,612	131,632,209
East Kentucky, 2.75%	58,054	155,437
Current portion	58,054	95,000
Long-term portion for Propane Plus	-	60,437
Total long-term portion	$ 126,324,612	$ 131,692,646

5. Long Term Debt, continued

The aggregate principal maturities of long-term debt for Jackson Energy as of February 28, 2015 and for Propane Plus as of December 31, 2014 are as follows:

	Jackson Energy	Propane Plus
Due in 1 year	$ 6,219,829	$ 58,054
Due in 2 years	6,237,962	-
Due in 3 years	6,382,582	-
Due in 4 years	5,372,885	-
Due in 5 years	4,554,383	-
Thereafter	103,776,800	-
Total	$ 132,544,441	$ 58,054

6. Short-Term Borrowings

At February 28, 2015, Jackson Energy had a short-term line of credit of $10,000,000 available from NRUCFC and $5,000,000, from National Bank for Cooperative ("CoBank"). At February 28, 2015, there was $6,300,000 advanced against the NRUCFC line of credit with an interest rate of 2.90%.

Propane Plus has advanced funds on two lines of credit from Cumberland Valley National Bank in the amount of $400,000 and $350,000, respectively, to open facilities at a new location. These lines of credit are renewed annually and have a 5% interest rate. The advanced funds payable as of December 31, 2014 and 2013, were $563,123 and $712,694, respectively.

7. Pension Plan

All eligible employees of Jackson Energy 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.

Employees hired prior to December 1, 2013 participate in Cost of Living Allowance ("COLA") benefits and have a contribution rate of 2.0%. Employees hired after December 1, 2013 do not participate in COLA and have a contribution rate of 1.7%.

Jackson Energy's contributions to the R&S Plan in 2015 and 2014 represent less than 5 percent of the total contributions made to the plan by all participating employers. Jackson Energy made contributions to the plan of $1,797,044 and $2,442,964 during 2015 and 2014, respectively. There have been no significant changes that

7. Pension Plan, continued

affect the comparability of 2014 and 2013. During 2012, Jackson Energy purchased ("COLA") benefits for participating employees at a cost of $2,040,627. This amount is being amortized over 30 years.

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 over 80% at January 1, 2014 and 2013 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 I&FS Committee approved an option to allow participating cooperatives in the 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% of Net Utility Plant if the equity level of the borrower, after considering such unsecured debt, is below

7. **Pension Plan, continued**

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 March 15, 2013, Jackson Energy made a prepayment of $6,383,300 to the R&S Plan. The amount is being amortized over 10 years. Interest expense associated with the prepayment loan is being accounted for in accordance with the RUS USoA.

Propane Plus has a profit sharing plan of 10% of net profits, before the pension amount, where managers receive 5% of the plan amount and the remaining employees share the remaining 5%. The pension amount for the years ended December 31, 2014 and 2013 was $62,413 and $14,390, respectively.

8. **Postretirement Benefits**

Jackson Energy sponsors a defined benefit plan that provides medical insurance coverage to retired employees, directors, and attorneys and their dependents. The plan calls for benefits to be paid at retirement based primarily upon years of service with Jackson Energy. Participating retirees and dependents do not contribute to the projected cost of coverage. The following is a reconciliation of the postretirement obligation.

The funded status of the plan is as follows:

	2015	2014
Projected benefit obligation	$ (8,702,004)	$ (8,512,796)
Fair value of plan assets	-	-
Funded Status	$ (8,702,004)	$ (8,512,796)

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

	2015	2014
Benefit obligation - beginning of period	$ 8,512,796	$ 8,240,510
Net periodic benefit cost:		
Service cost	242,196	339,807
Interest cost	516,444	418,833
Amortize gains/losses	-	-
Net period cost	758,640	758,640
Accumulated comprehensive income	-	-
Benefit payments to participants	(569,432)	(486,354)
Benefit obligation - end of period	$ 8,702,004	$ 8,512,796

Projected retiree benefit payments for the next five years are expected to be as follows: 2016 $440,000; 2017 - $434,000; 2018 - $423,000; 2019 - $420,000; 2020 - $400,000.

8. Postretirement Benefits, continued

The discount rate used in determining the accumulated postretirement benefits obligation ("APBO") was 5.0% for 2015 and 2014. The health care cost trend rate used to compute the APBO is an 8% annual rate increase for 2013, and decreasing gradually to 5.5%, then remain at that level thereafter.

