BLUE GRASS ENERGY
COOPERATIVE CORPORATION
KENTUCKY 64

FINANCIAL REPORT

April 30, 2020

C O N T E N T S

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Blue Grass Energy Cooperative Corporation
Nicholasville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Blue Grass Energy Cooperative Corporation, which comprise the balance sheet as of April 30, 2020, and the related statements of revenue and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Certified Public Accountants and Advisors
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blue Grass Energy Cooperative Corporation, as of April 30, 2020 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2, Blue Grass Energy Cooperative Corporation has adopted Financial Accounting Standards Update 2014-09, *Revenue from Contracts with Customers.* Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated July 27, 2020, on our consideration of Blue Grass Energy Cooperative Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance.

Prior Period Financial Statements

The financial statements of Blue Grass Energy Cooperative Corporation, as of April 30, 2019, were audited by other auditors whose report dated June 14, 2019, expressed an unmodified opinion on those statements.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
July 27, 2020

BLUE GRASS ENERGY COOPERATIVE CORPORATION
BALANCE SHEETS
April 30, 2020 and 2019

	2020	2019
Assets		
Electric Plant, at original cost:		
In service	$ 275,346,159	$ 263,020,084
Under construction	4,306,628	4,158,602
	279,652,787	267,178,686
Less accumulated depreciation	107,849,834	101,013,601
	171,802,953	166,165,085
Investments in Associated Organizations	81,158,594	76,209,302
Current Assets:		
Cash and cash equivalents	16,381,123	7,234,706
Accounts receivable, less allowance for 2020 of $417,782 and 2019 of $359,862	1,167,044	2,420,974
Unbilled revenue	5,861,341	5,859,228
Accounts receivable, other	187,701	224,103
Material and supplies, at average cost	1,747,270	1,474,293
Other current assets	779,474	746,355
Total current assets	26,123,953	17,959,659
Non-Current Assets:		
Investments in equity securities	363,537	221,317
Prepaid pension costs	2,219,424	2,508,916
Total non-current assets	2,582,961	2,730,233
Total	$ 281,668,461	$ 263,064,279
Members' Equities and Liabilities		
Members' Equities:		
Memberships	$ 1,110,260	$ 1,098,990
Patronage capital	139,352,283	133,172,863
Other equities	7,593,657	6,161,722
Accumulated other comprehensive loss	(2,077,279)	(1,763,632)
	145,978,921	138,669,943
Long-Term Liabilities:		
Long-term debt, less current portion	98,950,689	96,114,116
Accumulated postretirement benefits	11,376,411	10,530,989
	110,327,100	106,645,105
Current Liabilities:		
Current portion of long-term debt	7,809,437	5,800,000
Accounts payable	13,339,181	7,448,914
Consumer deposits	1,566,054	1,556,619
Accrued expenses	2,175,687	2,573,741
Total current liabilities	24,890,359	17,379,274
Consumer Advances	472,081	369,957
Total	$ 281,668,461	$ 263,064,279

The Notes to Financial Statements are an integral part of these statements.

BLUE GRASS ENERGY COOPERATIVE CORPORATION
STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Years Ended April 30, 2020 and 2019

	2020	2019
Operating Revenues:		
Sales of electric energy	$ 119,490,990	$ 125,127,503
Other electric revenues	2,447,609	2,883,666
	121,938,599	128,011,169
Operating Expenses:		
Cost of power	87,634,494	92,352,537
Distribution - operations	3,216,338	3,224,185
Distribution - maintenance	6,742,317	6,827,344
Consumer accounts	2,495,084	2,743,851
Customer services	595,307	784,041
Sales	226,991	(25,460)
Administrative and general	4,616,138	4,578,100
Depreciation, excluding $551,024 in 2020 and $803,045 in 2019 charged to clearing accounts	10,225,011	9,858,175
Interest on long-term debt	3,555,871	3,574,342
Other interest expense	44,587	52,065
Other deductions	40,382	57,348
	119,392,520	124,026,528
Operating Margins	2,546,079	3,984,641
Nonoperating Margins and Capital Credits:		
Interest income	971,907	959,923
Other non-operating margins (deficit)	(35,911)	(72,540)
	935,996	887,383
Patronage Capital Credits		
Generation and transmission	5,127,125	4,656,756
Others	98,615	130,736
	5,225,740	4,787,492
Net Margins	8,707,815	9,659,516
Other Comprehensive Income (Loss):		
Postretirement benefits amortization of net benefit (loss)	67,368	(43,666)
Executive benefit plan actuarial loss	(465,372)	- -
Executive benefit plan amortization of prior service cost and loss	84,357	78,720
Total Comprehensive Income	$ 8,394,168	$ 9,694,570

