# Financial Statements

East Kentucky Power Cooperative, Inc.
Years Ended December 31, 2020 and 2019
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

East Kentucky Power Cooperative, Inc.

Financial Statements

Years Ended December 31, 2020 and 2019

## Contents

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# Report of Independent Auditors

The Board of Directors
East Kentucky Power Cooperative, Inc.

## Report on the Financial Statements

We have audited the accompanying financial statements of East Kentucky Power Cooperative, Inc., which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of revenue and expenses and comprehensive margin, changes in members' equities, and cash flows for the years then ended, and the related notes and schedules 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 conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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 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 of 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.

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*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Kentucky Power Cooperative, Inc. at December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we also have issued our report dated March 29, 2021 on our consideration of East Kentucky Power Cooperatives, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of East Kentucky Power Cooperative, Inc.'s 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 East Kentucky Power Cooperative, Inc.'s internal control over financial reporting and compliance.

Ernst & Young LLP

March 29, 2021

# East Kentucky Power Cooperative, Inc.

## Balance Sheets
*(Dollars in Thousands)*

| | December 31 | |
|---|---|---|
| | **2020** | **2019** |
| **Assets** | | |
| Electric plant: | | |
| In-service | **$ 4,434,568** | $ 4,181,966 |
| Construction-in-progress | **192,838** | 247,393 |
| | **4,627,406** | 4,429,359 |
| Less accumulated depreciation | **1,641,065** | 1,558,960 |
| Electric plant – net | **2,986,341** | 2,870,399 |
| Long-term accounts receivable | **227** | 1,535 |
| Restricted investments | **1,103** | 190,409 |
| Investment securities: | | |
| Available-for-sale | **38,866** | 38,311 |
| Held-to-maturity | **7,374** | 8,125 |
| Current assets: | | |
| Cash and cash equivalents | **126,011** | 132,525 |
| Restricted investment | **705** | 160,288 |
| Accounts receivable | **88,516** | 85,260 |
| Fuel | **47,191** | 67,432 |
| Materials and supplies | **77,695** | 63,733 |
| Regulatory assets | **1,424** | – |
| Other current assets | **7,926** | 13,464 |
| Total current assets | **349,468** | 522,702 |
| Regulatory assets | **113,946** | 134,897 |
| Deferred charges | **2,832** | 2,628 |
| Other noncurrent assets | **9,215** | 7,375 |
| Total assets | **$ 3,509,372** | $ 3,776,381 |
| **Members' equities and liabilities** | | |
| Members' equities: | | |
| Memberships | **$ 2** | $ 2 |
| Patronage and donated capital | **716,836** | 694,098 |
| Accumulated other comprehensive margin | **27,453** | 21,272 |
| Total members' equities | **744,291** | 715,372 |
| Long-term debt | **2,468,038** | 2,711,300 |
| Current liabilities: | | |
| Current portion of long-term debt | **85,337** | 93,599 |
| Accounts payable | **83,915** | 116,121 |
| Accrued expenses | **22,285** | 20,177 |
| Regulatory liabilities | **2,389** | 3,774 |
| Total current liabilities | **193,926** | 233,671 |
| Accrued postretirement benefit cost | **49,086** | 55,375 |
| Asset retirement obligations and other liabilities | **54,031** | 60,663 |
| Total members' equities and liabilities | **$ 3,509,372** | $ 3,776,381 |

*See notes to financial statements.*

# East Kentucky Power Cooperative, Inc.

## Statements of Revenue and Expenses and Comprehensive Margin

*(Dollars in Thousands)*

| | Year Ended December 31 | |
|---|---|---|
| | **2020** | **2019** |
| Operating revenue | **$ 787,672** | $ 860,123 |
| Operating expenses: | | |
| Production: | | |
| Fuel | **172,254** | 162,719 |
| Other | **159,905** | 165,198 |
| Purchased power | **109,232** | 176,633 |
| Transmission and distribution | **53,190** | 46,837 |
| Regional market operations | **4,672** | 4,747 |
| Depreciation and amortization | **126,287** | 121,656 |
| General and administrative | **45,281** | 48,912 |
| Total operating expenses | **670,821** | 726,702 |
| Operating margin before fixed charges and other expenses | **116,851** | 133,421 |
| Fixed charges and other: | | |
| Interest expense on long-term debt | **100,922** | 112,362 |
| Amortization of debt expense | **683** | 675 |
| Accretion and other | **538** | (918) |
| Total fixed charges and other expenses | **102,143** | 112,119 |
| Operating margin | **14,708** | 21,302 |
| Nonoperating margin: | | |
| Interest income | **12,735** | 25,454 |
| Patronage capital allocations from other cooperatives | **692** | 635 |
| Other | **557** | (3,187) |
| Total nonoperating margin | **13,984** | 22,902 |
| Net margin | **28,692** | 44,204 |
| Other comprehensive margin: | | |
| Unrealized gain (loss) on available-for-sale securities | **(64)** | 106 |
| Postretirement benefit obligation gain | **6,245** | 9,086 |
| | **6,181** | 9,192 |
| Comprehensive margin | **$ 34,873** | $ 53,396 |

*See notes to financial statements.*

# East Kentucky Power Cooperative, Inc.

## Statements of Changes in Members' Equities
*(Dollars in Thousands)*

| | Memberships | Patronage Capital | Donated Capital | Accumulated Other Comprehensive Margin | Total Members' Equities |
|---|---|---|---|---|---|
| Balance – December 31, 2018 | $ 2 | $ 648,673 | $ 3,035 | $ 12,080 | $ 663,790 |
| Net margin | – | 44,204 | – | – | 44,204 |
| Retirement of patronage capital | – | (1,814) | – | – | (1,814) |
| Unrealized gain on available for sale securities | – | – | – | 106 | 106 |
| Postretirement benefit obligation gain | – | – | – | 9,086 | 9,086 |
| Balance – December 31, 2019 | 2 | 691,063 | 3,035 | 21,272 | 715,372 |
| Net margin | **–** | **28,692** | **–** | **–** | **28,692** |
| Retirement of patronage capital | **–** | **(5,954)** | **–** | **–** | **(5,954)** |
| Unrealized loss on available for sale securities | **–** | **–** | **–** | **(64)** | **(64)** |
| Postretirement benefit obligation gain | **–** | **–** | **–** | **6,245** | **6,245** |
| Balance – December 31, 2020 | **$ 2** | **$ 713,801** | **$ 3,035** | **$ 27,453** | **$ 744,291** |

