

AUDITED FINANCIAL STATEMENTS

**TRI-COUNTY ELECTRIC  
MEMBERSHIP CORPORATION**

Lafayette, Tennessee  
June 30, 2016 and 2015

**WINNETT**  
*Associates, PLLC*

Certified Public Accountants and Consultants

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Tri-County Electric Membership Corporation  
405 College Street  
Lafayette, Tennessee 37083

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Tri-County Electric Membership Corporation, which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of income, comprehensive income, 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 statement 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. 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe 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 financial position of Tri-County Electric Membership Corporation as of June 30, 2016 and 2015, 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016, on our consideration of Tri-County Electric Membership Corporation'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 Tri-County Electric Membership Corporation's internal control over financial reporting and compliance.

*Winnitt Associates, PLLC*

October 24, 2016

**BALANCE SHEETS**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**

	June 30,	
	2016	2015 as restated
<u>ASSETS</u>		
<u>UTILITY PLANT</u>		
Electric plant in service	\$ 202,115,804	\$ 193,235,583
Construction work in progress	3,417,370	5,366,433
	<u>205,533,174</u>	<u>198,602,016</u>
Less allowances for depreciation	77,114,272	72,568,420
NET UTILITY PLANT	<u>128,418,902</u>	<u>126,033,596</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	6,578,773	9,751,732
Accounts receivable-customers, less allowance for doubtful accounts of \$120,000 in 2016 and \$250,000 in 2015	5,252,954	4,545,558
Unbilled revenue	7,223,492	7,066,084
Rents receivable	738,180	739,607
Material and supplies	3,094,852	1,563,428
Notes receivable, due within on year	125,316	197,538
Other receivables	904,519	494,091
Other current assets	1,129,492	1,076,441
TOTAL CURRENT ASSETS	<u>25,047,578</u>	<u>25,434,479</u>
<u>OTHER ASSETS AND DEFERRED DEBITS</u>		
Capital term certificates	1,714,562	1,714,562
Amount on deposit with RUS	10,468,743	9,475,367
Notes receivable, due after one year	700,957	899,236
Energy conservation loans	1,579,356	1,640,115
Other deferred debits	3,347,704	3,800,297
TOTAL OTHER ASSETS AND DEFERRED DEBITS	<u>17,811,322</u>	<u>17,529,577</u>
	<u>\$ 171,277,802</u>	<u>\$ 168,997,652</u>

The accompanying notes are an integral part of this financial statement.

	June 30,	
	2016	2015 as restated
<u>EQUITIES AND LIABILITIES</u>		
<u>EQUITIES</u>		
Memberships	\$ 196,480	\$ 195,930
Accumulated other comprehensive income	(1,217,756)	(1,306,757)
Earnings reinvested in system assets	109,631,478	106,743,283
TOTAL EQUITIES	108,610,202	105,632,456
<u>LONG-TERM DEBT</u>		
Rural Utilities Service	31,689,711	32,978,381
National Rural Utilities Cooperative Finance Corporation	2,944,708	3,512,690
TOTAL LONG-TERM DEBT	34,634,419	36,491,071
Less current maturities	1,835,870	1,795,646
LONG-TERM DEBT LESS CURRENT MATURITIES	32,798,549	34,695,425
<u>CURRENT LIABILITIES</u>		
Current maturities of long-term debt	1,835,870	1,795,646
Accounts payable	15,259,074	14,267,492
Consumers' deposits	2,522,304	2,421,904
Accrued compensated absences	1,829,941	1,809,988
Other current and accrued liabilities	1,176,335	1,085,036
TOTAL CURRENT LIABILITIES	22,623,524	21,380,066
<u>OTHER LIABILITIES AND DEFERRED CREDITS</u>		
Advances - energy conservation	1,606,232	1,684,341
Accumulated postretirement benefits	5,639,295	5,605,364
TOTAL OTHER LIABILITIES AND DEFERRED CREDITS	7,245,527	7,289,705
	<u>\$ 171,277,802</u>	<u>\$ 168,997,652</u>

**STATEMENTS OF INCOME**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**

		Year Ended June 30,	
		2016	2015
			as restated
<hr/>			
Operating revenues:			
Electric sales	\$	115,425,224	\$ 112,214,732
Other operating revenues		2,524,027	2,567,392
	TOTAL OPERATING REVENUES	<u>117,949,251</u>	<u>114,782,124</u>
Operating expenses:			
Purchased power		90,905,616	87,570,164
Transmission		72,777	148,726
Distribution - operations and maintenance		10,777,138	10,582,157
Customer accounts		2,482,582	2,503,543
Customer services		665,277	637,798
Sales		8,688	17,827
Administrative and general		2,190,987	2,306,030
Provision for depreciation		7,127,341	6,684,915
Other deductions		83,274	83,274
	TOTAL OPERATING EXPENSES	<u>114,313,680</u>	<u>110,534,434</u>
	OPERATING INCOME	<u>3,635,571</u>	<u>4,247,690</u>
Other income:			
Interest		591,184	421,163
Miscellaneous		36,200	61,470
	TOTAL OTHER INCOME	<u>627,384</u>	<u>482,633</u>
Other deductions:			
Interest		1,295,218	1,270,088
Miscellaneous		79,542	95,998
	TOTAL OTHER DEDUCTIONS	<u>1,374,760</u>	<u>1,366,086</u>
	NET INCOME	<u>\$ 2,888,195</u>	<u>\$ 3,364,237</u>

The accompanying notes are an integral part of this financial statement.

**STATEMENTS OF COMPREHENSIVE INCOME**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**

	Year Ended June 30,	
	2016	2015
		as restated
Net income	\$ 2,888,195	\$ 3,364,237
Other comprehensive income		
Retiree health cost-share plan:		
Amortization of actuarial loss	107,274	290,090
Amortization of prior service cost	(11,242)	(53,521)
Actuarial loss	(7,031)	-
TOTAL OTHER COMPREHENSIVE INCOME	89,001	236,569
TOTAL COMPREHENSIVE INCOME	\$ 2,977,196	\$ 3,600,806

The accompanying notes are an integral part of this financial statement.

**STATEMENTS OF EQUITIES**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**

	Accumulated Other Comprehensive Income	Earnings Reinvested in System Assets	Memberships	Total
BALANCE, JUNE 30, 2014 (AS RESTATED)	\$ (1,543,326)	\$ 103,379,046	\$ 194,520	\$ 102,030,240
Net income (as restated)	-	3,364,237	-	3,364,237
Other comprehensive income	236,569	-	-	236,569
Net change in memberships	-	-	1,410	1,410
BALANCE, JUNE 30, 2015 (AS RESTATED)	(1,306,757)	106,743,283	195,930	105,632,456
Net income	-	2,888,195	-	2,888,195
Other comprehensive income	89,001	-	-	89,001
Net change in memberships	-	-	550	550
BALANCE, JUNE 30, 2016	<u>\$ (1,217,756)</u>	<u>\$ 109,631,478</u>	<u>\$ 196,480</u>	<u>\$ 108,610,202</u>

The accompanying notes are an integral part of this financial statement.

**STATEMENTS OF CASH FLOWS**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**

	Year Ended June 30,	
	2016	2015 as restated
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 2,888,195	\$ 3,364,237
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation expense	7,127,341	6,684,915
Changes in assets and liabilities:		
Receivables	(1,116,397)	1,263,189
Unbilled revenue	(157,408)	218,605
Materials and supplies	(1,059,290)	(175,136)
Prepayments and other assets	399,542	295,482
Accounts payable	991,582	(184,691)
Consumer deposits	100,400	76,215
Accrued expenses and compensated absences	111,252	47,048
Accumulated postretirement benefits	122,932	279,960
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>9,408,149</u>	<u>11,869,824</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to plant assets, including removal costs, net of salvage	(9,984,781)	(10,518,481)
Invested in RUS cushion of credit	(993,376)	(7,736,347)
Notes receivable issued	-	(1,000,000)
Principal received on notes receivable	270,501	164,202
Net change in energy conservation loan receivables	60,759	(122,287)
NET CASH USED BY INVESTING ACTIVITIES	<u>(10,646,897)</u>	<u>(19,212,913)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Advances of long-term debt	-	7,500,000
Payments of principal on long-term debt	(1,856,652)	(1,693,436)
Net change in energy conservation loan advances	(78,109)	123,586
Net increase(decrease) in memberships	550	1,410
NET CASH PROVIDED BY/(USED BY) FINANCING ACTIVITIES	<u>(1,934,211)</u>	<u>5,931,560</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(3,172,959)</u>	<u>(1,411,529)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>9,751,732</u>	<u>11,163,261</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 6,578,773</u>	<u>\$ 9,751,732</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the year for interest	<u>\$ 1,300,501</u>	<u>\$ 1,291,600</u>

The accompanying notes are an integral part of this financial statement.

**NOTES TO FINANCIAL STATEMENTS**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**

**June 30, 2016 and 2015**

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**NATURE OF BUSINESS**

Tri-County Electric Membership Corporation (the Cooperative) is a not-for-profit electric cooperative operating principally to distribute electric power to its members. It serves primarily industries and rural customers in counties in north central Tennessee and south central Kentucky.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting - The financial statements have been prepared on the accrual basis of accounting. Revenue is recorded as billed to consumers, based on monthly meter reading cycles. The cost of purchased power is recorded monthly during the period in which the energy is consumed, based upon billings from TVA. The Corporation accrues the unbilled revenue from the dates of the most recent meter readings to the balance sheet date.

The Cooperative maintains its records in accordance with policies prescribed or permitted by the Tennessee Valley Authority (TVA) and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform in all material respects with generally accepted accounting principles.

Utility Plant - Electric plant is stated at original cost, less contributions, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead costs. The Cooperative capitalizes the cost of any asset with an estimated useful life over one year. Depreciation is computed using the straight-line method at rates designed to amortize the cost of the assets over their estimated lives. All depreciation rates used by the Cooperative are recommended by the Tennessee Valley Authority.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to electric plant. The cost of units of property replaced or retired, including cost of removal net of any salvage value, is charged to accumulated depreciation for distribution plant.

The Cooperative capitalizes net interest costs as part of the cost of constructing utility projects when significant. For the years ended June 30, 2016 and 2015, no interest costs were capitalized.

Trade Accounts Receivable - Trade accounts receivable are reported at the amount management expects to collect from outstanding balances. The Cooperative provides an allowance for losses on receivables based upon a review of the current status of existing receivables, historical collection experience and management's evaluation of the effect of existing economic conditions. Receivables are past due or delinquent based on how recently payments have been received. Receivables are charged to the allowance provided when accounts are deemed to be uncollectible.

Cash and Cash Equivalents - For the purposes of the statement of cash flows, the Cooperative defines cash equivalents as financial investments with an original maturity date of less than three months.

Materials and Supplies Inventory - Inventories are valued using a moving average cost method. As items are purchased they are added to inventory at their actual cost. When issued and capitalized to utility plant, items are removed from inventory using a currently computed average cost per unit. When retired from plant and returned to inventory, the current average cost is used.

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**June 30, 2016 and 2015**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 used in the preparation of the financial statements.

Subsequent Events - Subsequent events have been evaluated through October 24, 2016, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

**NOTE B - INVESTMENTS**

Under the terms of its loan agreement with National Rural Utilities Cooperative Finance Corporation (CFC), the Cooperative is required to purchase Capital Term Certificates (CTCs). The initial investment is based on the amount loaned to the Cooperative. The CTCs are similar to compensating bank balances, are not readily marketable except through redemption with CFC, are recorded at the stated amount of the certificates, bear interest at 3% and 5%, and are scheduled to mature at varying times from 2020 to 2080.

The Cooperative will also invest idle funds in CFC commercial paper which matures within thirty days of issuance. In accordance with generally accepted accounting principles, investments in commercial paper are classified as held-to-maturity securities. Held-to-maturity securities are presented at amortized cost. The fair value of commercial paper approximated cost at June 30, 2016 and 2015. There were no unrealized holding gains or losses as of June 30, 2016 and 2015.

**NOTE C - RURAL ECONOMIC DEVELOPMENT LOAN**

The Cooperative has entered into loan agreements with RUS in order to provide funds to promote rural economic development. Under the terms of the agreement RUS has loaned funds to the Cooperative, which in turn were loaned to qualified borrowers. Both loans to and from the Cooperative are provided without interest and require monthly payments of principal only.

