

ALAN M. ZUMSTEIN
CERTIFIED PUBLIC ACCOUNTANT

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MEMBER:

- AMERICAN INSTITUTE OF CPA'S
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- KENTUCKY SOCIETY OF CPA'S
- AICPA DIVISION FOR FIRMS
- TENNESSEE STATE BOARD OF ACCOUNTANCY

To the Board of Directors
Meade County Rural Electric Cooperative

I have audited the financial statements of Meade County Rural Electric Cooperative for the year ended October 31, 2008, and have issued my report thereon dated December 11, 2008. I conducted my audit 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 7 CFR Part 1773, Policy on audits of the Rural Utilities Service (RUS) Borrowers. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing my audit of the financial statements of Meade County Rural Electric for the year ended October 31, 2008, I considered its internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting that I consider to be a material weakness.

7 CFR Part 1773.3 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions and other additional matters. I have grouped my comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, I performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, material control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.3(d)(1) related transactions, depreciation rates, a schedule of deferred debits and credits and a schedule of investments, upon which I express an opinion. In addition, my audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-45. My Objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, I express no opinion thereon.

No reports, other than my independent auditor's report, and my independent auditor's report on internal control over financial reporting and compliance and other matters, all dated December 11, 2008, or summary of recommendations related to my audit have been furnished to management.

My comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions and other additional matters as required by 7 CFR Part 1773.33 are presented below.

Comments on Certain Specific Aspects of the Internal Control Over Financial Reporting

I noted no matters regarding Meade County Rural Electric's internal control over financial reporting and its operation that I consider to be a material weakness as previously defined with respect to:

- The accounting procedures and records;

However, I recommend the following item:

1. Due to the large amounts in the cash accounts, I recommend that the Cooperative Request the banks pledge collateral to secure their deposits over the FDIC limit.
- the process for accumulating and recording labor, material and overhead costs, and the distribution of these costs to construction, retirement, and maintenance and other expense accounts, and;
 - the material controls.

Comments on Compliance with Specific RUS Loan and Security Instrument Provisions

At your request, I have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, and contracts. The procedures I performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others for the year ended October 31, 2008, of Meade County Rural Electric.
 1. Obtained and read a borrower prepared schedule of new written contracts entered into during the year for the operation or maintenance of its property, or for the use of its property by others as defined in 1773.33(e)(1)(i).
 2. Reviewed Board of Director minutes to ascertain whether board-approved written contracts are included in the borrower-prepared schedule.
 3. Noted written RUS approval was not obtained by the borrower for all contracts listed. Meade County Rural Electric's management informed me that RUS approval was not required as the contracts listed related to operation or maintenance entered into during the normal course of business.
- Procedures performed with respect to the requirement to submit RUS Form 7 to RUS:
 1. Agreed amounts reported in RUS Form 7 to Meade County Rural Electric's records as of December 31, 2007.

The results of my tests indicate that, with respect to the items tested, Meade County Rural Electric complied in all material respects, with the specific RUS loan and security instrument provisions referred to below. With respect to items not tested, nothing came to my attention that caused me to believe that Meade County Rural Electric had not complied, in all material respects, with those provisions. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- The borrower has obtained written approval of RUS to enter into any contract for the operation and maintenance of all or any part of property, for the use of mortgaged property by others as defined in 1773.33(d)(1)(i); and ,
- The borrower has submitted its RUS Form 7 to RUS and the Form 7, Financial and Statistical Report, as of December 31, 2007, represented by the borrower as having been submitted to RUS appears to be in agreement with its audited records in all material respects.

Comments on Other Additional Matters

In connection with my audit of Meade County Rural Electric, nothing came to my attention that caused me to believe that Meade County Rural Electric failed to comply with respect to:

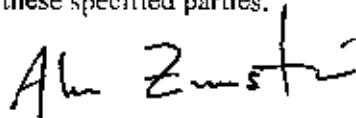
- The reconciliation of continuing property records to controlling general ledger plant accounts addressed at 7 CFR Part 1773.33(c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.33(c)(2);
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4);
- Approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap addressed at 7 CFR Part 1773.33(c)(5);
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standard No. 57, Related party Transactions, for the year ended October 31, 2008, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR Part 1773.33(f);
- The depreciation rates addressed at 7 CFR Part 1773.33(g);
- The detailed schedule of deferred debits and deferred credits; and
- The detailed schedule of investments, of which there were none.

