

**MID-CAROLINA ELECTRIC COOPERATIVE, INC.  
LEXINGTON, SOUTH CAROLINA**

**FINANCIAL STATEMENTS AS OF  
DECEMBER 31, 2017 AND 2016 AND  
INDEPENDENT AUDITOR'S REPORT**

**MID-CAROLINA ELECTRIC COOPERATIVE, INC.**

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February 12, 2018

**INDEPENDENT AUDITOR'S REPORT**

The Board of Trustees  
Mid-Carolina Electric Cooperative, Inc.

We have audited the accompanying financial statements of **Mid-Carolina Electric Cooperative, Inc.** (the Corporation), which comprise the balance sheets as of December 31, 2017 and 2016 and the related statements of revenue and comprehensive income, changes in members' equity and cash flows for the years then ended, and the related notes to the financial statements.

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

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Corporation'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 Corporation'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 Mid-Carolina Electric Cooperative, Inc. as of December 31, 2017 and 2016 and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*McNair, McLemore, Middlebrooks & Co., LLC*

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

**MID-CAROLINA ELECTRIC COOPERATIVE, INC.**  
**BALANCE SHEETS**  
**DECEMBER 31**

**ASSETS**

	2017	2016
<b>Utility Plant</b>		
Electric Plant in Service - At Cost	\$ 260,947,703	\$ 223,149,785
Construction Work in Progress	3,382,723	7,533,900
	264,330,426	230,683,685
Gross Utility Plant		
Accumulated Provision For Depreciation	(70,555,013)	(67,047,474)
	193,775,413	163,636,211
<b>Other Property and Investments</b>		
Investments in Associated Organizations	8,934,273	8,146,622
Prepaid Postretirement Healthcare Benefits	11,190,395	7,927,789
Other Investments	30,726	-
	20,155,394	16,074,411
<b>Current Assets</b>		
Cash and Cash Equivalents	8,301,801	18,404,370
Accounts Receivable (Net of Accumulated Provision for Uncollectibles of \$383,238 in 2017 and \$488,216 in 2016)	8,588,237	8,363,750
Interest Receivable	17,867	17,809
Materials and Supplies	1,718,369	1,625,108
Prepayments	931,710	805,103
	19,557,984	29,216,140
<b>Deferred Debits</b>	2,775	8,612
<b>Total Assets</b>	\$ 233,491,566	\$ 208,935,374

See accompanying notes which are an integral part of these financial statements.

**MID-CAROLINA ELECTRIC COOPERATIVE, INC.**  
**BALANCE SHEETS**  
**DECEMBER 31**

**MEMBERS' EQUITY AND LIABILITIES**

	2017	2016
<b>Members' Equity</b>		
Membership Fees	\$ 692,675	\$ 683,905
Patronage Capital	52,277,247	49,726,845
Accumulated Other Comprehensive Income	3,441,900	4,069,500
Other	4,562,315	4,565,599
	60,974,137	59,045,849
 <b>Long-Term Liabilities</b>		
Long-Term Debt	140,383,948	121,434,545
Other Long-Term Liabilities	30,726	-
	140,414,674	121,434,545
 <b>Current Liabilities</b>		
Current Maturities of Long-Term Debt	5,998,791	5,460,336
Line-of-Credit	1,500,000	-
Accounts Payable	12,403,769	8,325,450
Consumer Deposits	1,014,297	1,002,822
Accrued and Withheld Taxes	6,865,498	6,095,810
Other Current and Accrued Liabilities	1,761,704	1,655,392
	29,544,059	22,539,810
 <b>Deferred Credits</b>	2,558,696	5,915,170
 <b>Total Members' Equity and Liabilities</b>	<b>\$ 233,491,566</b>	<b>\$ 208,935,374</b>

See accompanying notes which are an integral part of these financial statements.