*See notes to financial statements.*

# East Kentucky Power Cooperative, Inc.

## Statements of Cash Flows
*(Dollars in Thousands)*

| | Year Ended December 31 | |
|---|---|---|
| | **2020** | **2019** |
| **Operating activities** | | |
| Net margin | **$ 28,692** | $ 44,204 |
| Adjustments to reconcile net margin to net cash provided by operating activities: | | |
| Depreciation and amortization | **126,287** | 121,656 |
| Amortization of debt issuance costs | **1,248** | 1,272 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | **(3,256)** | 2,898 |
| Fuel | **20,241** | (18,679) |
| Materials and supplies | **(7,891)** | 1,136 |
| Regulatory assets/liabilities | **(2,985)** | (1,105) |
| Accounts payable | **(23,902)** | 12,507 |
| Accrued expenses | **2,108** | 5,537 |
| Accrued postretirement benefit cost | **(44)** | 1,573 |
| Other | **5,426** | (8,055) |
| Net cash provided by operating activities | **145,924** | 162,944 |
| **Investing activities** | | |
| Additions to electric plant | **(244,427)** | (202,608) |
| Maturities of debt service reserve securities | **4,400** | 4,349 |
| Purchases of debt service reserve securities | **(4,400)** | (4,366) |
| Maturities of available-for-sale securities | **58,256** | 39,953 |
| Purchases of available-for-securities | **(58,874)** | (38,072) |
| Maturities of held-to-maturity securities | **751** | 86 |
| Additional deposits with RUS restricted investment | **(11,339)** | (21,311) |
| Maturities of RUS restricted investment | **360,228** | 177,372 |
| Other | **864** | 831 |
| Net cash provided by (used in) investing activities | **105,459** | (43,766) |
| **Financing activities** | | |
| Proceeds from long-term debt | **271,592** | 391,883 |
| Principal payments on long-term debt | **(523,485)** | (504,945) |
| Retirement of patronage capital | **(5,954)** | (1,814) |
| Debt issuance costs | **–** | (1,412) |
| Payment of obligation under long-term lease | **(50)** | – |
| Net cash used in financing activities | **(257,897)** | (116,288) |
| Net change in cash, cash equivalents, and restricted cash | **(6,514)** | 2,890 |
| Cash, cash equivalents, and restricted cash – beginning of year | **132,525** | 129,635 |
| Cash and cash equivalents – end of year | **$ 126,011** | $ 132,525 |
| **Supplemental disclosure of cash flow** | | |
| Cash paid for interest | **$ 101,426** | $ 108,319 |
| Noncash investing transactions: | | |
| Additions to electric plant included in accounts payable | **$ 38,853** | $ 47,157 |
| Unrealized gain (loss) on available-for-sale securities | **$ (64)** | $ 106 |

*See notes to financial statements.*

## 1. Summary of Significant Accounting Policies

### Nature of Operations

East Kentucky Power Cooperative (the Cooperative or EKPC) is a not-for-profit electric generation and transmission cooperative incorporated in 1941 that provides wholesale electric service to 16 distribution members with territories that include parts of 87 counties in Kentucky. The majority of customers served by members are residential. Each of the members has entered into a wholesale power agreement with the Cooperative, which remains in effect until 2051. The rates charged to members are regulated by the Kentucky Public Service Commission (PSC or Commission).

The Cooperative owns and operates two coal-fired generation plants, twelve combustion turbines, six landfill gas plants, and a solar farm. In addition, the Cooperative has rights to 170 megawatts of hydroelectric power from the Southeastern Power Administration. One simple cycle natural gas unit was designated to serve a capacity purchase and tolling agreement through April 30, 2019. The capacity and energy from one landfill gas plant is designated to serve a member system through a ten-year purchase power agreement. A portion of the solar farm panels are licensed to customers of our members.

### Basis of Accounting

The financial statements are prepared in accordance with policies prescribed or permitted by the Commission and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform with accounting principles generally accepted in the United States of America (GAAP) in all material respects. As a rate-regulated entity, the Cooperative's financial statements reflect actions of regulators that result in the recording of revenues and expenses in different time periods than enterprises that are not rate regulated in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 980, *Regulated Operations.*

### Use of Estimates

The preparation of financial statements in conformity with 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.

## 1. Summary of Significant Accounting Policies (continued)

### Electric Plant in Service

Electric plant is stated at original cost, which is the cost of the plant when first dedicated to public service by the initial owner, plus the cost of all subsequent additions. The cost of assets constructed by the Cooperative includes material, labor, contractor and overhead costs.

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 replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

### Depreciation and Amortization

Depreciation for the generating plants and transmission facilities is provided on the basis of estimated useful lives at straight-line composite rates. Rates applied to electric plant in service for both 2020 and 2019 are:

| | |
|---|---|
| Transmission and distribution plant | 0.71%–3.42% |
| General plant | 2.0%–20.00% |

The production plant assets are depreciated on a straight-line basis from the date of acquisition to the end of life of the respective plant, which ranged from 2030 to 2051 in 2020 and 2019.

Depreciation and amortization expense was $126.3 million and $121.7 million for 2020 and 2019, respectively. Depreciation and amortization expense includes amortization expense of $12.0 million in 2020 and $12.2 million in 2019 related to plant abandonments granted regulatory asset treatment (Note 5).

The Cooperative received PSC approval to charge depreciation associated with asset retirement obligations to regulatory assets. These regulatory assets are charged to depreciation expense as recovery occurs. Depreciation charged to regulatory assets was $5.2 million and $5.8 million in 2020 and 2019, respectively.

## 1. Summary of Significant Accounting Policies (continued)

### Asset Impairment

Long-lived assets held and used by the Cooperative are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Specifically, the evaluation for impairment involves comparison of an asset's carrying value to the estimated undiscounted cash flows the asset is expected to generate over its remaining life. If this evaluation were to conclude that the carrying value of the asset is impaired, an impairment charge would be recorded as a charge to operations based on the difference between the asset's carrying amount and its fair value. No impairment was recognized for long-lived assets during the years ended December 31, 2020 or 2019.

### Restricted Investments

Restricted investments represent funds restricted by contractual stipulations or other legal requirements. Funds designated for the repayment of debt within one year are shown as current assets on the balance sheets. All other restricted investments are shown as noncurrent on the balance sheets. Restricted investment activity is classified as investing activities on the statements of cash flows.

The Cooperative participates in the cushion of credit program administered by the RUS, which prior to the passage of the Agriculture Improvement Act of 2018 ("the Farm Bill") on December 20, 2018, enabled RUS borrowers to make voluntary irrevocable deposits into a special account that earned 5% interest per year. The balance (deposits and earned interest) could only be used to repay scheduled principal and interest payments on loans made or guaranteed by the RUS. The Farm Bill made modifications to the program which prohibited new deposits to the cushion of credit and enabled balance holders to also use existing cushion of credit funds to prepay RUS/FFB debt without a prepayment penalty through September 30, 2020. The Cooperative utilized this provision to pay off higher interest loans totaling $320.1 million on September 9, 2020, and $177.3 million on July 2, 2019. Beginning October 1, 2020, cushion of credit account balances began earning 4% interest per year through September 30, 2021.

## 1. Summary of Significant Accounting Policies (continued)

Restricted investments at December 31, 2020 and 2019, consisted of the following (dollars in thousands):

| | 2020 | 2019 |
|---|---|---|
| Debt service reserve (Note 6) | **$ 1,103** | $ 1,103 |
| Noncurrent restricted investment – RUS cushion of credit | **–** | 189,306 |
| Restricted investments – noncurrent | **1,103** | 190,409 |
| Current restricted investment – RUS cushion of credit | **705** | 160,288 |
| Total restricted investments | **$ 1,808** | $ 350,697 |

### Cash, Cash Equivalents, and Restricted Cash

The Cooperative considers temporary investments having an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents at December 31, 2020 and 2019, consisted primarily of money market mutual funds and investments in commercial paper.

Restricted cash represented funds pledged as collateral with a third party in conjunction with a capacity purchase and tolling agreement that ended on April 30, 2019. The remaining collateral was refunded to the Cooperative in May 2019. Accordingly, the Cooperative had no restricted cash balances at December 31, 2020 and 2019.

### Investment Securities

Investment securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investment securities are classified as available-for-sale when they might be sold before maturity. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported in other comprehensive margin on the statements of revenue and expenses and comprehensive margin.

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Investment securities are written down to fair value when a decline in fair value is other-than-temporary.

**1. Summary of Significant Accounting Policies (continued)**

**Fair Value of Financial Instruments**

The carrying amount of cash, receivables and certain other current liabilities approximates fair value due to the short maturity of the instruments.

