Kentucky 3
Jackson Energy Cooperative
and Subsidiary
McKee, Kentucky

Audited Financial Statements
February 28, 2018 and 2017

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CONTENTS

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Independent Auditor's Report

To the Board of Directors
Jackson Energy Cooperative
McKee, Kentucky

Report on the Financial Statements

I have audited the accompanying consolidated financial statements of Jackson Energy Cooperative and Subsidiary, which comprise the balance sheet as of February 28, 2018 and 2017, 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

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my 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 I 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, 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 consolidated 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
Jackson Energy Cooperative

Opinion

In my 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, 2018 and 2017, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued a report dated May 17, 2018, on my consideration of Jackson Energy Cooperative's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance and should be considered in assessing the results of my audit.

Other Matters

My 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 16-18 are presented for purposes of additional analysis and is 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 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 financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Alan M. Zumstein

Alan M. Zumstein, CPA
May 17, 2018

Jackson Energy Cooperative and Subsidiary
Consolidated Balance Sheets, February 28, 2018 and 2017

	2018	2017
Assets		
Utility Plant, net	$ 169,551,692	$ 166,869,434
Investments and Other Assets:		
Associated organizations and others	60,088,040	58,546,956
Goodwill	262,177	262,177
	60,350,217	58,809,133
Current Assets:		
Cash and cash equivalents	6,587,773	3,803,709
Accounts receivable, less allowance for uncollectible accounts	14,556,904	13,955,727
Material and supplies	2,067,518	1,997,238
Prepayments	779,998	373,635
	23,992,193	20,130,309
Deferred Debits	10,404,812	11,361,311
Total	$ 264,298,914	$ 257,170,187
Members' Equities and Liabilities		
Members' Equities:		
Memberships and capital	$ 1,311,060	$ 1,307,365
Patronage capital and retained earnings	102,716,696	97,108,401
Accumulated other comprehensive income	(635,612)	(684,188)
Other equities	4,046,869	4,053,617
	107,439,013	101,785,195
Long Term Debt	127,851,825	125,568,159
Accumulated Postretirement Benefits	8,834,362	8,840,576
Current Liabilities:		
Accounts payable	7,268,731	6,631,695
Short term borrowings	1,600,000	4,000,000
Current portion of long term debt	6,385,000	5,673,200
Consumer deposits	719,202	696,111
Other current and accrued liabilities	2,871,882	2,608,846
	18,844,815	19,609,852
Consumer advances and others	1,328,899	1,366,405
Total	$ 264,298,914	$ 257,170,187

The accompanying notes are an integral part of these statements.

Jackson Energy Cooperative and Subsidiary
Consolidated Statements of Revenue and Comprehensive Income
for the years ended February 28, 2018 and 2017

	2018	2017
Operating Revenues	$ 105,414,753	$ 103,331,464
Operating Expenses:		
Cost of purchases	65,566,363	63,199,519
Distribution - operations	5,678,438	5,931,703
Distribution - maintenance	6,270,970	6,568,948
Sales	769,085	842,632
Administrative and general	4,889,010	4,833,371
Depreciation, excluding $686,887 in 2018 and $688,923 in 2017 charged to clearing account	9,878,032	9,537,362
Amortization of deferred property retirements	470,772	470,772
Interest on long-term debt	4,411,339	4,546,842
Other interest	55,398	11,391
Taxes	172,312	341,617
Other	86,097	77,835
	101,511,060	99,613,735
Operating Margins	3,903,693	3,717,729
Nonoperating Margins		
Interest income	112,801	104,593
Subsidiary and others	34,628	83,956
	147,429	188,549
Patronage Capital assigned, associated organizations		
G&T capital credits	1,963,643	4,141,253
Other capital credits	148,043	274,676
	2,111,686	4,415,929
Net Margins	6,162,808	8,322,207
Other Comprehensive Income:		
Postretirement benefits	48,576	92,223
Total Comprehensive income	$ 6,211,384	$ 8,414,430

The accompanying notes are an integral part of these statements.

