Owen Electric Cooperative, Inc.

Audited Financial Statements

December 31, 2014 and 2013

Owen Electric Cooperative, Inc.

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CPAs & ADVISORS

Independent Auditor's Report

To the Board of Directors
Owen Electric Cooperative, Inc.
Owenton, Kentucky

We have audited the accompanying financial statements of Owen Electric Cooperative, Inc. ("the Cooperative") as of December 31, 2014 and 2013 and the related statements of income and comprehensive income (loss), changes in members' and patrons' 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

Our responsibility is to express an opinion on these financial statements based on our audits and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 that 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 respective financial position of the Cooperative as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kentucky
Indiana
Ohio

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Independent Auditor's Report (Continued)

Emphasis of Matter

As disclosed in Note M to the financial statements, the January 1, 2013 Members' and Patrons' Equity has been restated. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reported dated April 23, 2015, 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. 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 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 the Cooperative's internal control over financial reporting and compliance.

Mountjoy Chilton Medley LLP

Louisville, Kentucky
April 23, 2015

Owen Electric Cooperative, Inc.
Balance Sheets
December 31, 2014 and 2013

	2014	2013 (Restated)
Assets		
Electric Plant in Service, net	$ 134,541,413	$ 134,702,780
Investments		
Investment in East Kentucky Power Cooperative	58,452,386	50,466,457
Investments in associated organizations	5,493,418	5,850,320
Other	24,546	(12,389)
Total Investments	63,970,350	56,304,388
Current Assets		
Cash and equivalents	12,050,312	8,846,890
Accounts receivable - customers (net of allowance for doubtful accounts of $157,670 in 2014 and $134,458 in 2013)	16,854,767	16,630,171
Materials and supplies	849,332	860,270
Current portion of pension prepayment	591,857	591,857
Prepayments and other	389,511	727,230
Total Current Assets	30,735,779	27,656,418
Long term portion of pension prepayment	4,389,608	4,981,465
Deferred debits	78,955	91,395
Total Assets	$ 233,716,105	$ 223,736,446
Members' and Patrons' Equities and Liabilities		
Members' and Patrons' Equities		
Memberships	$ 1,149,195	$ 1,137,265
Patronage capital	96,952,578	85,036,211
Accumulated other comprehensive loss	(1,086,511)	(652,245)
Other equities	3,156,393	3,038,381
Total Members' and Patrons' Equities	100,171,655	88,559,612
Long-term Debt and Other Liabilities		
Long-term debt, less current maturities	90,502,125	94,165,429
Accrued compensated absences	1,883,573	2,152,810
Other long-term liabilities	97,472	-
Postretirement benefits obligation	10,926,559	9,934,628
Total Long-term Debt and Other Liabilities	103,409,729	106,252,867
Current Liabilities		
Current portion of long-term debt	4,093,207	4,278,138
Lines-of-credit	5,643,507	5,155,701
Accounts payable	13,277,565	13,443,996
Accrued interest	70,037	128,838
Customer guaranty deposits	2,394,563	2,305,021
Other current liabilities	817,531	1,431,936
Total Current Liabilities	26,296,410	26,743,630
Deferred credits	3,838,311	2,180,337
Total Members' and Patrons' Equities and Liabilities	$ 233,716,105	$ 223,736,446

See accompanying notes.

Owen Electric Cooperative, Inc.
Statements of Income and Comprehensive Income (Loss)
Years Ended December 31, 2014 and 2013

