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Licking Valley Rural Electric Cooperative Corporation
West Liberty, Kentucky

Audited Financial Statements
October 31, 2013 and 2012

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Independent Auditor's Report

To the Board of Directors
Licking Valley Rural Electric Cooperative
West Liberty, Kentucky

Report on the Financial Statements

I have audited the accompanying financial statements of Licking Valley Rural Electric Cooperative, which comprise the balance sheets as of October 31, 2013 and 2012, 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
Licking Valley Rural Electric Cooperative

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Licking Valley Rural Electric Cooperative as of October 31, 2013 and 2012, and the results of their 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 January 9, 2014, on my consideration of Licking Valley Rural Electric 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.

Alan M. Zumstein

Alan M. Zumstein, CPA
January 9, 2014

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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
Licking Valley Rural Electric Cooperative

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 Licking Valley Rural Electric Cooperative, which comprise the balance sheets as of October 31, 2013 and 2012, 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 January 9, 2014.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered Licking Valley's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Licking Valley's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Licking Valley's internal control over financial reporting.

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 over financial reporting 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 deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Licking Valley's financial statements are free of material misstatement, I performed test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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

This report is intended solely for the information and use of the audit committee, management, the Rural Utilities Service, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties.

Alan M. Zumstein

Alan M. Zumstein, CPA
January 9, 2014

Licking Valley Rural Electric Cooperative Corporation
Balance Sheets, October 31, 2013 and 2012

Assets	2013	2012
Electric Plant, at original cost:		
In service	$ 63,514,259	$ 61,176,333
Under construction	740,226	651,517
	64,254,485	61,827,850
Less accumulated depreciation	22,568,442	21,337,285
	41,686,043	40,490,565
Investments in Associated Organizations	11,014,350	9,717,067
Current Assets:		
Cash and cash equivalents	137,648	203,988
Accounts receivable, less allowance for 2013 of $137,115 and 2012 of $118,812	4,423,695	4,514,760
Other receivables	666,235	790,211
Material and supplies, at average cost	337,818	478,252
Other current assets	35,562	22,237
	5,600,958	6,009,448
Total	$ 58,301,351	$ 56,217,080

Members' Equities and Liabilities	2013	2012
Members' Equities:		
Memberships	$ 212,825	$ 214,120
Patronage capital	28,133,354	26,403,298
Other equities	101,841	100,337
Accumulated other comprehensive income	(965,728)	(1,033,768)
	27,482,292	25,683,987
Long Term Debt	21,786,065	19,724,939
Accumulated Postretirement Benefits	2,975,135	2,969,312
Current Liabilities:		
Notes payable	700,000	1,383,941
Accounts payable	2,045,606	3,015,615
Current portion of long term debt	1,100,000	1,225,000
Consumer deposits	1,269,858	1,265,754
Accrued expenses	649,084	617,523
	5,764,548	7,507,833
Consumer Advances	293,311	331,009
Total	$ 58,301,351	$ 56,217,080

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

Statements of Revenue and Patronage Capital

for the years ended October 31, 2013 and 2012

	2013	2012
Operating Revenues		
Sale of electricity	$ 28,645,373	$ 27,317,896
Other electric revenue	455,177	438,113
	29,100,550	27,756,009
Operating Expenses:		
Cost of power	19,971,820	19,072,840
Distribution - operations	1,781,955	1,530,245
Distribution - maintenance	2,008,413	1,850,674
Consumer accounts	835,982	972,103
Customer services	44,163	45,597
Administrative and general	1,408,664	1,238,785
Depreciation, excluding $242,717 in 2013 and $185,946 in 2012 charged to clearing account	2,043,342	1,967,023
Taxes, other than income	37,740	37,648
Other deductions	27,212	19,192
	28,159,291	26,734,107
Operating margins before interest charges	941,259	1,021,902
Interest Charges:		
Long-term debt	516,062	547,179
Other	47,375	105,115
	563,437	652,294
Operating margins after interest charges	377,822	369,608
Nonoperating Margins:		
Interest income	29,882	30,102
Others	-	42,786
	29,882	72,888
Patronage Capital Credits	1,322,352	1,460,337
Net Margins	1,730,056	1,902,833
Accumulated other comprehensive income:		
Accumulated postretirement benefits	68,040	68,040
Total Accumulated Other Comprehensive Income	$ 1,798,096	$ 1,970,873