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of deferred debits and deferred credits required by 7 CFR Part 1773(h) and provided below is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The deferred credits are as follows:

Consumer advances for construction	\$677,862
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This report is intended solely for the information and use of the Board of Directors, management, RUS, and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.



Alan M. Zumstein, CPA
December 11, 2008

Kentucky 18
Meade County Rural Electric
Cooperative Corporation
Brandenburg, Kentucky
Audited Financial Statements
October 31, 2008 and 2007

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Independent Auditor's Report

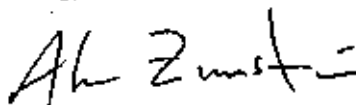
To the Board of Directors
Meade County Rural Electric Cooperative

I have audited the balance sheets of Meade County Rural Electric Cooperative, as of October 31, 2008 and 2007, and the related statements of income and patronage capital and cash flows for the years then ended. These financial statements are the responsibility of Meade County Rural Electric Cooperative's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and 7 CFR Part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Meade County Rural Electric Cooperative as of October 31, 2008 and 2007, and the results of operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated December 11, 2008, on my consideration of Meade County Rural Electric Cooperative's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audits.



Alan M. Zumstein, CPA
December 11, 2008

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To the Board of Directors
Meade County Rural Electric Cooperative

I have audited the financial statements of Meade County Rural Electric as of and for the years ended October 31, 2008 and 2007, and have issued my report thereon dated December 11, 2008. I conducted my audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Meade County Rural Electric's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Meade County Rural Electric's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Meade County Rural Electric's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

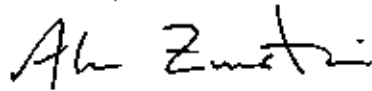
My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

To the Board of Directors
Meade County Rural Electric Cooperative
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Meade County Rural Electric's financial statements are free of material misstatement, I performed test 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, the Rural Utilities Service, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties.



Alan M. Zumstein, CPA
December 11, 2008

Meade County Rural Electric Cooperative Corporation

Balance Sheets, October 31, 2008 and 2007

<u>Assets</u>	<u>2008</u>	<u>2007</u>
Electric Plant, at original cost:		
In service	\$85,759,100	\$82,156,759
Under construction	1,118,247	1,012,182
	<u>86,877,347</u>	<u>83,168,941</u>
Less accumulated depreciation	22,712,348	20,652,300
	<u>64,164,999</u>	<u>62,516,641</u>
Investments in Associated Organizations	1,884,081	1,824,950
Current Assets:		
Cash and cash equivalents	3,847,805	4,486,435
Accounts receivable, less allowance for 2008 of \$308,257 and 2007 of \$263,129	2,481,247	2,429,613
Material and supplies, at average cost	333,159	400,247
Other current assets	404,692	349,522
	<u>7,066,903</u>	<u>7,665,817</u>
Total	<u>\$73,115,983</u>	<u>\$72,007,408</u>
<u>Members' Equities and Liabilities</u>		
Members' Equities:		
Memberships	\$106,880	\$111,260
Patronage capital	21,610,763	20,331,629
Other equities	837,935	763,063
Accumulated other comprehensive income	(272,832)	(298,332)
	<u>22,282,746</u>	<u>20,907,620</u>
Long Term Debt	43,773,146	44,131,478
Accumulated Postretirement Benefits	843,348	855,224
Current Liabilities:		
Current portion of long term debt	2,400,000	2,300,000
Accounts payable	1,867,847	1,701,323
Consumer deposits	670,186	633,864
Accrued expenses	600,848	607,135
	<u>5,538,881</u>	<u>5,242,322</u>
Consumer Advances for Construction	677,862	870,764
Total	<u>\$73,115,983</u>	<u>\$72,007,408</u>