Jackson Energy Cooperative and Subsidiary
Statements of Changes in Members' Equities
for the years ended February 28, 2017 and 2018

	Memberships and Capital	Patronage Capital	Other Equities	Accumulated Comprehensive Income	Total Members' Equities
Balance - February 28, 2016	$ 1,302,285	$ 89,323,638	$ 4,067,490	$ (776,411)	$ 93,917,002
Comprehensive income:					
Net margins		8,322,207			8,322,207
Postretirement benefit obligation					
Amortization				92,223	
Adjustments				-	92,223
Total comprehensive income					8,414,430
Refunds of capital credits		(537,444)			(537,444)
Transfers to other equity					-
Memberships, net	5,080				5,080
Other equities			(13,873)		(13,873)
Balance - February 28, 2017	1,307,365	97,108,401	4,053,617	(684,188)	101,785,195
Comprehensive income:					
Net margins		6,162,808			6,162,808
Postretirement benefit obligation					
Amortization				48,576	
Adjustments				-	48,576
Total comprehensive income					6,211,384
Refunds of capital credits		(554,513)			(554,513)
Transfers to other equity					-
Memberships, net	3,695				3,695
Other equities			(6,748)		(6,748)
Balance - February 28, 2018	$ 1,311,060	$ 102,716,696	$ 4,046,869	$ (635,612)	$ 107,439,013

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

Jackson Energy Cooperative and Subsidiary
Consolidated Statements of Cash Flows
for the years ended February 29, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Net margins	$ 6,162,808	$ 8,322,207
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization		
Charged to expense	10,348,804	10,008,134
Charged to clearing accounts	686,887	688,923
Patronage capital allocated	(2,111,686)	(4,415,929)
Accumulated postretirement benefits	42,362	5,622
Change in assets and liabilities:		
Receivables	(601,177)	2,192,373
Material and supplies	(70,280)	(306,977)
Prepayments	79,364	583,531
Payables	637,036	(1,269,112)
Consumer deposits and advances	(14,415)	(87,860)
Accrued expenses	263,036	(516,363)
	15,422,739	15,204,549
Cash Flows from Investing Activities:		
Plant additions	(11,905,605)	(11,762,199)
Plant removal costs	(1,414,049)	(1,379,124)
Salvage recovered from plant retirements	72,476	77,936
Other investments, net	570,603	(548,283)
	(12,676,575)	(13,611,670)
Cash Flows from Financing Activities:		
Memberships, capital and other equities	(3,053)	(8,793)
Retirement of patronage capital	(554,513)	(537,444)
Additional long-term borrowings	10,000,000	897,414
Payments on long-term debt	(7,004,534)	(6,360,892)
Short term borrowings (repayments)	(2,400,000)	3,300,000
	37,900	(2,709,715)
Net increase in cash	2,784,064	(1,116,836)
Cash and cash equivalents - beginning of period	3,803,709	4,920,545
Cash and cash equivalents - end of period	$ 6,587,773	$ 3,803,709
Supplemental cash flows information:		
Interest paid on long-term debt	$ 4,251,949	$ 4,577,694
Income taxes paid	$ 28,176	$ 184,092

The accompanying notes are an integral part of these statements.

Note 1. Summary of Significant Accounting Policies

Jackson Energy Cooperative and Subsidiary ("Jackson Energy") maintains its records in accordance with the policies prescribed or permitted by the Kentucky Public Service Commission ("PSC") and the United States Department of Agriculture, Rural Utilities Service ("RUS"), which conform 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 and Jackson Energy Propane Plus, LLC ("Propane Plus"). All significant inter-company accounts and transactions have been eliminated. Jackson Energy uses an audit date of February 28. The Subsidiary operates 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.

Utility plant consists of:

	2018	2017
Electric Plant:		
Distribution plant	$227,911,938	$220,861,379
General plant	22,743,948	22,500,697
	250,655,886	243,362,076
Plant under construction	759,742	360,313
	251,415,628	243,722,389
Less accumulated depreciation	84,582,223	79,621,118
Net electric plant	166,833,405	164,101,271
Propane Plant:		
Propane tanks on customers' premises	1,956,990	1,836,251
Bulk tanks	849,979	831,709
Delivery and other trucks	1,348,734	1,280,939
Buildings and land	590,606	590,606
Office and other equipment	221,465	220,888
	4,967,774	4,760,393
Less accumulated depreciation	2,249,487	1,992,230
Net propane plant	2,718,287	2,768,163
Net utility plant	$169,551,692	$166,869,434

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.

