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Jackson Purchase Energy Corporation
Paducah, Kentucky

Audited Financial Statements
December 31, 2017 and 2016

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Independent Auditor's Report

To the Board of Directors
Jackson Purchase Energy Corporation
Paducah, Kentucky

Report on the Financial Statements

I have audited the accompanying financial statements of Jackson Purchase Energy Corporation, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of revenue and comprehensive income, changes in equities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Board of Directors
Jackson Purchase Energy Corporation

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jackson Purchase Energy Corporation as of December 31, 2017 and 2016, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued a report dated March 2, 2018, on my consideration of Jackson Purchase Energy Corporation's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance.

Alan Zumstein
Alan M. Zumstein, CPA
March 2, 2018

Jackson Purchase Energy Corporation
Balance Sheets, December 31, 2017 and 2016

Assets	2017	2016
Electric Plant, at original cost:		
In service	$ 159,055,261	$ 155,146,424
Under construction	1,671,255	1,690,662
	160,726,516	156,837,086
Less accumulated depreciation	66,201,524	62,471,932
	94,524,992	94,365,154
Investments in Associated Organizations	3,438,845	3,339,448
Current Assets:		
Cash and cash equivalents	2,009,182	4,159,846
Accounts receivable, less allowance for 2017 of $141,276 and 2016 of $185,506	4,649,048	4,201,076
Other receivables	484,840	973,591
Accrued unbilled revenue	4,203,580	3,894,309
Material and supplies, at average cost	2,179,335	1,897,312
Other current assets	239,535	325,831
	13,765,520	15,451,965
Total	$ 111,729,357	$ 113,156,567

Members' Equities and Liabilities	2017	2016
Members' Equities:		
Memberships	$ 124,495	$ 129,055
Patronage capital	48,195,365	47,279,440
Accumulated other comprehensive income	(118,379)	(160,642)
	48,201,481	47,247,853
Long Term Debt	45,940,601	48,885,711
Accumulated Postretirement Benefits	2,547,483	2,407,784
Current Liabilities:		
Notes payable	1,200,000	-
Accounts payable	6,272,510	6,701,946
Consumer deposits	2,288,656	2,222,973
Current portion of long term debt	2,628,000	2,760,000
Accrued expenses	1,756,600	2,036,033
	14,145,766	13,720,952
Advances for Construction and others	894,026	894,267
Total	$ 111,729,357	$ 113,156,567

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

Jackson Purchase Energy Corporation
Statements of Revenue and Comprehensive Income
for the years ended December 31, 2017 and 2016

	2017	2016
Operating Revenues		
Sales of electricity	$69,594,979	$65,533,805
Other electric revenue	1,293,318	1,258,515
	70,888,297	66,792,320
Operating Expenses:		
Cost of power	53,014,406	48,455,266
Distribution - operations	2,737,035	2,576,374
Distribution - maintenance	3,502,718	3,490,961
Consumer accounts	1,292,803	1,363,853
Consumer service and information	81,347	78,542
Administrative and general	2,116,296	2,492,455
Depreciation, excluding $368,420 in 2017 and $353,441 in 2016 charged to clearing accounts	5,696,129	5,578,335
Taxes	81,520	77,445
Interest on long-term debt	2,124,754	2,335,535
Other interest	17,395	7,801
Other deductions	1,915	105,217
Total cost of electric service	70,666,318	66,561,784
Operating Margins	221,979	230,536
Nonoperating Margins and Patronage Capital:		
Interest income	382,496	372,841
Other nonoperating income, net	59,456	38,827
Patronage capital from associated organizations	251,994	262,538
Net nonoperating margins	693,946	674,206
Net Margins	915,925	904,742
Items of Comprehensive Income:		
Postretirement benefits	42,263	42,263
Comprehensive Income	$ 958,188	$ 947,005

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

Jackson Purchase Energy Corporation
Statements of Members' Equities
for the years ended December 31, 2016 and 2017