**MID-CAROLINA ELECTRIC COOPERATIVE, INC.**  
**STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31**

	2017	2016
<b>Operating Revenue and Patronage Capital</b>	<b>\$ 124,111,268</b>	<b>\$ 121,632,893</b>
<b>Operating Expenses</b>		
Cost of Power	81,053,003	81,408,989
Distribution Operations	2,739,313	3,119,978
Distribution Maintenance	11,883,211	10,825,174
Consumer Accounts	3,587,835	4,078,728
Consumer Service and Information	540,831	580,735
Sales	303,916	285,540
Administrative and General	4,864,621	5,098,046
Depreciation	6,592,842	6,377,915
Other	1,013,043	1,015,393
	<b>112,578,615</b>	<b>112,790,498</b>
<b>Operating Margins Before Interest Expense</b>	<b>11,532,653</b>	<b>8,842,395</b>
<b>Interest Expense</b>	<b>5,646,158</b>	<b>4,849,063</b>
<b>Operating Margins After Interest Expense</b>	<b>5,886,495</b>	<b>3,993,332</b>
<b>Nonoperating Margins</b>	<b>71,260</b>	<b>64,238</b>
<b>Generation and Transmission Cooperative Capital Credits</b>	<b>182,289</b>	<b>220,480</b>
<b>Other Capital Credits and Patronage Capital Allocations</b>	<b>917,654</b>	<b>571,013</b>
<b>Net Margins</b>	<b>7,057,698</b>	<b>4,849,063</b>
<b>Other Comprehensive Income</b>		
Actuarial Gain	245,921	190,722
Amortization of Actuarial Gain	(245,921)	(190,722)
Amortization of Prior Service Cost	(627,600)	(114,000)
	<b>(627,600)</b>	<b>(114,000)</b>
<b>Total Other Comprehensive Income</b>	<b>(627,600)</b>	<b>(114,000)</b>
<b>Total Comprehensive Income</b>	<b>\$ 6,430,098</b>	<b>\$ 4,735,063</b>

See accompanying notes which are an integral part of these financial statements.

**MID-CAROLINA ELECTRIC COOPERATIVE, INC.  
STATEMENTS OF CHANGES IN MEMBERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<b>Membership Fees</b>	<b>Patronage Capital</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Other Equities</b>	<b>Total Members' Equity</b>
<b>Balance, December 31, 2015</b>	\$ 674,720	\$ 48,269,188	\$ 4,183,500	\$ 4,632,235	\$ 57,759,643
Net Margins	-	4,849,063	-	-	4,849,063
Patronage Capital Retirements	-	(3,391,406)	-	(78,567)	(3,469,973)
Membership Fees	9,185	-	-	-	9,185
Other	-	-	-	11,931	11,931
Postretirement Benefits	-	-	(114,000)	-	(114,000)
<b>Balance, December 31, 2016</b>	<b>683,905</b>	<b>49,726,845</b>	<b>4,069,500</b>	<b>4,565,599</b>	<b>59,045,849</b>
Net Margins	-	7,057,698	-	-	7,057,698
Patronage Capital Retirements	-	(4,507,296)	-	-	(4,507,296)
Membership Fees	8,770	-	-	-	8,770
Other	-	-	-	(3,284)	(3,284)
Postretirement Benefits	-	-	(627,600)	-	(627,600)
<b>Balance, December 31, 2017</b>	<b>\$ 692,675</b>	<b>\$ 52,277,247</b>	<b>\$ 3,441,900</b>	<b>\$ 4,562,315</b>	<b>\$ 60,974,137</b>

See accompanying notes which are an integral part of these financial statements.