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

Statement of Changes in Members' Equity
for the years ended October 31, 2012 and 2013

	Memberships	Patronage Capital	Other Equity	Accumulated Other Comprehensive Income	Total Members' Equity
Balance - Beginning of year	$211,930	$ 24,500,465	$ 88,570	$ (1,101,808)	$ 23,699,157
Comprehensive income:					
Net margins		1,902,833			1,902,833
Postretirement benefit obligation					
Amortization				68,040	
Adjustments				-	68,040
Total comprehensive income					1,970,873
Net change in memberships	2,190				2,190
Refunds of capital credits		-			-
Other equities			11,767		11,767
Balance-October 31, 2012	214,120	26,403,298	100,337	(1,033,768)	25,683,987
Comprehensive income:					
Net margins		1,730,056			1,730,056
Postretirement benefit obligation					
Amortization				68,040	
Adjustments				-	68,040
Total comprehensive income					1,798,096
Net change in memberships	(1,295)				(1,295)
Refunds to estates		-			-
Other equities			1,504		1,504
Balance-October 31, 2013	$212,825	$ 28,133,354	$101,841	$ (965,728)	$ 27,482,292

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

Statements of Cash Flows
for the years ended October 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities:		
Net margins	$ 1,730,056	$ 1,902,833
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation:		
Charged to expense	2,043,342	1,967,023
Charged to clearing accounts	242,717	185,946
Patronage capital credits assigned	(1,322,352)	(1,460,337)
Accumulated postretirement benefits	73,863	29,113
Change in assets and liabilities:		
Receivables	215,041	(861,619)
Material and supplies	140,434	(39,507)
Other assets	(13,325)	7,093
Payables	(970,009)	1,487,981
Consumer deposits and advances	(33,594)	(21,238)
Accrued expenses	31,561	93,940
	2,137,734	3,291,228
Cash Flows from Investing Activities:		
Plant additions	(3,127,109)	(2,408,621)
Plant removal costs	(370,759)	(293,491)
Salvage recovered from retired plant	16,331	96,408
Receipts from other investments, net	25,069	12,593
	(3,456,468)	(2,593,111)
Cash Flows from Financing Activities:		
Net increase in memberships	(1,295)	2,190
Increase in other equities	1,504	11,767
Short term borrowings	(683,941)	315,575
Payments on long term debt	(1,127,874)	(1,190,858)
Advances of long term debt	3,064,000	-
	1,252,394	(861,326)
Net increase in cash	(66,340)	(163,209)
Cash and cash equivalents		
Beginning of year	203,988	367,197
End of year	$ 137,648	$ 203,988
Supplemental cash flows information:		
Interest paid on long-term debt	$ 518,221	$ 551,521

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

Note 1. Summary of Significant Accounting Policies

Licking Valley Rural Electric Cooperative ("Licking Valley") 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:

	2013	2012
Distribution plant	$58,287,823	$56,238,673
General plant	5,226,436	4,937,660
Total	$63,514,259	$61,176,333

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 2.2% to 6.67% for distribution plant and from 3% to 15% for general plant.

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

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

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 Licking Valley records revenue as billed to its consumers based through the 20th of each month. All consumers are required to pay a refundable deposit, which may be waived under certain circumstances. Licking Valley's sales are concentrated in an eight county area of eastern Kentucky. There were no consumers whose individual account balance exceeded 10% of outstanding accounts receivable at October 31, 2013 or 2012. Consumers must pay their bill within 20 days of billing, at which time a 5% discount is forfeited, 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.

Licking Valley 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. Licking Valley'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.

Note 1. Summary of Significant Accounting Policies, continued

Cost of Power Licking Valley is one of sixteen (16) members of East Kentucky Power Cooperative ("East Kentucky"). Under a wholesale power agreement, Licking Valley 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.

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 Licking Valley'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 and liabilities are not considered financial instruments because they represent activities specifically related to Licking Valley. 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.

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

Income Tax Status Licking Valley is exempt from federal and state income taxes under provisions of Section 501(c)(12). Accordingly, the financial statements for Licking Valley include no provision for income taxes. Licking Valley'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 Licking Valley has no uncertain tax positions resulting in an accrual of tax expense or benefit. Licking Valley recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Licking Valley did not recognize any interest or penalties during the years ended October 31, 2013 and 2012. Licking Valley'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.

