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Licking Valley Rural Electric Cooperative Corporation
West Liberty, Kentucky

Audited Financial Statements
October 31, 2015 and 2014

Alan M. Zumstein
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C O N T E N T S

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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, 2015 and 2014, 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, 2015 and 2014, 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 12, 2016, 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 Zumstein

Alan M. Zumstein, CPA
January 12, 2016

Licking Valley Rural Electric Cooperative Corporation
Balance Sheets, October 31, 2015 and 2014

Assets	2015	2014
Electric Plant, at original cost:		
In service	$ 67,546,087	$ 65,480,340
Under construction	1,236,648	955,840
	68,782,735	66,436,180
Less accumulated depreciation	25,241,298	24,143,259
	43,541,437	42,292,921
Investments in Associated Organizations	14,127,408	12,701,036
Current Assets:		
Cash and cash equivalents	352,198	938,154
Accounts receivable, less allowance for 2015 of $15,668 and 2014 of $15,443	4,058,125	4,314,737
Other receivables	195,391	89,049
Material and supplies, at average cost	355,489	438,287
Other current assets	41,315	33,369
	5,002,518	5,813,596
Total	$ 62,671,363	$ 60,807,553

Members' Equities and Liabilities	2015	2014
Members' Equities:		
Memberships	$ 213,015	$ 213,520
Patronage capital	30,254,172	29,654,260
Other equities	104,018	104,018
Accumulated other comprehensive income	(766,258)	(897,688)
	29,804,947	29,074,110
Long Term Debt	24,572,095	23,439,405
Accumulated Postretirement Benefits	3,076,769	3,027,358
Current Liabilities:		
Notes payable	-	-
Accounts payable	1,782,192	1,771,417
Current portion of long term debt	1,295,000	1,275,000
Consumer deposits	1,296,160	1,295,948
Accrued expenses	561,468	621,844
	4,934,820	4,964,209
Consumer Advances	282,732	302,471
Total	$ 62,671,363	$ 60,807,553

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

Statements of Revenue and Patronage Capital

for the years ended October 31, 2015 and 2014

	2015	2014
Operating Revenues		
Sale of electricity	$ 27,807,981	$ 29,369,991
Other electric revenue	349,363	384,094
	28,157,344	29,754,085
Operating Expenses:		
Cost of power	19,248,716	20,474,035
Distribution - operations	1,828,567	1,880,183
Distribution - maintenance	2,819,102	2,398,820
Consumer accounts	888,935	991,832
Customer services	11,717	103,872
Administrative and general	1,553,619	1,443,399
Depreciation, excluding $214,732 in 2015 and $243,603 in 2014 charged to clearing account	2,189,646	2,117,505
Taxes, other than income	41,214	38,895
Other deductions	25,736	26,992
	28,607,252	29,475,533
Operating margins before interest charges	(449,908)	278,552
Interest Charges:		
Long-term debt	430,627	485,921
Other	6,940	16,893
	437,567	502,814
Operating margins after interest charges	(887,475)	(224,262)
Nonoperating Margins:		
Interest income	29,888	29,878
Others	-	-
	29,888	29,878
Patronage Capital Credits	1,457,499	1,715,290
Net Margins	599,912	1,520,906
Accumulated other comprehensive income:		
Accumulated postretirement benefits	131,430	68,040
Total Accumulated Other Comprehensive Income	$ 731,342	$ 1,588,946

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

Statement of Changes in Members' Equity
for the years ended October 31, 2014 and 2015

	Memberships	Patronage Capital	Other Equity	Accumulated Other Comprehensive Income	Total Members' Equity
Balance - Beginning of year	$ 212,825	$ 28,133,354	$ 101,841	$ (965,728)	$ 27,482,292
Comprehensive income:					
Net margins		1,520,906			1,520,906
Postretirement benefit obligation					
Amortization				68,040	
Adjustments				-	68,040
Total comprehensive income					1,588,946
Net change in memberships	695				695
Returns to patrons		-			-
Other equities			2,177		2,177
Balance-October 31, 2014	213,520	29,654,260	104,018	(897,688)	29,074,110
Comprehensive income:					
Net margins		599,912			599,912
Postretirement benefit obligation					
Amortization				68,040	
Adjustments				63,390	131,430
Total comprehensive income					731,342
Net change in memberships	(505)				(505)
Returns to patrons		-			-
Other equities			-		-
Balance-October 31, 2015	$ 213,015	$ 30,254,172	$ 104,018	$ (766,258)	$ 29,804,947

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

Statements of Cash Flows
for the years ended October 31, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities:		
Net margins	$ 599,912	$ 1,520,906
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation:		
Charged to expense	2,189,646	2,117,505
Charged to clearing accounts	214,732	243,603
Patronage capital credits assigned	(1,457,499)	(1,715,290)
Accumulated postretirement benefits	180,841	120,263
Change in assets and liabilities:		
Receivables	150,270	686,144
Material and supplies	82,798	(100,469)
Other assets	(7,946)	2,193
Payables	10,775	(274,189)
Consumer deposits and advances	(19,527)	35,250
Accrued expenses	(60,376)	(27,240)
	1,883,626	2,608,676
Cash Flows from Investing Activities:		
Plant additions	(3,188,180)	(2,632,151)
Plant removal costs	(466,337)	(372,480)
Salvage recovered from retired plant	1,623	36,645
Receipts from other investments, net	31,127	28,604
	(3,621,767)	(2,939,382)
Cash Flows from Financing Activities:		
Net increase in memberships	(505)	695
Increase in other equities	-	2,177
Short term borrowings (repayments)	-	(700,000)
Payments on long term debt	(1,274,310)	(1,169,660)
Advances of long term debt	2,427,000	2,998,000
	1,152,185	1,131,212
Net increase in cash	(585,956)	800,506
Cash and cash equivalents		
Beginning of year	938,154	137,648
End of year	$ 352,198	$ 938,154
Supplemental cash flows information:		
Interest paid on long-term debt	$ 432,531	$ 488,290