9. Related Party Transactions

Several of the directors of Jackson Energy, its President & CEO, and another employee are on the boards of directors of various associated organizations.

10. Commitments

Jackson Energy has various agreements outstanding with local contractors. Under these agreements, the contractors will perform certain metering services, 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.

11. Rate Matters

East Kentucky increased its base rates to Jackson Energy during August 2007, by 2%, in April 2008, by another 7%, and in January, 2013 by another 5%. Jackson Energy passed each of East Kentucky's increases on to its customers using the methodology prescribed by the PSC. The PSC has allowed Jackson Energy to increase its monthly customer charge by $2 during 2013, 2014, and 2015.

JACKSON ENERGY COOPERATIVE AND SUBSIDIARY

Consolidating Balance Sheet

February 28, 2015

Assets	Jackson Energy	Service Corporation	Propane Plus	Eliminations	Consolidated
Utility plant, net	$ 161,782,073	$ -	$ 2,599,385	$ -	$ 164,381,458
Investments and other assets:					
Associated organizations	49,597,672	-	-	-	49,597,672
Goodwill	-	-	262,177	-	262,177
Subsidiary	2,120,340	2,824,333	-	(4,944,673)	-
	51,718,012	2,824,333	262,177	(4,944,673)	49,859,849
Current assets:					
Cash and cash equivalents	3,035,775	2,928	135,787	-	3,174,490
Accounts receivable, less allowance for uncollectible accounts	18,995,399	-	223,757	(141)	19,219,015
Material and supplies, at average cost	1,366,024	-	348,258	-	1,714,282
Prepayments	930,450	-	58,372	-	988,822
	24,327,648	2,928	766,174	(141)	25,096,609
Deferred property retirements	13,274,310	-	-	-	13,274,310
Total assets	$ 251,102,043	$ 2,827,261	$ 3,627,736	$ (4,944,814)	$ 252,612,226
Members' Equities and Liabilities					
Members' equities:					
Memberships and capital	$ 1,299,140	$ 1,344,000	$ 1,293,141	$ (2,637,141)	$ 1,299,140
Patronage capital and retained earnings	85,493,397	776,340	1,533,848	(2,310,188)	85,493,397
Accumulated other comprehensive income	(978,011)	-	-	-	(978,011)
Other equities and noncontrolling interests	4,598,414	706,780	-	2,656	5,307,850
	90,412,940	2,827,120	2,826,989	(4,944,673)	91,122,376
Long-term debt	126,324,612	-	-	-	126,324,612
Accumulated postretirement benefits	8,702,004	-	-	-	8,702,004
Current liabilities:					
Accounts payable	8,918,799	141	179,570	(141)	9,098,369
Short-term borrowings	6,300,000	-	563,123	-	6,863,123
Current portion of long-term debt	6,219,829	-	58,054	-	6,277,883
Consumer deposits	726,252	-	-	-	726,252
Accrued expenses	3,117,296	-	-	-	3,117,296
	25,282,176	141	800,747	(141)	26,082,923
Consumer advances for construction	380,311	-	-	-	380,311
Total members' equities and liabilities	$ 251,102,043	$ 2,827,261	$ 3,627,736	$ (4,944,814)	$ 252,612,226

See report of independent auditors.