The Cooperative uses fair value to measure certain financial instruments. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Observable inputs or unobservable inputs, defined by ASC Topic 820*, Fair Value Measurements and Disclosures*, may be used in the calculation of fair value. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below:

- *Level 1* – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- *Level 2* – Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;
- *Level 3* – Prices or valuations that require inputs that are both significant to the fair value measure and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The inputs used to measure cash equivalents are Level 1 measurements, as the money market funds are exchange traded funds in an active market. The inputs used to measure the available-for-sale and debt service reserve investments are Level 1 measurements, as the securities are based on quoted market prices for identical investments or securities. Included in the available-for-sale securities on the following table are securities held in connection with the directors' and certain employees' elective deferred compensation programs and the supplemental executive retirement plan covering certain executives of $4.5 million and $3.4 million at December 31, 2020 and 2019, respectively. These assets are included in other noncurrent assets on the balance sheets.

## 1. Summary of Significant Accounting Policies (continued)

Estimated fair values of the Cooperative's financial instruments as of December 31, 2020 and 2019, were as follows (dollars in thousands):

| | | Fair Value at Reporting Date Using | | |
|---|---|---|---|---|
| | **Fair Value December 31, 2020** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Cash equivalents | **$ 100,000** | **$ 100,000** | **$ –** | **$ –** |
| Available-for-sale securities | **43,357** | **43,357** | **–** | **–** |
| Debt service reserve | **1,103** | **1,103** | **–** | **–** |

| | | Fair Value at Reporting Date Using | | |
|---|---|---|---|---|
| | **Fair Value December 31, 2019** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Cash equivalents | $ 111,000 | $ 111,000 | $ – | $ – |
| Available-for-sale securities | 41,758 | 41,758 | – | – |
| Debt service reserve | 1,103 | 1,103 | – | – |

## 1. Summary of Significant Accounting Policies (continued)

The estimated fair values of the Cooperative's financial instruments carried at cost at December 31, 2020 and 2019, were as follows (dollars in thousands):

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | **Carrying Amount** | **Fair Value** |
| Held-to-maturity investments | **$ 7,374** | **$ 12,751** | $ 8,125 | $ 11,954 |
| Long-term debt | **2,553,375** | **2,999,806** | 2,804,899 | 3,139,309 |

The inputs used to measure held-to-maturity investment securities are considered Level 2 and are based on third-party yield rates of similarly maturing instruments determined by recent market activity. The fair value of long-term debt, including current maturities and prepayment costs, is calculated using published interest rates for debt with similar terms and remaining maturities and is a Level 2 fair value measurement.

### Concentration of Credit Risk

Credit risk represents the risk of loss that would occur if suppliers or customers did not meet their contractual obligations to EKPC. Concentration of credit risk occurs when significant suppliers or customers possess similar characteristics that would cause their ability to meet contractual obligations to be affected by the same events.

The Cooperative's sales are primarily to its member cooperatives and totaled approximately $752.8 million and $825.4 million for 2020 and 2019, respectively. Accounts receivable at December 31, 2020 and 2019, were primarily from billings to member cooperatives.

At December 31, 2020 and 2019, individual accounts receivable balances that exceeded 10% of total accounts receivable are as follows (dollars in thousands):

| | 2020 | 2019 |
|---|---|---|
| Owen Electric Cooperative | **$ 12,308** | $ 11,791 |
| South Kentucky RECC | **9,706** | 9,050 |
| Blue Grass Energy Cooperative | **9,211** | 9,145 |

## 1. Summary of Significant Accounting Policies (continued)

### Inventories

Inventories of fuel and materials and supplies are valued at the lower of average cost or net realizable value. Upon removal from inventory for use, the average cost method is used. Physical adjustments of fuel inventories are charged to expense over the subsequent six months and recovered or refunded, as required, through the fuel adjustment clause.

### Regulatory Assets and Liabilities

ASC Topic 980 applies to regulated entities for which rates are designed to recover the costs of providing service. In accordance with this topic, certain items that would normally be reflected in the statements of revenue and expenses are deferred on the balance sheets. Regulatory assets represent probable future revenues associated with certain incurred costs, which will be recovered from customers through the rate-making process. Regulatory assets are charged to earnings as collection of the cost in rates is recognized or when future recovery is no longer probable. Conversely, regulatory liabilities represent future reductions in revenues associated with amounts that are to be credited to customers through the rate-making process.

### Debt Issuance Costs

Debt issuance costs are presented as a direct deduction from long-term debt with the exception of those issuance costs associated with line-of-credit arrangements which are classified as a deferred charge asset on the balance sheet.

Debt issuance costs are amortized to interest expense over the life of the respective debt using the effective interest rate method or the straight-line method when results approximate the effective interest rate method.

## 1. Summary of Significant Accounting Policies (continued)

### Asset Retirement Obligations

ASC Topic 410, *Asset Retirement Obligations*, requires legal obligations associated with the retirement of long-lived assets to be recognized at fair value when incurred and capitalized as part of the related long-lived asset, including asset retirement obligations where an obligation exists even though the method or timing of settlement may be conditional. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. When the asset is retired, the entity settles the obligation for its recorded amount or incurs a gain or loss.

Fair value of each respective ARO, when incurred, is determined by discounting expected future cash outflows associated with required retirement activities using a credit adjusted risk-free rate. Cash outflows for retirement activities are based upon market information, historical information and management's estimates and would be considered Level 3 under the fair value hierarchy.

The Cooperative's asset retirement obligations (ARO) represent the requirements related to asbestos abatement and reclamation and capping of ash disposal sites at its coal-fired plants. Estimated cash flow revisions in 2020 and 2019 are primarily related to changes in the estimated cost to settle an ash disposal site to comply with the closure and post-closure requirements of the Coal Combustion Residuals (CCR) Rule. Settlement activities in 2020 are associated with the closure of an ash disposal site while settlement activities in 2019 related to the abatement of asbestos at Dale Station and capping of ash disposal sites.

The Cooperative continues to evaluate the useful lives of its plants and the costs of remediation required by law.

The following table represents the details of asset retirement obligation activity as reported on the accompanying Balance Sheets (dollars in thousands):

| | 2020 | 2019 |
|---|---|---|
| Balance – beginning of year | **$ 56,319** | $ 60,280 |
| Liabilities settled | **(170)** | (7,293) |
| Estimated cash flow revisions | **(8,950)** | 1,722 |
| Accretion | **1,652** | 1,610 |
| Balance – end of year | **$ 48,851** | $ 56,319 |

**1. Summary of Significant Accounting Policies (continued)**

As discussed in Note 5, the PSC granted regulatory asset treatment of accretion and depreciation associated with AROs on EKPC's books by type and location beginning in January 2014. These regulatory assets will be charged to accretion expense and depreciation expense as recovery of settlement costs occurs.

Accretion charged to regulatory assets in 2020 and 2019 was $1.7 million and $1.6 million, respectively. Accretion expense recognized in 2020 and 2019 was $0.5 million and $0.4 million, respectively, which represented the recovery of settlement costs associated with the Dale Station reclamation project and landfill capping activities at Cooper Station and Spurlock Station.

**Revenue Recognition**

Operating revenues are primarily derived from sales of electricity to members. These sales, which comprise approximately 96 percent of EKPC's operating revenues, are pursuant to identical long-term wholesale power contracts maintained with RUS and each of the Cooperative's 16 members that extend through December 31, 2050. The wholesale power contract obligates each member to pay EKPC for demand and energy furnished in accordance with rates established by the PSC. Energy and demand have the same pattern of transfer to members as one cannot be provided without the other. Therefore, these components of electric power sales to members are considered one performance obligation. Electricity revenues are recognized over time as energy is delivered based upon month-end meter readings and rates set forth in EKPC's tariffs, as approved by the PSC.