**NOTE D - ELECTRIC PLANT**

Electric plant in service consisted of:

	<u>2016</u>	<u>2015</u>
Transmission plant	\$ 7,306,635	\$ 7,305,186
Distribution plant	175,190,414	167,637,057
General plant	<u>19,618,755</u>	<u>18,293,340</u>
Electric plant in service	<u>\$ 202,115,804</u>	<u>\$ 193,235,583</u>

Provision has been made for depreciation of distribution and transmission plant at straight-line rates ranging from 2.5% to 6%. Provision has been made for depreciation of general plant at straight-line rates ranging from 2% to 20%.

Provision for depreciation for the year ended June 30, 2016, was \$7,750,405 of which \$623,064 was charged to transportation expense clearing. Provision for depreciation for the year ended June 30, 2015, was \$7,395,037 of which \$710,122 was charged to transportation expense clearing.

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**

**June 30, 2016 and 2015**

**NOTE E - CONSERVATION LOANS**

The Cooperative has entered into an agreement with TVA whereby the Cooperative is authorized to make home weatherization and heat pump loans to its customers with the financing of the loans being provided through Regions Financial Corporation. The Cooperative has no collection risk relative to these loans as TVA guarantees them.

**NOTE F - OTHER DEFERRED CHARGES**

Other deferred charges consisted of:

	<u>2016</u>	<u>2015</u>
Past service pension costs	\$ 419,693	\$ 450,782
RS plan prepayment	2,262,001	2,597,113
Unamortized debt expense	<u>666,010</u>	<u>752,402</u>
	<u>\$ 3,347,704</u>	<u>\$ 3,800,297</u>

The past service pension costs are being amortized over thirty years.

During 2013, the Cooperative made a prepayment to NRECA for the Retirement Security Plan. The benefit of this prepayment was to have lower annual contribution rates for the following ten years. This prepayment is being amortized over a ten year period.

**NOTE G - INCOME TAX STATUS**

The Cooperative is exempt from federal income tax under the Internal Revenue Code section 501(c)(12) as a mutual electric cooperative. However, the Cooperative is required to file IRS Form 990, Return of Organization Exempt from Income Tax. The forms 990 are subject to examination by the Internal Revenue Service, generally for three years after they were filed or the date they were due, whichever is later.

**NOTE H - NOTES PAYABLE**

All assets, except vehicles, are pledged as collateral on the long-term debt to Rural Utilities Service (RUS) and CFC under a joint mortgage agreement. The long-term debt payable to RUS and CFC is due in monthly and quarterly installments of varying amounts through 2045.

Interest rates and maturity dates relative to the notes payable to NRUCFC are as follows:

<u>Interest Rate</u>	<u>Final Maturity</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
5.65	2015	\$ -	\$ 90,752
5.70	2016	54,100	211,883
5.80	2017	347,719	347,719
5.85	2018	122,628	122,628
2.95	2023	<u>2,420,261</u>	<u>2,739,708</u>
		<u>\$ 2,944,708</u>	<u>\$ 3,512,690</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**June 30, 2016 and 2015**

NOTE H - NOTES PAYABLE (Continued)

Interest rates and maturity dates relative to the notes payable to RUS are as follows:

<u>Interest rate</u>	<u>Maturity</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
4.532	2036	\$ 2,052,640	\$ 2,116,010
2.780	2036	3,194,044	3,314,969
4.958	2033	4,404,811	4,573,314
5.202	2032	918,129	952,421
5.747	2032	386,116	399,781
5.003	2032	3,779,843	3,923,803
4.633	2032	131,881	137,089
4.513	2022	850,971	961,181
2.577	2045	3,667,636	3,753,677
2.929	2045	5,173,752	5,288,256
2.667	2045	6,293,262	6,438,726
0.000	2020	79,972	105,280
0.000	2016	-	72,212
0.000	2025	756,654	941,662
		<u>\$ 31,689,711</u>	<u>\$ 32,978,381</u>

The Cooperative has executed a revolving line of credit agreement, including a note payable, with CFC in the amount of \$5,000,000. At June 30, 2016 and 2015, the Cooperative had repaid all borrowings against this line of credit.

The following is a schedule of future loan principal maturities for each of the next five years and thereafter:

<u>Fiscal Year</u> <u>Ending June 30,</u>	
2017	\$ 1,835,870
2018	1,510,951
2019	1,638,009
2020	1,877,134
2021	1,689,160
Thereafter	<u>26,083,295</u>
	<u>\$ 34,634,419</u>

NOTE I - EMPLOYEE BENEFITS

RETIREMENT PLAN

The Retirement Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Association (NRECA), is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer 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 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.

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**June 30, 2016 and 2015**

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**NOTE I - EMPLOYEE BENEFITS (Continued)**

Tri-County Electric Membership Corporation's contributions to the RS Plan in 2016 and in 2015 represented less than 5 percent of the total contributions made to the RS Plan by all participating employers. Tri-County Electric Membership Corporation made contributions to the RS Plan of \$1,256,305 for 2016 and \$1,154,153 for 2015. There have been no significant changes that affect the comparability of 2016 and 2015 contributions.

For 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 RS Plan was over 80 percent funded on January 1, 2015 and over 80 percent funded on January 1, 2014 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<sup>st</sup> of the year in which the amount is paid to the RS Plan. The 25% differential in billing rates is expected to continue for approximately 15 years from January 1, 2013. 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.

**ACCUMULATED POSTRETIREMENT BENEFITS**

The Cooperative sponsors a defined benefit plan that provides medical insurance coverage to retirees. The Cooperative pays a portion of the premiums for retirees hired prior to June 1999. The employer makes no contributions to the plan above the benefits paid. For purposes of the liability estimates, the substantive plan is assumed to be the same as the written plan. The Cooperative has not funded this plan. The plan was amended effective July 1, 2016 to allow all retirees to participate in the plan regardless of their hire date.

No annual rate of increase in the per capita cost of covered health care benefits was used in the valuation as it was assumed that the Cooperative will pay the capped amount of \$4,200 per year per employee. The plan was amended effective July 1, 2016 to increase the capped amount per year per employee to \$6,000.

The net periodic benefit costs are spread to various work in process and administrative and general operating expense accounts based on labor.

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**June 30, 2016 and 2015**

NOTE I - EMPLOYEE BENEFITS (Continued)

Net periodic benefit cost

	<u>2016</u>	<u>2015</u>
Service cost	\$ 27,778	\$ 25,214
Interest cost	220,679	241,949
Amortization of prior service cost	(11,242)	(53,521)
Amortization of net actuarial gain	107,274	290,090
Net periodic benefit cost	<u>\$ 344,489</u>	<u>\$ 503,732</u>

Change in accumulated postretirement benefit obligation:

	<u>2016</u>	<u>2015</u>
Benefit obligation, start of year	\$ 5,605,364	\$ 5,561,973
Service cost	27,778	25,214
Interest cost	220,679	241,949
Actuarial gain (loss)	7,031	-
Benefits paid	(221,557)	(223,772)
Benefit obligation, end of year	<u>\$ 5,639,295</u>	<u>\$ 5,605,364</u>

Funded status at end of year:

	<u>2016</u>	<u>2015</u>
Accumulated postretirement benefit obligation	\$ (5,639,295)	\$ (5,605,364)
Plan assets	-	-
Funded status at end of year	<u>\$ (5,639,295)</u>	<u>\$ (5,605,364)</u>

Amounts recognized in the comparative balance sheet consist of:

	<u>2016</u>	<u>2015</u>
Postretirement benefit obligation	\$ 5,639,295	\$ 5,605,364

Net actuarial (gain)/loss and prior service cost or credit recognized in other comprehensive income for the year ended June 30, 2016:

Actuarial gain/(loss) due to experience	\$ (7,031)
-----------------------------------------	------------

Amounts reclassified out of accumulated other comprehensive income into net periodic benefit cost for the year ended June 30, 2016

Amortization of prior service cost	\$ (11,242)
Amortization of actuarial (gain)/loss	107,274
	<u>\$ 96,032</u>

Amounts included in accumulated other comprehensive income that have not been recognized in net periodic benefit cost:

Actuarial loss	\$ 1,217,756
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Amounts included in accumulated other comprehensive income at June 30, 2016, expected to be recognized in net periodic benefit cost during the year ended June 30, 2017:

Amortization of actuarial (gain)/loss	\$ 30,731
---------------------------------------	-----------

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**June 30, 2016 and 2015**

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**NOTE I - EMPLOYEE BENEFITS (Continued)**

Weighted-average assumptions as of and for years ended June 30:

	<u>2016</u>	<u>2015</u>
Discount rate	4.0 %	4.5%
Expected return on plan assets	n/a	n/a

Schedule of Estimated Future Benefit Payments

2017	\$	364,954
2018		394,191
2019		423,302
2020		452,801
2021		479,271
2022-2026		2,705,976

**SAVINGS PLAN**

The Cooperative has a Retirement Savings Plan for all employees who are eligible to participate in the Cooperative's benefit programs. The plan allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. The Cooperative will match 50% of contributions of each participant up to 3% of the participant's base compensation. The Cooperative contributed \$112,479 in 2015 and \$114,187 in 2016. Participants vest immediately in their contributions and the contributions of the Cooperative.

**NOTE J - COMMITMENT**

On July 18, 1979, the Cooperative entered into a 20 year "Power Contract" with the TVA. Under the terms of the contract, the Cooperative is to purchase its entire power requirements from the TVA. The contract has been subsequently extended and amended to allow Tri-County Electric or the TVA to terminate the power contract with not less than five (5) years written notice. However, the termination notice cannot be given earlier than five (5) years from the effective date of the amendment. Additionally, following the termination of the agreement according to terms of the power contract, as amended, the Cooperative will not be obligated for any unrecovered investment (stranded cost) by the TVA.

**NOTE K - 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. The Cooperative is frequently involved in various claims and disputes, none of which are considered material and which, for the most part, are normal to the Cooperative's business and covered by commercial insurance. Management and their counsel are of the opinion that any liabilities resulting from such claims and disputes will not have a material effect on the Cooperative's financial position.

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**June 30, 2016 and 2015**

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**NOTE L - SIGNIFICANT CONCENTRATIONS OF CREDIT RISK (Continued)**

Financial instruments that potentially subject the Corporation to credit risk consist of receivables from customers. The Corporation serves primarily industries and rural consumers in Tennessee and Kentucky, including the counties of Clay, Macon, Trousdale, and Sumner counties in Tennessee and Allen, Cumberland, Metcalfe, and Monroe counties in Kentucky and grants credit to its 51,830 consumers, which at June 30, 2016, totaled \$5,372,954. Deposits from these consumers totaling \$2,522,304 are held as security for these accounts receivable.

On June 30, 2016, the Corporation was the owner of \$1,702,782 in Capital Term Certificates and \$5,427,000 in Commercial Paper Notes issued by National Rural Utilities Cooperative Finance Corporation. As of this same date, the Corporation was obligated to NRUCFC in the amount of \$2,944,708. The Corporation does not require collateral to secure its investments in these financial instruments.

From time to time, the Corporation has on deposit in financial institutions funds that total in excess of the insured maximum of \$250,000. As of June 30, 2016, this risk amount, based on bank balances, was \$928,567. However, this at risk amount is subject to significant daily fluctuations throughout the year.

**NOTE M - ENVIRONMENTAL CONTINGENCY**

From time to time in the normal course of operations, the Corporation is required to work with and handle PCBs, herbicides, automotive fluids, lubricants and other hazardous materials. As a result, there is the possibility that environmental conditions may arise which would require the Corporation to incur clean-up costs. The likelihood of such an event or the amounts of such costs, if any, cannot be determined at this time. The costs of prior clean ups have been relatively minor, and management does not believe such future costs, if any, would materially affect the Corporation's financial position or results of its operations.

**NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Cooperative's financial instruments include cash, cash equivalents, capital term certificates, restricted cash, and notes payable.

The fair market values of cash and cash equivalents approximated carrying values because of the short-term nature of these instruments. The carrying values of the capital term certificates are considered to be their fair values as they represent an ownership interest in member-owned institutions and do not have a market for exchange.

The assumptions used in determining the fair value of long-term variable interest rate debt is that the fair value approximates the carrying value as the debt reprices to market interest rates. Fair value of long-term fixed interest rate debt is calculated to be the discounted cash flows of the debt based upon long-term fixed interest rates that could be obtained. At June 30, 2016 and 2015, the carrying value approximates the estimated fair value.

