Warren Rural Electric Cooperative Corporation

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

June 30, 2018 and 2017



REPORT

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Independent Auditors' Report

Board of Directors Warren Rural Electric Cooperative Corporation Bowling Green, Kentucky

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Warren Rural Electric Cooperative Corporation (the "Cooperative") which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of income, equities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Cooperative as of June 30, 2018 and 2017, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information in the consolidating statements is presented for purposes of additional analysis, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2018, 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 solely 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 effectiveness of the Cooperative's internal control over financial 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.

Can, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC Bowling Green, Kentucky October 19, 2018

FINANCIAL STATEMENTS

Warren Rural Electric Cooperative Corporation Balance Sheets

June 30,	2018	2017
Assets		
Utility plant		
Plant in service	\$ 300,103,931	\$ 286,312,009
Construction in progress	19,017,260	11,602,155
Less accumulated depreciation	(137,009,202)	(131,162,899)
Net utility plant	182,111,989	166,751,265
Other property and investments		
Non-utility plant, net of accumulated depreciation	959 <i>,</i> 886	1,043,149
Investments in associated companies	2,134,371	2,140,575
Other investments	385,380	309,751
Goodwill	503,260	503,260
Total other property and investments	3,982,897	3,996,735
Current assets		
Cash and cash equivalents	20,724,345	20,393,465
Accounts receivable, net of allowance	16,095,395	14,118,291
Other accounts receivable	869,466	721,854
Materials and supplies	3,835,060	2,983,373
Prepaid expenses	1,105,659	1,189,523
Total current assets	42,629,925	39,406,506
Other assets		
TVA Energy Services loans receivable	4,090	7,160
Deferred debits	682,267	491,806
Total other assets	686,357	498,966
Total assets	\$ 229,411,168	\$ 210,653,472

Warren Rural Electric Cooperative Corporation Balance Sheets

June 30,	2018	2017
Equities and Liabilities		
Equities		
Membership fees	\$ 561,165	\$ 551,605
Patronage capital	107,226,956	99,908,485
Other equities	107,629	107,658
Total equities	107,895,750	100,567,748
Long-term liabilities		
Long-term debt - net of current portion	75,566,151	67,457,977
Accrued post-retirement benefits	4,149,047	3,787,539
Total other liabilities	79,715,198	71,245,516
Current liabilities	25 502 402	
Accounts payable - purchased power	25,583,492	23,555,448
Accounts payable - other	2,236,350	2,422,841
Self-insured fund	248,136	247,742
Customer deposits Accrued interest	3,837,128	3,568,733
Accrued interest Accrued vacation and sick leave	164,228	177,182
Current portion of post-retirement liability	1,577,293 350,000	1,476,329 252,000
Accrued taxes and other current liabilities	1,955,492	1,731,990
Current portion of long-term debt	4,722,269	4,145,695
Total current liabilities	40,674,388	37,577,960
Other liabilities		
Advances for TVA Energy Services loans	3,741	7,836
Deferred income taxes	138,631	248,055
Deferred credits	983,460	1,006,357
Total other liabilities	1,125,832	1,262,248
Total equities and liabilities	\$ 229,411,168	\$ 210,653,472