Note 1. Summary of Significant Accounting Policies, continued

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's depreciation is computed using the straight-line method over the useful lives of its assets.

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, 2018, 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 financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the preparation of the financial statements.

Revenue Jackson Energy records revenue as billed to its consumers based on monthly meter-reading cycles. Under certain circumstances, consumers are required to pay a refundable deposit. 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 $95,798 at 2018 and $97,539 at 2017. There were no individual account balances that exceeded 10% of outstanding accounts receivable at February 28, 2018 or 2017.

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 allowance for uncollectible accounts is based on the aging of receivables. The balance in the allowance account was $25,000 for 2017 and $20,000 for 2016. There were no individual account balances that exceeded 10% of outstanding accounts receivable at December 31, 2017 or 2016.

The Companies are 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 Company'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.

Advertising Jackson Energy expenses advertising costs as incurred.

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 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.

Note 1. Summary of Significant Accounting Policies, continued

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 measured 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 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.

Jackson Energy 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.

The carrying amounts of Jackson Energy's cash and cash equivalents, other receivables, inventory, accounts payable, 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, other liabilities, and investments 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.

Goodwill The goodwill was recorded in connection with the purchase of one-half (1/2) interest from an unrelated party on June 30, 2000. The excess of the purchase price over the value of assets acquired has been recorded as goodwill. Goodwill was tested for impairment and it was determined that goodwill has not been impaired; therefore, there was no impairment of goodwill for 2018 or 2017.

Note 1. Summary of Significant Accounting Policies, continued

Deferred Property Retirement 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 $470,782.

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.

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. Propane Plus is a limited liability company treated as a partnership for federal income tax purposes. Income taxes for Propane Plus are provided on income as reported in the accompanying statements regardless of when such taxes are payable. 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 expense and penalties in operating expenses. Jackson Energy did not recognize any interest or penalties during the years ended February 28, 2018 or 2017. Jackson Energy's income tax return is subject to possible examination by taxing authorities until the expiration of related statues of limitations on the return, which is generally three years.

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.

Subsequent Events Management has evaluated subsequent events through May 17, 2018, the date the financial statements were available to be issued. There were no significant subsequent events to report.

Note 2. Investments in Associated Organizations and Others

Jackson Energy records patronage capital assigned by associated organizations in the year in which such assignments are received. The Capital Term Certificates ("CTCs") of CFC are recorded at cost. The CTCs were purchased from CFC as a condition of obtaining long-term financing. The CTCs bear interest at 0%, 3% and 5% and are scheduled to mature at varying times from 2020 to 2080. Interest is paid each April 1 and October 1. The economic development loans are through RUS at low interest rates to local businesses and are secured by either/or a portion of the assets pledged by Jackson Energy's consumers, or guarantees from local banks.

Note 2. Investments in Associated Organizations and Others, continued

Investments in associated organizations and others consist of:

	2018	2017
East Kentucky, patronage capital	$52,956,158	$50,992,515
CFC - CTC's	1,680,559	1,722,754
Other associated organizations	3,218,636	3,147,723
Economic development loans	2,232,687	2,683,964
	$60,088,040	$58,546,956

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, Jackson Energy may distribute the difference between 25% and the payments made to such estates. The equity at February 28, 2018 was 41% of total assets. Prior year's deficits are being carried forward and will be offset with future years' non operating margins.

Patronage capital consists of:

	2018	2017
Assigned to date	$128,271,067	$123,472,691
Assignable	2,624,615	1,692,733
Prior year's deficits	(4,129,907)	(4,562,458)
Retired to date	(24,049,079)	(23,494,565)
	$102,716,696	$97,108,401

Note 4. Long Term Debt

All assets, except vehicles, are pledged as collateral on the long term debt to RUS, Federal Financing Bank ("FFB"), and CFC under a joint mortgage agreement. The Economic Development Loans are due to RUS and are secured by a portion of the assets pledged by Jackson Energy's consumers.

The interest rates on the notes to CFC 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 of varying amounts through 2039. Jackson Energy has loan funds available from FFB in the amount of $6,940,000. RUS assesses 12.5 basis points to administer the FFB loans.