**MID-CAROLINA ELECTRIC COOPERATIVE, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31**

	2017	2016
<b>Cash Flows from Operating Activities</b>		
Net Margins	\$ 7,057,698	\$ 4,849,063
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Accumulated Provision for Postretirement Benefits	(3,397,127)	(1,014,711)
Postretirement Benefit Contributions	(493,079)	(404,678)
Depreciation	7,170,056	6,927,135
Deferred Debits	5,837	12,543
Deferred Credits	(3,356,474)	2,603,870
Patronage Capital from Associated Organizations	(1,099,943)	(791,493)
<b>Change In</b>		
Accounts Receivable	(224,487)	(1,679,958)
Other Current Assets	(126,665)	34,233
Accounts Payable	4,078,319	1,301,091
Consumer Deposits	11,475	(154,814)
Other Current Liabilities	876,000	398,434
	<b>10,501,610</b>	12,080,715
<b>Cash Flows from Investing Activities</b>		
Extension and Replacement of Plant	(37,309,259)	(13,851,176)
Return of Equity from Associated Organizations	299,776	268,116
Membership Fee to Associated Organizations	-	(1,000)
Materials and Supplies	(93,261)	(15,860)
	<b>(37,102,744)</b>	(13,599,920)
<b>Cash Flows from Financing Activities</b>		
Principal Repayment of Long-Term Debt	(5,512,142)	(4,985,788)
Advances of Long-Term Debt	25,000,000	15,000,000
Line-of-Credit	1,500,000	-
Note Receivable	-	34,259
Membership Fees	8,770	9,185
Retirement of Patronage Capital	(4,507,296)	(3,469,973)
Other Equities	(3,284)	11,931
Capital Term Certificates	12,517	11,957
	<b>16,498,565</b>	6,611,571
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(10,102,569)</b>	5,092,366
<b>Cash and Cash Equivalents - Beginning</b>	<b>18,404,370</b>	13,312,004
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 8,301,801</b>	\$ 18,404,370

See accompanying notes which are an integral part of these financial statements.

# MID-CAROLINA ELECTRIC COOPERATIVE, INC.

## NOTES TO FINANCIAL STATEMENTS

### (1) Summary of Significant Accounting Policies

Accounting policies of Mid-Carolina Electric Cooperative, Inc. (the Corporation) reflect practices appropriate to the electric utility industry and generally accepted accounting principles of the United States of America (U.S. GAAP). The records of the Corporation are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. The following describes the more significant of those policies.

#### **Nature of Operations**

The Corporation is a not-for-profit corporation whose purpose is to provide electric service to its members. The Corporation operates as a cooperative whereby all monies in excess of cost of providing electric service are capital, at the moment of receipt, and are credited to each member's capital account.

#### **Long-Lived Assets**

The Corporation evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on either a specific regulatory disallowance or an estimate of undiscounted future cash flows attributable to the assets, as compared with the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a provision for loss if the carrying value is greater than the fair value. For assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment provision is required. Until the assets are disposed of, their estimated fair value is reevaluated when circumstances or events change.

U.S. GAAP requires the present value of the ultimate cost for an asset's future retirement be recorded in the period in which the liability is incurred. The cost should be capitalized as part of the related long-lived asset and depreciated over the asset's useful life. The Corporation has no legal retirement obligations related to its distribution facilities; therefore, a liability for the removal of these assets will not be recorded. Management believes the actual cost of removal, even though not a legal obligation, will be recovered through rates over the life of the distribution assets.

#### **Utility Plant**

Utility plant is capitalized at cost less related contributions in aid of construction. In general, utility plant is capitalized at the time it becomes part of an operating unit and has been energized. However, certain items of plant referred to as special equipment items (meters, transformers, oil circuit reclosers, etc.) are capitalized at the time of purchase along with related estimated cost of installation.

## **(1) Summary of Significant Accounting Policies (Continued)**

### **Depreciation and Maintenance**

Depreciation of the capitalized cost is provided using composite rates. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its capitalized cost and its cost of removal less salvage are charged to the accumulated provision for depreciation.

Provision has been made for depreciation of distribution plant on a straight-line basis over the estimated useful lives of the assets. The rates range from 2.5 to 5.0 percent per annum.

Depreciation of general plant is provided on a straight-line basis over the estimated useful lives of the various assets. The rates range from 3.0 to 20.0 percent per annum.

The costs of maintenance, repairs and replacements of minor items of property are charged to maintenance expense accounts.

