

GUIDING PRINCIPLES

Owned by you, working for you



SK South Kentucky
RECC
FOR THE PEOPLE OF SOUTH KENTUCKY

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION

2015 ANNUAL REPORT

Exhibit No. 278

EXHIBIT

"1"

Cover: South Kentucky RECC's Charlie Ball, left, energy advisor, conducts a blow-up door-to-door member Craig Wilkerson's home. South Kentucky offers energy audits to members to help them save money on electric bills. Photo: Tim Webb

Right: (In front sitting) South Kentucky RECC CEO Alan Anderson and employees, left to right, Derek Mannick, Wire Technician, Nancy Duncan, cashier, Doug Conley, Materials Manager, Brian Parkey, Special Projects Engineer, Auburn Cook, Service Center Representative, Joe Langdon, IT Manager, and Christy Stevens, General Ledger Accountant, adhere to the 7 Cooperative Principles making for a better electric cooperative for South Kentucky RECC members. Photo: Tim Webb



THE GUIDING PRINCIPLES

South Kentucky RECC is proud to be unique.

We are unique in that we are a cooperative business, owned by you, working for you, and guided by

The Seven Cooperative Principles,

which 174 years after they were first written, are still relevant today.

This annual report highlights the achievements South Kentucky RECC has made by adhering to these principles.

For instance, we rely on the principle of Cooperation Among Cooperatives as we work with our partner co-ops to deal with new EPA regulations.

Kentucky enjoys affordable and reliable electricity thanks to its coal-fired power plants, which supply about 90 percent of our electricity. As the EPA's Clean Power Plan places steep limits on carbon

emissions from those plants, SKRECC is working with our national association and a network of 900 co-ops across the country to craft innovative solutions and a united response.

While the regulations may ultimately impact how we generate your energy, our mission of safe, reliable, and affordable electric service does not change.

KEEPING ENERGY AFFORDABLE

The principles of Open and Voluntary Membership and Democratic Member Control ensure you have a say in how South Kentucky RECC does business.

Elected by you, our board of directors sets policy and hires a co-op president/CEO, who in turn hires professionals to carry out our mission.

SKRECC exercises its Autonomy and Independence in crafting strategy and hiring decisions.



FINWEBBPHOTOGRAPH

erate electricity, we expect to see upward pressure on energy prices for Kentuckians over the next several years.

We take our **Members' Economic Participation** very seriously as we watch out for your interests. Unlike investor-owned utilities, SKRECC does not create profits for investors and shareholders. Any excess dollars or margins are assigned to our members in the form of a capital credit and returned to members when the board of directors sees the co-op has the financial strength to do so.

We provide energy audits, rebates, and energy-efficiency tools all of which helps you to actually use less electricity, which keeps costs lower for all members.

STAYING SAFE AND STAYING INFORMED

Since delivery of electricity is a complex process, South Kentucky RECC places a high value on providing **Education, Training, and Information**. Working with South Kentucky RECC's Safety and Loss Control team, as well as the Kentucky Association of Electric Cooperatives' Safety & Loss Prevention team, we are proud of how safely our employees work.

We have also expanded our informational services to members over the past year. Members can now use a smart phone app to check usage, pay bills, and text outages. They can use the online member portal at www.skrecc.com to conduct much of their

Perhaps the most important cooperative principle we follow at South Kentucky RECC is Concern for Community. We give back to our community through our People Fund program, which allows members to round up their electric bill to the nearest dollar, then awards grants from that funding to community organizations, like schools, food banks, senior citizens centers, and many others, whose financial needs are not being met by other resources. South Kentucky RECC also encourages employees to participate in community events, like American Cancer Society Relay For Life or March of Dimes WalkAmerica. Last year's WalkAmerica team raised more than \$4,000 for the event (photo below). Photo: South Kentucky RECC

We employ experts in the fields of engineering and operations, information technology, communications, member services, and community and economic development. Some of the best, brightest, most creative, and dedicated people have chosen careers that serve their communities working at South Kentucky RECC.