Advertising Licking Valley expenses advertising costs as incurred.

Note 1. Summary of Significant Accounting Policies, continued

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

Risk Management Licking Valley 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.

Contingencies Licking Valley is occasionally 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.

Subsequent Events Management has evaluated subsequent events through January 9, 2014, the date the financial statements were available to be issued. There were no significant subsequent events to report.

Note 2. Investments in Associated Organizations

Licking Valley 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.

Investments in associated organizations consist of:

	2013	2012
East Kentucky, patronage capital	$9,591,530	$8,319,439
CFC, patronage capital	169,075	160,043
CFC, CTC's	660,832	661,779
Others	592,913	575,806
Total	$11,014,350	$9,717,067

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, Licking Valley may distribute the difference between 25% and the payments made to such estates. The equity at October 31, 2013 was 47% of total assets. Nonoperating margins are used to offset the prior year losses. Patronage capital consists of:

	2013	2012
Assigned to date	$28,579,228	$27,185,823
Assignable margins	141,103	(122,678)
Unassigned	19,739	19,739
Prior year losses	(606,716)	(679,586)
Total	$28,133,354	$26,403,298

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 long term debt is due in quarterly and monthly installments of varying amounts through 2041. RUS assess 12.5 basis points to administer the FFB loans. The interest rates on notes payable to CFC at 5.50% are subject to change every seven years. The 2.90% interest rate notes to CFC adjusts monthly and may be converted to a fixed rate at any time upon board approval by Licking Valley. Licking Valley has unadvanced loan funds from FFB in the amount of $16,662,000, which can be advanced upon future construction projects. Long term debt consists of:

	2013	2012
RUS, 0.25% to 6.875%	$5,414,641	$5,861,457
FFB, 0.2% (0.104% in 2012) and 6.048%	14,748,480	12,169,341
CFC:		
5.50% fixed rate notes	2,455,143	2,651,340
2.90% (2.90% in 2012) variable rate	267,801	267,801
	2,722,944	2,919,141
	22,886,065	20,949,939
Less current portion	1,100,000	1,225,000
Long term portion	$21,786,065	$19,724,939

As of October 31, 2013, the annual principal portion of long term debt outstanding for the next five years are as follows: 2014 - $1,100,000; 2015 - $1,200,000; 2016 - $1,275,000; 2017 - $1,300,000; 2018 - $1,325,000.

Note 5. Short Term Borrowings

At October 31, 2013, Licking Valley had a short term line of credit of $5,000,000 available from CFC. At October 31, 2013, Licking Valley had advanced $700,000 of funds at an interest rate of 2.90%.

Note 6. Savings Plan

All eligible employees of Licking Valley 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. Licking Valley makes annual contributions to the Program equal to the amounts accrued for pension expense. Contributions to this plan were $240,074 for 2013 and $239,159 for 2012. In this multiemployer plan, which is available to all member corporations of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. A portion of this cost is allocated to construction of electric plant.

Note 7. Postretirement Benefits

Licking Valley sponsors a defined benefit plan that provides medical insurance coverage to retirees by contributing 50% of the cost of the policy. For measurement purposes, an annual rate of increase of 8.5%, 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 5.50%. A portion of the net periodic benefit cost is allocated to construction of electric plant.

Note 7. Postretirement Benefits, continued

The funded status of the plan is as follows:

	2013	2012
Projected benefit obligation	($2,975,135)	($2,969,312)
Plan assets at fair value	-	-
Funded status	($2,975,135)	($2,969,312)

The reconciliation of the benefits obligations of postretirement benefits are as follows:

	2013	2012
Benefit obligation - beginning of period	$2,969,312	$3,008,239
Adjust accumulated other comprehensive income	-	-
Net periodic benefit cost:		
Service cost	106,389	94,221
Interest cost	148,611	149,439
Benefit payments to participants	(249,177)	(282,587)
Benefit obligation - end of period	$2,975,135	$2,969,312

Projected retiree benefit payments for the next five years are expected to be as follows: 2014 - $250,500; 2015 - $240,000; 2016 - $240,000; 2017 - $245,000; 2018 - $250,000.