The Notes to Financial Statements are an integral part of these statements.

BLUE GRASS ENERGY COOPERATIVE CORPORATION
STATEMENT OF CHANGES IN MEMBERS' EQUITIES
Years Ended April 30, 2020 and 2019

	Memberships	Patronage Capital	Other Equities	Accumulated Other Comprehensive Income (Loss)	Total Members' Equities
Balance-April 30, 2018	$ 1,087,335	$ 123,848,807	$ 5,695,786	$ (1,798,686)	$ 128,833,242
Comprehensive income:					
Net margins		9,659,516			9,659,516
Postretirement benefit obligation					
Amortization				(43,666)	(43,666)
Executive benefit restoration plan					
Amortization				78,720	78,720
Total comprehensive income					9,694,570
Net change in memberships	11,655				11,655
Refunds to estates		(335,460)			(335,460)
Other equities			465,936		465,936
Balance-April 30, 2019	1,098,990	133,172,863	6,161,722	(1,763,632)	138,669,943
Comprehensive income:					
Net margins		8,707,815			8,707,815
Postretirement benefit obligation					
Amortization				67,368	67,368
Executive benefit restoration plan					
Actuarial loss				(465,372)	
Amortization				84,357	(381,015)
Total comprehensive income					8,394,168
Net change in memberships	11,270				11,270
Refunds to estates		(336,636)			(336,636)
Refunds to members		(2,191,759)			(2,191,759)
Other equities			1,431,935		1,431,935
Balance-April 30, 2020	$ 1,110,260	$ 139,352,283	$ 7,593,657	$ (2,077,279)	$ 145,978,921

The Notes to Financial Statements are an integral part of these statements.

BLUE GRASS ENERGY COOPERATIVE CORPORATION
STATEMENTS OF CASH FLOWS
Years Ended April 30, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 8,707,815	$ 9,659,516
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Charged to expense	10,225,011	9,858,175
Charged to clearing accounts	551,024	803,045
Patronage capital credits assigned	(5,225,740)	(4,787,492)
Amortization of postretirement actuarial adjustment	151,725	35,054
Unrealized losses on equity securities	10,044	33,787
Change in assets and liabilities:		
Receivables	1,290,332	4,120,055
Unbilled revenue	(2,113)	241,229
Material and supplies	(272,977)	486,972
Other current assets	(33,119)	(525,193)
Prepaid pension costs	289,492	289,493
Consumer deposits	9,435	15,612
Accounts payable	5,890,267	(718,084)
Accrued expenses	(398,054)	578,472
Consumer advances	102,124	24,251
Accumulated postretirement benefits	380,050	565,671
Net cash provided by operating activities	21,675,316	20,680,563
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(15,406,243)	(11,836,030)
Salvage, net of removal costs	(1,007,660)	(486,920)
Purchases of equity investments	(152,263)	(93,740)
Receipts from other investments	276,447	99,924
Net cash (used in) investing activities	(16,289,719)	(12,316,766)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of short-term borrowings	- -	(3,250,000)
Principal payments on long-term debt	(11,008,620)	(5,686,990)
Advances of long-term debt	12,038,100	5,000,000
Advance payments of long-term debt	3,816,530	138,664
Net increase in memberships	11,270	11,655
Refunds of patronage capital to members	(2,191,759)	- -
Refunds to estates	(336,636)	(335,460)
Increase in other equities	1,431,935	465,936
Net cash provided by (used in) financing activities	3,760,820	(3,656,195)
Net increase in cash and cash equivalents	9,146,417	4,707,602
Cash and cash equivalents, beginning of year	7,234,706	2,527,104
Cash and cash equivalents, end of year	$ 16,381,123	$ 7,234,706
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 3,614,654	$ 3,564,360
Property and equipment in accounts payable	$ 105,870	$ - -

The Notes to Financial Statements are an integral part of these statements.