### **Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP 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.

### **Accounts Receivable and Credit Policies**

Accounts receivable are stated at the amount billed to the consumer. Once an electric consumer's service is shut off and the account is approximately 180 days past due, the Corporation writes off the associated accounts receivable. An allowance is made for doubtful accounts based on experience and other circumstances which may affect the ability of consumers to meet their obligations. Accounts considered uncollectible are charged against the allowance. Receivables are reported on the balance sheets net of such accumulated allowance.

### **Cash Equivalents**

For purposes of the statements of cash flows, cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

### **Materials and Supplies**

Materials and supplies are generally used for construction and for operation and maintenance work, and are not for resale. Cost is determined by the moving average method of inventory valuation. Materials and supplies are charged to construction or operations at moving average cost when used.

### **Equities and Margins**

The Corporation is organized and operates under the cooperative form of organization. As such, patronage capital or margins are allocated to patrons on the basis of individual consumption of electric energy. Under provisions of the long-term debt agreements, until the total equities and margins equal or exceed 20 percent of the total assets of the Corporation, the return to patrons of capital contributed by them is limited. The Corporation's equities were 26.09 and 28.26 percent of total assets as of December 31, 2017 and 2016, respectively.

## **(1) Summary of Significant Accounting Policies (Continued)**

### **Operating Revenues**

Electric revenues include patronage capital and are billed monthly to consumers on a cycle basis. Electric rates for the Corporation include provisions to permit the board of trustees to adjust billings for fluctuations in fuel costs, purchased power costs and certain other costs. Electricity which had been used by the members of the Corporation but had not been billed to the members is recorded as a component of accounts receivable on the balance sheets. Unbilled electric revenue totaled approximately \$1,846,990 and \$1,778,003 as of December 31, 2017 and 2016, respectively.

### **Patronage Capital**

Patronage capital represents the Corporation's accumulated retained excess of revenues over expenses that has been allocated annually to its members. Distributions to members are made at the discretion of the board of trustees in accordance with the bylaws, subject to the restrictions contained in the long-term debt agreements.

### **Cost of Purchased Power**

Cost of power is expensed as consumed.

### **Comprehensive Income**

The objective of comprehensive income is to report a measure of all changes in equity of the Corporation that result from transactions and other economic events of the period other than membership fees and patronage capital retirements. Other comprehensive income consists of postretirement healthcare costs not yet recognized as a component of income related to the Corporation's postretirement healthcare plan.

### **Generation and Transmission Cooperative Capital Credits**

Generation and transmission cooperative capital credits represent the annual capital furnished to Central Electric Cooperative, Inc. through payment of power bills. The capital is recorded in the year provided, even though notification of the capital allocation is not received until later.

### **Sales Tax**

A portion of the Corporation's sales are subject to sales tax. The Corporation collects the sales tax from the customers and remits the taxes to the appropriate taxing authority. The Corporation excludes the taxes collected and remitted from revenues and cost of sales.

## (1) Summary of Significant Accounting Policies (Continued)

### Income Taxes

The Corporation is exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code which provides, in part, that the Corporation derive at least 85 percent of its annual gross income from members to retain the exemption. The Corporation expects to meet the requirement for the tax year ended December 31, 2017. Accordingly, no provision for income taxes has been made in the financial statements.

### Subsequent Events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through February 12, 2018, the date the financial statements were available to be issued.