The note due National Bank for Cooperatives ("CoBank") is a 15 year note and represents amounts to refinance higher rate RUS loans.

Propane Plus has advanced funds from Cumberland Valley National Bank to open facilities at a new location.

Note 4. Long Term Debt, continued

Long term debt consists of:

	2018	2017
Notes due RUS, net of cushion of credit	($481,950)	$26,367,369
Notes due FFB, 1.236% to 4.51%	97,291,071	90,225,723
Economic Development, RUS, 0% interest	2,493,922	2,863,203
Notes due CoBank, 15 years at 3.47%	25,595,099	-
Notes due CFC:		
6.10% to 6.70%	8,153,179	8,760,097
Refinance RUS loans 6.05%	917,859	2,726,317
	133,969,180	130,942,709
Current portion	6,370,000	5,660,000
Long term portion for Jackson Energy	127,599,180	125,282,709
Fifteen year note to Cumberland Valley National Bank bearing interest at 5.75% and due in monthly installments of $2,532	267,645	298,650
Current portion	15,000	13,200
Long term portion for Propane Plus	252,645	285,450
Total long term portion	$127,851,825	$125,568,159

As of February 28, 2018, the annual principal payments of Jackson Energy for the next five years are as follows: 2019 - $6,370,200; 2020 - $5,675,000; 2021 - $5,900,000; 2022 - $6,145,000; 2023 - $6,395,000.

Note 5. Short Term Borrowings

At February 28, 2018, Jackson Energy had a short term line of credit of $10,000,000 available from CFC and $5,000,000 from CoBank. At February 28, 2018 there was $1,600,000 advanced against the CFC line of credit with an interest rate of 3.00%.

Note 6. 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 for contributions made prior to February 2014 and have a contribution rate of 2.0%. All contributions after February 2014 are not covered by COLA. Employees hired after December 1, 2013 do not participate in COLA and have a contribution rate of 1.7%.

Note 6. Pension Plan, continued

Jackson'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. Jackson made contributions to the plan of $1,791,415 in 2018 and $1,690,993 in 2017. There have been no significant changes that affect the comparability of 2018 and 2017. 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 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 March 15, 2013, the Corporation made a prepayment of $6,383,300 to the R&S Plan. The amount is being amortized over 16 years. Interest expense associated with the prepayment loan is being accounted for in accordance with the RUS USoA.

Note 6. Pension Plan, continued

All eligible employees of Jackson Energy participate in the NRECA Retirement and Security Program, a defined contribution pension plan qualified under section 401(k) and tax-exempt under section 501(a) of the Internal Revenue Code. Jackson Energy makes annual contributions to the Program equal to the amounts accrued for pension expense. There have been no significant changes that affect the comparability of 2018 and 2017. Jackson Energy contributed $151,658 in 2018 and $143,064 in 2017 to this plan.

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 2017 was $72,623 and 2016 was $80,029.

Note 7. Postretirement Benefits

Jackson Energy sponsors a defined benefit plan that provides medical insurance coverage to retired employees 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 retiring prior to January 4, 2016 do not contribute to the projected cost of coverage. Participating retirees after January 4, 2016 are provided with a single coverage plan. The following is a reconciliation of the postretirement obligation.

The funded status of the plan is as follows:

	2018	2017
Projected benefit obligation	($8,834,362)	($8,840,576)
Fair value of plan assets	-	-
Funded status	($8,834,362)	($8,840,576)

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

	2018	2017
Benefit obligation - beginning of period	$8,840,576	$8,927,177
Net periodic benefit cost:		
Service cost	275,670	190,217
Interest cost	397,686	399,774
Net period cost	673,356	589,991
Actuarial adjustments	-	-
Benefit payments for participants	(679,570)	(676,592)
Benefit obligation - end of period	$8,834,362	$8,840,576
Amounts included in accumulated other comprehensive income:		
Unrecognized actuarial gain (loss)	($635,612)	($684,188)
Effect of 1% increase in the health care trend:		
Postemployment benefit obligation	$9,410,000	
Net periodic benefit cost	717,000	

Projected retiree benefit payments for the next five years are expected to be as follows: 2019 - $700,000; 2020 - $711,000; 2021 - $750,000; 2022 - $792,000; 2023 - $835,000.