	2014	%	2013	%
Operating Revenue				
Sale of electric energy				
Residential	$ 87,221,856	47.50 %	$ 79,439,125	46.50 %
Commercial	91,294,750	49.72	86,785,881	50.80
Public authorities and outdoor lighting	2,736,608	1.49	2,540,259	1.49
Total Sale of Electric Energy	181,253,214	98.71	168,765,265	98.79
Other Revenue	2,374,973	1.29	2,078,589	1.21
Total Operating Revenue	183,628,187	100.00	170,843,854	100.00
Operating Expenses				
Cost of power	146,111,508	79.57	139,857,103	81.86
Distribution expense	8,736,705	4.76	8,658,571	5.07
Customer accounts expense	3,903,123	2.13	3,727,055	2.18
Customer services and information expense	749,140	0.41	647,921	0.38
Administrative and general expense	4,068,708	2.22	4,138,564	2.42
Depreciation	11,286,160	6.15	10,990,984	6.43
Taxes	12,469	0.01	8,741	0.01
Total Operating Expenses	174,867,813	95.25	168,028,939	98.35
Net Operating Income	8,760,374	4.75	2,814,915	1.65
Non-operating Income (Expense)				
Interest expense	(4,659,008)	(2.54)	(4,763,918)	(2.79)
Other margins	320,863	0.17	482,801	0.28
Patronage capital	8,452,132	4.60	9,410,848	5.51
Total Non-operating Income	4,113,987	2.23	5,129,731	3.00
Net Margins	12,874,361	6.98	7,944,646	4.65
Other Comprehensive Income (Loss)				
Change in post-retirement benefit obligation	(434,266)	(0.24)	190,520	0.11
	$ 12,440,095	6.74 %	$ 8,135,166	4.76 %

See accompanying notes.

Owen Electric Cooperative, Inc.
Statements of Changes in Members' and Patrons' Equities
Years Ended December 31, 2014 and 2013

		Patronage Capital				Accumulated Other Comprehensive Loss	Other Equities			Total Members' and Patrons' Equities
	Memberships	Assignable	Assigned	Retired	Total		Donated Capital	Retired Capital Credits Gains	Total	
Balance, January 1, 2013, as originally stated	$ 1,122,475	$ 7,344,939	$ 96,181,296	$ (26,528,822)	$76,997,413	$ (842,765)	$ 72,913	$ 2,826,818	$ 2,899,731	80,176,854
Priod period adjustment	-	-	1,048,497	-	1,048,497	-	-	-	-	1,048,497
Balance, January 1, 2013, as restated	1,122,475	7,344,939	97,229,793	(26,528,822)	78,045,910	(842,765)	72,913	2,826,818	2,899,731	81,225,351
Unrealized gain on accumulated pension benefit obligations	-	-	-	-	-	190,520	-	-	-	190,520
Memberships issued, net of terminations	14,790	-	-	-	-	-	-	-	-	14,790
Retirements of patronage capital to estates of deceased members:										
Paid in cash	-	-	-	(196,146)	(196,146)	-	-	-	-	(196,146)
Applied to unpaid bills	-	-	-	(8,291)	(8,291)	-	-	-	-	(8,291)
General capital credit refund:										
Paid in cash	-	-	-	(296,967)	(296,967)	-	-	-	-	(296,967)
Applied to unpaid bills	-	-	-	(369,538)	(369,538)	-	-	-	-	(369,538)
Transferred to capital gains	-	-	-	(83,403)	(83,403)	-	-	138,646	138,646	55,243
Net margins	-	7,944,646	-	-	7,944,646	-	-	-	-	7,944,646
Assignment of patronage capital	-	(8,846,729)	8,846,729	-	-	-	-	-	-	-
Forfeiture of memberships	-	-	-	-	-	-	4	-	4	4
Balance, December 31, 2013	1,137,265	6,442,856	106,076,522	(27,483,167)	85,036,211	(652,245)	72,917	2,965,464	3,038,381	88,559,612
Unrealized loss on accumulated pension benefit obligations	-	-	-	-	-	(434,266)	-	-	-	(434,266)
Memberships issued, net of terminations	11,930	-	-	-	-	-	-	-	-	11,930
Retirements of patronage capital to estates of deceased members:										
Paid in cash	-	-	-	(198,226)	(198,226)	-	-	-	-	(198,226)
Applied to unpaid bills	-	-	-	(9,415)	(9,415)	-	-	-	-	(9,415)
General capital credit refund:										
Paid in cash	-	-	-	(336,559)	(336,559)	-	-	-	-	(336,559)
Applied to unpaid bills	-	-	-	(347,642)	(347,642)	-	-	-	-	(347,642)
Transferred to capital gains	-	-	-	(66,152)	(66,152)	-	-	118,004	118,004	51,852
Net margins	-	12,874,361	-	-	12,874,361	-	-	-	-	12,874,361
Assignment of patronage capital	-	(7,944,646)	7,944,646	-	-	-	-	-	-	-
Forfeiture of memberships	-	-	-	-	-	-	8	-	8	8
Balance, December 31, 2014	$ 1,149,195	$11,372,571	$ 114,021,168	$ (28,441,161)	$96,952,578	$ (1,086,511)	$ 72,925	$ 3,083,468	$ 3,156,393	$100,171,655

See accompanying notes.