HOW REGULATIONS IMPACT YOUR ELECTRIC RATES

Current and yet-to-be implemented regulations affect the cost to generate electricity. To comply, our co-op power supplier, East Kentucky Power Cooperative, has invested hundreds of millions of dollars in environmental control equipment.

Because the new EPA regulations will force us to use less coal to gen-



business with the co-op, as well as follow hourly electric usage, view bill history, and pay bills.

Timely and important information about your electric cooperative and member benefits can be found on skrecc.com, in *Kentucky Living* magazine, and look for us on Facebook and Twitter.

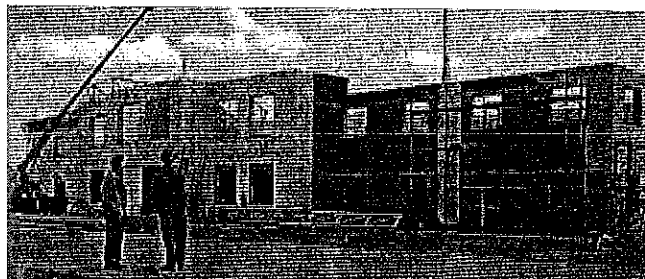
YOUR COMMUNITY IS OUR COMMUNITY

Your cooperative employees are your neighbors. Because of our Concern for Community, we support and participate in many area causes and events. South Kentucky RECC is part of your community, and we will continue to participate in events and activities that help us all. You'll see co-op employees volunteering for local community groups, conducting school safety programs, and sponsoring local events.

In addition, South Kentucky RECC has made a long-term commitment to community through the construction of a new headquarters in Somerset. The Kentucky Public Service Commission in March 2015 granted approval to purchase the former Somerset Houseboats facility for construction of the new headquarters. Bids were let in August, and D.W. Wilburn Inc., based in Somerset, was the low bidder and began construction immediately. From all indications, construction is on track and estimates for completion is October. The current headquarters on North Main Street,

Somerset, is for sale with conditions that it cannot be occupied until the co-op's move is complete later this year.

Each day, SKRECC remembers who owns our co-op—you do. Thank you for your trust as we remain guided by The Seven Cooperative Principles in each of our decisions to protect and improve the quality of life for our community.



South Kentucky RECC CEO Allen Anderson meets with Somerset SKRECC headquarters project manager Steve Wilson, with construction firm D. W. Wilburn, to discuss progress on the building.

Cooperatives operate according to the same core principles and values. Cooperatives trace the roots of these principles to the first modern cooperative founded in Rochdale, England, in 1844.

VOLUNTARY AND OPEN MEMBERSHIP

Cooperatives are voluntary organizations, open to all people able to use its services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

DEMOCRATIC MEMBER CONTROL

Cooperatives are democratic organizations controlled by members—those who buy the goods or use the services of the cooperative—who actively participate in setting policies and making decisions.

MEMBERS' ECONOMIC PARTICIPATION

Members contribute equally to, and democratically control,

the capital for the cooperative benefiting members in proportion to the business they conduct with the cooperative rather than on the capital invested.

AUTONOMY AND INDEPENDENCE

Cooperatives are autonomous, self-help organizations controlled by members. If the co-op enters into agreements with other organizations or raises capital from external sources, it is done so based on terms that ensure democratic control by members and maintain the cooperative's autonomy.

EDUCATION, TRAINING, AND INFORMATION

Cooperatives provide education and training for members, elected representatives,

managers, and employees so they can contribute effectively to the development of their co-op.

COOPERATION AMONG COOPERATIVES

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structures.

CONCERN FOR COMMUNITY

While focusing on member needs, cooperatives work for the sustainable development of communities through policies and programs accepted by the members.