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

Statements of Revenue and Patronage Capital
for the years ended October 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating Revenues	<u>\$31,122,748</u>	<u>\$29,480,109</u>
Operating Expenses:		
Cost of power	16,896,017	17,015,983
Distribution - operations	1,966,411	1,868,291
Distribution - maintenance	2,547,976	2,226,819
Consumer accounts	1,247,505	1,208,174
Consumer service and information	263,381	238,407
Administrative and general	1,345,135	1,158,367
Depreciation, excluding \$238,425 in 2008 and \$242,610 in 2007 charged to clearing accounts	2,822,589	2,685,368
Taxes	33,676	33,716
Other deductions	<u>51,718</u>	<u>80,983</u>
	<u>27,174,408</u>	<u>26,516,108</u>
Operating Margins before Interest Charges	3,948,340	2,964,001
Interest Charges:		
Long-term debt	<u>2,293,394</u>	<u>2,204,295</u>
Operating Margins after Interest Charges	1,654,946	759,706
Patronage Capital from Associated Organizations	183,838	157,061
Nonoperating Margins, principally interest	<u>134,201</u>	<u>256,623</u>
Net Margins	1,972,985	1,173,390
Patronage Capital - beginning of year	20,331,629	19,942,916
Retirement of patronage capital	(529,408)	(601,300)
Retirements to estates of deceased members	<u>(164,443)</u>	<u>(183,377)</u>
Patronage Capital - end of year	<u>\$21,610,763</u>	<u>\$20,331,629</u>

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

Statements of Cash Flows
for the years ended October 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities:		
Net margins	\$1,972,985	\$1,173,390
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation		
Charged to expense	2,822,589	2,685,368
Charged to clearing	238,425	242,610
Capital credits allocated	(183,838)	(157,061)
Accumulated postretirement benefits	13,624	45,140
Net change in current assets and liabilities:		
Receivables	(51,634)	(63,424)
Material and supplies	67,088	(20,485)
Other current assets	(55,170)	11,693
Accounts payable	166,524	200,042
Consumer deposits	36,322	(191)
Accrued expenses	(6,287)	(364,936)
Consumer advances for construction	(192,902)	267,721
	<u>4,827,726</u>	<u>4,019,867</u>
Cash Flows from Investing Activities:		
Construction of plant	(4,386,297)	(5,594,157)
Plant removal costs	(387,309)	(563,694)
Salvage recovered from plant	64,234	96,933
Receipts from investments, net	124,707	113,403
	<u>(4,584,665)</u>	<u>(5,947,515)</u>
Net Cash Flows from Financing Activities:		
Net decrease in memberships	(4,380)	(4,680)
Retirement of patronage capital	(693,851)	(784,677)
Increase in other equities	74,872	77,362
Additional long-term borrowings	2,000,000	3,000,000
Advance payments	0	317,034
Payments on long-term debt	(2,258,332)	(2,236,882)
	<u>(881,691)</u>	<u>368,157</u>
Net increase in cash balances	(638,630)	(1,559,491)
Cash and cash equivalents - beginning	<u>4,486,435</u>	<u>6,045,926</u>
Cash and cash equivalents - ending	<u>\$3,847,805</u>	<u>\$4,486,435</u>
Supplemental disclosures of cash flow information:		
Interest on long-term debt	\$2,298,464	\$2,217,264

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

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Meade County maintains its records in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (PSC) and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform in all material respects with generally accepted accounting principles. The more significant of these policies are as follows:

Electric Plant

Electric plant is stated at original cost, less contributions, which is the cost when first dedicated to public service. Such cost includes applicable supervisory and overhead costs. There was no interest required to be capitalized on construction for the year.

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

Electric plant in service consisted of:

	<u>2008</u>	<u>2007</u>
Distribution plant	\$78,594,614	\$75,403,386
General plant	<u>7,164,486</u>	<u>6,753,373</u>
Total	<u>\$85,759,100</u>	<u>\$82,156,759</u>

Depreciation

Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Meade County uses a composite depreciation rate of 3.36% per annum for distribution plant. General plant depreciation rates are as follows:

Structures and improvements	2.5% - 3%
Transportation equipment	12.5% - 25%
Other general plant	5% - 14.3%

Cash and Cash Equivalents

Meade County considers all short-term, highly-liquid investments with original maturities of three months or less to be cash equivalents.

Advertising

Meade County expenses advertising costs as incurred.

Income Tax Status

Meade County is exempt from federal and state income taxes under provisions of Section 501(c)(12). Accordingly, the financial statements include no provision for income taxes.

Continued

1. Summary of Significant Accounting Policies, continued

Revenue

Meade County records revenue as billed to its consumers based on monthly meter-reading cycles. Certain consumers are required to pay a refundable deposit. Meade County's sales are concentrated in a six county area of western Kentucky. There were no consumers whose individual account balance exceeded 10% of outstanding accounts receivable at October 31, 2008 or 2007. Consumers must pay their bill within 20 days of billing, then are subject to disconnect after another 10 days. Accounts are written off when they are deemed to be uncollectible. The allowance for uncollectible accounts is based on the aging of receivables.