Owen Electric Cooperative, Inc.
Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Net Margins	$ 12,874,361	$ 7,944,646
Non-cash expenses included in net margins		
Patronage capital assigned but not paid by associated organizations	(8,452,132)	(9,410,848)
Depreciation	11,286,160	10,990,984
Bad debt expense	208,196	136,988
(Gain) Loss on disposition of general plant	14,547	(17,004)
Charges for postretirement benefits obligation	991,931	355,443
Amortization of pensionprepayment	591,857	345,250
Changes in current and non-current assets and liabilities:		
Accounts receivable	(432,792)	70,387
Materials and supplies	10,938	6,613
Prepayments and other	337,719	(5,701,026)
Accounts payable	(166,431)	430,603
Customer guaranty deposits	89,542	53,735
Accrued interest and other current liabilities	(575,734)	647,113
Accrued compensated absences	(269,237)	(35,357)
Net Cash Provided by Operating Activities	16,508,925	5,817,527
Cash Flows from Investing Activities		
Increase in deferred debits	12,440	2,868,285
Increase in deferred credits	1,657,974	1,303,918
Additions to electric plant in service	(8,314,472)	(8,342,553)
Removal cost	(2,824,868)	(1,975,242)
Patronage capital received from associated organizations	786,170	159,685
Net Cash Used in Investing Activities	(8,682,756)	(5,985,907)
Cash Flows from Financing Activities		
Proceeds from long-term notes payable	-	9,083,000
Payment of principal on long-term notes payable	(4,468,895)	(4,163,568)
Change in cushion of credit	620,660	(436,475)
Membership fees	11,930	14,790
Patronage capital paid out	(1,274,248)	(625,175)
Net activity on lines-of-credit	487,806	358,721
Net Cash (Used in) Provided by Financing Activities	(4,622,747)	4,231,293
Increase in Cash and Equivalents During the Year	3,203,422	4,062,913
Cash and Equivalents, Beginning of Year	8,846,890	4,783,977
Cash and Equivalents, End of Year	$ 12,050,312	$ 8,846,890
Supplemental Disclosures of Cash Flow Information		
Interest paid	$ 4,717,809	$ 4,709,747

See accompanying notes.

Note A - Nature of Operations

Owen Electric Cooperative, Inc. (the Cooperative) is engaged in distributing power to its member consumers throughout nine northern Kentucky counties. The audited financial statements are prepared in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (KPSC) and the United States Department of Agriculture Rural Utilities Services (RUS), which conform with generally accepted accounting principles as applied to regulated enterprises. The more significant of these policies are as follows.

Note B - Summary of Significant Accounting Policies

1. Basis of Accounting: The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") is the sole source of authoritative accounting technical literature for nongovernmental entities. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

2. Cash and Equivalents: For purposes of the statement of cash flows, the Cooperative considers short-term investments having maturities of three months or less at time of purchase to be cash equivalents.

3. Accounts Receivable: Accounts receivable consists of amounts due for sales of electric energy, which were not received by the Cooperative at year-end. Based on management's evaluation of uncollected accounts receivable at the end of each year, bad debts are provided for on the allowance method.

4. Materials and Supplies: The Cooperative values materials and supplies at average cost.

5. Deferred Debits/Credits: Regulatory requirements authorized by the Kentucky Public Service Commission allow the electric supplier to impose a fuel adjustment surcharge upon the Cooperative. In turn, the Cooperative is required to pass on the fuel surcharge to the consumer. Due to the regulatory requirements in calculating the surcharge the Cooperative may experience an over or under recovery of the fuel adjustment surcharge.

   Similarly, the Kentucky Public Service Commission has an environmental cost recovery mechanism that allows the electric supplier to recover certain costs incurred in complying with the Federal Clean Air Act as amended and those federal, state, and local environmental requirements which apply to coal combustion wastes and byproducts from facilities utilized for the production of energy from coal. In turn, the Cooperative is required to pass on this environmental cost recovery mechanism to the consumer.