COOPERATIVE PRINCIPLES



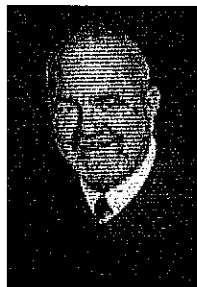
*Rick Holloran,
Chairman,
KAEC Representative
District #3*



*Cathy Crew Epperson
Vice Chairman
District #1*



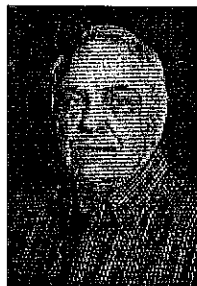
*Lee Coffee
Secretary/Treasurer
EKP Representative
District #7*



*Greg Redmon
District #2*



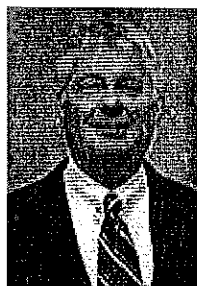
*Billy G. Hurd
District #4*



*Greg Beard
District #5*



*Boris Haynes
District #6*



*Mark David Goss
Attorney*



*Allen Anderson
CEO*

OFFICIAL BUSINESS MEETING AGENDA ANNUAL MEETING OF MEMBERS

SOUTH KENTUCKY RECC

Where: South Kentucky RECC Farm
(¼ mile west of Fishing Creek Bridge on
HWY 80 in Pulaski County)

When: Thursday, June 9, 2016

Registration Time: 4:00 PM

Business Meeting Time: 7:00 PM

The annual membership meeting of South Kentucky RECC organizes to take action on the following matters:

1. Call of Meeting to Order
2. Determine Quorum Present
3. Reading of the Notice of the Meeting and Proof of Mailing
4. Consideration and Approval of the Minutes of the 2015 Annual Meeting
5. Presentation and Consideration of Reports of Officers, Directors, and Committees
6. Report on the Election of Board Members— District 4 and District 7
7. Unfinished Business
8. New Business as proposed in Section 3.08 of the Bylaws
9. President & CEO's Report
10. Adjournment



MEMBERS BY COUNTY

(as of December 31, 2015)

Adair County	706
Casey County	1,931
Clinton County	7,344
Cumberland County	23
Laurel County	12
Lincoln County	1,365
McCreary County	6,838
Pulaski County	30,501
Rockcastle County	80
Russell County	11,003
Wayne County	13,774
Pickett County (TN)	181
Scott County (TN)	23

Average Kilowatt-hour Use

(Residential per month)