Warren Rural Electric Cooperative Corporation Statements of Income

Forfeited discounts 1,133,704 1,054,44 Rent from electric property 2,101,101 2,133,11 Other electric revenues 625,043 641,61 Natural gas sales 739,886 664,53 Propane and related sales 2,908,749 1,987,83 Total operating revenue 201,264,243 191,629,91 Purchased power and expenses 9 9 Purchased power and expenses 6,956,436 6,169,77 Pacifies rental 100,161 102,93 Customer accounts 3,175,924 3,101,00 Customer accounts 3,175,924 3,101,00 Customer service and information 675,195 795,63 Administrative and general 5,818,476 5,199,00 Depreciation and amortization 9,666,261 10,549,53 Taxes and tax equivalents 5,530,426 5,257,97 Natural gas purchases 460,264 440,92 Propane gas and related cost of goods sold 1,480,323 903,00 Total operating income 10,626,770 10,874,88 <	For the years ended June 30,	2018	2017
Forfeited discounts 1,133,704 1,054,44 Rent from electric property 2,101,101 2,133,11 Other electric revenues 625,043 641,66 Natural gas sales 739,886 664,53 Propane and related sales 2,908,749 1,987,87 Total operating revenue 201,264,243 191,629,96 Purchased power and expenses 2 2 Purchased power and expenses 6,929,300 6,475,22 Maintenance 6,956,436 6,169,77 Facilities rental 100,161 102,99 Customer accounts 3,175,924 3,101,00 Customer accounts 3,175,924 3,010,00 Customer service and information 675,195 795,63 Administrative and general 5,818,476 5,199,00 Depreciation and amortization 9,666,261 10,54,95 Taxes and tax equivalents 5,530,426 5,257,97 Natural gas purchases 460,264 440,92 Propane gas and related cost of goods sold 1,480,323 903,07 Total ope	Operating revenues		
Rent from electric property 2,101,101 2,13,11 Other electric revenues 625,043 641,66 Natural gas sales 739,886 664,55 Propane and related sales 2,908,749 1,987,87 Total operating revenue 201,264,243 191,629,91 Purchased power and expenses 6,929,300 6,475,22 Maintenance 6,956,436 6,169,77 Facilities rental 100,161 102,91 Customer accounts 3,175,924 3,101,00 Customer service and information 675,195 795,62 Administrative and general 5,818,476 5,199,02 Depreciation and amortization 9,666,261 10,549,51 Taxes and tax equivalents 5,530,426	Electric sales	\$ 193,755,760	\$ 185,148,187
Other electric revenues 625,043 641,66 Natural gas sales 739,886 664,53 Propane and related sales 2,908,749 1,987,87 Total operating revenue 201,264,243 191,629,90 Purchased power and expenses 201,264,243 191,629,90 Purchased power and expenses 201,264,243 191,629,90 Purchased power 149,844,707 141,759,88 Operation 6,929,300 6,475,22 Maintenance 6,956,436 6,169,77 Facilities rental 100,161 102,96 Customer accounts 3,175,924 3,101,00 Customer service and information 675,195 795,66 Administrative and general 5,818,476 5,199,00 Depreciation and amortization 9,666,261 10,549,51 Taxes and tax equivalents 5,530,426 5,257,97 Natural gas purchases 460,264 440,97 Propane gas and related cost of goods sold 1,480,323 903,07 Total operating income 10,626,770 10,874,83	Forfeited discounts	1,133,704	1,054,487
Natural gas sales 739,886 664,53 Propane and related sales 2,908,749 1,987,83 Total operating revenue 201,264,243 191,629,90 Purchased power and expenses 149,844,707 141,759,83 Purchased power and expenses 6,929,300 6,475,22 Maintenance 6,956,436 6,169,77 Facilities rental 100,161 102,91 Customer accounts 3,175,924 3,101,00 Customer accounts 3,175,924 3,101,00 Customer service and information 675,195 795,63 Administrative and general 5,818,476 5,199,00 Depreciation and amortization 9,666,261 10,549,55 Taxes and tax equivalents 5,530,426 5,257,97 Natural gas purchases 460,264 440,97 Propane gas and related cost of goods sold 1,480,323 903,07 Total operating income 10,626,770 10,874,83 Other revenues 147 3,77 Interest income 166,965 195,88 Income of uncon	Rent from electric property	2,101,101	2,133,170
Propane and related sales 2,908,749 1,987,83 Total operating revenue 201,264,243 191,629,94 Purchased power and expenses 149,844,707 141,759,83 Purchased power 149,844,707 141,759,83 Operation 6,929,300 6,475,22 Maintenance 6,956,436 6,169,77 Facilities rental 100,161 102,93 Customer accounts 3,175,924 3,101,00 Customer accounts 3,175,924 3,101,00 Customer service and information 675,195 795,63 Administrative and general 5,818,476 5,199,00 Depreciation and amortization 9,666,261 10,549,53 Taxes and tax equivalents 5,530,426 5,257,97 Natural gas purchases 460,264 440,97 Propane gas and related cost of goods sold 1,480,323 903,00 Total operating income 10,626,770 10,874,83 Other revenues 147 3,77 Interest income 166,965 195,88 Income of unconsolidated ent	Other electric revenues	625,043	641,602
Total operating revenue 201,264,243 191,629,94 Purchased power and expenses Purchased power 149,844,707 141,759,83 Operation 6,929,300 6,475,22 Maintenance 6,956,436 6,169,74 Maintenance 6,956,436 6,169,74 100,161 102,93 0.0161 102,93 Customer accounts 3,175,924 3,101,00 0.0161 102,93 0.0161 102,93 Customer accounts 3,175,924 3,101,00 0.056,261 10,549,55 795,63 0.01,549,55 795,63 100,549,55 795,63 100,549,55 105,5426 5,257,99 0.01,549,55 105,5426 5,257,91 0.02,662,621 10,549,55 0.02,03,03 0.02,03,03 0.03,03 0.03,03,03 0.03,03,03,03,03 0.03,03,03,03,03,03,03,03,03,03,03,03,03,0	Natural gas sales	739,886	664,580
Purchased power and expenses Purchased power 149,844,707 141,759,83 Operation 6,929,300 6,475,23 Maintenance 6,956,436 6,169,77 Facilities rental 100,161 102,93 Customer accounts 3,175,924 3,101,00 Customer service and information 675,195 795,63 Administrative and general 5,818,476 5,199,03 Depreciation and amortization 9,666,261 10,549,53 Taxes and tax equivalents 5,530,426 5,257,99 Natural gas purchases 460,264 440,99 Propane gas and related cost of goods sold 1,480,323 903,00 Total operating income 10,626,770 10,874,83 Other revenues 147 3,77 Income of unconsolidated entities 147 3,77 Total operating income 325,768 633,77 Total other revenues 492,880 833,33 Other deductions 325,768 633,77 Total other revenues 492,880 833,33	Propane and related sales	2,908,749	1,987,875
Purchased power 149,844,707 141,759,83 Operation 6,929,300 6,475,22 Maintenance 6,956,436 6,169,74 Facilities rental 100,161 102,93 Customer accounts 3,175,924 3,101,00 Customer service and information 675,195 795,63 Administrative and general 5,818,476 5,199,00 Depreciation and amortization 9,666,261 10,549,53 Taxes and tax equivalents 5,530,426 5,257,97 Natural gas purchases 460,264 440,99 Propane gas and related cost of goods sold 1,480,323 903,07 Total purchased power and expenses 190,637,473 180,755,03 Total operating income 10,626,770 10,874,83 Other revenues 147 3,77 Income of unconsolidated entities 147 3,77 Miscellaneous 325,768 633,73 Total other revenues 492,880 833,33 Other deductions 1 147 Interest on long-term debt 3,285,598 3,211,14 Post-retirement benefits 3	Total operating revenue	201,264,243	191,629,901