## (2) Utility Plant

Listed below are the major classes of the electric utility plant as of December 31:

	<u>2017</u>	<u>2016</u>
Intangible	\$ 270	\$ 270
Distribution Plant	204,653,884	198,224,930
General Plant	25,697,992	24,924,585
Completed Construction Not Yet Classified	<u>30,595,557</u>	-
<b>Electric Plant in Service</b>	<b>260,947,703</b>	223,149,785
Construction Work in Progress	<u>3,382,723</u>	7,533,900
	<u><u>\$ 264,330,426</u></u>	<u><u>\$ 230,683,685</u></u>

### (3) Investments in Associated Organizations

	<u>2017</u>	<u>2016</u>
National Rural Utilities Cooperative Finance Corporation		
Membership Fee	\$ 1,000	\$ 1,000
Capital Term Certificates	1,667,385	1,679,902
Capital Credits	1,415,691	1,178,976
Cooperative Electric Energy Utility Supply Corporation		
Membership Fee	2,500	2,500
Capital Credits	1,748,615	1,426,185
Central Electric Cooperative, Inc.		
Capital Credits	3,717,758	3,535,469
National Information Solutions Cooperative, Inc.		
Membership Fee	100	100
Capital Credits	58,847	30,728
Federated Rural Electric Insurance Exchange		
Capital Credits	314,138	284,933
CoBank		
Membership Fee	1,000	1,000
Cooperative Response Center		
Membership Fee	2,500	2,500
Capital Credits	4,739	3,329
	<u>\$ 8,934,273</u>	<u>\$ 8,146,622</u>

### (4) Deferred Debits

Deferred debits are comprised of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Various System Projects	\$ 2,775	\$ 8,612

## (5) Deferred Credits

Deferred credits are comprised of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Margin Stabilization Plan	\$ 2,339,845	\$ 5,476,023
Unclaimed Capital Credits	218,851	119,183
Other Deferred Credits	-	319,964
	<u>\$ 2,558,696</u>	<u>\$ 5,915,170</u>

The Corporation established a margin stabilization plan under the provisions of *Accounting Standards Codification 980*, approved by the board of trustees which, in effect, requires the Corporation to adjust electrical rates to members to achieve defined margins. The targeted Times Interest Earned Ratio (TIER) established by the board required that the Corporation earn net margins resulting in a TIER of 2.25 and 2.0 for 2017 and 2016, respectively. Actual margins above the established TIER are deferred and recorded as deferred credits. Actual margins below the established TIER are deferred and recorded as deferred debits.

The following is a summary of the change in the margin stabilization plan during the years ended December 31:

	<u>2017</u>	<u>2016</u>
Beginning Balance	\$ 5,476,023	\$ 2,586,307
Revenue Recovered	(5,476,023)	(2,586,307)
TIER Adjustment	2,339,845	5,476,023
	<u>\$ 2,339,845</u>	<u>\$ 5,476,023</u>

## (6) Patronage Capital

	<u>2017</u>	<u>2016</u>
Assignable	\$ 7,057,698	\$ 4,849,063
Assigned	114,633,774	109,784,711
	<u>121,691,472</u>	<u>114,633,774</u>
Cumulative Retirements	(69,414,225)	(64,906,929)
	<u>\$ 52,277,247</u>	<u>\$ 49,726,845</u>

## (7) Debt

Long-term debt consists of mortgage notes payable to the National Rural Utilities Cooperative Finance Corporation (NRUCFC). The notes are secured by a mortgage agreement between the Corporation and NRUCFC. Substantially all the assets of the Corporation are pledged as security for long-term debt of the Corporation. The notes generally have 35-year maturity periods and are payable on an installment basis.

<b>Holder of Note</b>	<b>Interest Rate as of December 31, 2017</b>	<b>2017</b>	<b>2016</b>
NRUCFC	3.15% to 4.70%	\$ 146,382,739	\$ 126,894,881
Maturities Due Within One Year		<u>(5,998,791)</u>	<u>(5,460,336)</u>
		<u>\$ 140,383,948</u>	<u>\$ 121,434,545</u>

Approximate principal maturities of long-term debt for each of the next five years are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 5,998,791
2019	6,450,905
2020	6,937,093
2021	7,459,924
2022	8,022,160
Thereafter	<u>111,513,866</u>
	<u>\$146,382,739</u>

The Corporation has a \$11,000,000 line-of-credit with NRUCFC with an outstanding balance of \$1,500,000 and \$-0- as of December 31, 2017 and 2016, respectively. The rate of interest as of December 31, 2017 was 2.75 percent.