   In 2011, the Cooperative elected to begin recording the under or over recovery of the fuel adjustment surcharge on the financial statements as an asset in deferred debits or a liability in deferred credits, respectively. In 2012, the Cooperative also elected to record the under or over recovery of the environmental cost recovery mechanism in the same manner as the fuel adjustment surcharge.

   The Cooperative has implemented the Accounting Standards Codification (ASC) No. 980, Accounting for the Effects of Certain Types of Regulation, in the recording of the described regulatory deferred debits. Similarly, in accordance with RUS Bulletin 1767B-1, section 1767.13(d)(3), the deferral of these regulatory items are recorded without the need for prior written approval of RUS.

   The Cooperative’s under-recovery in a 2012 environmental cost recovery case before the Commission totaled $2,417,387. This large under-recovery resulted from the Cooperative’s 2011 change to accrual accounting for its wholesale power billing, coupled with the length of the review period for the environmental cost recovery mechanism—an 18-month period versus the typical 6-month review period. The Commission issued an Order in this 2012 case in August 2013. While the Cooperative requested a 12-month amortization

Note B - Summary of Significant Accounting Policies (Continued)

period for this under-recovery, the Commission granted a 6-month amortization period. Because the over- and under- recoveries are calculated by comparing EKPC's environmental cost recovery billings to the Cooperative's environmental cost recovery billings, which for the Cooperative includes the impacts of the amortization in the 2012 case, the Cooperative is now experiencing a large over-recovery which impacted both 2014 and 2013.

The amount recorded on the financial statements for the over recovery of the fuel adjustment surcharge at December 31, 2014 and 2013 was $365,969 and $217,872, respectively. The amount of the over recovery of the environmental cost recovery mechanism at December 31, 2014 and 2013 was $2,457,749 and $1,090,872, respectively.

6. Electric Plant in Service: Utility plant is stated at original cost. Maintenance and repairs, including the cost of renewals of minor items of property, are charged to maintenance expense accounts. Replacements of property (exclusive of minor items) are charged to the utility plant accounts.

Depreciation is provided using the straight-line method at rates which are designed to amortize the cost of depreciable plant, net of estimated salvage value, over its estimated useful life. The composite depreciation rate for distribution plant was approximately 4.5% for both 2014 and 2013. General plant is being depreciated using specific identification straight-line method over the following estimated useful lives:

Structures and improvements	5 - 50
Miscellaneous equipment	5 - 20
Office, stores and lab equipment	5 - 20
Communication equipment	12
Transportation equipment	4 - 10
Power-operated equipment	7

When distribution plant is retired or otherwise disposed of in the normal course of business, an estimate of its cost, together with the cost of removal less salvage, is charged to the accumulated provision for depreciation. Gains and losses resulting from the sale or disposal of general plant are recognized in income currently.

The major classifications of electric plant in service were as follows:

	December 31, 2014	December 31, 2013
Distribution plant	$ 222,850,205	$ 214,684,787
General plant	25,947,864	25,473,205
Construction in progress	1,726,910	2,048,039
	250,524,979	242,206,031
Accumulated Depreciation	115,983,566	107,503,251
Electric Plant in Service, net	$ 134,541,413	$ 134,702,780

Note B - Summary of Significant Accounting Policies (Continued)

7. Revenue and Cost of Purchased Power: Revenue is recognized in the period used and the power costs are recognized in the period incurred.

8. Advertising Costs: The Cooperative records advertising expenses as they are incurred. Advertising expense amounted to $278,640 and $282,775 for the years ended December 31, 2014 and 2013, respectively.

9. Investments in Associated Organizations: The Cooperative follows the method of accounting as prescribed by the RUS Uniform System of Accounts in accounting for its investment in associated organizations. This accounting method results in the Cooperative recognizing in income its pro rata share of the associated organization's net margins in the year such margins are assigned. This accounting method does not provide for similar treatment for any losses of the associated organizations. Rather, such losses would not be assigned to member organizations and no additional margins are assigned until subsequent cumulative margins exceed prior cumulative losses.

