Kentucky 51
Nolin Rural Electric Cooperative Corporation
Elizabethtown, Kentucky

Audited Financial Statements
December 31, 2018 and 2017

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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
Nolin Rural Electric Cooperative Corporation

I have audited the accompanying financial statements of *Nolin Rural Electric Cooperative Corporation*, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of revenue and comprehensive income, changes in member's 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. 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.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *Nolin Rural Electric Cooperative Corporation* as of December 31, 2018 and 2017, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Alan Zumstein

Alan M. Zumstein, CPA
April 3, 2019

Nolin Rural Electric Cooperative Corporation
Balance Sheets, December 31, 2018 and 2017

Assets and Other Debits	2018	2017
Utility Plant, at original cost:		
In service	$ 119,399,295	$ 115,190,825
Under construction	2,470,753	2,967,497
	121,870,048	118,158,322
Less accumulated depreciation	49,089,847	45,374,259
	72,780,201	72,784,063
Investments in associated organizations	46,079,885	43,817,767
Long term portion of other receivables	30,932,710	39,062,603
Current Assets:		
Cash and cash equivalents	4,754,633	4,741,849
Accounts receivable, electric, less allowance for 2018 of $1,273,607 and 2017 of $1,147,028	9,249,043	10,421,772
Accounts receivable, other	7,290,217	8,063,043
Material and supplies, at average cost	1,200,742	1,320,680
Prepayments and others	24,879	25,993
	22,519,514	24,573,337
Prepaid Pension Costs	1,503,426	1,871,612
Total	$ 173,815,736	$ 182,109,382
Liabilities and Other Credits		
Members' Equities:		
Memberships	$ 264,425	$ 268,660
Patronage capital	71,574,854	66,554,985
Other equities	3,935,954	3,796,055
Accumulated comprehensive income (loss)	(2,036,446)	(2,222,520)
	73,738,787	68,397,180
Long Term Debt	77,168,805	90,882,137
Accumulated Postretirement Benefits	6,697,548	6,591,396
Current Liabilities:		
Accounts payable	6,861,979	6,557,540
Current portion of long term debt	5,050,000	5,060,000
Consumer deposits	2,400,154	2,291,838
Other current and accrued expenses	1,779,084	2,179,231
	16,091,217	16,088,609
Deferred Credits	119,379	150,060
Total	$ 173,815,736	$ 182,109,382

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

Nolin Rural Electric Cooperative Corporation
Statements of Revenue and Comprehensive Income
for the years ended December 31, 2018 and 2017

	2018	2017
Operating Revenues		
Sales of electric energy	$ 75,360,509	$ 68,816,724
Other electric revenue	4,346,653	3,806,333
	79,707,162	72,623,057
Operating Expenses:		
Cost of power	53,818,893	50,513,897
Distribution - operations	4,919,092	4,038,438
Distribution - maintenance	5,509,726	4,744,139
Consumer accounts	2,562,493	2,585,169
Customer service	686,634	686,224
Administrative and general	3,491,403	4,015,139
Depreciation, excluding $329,737 in 2018 and $261,692 in 2017 charged to clearing accounts	4,732,986	4,635,651
Interest on long-term debt	3,219,031	2,962,195
Other interest charges	35,308	19,520
Other deductions	30,973	24,922
Total cost of electric service	79,006,539	74,225,294
Operating Margins and Patronage Capital	700,623	(1,602,237)
Nonoperating Margins:		
Interest income	1,501,074	1,471,025
Other non operating margins	43,875	84,440
	1,544,949	1,555,465
Patronage Capital assigned		
G&T capital credits	2,629,054	1,438,701
Others	402,598	384,166
	3,031,652	1,822,867
Net Margins	5,277,224	1,776,095
Accumulated Comprehensive Income:		
Postretirement benefits	186,074	732,535
Total Comprehensive Income	$ 5,463,298	$ 2,508,630

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

Nolin Rural Electric Cooperative Corporation
Statement of Changes in Members' Equities
for the years ended December 31, 2017 and 2018