Purchased power 149,844,707 141,759,83 Operation 6,929,300 6,475,22 Maintenance 6,956,436 6,169,74 Facilities rental 100,161 102,93 Customer accounts 3,175,924 3,101,00 Customer service and information 675,195 795,63 Administrative and general 5,818,476 5,199,00 Depreciation and amortization 9,666,261 10,549,53 Taxes and tax equivalents 5,530,426 5,257,97 Natural gas purchases 460,264 440,99 Propane gas and related cost of goods sold 1,480,323 903,07 Total purchased power and expenses 190,637,473 180,755,03 Total operating income 10,626,770 10,874,83 Other revenues 147 3,77 Income of unconsolidated entities 147 3,77 Miscellaneous 325,768 633,73 Total other revenues 492,880 833,33 Other deductions 1 147 Interest on long-term debt 3,285,598 3,211,14 Post-retirement benefits 3	Purchased power and expenses		
Operation 6,929,300 6,475,22 Maintenance 6,956,436 6,169,74 Facilities rental 100,161 102,93 Customer accounts 3,175,924 3,101,00 Customer service and information 675,195 795,65 Administrative and general 5,818,476 5,199,00 Depreciation and amortization 9,666,261 10,549,53 Taxes and tax equivalents 5,530,426 5,257,90 Natural gas purchases 460,264 440,90 Propane gas and related cost of goods sold 1,480,323 903,00 Total purchased power and expenses 190,637,473 180,755,03 Total operating income 10,626,770 10,874,83 Other revenues 147 3,77 Income of unconsolidated entities 147 3,77 Miscellaneous 325,768 633,77 Total other revenues 492,880 833,33 Other deductions 1 1 Interest on long-term debt 3,285,598 3,211,14 Post-retirement benefits 350,		149.844.707	141,759,822
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Customer service and information 675,195 795,61 Administrative and general 5,818,476 5,199,00 Depreciation and amortization 9,666,261 10,549,53 Taxes and tax equivalents 5,530,426 5,257,97 Natural gas purchases 460,264 440,99 Propane gas and related cost of goods sold 1,480,323 903,07 Total purchased power and expenses 190,637,473 180,755,09 Total operating income 10,626,770 10,874,89 Other revenues 147 3,77 Income of unconsolidated entities 147 3,77 Miscellaneous 325,768 633,71 Total other revenues 492,880 833,33 Other deductions 1 3,285,598 3,211,14 Post-retirement benefits 350,000 252,000 252,000			3,101,009
Administrative and general 5,818,476 5,199,00 Depreciation and amortization 9,666,261 10,549,53 Taxes and tax equivalents 5,530,426 5,257,97 Natural gas purchases 460,264 440,97 Propane gas and related cost of goods sold 1,480,323 903,07 Total purchased power and expenses 190,637,473 180,755,03 Total operating income 10,626,770 10,874,85 Other revenues 147 3,77 Income of unconsolidated entities 147 3,77 Miscellaneous 325,768 633,73 Total other revenues 492,880 833,33 Other deductions 1 3,285,598 3,211,14 Post-retirement benefits 350,000 252,000 252,000			795,622
Depreciation and amortization 9,666,261 10,549,53 Taxes and tax equivalents 5,530,426 5,257,97 Natural gas purchases 460,264 440,97 Propane gas and related cost of goods sold 1,480,323 903,07 Total purchased power and expenses 190,637,473 180,755,09 Total operating income 10,626,770 10,874,89 Other revenues 1 147 3,77 Income of unconsolidated entities 147 3,77 Miscellaneous 325,768 633,79 Total other revenues 492,880 833,33 Other deductions 1 3,285,598 3,211,14 Post-retirement benefits 350,000 252,000 252,000		•	5,199,056
Taxes and tax equivalents 5,530,426 5,257,9 Natural gas purchases 460,264 440,9 Propane gas and related cost of goods sold 1,480,323 903,0 Total purchased power and expenses 190,637,473 180,755,09 Total operating income 10,626,770 10,874,89 Other revenues 1066,965 195,80 Income of unconsolidated entities 147 3,77 Miscellaneous 325,768 633,79 Total other revenues 492,880 833,33 Other deductions 3,285,598 3,211,14 Post-retirement benefits 350,000 252,00	_		10,549,589
Natural gas purchases 460,264 440,99 Propane gas and related cost of goods sold 1,480,323 903,00 Total purchased power and expenses 190,637,473 180,755,09 Total operating income 10,626,770 10,874,89 Other revenues 110,626,770 10,874,89 Interest income 166,965 195,80 Income of unconsolidated entities 147 3,72 Miscellaneous 325,768 633,73 Total other revenues 492,880 833,33 Other deductions 3,285,598 3,211,14 Post-retirement benefits 350,000 252,00			5,257,972
Propane gas and related cost of goods sold 1,480,323 903,01 Total purchased power and expenses 190,637,473 180,755,03 Total operating income 10,626,770 10,874,83 Other revenues 10,626,770 10,874,83 Interest income 166,965 195,86 Income of unconsolidated entities 147 3,73 Miscellaneous 325,768 633,73 Total other revenues 492,880 833,33 Other deductions 3,285,598 3,211,14 Post-retirement benefits 350,000 252,00	•		440,971
Total purchased power and expenses 190,637,473 180,755,09 Total operating income 10,626,770 10,874,89 Other revenues 166,965 195,80 Interest income 166,965 195,80 Income of unconsolidated entities 147 3,77 Miscellaneous 325,768 633,79 Total other revenues 492,880 833,39 Other deductions 110,825,598 3,211,14 Post-retirement benefits 350,000 252,00			903,070
Other revenues Interest income 166,965 195,80 Income of unconsolidated entities 147 3,75 Miscellaneous 325,768 633,75 Total other revenues 492,880 833,35 Other deductions 111 111 Interest on long-term debt 3,285,598 3,211,14 Post-retirement benefits 350,000 252,000			180,755,051
Interest income 166,965 195,80 Income of unconsolidated entities 147 3,75 Miscellaneous 325,768 633,75 Total other revenues 492,880 833,35 Other deductions 1 147 Interest on long-term debt 3,285,598 3,211,14 Post-retirement benefits 350,000 252,000	Total operating income	10,626,770	10,874,850
Interest income 166,965 195,80 Income of unconsolidated entities 147 3,75 Miscellaneous 325,768 633,75 Total other revenues 492,880 833,35 Other deductions 1 147 Interest on long-term debt 3,285,598 3,211,14 Post-retirement benefits 350,000 252,000	Other revenues		
Income of unconsolidated entities1473,73Miscellaneous325,768633,73Total other revenues492,880833,33Other deductions3,285,5983,211,14Interest on long-term debt3,285,5983,211,14Post-retirement benefits350,000252,00		166.965	195,863
Miscellaneous 325,768 633,75 Total other revenues 492,880 833,35 Other deductions 3,285,598 3,211,14 Post-retirement benefits 350,000 252,00		·	3,736
Total other revenues492,880833,33Other deductions3,285,5983,211,14Interest on long-term debt3,285,5983,211,14Post-retirement benefits350,000252,00			633,756
Interest on long-term debt 3,285,598 3,211,14 Post-retirement benefits 350,000 252,00			833,355
Interest on long-term debt 3,285,598 3,211,14 Post-retirement benefits 350,000 252,00	Other deductions		
Post-retirement benefits 350,000 252,00		3 785 508	3 711 110
	C C		
	Total other deductions	3,635,598	3,463,140