Cost of Power

Meade County is one of three (3) members of Big Rivers Electric Corporation, Inc. (Big Rivers). Under a wholesale power agreement, Meade County is committed to purchase its electric power and energy requirements from Big Rivers until 2023. The rates charged by Big Rivers are subject to approval of the PSC. The cost of purchased power is recorded monthly during the period in which the energy is consumed, based upon billings from Big Rivers.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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.

Fair Value of Financial Instruments

The carrying value of cash and temporary cash investments approximates fair value because of the short maturity of those instruments. The carrying value of long term debt approximates the fair value since existing rates approximate market rates. Investments in associated organizations are not considered a financial instrument because they represent a nontransferable interest in associated organizations.

Meade County will also invest idle funds in local banks. These investments are classified as held-to-maturity in accordance with Statement of Financial Accounting Standards (SFAS) No. 115. Held-to-maturity securities are presented at amortized cost. The fair value of held-to-maturity securities approximates cost at 2008 and 2007.

Off Balance Sheet Risk

Meade County has off balance sheet risk in that they maintain cash deposits in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC). At October 31, 2008 and 2007, the financial institutions reported deposits in excess of the \$250,000 FDIC insured limit on several of the accounts.

Continued

1. **Summary of Significant Accounting Policies, continued**

Risk Management

Meade County is exposed to various forms of losses of assets associated with, but not limited to, fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, workers compensation, etc. Each of these areas is covered through the purchase of commercial insurance.

Commitments

Meade County has various other agreements outstanding with local contractors. Under these agreements, the contractors will perform certain construction and maintenance work at specified hourly rates or unit cost, or on an as needed basis. The duration of these contracts are one to three years.

2. **Investments in Associated Organizations**

Meade County records patronage capital assigned by associated organizations in the year in which such assignments are received.

The Capital Term Certificates (CTCs) of National Rural Utilities Cooperative Finance Corporation (CFC) are recorded at cost. The CTCs were purchased from CFC as a condition of obtaining long-term financing. The CTCs bear interest at 0%, 3% and 5% and are scheduled to mature at varying times from 2020 to 2080.

Investments in associated organizations consisted of:

	<u>2008</u>	<u>2007</u>
Associated Organizations:		
CFC, CTC's	\$1,037,701	\$1,068,396
CFC, patronage capital assigned	253,154	230,680
Other associated organizations	592,096	524,744
Others	<u>1,130</u>	<u>1,130</u>
Total	<u>\$1,884,081</u>	<u>\$1,824,950</u>

3. **Patronage Capital**

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30% of total assets, except that distributions may be made to estates of deceased patrons. The debt agreement provides, however, that should such distributions to estates not exceed 25% of net margins for the next preceding year, Meade County may distribute the difference between 25% and the payments made to such estates. The equity at October 31, 2008 was 30% of total assets.

Continued

3. Patronage Capital, continued

Patronage capital consisted of:

	<u>2008</u>	<u>2007</u>
Assigned to date	\$28,140,519	\$27,293,420
Assignable	1,853,507	1,091,245
Unassigned	2,763,691	2,400,067
Retirements to date	<u>(11,146,954)</u>	<u>(10,453,103)</u>
Total	<u>\$21,610,763</u>	<u>\$20,331,629</u>

4. Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income, which includes the effects of applying the provisions of SFAS No. 158, follows.

	<u>2008</u>	<u>2007</u>
Balance, beginning of period	(\$298,332)	-
Amortize postretirement benefits	25,500	-
Adjustment to initially apply SFAS No. 158	<u>-</u>	<u>(298,332)</u>
Balance, end of period	<u>(\$272,832)</u>	<u>(\$298,332)</u>

5. Short Term Borrowings

At October 31, 2008, Meade County had a short-term line of credit of \$5,000,000 available from CFC. There were no borrowings against this line of credit during the audit period.