JACKSON ENERGY COOPERATIVE AND SUBSIDIARY

Consolidating Balance Sheet

February 28, 2014

Assets	Jackson Energy	Service Corporation	Propane Plus	Eliminations	Consolidated
Utility plant, net	$ 163,010,272	$ -	$ 2,737,000	$ -	$ 165,747,272
Investments and other assets:					
Associated organizations	45,992,112	-	-	-	45,992,112
Goodwill	-	-	262,177	-	262,177
Subsidiary	1,983,585	2,642,103	-	(4,625,688)	-
	47,975,697	2,642,103	262,177	(4,625,688)	46,254,289
Current assets:					
Cash and cash equivalents	2,874,628	3,067	119,264	-	2,996,959
Accounts receivable, less allowance for uncollectible accounts	18,458,603	-	234,327	(156)	18,692,774
Material and supplies, at average cost	1,454,732	-	241,194	-	1,695,926
Prepayments	726,593	-	43,872	-	770,465
	23,514,556	3,067	638,657	(156)	24,156,124
Deferred property retirements	14,230,809	-	-	-	14,230,809
Total assets	$ 248,731,334	$ 2,645,170	$ 3,637,834	$ (4,625,844)	$ 250,388,494
Members' Equities and Liabilities					
Members' equities:					
Memberships and capital	$ 1,299,355	$ 1,344,000	$ 1,293,141	$ (2,637,141)	$ 1,299,355
Patronage capital and retained earnings	77,699,765	639,585	1,351,618	(1,991,203)	77,699,765
Accumulated other comprehensive income	(1,179,611)	-	-	-	(1,179,611)
Other equities and noncontrolling interests	4,537,443	661,195	-	2,656	5,201,294
	82,356,952	2,644,780	2,644,759	(4,625,688)	83,020,803
Long-term debt	131,632,209	-	60,437	-	131,692,646
Accumulated postretirement benefits	8,512,796	-	-	-	8,512,796
Current liabilities:					
Accounts payable	8,047,781	390	124,944	(156)	8,172,959
Short term borrowings	7,800,000	-	712,694	-	8,512,694
Current portion of long term debt	5,950,000	-	95,000	-	6,045,000
Consumer deposits	805,304	-	-	-	805,304
Accrued expenses	3,268,895	-	-	-	3,268,895
	25,871,980	390	932,638	(156)	26,804,852
Consumer advances for construction	357,397	-	-	-	357,397
Total members' equities and liabilities	$ 248,731,334	$ 2,645,170	$ 3,637,834	$ (4,625,844)	$ 250,388,494

See report of independent auditors.

JACKSON ENERGY COOPERATIVE AND SUBSIDIARY

Consolidating Statement of Revenue and Comprehensive Income

Year ended February 28, 2015

	Jackson Energy	Service Corporation	Propane Plus	Eliminations	Consolidated
Operating revenues	$ 107,516,072	$ -	$ 4,321,354	$ -	$ 111,837,426
Operating expenses:					
Cost of purchases	70,739,818	-	2,287,372	-	73,027,190
Distribution - operations and maintenance	10,470,549	-	988,855	-	11,459,404
Consumer accounts	3,134,186	-	223,828	-	3,358,014
Customer service and information	815,845	-	31,001	-	846,846
Administrative and general	4,721,767	5,391	121,963	-	4,849,121
Depreciation, excluding $647,090 charged to clearing accounts	8,913,904	-	234,144	-	9,148,048
Amortization of deferred property retirements	470,772	-	-	-	470,772
Taxes	136,113	181,307	34,933	-	352,353
Other	81,789	-	-	-	81,789
	99,484,743	186,698	3,922,096	-	103,593,537
Operating margins before interest charges	8,031,329	(186,698)	399,258	-	8,243,889
Interest charges:					
Interest on long-term debt	4,938,771	-	35,895	-	4,974,666
Other interest	149,350	-	-	-	149,350
	5,088,121	-	35,895	-	5,124,016
Operating margins after interest charges	2,943,208	(186,698)	363,363	-	3,119,873
Patronage capital assigned, associated organizations	5,148,850	-	-	-	5,148,850
Net operating margins	8,092,058	(186,698)	363,363	-	8,268,723
Nonoperating margins:					
Interest income	135,418	-	189	-	135,607
Subsidiary and others	192,983	369,038	5,486	(551,378)	16,129
	328,401	369,038	5,675	(551,378)	151,736
Net margins	8,420,459	182,340	369,038	(551,378)	8,420,459
Other comprehensive income:					
Postretirement benefits	201,600	-	-	-	201,600
Noncontrolling interests	-	(45,585)	-	-	(45,585)
Total comprehensive income	$ 8,622,059	$ 136,755	$ 369,038	$ (551,378)	$ 8,576,474

See report of independent auditors.