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

Warren Rural Electric Cooperative Corporation Statements of Income

For the years ended June 30,	2018	2017
		0.045.065
Income before income taxes	7,484,052	8,245,065
Income tax expense	165,581	122,672
Net Income	\$ 7,318,471 \$	8,122,393

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

For the years ended June 30, 2018 and 2017

	Me	mberships	Patronage Capital	Other Equities	Total Equities
Balance - July 1, 2016	\$	539,660	\$ 91,786,092	\$ 80,177	\$ 92,405,929
Net income for the year		-	8,122,393	-	8,122,393
Investment from members		11,945	<u> </u>	27,481	39,426
Balance - June 30, 2017		551,605	99,908,485	107,658	100,567,748
Net income for the year		-	7,318,471	-	7,318,471
Investment from (returned to) members		9,560	-	(29)	9,531
Balance, June 30, 2018	\$	561,165	\$ 107,226,956	\$ 107,629	\$ 107,895,750

Warren Rural Electric Cooperative Corporation Statements of Cash Flows

For the years ended June 30,	 2018	2017
Cash flows from operating activities		
Net income	\$ 7,318,471	\$ 8,122,393
Adjustments to reconcile net income to net cash provided		
by operating activities:		
Depreciation and amortization	9,666,261	10,549,589
(Increase) decrease in assets:		
Receivables	(2,124,716)	(1,571,126)
Materials and supplies	(851,687)	(161,152)
Prepaid expenses	83,864	20,764
Goodwill	-	677,501
Other assets	(187,391)	(76,607)
Increase (decrease) in liabilities:		
Accounts payable	1,841,553	2,092,286
Customer deposits	268,395	186,019
Accrued expenses and other liabilities	284,914	308,268
Accretion in post-retirement benefit obligation	459,508	57,602
Provision for deferred income taxes	(109,424)	46,031
Total adjustments	9,331,277	12,129,175
Net cash provided by operating activities	16,649,748	20,251,568
Cash flows from investing activities	(24 042 722)	
Additions to utility plant, net of disposals	(24,943,722)	(20,858,846)
Increase in other investments	(75,629)	(58,680)
Change in investment in associated organizations	6,204	 (271,308)
Net cash used in investing activities	(25,013,147)	(21,188,834)
Cash flows from financing activities		
Proceeds from long-term debt	13,000,000	-
Payments on principal of long-term debt	(4,423,356)	(4,290,008)
Use of RUS cushion of credit	108,104	1,660,885
Investments from members	9,531	 39,426
Net cash provided by (used in) financing activities	8,694,279	(2,589,697)

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

Warren Rural Electric Cooperative Corporation Statements of Cash Flows

For the years ended June 30,	2018	2017
Increase (decrease) in cash and cash equivalents	330,880	(3,526,963)
Cash and cash equivalents – beginning of year	20,393,465	23,920,428
Cash and cash equivalents – end of year	\$ 20,724,345	\$ 20,393,465

Supplemental disclosures of cash flow information:

Cash paid during the year for interest	\$ 3,298,552	\$ 3,457,201
Cash paid for income taxes, net	\$ 22,576	\$ 72,000

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Warren Rural Electric Cooperative Corporation ("WRECC") and its subsidiaries (hereinafter referred to collectively as "the Cooperative") were organized under Kentucky laws and exist for the purpose of distributing various utility services to its members, primarily in south central Kentucky. Counties included in its service area include Warren, Simpson, Butler, Ohio, Grayson, Logan, Edmonson, and Barren.

Measuring Focus, Basis of Accounting, and Financial Statement Presentation

The Cooperative's consolidated financial statements are presented on the full accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The accounting policies of the Cooperative are in accordance with the system of accounts prescribed by the United States Department of Agriculture, the Rural Utility Service (RUS) and the Tennessee Valley Authority (TVA), which do not differ materially from accounting principles generally accepted in the United States of America.

The consolidated financial statements include the accounts of WRECC and its wholly-owned forprofit subsidiaries, Propane Energy Service, Inc. ("PES") and Millennium Energy, Inc. ("Millennium"). PES is involved with propane distribution and Millennium is a natural gas distributor. All significant intercompany activity has been eliminated in consolidation.

Through the business of providing services to customers, nearly all of whom are regional residents, the Cooperative grants credit to those customers, which is basically unsecured. This results in the Cooperative incurring monthly losses associated with uncollectible accounts and is reflected in the Cooperative's operating expenses.

Use of Estimates

The preparation of consolidated financial statements in conformity 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 disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period that are determined to be necessary. Actual results could differ from the estimates.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

Financial instruments that potentially subject the Cooperative to concentrations of credit risk consist principally of cash deposits and accounts receivable. The Cooperative maintains its cash balances in institutions whose deposits are covered by the FDIC. Deposits are insured up to \$250,000 per financial institution. At June 30, 2018 and 2017, the Cooperative had deposits of \$2,015,836 and \$1,502,241 in excess of the FDIC insured amount, respectively. The Cooperative has a geographical concentration in accounts receivable because most of the balances are due from individuals and businesses located in the same geographical region.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Cooperative considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2018 and 2017, cash equivalents consisted primarily of commercial paper and repurchase agreements.

Accounts Receivable

Accounts receivable result from unpaid billings for service to customers and from unpaid billings related to work performed or materials sold to certain entities. Accounts receivable are stated at amounts expected to be collected from customers, less an allowance for uncollectible accounts that includes unpaid balances in excess of 90 days plus an additional amount based on management's estimation of future doubtful accounts. The allowance for doubtful accounts was \$4,454,874 and \$4,380,257 at June 30, 2018 and 2017, respectively.

Utility bills are due 15 days after the billing date, with a 5% penalty assessed for late payments. A cut-off notice is sent, allowing the customer seven days to pay before their service is disconnected. The customer then has five days to pay before the meter is read and entered to create a final bill. A collection letter is sent if the account remains unpaid after the due date of the final bill. A second collection letter is sent after ten days. The account is turned over to a collection agency ten days after the issuance of the second collection letter.

Materials and Supplies

All materials and supplies inventories are valued at average cost. WRECC performs semi-annual physical inventory counts.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the consolidated financial statements.