10. Accrued Compensated Absences: The Cooperative has a policy to pay available but untaken compensated absences to employees who leave service. The compensated absences are composed of sick and vacation leave.

    Sick leave allows 100% of accrued sick leave for retiring employees, 100% of accrued sick leave for deceased employees (payment is made to deceased employees' beneficiary), 45% of annual base salary or sick leave balance, whichever is lower, for employees taking early retirement, and 20% of annual base salary or the sick leave balance, whichever is lower, for employees who voluntarily leave service prior to reaching retirement age.

    Vacation leave allows for the terminating employee, or their estate/beneficiary (in the case of death), to be paid for all earned and unused vacation days at the current rate of pay at termination.

11. Comprehensive Income (Loss): The Cooperative accounts for comprehensive income (loss) in accordance with the relative provisions of the ASC.

    Comprehensive income (loss) is the change in equity of an enterprise during the year from transactions and other events and circumstances arising from non-operating sources. The Cooperative's total comprehensive income (loss) includes amounts associated with the change in the post-retirement benefits obligation. (See Note I.)

12. Use of Estimates: Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, disclosure 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.

13. Subsequent Events: Subsequent events for the Cooperative have been considered through the date of the Independent Auditor's Report which represents the date the financial statements were available to be issued.

14. Other: The Cooperative has a collective bargaining agreement with 39% of its employees which expires July 31, 2015.

15. Reclassifications: Certain reclassifications were made to the 2013 financial statements to conform to the 2014 presentation.

Note C - Investments

East Kentucky Power Cooperative ("EKPC"):

The Cooperative's investment of $58,452,386 and $50,466,457 at December 31, 2014 and 2013, respectively, in EKPC, the sole supplier of power to the Cooperative, represents the Cooperative's equity ownership interest (approximately 12%) in EKPC. The Cooperative owed EKPC $12,322,168 and $12,837,448 at December 31, 2014 and 2013, respectively. These amounts are included in accounts payable on the balance sheets.

Associated Organizations:

Investments in associated organizations consisted of:

	December 31, 2014	December 31, 2013
United Utility Supply Cooperative	$ 938,297	$ 929,830
Kentucky Association of Electric Cooperatives, Inc.	120,884	116,453
National Rural Utilities Cooperative Finance Corporation	865,304	1,578,026
Capital Term Certificates of National Rural Utilities Cooperative Finance Corporation	2,635,335	2,409,387
Southeastern Data Cooperative, Inc.	290,957	228,500
Other	642,641	588,124
	$ 5,493,418	$ 5,850,320

Substantially all of such investments, which consist mainly of patronage capital in the associated organization and capital term certificates are restricted by the respective organization and are not currently available for distribution. The patronage capital will be available to the Cooperative if the Cooperative should terminate its investment in the associated organization. The capital term certificates are not available until the related debt is paid off, currently expected to be between the years 2020 and 2080.

United Utility Supply Cooperative (United) is a primary supplier of transformers and overhead line materials and supplies. The Cooperative's purchases from United amounted to $1,283,902 and $1,324,471 for the years ended December 31, 2014 and 2013, respectively. The Cooperative owed United $19,318 and $37,762 at December 31, 2014 and 2013, respectively. These amounts are included in accounts payable on the balance sheets.

Note C - Investments (Continued)

The Capital Term Certificates bear interest at varying rates between 0% and 5% per annum. These certificates are required to be maintained under the note agreement with the National Rural Utilities Cooperative Finance Corporation (NRUCFC) in an amount at least equal to 5% of the original debt issued or guaranteed by NRUCFC until maturity. These investments in associated organizations are similar to compensating bank balances and are necessary in order to maintain current financing arrangements. Accordingly, there is no market for these investments.

Southeastern Data Cooperative, Inc. (Southeastern) is a primary supplier of data processing services and computer hardware and software. The Cooperative's purchases from Southeastern were $891,158 and $833,716 for the years ended December 31, 2014 and 2013, respectively. The Cooperative owed Southeastern $69,829 at December 31, 2014. There were no amounts owed to Southeastern at December 31, 2013.