## (8) Retiree Benefits

### *Pension Plan (Defined Benefit)*

Pension benefits for substantially all employees of the Corporation are provided through participation in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan), a defined benefit plan qualified under Section 401 and tax-exempt under 501(a) of the Internal Revenue Code. The plan sponsor's employer identification number is 53-0116145 and the plan number is 333.

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

## **(8) Retiree Benefits (Continued)**

### ***Pension Plan (Defined Benefit) (Continued)***

The Corporation's annual contributions to the program represented less than 5 percent of total contributions made to the plan by all participating employers and are equal to the amounts recorded for pension cost. Contributions were \$2,855,350 and \$2,656,275 for the years ended December 31, 2017 and 2016, respectively.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was between 65 percent and 80 percent funded at January 1, 2018 and 2017 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.

### ***Pension Plan (Defined Contribution Plan)***

The Corporation also provides additional employee benefits to substantially all employees through the NRECA sponsored defined contribution Savings Plan (401-k). In this defined contribution plan, the Corporation's contributory portion of costs of this plan totaled \$336,907 and \$285,593 for the years ended December 31, 2017 and 2016, respectively.

### ***Postretirement Healthcare Benefits***

The Corporation provides healthcare benefits to qualified retirees and trustees. U.S. GAAP requires cooperatives to recognize the estimated future cost of providing healthcare and any other postretirement benefits on an accrual basis.

The Corporation implemented a cap on annual employer contributions for retiree healthcare coverage in 2013. The effect of the amendment will be recognized over the average service life of participants beginning the year ended December 31, 2017.

**(8) Retiree Benefits (Continued)*****Postretirement Healthcare Benefits (Continued)***

The status of the Corporation's postretirement healthcare plan as of December 31 is detailed as follows:

	<u>2017</u>	<u>2016</u>
Accumulated Benefit Obligation, Beginning of Year	\$ 10,048,500	\$ 10,000,000
Service Cost	295,700	302,600
Interest Cost	344,200	341,300
Participant Contributions	191,379	146,638
Actuarial Gain	(245,921)	(190,722)
Benefits Paid	(684,458)	(551,316)
	<hr/>	<hr/>
Accumulated Benefit Obligation, End of Year	9,949,400	10,048,500
	<hr/>	<hr/>
Fair Value of Plan Assets, Beginning of Year	17,976,289	16,622,400
Actual Return on Plan Assets	3,163,506	1,353,889
Employer Contributions	493,079	404,678
Participant Contributions	191,379	146,638
Benefits Paid	(684,458)	(551,316)
	<hr/>	<hr/>
Fair Value of Plan Assets, End of Year	21,139,795	17,976,289
	<hr/>	<hr/>
Funded Status	\$ (11,190,395)	\$ (7,927,789)
	<hr/> <hr/>	<hr/> <hr/>
Net Periodic Postretirement Benefit Cost:		
Service Cost	\$ 295,700	\$ 302,600
Interest Cost	344,200	341,300
Actual Return on Plan Assets	(3,163,506)	(1,353,889)
Amortization of Plan Amendments	(627,600)	(114,000)
Amortization of Actuarial Gain	(245,921)	(190,722)
	<hr/>	<hr/>
	\$ (3,397,127)	\$ (1,014,711)
	<hr/> <hr/>	<hr/> <hr/>
Amounts recognized as a component of equity consisted of:		
Plan Amendment Recognized as a Component of Equity Not Yet Recognized as Periodic Benefit Cost	\$ 3,441,900	\$ 4,069,500
	<hr/> <hr/>	<hr/> <hr/>

The Corporation's accumulated postretirement benefit obligation and net postretirement benefit cost are calculated using various actuarial assumptions and methodologies. The assumptions include discount rates, healthcare trend rates, mortality rates and other factors. Actuarial assumptions are reviewed on an annual basis.