Warren Rural Electric Cooperative Corporation Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Utility Plant and Depreciation Procedures

Utility plant, which includes property, plant, equipment, and construction in progress, is stated at original cost and includes direct labor, materials, overhead, and special services (contract labor, etc.). Work orders are used to accumulate these costs, which are closed into plant when complete. Replacing only part of an installation is considered a repair and charged to maintenance expense.

Depreciation expense is computed on the composite-rate method at rates recommended by TVA and RUS. Retirements of property from service have been charged to the accumulated provision for depreciation accounts at the original cost of the units plus cost of removal. Salvage value of the units retired is returned to inventory.

Investments in Associated Enterprises

Investments in other cooperative's equities are carried at cost plus the Cooperative's share of allocated equities. Capital term certificates issued by the National Rural Utilities Cooperative Finance Corporation (CFC) are required investments for cooperatives that borrow funds from CFC. The required investment amount is based on a predetermined formula. Since there is not a market for these securities, management has determined that it is not practicable to estimate the fair value of these investments.

The Cooperative has a 50% investment in Penwar, Inc., which is accounted for under the equity method. Penwar provides billing and collection services for the Cooperative and one other electric utility. The Cooperative's share of income from Penwar for the years ended June 30, 2018 and 2017 was \$147 and \$3,736, respectively.

Goodwill

The Cooperative's goodwill represents the excess of the purchase price over the fair value of assets acquired in business combinations. Goodwill is evaluated annually for impairment, or whenever impairment indicators arise.

Compensated Absences

It is the Cooperative's policy to permit employees to accumulate earned but unused personal benefits. Personal leave earned by employees is accrued based on years of continuous service. All personal leave pay has been accrued and is reflected as a liability in the consolidated financial statements. When an employee ceases to be employed, all benefits shall cease to accrue.

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues and Purchased Power

Revenues are recognized for power delivered but unbilled at the end of each month, which coincides with billings from TVA for purchased power in the month delivered.

Income Taxes and Uncertain Tax Positions

WRECC is exempt from income taxes under section 501(c)12 of the Internal Revenue Code and applicable state laws and regulations. For the Cooperative's wholly-owned, for-profit enterprises, income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the bases of certain assets and liabilities for financial statement and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

It is the Cooperative's policy to recognize interest and penalties related to income taxes in income tax expense, when applicable.

As of June 30, 2018 and 2017, the Cooperative believes it has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Subsequent Events

The Cooperative has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying consolidated financial statements through October 19, 2018, which was the date the consolidated financial statements were made available.

NOTE 2: INVESTMENTS

Investments in Associated Enterprises

The Cooperative had the following investments in associated enterprises at June 30, 2018 and 2017:

June 30,	2018	2017
CFC capital term certificates	\$ 2,090,525	\$ 2,096,877
Penwar, Inc.	42,846	42,698
Co-Bank stock	 1,000	1,000
	\$ 2,134,371	\$ 2,140,575

NOTE 2: INVESTMENTS (CONTINUED)

Investments in Subsidiaries

WRECC holds investments in two wholly-owned for-profit entities, PES and Millennium. PES is involved with propane distribution and Millennium is a natural gas distributor. For the years ended June 30, 2018 and 2017, PES reported a net income after tax of \$367,185 and \$55,923, respectively. For the years ended June 30, 2018 and 2017, Millennium reported a net income after tax of \$112,004 and \$91,049, respectively.

NOTE 3: UTILITY PLANT

Utility plant at June 30, 2018 and 2017 is summarized as follows:

June 30,	2018	2017
Electric plant in service:		
Transmission plant	\$ 27,630,661	\$ 26,821,788
Distribution plant	242,685,041	231,414,941
General plant	29,788,229	28,075,280
Total electric plant in service	300,103,931	286,312,009
Construction work in progress	19,017,260	11,602,155
Total utility plant	319,121,191	297,914,164
Accumulated depreciation	(137,009,202)	(131,162,899)
Net utility plant	\$ 182,111,989	\$ 166,751,265

Depreciation rates have been applied to the general plant, distribution plant, and transmission plant on a straight-line basis ranging as follows:

General Plant	3.00% to 20.00%
Distribution Plant	2.50% to 6.70%
Transmission Plant	2.75% to 3.34%

NOTE 4: LINES OF CREDIT

The Cooperative has a line of credit for \$8,000,000 with CFC that renews annually each year unless terminated by either party. The note has a variable interest rate and is unsecured. The Cooperative also has a revolving line of credit with Co-Bank for \$10,000,000 that also has a variable interest rate and is unsecured. There were no outstanding balances against either of these notes at June 30, 2018 or 2017.

NOTE 4: LINES OF CREDIT (CONTINUED)

On February 2, 2013, RUS approved a \$13,000,000 loan commitment for the Cooperative. WRECC borrowed against this loan commitment in the amounts of \$8,000,000 and \$5,000,000 on October 6, 2017 and January 23, 2018, respectively.

NOTE 5: LONG-TERM DEBT

At June 30, 2018 and 2017, long-term debt consisted of the following:

June 30,	2018	2017
Mortgage notes payable to CFC due in quarterly installments ranging from approximately \$63,000 to \$408,000 including interest at fixed rates ranging from 2.10% to 6.15%, maturing March 2016 through August 2034; secured by all assets.	\$ 42,434,376	\$ 45,971,462
Mortgage notes payable to Federal Financing Bank, RUS, due in monthly installments of approximately \$90,000 including interest at fixed rates ranging from 2.65% to 6.14%, maturing March 2028 through December 2048; secured by all assets.	36,984,736	24,813,245
Mortgage notes payable to CoBank due in monthly installments of approximately \$52,000 including interest at rates ranging from 2.95% to 6.78%, maturing March 2016 through February 2029; secured by all assets not otherwise securing pre-existing loans.	800 200	027 127
	869,366	927,127
Total long-term debt Less current maturities Less RUS cushion of credit	80,288,478 4,722,269 58	71,711,834 4,145,695 108,162
Net long-term debt	\$ 75,566,151	\$ 67,457,977

The provisions of the mortgage notes payable place certain restrictions and limitations upon the Cooperative. These include maintenance of certain financial ratios, as well as restrictions or limitations on the payment of distributions, rentals of property, and additional borrowings. The Cooperative was in compliance with these covenants at June 30, 2018 and 2017.