JACKSON ENERGY COOPERATIVE AND SUBSIDIARY

Consolidating Statement of Revenue and Comprehensive Income

Year ended February 28, 2014

	Jackson Energy	Service Corporation	Propane Plus	Eliminations	Consolidated
Operating revenues	$ 106,527,764	$ -	$ 3,976,448	$ (28,756)	$ 110,475,456
Operating expenses:					
Cost of purchases	71,825,777	-	1,988,489	-	73,814,266
Distribution - operations and maintenance	10,392,731	-	949,283	-	11,342,014
Consumer accounts	3,271,001	-	231,748	-	3,502,749
Customer service and information	754,245	-	59,136	-	813,381
Administrative and general	4,725,388	5,511	125,826	(28.756)	4,827,969
Depreciation, excluding $601,009 charged to clearing accounts	8,700,225	-	216,531	-	8,916,756
Amortization of deferred property retirements	470,772	-	-	-	470,772
Taxes	117,963	50,726	27,221	-	195,910
Other	51,984	-	-	-	51,984
	100,310,086	56,237	3,598,234	(28,756)	103,935,801
Operating margins before interest charges	6,217,678	(56,237)	378,214	-	6,539,655
Interest charges:					
Interest on long-term debt	5,164,986	-	41,957	-	5,206,943
Other interest	88,470	-	-	-	88,470
	5,253,456	-	41,957	-	5,295,413
Operating margins after interest charges	964,222	(56,237)	336,257	-	1,244,242
Patronage capital assigned, associated organizations	5,952,498	-	-	-	5,952,498
Net operating margins	6,916,720	(56,237)	336,257	-	7,196,740
Nonoperating margins:					
Interest income	164,523	-	197	-	164,720
Subsidiary and others	331,020	344,468	8,014	(632,699)	50,803
	495,543	344,468	8,211	(632,699)	215,523
Net margins	7,412,263	288,231	344,468	(632,699)	7,412,263
Other comprehensive income:					
Postretirement benefits	201,600	-	-	-	201,600
Noncontrolling interests	-	(72,058)	-	-	(72,058)
Total comprehensive income	$ 7,613,863	$ 216,173	$ 344,468	$ (632,699)	$ 7,541,805

See report of independent auditors.

JACKSON ENERGY COOPERATIVE AND SUBSIDIARY

Consolidating Statement of Cash Flows

Year ended February 28, 2015

	Jackson Energy	Service Corporation	Propane Plus	Eliminations	Consolidated
Cash Flows from Operating Activities:					
Net margins	$ 8,420,459	$ 182,340	$ 369,038	$ (551,378)	$ 8,420,459
Adjustments to reconcile net margins to net cash provided by operating activities:					
Depreciation and amortization					
Charged to expense	9,384,676	-	234,144	-	9,618,820
Charged to clearing accounts	647,090	-	-	-	647,090
Patronage capital allocated	(5,034,791)	-	-	-	(5,034,791)
(Profit) or loss in subsidiary	(136,755)	(369,038)	-	505,793	-
Accumulated postretirement benefits	390,808	-	-	-	390,808
Change in assets and liabilities:					
Receivables	(536,796)	-	10,570	-	(526,226)
Material and supplies	88,708	-	(107,064)	-	(18,356)
Prepayments and deferreds	281,870	-	(14,500)	-	267,370
Payables	871,018	(249)	54,626	-	925,395
Consumer deposits and advances	(56,138)	-	-	-	(56,138)
Accrued expenses	(151,599)	-	-	-	(151,599)
Net cash provided by operating activities	14,168,550	(186,947)	546,814	(45,585)	14,482,832
Cash Flows from Investing Activities:					
Plant additions	(7,261,520)	-	(96,529)	-	(7,358,049)
Plant removal costs	(1,162,420)	-	-	-	(1,162,420)
Salvage recovered from plant retirements	91,145	-	-	-	91,145
Other investments, net	1,429,231	-	-	-	1,429,231
Net cash used in investing activities	(6,903,564)	-	(96,529)	-	(7,000,093)
Cash Flows from Financing Activities:					
Memberships, capital and other equities	(215)	-	-	45,585	45,370
Retirement of patronage capital	(565,856)	186,808	(186,808)	-	(565,856)
Additional long-term borrowings	1,000,000	-	-	-	1,000,000
Payments on long-term debt	(6,037,768)	-	(97,383)	-	(6,135,151)
Short-term borrowings (repayments)	(1,500,000)	-	(149,571)	-	(1,649,571)
Net cash used in financing activities	(7,103,839)	186,808	(433,762)	45,585	(7,305,208)
Net increase (decrease) in cash	161,147	(139)	16,523	-	177,531
Cash and cash equivalents - beginning of period	2,874,628	3,067	119,264	-	2,996,959
Cash and cash equivalents - end of period	$ 3,035,775	$ 2,928	$ 135,787	$ -	$ 3,174,490
Supplemental disclosure of cash flow information:					
Interest paid on long term debt	$ 5,105,974	$ -	$ 35,895	$ -	$ 5,141,869
Income taxes paid	-	181,307	-	-	181,307

See report of independent auditors.