2005	1,119
2015	1,081

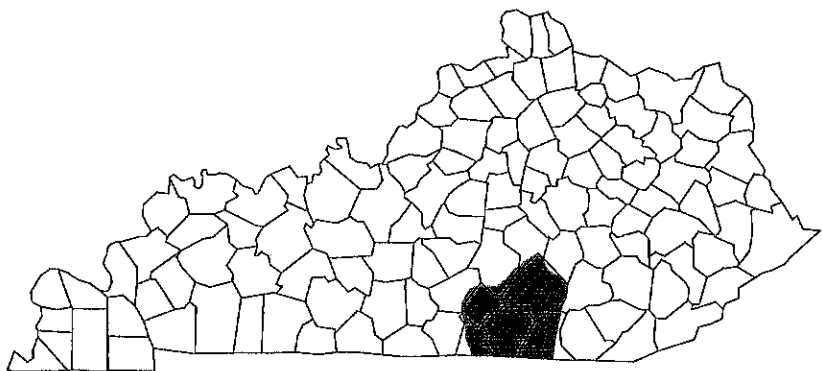
Miles of Line

2005	6,475
2015	6,813

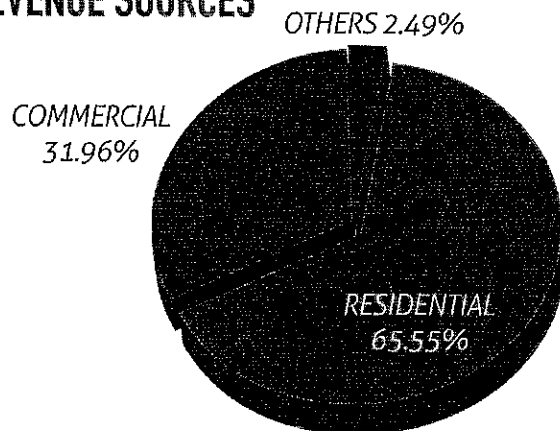
Consumers Per Mile

2005	9.53
2015	9.82

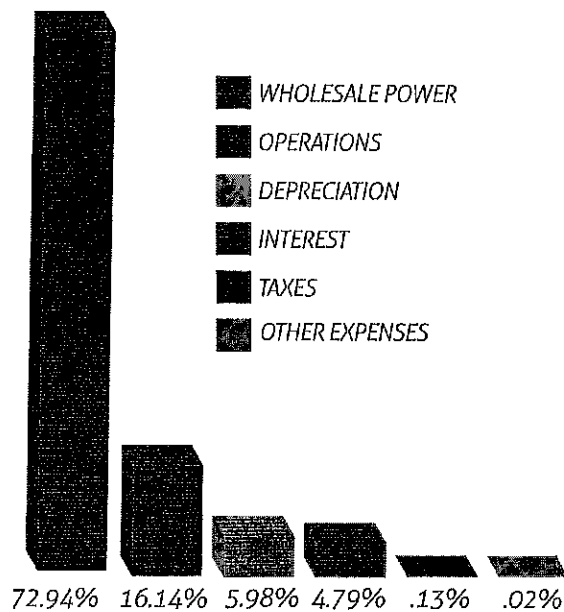
SERVICE AREA



REVENUE SOURCES



MAJOR COSTS



STATEMENT OF OPERATIONS

For the Year Ending December 31, 2015

Operating Revenue.....	\$128,691,016
Cost of Electric Service	
Cost of Electricity Purchased	
from East Kentucky Power	\$93,010,261
Cost of Operating the	
Distribution System	\$20,576,427
Depreciation Expense	\$7,624,270
Interest Expense on Loans	\$6,114,162
Public Service Commission	
Assessment.....	\$165,657
Other Expenses.....	\$32,123
Total Cost of Electric Service.....	\$127,522,900
Gross Margins from	
Electric Service.....	\$1,168,116
Non Operating Income	\$8,779,230
Net Margins (Deficit)	\$9,947,346

BALANCE SHEET

For the Year Ending December 31, 2015

ASSETS

Total Poles, Wires, and	
Other Equipment.....	\$238,973,368
Less Accumulated	
Depreciation.....	\$63,070,154
Net Value of Poles, Wires,	
and Other Equipment	\$175,903,214
Investments in Associated	
Organizations	\$64,755,284
Cash and Equivalents.....	\$15,542,262
Accounts and Notes	
Receivable.....	\$6,811,190
Material in Inventory.....	\$1,385,640
Prepaid Expenses.....	\$639,354
Other Assets.....	\$5,701,212
Total Assets	\$270,738,156

LIABILITIES AND MEMBERS' EQUITY

Consumer Deposits	\$1,561,236
Members and Other Equities	\$104,217,720
Long-Term Notes Payable	\$137,561,460
Notes and Accounts Payable	
Owed to Vendors	\$14,982,079
Other Liabilities	\$12,415,661
Total Liabilities and	
Members' Equity.....	\$270,738,156



OFFICIAL NOTICE

ANNUAL MEETING 2016

FEATURING

Joe Nichols

"The Impossible"
"Brokenheartsville"
"What's a Guy Gotta Do"
"I'll Wait For You"
"Gimme That Girl"
"Sunny and 75"
"Yeah"
and many more

Registration - 4 p.m. EDT
Business Meeting - 7 p.m.

Thursday, June 9
SKRECC FARM

3/4 mile west of Fishing Creek Bridge on KY
80 near Nancy, KY, in Pulaski County

Call (606) 451-4137 for more information.

- Free bucket and light bulbs for all registering members
- Prizes for all ages
- Information about South Ky. RECC and our many services
- Rides and fun for the kids

SK South Kentucky
RECC
A Noncharitable Energy Cooperative

**All offices of SKRECC will be
CLOSED Annual Meeting day!**