

**MEADE COUNTY RURAL ELECTRIC
COOPERATIVE CORPORATION
KENTUCKY 18**

FINANCIAL REPORT

October 31, 2019

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Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Meade County Rural Electric Cooperative Corporation
Brandenburg, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Meade County Rural Electric Cooperative Corporation, which comprise the balance sheet as of October 31, 2019, and the related statements of revenue and comprehensive income, changes in members' equities, and cash flows for the year 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Meade County Rural Electric Cooperative Corporation as of October 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated January 17, 2020, on our consideration of Meade County Rural Electric Cooperative Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

The financial statements of Meade County Rural Electric Cooperative Corporation, as of and for the year ended October 31, 2018 were audited by other auditors whose report dated December 12, 2018 expressed an unmodified opinion on those statements.

Jones, Nale & Mattingly P.C.

Louisville, Kentucky
January 17, 2020

**MEADE COUNTY RURAL ELECTRIC
COOPERATIVE CORPORATION
BALANCE SHEETS
October 31, 2019 and 2018**

	2019	2018
<u>Assets</u>		
Electric plant, at original cost:		
In service	\$ 127,374,401	\$ 124,888,518
Under construction	1,921,033	180,253
	129,295,434	125,068,771
Less accumulated depreciation	44,897,152	42,154,565
	84,398,282	82,914,206
Investments in associated organizations	2,275,751	2,257,988
Current Assets:		
Cash and cash equivalents	23,054,778	21,199,311
Accounts receivable, less allowance for 2019 of \$86,173 and 2018 of \$122,023	4,278,011	4,696,178
Unbilled revenues	540,383	632,819
Other receivables	138,415	192,412
Material and supplies, at average cost	726,342	627,080
Other current assets	305,829	316,186
	29,043,758	27,663,986
Prepaid retirement costs	635,090	800,766
Total	\$ 116,352,881	\$ 113,636,946
<u>Members' Equities and Liabilities</u>		
Members' Equities:		
Memberships	\$ 67,175	\$ 69,985
Patronage capital	33,967,436	33,719,137
Other equities	1,358,749	1,294,656
Accumulated other comprehensive income	383,981	365,696
	35,777,341	35,449,474
Long-Term Debt, less current portion	69,458,765	68,120,760
Accumulated Postretirement Benefits	1,235,946	1,226,329
Current Liabilities:		
Accounts payable	3,328,579	3,594,948
Current portion of long-term debt	2,692,000	2,400,000
Consumer deposits	1,462,420	1,166,174
Accrued expenses	1,827,233	1,133,830
Total current liabilities	9,310,232	8,294,952
Consumer Advances	570,597	545,431
Total	\$ 116,352,881	\$ 113,636,946

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

**MEADE COUNTY RURAL ELECTRIC
COOPERATIVE CORPORATION
STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Years Ended October 31, 2019 and 2018**

	2019	2018
Operating Revenues		
Sale of electric energy	\$ 54,646,610	\$ 57,501,638
Other electric revenues	1,341,741	1,431,370
	55,988,351	58,933,008
Operating Expenses:		
Cost of power	39,434,431	41,461,478
Distribution - operations	2,897,799	2,910,222
Distribution - maintenance	3,540,135	3,166,554
Consumer accounts	1,681,036	1,650,761
Customer services	265,146	291,878
Administrative and general	1,621,056	1,642,502
Depreciation, excluding \$343,352 in 2019 and \$369,161 in 2018 charged to clearing accounts	4,369,877	4,278,955
Taxes, other than income	71,600	67,506
Interest on long-term debt	2,132,541	2,008,445
Interest expense - other	29,006	13,903
Other deductions	14,108	15,151
Total cost of electric service	56,056,735	57,507,355
Operating margins (deficits)	(68,384)	1,425,653
Nonoperating Margins		
Interest income	513,785	448,941
Others	12,069	38,445
	525,854	487,386
Patronage Capital Credits	58,046	81,049
Net Margins	515,516	1,994,088
Other Comprehensive Income:		
Postretirement benefits	18,285	462,177
Net Margins and Comprehensive Income	\$ 533,801	\$ 2,456,265

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

MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION
STATEMENT OF CHANGES IN MEMBERS' EQUITIES
Years Ended October 31, 2019 and 2018