BLUE GRASS ENERGY COOPERATIVE CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

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

Business Activities Blue Grass provides distribution electric service to residential, business, and commercial consumers primarily in 23 counties throughout central Kentucky.

Cash and Cash Equivalents Blue Grass considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. Blue Grass maintains its cash balances, which may exceed the federally insured limit, with several financial institutions. Management believes that credit risk related to these accounts is minimal.

Estimates The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the preparation of the financial statements.

Comprehensive Income (Loss) Comprehensive income (loss) includes both net margin and other comprehensive income (loss). Other comprehensive income (loss) represents the change in funded status of the accumulated postretirement benefit obligation.

Accounts Receivable Accounts receivable consists of amounts due for sales of electricity which were not collected at year-end. Accounts receivable are recorded at net realizable value consisting of the carrying amount less an allowance for uncollectible accounts. Blue Grass uses the allowance method to account for uncollectible accounts receivable balances. Management charges off uncollectible receivables to the allowance when it is determined the amounts will not be realized.

Materials and Supplies Blue Grass values materials and supplies at the lower of average cost or net realizable value.

Sales Tax Blue Grass is required to collect, on behalf of the State of Kentucky, sales taxes based on 6 percent of gross sales from non-residential consumers, a 3 percent school tax from certain counties on most gross sales, and franchise fees in certain cities. Blue Grass's policy is to exclude sales, school, and franchise taxes from revenue when collected and expenses when paid and instead, record collection and payment of taxes through a liability account.

Cost of Power Blue Grass is one of 16 members of East Kentucky Power Cooperative, Inc. (East Kentucky). Under a wholesale power agreement, Blue Grass is committed to purchase its electric power and energy requirements from East Kentucky until 2051. The rates charged by East Kentucky are subject to approval of the PSC. The cost of purchased power is recorded monthly during the period in which the energy is consumed, based upon billings from East Kentucky. There are certain surcharges, clauses, and credits that East Kentucky includes to Blue Grass that are passed on to consumers using a methodology prescribed by the PSC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Electric Plant Electric plant is stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead cost including any construction period interest and taxes. There was no interest required to be capitalized during the years ended April 30, 2020 and 2019.

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 units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation. Electric plant consists of the following as of April 30, 2020 and 2019:

	2020	2019
Distribution plant	$ 253,176,310	$ 242,631,957
General plant	22,169,849	20,388,127
Total	$ 275,346,159	$ 263,020,084

Depreciation Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Depreciation rates range from 2.67% to 6.67%, with a composite rate of 3.9% for distribution plant. General plant rates are as follows:

Structures and improvements	2.5%
Transportation equipment	5.0 - 15.0%
Other general plant	2.5 - 14.4%

Income Tax Status Blue Grass is exempt from federal and state income taxes under provisions of Section 501(c)(12) of the Internal Revenue Code. Accordingly, the financial statements for Blue Grass include no provision for income taxes. Blue Grass's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Management believes Blue Grass has no uncertain tax positions resulting in an accrual of tax expense or benefit. Blue Grass recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Blue Grass did not recognize any interest or penalties during the years ended April 30, 2020 and 2019. Blue Grass's income tax return is subject to possible examination by taxing authorities until the expiration of related statues of limitations on the return, which is generally three years.

Advertising Blue Grass expenses advertising costs as incurred. Advertising expenses were $9,112 and $20,506 for the years ended April 30, 2020 and 2019, respectively.

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

Credit Risk Blue Grass grants credit to residents of local counties. Concentrations of credit risk with respect to accounts receivables are limited due to its large number of customers.