**NOTE O - RESTRICTED INVESTMENT**

The Cooperative had \$10,468,743 and \$9,475,367 on deposit with RUS as of June 30, 2016 and 2015, respectively. These funds are held as part of RUS's cushion of credit program, earn interest at a rate of 5%, cannot be withdrawn on demand, and can only be used to make scheduled payments on RUS loans.

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**June 30, 2016 and 2015**

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**NOTE P - PRIOR PERIOD ADJUSTMENT**

During the year ended June 30, 2016, the Cooperative received an invoice for Right-of-Way maintenance that was performed in June of 2015. This resulted in the accounts payable and operating expenses being understated by \$144,949 as of June 30, 2015.

During the year ended June 30, 2016, the Cooperative determined that errors were made in calculating and recording the accumulated postretirement benefit obligation and the related accumulated other comprehensive income. This resulted in the earnings reinvested in system assets being understated by \$16,487 as of June 30, 2015.

A summary of this correction follows:

	<u>As previously reported</u>	<u>As restated</u>	<u>Effect of change</u>
Earnings reinvested in system assets as of June 30, 2014	\$ 103,362,559	\$ 103,379,046	\$ 16,487
Operating revenues	114,782,124	114,782,124	-
Operating expenses	(110,389,485)	(110,534,434)	144,949
Other income	482,633	482,633	-
Other deductions	<u>(1,366,086)</u>	<u>(1,366,086)</u>	<u>-</u>
Net earnings	<u>3,509,186</u>	<u>3,364,237</u>	<u>(144,949)</u>
Earnings reinvested in system assets as of June 30, 2015	<u>\$ 106,871,745</u>	<u>\$ 106,743,283</u>	<u>\$ (128,462)</u>

**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***

Board of Directors  
Tri-County Electric Membership Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Tri-County Electric Membership Corporation as of and for the years ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 24, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Tri-County Electric Membership Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tri-County Electric Membership Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Tri-County Electric Membership Corporation'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 financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Tri-County Electric Membership Corporation's 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 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Winnett Associates, PLLC*

October 24, 2016

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

Board of Directors  
Tri-County Electric Membership Corporation

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 Tri-County Electric Membership Corporation (TCEMC), which comprise the balance sheet as of June 30, 2016, and the related statements of income, comprehensive income, equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 24, 2016. In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016, on our consideration of TCEMC'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 TCEMC 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 TCEMC'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 TCEMC's accounting and records to indicate that TCEMC 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 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 (located below); and

#### DETAILED SCHEDULE OF DEFERRED DEBITS AND DEFERRED CREDITS

Deferred debits consisted of the following:

RS plan prepayment	\$ 2,262,001
Unamortized debt service	666,010
Deferred pension costs	<u>419,693</u>
	<u>\$ 3,347,704</u>

Comply with the requirements for the detailed schedule of investments (located below).

#### DETAILED SCHEDULE OF INVESTMENTS

As of June 30, 2016, the Tri-County Electric Membership Corporation had no investments as defined in 7 CFR 1773.33(i).

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.

*Winnett Associates, PLLC*

October 24, 2016

AUDITED FINANCIAL STATEMENTS

**TRI-COUNTY ELECTRIC  
MEMBERSHIP CORPORATION**

Lafayette, Tennessee  
June 30, 2015 and 2014

**WINNETT**  
*Associates, PLLC*

Certified Public Accountants and Consultants

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Tri-County Electric Membership Corporation  
405 College Street  
Lafayette, Tennessee 37083

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Tri-County Electric Membership Corporation, which comprise the balance sheet as of June 30, 2015, and the related statements of income, comprehensive income, equities, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## ***Opinion***

In our opinion, the 2015 financial statements referred to above present fairly, in all material respects, the financial position of Tri-County Electric Membership Corporation as of June 30, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Prior Period Financial Statements***

The financial statements of Tri-County Electric Membership Corporation as of June 30, 2014, were audited by other auditors whose report dated September 30, 2014, expressed an unmodified opinion on those statements.

## ***Other Matters***

Our audit was conducted for the purpose of forming an opinion on the financial statements of Tri-County Electric Membership Corporation. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the 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, 2015, on our consideration of Tri-County Electric Membership Corporation'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 Tri-County Electric Membership Corporation's internal control over financial reporting and compliance.

*Winnett Associates, PLLC*

October 19, 2015

**BALANCE SHEETS**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**

	June 30,	
	2015	2014 as restated
<u>ASSETS</u>		
<u>UTILITY PLANT</u>		
Electric plant in service	\$ 193,235,583	\$ 186,269,863
Construction work in progress	5,366,433	4,358,664
	198,602,016	190,628,527
Less allowances for depreciation	72,568,420	68,276,334
NET UTILITY PLANT	126,033,596	122,352,193
 <u>CURRENT ASSETS</u>		
Cash and cash equivalents	9,751,732	11,163,261
Accounts receivable-customers, less allowance for doubtful accounts of \$250,000 in 2015 and \$222,530 in 2014	4,545,558	5,335,820
Unbilled revenue	7,066,084	7,284,689
Rents receivable	739,607	741,574
Material and supplies	1,563,428	1,236,129
Notes receivable, due within on year	197,538	97,530
Other receivables	494,091	965,051
Other current assets	1,076,441	919,329
TOTAL CURRENT ASSETS	25,434,479	27,743,383
 <u>OTHER ASSETS AND DEFERRED DEBITS</u>		
Capital term certificates	1,714,562	1,714,562
Amount on deposit with RUS	9,475,367	1,739,020
Notes receivable, due after one year	899,236	163,446
Energy conservation loans	1,640,115	1,517,828
Other deferred debits	3,800,297	4,252,891
TOTAL OTHER ASSETS AND DEFERRED DEBITS	17,529,577	9,387,747
	\$ 168,997,652	\$ 159,483,323

The accompanying notes are an integral part of this financial statement.

	June 30,	
	2015	2014 as restated
<u>EQUITIES AND LIABILITIES</u>		
<u>EQUITIES</u>		
Memberships	\$ 195,930	\$ 194,520
Accumulated other comprehensive income	(1,158,563)	(1,395,132)
Earnings reinvested in system assets	106,871,745	103,362,559
TOTAL EQUITIES	105,909,112	102,161,947
<u>LONG-TERM DEBT</u>		
Rural Utilities Service	32,978,381	26,509,227
National Rural Utilities Cooperative Finance Corporation	3,512,690	4,175,280
TOTAL LONG-TERM DEBT	36,491,071	30,684,507
Less current maturities	1,795,646	1,581,025
LONG-TERM DEBT LESS CURRENT MATURITIES	34,695,425	29,103,482
<u>CURRENT LIABILITIES</u>		
Current maturities of long-term debt	1,795,646	1,581,025
Accounts payable	14,122,543	14,452,183
Consumers' deposits	2,421,904	2,345,689
Accrued compensated absences	1,809,988	1,794,381
Other current and accrued liabilities	1,085,036	1,053,595
TOTAL CURRENT LIABILITIES	21,235,117	21,226,873
<u>OTHER LIABILITIES AND DEFERRED CREDITS</u>		
Advances - energy conservation	1,684,341	1,560,755
Accumulated postretirement benefits	5,473,657	5,430,266
TOTAL OTHER LIABILITIES AND DEFERRED CREDITS	7,157,998	6,991,021
	<u>\$ 168,997,652</u>	<u>\$ 159,483,323</u>

**STATEMENTS OF INCOME**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**

		Year Ended June 30,	
		2015	2014
			as restated
<hr/>			
Operating revenues:			
Electric sales	\$	112,214,732	\$ 114,300,763
Other operating revenues		2,567,392	2,618,373
	TOTAL OPERATING REVENUES	<u>114,782,124</u>	<u>116,919,136</u>
Operating expenses:			
Purchased power		87,570,164	88,334,517
Transmission		148,726	73,658
Distribution - operations and maintenance		10,437,208	10,064,909
Customer accounts		2,503,543	2,498,865
Customer services		637,798	612,468
Sales		17,827	14,167
Administrative and general		2,306,030	2,328,373
Provision for depreciation		6,684,915	6,132,610
Other deductions		83,274	83,274
	TOTAL OPERATING EXPENSES	<u>110,389,485</u>	<u>110,142,841</u>
	OPERATING INCOME	<u>4,392,639</u>	<u>6,776,295</u>
Other income:			
Interest		421,163	187,505
Miscellaneous		61,470	37,498
	TOTAL OTHER INCOME	<u>482,633</u>	<u>225,003</u>
Other deductions:			
Interest		1,270,088	1,253,705
Miscellaneous		95,998	64,788
	TOTAL OTHER DEDUCTIONS	<u>1,366,086</u>	<u>1,318,493</u>
	NET INCOME	<u>\$ 3,509,186</u>	<u>\$ 5,682,805</u>

The accompanying notes are an integral part of this financial statement.

**STATEMENTS OF COMPREHENSIVE INCOME**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**

	Year Ended June 30,	
	2015	2014 as restated
Net income	\$ 3,509,186	\$ 5,682,805
Other comprehensive income		
Retiree health cost-share plan:		
Amortization of actuarial loss	290,090	290,090
Amortization of prior service cost	(53,521)	(53,521)
Actuarial loss	-	26,025
TOTAL OTHER COMPREHENSIVE INCOME	236,569	262,594
TOTAL COMPREHENSIVE INCOME	\$ 3,745,755	\$ 5,945,399

The accompanying notes are an integral part of this financial statement.

**STATEMENTS OF EQUITIES**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**

	Accumulated Other Comprehensive Income	Earnings Reinvested in System Assets	Memberships	Total
BALANCE, JUNE 30, 2013 (AS RESTATED)	\$ (1,657,726)	\$ 97,679,754	\$ 197,100	\$ 96,219,128
Net income	-	5,682,805	-	5,682,805
Other comprehensive income	262,594	-	-	262,594
Net change in memberships	-	-	(2,580)	(2,580)
BALANCE, JUNE 30, 2014 (AS RESTATED)	(1,395,132)	103,362,559	194,520	102,161,947
Net income	-	3,509,186	-	3,509,186
Other comprehensive income	236,569	-	-	236,569
Net change in memberships	-	-	1,410	1,410
BALANCE, JUNE 30, 2015	<u>\$ (1,158,563)</u>	<u>\$ 106,871,745</u>	<u>\$ 195,930</u>	<u>\$ 105,909,112</u>

The accompanying notes are an integral part of this financial statement.

**STATEMENTS OF CASH FLOWS**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**

	Year Ended June 30,	
	2015	2014 as restated
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 3,509,186	\$ 5,682,805
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation expense	6,684,915	6,215,884
Changes in assets and liabilities:		
Receivables	1,263,189	(972,770)
Unbilled revenue	218,605	(307,789)
Materials and supplies	(175,136)	399,161
Prepayments and other assets	295,482	591,578
Accounts payable	(329,640)	515,211
Consumer deposits	76,215	69,780
Accrued expenses and compensated absences	47,048	(54,064)
Accumulated postretirement benefits	279,960	(106,562)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>11,869,824</u>	<u>12,033,234</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to plant assets, including removal costs, net of salvage	(10,518,481)	(9,985,835)
Invested in RUS cushion of credit	(7,736,347)	(227,737)
Notes receivable issued	(1,000,000)	-
Principal received on notes receivable	164,202	97,531
Net change in energy conservation loan receivables	(122,287)	14,218
NET CASH USED BY INVESTING ACTIVITIES	<u>(19,212,913)</u>	<u>(10,101,823)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Advances of long-term debt	7,500,000	-
Payments of principal on long-term debt	(1,693,436)	(1,588,511)
Net change in energy conservation loan advances	123,586	(14,764)
Net increase(decrease) in memberships	1,410	(2,580)
NET CASH PROVIDED BY (USED) BY FINANCING ACTIVITIES	<u>5,931,560</u>	<u>(1,605,855)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(1,411,529)</u>	<u>325,556</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>11,163,261</u>	<u>10,837,705</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 9,751,732</u>	<u>\$ 11,163,261</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the year for interest	<u>\$ 1,291,600</u>	<u>\$ 1,202,872</u>

The accompanying notes are an integral part of this financial statement.