## (8) Retiree Benefits (Continued)

### Postretirement Healthcare Benefits (Continued)

The following table shows key assumptions used for the measurement of obligations for the plan as of December 31.

<b>Description</b>	<b>2017</b>	2016	2015
Discount Rate	<b>3.65%</b>	3.65%	3.65%
Expected Long-Term Rate of Return on Plan Assets	<b>6.60%</b>	6.60%	7.00%
Medical Trend Rate			
Initial	<b>7.50%/6.15%</b>	7.50%	8.50%
Ultimate	<b>5.00%/5.00%</b>	5.00%	5.00%
Fiscal Year Reached	<b>2027/2024</b>	2022	2022

The Corporation expects to amortize \$370,800 of prior service cost from accumulated other comprehensive income in the following period.

The following benefits are expected to be paid:

<b>Year</b>	<b>Amount</b>
2018	\$ 524,000
2019	548,800
2020	508,500
2021	557,600
2022	527,800
2023-2027	2,627,000

The following table sets forth the weighted-average asset allocations of the Corporation's postretirement healthcare benefits at December 31, 2017 and 2016 by asset category.

<b>Year</b>	<b>Bonds</b>	<b>Equities</b>	<b>Total</b>
<b>2017</b>	<b>23.02%</b>	<b>76.98%</b>	<b>100.00%</b>
2016	26.63%	73.37%	100.00%

The Corporation employs a total-return investment approach whereby a mix of equities and fixed income investments is used to maximize the long-term return of plan assets for a prudent level of risk. The current asset allocation adheres to the Corporation's overall investment strategy for plan assets. Plan assets are measured at fair value (See Note 12).

The Corporation expects to make \$524,000 in voluntary contributions to its postretirement healthcare plan in 2018.

## (9) Commitments

The Corporation is committed to purchase all electric energy requirements from Central Electric Power Cooperative, Inc. (Central), as have other members of the organization in accordance with the wholesale power contract expiring in 2058. Under the contract, the cost of wholesale power purchases through Central may increase or decrease based upon rates established by the board of trustees of Central.

Central is continuing negotiations for acquisition of additional electric generating capacity and transmission facilities for the purpose, among others, of supplying electric power and energy to members of the organization. Such benefits or detriments, if any, arising from participation in proposed joint projects with wholesale power suppliers will be passed to the members of Central.

## (10) Concentrations of Credit Risk

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash and cash equivalents and consumer accounts receivable. The Corporation maintains its cash balances in financial institutions; cash balances throughout the year periodically exceed federally insured deposit limits of \$250,000. At December 31, 2017, the amount exceeding insured limits totaled \$8,248,167.

The Corporation serves consumers in the state of South Carolina. The geographic concentration of the Corporation's consumers results in a concentration of credit risk with respect to the collection of accounts receivable. Credit evaluations are performed on most potential customers before accepting them for service. Depending upon the results of the credit evaluation, a deposit may be required.

## (11) Accumulated Other Comprehensive Income

The following table summarizes the components of accumulated other comprehensive income and the changes in accumulated other comprehensive income for the years ended December 31 related to postretirement healthcare benefits:

	<u>2017</u>	<u>2016</u>
Beginning Balance	\$ 4,069,500	\$ 4,183,500
Actuarial Gain	245,921	190,722
Amortization of Actuarial Gain	(245,921)	(190,722)
Amortization of Prior Service Cost	(627,600)	(114,000)
	<u>\$ 3,441,900</u>	<u>\$ 4,069,500</u>

## (12) Fair Value Measurement

### *Fair Value Hierarchy*

The Corporation records certain financial and nonfinancial assets using fair value measurements. The Corporation uses a hierarchical disclosure framework that prioritizes the level of market price observability to measure investments at fair value.