NOTE 5: LONG-TERM DEBT (CONTINUED)

The annual debt service requirements to maturity, including principal and interest, at June 30 are as follows:

For the year ending June 30,	
	 Principal
2019	\$ 4,722,269
2020	5,023,817
2021	5,054,157
2022	5,894,395
2023	5,451,138
Thereafter	54,142,644
Total	\$ 80,288,420

NOTE 6: DEFERRED DEBITS AND CREDITS

The Cooperative's deferred debits and credits as presented in the balance sheets consisted of the following items:

June 30,	2018			2017
Deferred debits:				
Computer software, amortized over 1 to 5 years	\$	415,916	\$	473,100
WRECC rebate program		257,571		18,059
Transportation overhead clearing		8,780		-
Merchandise, etc.		-		647
	\$	682,267	\$	491,806
Deferred credits:				
Refundable contributions	\$	447,662	\$	424,767
Unearned revenue		148,064		229,354
Advance receipts of subdivision street light assessments		387,734		352,236
	\$	983,460	\$	1,006,357

NOTE 7: INCOME TAXES

On December 22, 2017, comprehensive tax reform legislation known as the Tax Cuts and Jobs Act (the "Tax Reform Act") was signed into law. The Tax Reform Act amends the Internal Revenue Code to reduce U.S. tax rates and modify policies, credits, and deductions for individuals and businesses.

The Tax Reform Act permanently reduces the U.S. federal corporate income tax rate from 34% to 21%, effective for tax years beginning after 2017. GAAP requires an adjustment to deferred taxes as a result of a change in the corporate tax rate in the period that change in enacted, with the change recorded to the current year tax provision. Accordingly, the Cooperative has re-measured its deferred tax assets and liabilities at the new tax rate and recorded a one-time noncash tax benefit of \$78,092 to deferred income taxes for the year ended June 30, 2018. This benefit resulted from the Cooperative's lower effective tax rate for that year.

The provision for income taxes for the years ended June 30, 2018 and 2017 consisted of the following:

For the years ended June 30,	2018			2017
Current tax expense	\$	275,005	\$	76,641
Deferred taxes		(109,424)		46,031
Total	\$	165,581	\$	122,672

The Cooperative has net deferred tax liabilities of \$138,631 and \$248,055 at June 30, 2018 and 2017, respectively, primarily related to the use of accelerated methods of depreciation of property and equipment for income tax purposes.

NOTE 8: RETIREMENT PLANS

Defined Benefit Pension Plan

The Cooperative participates in the National Rural Electrification Cooperative Association (NRECA) Retirement Security Plan (RS Plan). The NRECA 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 multi-employer plan under accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multi-employer 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.

NOTE 8: RETIREMENT PLANS (CONTINUED)

The Cooperative made contributions to the plan of \$2,146,907 for the year ended June 30, 2018, and \$2,163,248 for the year ended June 30, 2017. There have been no significant changes that affect the comparability of 2018 and 2017 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 approximately 94 percent funded on January 1, 2017, and approximately 95 percent funded on January 1, 2016, 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.

On July 1, 1999, the Cooperative elected to adopt an amendment to the RS Plan lowering the normal retirement age from 65 to 62. In conjunction with this amendment, the Cooperative made a lump-sum payment of \$1,221,439 which was amortized over 17 years.

Deferred Compensation Retirement Plans

The Cooperative has a 401(k) plan which is available to all employees who have completed one month of service. The Cooperative contributes 1% of the employees' base pay if the employee contributes 4%.

Effective December 31, 2017, for employees hired after January 1, 2014, the Cooperative contributes 1% of the employee's base salary. In addition, the Cooperative will provide a matching contribution of 3% if the employee contributes 4% of his/her base pay.

The Cooperative made contributions to the plan of \$117,362 for 2018 and \$95,484 for 2017.

The Cooperative also has a 457(b) Plan which is administered by Homestead Funds. The Plan is for management or highly compensated employees of the Cooperative. The Plan is for participant contributions only; the Cooperative does not contribute. The Plan's assets will remain solely the property of the Cooperative, subject only to the claims of the Cooperative's creditors until made available to the participant or beneficiary of the Plan's assets. Amounts at June 30, 2018 and 2017 were \$384,034 and \$307,405, respectively.

NOTE 9: POSTRETIREMENT HEALTHCARE BENEFITS

The Cooperative provides certain healthcare benefits for retired employees hired prior to January 1, 2014. In order to receive retiree medical and dental benefits, an employee must be at least 55 years of age, with a minimum of 5 years of service, and the sum of age plus years of service must be at least 75. The Cooperative will pay up to five years of benefits for the retiree, or until age 65 is attained. Employees hired after January 1, 2014, will not be eligible for postretirement healthcare benefits.

The annual measurement date is July 1 for the postretirement benefits. The following summarizes the postretirement benefits plan for the years ended June 30, 2018 and 2017.

For the year ended June 30,	2018 2017			2017
Reconciliation of funded status Benefit obligation at June 30 Fair value of plan assets at June 30	\$	4,115,013 -	\$	3,732,134
Unfunded benefit obligation	\$	4,115,013	\$	3,732,134
Benefits paid Employer contributions	\$ \$	-	\$ \$	393,310 393,310
Reconciliation of net periodic benefit cost Net loss Prior service cost Interest cost	\$	100,892 158,386 160,548	\$	69,149 162,725 133,711
Net periodic benefit cost	\$	419,826	\$	365,585

The weighted average assumptions used in the accounting for the Cooperative's postretirement benefit plan was as follows:

For the year ended June 30,	2018	2017
Discount rate	4.15%	3.85%

NOTE 9: POSTRETIREMENT HEALTHCARE BENEFITS (CONTINUED)

The following benefit payments, which reflect expected future service, as appropriate, as expected to be paid:

For the year ending June 30,	
2019	\$ 350,000
2020	381,000
2021	248,000
2022	244,000
2023	426,000
Thereafter	1,929,000
Total	\$ 3,578,000

NOTE 10: SELF-INSURANCE

The Cooperative is self-insured for a significant portion of its employee healthcare claims. During 2018 and 2017, the Cooperative paid claims of \$3,073,141 and \$2,894,849, respectively. Management has recorded an estimate for an amount it considers reasonable related to its obligation for claims incurred but not reported as of yearend. At June 30, 2018 and 2017, the Cooperative had accrued \$248,136 and \$247,742, respectively, for these projected claims.