		Patronage Capital Credits				Accumulated Other Comprehensive	Total Members'
	Memberships	Assignable	Assigned	Retired	Total	Income	Equity
Balance - December 31, 2015	$ 134,100	$ 1,788,112	$ 46,175,720	$ (1,589,134)	$ 46,374,698	$ (202,905)	$ 46,305,893
Comprehensive income:							
Net margins		904,742			904,742		904,742
Postretirement benefit obligation							
Amortization						42,263	
Adjustments						-	42,263
Total comprehensive income							947,005
Assignment of margins		(1,788,112)	1,788,112		-		-
Net change in memberships	(5,045)						(5,045)
Refunds of capital credits							-
Other equities							-
Balance - December 31, 2016	129,055	904,742	47,963,832	(1,589,134)	47,279,440	(160,642)	47,247,853
Comprehensive income:							
Net margins		915,925			915,925		915,925
Postretirement benefit obligation							
Amortization						42,263	
Adjustments						-	42,263
Total comprehensive income							958,188
Assignment of margins		(904,742)	904,742		-		-
Net change in memberships	(4,560)						(4,560)
Refunds of capital credits							-
Other equities							-
Balance - December 31, 2017	$ 124,495	$ 915,925	$ 48,868,574	$ (1,589,134)	$ 48,195,365	$ (118,379)	$ 48,201,481

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

Jackson Purchase Energy Corporation
Statements of Cash Flows
for the years ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities:		
Net margins	$ 915,925	$ 904,742
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation		
Charged to expense	5,696,129	5,578,335
Charged to clearing	368,420	353,441
Capital credits allocated	(251,994)	(262,538)
Accumulated postretirement benefits	181,962	183,384
Net change in current assets and liabilities:		
Receivables	(268,492)	(2,107,761)
Material and supplies	(282,023)	(8,732)
Other current assets	86,296	(166)
Accounts payable	(429,436)	2,634,326
Consumer deposits	65,683	207,967
Accrued expenses	(279,433)	222,705
Consumer advances for construction	(241)	29,668
	5,802,796	7,735,371
Cash Flows from Investing Activities:		
Construction of plant	(5,725,922)	(4,990,887)
Plant removal costs	(608,217)	(464,585)
Salvage recovered from plant	109,752	109,073
Receipts from investments, net	152,597	163,246
	(6,071,790)	(5,183,153)
Net Cash Flows from Financing Activities:		
Net decrease in memberships	(4,560)	(5,045)
Notes payable, net	1,200,000	-
Additional long-term borrowings	-	-
Advance payments	(316,145)	(300,929)
Payments on long-term debt	(2,760,965)	(2,734,159)
	(1,881,670)	(3,040,133)
Net increase in cash balances	(2,150,664)	(487,915)
Cash and cash equivalents - beginning	4,159,846	4,647,761
Cash and cash equivalents - ending	$ 2,009,182	$ 4,159,846
Supplemental disclosures of cash flow information:		
Interest on long-term debt	$ 2,192,946	$ 2,286,911

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

Note 1. Summary of Significant Accounting Policies

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

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

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

	2017	2016
Distribution plant	$148,703,495	$144,945,073
General plant	10,351,766	10,201,351
Total	$159,055,261	$155,146,424

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 1.48% to 12.09%, with a composite rate of 3.73% for distribution plant. General plant rates are as follows:

Structures and improvements	2.5%
Transportation equipment	10% - 20%
Other general plant	5% - 10%

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

Off Balance Sheet Risk The Corporation has off-balance sheet risk in that it maintains cash deposits in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2017, the financial institutions reported deposits in excess of the $250,000 FDIC insured limit on several of the accounts. Deposits and repurchase agreements in excess of the FDIC limits are 100% secured with collateral from each respective financial institution.

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 The Corporation records revenue as billed to its consumers based on monthly meter-reading cycles. All consumers are required to pay a refundable deposit that may be waived under certain circumstances. The Corporation's sales are concentrated in a six county area of western Kentucky. There were no consumers whose individual account balance exceeded 10% of outstanding accounts receivable at December 31, 2017 or 2016. Consumers must pay their bill within 17 days of billing, then are subject to disconnect after another 10 days. Accounts are written off when they are deemed to be uncollectible. The allowance for uncollectible accounts is based on the aging of receivables.

Note 1. Summary of Significant Accounting Policies, continued

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

Cost of Power The Corporation is one of three (3) members of Big Rivers Electric Corporation ("Big Rivers"), a generation and transmission cooperative association. Under a wholesale power agreement, the Corporation is committed to purchase its electric power and energy requirements from Big Rivers until 2043. The rates charged by Big Rivers are subject to approval of the PSC. The cost of purchased power is recorded monthly during the period in which the energy is consumed, based upon billings from Big Rivers. There are certain surcharges, clauses, and credits that Big Rivers includes to the Corporation that are passed on to consumers using a methodology prescribed by the Commission.

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

> Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities
>
> Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
>
> Level 3: Prices or valuations that require inputs that are both significant to the fair value measure and unobservable.