Pension Accounting Pronouncement In May 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-07, *Improving the Presentation of Net periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* The standard specifies how the amount of pension costs and costs for post-retirement benefits other than pensions (PBOP) should be presented on the income statement under accounting principles generally accepted in the United States of America, and what components of those costs are eligible for capitalization in assets. This standard is effective for years beginning after December 15, 2018. The Federal Energy Regulatory Commission (FERC) issued Docket No. AI18-1-000 that allowed jurisdictional public utilities to continue to record PBOP costs in their entirety, less amounts capitalized, without change. Pension and PBOP costs are made up of several components: service cost, interest cost, actual return on plan assets, gain or loss, amortization of prior service cost or credit, and amortization of ASC Subtopic 715-30. Though pension and PBOP costs are computed using the aggregate total of these various components, the PSC's longstanding policy is to consider the amount as a singular cost to the employer. This cost is calculated based on Statement of Financial Accounting Standards No. 106 and reported as an expense under net margins from continuing operations.

Recent Accounting Pronouncements In February 2016, the FASB issued ASU 2016-02, *Leases.* The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of revenue and comprehensive income. This standard will be effective for the year ending April 30, 2022.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses.* The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the statement of revenue and comprehensive income will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for the year ending April 30, 2024.

Blue Grass is currently in the process of evaluating the impact of the adoption of these ASUs on the financial statements.

Reclassifications Certain amounts presented in the 2019 financial statements have been reclassified to conform to the 2020 presentation.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Subsequent Events Management has evaluated subsequent events through July 27, 2020, the date the financial statements were available to be issued.

Note 2. Revenue Recognition

Adoption of accounting pronouncement

Blue Grass adopted ASU 2014-09, *Revenue from Contracts with Customers* as of May 1, 2019. The new standard replaces existing revenue recognition rules with a single comprehensive model to use in accounting for revenue arising from contracts with customers. The standard was adopted using the modified retrospective method and had no effect on Blue Grass's financial position or results of operations.

Under ASU 2014-09, the timing of recognition of revenue for each performance obligation may differ from the timing of the customer billing, creating a contract asset or contract liability. Short-term contract assets are classified as unbilled revenue and short-term contract liabilities are classified as consumer deposits. Blue Grass has no long-term contract liabilities.

Revenue from contracts

Blue Grass is engaged in the distribution and sale of electricity to residential and commercial customers primarily in 23 counties in central Kentucky. Revenue from these activities is generated from tariffs approved by the PSC. Blue Grass satisfies their performance obligation upon the delivery of electricity to customers. Revenue is recognized over-time as the customer simultaneously receives and consumes the benefits provided by Blue Grass. The amount of revenue recognized is the billed volume of electricity multiplied by a tariff rate per-unit of energy, plus any applicable fixed or additional regulatory charges. Customers are billed monthly and outstanding amounts are typically due within 20 days of the date of the bill.

Significant judgements

Blue Grass bills consumers on monthly cycles based on meter readings taken at approximately the same day each month. Large power consumers are billed on a monthly calendar basis and there are nine other billing cycles throughout each month consisting of an approximate thirty-day period. Blue Grass calculates unbilled revenue based on actual usage readings from the last meter reading date through the end of the month using advanced metering infrastructure. Unbilled revenues are reversed in the following month when the customer bills are generated based on usage readings for the full billing cycle. This method of revenue recognition presents fairly, Blue Grass's transfer of electricity to customers as the amount recognized is based on actual volumes delivered and the tariff rate per-unit of energy and any applicable fixed charges as set by the PSC.

Performance obligations

Blue Grass customers generally have no minimum purchase commitments except for those included in large power customer agreements. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation to recognize as of April 30, 2020 and 2019.

Note 2. Revenue Recognition (Continued)

Disaggregation of revenue

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended April 30, 2020 and 2019:

	2020	2019
Residential rural	$ 87,176,322	$ 91,367,316
Small commercial	14,585,764	14,995,507
Large commercial	17,247,091	18,327,018
Public lights	481,813	437,662
	$ 119,490,990	$ 125,127,503

Contract assets and cost liabilities

Contract assets include unbilled revenue. The balance in contract assets was $5,861,341 and $5,859,228 as of April 30, 2020 and 2019, respectively. Contract cost liabilities related to electric distribution include consumer deposits. The balance in contract liabilities was $1,566,054 and $1,556,619 as of April 30, 2020 and 2019, respectively.