**NOTES TO FINANCIAL STATEMENTS**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**

**June 30, 2015 and 2014**

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**NATURE OF BUSINESS**

Tri-County Electric Membership Corporation (the Cooperative) is a not-for-profit electric cooperative operating principally to distribute electric power to its members. It serves primarily industries and rural customers in counties in north central Tennessee and south central Kentucky.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting - The financial statements have been prepared on the accrual basis of accounting. Revenue is recorded as billed to consumers, based on monthly meter reading cycles. The cost of purchased power is recorded monthly during the period in which the energy is consumed, based upon billings from TVA. The Corporation accrues the unbilled revenue from the dates of the most recent meter readings to the balance sheet date.

The Cooperative maintains its records in accordance with policies prescribed or permitted by the Tennessee Valley Authority (TVA) and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform in all material respects with generally accepted accounting principles.

Utility Plant - Electric plant is stated at original cost, less contributions, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead costs. The Cooperative capitalizes the cost of any asset with an estimated useful life over one year. Depreciation is computed using the straight-line method at rates designed to amortize the cost of the assets over their estimated lives. All depreciation rates used by the Cooperative are recommended by the Tennessee Valley Authority.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to electric plant. The cost of units of property replaced or retired, including cost of removal net of any salvage value, is charged to accumulated depreciation for distribution plant.

The Cooperative capitalizes net interest costs as part of the cost of constructing utility projects when significant. For the years ended June 30, 2015 and 2014, no interest costs were capitalized.

Trade Accounts Receivable - Trade accounts receivable are reported at the amount management expects to collect from outstanding balances. The Cooperative provides an allowance for losses on receivables based upon a review of the current status of existing receivables, historical collection experience and management's evaluation of the effect of existing economic conditions. Receivables are past due or delinquent based on how recently payments have been received. Receivables are charged to the allowance provided when accounts are deemed to be uncollectible.

Cash and Cash Equivalents - For the purposes of the statement of cash flows, the Cooperative defines cash equivalents as financial investments with an original maturity date of less than three months.

Materials and Supplies Inventory - Inventories are valued using a moving average cost method. As items are purchased they are added to inventory at their actual cost. When issued and capitalized to utility plant, items are removed from inventory using a currently computed average cost per unit. When retired from plant and returned to inventory, the current average cost is used.

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**

June 30, 2015 and 2014

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 used in the preparation of the financial statements.

Subsequent Events - Subsequent events have been evaluated through October 19, 2015, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

**NOTE B - INVESTMENTS**

Under the terms of its loan agreement with National Rural Utilities Cooperative Finance Corporation (CFC), the Cooperative is required to purchase Capital Term Certificates (CTCs). The CTCs are similar to compensating bank balances, are not readily marketable except through redemption with CFC, are recorded at the stated amount of the certificates, bear interest at 3% and 5%, and are scheduled to mature at varying times from 2020 to 2080.

The Cooperative will also invest idle funds in CFC commercial paper which matures within thirty days of issuance. In accordance with generally accepted accounting principles, investments in commercial paper are classified as held-to-maturity securities. Held-to-maturity securities are presented at amortized cost. The fair value of commercial paper approximated cost at June 30, 2015 and 2014. There were no unrealized holding gains or losses as of June 30, 2015 and 2014.

**NOTE C - RURAL ECONOMIC DEVELOPMENT LOAN**

The Cooperative has entered into loan agreements with RUS in order to provide funds to promote rural economic development. Under the terms of the agreement RUS has loaned funds to the Cooperative, which in turn were loaned to qualified borrowers. Both loans to and from the Cooperative are provided without interest and require monthly payments of principal only.

**NOTE D - ELECTRIC PLANT**

Electric plant in service consisted of:

	<u>2015</u>	<u>2014</u>
Transmission plant	\$ 7,305,186	\$ 7,297,417
Distribution plant	167,637,057	162,703,615
General plant	<u>18,293,340</u>	<u>16,268,831</u>
Electric plant in service	<u>\$ 193,235,583</u>	<u>\$ 186,269,863</u>

Provision has been made for depreciation of distribution and transmission plant at straight-line rates ranging from 2.5% to 6%. Provision has been made for depreciation of general plant at straight-line rates ranging from 2% to 20%.

Provision for depreciation for the year ended June 30, 2015, was \$7,395,037 of which \$710,122 was charged to transportation expense clearing. Provision for depreciation for the year ended June 30, 2014, was \$6,750,078 of which \$617,468 was charged to transportation expense clearing.

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**

June 30, 2015 and 2014

**NOTE E - CONSERVATION LOANS**

The Cooperative has entered into an agreement with TVA whereby the Cooperative is authorized to make home weatherization and heat pump loans to its customers with the financing of the loans being provided through Regions Financial Corporation. The Cooperative has no collection risk relative to these loans as TVA guarantees them.

**NOTE F - OTHER DEFERRED CHARGES**

Other deferred charges consisted of:

	<u>2015</u>	<u>2014</u>
Past service pension costs	\$ 450,782	\$ 481,871
RS plan prepayment	2,597,113	2,932,224
Unamortized debt expense	<u>752,402</u>	<u>838,796</u>
	<u>\$ 3,800,297</u>	<u>\$ 4,252,891</u>

The past service pension costs are being amortized over thirty years.

The Cooperative made a prepayment to NRECA for the Retirement Security Plan. The benefit of this prepayment was to have lower annual contribution rates for the next ten years. This prepayment is being amortized over a ten year period.

**NOTE G - INCOME TAX STATUS**

The Cooperative is exempt from federal income tax under the Internal Revenue Code section 501(c)(12) as a mutual electric cooperative. However, the Cooperative is required to file IRS Form 990, Return of Organization Exempt from Income Tax. The forms 990 are subject to examination by the Internal Revenue Service, generally for three years after they were filed or the date they were due, whichever is later.

**NOTE H - NOTES PAYABLE**

All assets, except vehicles, are pledged as collateral on the long-term debt to Rural Utilities Service (RUS) and CFC under a joint mortgage agreement. The long-term debt payable to RUS and CFC is due in monthly and quarterly installments of varying amounts through 2045.

Interest rates and maturity dates relative to the notes payable to NRUCFC are as follows:

<u>Interest Rate</u>	<u>Final Maturity</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
5.65	2014	\$ -	\$ 87,652
5.65	2015	90,752	355,495
5.70	2016	211,883	211,883
5.80	2017	347,719	347,719
5.85	2018	122,628	122,628
2.95	2023	<u>2,739,708</u>	<u>3,049,903</u>
		<u>\$ 3,512,690</u>	<u>\$ 4,175,280</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**

**June 30, 2015 and 2014**

**NOTE H - NOTES PAYABLE (Continued)**

Interest rates and maturity dates relative to the notes payable to RUS are as follows:

<u>Interest rate</u>	<u>Maturity</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
4.532	2036	\$ 2,116,010	\$ 2,176,703
2.780	2036	3,314,969	3,432,708
4.958	2033	4,573,314	4,733,352
5.202	2032	952,421	985,051
5.747	2032	399,781	412,719
5.003	2032	3,923,803	4,061,039
4.633	2032	137,089	142,070
4.513	2022	961,181	1,066,609
2.577	2045	3,753,677	3,837,667
2.929	2045	5,288,256	5,399,673
2.667	2045	6,438,726	-
0.000	2020	105,280	138,426
0.000	2017	72,212	123,210
0.000	2025	941,662	-
		<u>\$ 32,978,381</u>	<u>\$ 26,509,227</u>

The Cooperative has executed a revolving line of credit agreement, including a note payable, with CFC in the amount of \$5,000,000. At June 30, 2015 and 2014, the Cooperative had repaid all borrowings against this line of credit.

The following is a schedule of future loan principal maturities for each of the next five years and thereafter:

<u>Fiscal Year</u> <u>Ending June 30,</u>	
2016	\$ 1,795,646
2017	1,835,880
2018	1,510,962
2019	1,638,020
2020	1,879,164
Thereafter	<u>27,831,399</u>
	<u>\$ 36,491,071</u>

**NOTE I - EMPLOYEE BENEFITS**

**RETIREMENT PLAN**

The retirement Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Association (NRECA), is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer 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 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.

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**

**June 30, 2015 and 2014**

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**NOTE I - EMPLOYEE BENEFITS (Continued)**

Tri-County Electric Membership Corporation's contributions to the RS Plan in 2015 and in 2014 represented less than 5 percent of the total contributions made to the RS Plan by all participating employers. Tri-County Electric Membership Corporation made contributions to the RS Plan of \$1,154,153 for 2015 and \$1,071,448 for 2014. There have been no significant changes that affect the comparability of 2015 and 2014 contributions.

For 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 RS Plan was over 80 percent funded on January 1, 2014 and over 80 percent funded on 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<sup>st</sup> of the year in which the amount is paid to the RS Plan. 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.

**ACCUMULATED POSTRETIREMENT BENEFITS**

The Cooperative sponsors a defined benefit plan that provides medical insurance coverage to retirees. The Cooperative pays a portion of the premiums for retirees hired prior to June 1999. The employer makes no contributions to the plan above the benefits paid. For purposes of the liability estimates, the substantive plan is assumed to be the same as the written plan. The Cooperative has not funded this plan.

No annual rate of increase in the per capita cost of covered health care benefits was used in the valuation as it was assumed that the Cooperative will pay the capped amount of \$4,200 per year per employee.

Net periodic benefit cost

	<u>2015</u>	<u>2014</u>
Service cost	\$ 25,214	\$ 25,214
Interest cost	241,949	241,949
Amortization of prior service cost	(53,521)	(53,521)
Amortization of net actuarial gain	290,090	290,090
Net periodic benefit cost	<u>\$ 503,732</u>	<u>\$ 503,732</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**

June 30, 2015 and 2014

**NOTE I - EMPLOYEE BENEFITS (Continued)**

Change in accumulated postretirement benefit obligation:

	<u>2015</u>	<u>2014</u>
Benefit obligation, start of year	\$ 5,430,266	\$ 5,536,828
Service cost	25,214	25,214
Interest cost	241,949	241,949
Actuarial gain (loss)	-	(26,025)
Benefits paid	<u>(223,772)</u>	<u>(347,700)</u>
Benefit obligation, end of year	<u>\$ 5,473,657</u>	<u>\$ 5,430,266</u>

Funded status at end of year:

	<u>2015</u>	<u>2014</u>
Accumulated postretirement benefit obligation	\$ (5,473,657)	\$ (5,430,266)
Plan assets	<u>-</u>	<u>-</u>
Funded status at end of year	<u>\$ (5,473,657)</u>	<u>\$ (5,430,266)</u>

Amounts recognized in the comparative balance sheet consist of:

	<u>2015</u>	<u>2014</u>
Postretirement benefit obligation	\$ 5,473,657	\$ 5,430,266

Net actuarial (gain)/loss and prior service cost or credit recognized in other comprehensive income for the year ended June 30, 2015:

Actuarial (gain)/loss due to experience	\$ 290,090
Amortization of prior service cost	(53,521)

Amounts reclassified out of accumulated other comprehensive income into net periodic benefit cost for the year ended June 30, 2015

Amortization of prior service cost	\$ (53,521)
Amortization of actuarial (gain)/loss	290,090

Amounts included in accumulated other comprehensive income that have not been recognized in net periodic benefit cost:

Actuarial gain	\$ 998,000
Net prior service cost	160,563

Amounts included in accumulated other comprehensive income at June 30, 2015, expected to be recognized in net periodic benefit cost during the year ended June 30, 2016:

Net actuarial gain	\$ 290,090
Net prior service cost	(53,521)

Weighted-average assumptions as of and for years ended June 30:

	<u>2015</u>	<u>2014</u>
Discount rate	4.5 %	4.5%
Expected return on plan assets	n/a	n/a

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**

June 30, 2015 and 2014

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**NOTE I - EMPLOYEE BENEFITS (Continued)**

Schedule of Estimated Future Benefit Payments

2016	\$	356,616
2017		360,566
2018		360,322
2019		360,536
2020		360,362
2021-2025		1,765,135

**SAVINGS PLAN**

The Cooperative has a Retirement Savings Plan for all employees who are eligible to participate in the Cooperative's benefit programs. The plan allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. The Cooperative will match 50% of contributions of each participant up to 3% of the participant's base compensation. The Cooperative contributed \$106,940 in 2014 and \$112,479 in 2015. Participants vest immediately in their contributions and the contributions of the Cooperative.