Note D - Income Tax Status

The Cooperative is exempt from federal and state income taxes under §501(c)(12) of the Internal Revenue Code. The Cooperative recognizes uncertain income tax positions using the "more-likely-than-not" approach as defined in the ASC. No liability for uncertain tax positions has been recorded in the accompanying financial statements. The Cooperative's 2011 - 2014 tax years remain open and subject to examination.

Note E - Line-of-credit

At December 31, 2014 and 2013, the Cooperative had an unsecured available line-of-credit of $22,800,000 from the NRUCFC. The interest rate for this line-of-credit was 2.90% at December 31, 2014 and 2013. The maturity date for the line-of-credit is December 31, 2049. The Cooperative had an outstanding balance under the line-of-credit of $5,643,507 and $5,155,701 at December 31, 2014 and 2013, respectively.

At December 31, 2014 and 2013, the Cooperative had a second unsecured available line-of-credit of $15,000,000 with CoBank. The interest rate for this line-of-credit at December 31, 2014 and 2013 was 2.93%, and the maturity date is September 21, 2041. There were no borrowings under this line-of-credit at December 31, 2014 and 2013.

Note F - Long-term Debt

Long-term debt consisted of the following:

	December 31, 2014	December 31, 2013
Mortgage notes payable to the Rural Utilities Services due in quarterly installments of varying amounts through 2043:		
0.125% first mortgage notes	$ 2,203,279	$ 2,342,783
2.521% first mortgage notes	5,742,075	5,874,950
2.806% first mortgage notes	4,203,976	4,296,731
2.809% first mortgage notes	6,626,050	6,772,171
3.894% first mortgage notes	3,548,119	3,613,082
4.190% first mortgage notes	6,351,545	6,486,415
4.375% first mortgage notes	1,074,089	1,121,725
4.440% first mortgage notes	8,156,906	8,323,757
4.460% first mortgage notes	11,846,928	12,088,093
4.815% first mortgage notes	2,966,386	3,035,491
4.917% first mortgage notes	852,007	871,575
5.192% first mortgage notes	4,326,192	4,421,811
5.277% first mortgage notes	10,181,872	10,404,244
5.298% first mortgage notes	9,182,866	9,456,939
5.375% first mortgage notes	1,181,584	1,229,216
5.417% first mortgage notes	2,318,546	2,386,812
5.913% first mortgage notes	2,125,519	2,184,640
	82,887,939	84,910,435
Less: Unapplied Payments	8,327,965	8,948,626
	74,559,974	75,961,809
Notes payable to CoBank, interest at 1.86%, 2.92% and 3.90% due January 2016, September 2041, and April 2028.	5,320,523	5,901,254
Mortgage notes payable to the NRUCFC due in quarterly installments of varying amounts through 2034:		
Variable rate first mortgage notes (1)	14,714,835	16,580,504
	94,595,332	98,443,567
Less Current Maturities	4,093,207	4,278,138
	$ 90,502,125	$ 94,165,429

(1) Interest rates on the variable rate notes vary monthly and are determined by the NRUCFC based on their cost of money plus adders for margins and administrative costs (2.90%-2.85% at December 31, 2014 and 2013, respectively).

Note F - Long-term Debt (Continued)

The aggregate principal maturities of long-term debt as of December 31, 2014 are as follows:

2015	$ 4,093,207
2016	4,126,669
2017	4,201,364
2018	4,290,098
2019 and thereafter	77,883,994
	$ 94,595,332

Substantially all utility plant is pledged as collateral for the above notes. Under the terms of the loan agreements, the Cooperative is required to meet certain financial performance covenants. The Cooperative is in compliance with these covenants at December 31, 2014 and 2013.

The Cooperative has established a cushion of credit program administered by the Rural Utilities Service ("RUS"). Under the cushion of credit program, RUS borrowers may make voluntary irrevocable deposits into a special account. The account balance accrued interest at a rate of 5 percent per year. The amounts in the cushion of credit account (deposits and earned interest) can only be used to make scheduled payments on loans made or guaranteed by RUS. At December 31, 2014 and 2013, balances in the cushion of credit program were $8,327,965 and $8,948,625, respectively.