NOTE 11: COMMITMENTS

The Cooperative has a wholesale power contract with Tennessee Valley Authority (TVA) whereby the electric system purchases all of its electric power from TVA. The rates paid for such purchases are subject to review periodically. A five-year notice to TVA is required to terminate the contract.

On October 8, 2015, the Cooperative signed a five-year contract with A&G Tree Service for right-ofway clearing services totaling \$9,134,923 over the five-year contract period. As of June 30, 2018, the Cooperative had two years remaining on the contract, totaling \$3,772,130 for services provided between July 1, 2018 and June 30, 2020.

On August 21, 2017, the Cooperative signed a contract with Tantalus for the installation of network equipment and services for the Cooperative's advanced metering infrastructure ("AMI") installation and deployment. After two contract amendments, dated September 29, 2017 and December 6, 2017, the contract price totaled \$9,834,981. As of June 30, 2018, the Cooperative had a remaining balance of \$4,098,273 to pay on the contract for services to be provided. Management expects the AMI system to be fully functional by June 30, 2020.

NOTE 11: COMMITMENTS (CONTINUED)

On December 21, 2017, the Cooperative secured a loan agreement with the National Rural Utilities Cooperative Finance Corporation ("CFC") for \$20,000,000, available to be drawn down over a period of five years. As of June 30, 2018, the Cooperative has not borrowed any of the available funds.

NOTE 12: RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended June 30, 2018 and 2017, the Cooperative purchased commercial insurance for all of the above risks. The Cooperative is involved in lawsuits from time to time, which are considered to be in the normal course of business. In the opinion of management, based on information furnished by counsel, the ultimate liability, if any, will have no material effect on the financial position of the Cooperative.

Warren Rural Electric Cooperative Corporation Consolidating Balance Sheets

June 30, 2018	WRECC	PES	Millennium	Eliminations	Total	
Assets						
Utility plant						
Plant in service	\$ 300,103,931	\$-	\$-	\$-	\$ 300,103,931	
Construction in progress	19,017,260	-	-	-	19,017,260	
Less accumulated depreciation	(137,009,202)	-	-	-	(137,009,202)	
Net utility plant	182,111,989	-	-	-	182,111,989	
Other property and investments						
Non-utility plant, net of accumulated	-	492,284	467,602	-	959,886	
Investments in associated companies	5,386,829	-	-	(3,252,458)	2,134,371	
Other investments	385,380	-	-	-	385,380	
Goodwill	503,260	-	-	-	503,260	
Total other property and investments	6,275,469	492,284	467,602	(3,252,458)	3,982,897	
Current assets						
Cash and cash equivalents	18,350,819	1,630,396	743,130	-	20,724,345	
Accounts receivable, net of allowance	15,943,657	121,456	161,583	(131,301)	16,095,395	
Other accounts receivable	869,466	-	-	-	869,466	
Materials and supplies	3,736,863	93,149	5,048	-	3,835,060	
Prepaid expenses	1,092,388	12,371	900	-	1,105,659	
Total current assets	39,993,193	1,857,372	910,661	(131,301)	42,629,925	
Other assets						
TVA Energy Services loans receivable	4,090	-	-	-	4,090	
Deferred debits	682,267	-	-	-	682,267	
Total other assets	686,357	-	-	-	686,357	
Total assets	\$ 229,067,008	\$ 2,349,656	\$ 1,378,263	\$ (3,383,759)	\$ 229,411,168	

Warren Rural Electric Cooperative Corporation Consolidating Balance Sheets

June 30, 2018	WRECC	PES	Millennium	Eliminations	Total
Equities and Liabilities					
Equities					
Membership fees	\$ 561,165	\$ -	\$-	\$-	\$ 561,165
Patronage capital	107,226,956	-	-	-	107,226,956
Other equities	107,629	2,035,677	1,216,781	(3,252,458)	107,629
Total equities	107,895,750	2,035,677	1,216,781	(3,252,458)	107,895,750
Long-term liabilities					
Long-term debt - net of current portion	75,566,151	-	-	-	75,566,151
Accrued post-retirement benefits	4,149,047	-	-	-	4,149,047
Total other liabilities	79,715,198	-	-		79,715,198
Current liabilities					
Accounts payable - purchased power	25,583,492	-	-	-	25,583,492
Accounts payable - other	2,308,168	13,780	45,703	(131,301)	2,236,350
Self-insured fund	248,136	-	-	-	248,136
Customer deposits	3,829,798	-	7,330	-	3,837,128
Accrued interest	164,228	-	-	-	164,228
Accrued vacation and sick leave	1,577,293	-	-	-	1,577,293
Current portion of post-retirement liability	350,000	-	-	-	350,000
Accrued taxes and other current liabilities	1,833,539	95,951	26,002	-	1,955,492
Current portion of long-term debt	4,722,269	-	-	-	4,722,269
Total current liabilities	40,616,923	109,731	79,035	(131,301)	40,674,388

Warren Rural Electric Cooperative Corporation Consolidating Balance Sheets

June 30, 2018	WRECC	PES	Ν	Aillennium	E	iminations	Total
Other liabilities							
Advances for TVA Energy Services loans	3,741	-		-		-	3,741
Deferred income taxes	-	56,184		82,447		-	138,631
Deferred credits	835,396	148,064		-		-	983,460
Total other liabilities	839,137	204,248		82,447		-	1,125,832
Total equities and liabilities	\$ 229,067,008	\$ 2,349,656	\$	1,378,263	\$	(3,383,759)	\$ 229,411,168