**NOTE J - COMMITMENT**

On July 18, 1979, the Cooperative entered into a 20 year "Power Contract" with the TVA. Under the terms of the contract, the Cooperative is to purchase its entire power requirements from the TVA. The contract has been subsequently extended and amended to allow Tri-County Electric or the TVA to terminate the power contract with not less than five (5) years written notice. However, the termination notice cannot be given earlier than five (5) years from the effective date of the amendment. Additionally, following the termination of the agreement according to terms of the power contract, as amended, the Cooperative will not be obligated for any unrecovered investment (stranded cost) by the TVA.

**NOTE K - 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. The Cooperative is frequently involved in various claims and disputes, none of which are considered material and which, for the most part, are normal to the Cooperative's business and covered by commercial insurance. Management and their counsel are of the opinion that any liabilities resulting from such claims and disputes will not have a material effect on the Cooperative's financial position.

**NOTE L - SIGNIFICANT CONCENTRATIONS OF CREDIT RISK**

Financial instruments that potentially subject the Corporation to credit risk consist of receivables from customers. The Corporation serves primarily industries and rural consumers in Tennessee and Kentucky, including the counties of Clay, Macon, Trousdale, and Sumner counties in Tennessee and Allen, Cumberland, Metcalfe, and Monroe counties in Kentucky and grants credit to its 51,575 consumers, which at June 30, 2015, totaled \$4,795,558. Deposits from these consumers totaling \$2,421,904 are held as security for these accounts receivable.

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**

**June 30, 2015 and 2014**

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**NOTE L - SIGNIFICANT CONCENTRATIONS OF CREDIT RISK (Continued)**

On June 30, 2015, the Corporation was the owner of \$1,714,562 in Capital Term Certificates and \$7,451,141 in Commercial Paper Notes issued by National Rural Utilities Cooperative Finance Corporation. As of this same date, the Corporation was obligated to NRUCFC in the amount of \$3,512,690. The Corporation does not require collateral to secure its investments in these financial instruments.

From time to time, the Corporation has on deposit in financial institutions funds that total in excess of the insured maximum of \$250,000. As of June 30, 2015, this risk amount, based on bank balances, was \$1,366,233. However, this at risk amount is subject to significant daily fluctuations throughout the year.

**NOTE M - ENVIRONMENTAL CONTINGENCY**

From time to time in the normal course of operations, the Corporation is required to work with and handle PCBs, herbicides, automotive fluids, lubricants and other hazardous materials. As a result, there is the possibility that environmental conditions may arise which would require the Corporation to incur clean-up costs. The likelihood of such an event or the amounts of such costs, if any, cannot be determined at this time. The costs of prior clean ups have been relatively minor, and management does not believe such future costs, if any, would materially affect the Corporation's financial position or results of its operations.

**NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Cooperative's financial instruments include cash, cash equivalents, capital term certificates, restricted cash, and notes payable.

The fair market values of cash and cash equivalents approximated carrying values because of the short-term nature of these instruments. The carrying values of the capital term certificates are considered to be their fair values as they represent an ownership interest in member-owned institutions and do not have a market for exchange.

The assumptions used in determining the fair value of long-term variable interest rate debt is that the fair value approximates the carrying value as the debt reprices to market interest rates. Fair value of long-term fixed interest rate debt is calculated to be the discounted cash flows of the debt based upon long-term fixed interest rates that could be obtained. At June 30, 2015 and 2014, the carrying value approximates the estimated fair value.

**NOTE O - RESTRICTED INVESTMENT**

The Cooperative had \$9,475,367 and \$1,739,020 on deposit with RUS as of June 30, 2015 and 2014, respectively. These funds are held as part of RUS's cushion of credit program, earn interest at a rate of 5%, cannot be withdrawn on demand, and can only be used to make scheduled payments on RUS loans.

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**

June 30, 2015 and 2014

**NOTE P - PRIOR PERIOD ADJUSTMENT**

During the year ended June 30, 2015, the Cooperative determined that incorrect useful lives of security lights were being utilized. This error resulted in accumulated depreciation being understated by an estimated \$1,932,311 as of June 30, 2013. Had this error not occurred it is estimated that depreciation expense for the fiscal year ending June 30, 2014 would have been \$227,789 higher.

During the year ended June 30, 2015, the Cooperative determined that they had overdepreciated office equipment by \$470,034 as of June 30, 2013. Had this error not occurred it is estimated that depreciation expense for the fiscal year ending June 30, 2014 would have been \$202,836 lower.

During the year ended June 30, 2015, the Cooperative received notice from TVA that they had been billed incorrectly for several consecutive months. The Cooperative determined that the first month that needed to be adjusted was June, 2014. Therefore, an adjustment was made to increase the purchased power expense and the accounts payable by \$58,963 for the year ended June 30, 2014.

A summary of these corrections follows:

	<u>As previously reported</u>	<u>As restated</u>	<u>Effect of change</u>
Earnings reinvested in system assets as of June 30, 2013	\$ 99,142,031	\$ 97,679,754	\$ (1,462,277)
Operating revenues	116,919,136	116,919,136	-
Operating expenses	(110,058,924)	(110,142,841)	83,917
Other income	225,003	225,003	-
Other deductions	<u>(1,318,493)</u>	<u>(1,318,493)</u>	<u>-</u>
Net earnings	<u>5,766,722</u>	<u>5,682,805</u>	<u>(83,917)</u>
Earnings reinvested in system assets as of June 30, 2014	<u>\$ 104,908,753</u>	<u>\$ 103,362,559</u>	<u>\$ (1,546,194)</u>

**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***

Board of Directors  
Tri-County Electric Membership Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Tri-County Electric Membership Corporation as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated October 19, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Tri-County Electric Membership Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tri-County Electric Membership Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Tri-County Electric Membership Corporation'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 financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tri-County Electric Membership Corporation's 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Corporation in a separate letter dated October 19, 2015.

## 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Winnett Associates, PLLC*

October 19, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB *CIRCULAR A-133***

Board of Directors  
Tri-County Electric Membership Corporation

**Report on Compliance for the Major Federal Program**

We have audited Tri-County Electric Membership Corporation's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Tri-County Electric Membership Corporation's major federal program for the year ended June 30, 2015. Tri-County Electric Membership Corporation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for Tri-County Electric Membership Corporation's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Tri-County Electric Membership Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Tri-County Electric Membership Corporation's compliance.

***Opinion on the Major Federal Program***

In our opinion, Tri-County Electric Membership Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

## Report on Internal Control Over Compliance

Management of Tri-County Electric Membership Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Tri-County Electric Membership Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Tri-County Electric Membership Corporation's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Winnett Associates, PLLC*

October 19, 2015

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
Year ended June 30, 2015

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	Federal CFDA Number	Federal Expenditures
U.S. Department of Agriculture:		
Rural Economic Development Loans and Grants	10.854	\$ 1,000,000
Total U.S. Department of Agriculture		<u>\$ 1,000,000</u>

**Note 1:** This Schedule of Expenditures of Federal Awards summarizes the expenditures of Tri-County Electric Membership Corporation under programs of the federal government for the year ended June 30, 2015. The schedule is presented using the accrual basis of accounting and in accordance with OMB Circular A-133.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**

June 30, 2015

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**Section I - Summary of auditor's results**

Type of auditor's report issued on the financial statements - unmodified

Internal control over financial reporting:

Material weaknesses identified?	none reported
Significant deficiencies identified?	none reported

Noncompliance material to the financial statements noted	no
----------------------------------------------------------	----

*Federal Awards*

Internal control over major programs:

Material weaknesses identified?	none reported
Significant deficiencies identified?	none reported

Type of report issued on compliance for major programs	unmodified
--------------------------------------------------------	------------

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	no
------------------------------------------------------------------------------------------------------------------------	----

Major program: Rural Economic Development Loans and Grants

The threshold for distinguishing Types A and B programs was \$300,000.

Tri-County Electric Membership Corporation did not qualify as a low-risk auditee.

**Section II - Findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards** – None reported

**Section III - Findings and questioned costs for Federal awards** – None reported

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

Board of Directors  
Tri-County Electric Membership Corporation

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 Tri-County Electric Membership Corporation (TCEMC), which comprise the balance sheet as of June 30, 2015, and the related statements of income, comprehensive income, equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 19, 2015. In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2015, on our consideration of TCEMC'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 a letter to management dated October 19, 2015, have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that DREMC 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 TCEMC'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 TCEMC's accounting and records to indicate that TCEMC 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 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 (located below); and

#### DETAILED SCHEDULE OF DEFERRED DEBITS AND DEFERRED CREDITS

Deferred debits consisted of the following:

RS plan prepayment	\$ 2,597,113
Unamortized debt service	752,402
Deferred pension costs	<u>450,782</u>
	<u>\$ 3,800,297</u>

Comply with the requirements for the detailed schedule of investments (located below).

#### DETAILED SCHEDULE OF INVESTMENTS

As of June 30, 2015, the Tri-County Electric Membership Corporation had no investments as defined in 7 CFR 1773.33(i).

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.

*Winnett Associates, PLLC*

October 19, 2015

**TRI-COUNTY  
ELECTRIC MEMBERSHIP CORPORATION**

**LAFAYETTE, TENNESSEE**

**FINANCIAL STATEMENTS**

**JUNE 30, 2014 & 2013**

**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
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Certified Public Accountants  
Offices in Tennessee & Kentucky

227 Oil Well Rd.  
Jackson, TN 38305

Phone 731.427.8571  
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[www.atacpa.net](http://www.atacpa.net)

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## Independent Auditor's Report

Board of Directors  
Tri-County Electric Membership Corporation  
Lafayette, Tennessee

### Report on the Financial Statements

We have audited the accompanying financial statements of Tri-County Electric Membership Corporation, Lafayette, Tennessee (Corporation) as of and for the years ended June 30, 2014 and June 30, 2013, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

### 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. 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe 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 Corporation as of June 30, 2014 and June 30, 2013, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Other Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information, except that which is marked "unaudited," is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

The supplementary information, which has been marked "unaudited," has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2014, on our consideration of the Corporation'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 Corporation's internal control over financial reporting and compliance.

*Alexander Thompson Arnold PLLC*

Jackson, Tennessee  
September 30, 2014

**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**BALANCE SHEETS**  
June 30, 2014 and 2013

<b>Assets</b>	<u>2014</u>	<u>2013</u>
<b>Utility Plant</b>		
Electric plant in service	\$ 190,628,527	\$ 185,508,964
Less accumulated depreciation	<u>66,789,103</u>	<u>65,547,719</u>
Total utility plant	<u>123,839,424</u>	<u>119,961,245</u>
<b>Other Assets and Investments</b>		
Investments	1,714,562	1,714,562
Amount on deposit with RUS	1,739,020	1,511,283
Notes receivable	163,446	260,977
Receivables from conservation loans	1,517,828	1,532,046
Other deferred charges	<u>4,252,891</u>	<u>4,690,879</u>
Total other assets and investments	<u>9,387,747</u>	<u>9,709,747</u>
<b>Current Assets</b>		
Cash and cash equivalents	11,163,261	10,837,705
Accounts receivable (less allowance for doubtful accounts of \$222,530 and \$240,496 respectively)	5,335,820	4,575,254
Unbilled revenues	7,284,689	6,976,900
Rent receivable	741,574	742,481
Other receivable	965,051	752,847
Current portion of notes receivable	97,530	97,530
Materials and supplies	1,236,129	1,635,290
Other current assets	<u>919,329</u>	<u>892,692</u>
Total current assets	<u>27,743,383</u>	<u>26,510,699</u>
<b>Total assets</b>	<u>\$ 160,970,554</u>	<u>\$ 156,181,691</u>