Non-member revenues are primarily comprised of PJM Interconnection, LLC (PJM) electric and capacity revenues, and other revenues. In the PJM market, electricity sales are separately identifiable from participation in the capacity market as the two can be transacted independently of one another. Therefore, PJM electric sales are considered a separate contract with a single performance obligation and revenue is recognized based upon the megawatt-hours delivered in each hour at the market price. Capacity revenues represent compensation received from PJM for making generation capacity available to satisfy system integrity and reliability requirements. Capacity is a stand-ready obligation to deliver energy when called upon and is considered a single performance obligation. Revenue is recognized over time based upon megawatts and the prices set by the PJM competitive auction for the delivery year.

## 1. Summary of Significant Accounting Policies (continued)

Other revenues primarily consist of transmission, wheeling, and leasing activities. Transmission and wheeling are related to contractual agreements with PJM and other electric utilities for transmitting electricity over EKPC's transmission lines. Each of these services are provided over time with progress measured using the output method. Lease revenue is related to power sales arrangements that are required to be accounted for as leases since the arrangement conveys the right to the output of specific plant facilities for a stated period of time. See Note 10.

The following represents operating revenues by revenue stream for the years ended December 31, 2020 and 2019 (dollars in thousands):

| | Year Ended December 31 2020 | 2019 |
|---|---|---|
| Member electric sales | **$ 752,792** | $ 825,410 |
| Non-member sales: | | |
| Electric | **18,340** | 19,580 |
| Capacity | **10,865** | 6,330 |
| Other | **5,675** | 8,803 |
| Total operating revenues | **$ 787,672** | $ 860,123 |

### Rate Matters

The base rates charged by the Cooperative to its members are regulated by the PSC. Any change in base rates requires that EKPC file an application with the PSC and interested parties may seek intervention in the proceeding if they satisfy certain regulatory requirements. EKPC's last base rate case was authorized by the PSC on January 14, 2011.

The PSC has adopted a uniform fuel adjustment clause for all electric utilities within its jurisdiction. Under this clause, fuel cost above or below a stated amount per kWh is charged or credited to the member cooperatives for all energy sales during the month following actual fuel costs being incurred and is included in member electric sales. The regulatory asset or liability represents the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

**1. Summary of Significant Accounting Policies (continued)**

The PSC has an environmental cost recovery mechanism that allows utilities to recover certain costs incurred in complying with the Federal Clean Air Act as amended and those federal, state, and local environmental requirements which apply to coal combustion wastes and byproducts from facilities utilized for the production of energy from coal. This environmental surcharge is billed on a percentage of revenue basis, one month following the actual costs incurred and is included in member electric sales. The regulatory asset or liability represents the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

**Members' Equities**

Memberships represent contributions to the Cooperative made by members. Should the Cooperative cease business, these amounts, if available, will be returned to the members.

Patronage capital represents net margin allocated to the Cooperative's members on a contribution-to-gross margin basis pursuant to the provisions of its bylaws. The Cooperative's bylaws permit the Board of Directors to retire capital contributed by or allocated to members when, after any proposed retirement, the total capital of the Cooperative equals or exceeds 20% of total assets, as defined by RUS. In addition, provisions of certain financing documents prohibit the retirement of capital until stipulated requirements related to aggregate margins and equities are met.

The Cooperative's Board of Directors authorized the retirement of patronage capital in 2020 and 2019 in the amounts of $6.0 million and $1.8 million, respectively, which represented all unpaid margin allocations assigned to members through 1975.

## 1. Summary of Significant Accounting Policies (continued)

### Comprehensive Margin

Comprehensive margin includes both net margin and other comprehensive margin. Other comprehensive margin represents the change in unrealized gains and losses on available-for-sale securities, as well as the change in the funded status of the accumulated postretirement benefit obligation. The Cooperative presents each item of other comprehensive margin on a net basis in the Statements of Revenue and Expenses and Comprehensive Margin. Reclassification adjustments are disclosed in Note 8. For any item required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period, the affected line item(s) on the Statements of Revenue and Expenses and Comprehensive Margin are provided.

### Income Taxes

The Cooperative is exempt under Section 501(c)(12) of the Internal Revenue Code from federal income tax for any year in which at least 85% of its gross income is derived from members but is responsible for income taxes on certain unrelated business income. ASC Topic 740, Income Taxes, clarifies the accounting for uncertainty in income taxes recognized in the financial statements. This interpretation requires financial statement recognition of the impact of a tax position if a position is more likely than not of being sustained on audit, based on the technical merits of the position. Additionally, ASC Topic 740 provides guidance on measurement, recognition, classification, accounting in interim periods, and disclosure requirements for uncertain tax positions. The Cooperative has determined that more than 85% of its gross income is derived from members and it meets the exemption status under the Section 501(c)(12).

### Regional Transmission Organization

The Cooperative is a transmission-owning member of PJM and functional control of certain transmission facilities is maintained by PJM. Open access to the EKPC transmission system is managed by PJM pursuant to the FERC approved PJM Open Access Transmission Tariff and the Cooperative is an active participant in PJM’s Regional Transmission Planning process, which develops a single approved transmission plan for the entire PJM footprint. Energy related purchases and sales transactions within PJM are recorded on an hourly basis with all transactions within each market netted to a single purchase or sale for each hour.

## 1. Summary of Significant Accounting Policies (continued)

### Power Sales Arrangements

The Cooperative is the lessor under power sales arrangements that are required to be accounted for as operating leases due to the terms of the agreements. The details of those agreements are discussed in Note 10. The revenues from these arrangements are included in operating revenues on the Statements of Revenue and Expenses and Comprehensive Margin.

### New Accounting Guidance

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases (Topic 842)*, or ASU 2016-02. The core principle of this revised accounting guidance requires that lessees recognize all leases (other than leases with a term of twelve months or less) on the balance sheet as lease liabilities, based upon the present value of the lease payments, with corresponding right of use assets. ASU 2016-02 also makes targeted changes to other aspects of the current guidance, including the lease classification criteria and the lessor accounting model. The amendments in ASU 2016-02 will be effective for the Cooperative beginning in 2022. The Company is currently assessing the impact of adopting this guidance.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, a new standard to replace the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The standard is effective for the Company on January 1, 2023, and early adoption is permitted. The Company is currently evaluating the impact the new standard will have on its financial statements.

**2. Electric Plant in Service**

Electric plant in service at December 31, 2020 and 2019, consisted of the following (dollars in thousands):

| | 2020 | 2019 |
|---|---|---|
| Production plant | **$ 3,124,742** | $ 3,082,196 |
| Transmission plant | **879,338** | 847,023 |
| General plant | **137,589** | 137,387 |
| Completed construction, not classified, and other | **292,899** | 115,360 |
| Electric plant in service | **$ 4,434,568** | $ 4,181,966 |

Acquisition adjustments of $4 million were included in electric plant in service at December 31, 2020 and 2019. Acquisition adjustments represent the difference between the net book value of the original owner and the fair value of the assets at the date of acquisition.

**3. Long-Term Accounts Receivable**

Long-term accounts receivable includes interest-bearing notes to certain member systems for the buyout of EKPC's joint ownership of their propane companies. The member systems make monthly principal and interest (prime rate minus one-half of one percent, adjusted annually) payments. The notes are payable in full in 2025. Additionally, in 2018, EKPC entered into an agreement with an industrial customer that utilizes steam from Spurlock Station in its manufacturing processes to make certain repairs to the steam system. The amount is being reimbursed to the Cooperative over 41 months at an interest rate of 4.5%.