Note 8. Commitments

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

Note 9. Related Party Transactions

Several of the Directors of Licking Valley and its President & General Manager are on the Boards of Directors of various associated organizations. During 2013 Licking Valley purchased equipment from a company owned by one of the Directors.

Note 11. Environmental Contingency

Licking Valley 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 Licking Valley 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 Licking Valley's financial position or its future cash flows.

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To the Board of Directors
Licking Valley Rural Electric Cooperative

I have audited the financial statements of Licking Valley Rural Electric Cooperative for the year ended October 31, 2013, and have issued my report thereon dated January 9, 2014. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and 7 CFR Part 1773, Policy on audits of the Rural Utilities Service (RUS) Borrowers. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing my audit of the financial statements of the Cooperative for the year ended October 31, 2013, I considered its internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting that I consider to be a material weakness.

7 CFR Part 1773.3 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions and other additional matters. I have grouped my comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, I performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, material control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.3(d)(1) related transactions, depreciation rates, a schedule of deferred debits and credits and a schedule of investments, upon which I express an opinion. In addition, my audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-.45. My objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, I express no opinion thereon.

No reports, other than my independent auditor's report, and my independent auditor's report on internal control over financial reporting and compliance and other matters, all dated January 9, 2014, or summary of recommendations related to my audit have been furnished to management.

To the Board of Directors
Licking Valley Rural Electric Cooperative – 2

My comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions and other additional matters as required by 7 CFR Part 1773.33 are presented below.

Comments on Certain Specific Aspects of the Internal Control Over Financial Reporting

I noted no matters regarding the Cooperative's internal control over financial reporting and its operation that I consider to be a material weakness as previously defined with respect to:

- The accounting procedures and records;
- the process for accumulating and recording labor, material and overhead costs, and the distribution of these costs to construction, retirement, and maintenance and other expense accounts, and;
- the material controls.

However, I recommend corrective action be taken in the following area:

1. There were no meters retired from the books and records during the year. This occurred when the meter department did not notify accounting that meters were retired from service. Per discussion with each department, a system has been implemented to insure that meters are removed from the accounting records when they are removed from service.

Comments on Compliance with Specific RUS Loan and Security Instrument Provisions

At your request, I have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, and contracts. The procedures I performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of property or for the use of mortgaged property by others for the year ended October 31, 2013, of the Cooperative.
  1. The Cooperative has not entered into any contract during the year for the operation or maintenance of its property, or for the use of its property by others as defined in 1773.33(e)(1)(i).
- Procedures performed with respect to the requirement to submit RUS Financial and Operating Report, Electric Distribution to RUS:
  1. Agreed amounts reported in RUS Financial and Operating Report, Electric Distribution to the Cooperative's records as of December 31, 2012.

The results of my tests indicate that, with respect to the items tested, the Cooperative complied in all material respects, with the specific RUS loan and security instrument provisions referred to below. With respect to items not tested, nothing came to my attention that caused me to believe that the Cooperative had not complied, in all material respects, with those provisions. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- The borrower has submitted its RUS Financial and Operating Report, Electric Distribution to RUS and the RUS Financial and Operating Report, Electric Distribution, as of December 31, 2012, represented by the borrower as having been submitted to RUS appears to be in agreement with its audited records in all material respects.
- During the period of this review, the Cooperative received no long term advances from CFC on loans controlled by the RUS/CFC Mortgage and Loan Agreement.

To the Board of Directors
Licking Valley Rural Electric Cooperative – 3

Comments on Other Additional Matters

In connection with my audit of the Cooperative, nothing came to my attention that caused me to believe that the Cooperative failed to comply with respect to:

- The reconciliation of continuing property records to controlling general ledger plant accounts addressed at 7 CFR Part 1773.33(c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.33(c)(2);
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4);
- Approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap addressed at 7 CFR Part 1773.33(c)(5);
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standard No. 57, Related party Transactions, for the year ended October 31, 2013, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR Part 1773.33(f);
- The depreciation rates addressed at 7 CFR Part 1773.33(g);
- The detailed schedule of deferred debits and deferred credits; and
- The detailed schedule of investments.

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of deferred debits and deferred credits required by 7 CFR Part 1773(h) and provided below is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The deferred credits are as follows:

Consumer advances for construction	$293,311

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.

Alan M. Zumstein

Alan M. Zumstein, CPA
January 9, 2014