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

The carrying amounts of the Corporation's cash and cash equivalents, other receivables, accounts payable, accrued expenses, and other liabilities approximate fair value due to their short maturity. Investments in associated organizations are not considered a financial instrument because they represent nontransferable interests in associated organizations. Other assets and liabilities are not considered financial instruments because they represent activities specifically related to the Corporation. 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.

The Corporation 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.

Commitments The Corporation 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 generally one to three years.

Note 1. Summary of Significant Accounting Policies, continued

Advertising The Corporation expenses advertising costs as incurred.

Risk Management The Corporation 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.

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.

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

The Corporation has elected to continue valuing the non-cash allocations received from Big Rivers at zero for financial accounting purposes, a practice it has followed since Big Rivers emerged from bankruptcy in 1998 during which all previous booked non-cash allocations were reduced to zero. The Corporation will continue to make memorandum entries in its patronage subsidiary ledger of the face amount of the allocations received from Big Rivers. Refer to the subsequent footnote for the income tax treatment of these non-cash allocations.

Income Tax Status The Corporation is exempt from federal and state income taxes under provisions of Section 501(c)(12). Accordingly, the financial statements for the Corporation include no provision for income taxes. When applying the 85 percent test of IRC 501(c)(12), the Corporation excludes the Big Rivers non-cash allocations from "gross income". The Corporation's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Management believes the Corporation has no uncertain tax positions resulting in an accrual of tax expense or benefit. The Corporation recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Corporation did not recognize any interest or penalties during the years ended December 31, 2017 and 2016. The Corporation'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.

Subsequent Events Management has evaluated subsequent events through March 2, 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

Investments in associated organizations consist of:

	2017	2016
CFC, CTCs	$933,430	$934,987
CFC, patronage capital	48,718	48,411
CoBank, patronage capital	818,310	776,820
National Rural Telecommunications Coop.	845,419	845,420
Others	792,968	733,810
Total	$3,438,845	$3,339,448

Note 2. Investments in Associated Organizations, continued

The Corporation 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 2022 to 2080.

Note 3. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30% of total assets, except that distributions may be made to estates of deceased patrons. The debt agreement provides, however, that should such distributions to estates not exceed 25% of the net margins for the next preceding year, the Corporation may distribute the difference between 25% and the payments made to such estates. The equity at December 31, 2017 was 43% of total assets. The Corporation adopted a policy whereby it would refund capital credits to its members in any annual period that a Times Interest Earned Ratio ("TIER") of 2.0 is exceeded. There are none anticipated for 2018.

Note 4. Long Term Debt

All assets, except vehicles, are pledged as collateral on the long term debt to RUS, Federal Financing Bank ("FFB"), CoBank, and CFC under a joint mortgage agreement. The long term debt is due in quarterly and monthly installments of varying amounts through 2039. RUS assesses 12.5 basis points to administer the FFB loans. During 2017 the Cooperative refinanced all the RUS debt with proceeds from CFC to take advantage of interest savings.

First mortgage notes are due as follows:

	2017	2016
RUS: 2.50% to 5.53%	$ -	$18,844,470
Advance payment @ 5%	(6,522,594)	(6,206,450)
	(6,522,594)	12,638,020
FFB: 0.733% to 5.158%	21,769,780	22,778,010
CoBank: 2.87% to 4.90%	14,850,428	16,004,656
CFC: 2.65%	145,400	225,025
CFC: Refinance RUS loans 2.35% to 3.75%	18,325,587	-
	48,568,601	51,645,711
Current portion	2,628,000	2,760,000
Long term portion	$45,940,601	$48,885,711

As of December 31, 2017, the annual principal portion of long term debt outstanding for the next five years are as follows: 2018 - $2,628,000; 2019 - $2,838,000; 2020 - $2,826,000; 2021 - $2,882,000; 2022 - $2,938,000.

Note 5. Short Term Borrowings

The Corporation has a line of credit available from CFC in the amount of $5,000,000. Advances at December 31, 2017 were $1,200,000 at an interest rate of 2.75%. The Corporation also has a short term line of credit of $10,000,000 available from CoBank. There were no advances against the CoBank line of credit during the audit period.

Note 6. Pension Plans

Qualified union and non-union employees of the Corporation 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.

The Corporation's contributions to the R&S Plan in 2017 and 2016 represent less than 5 percent of the total contributions made to the plan by all participating employers. The Corporation made contributions to the plan of $776,703 in 2017 and $781,403 in 2016. There have been no significant changes that affect the comparability of 2017 and 2016 contributions.