## 4. Investment Securities

Cost and estimated fair value of available-for-sale investment securities at December 31, 2020 and 2019, were as follows (dollars in thousands):

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **2020** | | | | |
| U.S. Treasury bill/note | **$ 38,465** | **$ 1** | **$ –** | **$ 38,466** |
| Zero coupon securities | **400** | **–** | **–** | **400** |
| | **$ 38,865** | **$ 1** | **$ –** | **$ 38,866** |

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **2019** | | | | |
| U.S. Treasury bill/note | $ 20,551 | $ 29 | $ – | $ 20,580 |
| Zero coupon securities | 17,695 | 36 | – | 17,731 |
| | $ 38,246 | $ 65 | $ – | $ 38,311 |

Proceeds from maturities of securities were $58.3 million and $40.0 million in 2020 and 2019, respectively.

## 4. Investment Securities (continued)

Amortized cost and estimated fair value of held-to-maturity investment securities at December 31, 2020 and 2019, are as follows (dollars in thousands):

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **2020** | | | | |
| National Rural Utilities Cooperative Finance Corporation: | | | | |
| 5% capital term certificates | **$ 6,998** | **$ 5,353** | **$ –** | **$ 12,351** |
| 6.59% subordinated term certificate | **135** | **26** | **–** | **161** |
| 0% subordinated term certificate | **241** | **–** | **(2)** | **239** |
| | **$ 7,374** | **$ 5,379** | **$ (2)** | **$ 12,751** |

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **2019** | | | | |
| National Rural Utilities Cooperative Finance Corporation: | | | | |
| 3%–5% capital term certificates | $ 7,656 | $ 3,806 | $ – | $ 11,462 |
| 6.59% subordinated term certificate | 165 | 32 | – | 197 |
| 0% subordinated term certificate | 304 | – | (9) | 295 |
| | $ 8,125 | $ 3,838 | $ (9) | $ 11,954 |

## 4. Investment Securities (continued)

The amortized cost and fair value of securities at December 31, 2020, by contractual maturity, are shown below (dollars in thousands). Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Amortized Cost | Fair Value |
|---|---|---|
| Available-for-sale: | | |
| Due in one year or less | $ 38,865 | $ 38,866 |
| | $ 38,865 | $ 38,866 |
| Held-to-maturity: | | |
| Due after one year through five years | $ 376 | $ 400 |
| Due after ten years | 6,998 | 12,351 |
| | $ 7,374 | $ 12,751 |

## 5. Regulatory Assets and Liabilities

The PSC authorized the establishment of a regulatory asset at December 31, 2010, for the costs incurred on the cancelled construction of the Smith Unit 1 coal-fired plant. Effective January 1, 2017, the PSC approved a Stipulation and Recommendation Agreement between EKPC and intervenors which enabled EKPC to begin amortizing the regulatory asset balance, net of estimated mitigation and salvage efforts, over a period of ten years. PJM capacity market revenues through delivery year 2019 will be used to offset the expense until EKPC's next base rate case. The amortization associated with the remaining balance of the regulatory asset will be included for recovery in EKPC's next general base rate case. In 2019, EKPC began focused mitigation and salvage efforts which resulted in the utilization of compatible components from Smith Unit 1 valued at $20.6 million at Spurlock Station and selling parts for salvage totaling $2.0 million. In 2020, additional parts from Smith Unit 1 valued at approximately $12.0 million, were designated for future use at Spurlock Station. The balance of the regulatory asset at December 31, 2020, was $64.8 million.

**5. Regulatory Assets and Liabilities (continued)**

The PSC has authorized EKPC to recognize depreciation and accretion expenses related to its asbestos abatement and ash disposal AROs as regulatory assets. The associated regulatory assets are expensed as recovery occurs. In separate proceedings, the PSC authorized recovery of the costs incurred to settle the majority of EKPC's ash disposal AROs through the environmental surcharge mechanism. While the Cooperative has not yet requested recovery of the other ARO related regulatory assets, management believes it is probable that the PSC will allow the Cooperative to recover the full amount through rates or other mechanisms.

The PSC authorized the Cooperative to establish two regulatory assets for the abandonment of Dale Station at December 31, 2015, representing its net book value of $3.2 million. One regulatory asset was established in the amount of $2.4 million with a forty-two month amortization, which ended on June 30, 2019. A separate regulatory asset of $0.8 million, which represents the balance of capital projects remaining to be recovered in the environmental surcharge at December 31, 2015, will be considered for recovery during EKPC's next rate case.

The RUS authorized the Cooperative to establish a $7.2 million regulatory asset at December 31, 2019, for the costs related to major maintenance and the replacement of minor components of property incurred at Spurlock Station in 2019 and to amortize the balance over eight years. Management believes it is probable that the PSC will authorize recovery of the remaining balance in the Cooperative's next rate case.

Regulatory assets (liabilities) were comprised of the following as of December 31, 2020 and 2019 (dollars in thousands):

| | 2020 | 2019 |
|---|---|---|
| Plant abandonment – Smith Unit 1 | **$ 64,797** | $ 88,847 |
| Plant abandonment – Dale Station | **750** | 750 |
| ARO-related depreciation and accretion expenses | **42,061** | 38,056 |
| Major maintenance projects – Spurlock Station | **6,338** | 7,244 |
| Fuel adjustment clause | **1,424** | – |
| | **$ 115,370** | $ 134,897 |
| | | |
| Environmental cost recovery | **$ (2,389)** | $ (1,033) |
| Fuel adjustment clause | **–** | (2,741) |
| | **$ (2,389)** | $ (3,774) |

## 6. Long-Term Debt

The Cooperative executed an Indenture of Mortgage, Security Agreement and Financing Statement, dated as of October 11, 2012 (Indenture) between the Cooperative, as Grantor, to U.S. Bank National Association, as Trustee. The Indenture provides first mortgage note holders and tax-exempt bond holders with a pro-rated interest in substantially all owned assets.

Long-term debt outstanding at December 31, 2020 and 2019, consisted of the following (dollars in thousands):

| | 2020 | 2019 |
|---|---|---|
| First mortgage notes: | | |
| 1.14%–4.80%, payable quarterly to Federal Financing Bank (FFB) in varying amounts through 2050, weighted average 3.55% | **$ 1,876,049** | $ 2,171,907 |
| First Mortgage Bonds, Series 2014A, fixed rate of 4.61%, payable semi-annual, matures February 6, 2044 | **174,000** | 179,000 |
| First Mortgage Bonds, Series 2019, fixed rate of 4.45%, payable semi-annual, matures April 19, 2049 | **145,000** | 150,000 |
| First Mortgage Promissory Note, fixed rate of 4.30%, payable semi-annual, matures April 30, 2049 | **96,667** | 100,000 |
| Tax-exempt bonds: | | |
| Solid Waste Disposal Revenue Bonds, Series 1993B, variable rate bonds, due August 15, 2023 0.50% and 1.40% at December 31, 2020 and 2019, respectively | **2,100** | 2,700 |
| Clean Renewable Energy Bonds, fixed rate of 0.40% payable quarterly to CFC to December 1, 2023 | **1,333** | 1,777 |
| New Clean Renewable Energy Bonds, fixed rate of 4.5% payable annually to CFC to January 31, 2047, reimbursed by IRS annually of up to 2.94% for a net rate of 1.56% | **17,074** | 17,397 |
| Promissory notes: | | |
| Variable rate notes payable to CFC, 1.10% at December 31, 2020 | **245,000** | 185,000 |
| 5.15%–5.50% fixed rate notes payable to National Cooperative Services Corporation, weighted average 5.27% | **4,239** | 5,575 |
| Total debt | **2,561,462** | 2,813,356 |
| Less debt issuance costs | **(8,087)** | (8,457) |
| Total debt adjusted for debt issuance costs | **2,553,375** | 2,804,899 |
| Less current maturities | **(85,337)** | (93,599) |
| Total long-term debt | **$ 2,468,038** | $ 2,711,300 |

## 6. Long-Term Debt (continued)

### First Mortgage Notes and Bonds

The Cooperative received loan funds in varying amounts through its first mortgage notes payable to the Federal Financing Bank and RUS. All such loans are subject to certain conditions outlined by RUS. Listed below are descriptions of those loan applications for which additional funds were advanced to the Cooperative during the year and the status of any remaining funds approved and available for advance at December 31, 2020. The amounts outstanding under these notes are $1.9 billion at December 31, 2020.