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:

	2015	2014
Distribution plant	$62,155,266	$60,221,911
General plant	5,390,821	5,258,429
Total	$67,546,087	$65,480,340

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, 2015 or 2014. 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, 2015 and 2014. 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 12, 2016, 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:

	2015	2014
East Kentucky, patronage capital	$12,635,508	$11,240,961
CFC, patronage capital	182,016	176,015
CFC, CTC's	658,731	659,818
Others	651,153	624,242
Total	$14,127,408	$12,701,036

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, 2015 was 48% of total assets. Nonoperating margins are used to offset the prior year losses. Patronage capital consists of:

	2015	2014
Assigned to date	$32,235,137	$30,941,666
Assignable margins	(1,453,734)	(730,296)
Unassigned	19,739	19,739
Prior year losses	(546,970)	(576,849)
Total	$30,254,172	$29,654,260

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 $11,237,000, which can be advanced upon future construction projects. Long term debt consists of:

	2015	2014
RUS, 0.125% to 6.875%	$4,581,109	$4,992,912
FFB, 0.10% and 6.048%	18,933,299	17,185,444
CFC:		
5.50% fixed rate notes	2,173,851	2,332,099
2.90% variable rate	178,836	203,950
	2,352,687	2,536,049
	25,867,095	24,714,405
Less current portion	1,295,000	1,275,000
Long term portion	$24,572,095	$23,439,405

As of October 31, 2015, the annual principal portion of long term debt outstanding for the next five years are as follows: 2016 - $1,295,000; 2017 - $1,320,000; 2018 - $1,340,000; 2019 - $1,370,000; 2020 - $1,400,000.

Note 5. Short Term Borrowings

At October 31, 2015, Licking Valley had a short term line of credit of $2,000,000 available from CFC. At October 31, 2015, Licking Valley had repaid all advances against the line of credit.

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 $261,945 for 2015 and $267,219 for 2014. 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:

	2015	2014
Projected benefit obligation	(3,076,769)	($3,027,358)
Plan assets at fair value	-	-
Funded status	($3,076,769)	($3,027,358)

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

	2015	2014
Benefit obligation - beginning of period	$3,027,358	$2,975,135
Adjust accumulated other comprehensive income	63,390	-
Net periodic benefit cost:		
Service cost	103,632	104,938
Interest cost	151,368	150,062
Benefit payments to participants	(268,979)	(202,777)
Benefit obligation - end of period	$3,076,769	$3,027,358

Projected retiree benefit payments for the next five years are expected to be as follows: 2016 - $160,000; 2017 - $140,000; 2018 - $110,000; 2019 - $105,000; 2020 - $100,000.

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.

Note 10. 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.

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
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, 2015 and 2014, 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 12, 2016.

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.

To the Board of Directors
Licking Valley Rural Electric Cooperative

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

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 M. Zumstein

Alan M. Zumstein, CPA
January 12, 2016

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

Board of Directors
Licking Valley Rural Electric Cooperative

Independent Auditor's Report

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 Licking Valley Rural Electric Cooperative ("the Cooperative"), which comprise the balance sheet as of October 31, 2015, 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 January 12, 2016. In accordance with *Government Auditing Standards*, we have also issued my report dated January 12, 2016, 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 and my schedule of findings and recommendations 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 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, of which there were none.

Deferred credits are as follows:

Consumer advances for construction	$282,732

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.

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
January 12, 2016

ALAN M. ZUMSTEIN
CERTIFIED PUBLIC ACCOUNTANT

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

January 12, 2016

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, 2015, and have issued my report thereon dated January 12, 2016. Professional standards require that I provide you with the following information related to my audit.

My Responsibility under U.S. Generally Accepted Auditing Standards As stated in my engagement letter, my responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles My audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit I performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

Significant Audit Findings There was no significant findings as a result of my audit procedures performed.

Adoption of New Accounting Principles Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Licking Valley are described in the Notes to the financial statements. During the year ended October 31, 2015, there were no significant new accounting principles adopted.

Unusual Transactions Lacking Authoritative Guidance I noted no transactions entered into by Licking Valley during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit I encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatement Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no significant audit adjustments required, nor were there any significant uncorrected misstatements not posted into the general ledger of Licking Valley

Disagreements with Management For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Management Representations I have requested certain representations from management that are included in the management representation letter dated January 12, 2016.

Consultation with Other Accountants In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Licking Valley's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. I did not consult with any outside accountants regarding accounting and auditing issues relevant to Licking Valley

Other Audit Findings or Issues There were no other audit findings or other issues required by my professional standards to be reported to the audit committee.

This information is intended solely for the use of the Audit Committee, Board of Directors, and management of Licking Valley and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Alan Zumstein

Alan M. Zumstein, CPA