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

**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**BALANCE SHEETS**  
June 30, 2014 and 2013

**Equities and Liabilities**

	<u>2014</u>	<u>2013</u>
<b>Equities</b>		
Accumulated other comprehensive income	\$ (1,395,132)	\$ (1,657,726)
Memberships	194,520	197,100
Patronage capital	<u>104,908,753</u>	<u>99,142,031</u>
Total equities	<u>103,708,141</u>	<u>97,681,405</u>
<b>Long-term Liabilities</b>		
Notes payable (less current maturities)	29,103,482	30,792,779
Accumulated post retirement benefits	5,430,266	5,536,828
Conservation loan advances	<u>1,560,755</u>	<u>1,575,519</u>
Total long-term liabilities	<u>36,094,503</u>	<u>37,905,126</u>
<b>Current Liabilities</b>		
Current portion of long-term debt	1,581,025	1,480,239
Accounts payable	14,393,220	13,936,972
Customers' deposits	2,345,689	2,275,909
Compensated absences	1,794,381	1,762,533
Accrued expenses	<u>1,053,595</u>	<u>1,139,507</u>
Total current liabilities	<u>21,167,910</u>	<u>20,595,160</u>
Total liabilities	<u>57,262,413</u>	<u>58,500,286</u>
<b>Total equities and liabilities</b>	<u>\$ 160,970,554</u>	<u>\$ 156,181,691</u>

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

**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**STATEMENTS OF REVENUE AND PATRONAGE CAPITAL**  
For the Years Ended June 30, 2014 and 2013

	2014		2013	
	Amount	Percent	Amount	Percent
Operating revenues	<u>\$ 117,862,466</u>	<u>100.00</u>	<u>\$ 112,070,922</u>	<u>100.00</u>
Operating expenses				
Purchased power including facilities charges	88,275,554	74.90	83,053,182	74.11
Operation expense	9,795,144	8.31	9,356,565	8.35
Maintenance expense	5,797,293	4.92	5,872,538	5.24
Tax and tax equivalents	943,333	0.80	916,532	0.82
Amortization of loss on debt	83,274	0.07	83,274	0.07
Provision for depreciation	6,107,656	5.18	5,756,366	5.14
Total operating expenses	<u>111,002,254</u>	<u>94.18</u>	<u>105,038,457</u>	<u>93.73</u>
<b>Operating margins before interest expenses</b>	<u><b>6,860,212</b></u>	<u><b>5.82</b></u>	<u><b>7,032,465</b></u>	<u><b>6.27</b></u>
Interest expense	<u>1,253,705</u>	<u>1.06</u>	<u>1,042,233</u>	<u>0.93</u>
<b>Operating margins after interest expense</b>	<u><b>5,606,507</b></u>	<u><b>4.76</b></u>	<u><b>5,990,232</b></u>	<u><b>5.34</b></u>
Nonoperating margins				
Interest income and other income	187,505	0.16	147,526	0.13
Revenue from jobbing	4,713	-	4,571	-
Other income deductions	(64,788)	(0.05)	(70,191)	(0.06)
Miscellaneous Income	32,785	0.03	42,214	0.04
	<u>160,215</u>	<u>0.14</u>	<u>124,120</u>	<u>0.11</u>
<b>Net margins</b>	<u><b>5,766,722</b></u>	<u><b>4.89</b></u>	<u><b>6,114,352</b></u>	<u><b>5.46</b></u>
Other comprehensive income				
Unrealized gain (loss) on investments available for sale	236,569	0.20	256,484	0.23
Postretirement benefit obligation gain (loss)	<u>26,025</u>	<u>0.02</u>	<u>(1,415,367.00)</u>	<u>(1.26)</u>
<b>Comprehensive income</b>	<u><b>6,029,316</b></u>	<u><b>5.12</b></u>	<u><b>4,955,469</b></u>	<u><b>4.42</b></u>

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

**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**STATEMENTS OF EQUITIES AND COMPREHENSIVE INCOME**  
June 30, 2014 and 2013

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Members' Equities</u>
Balance at June 30, 2012	\$ 196,540	\$ 93,027,679	\$ (498,843)	\$ 92,725,376
Net margin	-	6,114,352	-	6,114,352
Net change in memberships	560	-	-	560
Unrealized gain (loss) on investments available for sale	-	-	256,484	256,484
Postretirement benefit obligation gain (loss)	-	-	(1,415,367)	(1,415,367)
Balance at June 30, 2013	197,100	99,142,031	(1,657,726)	97,681,405
Net margin	-	5,766,722	-	5,766,722
Net change in memberships	(2,580)	-	-	(2,580)
Unrealized gain (loss) on investments available for sale	-	-	236,569	236,569
Postretirement benefit obligation gain (loss)	-	-	26,025	26,025
Balance at June 30, 2014	<u>194,520</u>	<u>104,908,753</u>	<u>(1,395,132)</u>	<u>103,708,141</u>

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

**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities</b>		
Net Margins	\$ 5,766,722	\$ 6,114,352
Adjustments to reconcile to net cash provided by operating activities		
Depreciation and amortization expense	6,190,930	5,839,640
Changes in assets and liabilities		
Receivables	(972,770)	(638,953)
Unbilled revenue	(307,789)	297,821
Materials and supplies	399,161	55,537
Prepayments and other assets	591,578	(4,457,980)
Accounts payable	456,248	(409,593)
Consumer deposits	69,780	63,410
Accrued expenses and compensated absences	(54,064)	(102,791)
Accumulated postretirement benefits	(106,562)	1,277,087
Net cash provided (used) by operating activities	<u>12,033,234</u>	<u>8,038,530</u>
<b>Cash flows from investing activities</b>		
Additions to plant assets, including removal costs, net of salvage	(9,985,835)	(12,834,311)
Invested in RUS cushion of credit	(227,737)	(592,324)
Principal received on notes receivable	97,531	97,530
Net change in energy conservation loan receivable	14,218	31,192
Net cash provided (used) by investing activities	<u>(10,101,823)</u>	<u>(13,297,913)</u>
<b>Cash flows from financing activities</b>		
Advances of long-term debt	-	8,851,113
Payments of principal on long-term debt	(1,588,511)	(1,565,722)
Net change in energy conservation advances	(14,764)	(23,171)
Net increase (decrease) in memberships	(2,580)	560
Net cash provided (used) by financing activities	<u>(1,605,855)</u>	<u>7,262,780</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>325,556</b>	<b>2,003,397</b>
Cash and cash equivalents - beginning of year	<u>10,837,705</u>	<u>8,834,308</u>
Cash and cash equivalents - end of year	<u>\$ 11,163,261</u>	<u>\$ 10,837,705</u>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during the year for interest	<u>\$ 1,202,872</u>	<u>\$ 1,001,403</u>

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

**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Tri-County Electric Membership Corporation (Corporation) is organized as a tax-exempt rural electric cooperative serving Clay, Macon, Trousdale, and Sumner counties in Tennessee and Allen, Cumberland, Metcalfe, and Monroe counties in Kentucky. It is a member-owned cooperative and is subject to the regulatory authority of the Tennessee Valley Authority (TVA) and the Rural Utilities Service (RUS). By providing electric power only in its assigned geographic area, there is a regional concentration of credit risk in accounts receivable.

**B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The books of accounts are kept in accordance with the provisions of the power contract between the Corporation and the Tennessee Valley Authority and meet the requirements of the Federal Power System chart of accounts as modified by RUS Bulletin 1767B-1. The Corporation uses the accrual method of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

The Corporation records consumer revenue based upon meter readings taken at the end of each month.

Unbilled revenues are included in the Corporations financial statements, its reports to TVA and also in these financial statements in accordance with generally accepted accounting principles.

**C. Assets, Liabilities, and Net Assets**

**Electric plant**

Electric plant is stated at original cost, less contributions, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead costs. The Corporation capitalizes the cost of any asset with an estimated useful life over one year. Depreciation is computed using the straight-line method at rates designed to amortize the cost of the assets over their estimated lives. All depreciation rates used by the Corporation are recommended by the Tennessee Valley Authority.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to electric plant. The cost of units of property replaced or retired, including cost of removal net of any salvage value, is charged to accumulated depreciation for distribution plant.

The corporation capitalizes net interest costs as part of the cost of constructing utility projects when significant. For the years ended June 30, 2014 and 2013, no interest costs were capitalized.

**Concentration of Credit Risk for Cash Held at Banks**

The Corporation maintains cash balances at several local banks. Interest-bearing accounts at each institution are insured by federal depository insurance up to \$250,000. As of June 30, 2014 the Corporation had bank deposits of \$2,991,567 at five different banking institutions. This leaves a balance of \$2,066,690 that exceeded the FDIC limits and thus is uninsured at June 30, 2014.

**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

At June 30, 2013 the Corporation had bank deposits of \$1,412,271 at five different banking institutions. This left a balance of \$1,162,271 that exceeded the FDIC limits and thus was uninsured at June 30, 2013

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Corporation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

The Corporation will also invest idle funds in CFC commercial paper which matures within thirty days of issuance. In accordance with generally accepted accounting principles, investments in commercial paper are classified as held-to-maturity securities. Held-to-maturity securities are presented at amortized cost. The fair value of commercial paper approximated cost at June 30, 2014 and 2013. There were no unrealized holding gains or losses as of June 30, 2014 and 2013.

**Investments**

Under the terms of its loan agreement with National Rural Utilities Cooperative Finance Corporation (CFC), the Corporation is required to purchase Capital Term Certificates (CTCs). The CTCs are similar to compensating bank balances, are not readily marketable except through redemption with CFC, are recorded at the stated amount of the certificates, bear interest at 3% and 5%, and are scheduled to mature varying times from 2020 to 2080.

**Materials and Supplies**

Inventories are valued using a moving average cost method. As items are purchased they are added to inventory at their actual cost. When issued and capitalized to electric plant, items are removed from inventory using a currently computed average cost per unit. When retired from plant and returned to inventory, the current average cost is used.

**Allowance for Doubtful Accounts**

Trade accounts receivable are reported at the amount management expects to collect from outstanding balances. The corporation provides an allowance for losses on receivables based upon review of the current status of existing receivables, historical collection experience and managements evaluation of the effect of existing economic conditions. Receivables are past due or delinquent based on how recently payments have been received. Receivables are charged to the allowance provided when accounts are deemed to be uncollectable.

**Vacation and Sick Leave**

Vacation pay is accrued and recorded as an expense at the time the employees have a vested right to receive it.

**Credit Risk**

The Corporation provides electrical power services for residential, commercial, and industrial customers in Clay, Macon, Trousdale, and Sumner counties in Tennessee and Allen, Cumberland, Metcalfe, and Monroe counties in Kentucky. Deposits from these customers totaling \$2,345,689 and \$2,275,909 for years ended 2014 and 2013 respectively are held as security for these accounts receivable.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported

**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during reporting. Actual results differ from those estimates used in the preparation of the financial statements.

**Notes Receivable**

The Corporation has entered into loan agreements with RUS in order to provide funds to promote rural economic development. Under the terms of the agreement RUS has loaned funds to the Corporation, which in turn were loaned to qualified borrowers. Both loans to and from the Corporation are provided without interest and require monthly payments of principal only.

**Conservation Loans**

The Corporation has entered into an agreement with TVA whereby the Corporation is authorized to make home weatherization and heat pump loans to its customers with the financing of the loans being provided through Regions Financial Corporation. The Corporation has no collection risk relative to these loans as TVA guarantees them.

**Income Taxes**

The Corporation is exempt from federal and state income taxes and files form 990, "Return of Organization Exempt from Income Tax." The Corporation is exempt under the Internal Revenue Code under section 501(C)(12) as a mutual electric cooperative. For the years 2011, 2012, and 2013, the forms 990 are subject to examination by the Internal Revenue Service, generally for three years after they were filed or the date they were due, whichever is later.

**RS Plan Prepayment**

The Corporation made a prepayment to NRECA for the Retirement Security Plan. This prepayment is to be amortized over a ten year period. The benefit of this prepayment was to have lower annual contribution rates during this period. The Corporation began amortizing this prepayment in April 2013. The unamortized balance from this prepayment totaled \$2,932,224 and \$3,267,335 for the years ended June 30, 2014 and 2013.

**NOTE 2 – DETAILED NOTES ON ACCOUNTS**

**Other Deferred Charges**

Other deferred charges consisted of:

	2014	2013
Transportation overhead	\$ -	\$ 1,511
Past service pension costs	481,871	512,959
RS plan prepayment	2,932,224	3,267,335
Unamortized debt expense	838,796	909,074
	<u>\$ 4,252,891</u>	<u>\$ 4,690,879</u>

The past service pension costs are being amortized over thirty years and the sick leave policy change is being amortized over five years to accounts based on payroll allocation.

**Deposits and Investments**

The Corporation's financial instruments include cash, cash equivalents, capital term certificates, restricted cash, and notes payable.