In January 2014, the Cooperative submitted to RUS a loan application in the amount of $30,000,000. This loan was approved by RUS in November 2014. At December 31, 2014, no amounts have been advanced on this loan.

Note G - Members' and Patrons' Equities

Under terms of its long-term debt agreements, return of capital contributions or patronage capital to the Cooperative's members and patrons is restricted to amounts which would not allow total equity to be less than 30% of total assets, except that distributions may be made to estates of deceased members provided that such distributions do not exceed 25% of total patronage capital and margins received in the previous year. Total equity as a percentage of assets can fall below the 30% requirement if the Cooperative has obtained the appropriate waiver from the RUS. The Cooperative is in compliance with these requirements at December 31, 2014 and 2013.

Note H - Retirement Benefits

Effective January 1, 1988, the Cooperative entered into a multi-employer defined benefit pension plan sponsored by the National Rural Electric Cooperative Association (NRECA). The NRECA Retirement Security Plan (RS Plan) is 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 Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Cooperative contributions to the RS Plan in 2014 and in 2013 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the Plan of

Note H - Retirement Benefits (Continued)

$1,797,850 and $1,843,232 in 2014 and 2013, respectively. There have been no significant changes that affect the comparability of 2014 and 2013 contributions.

In the RS 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 Retirement Security Plan was over 80% funded at January 1, 2014 and January 1, 2013 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 RS 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 RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual RS 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 expected, plan assumption changes and other factors may have an impact on the differential in billing rates and the 15 year period. The Cooperative's prepayment as reflected on the balance sheets are was $4,981,465 and $5,573,322 as of December 31, 2014 and 2013, respectively.

The Cooperative adopted the Owen Electric Cooperative, Inc. Supplemental Executive Retirement Plan (the "SERP") as of September 1, 1990, and restated it in its entirety as of December 20, 2000. The SERP was intended to be an eligible SERP under Internal Revenue Code Section 457(b). During 2014, Owen Electric discovered certain administrative and operational errors associated with the SERP and, on October 30, 2014, the Owen Electric Board of Directors adopted a resolution which terminated the SERP. Costs associated with terminating the SERP totaled $201,579.

The Owen Electric Cooperative Employee Savings and Protection Plan, established April 1, 1986, is a defined contribution plan available to employees of the Cooperative upon completion of three months of service. The Cooperative makes annual matching contributions equal to 100% of all deferred salary reductions up to a 4% maximum employer contribution. The Cooperative's expense for 2014 and 2013 was approximately $360,552 and $346,600, respectively.

Note I - Postretirement Benefits

The Cooperative provides postretirement medical benefits to its retired employees and their dependents. The Plan requires retiree contributions based on years of service at retirement. "Employers' Accounting for Postretirement Benefits Other Than Pensions," requires the accrual of the cost of providing certain postretirement benefits over the employees' years of service, rather than on a pay-as-you-go (cash) basis. The Cooperative elected to amortize the accumulated postretirement benefit obligation of $3,178,700 over 20 years and records one-twentieth of this amount, $158,935 each year.

In accordance with the provision of "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," the Cooperative has recorded an accrued benefit cost for the full benefit obligation as of December 31, 2014 and 2013.

Note I - Postretirement Benefits (Continued)

The following table sets forth the plan's benefit obligation and accrued liability:

	December 31, 2014	December 31, 2013
Benefit obligation	$ 10,926,559	$ 9,934,628
Fair value of plan assets	-	-
Funded Status	$ (10,926,559)	$ (9,934,628)
Accrued benefit cost recognized in the balance sheets	$ (10,926,559)	$ (9,934,628)
Weighted-average assumptions		
Discounted rate	4.50%	5.25%

For measurement purposes, the health care cost trend rate is assumed to be 8.00% in 2014 and 2013. During 2014 and 2013, the rate was assumed to decrease by 0.5% per year to a minimum of 5.5%.

Other information, per the actuarial report regarding the Cooperative's benefit plans is as follows:

	December 31, 2014	December 31, 2013
Benefit cost	$ 925,600	$ 939,201
Benefits paid	382,389	393,238

Note J - Concentrations of Revenues, Receivables and Cash

All of the Cooperative's sales are made in portions of nine counties in north central Kentucky, which is primarily an agricultural region. However, a significant portion of the Cooperative's northern service territory has become increasingly developed with suburban residential and commercial activity. Accounts receivable and customer deposits at December 31, 2014 and 2013, were derived from the various classes of customers in approximately the same proportion as the revenues shown in the accompanying statements of income and other comprehensive income (loss).