Note 3. Investments in Associated Organizations

Investments in associated organizations consist of the following as of April 30, 2020 and 2019:

	2020	2019
East Kentucky, patronage capital	$ 76,435,068	$ 71,496,272
CFC, patronage capital and CTCs	2,484,326	2,513,912
KAEC, patronage capital	1,311,275	1,313,655
Federated Insurance, patronage capital	450,014	423,794
SEDC, patronage capital	364,062	348,644
Other associated organizations	113,849	113,025
	$ 81,158,594	$ 76,209,302

Blue Grass records patronage capital assigned by associated organizations in the year in which such assignments are received. The Capital Term Certificates (CTCs) of National Rural Utilities Cooperative Finance Corporation (CFC) are recorded at cost. The CTCs were purchased from CFC as a condition of obtaining long-term financing. The CTCs bear interest at 3.00% and 5.00% and are scheduled to mature at varying times from 2020 to 2080.

Note 4. Investments in Equity Securities

Investments are reported at fair value. Accounting principles generally accepted in the United States of America provide a framework for fair value measurements. Fair value is defined as the price 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 methodology for measuring fair value specifies a three-tier hierarchy of valuation techniques based upon whether the inputs to those valuation techniques are based on quoted prices of identical assets or liabilities (Level 1), significant other observable inputs (Level 2), or significant other unobservable inputs that reflect a company's own assumptions of market participant valuation (Level 3).

NOTES TO FINANCIAL STATEMENTS

Note 4. Investments in Equity Securities (Continued)

Blue Grass makes contributions to an investment account for the purpose of funding a pension plan for the benefit of executive employees that meet certain criteria (Note 10). The fair values are based primarily on quoted market prices. Investments securities measured at fair value on a recurring basis are as follows:

	April 30,			
	2020		2019	
Level 1				
Cost of investments:				
Equity funds	$	340,940	$	215,940
Net unrealized gains		22,597		5,377
Equity securities at fair value	$	363,537	$	221,317

Note 5. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow total equity to be less than 30% of total assets, except that distributions may be made to estates of deceased patrons. The debt agreement provides, however, that should such distributions to estates not exceed 25% of the net margins for the next preceding year, Blue Grass may distribute the difference between 25% and the payments made to such estates. At April 30, 2020 and 2019, the equities were 52% and 53% of total assets, respectively. Other equities consist primarily of retired capital credit gains.

As of April 30, 2020 and 2019, patronage capital consisted of the following:

	2020		2019	
Assigned to date	$	160,557,960	$	151,230,738
Assignable margins		1,295,221		1,914,628
Unassigned		159,000		158,999
Retirements to date		(22,659,898)		(20,131,502)
Total	$	139,352,283	$	133,172,863

Note 6. Long-Term Debt

All assets, except vehicles, are pledged as collateral on the long-term debt to RUS, Federal Financing Bank (FFB), and CFC under a joint mortgage agreement. The advance payments earn 5% interest from RUS and can only be used to apply to debt service payments of FFB. Per RUS provisions, the interest earned on advanced payments will drop to 4% effective October 1, 2020, and again will drop to the variable one-year treasury rate effective October 1, 2021. As a result of the decrease in interest to be earned on advance payments, Blue Grass has instructed RUS to use the remaining advance payments balance to pay off FFB loans in order of highest interest rates. There are no prepayment penalties associated with the FFB loans to be paid off. The long-term debt payable to FFB and CFC are due in quarterly and monthly installments of varying amounts through 2050.

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (Continued)

During 2004, Blue Grass refinanced $22,710,297 of 5% RUS loans with funds advanced from CFC. The long-term debt to refinance the RUS loans is due in a combination of 14 annual installments of $1,094,587 and 9 annual installments of $640,039. During 2006, Blue Grass restructured one of the installments into four installments of $273,674 which were paid in full in May 2019. During 2017, Blue Grass refinanced approximately $70,300,000 of RUS loans with $60,300,000 of CFC funds and the remaining from general funds. Blue Grass has loan funds available from FFB in the amount of $29,000,000. RUS assess 12.5 basis points to administer the FFB loans.