**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

Cash and temporary cash investments consisted of the following:

	June 30,	
	2014	2013
Checking and savings accounts	\$ 2,376,120	\$ 976,706
Cash on hand	-	9,858
Temporary cash investments	8,787,141	9,851,141
	<u>\$ 11,163,261</u>	<u>\$ 10,837,705</u>

The fair market value of cash and cash equivalents approximated carrying values because of the short-term nature of these investments. The carrying values of the capital term certificates are considered to be their fair values as they represent an ownership interest in member-owned institutions and do not have a market for exchange.

The assumption used in determining the fair value of long-term variable interest rate debt is that the fair value approximates the carrying value as the debt re-prices to market interest rates. Fair value of long-term fixed interest rate debt is calculated to be the discounted cash flows of the debt based upon long-term fixed rates that could be obtained. At June 30, 2014 and 2013, the carrying value approximates the estimated fair value.

Investments consisted of the following:

	June 30,	
	2014	2013
Investments in Associated Organizations:		
National Rural Utilities Cooperative		
Finance Corporation, 3% to 5%		
Capital Term Certificates	\$ 1,702,782	\$ 1,702,782
Other Investments:		
Genco Development	11,780	11,780
	<u>\$ 1,714,562</u>	<u>\$ 1,714,562</u>

The Corporation had \$1,739,020 and \$1,511,283 on deposit with RUS as of June 30, 2014 and 2013, respectively. These funds are held as part of RUS's cushion of credit program, earn interest at a rate of 5%, cannot be withdrawn on demand, and can only be used to make scheduled payments on RUS loans.

**Electric Plant**

The following is a summary of Electric plant assets at June 30, 2013 and 2012:

Description	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014
General plant:	15,579,670	2,976,663	(2,287,502)	16,268,831
Transmission plant	7,251,671	45,746	-	7,297,417
Distribution plant	153,457,134	11,522,859	(2,276,378)	162,703,615
Less: Accumulated depreciation	(65,547,719)	(6,725,124)	5,483,740	(66,789,103)
Construction in progress	9,220,489	-	(4,861,825)	4,358,664
	<u>\$ 119,961,245</u>	<u>\$ 7,820,144</u>	<u>\$ (3,941,965)</u>	<u>\$ 123,839,424</u>

**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

Description	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013
General plant:	14,723,203	1,157,529	(301,062)	15,579,670
Transmission plant	7,194,053	82,955	(25,337)	7,251,671
Distribution plant	143,614,018	12,730,441	(2,887,325)	153,457,134
Less: Accumulated depreciation	(58,608,833)	(6,410,582)	(528,304)	(65,547,719)
Construction in progress	5,960,859	3,259,630	-	9,220,489
	<u>\$ 112,883,300</u>	<u>\$ 10,819,973</u>	<u>\$ (3,742,028)</u>	<u>\$ 119,961,245</u>

The following estimated useful lives are used to compute depreciation, which amounted to \$6,107,656 and \$5,756,366 charged to operating expense and \$617,468 and \$654,216 charged to transportation clearing for the years ended June 30, 2014 and 2013, respectively.

Buildings	25 - 50 Years
Machinery and equipment	10 - 20 Years
Transmission plant	25 - 28 Years
Distribution plant	16 - 50 Years

**Long Term Debt**

All assets of the Corporation are pledged as security of the following long-term debt.

The Corporation has borrowed \$23,845,533 from RUS Rural Economic Development Loan Program. These monies were in turn loaned to enterprises approved by RUS. In the event of default by the enterprises, the Corporation remains liable for all unpaid balances. These notes are interest free and payable monthly in varying amounts.

Long-term debt is primarily represented by notes payable to the United States Department of Agriculture Rural Utilities Service and to the National Rural Cooperative Finance Corporation. The long-term debt payable to RUS and CFC is due in monthly and quarterly installments of varying amounts through 2045.

Following is a summary of outstanding long-term debt as of June 30, 2014:

Details of the RUS loans are set forth below:

Loan Number	Date of Note	Interest Rate	Principal Amount	June 30,	
				2014	2013
H0010	March 31, 2006	4.96%	5,796,708	\$ 4,733,352	\$ 4,887,642
H0020	May 15, 2002	5.75%	522,000	412,719	425,005
H0015	October 16, 2001	5.20%	1,278,000	985,051	1,016,181
H0025	December 5, 2003	5.00%	5,032,000	4,061,039	4,192,186
H0030	December 16, 2005	4.63%	176,000	142,070	146,846
H0035	December 16, 2005	4.51%	1,792,000	1,066,609	1,167,554
F0040	December 16, 2011	5.00%	4,000,000	3,837,667	3,919,801
F0045	June 12, 2013	2.93%	5,500,000	5,399,673	5,500,000
1B130	March 1, 2006	4.53%	2,500,000	2,176,703	2,234,711
1B311	March 1, 2006	2.78%	4,000,000	3,432,708	3,547,217

**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

Less cushion of credit*	Variable	(1,739,020)	(1,511,283)
1043 June 28, 2006	0.00% 650,000	138,426	210,318
1191 August 26, 2009	0.00% 253,000	123,210	148,188
Total debt outstanding	<u>\$ 31,499,708</u>	24,770,207	25,884,366
Less amounts due within one year		925,335	991,708
Total long-term portion		<u>\$ 23,844,872</u>	<u>\$ 24,892,658</u>

\*The Corporation has established a cushion of credit with RUS. The cushion of credit earns interest at a variable rate and is used to offset the long-term debt owed to RUS.

Details of the National Rural Utilities Cooperative Finance Corporation (CFC) loans are set forth below. Principal amounts are deferred based on the schedule below:

Loan Number	Date of Note	Principal Deferral Date	Interest Rate	Original Principal Amount	Net Obligation	
					June 30, 2014	2013
TN99015010	August 29, 2003	August 31, 2013	5.40%	569,219	-	145,180
TN99015011	August 29, 2003	August 31, 2014	5.65%	343,351	87,652	343,351
TN99015012	August 29, 2003	August 31, 2015	5.65%	355,495	355,495	355,495
TN99015013	August 29, 2003	August 31, 2016	5.70%	211,883	211,883	211,883
TN99015014	August 29, 2003	August 31, 2017	5.80%	347,719	347,719	347,719
TN99015015	August 29, 2003	August 31, 2018	5.85%	122,628	122,628	122,628
TN99016001	March 29, 2013	July 31, 2013	2.95%	3,351,113	3,049,903	3,351,113
Total debt outstanding				<u>5,301,408</u>	4,175,280	4,877,369
Less amounts due within one year					655,690	488,531
Total long-term portion					<u>\$ 3,519,590</u>	<u>\$ 4,388,838</u>

The CFC loans were dated August 29, 2003 & March 29, 2013. Principal amounts are deferred based on the schedule below.

Future principal payments of the Corporation's long-term debt consisted of the following at June 30, 2014:

Year Ending June 30,	Rural Utilities Service	Utilities Cooperative Finance Corporation	Total
2015	925,335	655,690	1,581,025
2016	952,503	531,330	1,483,833
2017	924,106	676,695	1,600,801
2018	779,470	461,416	1,240,886
2019	980,265	348,893	1,329,158
Thereafter	20,208,528	1,501,256	21,709,784
	<u>\$ 24,770,207</u>	<u>\$ 4,175,280</u>	<u>\$ 28,945,487</u>

**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

**NOTE 3 – OTHER INFORMATION**

**Retirement Plan**

All eligible employees of the cooperative participate in the NRECA Retirement and Security program, a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. The Corporation makes annual contributions to the program equal to the amounts accrued for pension expense. Contributions were \$1,071,448 for 2014 and \$1,253,367 for 2013. In this multiemployer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer.

During 2000, the Corporation amended its retirement plan to change normal retirement age to 30 years of service, or age 62 at a cost of \$932,656. The past service amount is being amortized over 30 years. The Corporation financed the past service cost with borrowings from CFC.

**Accumulated Postretirement Benefits**

Tri-County Membership Corporation offers post-retirement medical benefits that are material in the potential liability to the electric corporation.

Retired employees and disabled employees continue to receive medical coverage until their death. A retired employee must have terminated employment after the age of 55 or 30 years of service to be eligible for the benefit. The benefits are the same as the current active employees except that at age 65, Medicare becomes the primary coverage. The electric corporation pays 100% of the premium up to a maximum amount of \$350 per month. Employees hired after June 24, 1999, cannot become eligible for this benefit.

Results below derived from most recently available actuarial valuation of the post-retirement medical and dental benefits for the years beginning July 1, 2012 and July 1, 2013.

No annual rate of increase in the per capita cost of covered health care benefits was used in the valuation as it was assumed the Corporation will pay the capped amount of \$4,200 per year per employee.

*Change in accumulated postretirement benefit obligation*

	2014	2013
Benefit obligation, start of year	\$ 5,536,828	\$ 4,259,741
Service cost	25,214	24,791
Interest cost	241,949	243,914
Acturaial gain (loss)	(26,025)	1,243,582
Benefits paid	(347,700)	(235,200)
Benefit obligation, end of year	<u>\$ 5,430,266</u>	<u>\$ 5,536,828</u>

*Change in plan assets*

Fair value of plan assets - start of year	\$ -	\$ -
Employer contributions	347,700	235,200
Benefits paid	(347,700)	(235,200)
Fair value of plan assets - end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status at end of year	<u>\$ (5,430,266)</u>	<u>\$ (5,536,828)</u>

**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

Amount recognized in balance sheet	<u>\$ 5,430,266</u>	<u>\$ 5,536,828</u>
Amount included in other comprehensive income- unrecognized actuarial gain	<u>\$ 1,395,132</u>	<u>\$ 1,657,726</u>
<i>Net Periodic benefit cost</i>		
Service cost	\$ 25,214	\$ 24,791
Interest cost	241,949	243,914
Amortization of net actuarial gain	<u>236,569</u>	<u>256,484</u>
Net periodic benefit cost	<u>\$ 503,732</u>	<u>\$ 525,189</u>

The discount rate used in determining the accumulated postretirement benefit obligation was 4.5% and 6.0% for 2014 and 2013, respectively.

**Savings Plan**

The corporation has a retirement savings plan for all employees who are eligible to participate in the cooperative's benefit programs. The plan allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. The Corporation will match 50% of contributions of each participant up to 3% of the participant's base compensation. The corporation contributed \$106,940 in 2014 and \$105,505 in 2013. Participants vest immediately in their contributions and the contributions of the Corporation.

**Commitments and Contingencies**

On July 18, 1979, the cooperative entered into a 20 year "power contract" with the TVA. Under the terms of the contract, the cooperative is to purchase its entire power requirements from the TVA. The contract has been subsequently extended and amended to allow Tri-County Electric or the TVA to terminate the power contract with not less than five years written notice. However, the termination notice cannot be given earlier than five years from the effective date of the amendment. Additionally, following the termination of the agreement according to terms of the power contract, as amended, the corporation will not be obligated for any unrecovered investment (stranded cost) by the TVA.

**Risk Management**

The Corporation 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. The corporation is frequently involved in various claims and disputes, none of which are considered material and which, for the most part, are normal to the corporation's business and covered by commercial insurance. Management and their counsel are of the opinion that any liabilities resulting from such claims and disputes will not have a material effect on the corporation's financial position.

**Subsequent Events**

Management has evaluated subsequent events through September 30, 2014, the date which the financial statements were available to be issued.