In May 2015, the Cooperative submitted to RUS a loan application in the amount of $90.6 million for various transmission projects. The loan documents were subsequently executed in January 2017 with a maturity date of December 31, 2049; $13.2 million was advanced in 2020. As of December 31, 2020, no funds of this loan remained available for advance.

In June 2015, the Cooperative submitted to RUS a loan application in the amount of $238.9 million for various generation projects. The loan was revised to $221.8 million and approved by RUS in September 2015. The loan documents were subsequently executed in January 2017 with a maturity date of December 31, 2049; $45.9 million was advanced in 2020. As of December 31, 2020, $46.3 million of the loan remained available for advance.

In September 2019, the Cooperative submitted to RUS a loan application in the amount of $153.0 million for various transmission projects. The loan documents were subsequently executed in March 2020 with a maturity date of December 31, 2050; $33.9 million was advanced in 2020. As of December 31, 2020, $119.1 million of the loan remained available for advance.

In September 2019, the Cooperative submitted to RUS a loan application in the amount of $347.0 million for various generation projects. The loan documents were subsequently executed in March 2020 with a maturity date of December 31, 2050; $3.7 million was advanced in 2020. As of December 31, 2020, $343.4 million of the loan remained available for advance.

On June 8, 2018, the Cooperative accepted a conditional offer from RUS to participate in their Federal Financing Bank (FFB) Pilot Refinancing Program. On December 21, 2018, the Cooperative entered into an agreement with RUS to refinance $62.4 million of existing higher interest advances, plus a $6.3 million make whole premium, at favorable current interest rates and extended the maturity date to January 3, 2051.

**6. Long-Term Debt (continued)**

On December 20, 2018, the Cooperative gave notice to RUS to pay off approximately $178 million in higher interest loans on or after January 2, 2019, from the Cushion of Credit, pursuant to the provisions of the 2018 Farm Bill. On July 2, 2019, these higher interest loans totaling $177.3 million were paid off using funds from the Cushion of Credit.

On July 14, 2020, the Cooperative gave notice to RUS to pay off approximately $320 million in higher interest loans on September 9, 2020, from the Cushion of Credit, pursuant to the provisions of the 2018 Farm Bill. On September 9, 2020, these higher interest loans totaling $320.1 million were paid off using funds from the Cushion of Credit.

On December 11, 2013, the Cooperative entered into a Bond Purchase Agreement for $200 million 4.61% First Mortgage Bonds, Series 2014A due February 2044. The transaction closed and funded on February 6, 2014. The debt is secured on equal footing with the Cooperative's other secured debt under the Indenture. The amount outstanding under these notes is $174.0 million at December 31, 2020.

On April 18, 2019, the Cooperative entered into a bond purchase agreement for $150 million at 4.45% First Mortgage Bonds, Series 2019 due to mature on April 19, 2049. The transaction closed and was funded on April 18, 2019. The debt is secured on equal footing with the Cooperative's other secured debt under the Indenture. The amount outstanding under these bonds is $145.0 million at December 31, 2020.

On April 19, 2019, the Cooperative signed a promissory note to CFC for $100 million at a fixed rate of 4.30% with a maturity date of April 30, 2049. The debt is secured and on equal footing with other secured debt. The balance on the loan was $96.7 million at December 31, 2020.

**Tax-Exempt Bonds**

The interest rate on the Series 1993B Solid Waste Disposal Revenue Bonds is subject to change semiannually. The interest rate adjustment period on the variable rate bonds may be converted to a weekly, semiannual, annual or three-year basis, or to a fixed-rate basis, at the option of the Cooperative. A CFC guarantee secures payment of the outstanding Series 1993B bonds and has an expiration date of August 15, 2023. The balance outstanding under these bonds is $2.1 million at December 31, 2020. The 1993B solid waste disposal revenue bonds require that debt service

**6. Long-Term Debt (continued)**

reserve funds be on deposit with a trustee throughout the term of the bonds in the amount of $1.1 million. In addition, mandatory sinking fund payments are required ranging from $0.6 million in 2020 to $0.7 million in 2023. Debt service reserve and construction funds are held by a trustee and are invested primarily in U.S. Government securities and CFC promissory notes. These funds are included in restricted investments on the accompanying Balance Sheets and have a fair value of approximately $1.1 million at December 31, 2020 and 2019.

In January 2008, EKPC was approved to receive up to $8.6 million to finance certain qualified renewable energy projects with Clean Renewable Energy Bonds. The loan was fully advanced in July 2009. The amount outstanding at December 31, 2020, is $1.3 million.

In September 2016, EKPC was authorized by the IRS to issue $19.8 million in New Clean Renewable Energy Bonds to finance a planned community solar facility. In February 2017, EKPC issued an $18 million note to CFC. The amount outstanding as of December 31, 2020, is $17.1 million.

**Promissory Notes**

On July 5, 2019, the Cooperative exercised its option to extend its existing $600 million unsecured credit facility with CFC as the lead arranger, for an additional year. The facility consists of a $500 million revolving tranche and a $100 million term loan tranche. This facility matures on July 4, 2023, and is to be utilized for general corporate purposes including capital construction projects. As of December 31, 2020, the Cooperative had outstanding borrowings of $245 million (including the $100 million unsecured term loan). As of December 31, 2020, the availability under the credit facility was $355 million.

In December 2010, the Cooperative entered into an unsecured loan agreement with the National Cooperative Services Corporation for $23.8 million to refinance indebtedness to RUS. As of December 31, 2020, the amount outstanding under these notes is $4.2 million.

**6. Long-Term Debt (continued)**

Estimated annual maturities of long-term debt adjusted for debt issuance costs for the five years subsequent to December 31, 2020, are as follows (dollars in thousands):

| | |
|---|---|
| Years ending December 31: | |
| 2021 | $ 85,337 |
| 2022 | 89,343 |
| 2023 | 91,757 |
| 2024 | 91,592 |
| 2025 | 103,474 |
| Thereafter | 2,091,872 |
| | $ 2,553,375 |

The Indenture and certain other debt agreements contain provisions which, among other restrictions, require the Cooperative to maintain certain financial ratios. The Cooperative was in compliance with these financial ratios at December 31, 2020 and 2019.

As of December 31, 2020, the Cooperative has $3.3 million outstanding in a letter of credit with the Commonwealth of Kentucky for Workers' Compensation.

As of December 31, 2020, the Cooperative has pledged securities of $19.5 million with the Commonwealth of Kentucky for landfill closure and post-closure care as required by permits and $0.2 million to the United States Department of Labor related to Workers' Compensation.

**7. Retirement Benefits**

**Pension Plan**

Pension benefits for employees hired prior to January 1, 2007, are provided through participation in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Plan (RS Plan). The plan is a defined benefit pension plan qualified under Section 401 and tax exempt under Section 501(a) of the Internal Revenue Code. It is considered a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

**7. Retirement Benefits (continued)**

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.