	Memberships	Patronage Capital				Total	Other Equities	Accumulated Comprehensive Income (Loss)	Total Members' Equities
		Assigned	Assignable	Unassigned	Retirements				
Balance - October 31, 2017	\$ 73,184	\$ 41,828,173	\$ 873,933	\$ 6,329,310	\$ (16,755,127)	\$ 32,276,289	\$ 1,294,353	\$ (96,481)	\$ 33,547,345
Allocate margins		1,413,261	(1,878,114)	464,853		--			--
Comprehensive income:									
Net margins			1,994,088			1,994,088			1,994,088
Postretirement benefit obligation									
Amortization								15,358	
Adjustments								446,819	462,177
Total comprehensive income									2,456,265
Net change in memberships	(3,199)								(3,199)
Refunds of capital credits					(551,240)	(551,240)			(551,240)
Other equities							303		303
Balance - October 31, 2018	69,985	43,241,434	989,907	6,794,163	(17,306,367)	33,719,137	1,294,656	365,696	35,449,474
Allocate margins		1,413,261	(1,878,114)	464,853		--			--
Comprehensive income:									
Net margins			515,516			515,516			515,516
Postretirement benefit obligation									
Amortization								18,285	
Adjustments								--	18,285
Total comprehensive income									533,801
Net change in memberships	(2,810)								(2,810)
Refunds of capital credits					(267,217)	(267,217)			(267,217)
Other equities							64,093		64,093
Balance - October 31, 2019	\$ 67,175	\$ 44,654,695	\$ (372,691)	\$ 7,259,016	\$ (17,573,584)	\$ 33,967,436	\$ 1,358,749	\$ 383,981	\$ 35,777,341

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

**MEADE COUNTY RURAL ELECTRIC
COOPERATIVE CORPORATION
STATEMENTS OF CASH FLOWS
Years Ended October 31, 2019 and 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	\$ 515,516	\$ 1,994,088
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Charged to expense	4,369,877	4,278,955
Charged to clearing accounts	343,352	369,161
Patronage capital credits assigned	(58,046)	(81,049)
Accumulated postretirement benefits	27,902	65,267
Change in assets and liabilities:		
Receivables	564,600	(352,273)
Material and supplies	(99,262)	21,170
Other assets	10,357	(49,319)
Deferred assets	165,676	165,676
Payables	(266,369)	261,108
Consumer deposits and advances	321,412	170,321
Accrued expenses	693,403	110,174
Net cash provided by operating activities	6,588,418	6,953,279
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(5,680,323)	(3,908,857)
Plant removal costs	(557,118)	(536,935)
Salvage recovered from retired plant	40,136	44,914
Receipts from other investments, net	40,283	30,955
Net cash (used in) investing activities	(6,157,022)	(4,369,923)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in memberships	(2,810)	(3,199)
Refund of patronage capital to members	(267,217)	(551,240)
Increase in other equities	64,093	303
Payments on long-term debt	(2,590,306)	(2,314,311)
Advances on long-term debt	-	18,049,000
Net cushion of credit (advances) applied	4,220,311	(2,289,402)
Net cash provided by financing activities	1,424,071	12,891,151
Net increase in cash and cash equivalents	1,855,467	15,474,507
Cash and cash equivalents, beginning of year	21,199,311	5,724,804
Cash and cash equivalents, end of year	\$ 23,054,778	\$ 21,199,311
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid on long-term debt	\$ 2,163,985	\$ 1,969,664

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

MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Meade County Rural Electric Cooperative Corporation (“Meade County”) 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 accounting principles generally accepted in the United States of America. 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:

	<u>2019</u>	<u>2018</u>
Distribution plant	118,158,511	\$115,800,298
General plant	<u>9,215,890</u>	<u>9,088,220</u>
Total	<u>\$127,374,401</u>	<u>\$124,888,518</u>

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. General plant rates are as follows:

Structures and improvements	2.5% - 3%
Transportation equipment	12.5 - 25%
Other general plant items	5% - 14.3%

Cash and Cash Equivalents Meade County considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. Meade County 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 credit risk related to the accounts is minimal.

Estimates The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 Meade County records revenue as billed to its consumers based on monthly meter-reading cycles. All consumers are required to pay a refundable deposit, however, it may be waived under certain circumstances. Meade County’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 October 31, 2019 or 2018. Consumers must pay their bill within 20 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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Sales Tax Meade County 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. Meade County'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 Meade County is one of three (3) members of Big Rivers Electric Corporation, Inc. ("Big Rivers"). Under a wholesale power agreement, Meade County 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.

Fair Value Measurements FASB ASC 820, *Fair Value Measurements and Disclosures*, requires that Meade County to disclose estimated fair values of its financial instruments. Fair value estimates, methods, and assumptions are set forth below for Meade County's financial instruments.

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

Meade County may, and also does, invest idle funds in local banks. These investments are classified as held-to-maturity in accordance with provisions of the *Financial Instruments Topic* of FASB ASC 320. Held-to-maturity securities are presented at amortized cost. The fair value of held-to-maturity securities approximates cost at 2019 and 2018.