**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**OPERATING REVENUE**

For the Years Ended June 30, 2014 and 2013

	2014		2013	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
<b>Sales of Electric Energy</b>				
Residential sales	<u>\$ 69,128,183</u>	<u>58.65</u>	<u>\$ 65,383,869</u>	<u>58.34</u>
Commercial and industrial sales:				
Small lighting and power	11,556,075	9.80	11,089,465	9.90
Large lighting and power	31,796,831	26.98	30,636,212	27.34
Street and outdoor lighting	<u>2,455,217</u>	<u>2.08</u>	<u>2,478,375</u>	<u>2.21</u>
Total commercial and industrial sales	<u>45,808,123</u>	<u>38.87</u>	<u>44,204,052</u>	<u>39.45</u>
Total sales of electric energy	<u>114,936,306</u>	<u>97.52</u>	<u>109,587,921</u>	<u>97.79</u>
<b>Other Revenue:</b>				
Forfeited discounts	576,851	0.49	630,392	0.56
Miscellaneous service	488,968	0.41	470,277	0.42
Rent from electric property	1,551,000	1.32	1,627,917	1.45
Other electric revenue	<u>1,552</u>	<u>-</u>	<u>19,946</u>	<u>0.02</u>
Total other revenue	<u>2,618,371</u>	<u>2.22</u>	<u>2,748,532</u>	<u>2.45</u>
<b>Total Operating Revenue -</b>				
<b>Billed Basis</b>	117,554,677	99.74	112,336,453	100.24
Adjustment for unbilled revenue	<u>307,789</u>	<u>0.26</u>	<u>(265,531)</u>	<u>(0.24)</u>
<b>Total operating revenue</b>	<u>\$ 117,862,466</u>	<u>100.00</u>	<u>\$ 112,070,922</u>	<u>100.00</u>
<b>Accrual Basis</b>				

*See independent auditor's report.*

**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**OPERATION EXPENSE**

For the Years Ended June 30, 2014 and 2013

	2014		2013	
	Amount	Percent	Amount	Percent
Transmission Expense				
Station expense	\$ 61,415	0.05	\$ 63,312	0.06
	<u>61,415</u>	<u>0.05</u>	<u>63,312</u>	<u>0.06</u>
Distribution Expenses				
Supervision and engineering	405,765	0.34	388,185	0.35
Rent	23,156	0.02	19,925	0.02
Substation expense	253,101	0.21	240,804	0.21
Overhead and underground lines	1,426,115	1.21	1,460,935	1.30
Street lighting	78,712	0.07	104,094	0.09
Meters	1,210,676	1.03	1,076,080	0.96
Consumer installation	217,648	0.18	185,816	0.17
Miscellaneous expense	1,174,986	1.00	968,255	0.86
	<u>4,790,159</u>	<u>4.06</u>	<u>4,444,094</u>	<u>3.96</u>
Customer Accounts Expenses				
Supervision	84,213	0.07	62,244	0.06
Meter reading	11,010	0.01	14,122	0.01
Customer records and collection	2,281,364	1.94	2,227,337	1.99
Customer assistance expense	279,114	0.24	272,704	0.24
Uncollectible accounts	122,279	0.10	120,000	0.11
	<u>2,777,980</u>	<u>2.36</u>	<u>2,696,407</u>	<u>2.41</u>
Sales Expenses				
Supervision	34,888	0.03	34,778	0.03
Information and advertising	260,985	0.22	262,360	0.23
Demonstration and selling expense	14,167	0.01	18,431	0.02
Miscellaneous	37,480	0.03	25,924	0.02
	<u>347,520</u>	<u>0.29</u>	<u>341,493</u>	<u>0.30</u>
Administrative and General				
Salaries	889,994	0.76	857,634	0.77
Office supplies	410,795	0.35	424,642	0.38
Outside services	57,131	0.05	58,517	0.05
Injuries and damages	-	-	139	-
	<u>\$ 1,357,920</u>	<u>1.15</u>	<u>\$ 1,340,932</u>	<u>1.20</u>

See independent auditor's report.

**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**OPERATION EXPENSE**

For the Years Ended June 30, 2014 and 2013

	2014		2013	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Administrative and General				
Employee pensions and benefits	\$ 156,032	0.13	\$ 118,204	0.11
Property Insurance	-	-	500	-
Miscellaneous	<u>435,313</u>	<u>0.37</u>	<u>465,066</u>	<u>0.41</u>
	1,949,265	1.66	1,924,702	1.72
Duplicate charges	<u>(131,195)</u>	<u>(0.11)</u>	<u>(113,443)</u>	<u>(0.10)</u>
	<u>1,818,070</u>	<u>1.55</u>	<u>1,811,259</u>	<u>1.62</u>
 <b>Total operation expense</b>	 <b><u>\$ 9,795,144</u></b>	 <b><u>8.31</u></b>	 <b><u>\$ 9,356,565</u></b>	 <b><u>8.35</u></b>

*See independent auditor's report.*

**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**MAINTENANCE EXPENSE**

For the Years Ended June 30, 2014 and 2013

	2014		2013	
	Amount	Percent	Amount	Percent
Transmission				
Overhead lines	\$ 12,244	0.01	\$ (126,376)	(0.11)
Distribution				
Supervision and engineering	404,816	0.34	406,844	0.36
Substation	93,411	0.08	67,814	0.06
Overhead and underground lines	1,506,125	1.28	1,529,285	1.36
Line transformers	59,415	0.05	40,396	0.04
Street lighting and signal system	5,818	-	4,780	-
R.O.W. maintenance	2,855,172	2.42	3,192,696	2.85
OT maintenance	282,532	0.25	283,684	0.25
	<u>5,207,289</u>	<u>4.42</u>	<u>5,525,499</u>	<u>4.92</u>
Administrative and General				
General Maintenance	510,298	0.43	432,285	0.39
Maintenance Shop	67,462	0.06	41,130	0.04
	<u>577,760</u>	<u>0.49</u>	<u>473,415</u>	<u>0.43</u>
<b>Total maintenance expense</b>	<u>\$ 5,797,293</u>	<u>4.92</u>	<u>\$ 5,872,538</u>	<u>5.24</u>

*See independent auditor's report.*

**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**STATISTICAL INFORMATION - UNAUDITED**  
Year Ended June 30, 2014

	For The Fiscal Years Ended June 30,				
	2014	2013	2012	2011	2010
<b>Revenue</b>					
Residential	\$ 69,128,183	\$ 65,383,869	\$ 62,209,548	\$ 67,742,238	\$ 58,018,117
Commercial	11,556,075	11,089,465	10,924,809	11,273,815	9,725,119
Industrial	31,796,831	30,636,212	33,887,217	35,923,449	30,745,151
Street and outdoor lighting	2,455,217	2,478,375	2,537,929	2,584,901	2,400,459
Unbilled Revenue	307,789	(265,531)	(1,121,137)	895,173	7,558,126
Other operating	2,618,371	2,748,532	2,440,475	2,650,628	2,625,193
Interest and other revenue	160,215	124,120	112,337	91,007	63,630
	<u>118,022,681</u>	<u>112,195,042</u>	<u>110,991,178</u>	<u>121,161,211</u>	<u>111,135,795</u>
<b>Expense</b>					
Electric power costs	88,275,554	83,053,182	83,590,964	92,983,234	84,294,398
Other operating expenses	15,592,437	15,229,103	15,100,223	14,409,084	14,009,143
Provision for depreciation and amortization	6,190,930	5,839,640	5,461,906	5,385,791	5,248,555
Transfer out - tax equivalent	943,333	916,532	990,366	1,127,378	963,820
Interest and other expense	1,253,705	1,042,233	1,166,149	1,303,556	1,362,078
	<u>112,255,959</u>	<u>106,080,690</u>	<u>106,309,608</u>	<u>115,209,043</u>	<u>105,877,994</u>
Net Income (Loss)	<u>5,766,722</u>	<u>6,114,352</u>	<u>4,681,570</u>	<u>5,952,168</u>	<u>5,257,801</u>
<b>Financial</b>					
Plant in service (original cost)	\$ 190,628,527	\$ 185,508,964	\$ 171,492,133	\$ 167,542,109	\$ 160,717,745
<b>Power in use - KWH</b>					
Residential	662,804,080	622,058,515	589,083,751	665,643,136	697,401,792
Commercial	86,113,138	82,205,670	80,885,161	85,137,298	91,832,598
Industrial	325,696,931	316,432,129	351,523,609	415,733,158	422,424,483
Other Customers	18,689,571	19,484,187	20,600,632	21,523,028	22,557,342
Total	<u>1,093,303,720</u>	<u>1,040,180,501</u>	<u>1,042,093,153</u>	<u>1,188,036,620</u>	<u>1,234,216,215</u>
<b>Number of customers</b>					
Residential	41,023	40,958	40,902	40,739	40,696
Small commercial	8,927	8,814	8,849	8,827	8,949
Large commercial	610	617	615	611	578
Street and athletic	106	120	104	105	106
Outdoor lighting - Code 78	274	294	320	317	332
	<u>50,940</u>	<u>50,803</u>	<u>50,790</u>	<u>50,599</u>	<u>50,661</u>
<b>Line Loss</b>	<u>4.28%</u>	<u>4.51%</u>	<u>5.37%</u>	<u>5.02%</u>	<u>4.07%</u>

See independent auditor's report.

**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**ELECTRIC RATES IN FORCE**  
June 30, 2014

**Residential Rate Schedule**

Customer charge - per delivery point per month	\$ 18.00
Energy charge - centers per kWh	
kWh per month	0.09715

**General Power Rate Schedule**

GSA1 (Under 50 kW demand & less than 15,000 kWh)	
Customer charge - per delivery point per month	\$ 25.00
Energy charge - cents per kWh	0.10838

GSA2 (51-1000 kW demand or more than 15,000 kWh)	
Customer charge - per delivery point per month	\$ 50.00
Demand charges - per kW per month	
First 50 Kw	No charge
Excess over 50 kW	13.13
Energy charge - cents per kWh	
First 15,000 kWh per month	0.10761
Additional kWh per month	0.06643

GSA3 (greater than 1000kW)	
Customer charge - per delivery point per month	\$ 100.00
Demand charges - per kW per month	
First 1000 kW	12.13
Over 1000 kW	14.07
Energy charge - cents per kWh	0.06743

Seasonal demand and energy - Nestle Waters	
Customer charge - per delivery point per month	\$ 1,500.00
Administrative charge -	
Per delivery point per month	350.00
Demand charges -	
Per kW per month	19.19
Energy charge -	
Per kWh per month	0.04506

**Time of Day schedule**

TGSC	
Customer charge - per delivery point per month	\$ 1,500.00
Demand charges -	
Per kW per month - on peak	16.84
Per kW per month - excess off peak	4.07
Excess over contract	16.84
Energy charge -	
Per kWh per month - on peak	0.09758
Up to 425 - off peak	0.06300
Next 195 - off peak	0.04383
Excess over contract	0.02757

*See independent auditor's report.*

**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**ELECTRIC RATES IN FORCE**  
June 30, 2014

**Outdoor Lighting**

Type

175 Watt mercury vapor	\$	10.67
400 Watt mercury vapor		19.65
100 Watt high pressure sodium		11.32
200 Watt high pressure sodium		19.56
400 Watt high pressure sodium		24.91
250 Watt high pressure sodium		19.65
400 Watt metal halide		22.72
1000 Watt metal halide		44.33
85 Watt induction		10.84
100 Watt induction		12.15
51 Watt LED		10.79
103 Watt LED		13.37

Lighting kWh charge		0.07294
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*See independent auditor's report.*

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**Offices in Tennessee & Kentucky**

227 Oil Well Rd.  
Jackson, TN 38305

Phone 731.427.8571  
Fax 731.424.5701  
[www.atacpa.net](http://www.atacpa.net)

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**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**

Board of Directors  
Tri-County Electric Membership Corporation  
Lafayette, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements the Tri-County Electric Membership Corporation (Corporation), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated September 30, 2014.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation's 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 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Alexander Thompson Arnold PLLC*

Jackson, Tennessee  
September 30, 2014

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**Illustrative Independent Auditors' Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers**

Board of Directors  
Tri-County Electric Membership Corporation  
Lafayette, Tennessee

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 Tri-County Electric Membership Corporation, which comprise the balance sheet as of June 30, 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 September 30, 2014. In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2014, on our consideration of Tri-County Electric Membership Corporation'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 responses – current year and prior year 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 Tri-County Electric Membership Corporation 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 Tri-County Electric Membership Corporation'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 Tri-County Electric Membership Corporation's accounting and records to indicate that Tri-County Electric Membership Corporation 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 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.

The purpose of this report is solely to communicate, in connection with the audit of the Financial statements, on compliance with aspects of contractual agreements and regulatory requirements for electrical borrowers based on the requirements of 7 CFR Part 1773, as clarified by RUS policy memorandum dated February 7, 2014. Accordingly, this report is not suitable for any other purpose.

*Alexander Thompson Arnold PLLC*

Jackson, Tennessee  
September 30, 2014

**TRI-COUNTY ELECTRIC MEMBERSHIP CORPORATION**  
**SCHEDULE OF FINDINGS AND RESPONSES – CURRENT YEAR AND PRIOR YEAR**  
June 30, 2014 and 2013

**Current Year Findings**

None reported.

**Prior Year Findings**

None reported.