Note 7. Postretirement Benefits, continued

The discount rate used in determining the APBO was 4.5% for 2018 and 2017. The health care cost trend rate used to compute the APBO is a 6% annual rate of increase for 2018, and decreasing gradually to 4.5%, they then remain at that level thereafter.

Note 8. 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.

Note 9. Environmental Contingency

Jackson Energy, from time to time, is required to work with and handle PCB's, 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.

Note 10. Commitments

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

Note 11. Contingencies

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

* * * * * *

Jackson Energy Cooperative and Subsidiary
Consolidating Balance Sheet, February 28, 2018

Assets	Energy	Propane	Eliminations	Consolidated
Net Utility Plant	$ 166,833,405	$ 2,718,287		$ 169,551,692
Investments and Other Assets:				
Associated organizations and others	60,088,040			60,088,040
Goodwill, net of amortization		262,177		262,177
Propane company	3,732,662		(3,732,662)	-
	63,820,702	262,177	(3,732,662)	60,350,217
Current Assets:				
Cash and cash equivalents	6,016,027	571,746		6,587,773
Accounts receivable, less allowance for uncollectible accounts	14,292,010	264,894		14,556,904
Material and supplies, at average cost	1,751,242	316,276		2,067,518
Prepayments	742,998	37,000		779,998
	22,802,277	1,189,916		23,992,193
Deferred Debits	10,404,812			10,404,812
Total	$ 263,861,196	$ 4,170,380	$ (3,732,662)	$ 264,298,914
Members' Equities and Liabilities				
Members' and Stockholder's Equities:				
Memberships and capital	$ 1,311,060	$ 1,293,141	$ (1,293,141)	$ 1,311,060
Patronage capital and retained earnings	102,716,696	2,439,521	(2,439,521)	102,716,696
Accum other comprehensive income	(635,612)			(635,612)
Other equities	4,046,869			4,046,869
	107,439,013	3,732,662	(3,732,662)	107,439,013
Long Term Debt	127,599,180	252,645		127,851,825
Accumulated Postretirement Benefits	8,834,362			8,834,362
Current Liabilities:				
Accounts payable	7,098,658	170,073		7,268,731
Short term borrowings	1,600,000			1,600,000
Current portion of long term debt	6,370,000	15,000		6,385,000
Consumer deposits	719,202			719,202
Accrued expenses	2,871,882			2,871,882
	18,659,742	185,073		18,844,815
Consumer Advances and Others	1,328,899			1,328,899
Total	$ 263,861,196	$ 4,170,380	$ (3,732,662)	$ 264,298,914

The accompanying notes are an integral part of these statements.

Consolidating Statement of Revenue and Comprehensive Income
for the year ended February 28, 2018

	Energy	Propane	Eliminations	Consolidated
Operating Revenues	$ 101,271,907	$ 4,166,708	$ (23,862)	$ 105,414,753
Operating Expenses:				
Cost of purchases	63,753,739	1,812,624		65,566,363
Distribution - operations	4,484,104	1,194,334		5,678,438
Distribution - maintenance	6,270,970			6,270,970
Consumer accounts	2,992,906	270,338		3,263,244
Customer service and information	731,642	37,443		769,085
Administrative and general	4,765,566	147,306	(23,862)	4,889,010
Depreciation, excluding $686,887 charged to clearing accounts	9,573,223	304,809		9,878,032
Amortization of deferred retirements	470,772			470,772
Interest on long term debt	4,394,168	17,171		4,411,339
Other interest	55,398			55,398
Taxes	142,458	29,854		172,312
Other	86,097			86,097
	97,721,043	3,813,879	(23,862)	101,511,060
Operating Margins	3,550,864	352,829		3,903,693
Nonoperating Margins:				
Interest income	111,787	1,014		112,801
Subsidiary and others	388,471	12,981	(366,824)	34,628
	500,258	13,995	(366,824)	147,429
Patronage Capital, associated organizations				
G&T capital credits	1,963,643			1,963,643
Other capital credits	148,043			148,043
	2,111,686	-	-	2,111,686
Net Margins	6,162,808	366,824	(366,824)	6,162,808
Other Comprehensive Income:				
Postretirement benefits	48,576			48,576
Total Comprehensive Income	$ 6,211,384	$ 366,824	$ (366,824)	$ 6,211,384

The accompanying notes are an integral part of these statements.