Risk Management Meade County 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.

Environmental Contingency Meade County 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 Meade County 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 Meade County's financial position or its future cash flows.

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

Meade County has elected to value the non-cash allocations received from Big Rivers at zero for financial statement 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. Meade County 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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Advertising Meade County expenses advertising costs as incurred.

Income Tax Status Meade County is exempt from federal and state income taxes under provisions of Section 501(c)(12). When applying the 85 percent test of IRC 501(c)(12), Meade County excludes the Big Rivers non-cash allocations from “gross income”. Accordingly, the financial statements for Meade County include no provision for income taxes. Meade County’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 Meade County has no uncertain tax positions resulting in an accrual of tax expense or benefit. Meade County recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Meade County did not recognize any interest or penalties during the years ended October 31, 2019 and 2018. Meade County’s income tax return is subject to possible examination by taxing authorities until the expiration of related statutes of limitations on the return, which is generally three years.

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

Recent Accounting Pronouncements In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. This standard will be effective for the year ending October 31, 2020.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of income and comprehensive income. This standard will be effective for the year ending October 31, 2022.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses*. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the statement of revenue and comprehensive income will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for the year ending October 31, 2024.

Meade County is currently in the process of evaluating the impact of the adoption of these ASUs on the financial statements.

Subsequent Events Management has evaluated subsequent events through January 17, 2020, the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

Note 2. Investments in Associated Organizations

Investments in associated organizations consist of:

	2019	2018
CFC, patronage capital	\$ 386,366	\$ 391,455
CFC, CTC's	866,395	869,142
Others	1,022,990	997,391
Total	\$ 2,275,751	\$ 2,257,988

Meade County 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, Meade County may distribute the difference between 25% and the payments made to such estates. The equity at October 31, 2019 and 2018 was 31% of total assets.

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 2053. RUS assess 12.5 basis points to administer the FFB loans. Long-term debt consists of:

	2019	2018
RUS:		
1.750% to 4.860%	\$ 26,731,952	\$ 27,756,590
Advance payments unapplied	(1,011,096)	(5,231,408)
	25,720,856	22,525,182
FFB, 1.014% and 6.049%	44,105,163	45,424,830
CFC, 3.45% to 3.85% fixed rate	2,324,746	2,570,748
	72,150,765	70,520,760
Less current portion	2,692,000	2,400,000
Long-term portion	\$ 69,458,765	\$ 68,120,760

As of October 31, 2019, the annual principal portion of long term debt outstanding for the next five years are as follows: 2020 - \$2,692,000; 2021 - \$2,800,000; 2022 - \$2,912,000; 2023 - \$3,030,000; 2024 - \$3,153,000.

NOTES TO FINANCIAL STATEMENTS

Note 5. Short-Term Borrowings

As of October 31, 2019, Meade County has a short-term line of credit of \$5,000,000 available from CFC. There were no advances against this line of credit as of October 31, 2019 and 2018. The maturity of the letter of credit coincides with the maturity of the long-term debt (see Note 4).

Note 6. Pension Plan

All eligible employees of Meade County 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. Eligible employees include employees hired prior to August 31, 2002. Non-eligible employees are those hired after August 31, 2002. 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.

Meade County’s contributions to the R&S Plan in 2019 and 2018 represent less than 5 percent of the total contributions made to the plan by all participating employers. Meade County made contributions to the plan of \$376,580 in 2019 and \$429,623 in 2018. There have been no significant changes that affect the comparability of 2019 and 2018.

In the R&S Plan, a “zone status” determination is not required, and therefore not determined, under the Pension Protection Act (“PPA”) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the R&S Plan approximately 80 percent funded at January 1, 2019 and 2018 based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the R&S Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the Retirement Security (“R&S”) Plan (a defined benefit multiemployer pension plan) to make a prepayment and reduce future required contributions. The prepayment amount is a cooperative share, as of January 1, 2013, of future contributions required to fund the R&S Plan’s unfunded value of benefits earned to date using Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative’s annual R&S Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. However, changes in interest rates, asset returns and other plan experience different from that expected, plan assumptions changes, and other factors may have an impact on the differential in billing rates and the 15 year period.

Two prepayment options were available to participating cooperatives:

1. Use current assets to make the prepayment over a period of not more than 4 years, or,
2. Borrow funds sufficient to make the prepayment in a lump sum, with the prepayment of the borrowed amount determined by the loan’s amortization schedule.