		Patronage Capital Credits						Other	Accumulated Comprehensive	Total Members'
	Memberships	Assigned	Assignable	Prior Deficits	Unassigned	Retirements	Total	Equities	Income (Loss)	Equities
Balance - December 31, 2016	$ 271,095	$ 92,412,777	$ (988,881)	$ (5,351,375)	$ 123,409	$ (21,668,076)	$ 64,527,854	$ 3,680,818	$ (2,392,812)	$ 66,086,955
Comprehensive income:										
Net margins			1,776,095				1,776,095			1,776,095
Postretirement benefit obligation										
Amortization									170,292	
Adjustments									-	170,292
Total comprehensive income										1,946,387
Net change in memberships	(2,435)									(2,435)
General refund of capital credits						-	-			-
Refunds to estates						(215,920)	(215,920)			(215,920)
Allocate margins		3,712,626	988,881	(4,701,507)			-			
Other equities		3,644,760		(3,177,804)			466,956	115,237		582,193
Balance - December 31, 2017	268,660	99,770,163	1,776,095	(13,230,686)	123,409	(21,883,996)	66,554,985	3,796,055	(2,222,520)	$ 68,397,180
Comprehensive income:										
Net margins			5,277,224				5,277,224			5,277,224
Postretirement benefit obligation										
Amortization									186,074	
Adjustments									-	186,074
Total comprehensive income										5,463,298
Net change in memberships	(4,235)									(4,235)
General refund of capital credits						-	-			-
Refunds to estates						(257,355)	(257,355)			(257,355)
Allocate margins		1,648,554	(1,776,095)	127,541			-			
Other equities							-	139,899		139,899
Balance - December 31, 2018	$ 264,425	$ 101,418,717	$ 5,277,224	$ (13,103,145)	$ 123,409	$ (22,141,351)	$ 71,574,854	$ 3,935,954	$ (2,036,446)	$ 73,738,787

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

Nolin Rural Electric Cooperative Corporation
Statements of Cash Flows
for the years ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Net margins	$ 5,277,224	$ 1,776,095
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation		
Charged to expense	4,732,986	4,635,651
Charged to clearing accounts	329,737	291,692
Patronage capital credits allocated	(3,031,652)	(1,822,867)
Accumulated postretirement benefits	292,226	294,023
Change in assets and liabilities:		
Receivables	1,172,729	(1,352,770)
Material and supplies	119,938	(280,907)
Prepayments	1,114	1,805
Deferred pension costs	368,186	368,186
Payables	304,439	(3,468,596)
Consumer deposits	108,316	12,275
Accrued expenses	(400,147)	346,816
	9,275,096	801,403
Cash Flows from Investing Activities:		
Plant additions	(4,630,238)	(5,305,655)
Salvage, net of removal costs	(428,623)	(552,694)
Deferred credits	(30,681)	(135,498)
Receipts from associated organizations	769,534	174,333
	(4,320,008)	(5,819,514)
Cash Flows from Financing Activities:		
Net increase in memberships	(4,235)	(2,435)
Other receivables financing (net)	8,902,719	11,785,000
Additional long-term borrowings	-	8,000,000
Payments on long-term debt	(13,723,332)	(8,969,421)
Short term borrowings (net)	-	(3,000,000)
Payments of patronage capital	(257,355)	(215,920)
Other equities	139,899	582,193
	(4,942,304)	8,179,417
Net increase (decrease) in cash	12,784	3,161,306
Cash and cash equivalents, beginning	4,741,849	1,580,543
Cash and cash equivalents, ending	$ 4,754,633	$ 4,741,849
Supplemental cash flows information:		
Interest paid on long-term debt	$ 3,234,507	$ 3,023,056

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

Note 1. Summary of Significant Accounting Policies

Nolin Rural Electric Cooperative Corporation (“Nolin”) 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:

Business Activities Nolin provides distribution electric service to residential, business and commercial consumers in a nine (9) county area of central Kentucky.

Nolin is operating the distribution system for a local government unit through a privatization process with the federal government. Nolin is reimbursed for all costs incurred, plus a management fee, on a monthly basis. Payments for the construction of plant facilities are recorded as contributions to plant for the total cost of each project, therefore, there is no net original cost for electric plant from the privatization process. The results of operating the government system are as follows:

	2018	2017
Operating revenues	$3,403,306	$2,837,344
Operating expenses	2,133,117	1,705,681

Other Business Activities Nolin also provides demand side management and energy efficiency services to the local federal government installation. Nolin subcontracts almost all work performed, then bills the government installation for the subcontractor costs, plus a management fee. The reimbursements are due over a ten (10) year period. Included in accounts receivable, other, is $37,932,710 for 2018 and $46,693,283 for 2017 for these projects. Nolin charges the government installation 1.05% times Nolin’s current variable interest rate on the unpaid balance. Interest income recognized was $1,369,215 for 2018 and $1,355,273 for 2017.