On September 1, 2010, the Cooperative and EKPC entered into a five year electric service extension agreement with Nucor Steel Gallatin. The Cooperative is to provide electric power to Nucor Steel Gallatin’s manufacturing facilities in Gallatin County, Kentucky, the first of which began operations June 1, 1995. This agreement expires December 1, 2015. Sales to Nucor Steel Gallatin in 2014 and 2013 totaled $51,022,413 and $48,708,017, respectively. Receivables from Nucor Steel Gallatin were $4,038,429 and $4,134,182 at December 31, 2014 and 2013, respectively.

Note J - Concentrations of Revenues, Receivables and Cash (Continued)

The Cooperative maintains its cash balances with banks throughout Kentucky. Effective July 21, 2010, the federal deposit insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC) permanently increased from $100,000 to $250,000 per depositor. On November 9, 2010, the FDIC issued a final rule to implement Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act which provides temporary unlimited deposit insurance for non-interest bearing accounts at all FDIC insured depository institutions. This separate coverage for non-interest bearing transaction accounts became effective on December 31, 2010 and terminated on December 31, 2012. As of December 31, 2014, there were uninsured balances in the Cooperative's interest bearing accounts totaling approximately $10,529,000. At December 31, 2013, the Cooperative had uninsured balances totaling approximately $7,925,000.

Note K - Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. The ASC establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1: inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2: inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3: inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

At December 31, 2014 and 2013, financial instruments consisted of cash and equivalents whose carrying values approximate fair value due to the short-term nature of the instruments, all measured using the Level 1.

Note L – Adjustment of Rates

On March 25, 2013, the Kentucky Public Service Commission (“Commission”) accepted the Cooperative’s Application for an Adjustment of Rates. The Kentucky Attorney General’s Office of Rate Intervention (“AG”) was an intervenor in this proceeding. After several rounds of discovery, the Cooperative and the AG reached a settlement. On August 30, 2013, the Commission entered an Order approving the settlement agreement which granted the Cooperative a $4 million increase in annual revenue for service rendered on and after September 1, 2013.

Note M – Prior Period Adjustment and Restatement

During 2014, the Cooperative determined that their investment in National Rural Telecommunications Cooperative was understated. The Cooperative increased retained earnings and increased investments by $1,048,497 as of January 1, 2013. The Cooperative restated its balance sheet for the year ended December 31, 2013. There were no changes to the statement of income and comprehensive loss as of December 31, 2013.

The following sets forth the previously reported and restated amounts of selected items within the balance sheet as of December 31, 2013.

	As Previously Reported	As Restated
Selected Balance Sheet Data as of December 31, 2013		
Investments in associated organizatons	$4,801,823	$ 5,850,320
Patronage capital	83,987,714	85,036,211

Supplementary Information

CPAs & ADVISORS

Independent Auditor's 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
Owen Electric Cooperative, Inc.
Owenton, 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 the *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements and related notes to the financial statements of Owen Electric Cooperative, Inc. ("the Cooperative") as of and for the year ended December 31, 2014, and have issued our report thereon dated April 23, 2015.

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 opinions 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.

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Independent Auditor'sReport 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 (Continued)*

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 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 purposes.

Mountjoy Chilton Medley LLP

Louisville, Kentucky
April 23, 2015

CPAs & ADVISORS

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

To the Board of Directors
Owen Electric Cooperative, Inc.
Owenton, 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 Owen Electric Cooperative, Inc., ("the Cooperative"), which comprise the balance sheet as of December 31, 2014, and the related statements of revenue and patronage capital, changes in cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 23, 2015. In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2015, on our consideration of 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 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,* §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, 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 materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;

Kentucky
Indiana
Ohio

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

- 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.

This report is intended solely for the information and use of the board of directors, management, and the 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 distribution is not limited.

Mountjoy Chilton Medley LLP

Louisville, Kentucky
April 23, 2015