6. Long Term Debt

All assets, except vehicles, are pledged as collateral on the long-term debt to RUS, Federal Financing Bank (FFB) and NRUCFC under a joint mortgage agreement. Long term debt consisted of:

	<u>2008</u>	<u>2007</u>
First mortgage notes due RUS:		
3.02 to 5.06% (4.18 to 5.06% in 2007)	<u>\$23,823,228</u>	<u>\$22,144,440</u>
First mortgage notes due FFB:		
3.25 to 6.049% (2.815 to 6.049% in 2007)	<u>9,734,273</u>	<u>9,953,204</u>
First mortgage notes due CFC:		
7%	15,430	36,154
5.40% to 6.90% fixed rate	5,257,660	5,486,614
Refinance RUS loans 3.10% to 5.95%	<u>7,342,555</u>	<u>8,811,066</u>
	<u>12,615,645</u>	<u>14,333,834</u>
	46,173,146	46,431,478
Less current portion	<u>2,400,000</u>	<u>2,300,000</u>
Long term portion	<u>\$43,773,146</u>	<u>\$44,131,478</u>

Continued

6. Long Term Debt, continued

The long term debt payable to RUS, FFB and CFC is due in quarterly and monthly installments of varying amounts through 2041. Meade County has loan funds available from RUS in the amount of \$12,136,000.

During 2004, Meade County refinanced \$14,685,111 of RUS 5% interest loans with the 3.10% - 5.95% fixed and variable interest rate notes from CFC. These notes are due in ten (10) annual installments of \$1,468,511 each through 2013.

As of October 31, 2008, the annual current portion of long term debt outstanding for the next five years are as follows: 2009 - \$2,400,000; 2010 - \$2,450,000; 2011 - \$2,500,000; 2012 - \$2,550,000; 2013 - \$2,600,000.

7. Employee Benefits

Pension Plan

All eligible employees of Meade County 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. Eligible employees include employees hired prior to August 2002. Non-eligible employees are those hired after August, 2002. Meade County makes annual contributions to the Program equal to the amounts accrued for pension expense. Contributions to this plan were \$383,454 for 2008 and \$372,529 for 2007. 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.

Retirement Savings Plan

Meade County participates in the NRECA Savings Plan, a multiemployer, defined contribution master pension plan. All employees are eligible to participate in the Savings plan upon completion of one month employment. Participating employees contribute from 1% to 3% of their annual base salary and Meade County contributes 3%. Non-eligible employees, as defined above, participate in the savings plan, with Meade County contributing 12% of annual base pay, and the employee contributing from 1% to 3%. Meade County makes annual contributions to the plan equal to amounts accrued for pension expense. Contributions are vested immediately. Pension costs for the savings plan were \$170,935 for 2008 and \$156,812 for 2007. A portion of this cost is allocated to construction of electric plant.

Postretirement Benefits

Meade County sponsors a defined benefit plan that provides medical insurance coverage to retirees who meet certain qualifications. During 1996, Meade County changed its plan from contributing 50% of the projected cost of coverage to contributing 50% of the cost of a single policy.

Continued

7. Employee Benefits, continued

Postretirement Benefits, continued

For measurement purposes, a 8.5% annual rate of increase, decreasing by 0.5% per year until 5.5% per year, in the per capita cost of covered health care benefits was assumed. The discount rate used in determining the accumulated postretirement benefit obligation was 6.50% for 2008 and 2007.

The funded status of the plan was as follows:

	<u>2008</u>	<u>2007</u>
Projected benefit obligation	(\$843,348)	(\$855,224)
Plan assets at fair value	-	-
Funded status	<u>(\$843,348)</u>	<u>(\$855,224)</u>

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

	<u>2008</u>	<u>2007</u>
Net periodic benefit cost	\$43,826	\$72,198
Benefits paid to participants	30,201	27,058

Projected retiree benefit payments are expected to be as follows: 2009 - \$25,500; 2010 - \$27,000; 2011 - \$27,000; 2012 - \$26,000; 2012 - \$26,000.

8. Related Party Transactions

Several of the Directors of Meade County, its President & CEO and another employee are on the Boards of Directors of various associated organizations.

9. Environmental Contingency

Meade County from time to time is required to work with and handle PCBs, herbicides, automotive fluids, lubricants and other hazardous materials in the normal course of business. As a result, there is the possibility that environmental conditions may arise which would require Meade County to incur cleanup costs. The likelihood of such an event, or the amount of such costs, if any, cannot be determined at this time. However, management does not believe such costs, if any, would materially affect Meade County's financial position or its future cash flows.

10. Rate Matters

Meade County received an order from the PSC to allow it to increase rates effective December 23, 2007, in the amount of \$1,900,000 or 7% of revenues.