JACKSON ENERGY COOPERATIVE AND SUBSIDIARY

Consolidating Statement of Cash Flows

Year ended February 28, 2014

	Jackson Energy	Service Corporation	Propane Plus	Eliminations	Consolidated
Cash Flows from Operating Activities:					
Net margins	$ 7,412,263	$ 288,231	$ 344,468	$ (632,699)	$ 7,412,263
Adjustments to reconcile net margins to net cash provided by (used in) operating activities:					
Depreciation and amortization					
Charged to expense	9,170,997	-	216,531	-	9,387,528
Charged to clearing accounts	601,009	-	-	-	601,009
Patronage capital allocated	(5,952,498)	-	-	-	(5,952,498)
(Profit) or loss in subsidiary	(216,173)	(344,468)	-	560,641	-
Accumulated postretirement benefits	473,886	-	-	-	473,886
Change in assets and liabilities:					
Receivables	(1,046,216)	-	(56,921)	39	(1,103,098)
Material and supplies	31,124	-	(9,713)	-	21,411
Prepayments and deferreds	(6,292,361)	-	(700)	-	(6,293,061)
Payables	(350,796)	149	(123,672)	(39)	(474,358)
Consumer deposits and advances	(202,685)	-	-	-	(202,685)
Accrued expenses	153,562	-	-	-	153,562
Net cash provided by (used in) operating activities	3,782,112	(56,088)	369,993	(72,058)	4,023,959
Cash Flows from Investing Activities:					
Plant additions	(9,618,168)	-	(324,457)	-	(9,942,625)
Plant removal costs	(1,341,799)	-	-	-	(1,341,799)
Salvage recovered from plant retirements	85,167	-	-	-	85,167
Other investments, net	(639,307)	-	-	-	(639,307)
Net cash used in investing activities	(11,514,107)	-	(324,457)	-	(11,838,564)
Cash Flows from Financing Activities:					
Memberships, capital and other equities	(12,938)	53,408	-	72,058	112,528
Retirement of patronage capital	(436,255)	4,677	-	-	(431,578)
Additional long-term borrowings	8,000,000	-	-	-	8,000,000
Payments on long-term debt	(5,781,302)	-	(94,744)	-	(5,876,046)
Short-term borrowings (repayments)	6,800,000	-	2,412	-	6,802,412
Net cash provided by (used in) financing activities	8,569,505	58,085	(92,332)	72,058	8,607,316
Net increase (decrease) in cash	837,510	1,997	(46,796)	-	792,711
Cash and cash equivalents - beginning of period	2,037,118	1,070	166,060	-	2,204,248
Cash and cash equivalents - end of period	$ 2,874,628	$ 3,067	$ 119,264	$ -	$ 2,996,959
Supplemental disclosure of cash flow information:					
Interest paid on long term debt	$ 5,178,233	$ -	$ 41,957	$ -	$ 5,220,190
Income taxes paid	-	50,726	-	-	50,726

See report of independent auditors.

DEANDORTON
DEAN DORTON ALLEN FORD, PLLC

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*

Board of Directors
Jackson Energy Cooperative and Subsidiary
McKee, Kentucky

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 Jackson Energy Cooperative and Subsidiary (collectively, the Cooperative) as of and for the year ended February 28, 2015, and the related notes to the consolidated financial statements, which collectively comprise the Cooperative's basic consolidated financial statements, and have issued our report thereon dated June 1, 2015.

Internal Control Over Financial Reporting

In planning an performing our audit of the consolidated financial statements, we 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 our opinions on the consolidated 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.

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 over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 the Cooperative's consolidated 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 consolidated 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 purposes.

Dean Dorton Allen Ford, PLLC

June 1, 2015
Lexington, Kentucky

DEANDORTON

DEAN DORTON ALLEN FORD, PLLC

Report of Independent Auditors on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers

Board of Directors
Jackson Energy Cooperative and Subsidiary
McKee, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Jackson Energy Cooperative and Subsidiary, (collectively, the Cooperative), which comprise the balance sheet as of February 28, 2015, and the related statements of revenue and comprehensive income, changes in cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 1, 2015. In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2015, on our consideration of Cooperative'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. No reports other than the reports referred to above have been furnished to management.

In connection with our audit, nothing came to our attention that caused us 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, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our 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 our audit, we 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 materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;

- 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.

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Dean Dorton Allen Ford, PLLC

June 1, 2015
Lexington, Kentucky