Warren Rural Electric Cooperative Corporation Consolidating Statements of Income

For the year ended June 30, 2018	d June 30, 2018 WRECC PES N		Millennium	Eliminations	Total	
Operating Revenues						
Electric sales	\$ 193,755,760	\$	-	\$-	\$-	\$ 193,755,760
Forfeited discounts	1,133,704	-	-	-	-	1,133,704
Rent from electric property	2,101,101		-	-	-	2,101,101
Other electric revenues	625,043		-	-	-	625,043
Natural gas sales	-		-	739,886	-	739,886
Propane and related sales	-		2,908,749	-	-	2,908,749
Total operating revenue	197,615,608		2,908,749	739,886	-	201,264,243
Purchased power and expenses						
Purchased power	149,844,707		-	-	-	149,844,707
Operation	6,222,180		674,361	32,759	-	6,929,300
Maintenance	6,946,973		-	9,463	-	6,956,436
Facilities rental	100,161		-	-	-	100,161
Customer accounts	3,175,924		-	-	-	3,175,924
Customer service and information	674,294		-	901	-	675,195
Administrative and general	5,686,829		101,518	30,129	-	5,818,476
Depreciation and amortization	9,516,744		112,793	36,724	-	9,666,261
Taxes and tax equivalents	5,423,131		53,544	53,751	-	5,530,426
Natural gas purchases	-		-	460,264	-	460,264
Propane gas and related cost of goods sold	-		1,480,323	-	-	1,480,323
Total purchased power and expenses	187,590,943		2,422,539	623,991	-	190,637,473
Total operating income	10,024,665		486,210	115,895	-	10,626,770

Warren Rural Electric Cooperative Corporation Consolidating Statements of Income

For the year ended June 30, 2018	WRECC	PES	Millennium	Eliminations	Total
Other revenues					
Interest income	165,839	740	386	-	166,965
Income of unconsolidated entities	147	-	-	-	147
Miscellaneous	763,418	35,069	6,470	(479,189)	325,768
Total other revenues	929,404	35,809	6,856	(479,189)	492,880
Other deductions					
Interest on long-term debt	3,285,598	-	-	-	3,285,598
Post-retirement benefits	350,000	-	-	-	350,000
Total other deductions	3,635,598	-	-	-	3,635,598
Income before income taxes	7,318,471	522,019	122,751	(479,189)	7,484,052
Income tax expense		154,834	10,747	-	165,581
Net Income	\$ 7,318,471 \$	367,185	\$ 112,004	\$ (479,189) \$	7,318,471



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Independent Auditors' 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*

Board of Directors Warren Rural Electric Cooperative Corporation Bowling Green, 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 consolidated financial statements of the Warren Rural Electric Cooperative Corporation (the "Cooperative") (a nonprofit organization), which comprise the consolidated balance sheet as of June 30, 2018 and the related consolidated statements of income, equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 19, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated 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 consolidated 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 consolidated 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We

did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations that we consider to be a significant deficiency: 2018-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's consolidated financial statements are free from 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and recommendations as item 2018-002.

We noted other matters involving internal control over financial reporting that we have reported to management of the Cooperative in a separate letter dated October 19, 2018

The Cooperative's Response to Findings

The Cooperative's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. The Cooperative's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

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 Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Can, Rigge & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC Bowling Green, Kentucky October 19, 2018



Independent Auditors' Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers Carr, Riggs & Ingram, LLC

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Board of Directors Warren Rural Electric Cooperative Corporation Bowling Green, 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 consolidated financial statements of Warren Rural Electric Cooperative Corporation (the "Cooperative"), which comprise the consolidated balance sheet as of June 30, 2018, and the related consolidated statements of income, equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 19, 2018. In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2018, 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 the accounting matters 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, except as noted in the schedule of findings and recommendations, 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;
- 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 consolidated 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) (see 2018-002 for finding noted in schedule of findings and recommendations);
- 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.

The purpose of this report is solely to communicate, in connection with the audit of the consolidated 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.

Can, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC Bowling Green, Kentucky October 19, 2018

2018-001 SEGREGATION OF DUTIES

Criteria and Condition: Proper segregation duties is a significant component to the internal control structure. There is a lack of segregation of duties in relation to the cash disbursements.

Cause: Select employees have access to the Cooperative's assets and financial records.

Effect or Potential Effect: Misappropriations could occur and not be detected by the Cooperative's internal controls.

Recommendation: We recommend management strengthen internal controls in relation to cash disbursements by segregating access to the Cooperative's assets and financial records.

Views of Responsible Officials and Planned Corrective Actions: In our opinion, the Accounting department is not large enough to have full segregation of duties. The Manager of Accounting acts as backup for accounts payable, payroll and all other functions within the Accounting Department. The VP of Administrative Services reviews all checks written to ensure that all checks are accounted for. Bank reconciliations are performed by individuals who do not have access to the bank accounts. There are no planned corrective actions, other than continuous review of procedures for reasonableness.

2018-002 DEPRECIATION RATES

Criteria and Condition: The Cooperative is required to comply with the terms, covenants, provisions, and conditions of their loan with RUS as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*, Section 1773.33 and clarified in the RUS Bulletin 1773-1 dated April 30, 2018. A specific requirement states that the Cooperative must record depreciation in accordance with RUS regulations as stated in the RUS Bulletin 183-1, Depreciation Rates and Procedures. Several depreciation rates being used by the Cooperative within the general plant, distribution plant, and transportation plant categories were not in agreement with the requirements stated in the RUS Bulletin 183-1, Depreciation Rates and Procedures.

Cause: RUS Bulletin 183-1, Depreciation Rates and Procedures, was not compared to the current depreciation rates utilized by the Cooperative.

Effect or Potential Effect: The Cooperative is not in compliance with RUS Bulletin 183-1, Depreciation Rates and Procedures.

Recommendation: We recommend the Cooperative record depreciation in accordance with RUS regulations as stated in the RUS Bulletin 183-1, Depreciation Rates and Procedures.

Views of Responsible Officials and Planned Corrective Actions: As WRECC's regulator, TVA sets the depreciation rates for accounts 364, 365, 368, 369 and 370 and approves rates for all other accounts. RUS has not updated their depreciation standards in 30+ years and their recommended rates do not accurately reflect life expectancies of newer technologies.

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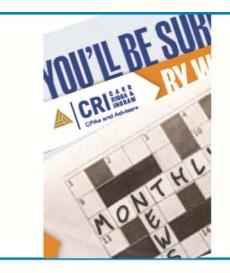
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