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

Off Balance Sheet Risk Nolin 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.

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.

Revenue Nolin records revenue as billed to its consumers based on monthly meter-reading cycles. Consumers are required to pay a refundable deposit, however, it may be waived under certain circumstances. 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. There were no individual account balances that exceeded 10% of outstanding accounts receivable at December 31, 2018 and 2017.

Note 1. Summary of Significant Accounting Policies, continued

Sales Taxes Nolin 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. Nolin'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 Nolin is one of sixteen (16) members of East Kentucky Power Cooperative ("East Kentucky"). Under a wholesale power agreement, Nolin 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. There are certain surcharges, clauses, and credits that East Kentucky includes to Nolin that are passed on to consumers using a methodology prescribed by the Commission.

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.

The major classifications of utility plant in service consist of:

	2018	2017
Distribution plant	$101,079,015	$97,912,220
General plant	18,320,280	17,278,605
Total	$119,399,295	$115,190,825

Depreciation Nolin's provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. General plant rates are as follows:

Distribution plant	2.5% - 6.9%
Structures and improvements	2.5%
Transportation equipment	10% - 20%
Other general plant	5% - 10%

Inventory Inventory is stated at cost, which approximates market value.

Income Tax Status Nolin is exempt from federal and state income taxes under provisions of Section 501(c)(12). Accordingly, the financial statements for Nolin include no provision for income taxes. Nolin'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 Nolin has no uncertain tax positions resulting in an accrual of tax expense or benefit. Nolin recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Nolin did not recognize any interest or penalties during the years ended December 31, 2018 and 2017. Nolin'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.

Note 1. Summary of Significant Accounting Policies, continued

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 Nolin's cash and cash equivalents, receivables, inventories, accounts payable and accrued expenses 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 other liabilities are not considered financial instruments because they represent activities specifically related to Nolin. Long term debt is specifically for electric cooperatives and, therefore, a value other than its outstanding principal cannot be determined.

Nolin 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.

Advertising Advertising costs are expensed as incurred.

Risk Management Nolin 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.

Subsequent Events Management has evaluated subsequent events through April 3, 2019, the date the financial statements were available to be issued.

Note 2. Investments in Associated Organizations

The Capital Term Certificates ("CTCs") of National Rural Utilities, Cooperative Finance Corporation ("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.

Note 2. Investments in Associated Organizations, continued

Nolin records patronage capital assigned by associated organizations in the year in which such assignments are received. Investments in associated organizations consist of:

	2018	2017
East Kentucky, patronage capital	$41,853,409	$39,224,355
CFC, patronage capital and CTCs	2,798,971	3,226,862
Others	1,427,505	1,366,550
Total	$46,079,885	$43,817,767

Note 3. Patronage Capital

Under provisions of CFC's long-term debt agreement, return to patrons of capital contributed by them is limited to an amount greater than thirty percent (30%) of total margins for the preceding calendar year, unless, after giving effect to the distribution, the total equity will be at least twenty percent (20%) of total assets. Nolin is also required an average debt service coverage ("DSC") ratio of not less than 1.35. Nolin can not decrease its rates for electric service if it has failed to achieve a DSC ratio of 1.35, unless ordered by the PSC. The total equity at December 31, 2018 was 37% of total assets and the DSC ratio was 0.79.

Note 4. Long Term Debt

The 3.25% to 4.95% and the 4.0% fixed interest rates on the notes are subject to change every seven years from the repricing date for each individual note. The long term debt is due in quarterly installments of varying amounts through 2037. Nolin has funds available from CFC in the amount of $16,000,000 to finance construction projects and the demand side management activities of the local government unit.

During 2012, Nolin refinanced the RUS debt of $27,637,219 with the 2.95% to 4.1% fixed interest rate notes and the $22,204,815 debt with Federal Financing Bank with the 2.75% variable rate notes.