Consolidating Statement of Cash Flows
for the year ended February 28, 2018

	Energy	Propane	Eliminations	Consolidated
Cash Flows from Operating Activities:				
Net margins	$ 6,162,808	$ 366,824	$ (366,824)	$ 6,162,808
Adjustments to reconcile to net cash provided by operating activities:				
Depreciation and amortization				
Charged to expense	10,043,995	304,809		10,348,804
Charged to clearing accounts	686,887			686,887
Patronage capital credits	(2,111,686)			(2,111,686)
(Profit) or loss in subsidiary	(366,824)		366,824	-
Accumulated postretirement benefits	42,362			42,362
Change in assets and liabilities:				
Receivables	(412,685)	(188,492)		(601,177)
Material and supplies	(155,159)	84,879		(70,280)
Prepayments and deferred debits	79,364	-		79,364
Payables	623,578	13,458	-	637,036
Consumer deposits and advances	(14,415)			(14,415)
Accrued expenses	263,036			263,036
	14,841,261	581,478		15,422,739
Cash Flows from Investing Activities:				
Plant additions	(11,650,671)	(254,934)		(11,905,605)
Plant removal costs	(1,414,049)			(1,414,049)
Salvage recovered from plant	72,476			72,476
Other investments, net	570,603			570,603
	(12,421,641)	(254,934)		(12,676,575)
Cash Flows from Financing Activities:				
Memberships and other equities	(3,053)		-	(3,053)
Retirement of patronage capital	(554,513)	-		(554,513)
Long term advances	10,000,000			10,000,000
Payments on long term debt	(6,973,529)	(31,005)		(7,004,534)
Short term borrowings (repayments)	(2,400,000)	-		(2,400,000)
	68,905	(31,005)		37,900
Net increase in cash	2,488,525	295,539		2,784,064
Cash and cash equivalents - beginning	3,527,502	276,207		3,803,709
Cash and cash equivalents - ending	$ 6,016,027	$ 571,746		$ 6,587,773
Supplemental cash flows information:				
Interest paid on long term debt	$ 4,234,778	$ 17,171		$ 4,251,949
Income taxes paid	$ 28,176			$ 28,176

The accompanying notes are an integral part of these statements.

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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
Jackson Energy Cooperative
McKee, Kentucky

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 consolidated financial statements of Jackson Energy Cooperative and Subsidiary ("the Cooperative"), as of and for the year ended February 28, 2018 and 2017, and the related notes to the consolidated financial statements, which collectively comprise the Cooperative's basic consolidated financial statements, and have issued my report thereon dated May 17, 2018.

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, I 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

To the Board of Directors
Jackson Energy Cooperative

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing on 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
May 17, 2018

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

Board of Directors
Jackson Energy Cooperative
McKee, Kentucky

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 Jackson Energy Cooperative ("the Cooperative"), which comprise the balance sheet as of February 28, 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 May 17, 2018. In accordance with *Government Auditing Standards*, we have also issued my report dated May 17, 2018, 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, 2014, 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;
- 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, which are listed below.

The deferred debits are as follows:

Deferred property retirements	$4,119,261
Past service pension benefits	1,621,165
Accelerated pension benefit payment	4,664,386
	$10,404,812

The deferred credits are as follows:

Consumer advances for construction	$341,480
Joint use attachments paid in advance	987,419
	$1,328,899

Jackson Energy is a 100% owner of a subsidiary, Jackson Energy Propane Plus, LLC, which is engaged in the distribution sales of propane gas in and around the areas in which the Cooperative provides electric service and other areas in southeastern Kentucky. The investment is accounted for using the equity method of accounting. The original investment was $7,500. The investment is as follows:

	Investment	Profits
Beginning balance	$2,526,836	$839,002
Activity for 2018	-	366,824
Ending balance	$2,526,836	$1,205,826

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

Alan Zumstein

Alan M. Zumstein, CPA
May 17, 2018