For 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, 2017 and 2016 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.

Qualified union employees participate in the International Brotherhood of Electrical Workers ("IBEW") Savings Plan. The Corporation contributes 10% of base wages to the plan. The Corporation contributions to the plan totaled $198,004 in 2017 and $201,202 in 2016.

Qualified non-union employees participate in the NRECA 401(k) Plan. The Corporation contributes 4% of annual wages to the plan for employees hired prior to January 1, 2006, and 14% of annual wages for employees hired after January 1, 2006. Contributions for these plans totaled $175,554 for 2017 and $189,955 for 2016.

A summary of plan benefits are as follows:

	Pre 2006	Post 2006
Union Employees		
Union Savings Plan	10%	10%
R&S Benefit level	1.6%	1.0%
Non-Union Employees		
401(k), Employer contribution	4%	14%
R&S Benefit level	1.8%	none

Note 7. Postretirement Benefits

The Corporation sponsors a defined benefit plan that provides medical insurance coverage to retirees. The premiums are paid for a maximum of ten years or until age 65, whichever comes first. For measurement purposes, an annual rate of increase of 8% in 2017, then decreasing by 0.5% per year until 5% per year, in the per capita cost of covered health care benefit was assumed. The discount rate used in determining the accumulated postretirement benefit obligation was 4.50%. There have been no significant changes that affect the comparability of 2017 and 2016. This is a non-contributory plan.

Note 7. Postretirement Benefits, continued

The funded status of the plan is as follows:

	2017	2016
Projected benefit obligation	($2,547,483)	($2,407,784)
Plan assets at fair value	-	-
Funded status	($2,547,483)	($2,407,784)

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

	2017	2016
Benefit obligation at beginning of year	$2,407,784	$2,266,663
Net periodic benefit cost:		
Service cost	59,161	65,480
Interest cost	111,494	105,175
	170,655	170,655
Benefits paid	(30,956)	(29,534)
Actuarial gain/loss	-	-
Benefit obligation at end of year	$2,547,483	$2,407,784
Amounts recognized in the balance sheet consists of:		
Noncurrent liabilities	$2,547,483	$2,407,784
Amounts included in other comprehensive income:		
Unrecognized actuarial gain (loss)	($118,379)	($160,642)
Effect of 1% increase in the health care trend:		
Postemployment benefit obligation	$2,725,000	
Net periodic benefit cost	182,600	

Projected retiree benefit payments for the next five years are expected to be as follows: 2018 - $28,000; 2019 - $26,000; 2020 - $28,000; 2021 - $26,000; 2022 - $25,000.

Note 8. Related Party Transactions

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

Note 9. Labor Force

Approximately 45% of the Corporation’s labor force is subject to a collective bargaining agreement. A three (3) year agreement was negotiated and approved for the period starting November, 2016 between the Corporation and the IBEW.

Note 10. Environmental Contingency

The Corporation from time to time is required to work with and handle PCBs, herbicides, automotive fluids, lubricants, and other hazardous materials in the normal course of business. As a result, there is the possibility that environmental conditions may arise which would require the Corporation 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 the Corporation's financial position or its future cash flows.

Note 11. Contingencies

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

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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 Purchase Energy Corporation
Paducah, 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 financial statements of Jackson Purchase Energy Corporation, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of revenue and comprehensive income, members' equities and cash flows for the years then ended, and related notes to the financial statements, and have issued my report thereon dated March 2, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors
Jackson Purchase Energy Corporation

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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 of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alan Zumstein
Alan M. Zumstein, CPA
March 2, 2018

ALAN M. ZUMSTEIN
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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 Purchase Energy Corporation
Paducah, 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 Purchase Energy Corporation ("the Corporation"), which comprise the balance sheet as of December 31, 2017, and the related statements of revenue and comprehensive income, patronage capital, and changes in cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated March 2, 2018. In accordance with *Government Auditing Standards*, we have also issued my report dated March 2, 2018, on my consideration of the Corporation'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 related to my audit have been furnished to management.

In connection with my audit, nothing came to my attention that caused me to believe that the Corporation failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2013, insofar as they relate to accounting matters as enumerated below. However, my audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had I performed additional procedures, other matters may have come to my attention regarding the Corporation'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 Corporation's accounting and records to indicate that the Corporation 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, of which there were none.

There were no deferred debits, deferred credits are as follows:

Consumer advances for construction	$167,570
FEMA disallowance reserve	726,456
	$894,026

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
March 2, 2018