All assets, except vehicles, are pledged as collateral on the long term debt to CFC under its mortgage agreement. Long term debt consists of:

	2018	2017
3.75% to 4.55% fixed rate	$2,488,374	$2,670,539
3.75% fixed for local government programs	843,474	1,840,038
3.25% to 4.10% fixed rate	22,300,159	23,384,039
3.75% variable rate (2.75% in 2017)	13,313,326	14,469,882
3.75% variable rate	8,757,530	16,810,015
4.0% fixed rate	7,441,214	7,671,421
3.75% - 4.30% fixed for local government programs	27,074,728	29,096,203
	82,218,805	95,942,137
Less current portion	5,050,000	5,060,000
Long term portion	$77,168,805	$90,882,137

As of December 31, 2018, the annual principal payments for the next five years are as follows: 2019 - $5,050,000; 2020 - $5,185,000; 2021 - $5,315,000; 2022 - $5,450,000; 2023 - $5,585,000.

Note 5. Short Term Borrowings

At December 31, 2018, Nolin had a short term line of credit of $7,000,000 available from CFC. Nolin has repaid all outstanding advances against the line of credit during the audit period.

Note 6. Pension Plan

Nolin's contributions to the R&S Plan in 2018 and 2017 represent less than 5 percent of the total contributions made to the plan by all participating employers. Nolin made contributions to the plan of $1,570,410 in 2018 and $1,432,504 in 2017. There have been no significant changes that affect the comparability of 2018 and 2017.

In the R&S Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act ("PPA") of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the R&S Plan was approximately 80 percent funded at January 1, 2018 and 2017 based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the R&S Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

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

Two prepayment options were available to participating cooperatives:

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

On February 14, 2013, RUS issued a memorandum to all of its borrowers regarding the proper accounting treatment of the R&S Plan prepayment. RUS stipulated that the prepayment shall be recorded as a long term prepayment in Account 186, Miscellaneous Deferred Debits. This prepaid expense shall be amortized to Account 926, Employee Pensions and Benefits, over a ten year period. Alternatively, RUS borrowers may calculate the amortization period by subtracting the cooperative's average age of its workforce as provided by NRECA from the cooperative's normal retirement age under the R&S Plan, up to a maximum period of 20 years. If the entity choses 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"). During February, 2013, the Corporation made a prepayment of $3,681,860 to the R&S Plan. The amount is being amortized over 10 years.

Note 7. Postretirement Benefits

Nolin Rural Electric sponsors a defined benefit plan that provides medical insurance coverage to retired employees. Participating retirees and dependents do not contribute to the projected cost of coverage. There have been no significant changes that affect the comparability of 2018 and 2017. The following is a reconciliation of the postretirement obligation.

The funded status of the plan is as follows:

	2018	2017
Projected benefit obligation	(6,697,548)	($6,591,396)
Plan assets at fair value	-	-
Funded status of Plan	($6,697,548)	($6,591,396)

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

	2018	2017
Benefit obligation at beginning of year	$6,591,396	$6,467,665
Components of net periodic benefit cost:		
Service cost	87,766	98,574
Interest cost	232,557	228,534
Net periodic benefit cost	320,323	327,108
Benefits paid	(214,171)	(203,377)
Actuarial (gain) loss	0	0
Benefit obligation at end of year	$6,697,548	$6,591,396
Amounts included in accumulated other comprehensive income:		
Unrecognized actuarial gain (loss)	($2,036,446)	($2,222,520)
Effect of 1% increase in the health care trend:		
Postemployment benefit obligation	$7,065,000	
Net periodic benefit cost	338,000	

Projected retiree benefit payments for the next five years are expected to be as follows: 2019 - $215,000; 2020 - $202,000; 2021 - $195,000; 2022 - $192,000; 2023 - $186,000.

The discount rate used in determining the APBO was 4.50% for 2018 and 2017. The health care cost trend rate used to compute the APBO is a 5% annual rate of increase for 2018, and decreasing gradually to 3%, then remain at that level thereafter.

Note 8. Related Party Transactions

Several of the Directors of Nolin Rural Electric, its President & CEO, and another employee are on the boards of directors of various associated organizations. Nolin entered a six (6) year lease with a member of the Board of Directors for 12 acres of land at $600 per year.

Note 9. Environmental Contingency

Nolin 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 Nolin 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 Nolin's financial position or its future cash flows.

Note 10. Commitments

Nolin has various other agreements outstanding with local contractors. Under these agreements, the contractors will perform certain meter reading, 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

Nolin, 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, except for the threatened litigation as described below.

Rate Matters

During June, 2017, the KPSC approved a retail rate increase in the amount of $4,969,492.

* * * * *