The guidance establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.
- Level 2. Valuations based on quoted market prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.
- Level 3. Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

<u>Description</u>	<u>Level</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Postretirement Benefit Plan Assets	(1)		
Short-Term Bond Fund		\$ 4,866,059	\$ 4,786,963
Stock Index Fund		3,008,100	2,482,681
Value Fund		4,702,407	3,849,141
Small-Company Stock Fund		3,407,878	3,042,901
Growth Fund		3,861,508	2,804,705
International Value Fund		1,293,843	1,009,898
		<u>\$ 21,139,795</u>	<u>\$ 17,976,289</u>

McNAIR, McLEMORE, MIDDLEBROOKS & Co., LLC

CERTIFIED PUBLIC ACCOUNTANTS

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February 12, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE**

The Board of Trustees  
Mid-Carolina Electric Cooperative, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of **Mid-Carolina Electric Cooperative, Inc.** (the Corporation) as of December 31, 2017 and the related statements of revenue and comprehensive income, changes in members' equity and cash flows for the year then ended, and have issued our report thereon dated February 12, 2018.

In connection with our audit, nothing came to our attention that caused us to believe that the Corporation failed to comply with the terms, covenants, provisions or conditions of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Corporation's noncompliance with the above-referenced terms, covenants, provisions or conditions insofar as they relate to accounting matters.

This report is intended solely for the information and use of the board of trustees and management of Mid-Carolina Electric Cooperative, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

*McNair, McLemore, Middlebrooks & Co., LLC*

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February 12, 2018

**MANAGEMENT LETTER**

The Board of Trustees  
Mid-Carolina Electric Cooperative, Inc.

We have audited the financial statements of **Mid-Carolina Electric Cooperative, Inc.** (the Corporation) for the year ended December 31, 2017 and have issued our report thereon dated February 12, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the Corporation as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given those 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.

Auditing standards require that certain matters related to the conduct of the audit are communicated to those who have responsibility for oversight of the financial reporting process. In accordance with these requirements, refer to Exhibit A - Matters to be Communicated with the Board of Trustees.

This report is intended solely for the information and use of the board of trustees, management and others within the Corporation and is not intended to be and should not be used by anyone other than these specified parties.

*McNair, McLemore, Middlebrooks & Co., LLC*

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

**MID-CAROLINA ELECTRIC COOPERATIVE, INC.  
MATTERS TO BE COMMUNICATED WITH THE BOARD OF TRUSTEES  
DECEMBER 31, 2017**

**Auditor's Responsibility Under Generally Accepted Auditing Standards**

As stated in our engagement letter, the auditor is responsible for forming and expressing an opinion about whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles in the United States of America. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

**Planned Scope and Timing of the Audit**

The audit was performed according to the planned scope and timing previously communicated to you in our engagement letter.

**Significant Accounting Policies**

Management is responsible for the selection of appropriate accounting policies. The significant accounting policies used by Mid-Carolina Electric Cooperative, Inc. are outlined in Note 1 to the financial statements. No new accounting policies were adapted and the application of existing policies was not changed during the year ended December 31, 2017. We noted no transaction entered into by the Corporation during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a period other than when the transaction occurred.

**Management Judgments and Accounting Estimates**

Accounting estimates are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimates may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Allocations for construction work in progress
- Useful lives of utility plant
- Reserve for uncollectible accounts
- Expense accruals
- Actuarial assumptions of employee benefit plans

We evaluated the key factors and assumptions used to develop management's estimates in determining that they are reasonable in relation to the financial statements as a whole.

## **Significant Audit Adjustments and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no audit adjustments for the year ended December 31, 2017. There were no significant uncorrected misstatements, material or immaterial.

## **Disagreements with Management**

Professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

## **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated February 12, 2018.

## **Consultation with Other Accountants**

To our knowledge, management did not consult with other accountants relating to auditing or accounting matters.

## **Major Issues Discussed with Management Prior to Retention**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## **Difficulties Encountered in Performing the Audit**

There were no difficulties encountered in dealing with management related to the performance of the audit.

## **Restriction of Use**

This report is intended solely for the information and use of the board of trustees and management and is not intended to be and should not be used by anyone other than these specified parties.