The Cooperative's contributions to the RS Plan in 2020 and 2019 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made annual contributions to the plan of $8.1 million and $7.9 million in 2020 and 2019, respectively.

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, 2020 and 2019, 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.

**Retirement Savings Plan**

The Cooperative offers 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. For employees hired prior to January 1, 2007, the Cooperative makes matching contributions to the account of each participant up to 2.0% of the participant's compensation. For employees hired on or after January 1, 2007, the Cooperative will automatically contribute 6.0% of base wages and match the employee contribution up to 4.0%. The Cooperative contributed approximately $4.4 million and $4.0 million to the plan for the years ended December 31, 2020 and 2019, respectively. Employees vest immediately in their contributions and the contributions of the Cooperative.

## 7. Retirement Benefits (continued)

### Supplemental Executive Retirement Plan

The Cooperative provides a 457(f) Supplemental Executive Retirement Plan to certain executives of the organization. The plan is considered a defined contribution plan whereby annual contributions are made based upon a percentage of base salary. Participants become 100% vested and the account balance paid out upon attaining age 62 or if separation occurs due to involuntary termination without cause, disability, or death. Separation for any other reason before age 62 will result in participants forfeiting their benefits.

### Supplemental Death Benefit Plan

The Cooperative provides a Supplemental Death Benefit Plan to all employees eligible to participate in the pension plan. The supplemental death benefit is payable to a deceased employee's beneficiary if the lump sum value of a 100% survivor benefit under the pension plan exceeds the pension plan benefits plus the Cooperative's group life insurance proceeds. Management believes that any liability related to this plan will not have a material effect on the financial statements.

### Postretirement Medical Benefits

The Cooperative sponsors a defined benefit plan that provides medical and life insurance coverage to retirees and their dependents. Participating retirees and dependents contribute 50% of the projected cost of coverage. For purposes of the liability estimates, the substantive plan is assumed to be the same as the written plan. The plan is not funded.

In accordance with Accounting Standards Update (ASU) 2017-07, *Compensation—Retirement Benefits (Topic 715)—Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,* the Cooperative includes the service cost component of net periodic benefit cost in operating expenses in the statements of revenue, expenses, and comprehensive margin. All other components of net periodic benefit cost are included in other non-operating margin (expense).

The following page sets forth the accumulated postretirement benefit obligation, the change in plan assets, and the components of accrued postretirement benefit cost and net periodic benefit cost as of December 31, 2020 and 2019 (dollars in thousands):

## 7. Retirement Benefits (continued)

| | 2020 | 2019 |
|---|---|---|
| Change in benefit obligation: | | |
| Accumulated postretirement benefit obligation – beginning of year | **$ 57,553** | $ 66,053 |
| Service cost | **1,131** | 1,163 |
| Interest cost | **1,948** | 2,869 |
| Participants' contributions | **1,411** | 1,542 |
| Plan amendment – prior service credit | **–** | (17,509) |
| Benefits paid | **(2,626)** | (4,237) |
| Actuarial loss (gain) | **(8,266)** | 7,672 |
| Accumulated postretirement benefit obligation – end of year | **$ 51,151** | $ 57,553 |
| | | |
| Change in plan assets: | | |
| Fair value of plan assets – beginning of year | **$ –** | $ – |
| Employer contributions | **1,215** | 2,695 |
| Participant contributions | **1,411** | 1,542 |
| Benefits paid | **(2,626)** | (4,237) |
| Fair value of plan assets – end of year | **–** | – |
| Funded status – end of year | **$ (51,151)** | $ (57,553) |
| | | |
| Amounts recognized in balance sheet consists of: | | |
| Current liabilities | **$ 2,065** | $ 2,178 |
| Noncurrent liabilities | **49,086** | 55,375 |
| Total amount recognized in balance sheet | **$ 51,151** | $ 57,553 |
| | | |
| Amounts included in accumulated other comprehensive margin: | | |
| Prior service credit | **$ 24,650** | $ 26,671 |
| Unrecognized actuarial gain (loss) | **2,802** | (5,464) |
| Total amount in accumulated other comprehensive margin | **$ 27,452** | $ 21,207 |
| | | |
| Net periodic benefit cost: | | |
| Service cost | **$ 1,131** | $ 1,163 |
| Interest cost | **1,948** | 2,869 |
| Amortization of net actuarial (gain) loss | **(2,021)** | (751) |
| Net periodic benefit cost | **$ 1,058** | $ 3,281 |
| | | |
| Amounts included in other comprehensive margin: | | |
| Prior service credit arising during the year | **$ –** | $ 17,509 |
| Net gain (loss) arising during the year | **8,266** | (7,672) |
| Amortization of net actuarial (gain) loss | **(2,021)** | (751) |
| Net gain recognized in other comprehensive margin | **$ 6,245** | $ 9,086 |
| | | |
| Amounts expected to be realized in next fiscal year: | | |
| Amortization of prior service credit | **$ 2,021** | $ 2,020 |
| Amortization of net gain | **–** | 407 |
| | **$ 2,021** | $ 2,427 |

**7. Retirement Benefits (continued)**

Effective January 1, 2020, the plan changed post-65 participant coverage to an insured Medicare Advantage product. This change resulted in a prior service credit of $17.5 million, which began amortizing in 2020 over 13.79 years.

The change in benefit obligation included a net actuarial gain of $8.3 million which was comprised of gains of $16.7 million primarily related to a reduction in the per capita cost assumption at age 65, and losses of $6.4 million and $2.0 million, due to changes in the discount rate and other census related data assumptions, respectively.

The discount rate used to determine the accumulated postretirement benefit obligation was 2.56% and 3.45% for 2020 and 2019, respectively.

The Cooperative expects to contribute approximately $2.1 million to the plan in 2021. The expected benefit payments from the plan, which reflect anticipated future service, are (dollars in thousands):

| | |
|---|---|
| Years ending December 31: | |
| 2021 | $ 2,065 |
| 2022 | 2,119 |
| 2023 | 2,158 |
| 2024 | 2,168 |
| 2025 | 2,064 |
| 2026–2030 | 10,486 |

For measurement purposes, a 5.8% annual rate of increase in the per capita cost of covered health care benefits was used for the year ended December 31, 2020. The rate is assumed to decline to 4.5% after 18 years.

## 8. Changes in Accumulated Other Comprehensive Margin by Component

The following table represents the details of accumulated other comprehensive margin activity by component (dollars in thousands):

| | Postretirement Benefit Obligation | Unrealized Gain (Loss) on Investments Available for Sale | Accumulated Other Comprehensive Margin |
|---|---|---|---|
| Balance – December 31, 2018 | $ 12,121 | $ (41) | $ 12,080 |
| Other comprehensive gain before reclassifications | 9,837 | 106 | 9,943 |
| Amounts reclassified from accumulated other comprehensive margin | (751) | – | (751) |
| Net current period other comprehensive gain | 9,086 | 106 | 9,192 |
| Balance – December 31, 2019 | 21,207 | 65 | 21,272 |
| Other comprehensive gain (loss) before reclassifications | **8,266** | **(64)** | **8,202** |
| Amounts reclassified from accumulated other comprehensive margin | **(2,021)** | **–** | **(2,021)** |
| Net current period other comprehensive gain (loss) | **6,245** | **(64)** | **6,181** |
| Balance – December 31, 2020 | **$ 27,452** | **$ 1** | **$ 27,453** |

The postretirement benefit obligation reclassification noted above represents the amortization of actuarial (gain) loss that is included in the computation of net periodic postretirement benefit cost. See Note 7 – Retirement Benefits for additional details.