NOTES TO FINANCIAL STATEMENTS

Note 6. Pension Plan (Continued)

On February 14, 2013, RUS issued a memorandum to all of its borrowers regarding the proper accounting treatment of the R&S Plan prepayment. RUS stipulated that the prepayment shall be recorded as a long-term prepayment in Account 186, Miscellaneous Deferred Debits. This prepaid expense shall be amortized to Account 926, Employee Pensions and Benefits, over a ten year period. Alternatively, RUS borrowers may calculate the amortization period by subtracting the cooperative's average age of its workforce as provided by NRECA from the cooperative's normal retirement age under the R&S Plan, up to a maximum period of 20 years. If the entity chooses to finance the prepayment, interest expense associated with the loan shall be recorded in the year incurred as is required under the RUS Uniform System of Accounts ("USoA").

On March 15, 2013, Meade County made a prepayment of \$1,656,757 to the R&S Plan. Meade County is amortizing this amount over 10 years.

Note 7. Savings Plan

Meade County participates in the NRECA Savings Plan, a multiemployer, defined contribution master pension plan. All employees are eligible to participate in the Savings Plan upon completion of six (6) months employment. Eligible employees, as defined above, participate in the Savings Plan with Meade County contributing 3% of annual base pay, and the employee contributing from 1% to 3%. Non-eligible employees, as defined above, participate in the Savings Plan with Meade County contributing 12% of annual base pay, and the employee contributing from 1% to 3%. Employer contributions to the plan were \$372,109 for 2019 and \$337,914 for 2018, and vest immediately.

Note 8. Postretirement Benefits

Meade County sponsors a defined benefit plan that provides medical insurance coverage to retirees by contributing 50% of the cost of a single 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

4.5%. A portion of the net periodic benefit cost is allocated to construction of electric plant. There have been no significant changes that affect the comparability of 2019 and 2018.

The funded status of the plan is as follows:

	2019	2018
Projected benefit obligation	\$ (1,235,946)	\$ (1,226,329)
Plan assets at fair value	-	-
Funded status	<u>\$ (1,235,946)</u>	<u>\$ (1,226,329)</u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Postretirement Benefits (Continued)

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

	2019	2018
Benefit obligation - beginning of period	\$ 1,226,329	\$ 1,623,239
Actuarial adjustment	--	(446,819)
Net periodic benefit cost:		
Service cost	200	53,485
Interest cost	55,001	64,115
Net periodic benefit cost:	55,201	117,600
Benefit payments to participants	(45,584)	(67,691)
Benefit obligation - end of period	\$ 1,235,946	\$ 1,226,329

Amounts included in accumulated comprehensive income:

Unrecognized actuarial gain	\$ 383,981	\$ 365,696
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Effect of 1% increase in the health care trend:

Postemployment benefit obligation	\$ 1,303,000
Net periodic benefit cost	\$ 58,235

Projected retiree benefit payments for the next five years are expected to be as follows: 2020 - \$64,500; 2021 - \$60,000; 2022 - \$57,000; 2023 - \$51,000; 2024 - \$41,000.

Note 9. Related Party Transactions

Several of the Directors of Meade County and its President & CEO are on the Boards of Directors of various associated organizations. Meade County occasionally sells old vehicles to employees and others.

Note 10. Commitments

Meade County 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 11. Contingencies

Meade County, on occasion, is subject to various lawsuits that arise from the normal course of business. Meade County's management does not believe the outcome of these cases will have a material effect on the financial statements.



Jones, Nale & Mattingly PLC

**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
Meade County Rural Electric Cooperative Corporation
Brandenburg, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Meade County Rural Electric Cooperative Corporation (the Cooperative), which comprise the balance sheet as of October 31, 2019 and the related statements of revenue and comprehensive income, changes in members' equities and cash flows for the year then ended, and related notes to the financial statements, and have issued our report thereon dated January 17, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
January 17, 2020



Jones, Nale & Mattingly PLC

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS
OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS
FOR ELECTRIC BORROWERS**

To the Board of Directors
Meade County Rural Electric Cooperative Corporation
Brandenburg, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Meade County Rural Electric Cooperative Corporation ("the Cooperative"), which comprise the balance sheet as of October 31, 2019, and the related statements of revenue and comprehensive income, changes in members' equities, and changes in cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 17, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2020, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*, §1773.33, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over 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, which are listed below; and
- Comply with the requirements for the detailed schedule of investments, of which there were none.

The deferred credits are as follows:

Consumer advances for construction	<u><u>\$570,597</u></u>
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The purpose of this report is solely to communicate, in connection with the audit of the financial statements, on compliance with aspects of contractual agreements and the regulatory requirements for electric borrowers based on the requirements of 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*. Accordingly, this report is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
January 17, 2020