**9. Commitments and Contingencies**

The Cooperative periodically enters into long-term agreements for the purchase of power. Payments made under long-term power contracts in 2020 and 2019 were $6.8 million and $6.5 million, respectively. One long-term agreement remained in effect at December 31, 2020, and will continue until either party gives a three year notice of termination. Total minimum payment obligations related to this contract are as follows (dollars in thousands):

| | |
|---|---|
| Years ending December 31: | |
| 2021 | $ 3,867 |
| 2022 | 3,772 |
| 2023 | 3,725 |

The Cooperative is committed to purchase coal for its generating plants under long-term contracts that extend through 2023. Coal payments under contracts for 2020 and 2019 were $85.9 million and $96.2 million, respectively. Total minimum purchase obligations for the next three years are as follows (dollars in thousands):

| | |
|---|---|
| Years ending December 31: | |
| 2021 | $ 86,251 |
| 2022 | 30,643 |
| 2023 | 5,760 |

The minimum cost of the coal purchases, based on the latest contractual prices, is subject to escalation clauses that are generally based on government-published indices and market price.

The Cooperative is also committed to purchase limestone and lime for its coal-fired generating plants under all requirements contracts that extend through 2021. These contracts set forth pricing and quantity maximums for each product but do not require minimum purchases. Given that annual quantities purchased will vary according to the generation produced at each plant, minimum purchase obligations for the next year cannot be determined.

The supply agreements are not accounted for as derivatives based upon the Normal Purchases Normal Sales exception as permitted by ASC 815, *Derivatives and Hedging*.

**9. Commitments and Contingencies (continued)**

There are pending civil claims in litigation against the Cooperative. Under the Cooperative's general liability insurance program, it is responsible for a deductible amount up to $1 million for each occurrence. Neither the probable outcome nor ultimate liability resulting from any claims and litigation can be readily determined at this time. Management believes that any liability for such matters will, in any case, not have a material effect on the financial statements.

**10. Power Sales Arrangements**

In December 2015, the Cooperative became the lessor under two power sales arrangements that were required to be accounted for as operating leases due to the specific terms of the agreements. One arrangement, was a capacity purchase and tolling agreement that entitled a third party to 165 MW of firm generation and capacity from Bluegrass Generation Station Unit 3 through April 30, 2019. The third party was responsible for the delivery of natural gas and also for securing electric transmission service in their balancing area. The other arrangement is an agreement to sell the capacity and energy from the Glasgow landfill gas plant to a member system for a period of ten years. The revenue associated with these arrangements for 2020 and 2019 was $0.6 million and $4.0 million, respectively, and is included in operating revenue on the Statements of Revenue and Expenses and Comprehensive Margin for the years ended December 31, 2020 and 2019.

The minimum future revenues under the remaining arrangement is as follows (dollars in thousands):

| | |
|---|---|
| Years ending December 31: | |
| 2021 | $ 460 |
| 2022 | 452 |
| 2023 | 452 |
| 2024 | 452 |
| 2025 | 452 |

## 11. Environmental Matters

On August 28, 2020, the U.S. Environmental Protection Agency (EPA) issued revisions to the coal combustion residuals (CCR) Rule that required all unlined surface impoundments to cease receipt of CCR and non-CCR waste and initiate closure by April 11, 2021, unless an alternate deadline is requested pursuant to the rule due to a facility's inability to secure capacity for CCR storage by April 11, 2021. EKPC filed a request for extension until November 30, 2022 for the Spurlock Station surface impoundment to meet the prescribed compliance requirements given the construction and closure projects, as further described below, are not expected to be completed by April 11, 2021. This application is pending EPA review and determination.

On October 13, 2020, EPA issued the Final Steam Electric Reconsideration Rule with an effective date of December 14, 2020. The final rule establishes effluent limits for flue-gas desulfurization (FGD) wastewater and for Bottom Ash (BA) transport water applicable to existing steam electric power generators based upon Best Available Technology Economically Achievable (BAT). The final rule did not revise any requirements for other waste streams covered by the 2015 Effluent Limitations Guidelines (ELG) rule. The compliance deadline is dependent upon National Pollutant Discharge Elimination System (NPDES) permit renewal dates, but no later than 2025. The Company's Spurlock Station will be in compliance with the newly revised standards prior to the deadlines articulated in the final rule.

A construction project estimated at $262.4 million is currently underway at Spurlock Station to comply with the CCR and ELG final rules. The project, which also includes the closure of the Spurlock ash pond and settlement of the corresponding asset retirement obligation, will be substantially recovered through the Cooperative's environmental surcharge mechanism. The EPA's review and subsequent changes to the CCR and ELG rules are not expected to affect the timing or scope of the project.

On September 6, 2019, the EPA's Affordable Clean Energy rule (ACE) became effective. The intent of ACE is to provide existing coal-fired electric utility generating units, (EGUs), with achievable and realistic standards for reducing greenhouse gas (GHG) emissions. This action was finalized in conjunction with three related, but separate and distinct rulemakings: 1) the repeal of the Clean Power Plan (CPP), 2) the replacement of the Clean Power Plan by the ACE that will set new standards of performance based upon the Best Emission System of Reductions (BSER) and 3) revisions to the Clean Air Act (CAA) Section 111(d) implementation regulations that shift greater discretion to the states for the implementation of ACE. New emission guidelines within

### 11. Environmental Matters (continued)

ACE were expected to influence the state's development of standards of performance to reduce carbon dioxide ($CO_2$) emissions from existing coal-fired EGUs – consistent with EPA's role as defined under the CAA. The Final ACE Rule was challenged in the D.C. Circuit and on January 19, 2021 the D.C Circuit vacated the ACE rule.

On March 15, 2021, the EPA Administrator signed a final rule revising the Cross-State Air Pollution Rule (CSAPR) update to meet a court deadline requiring EPA to reexamine the CSAPR ozone season emissions trading program based upon the 2008 Ozone National Ambient Air Quality Standards (NAAQS). The final rule made various changes to the NOx ozone season allocations in twelve states and added the potential optimization of selective non-catalytic reduction emission control technology by increasing the cost threshold for such controls from $1,600 to $1,800. The final rule takes effect 60 days after publication in the Federal Register.

While EKPC is in compliance with the environmental regulations described above, it will continue to monitor the impact of these rules and future rules on its generation fleet.

### 12. Related Party Transactions

The Cooperative is a member of CFC, which provides a portion of the Cooperative's financing, including a $100 million fixed rate loan executed in 2019. CFC is also a joint lead arranger and an 18.3% participant in the Cooperative's $600 million unsecured credit facility. Held-to-maturity investments included CFC capital term certificates of $7.4 million and $8.1 million at December 31, 2020 and 2019, respectively. CFC Patronage capital assigned to EKPC was $1.7 million and $1.5 million at December 31, 2020 and 2019, respectively.

The Cooperative is also a member of CoBank, which is a 15% participant in the Cooperative's $600 million unsecured credit facility. The balance of CoBank patronage capital assigned to EKPC was $0.6 million and $0.5 million at December 31, 2020 and 2019, respectively.

EKPC is a member of ACES LLC (ACES), which provides various energy marketing, settlement and risk management related services to its members and clients. EKPC's Chairman of the Board and EKPC's CEO serve as ACES Board Members. EKPC accounts for its investment in ACES on the cost basis of accounting. At December 31, 2020 and 2019, the balance of EKPC's investment in ACES was approximately $0.6 million. Payments to ACES were $2.3 million in 2020 and in 2019.

**13. Subsequent Events**

On February 26, 2021, the Cooperative gave notice to the PSC of its intent to file a wholesale rate application on or after April 1, 2021.

Management has evaluated subsequent events through March 29, 2021, which is the date these financial statements were available to be issued.

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