During April 2020, Blue Grass applied for and was granted a $2,038,100 loan under the Payroll Protection Program (PPP) administered by a Small Business Administration (SBA) approved lender. Blue Grass repaid the PPP principal loan balance plus interest of 1.00% on May 13, 2020.

Long-term debt consists of the following as of April 30:

	2020	2019
FFB, 2.403% to 4.906%	$ 64,295,502	$ 60,715,880
Kentucky Bank, PPP loan, 1.000% interest	2,038,100	- -
CFC:		
3.200% to 7.100% notes	2,807,383	3,287,768
Refinance RUS loans, 2.950%	49,940,716	54,048,574
	52,748,099	57,336,342
	119,081,701	118,052,222
RUS advance payment, earns 5.000% interest	(12,321,575)	(16,138,106)
	106,760,126	101,914,116
Less current portion	(7,809,437)	(5,800,000)
Long-term portion	$ 98,950,689	$ 96,114,116

As of April 30, 2020, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2021	$ 7,809,437
2022	5,900,444
2023	6,037,133
2024	6,114,442
2025	6,187,587
Thereafter	87,032,658
	$ 119,081,701

Note 7. Short-Term Lines of Credit

As of April 30, 2020 and 2019, Blue Grass had a short-term line of credit of $16,000,000 available from CFC. The line of credit matures on July 28, 2021. Blue Grass also had a short-term line of credit of $1,000,000 available from CoBank. The line of credit matures on October 31, 2020. There were no advances against the lines of credit as of April 30, 2020 and 2019.

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plans

All eligible employees of Blue Grass participate in the NRECA Retirement and Security Plan (R&S Plan), a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The Plan sponsor's 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.

Blue Grass's contributions to the R&S Plan in 2020 and 2019 represent less than 5.00% of the total contributions made to the plan by all participating employers. Blue Grass made contributions to the plan for eligible employees of $1,493,456 in 2020 and $1,496,986 in 2019. There have been no significant changes that affect the comparability of 2020 and 2019.

In the R&S 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 R&S Plan was over 80.00% funded at 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 R&S Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the Retirement Security (R&S) Plan (a defined benefit multiemployer pension plan) to make a prepayment and reduce future required contributions. The prepayment amount is a cooperative share, as of January 1, 2013, of future contributions required to fund the R&S Plan's unfunded value of benefits earned to date using Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual R&S Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. However, changes in interest rates, asset returns and other plan experience different from that expected, plan assumptions changes, and other factors may have an impact on the differential in billing rates and the 15-year period.

Two prepayment options were available to participating cooperatives:

1. Use current assets to make the prepayment over a period of not more than 4 years, or,
2. Borrow funds sufficient to make the prepayment in a lump sum, with the prepayment of the borrowed amount determined by the loan's amortization schedule.

On February 14, 2013, RUS issued a memorandum to all of its borrowers regarding the proper accounting treatment of the R&S Plan prepayment. RUS stipulated that the prepayment shall be recorded as a long-term prepayment in Account 186, Miscellaneous Deferred Debits. This prepaid expense shall be amortized to Account 926, Employee Pensions and Benefits, over a ten-year period. Alternatively, RUS borrowers may calculate the amortization period by subtracting the cooperative's average age of its workforce as provided by NRECA from the cooperative's normal retirement age under the R&S Plan, up to a maximum period of 20 years. If the entity choses to finance the prepayment, interest expense associated with the loan shall be recorded in the year incurred as is required under the RUS Uniform System of Accounts (USoA). During February 2013, Blue Grass made a prepayment of $4,342,389 to the R&S Plan. The amount is being amortized over 15 years.

NOTES TO FINANCIAL STATEMENTS

Note 9. Savings Plan

All eligible employees of Blue Grass participate in the NRECA Retirement and Security Program, a defined contribution pension plan qualified under section 401(k) and tax-exempt under section 501(a) of the Internal Revenue Code. Blue Grass makes annual contributions to the Program equal to the amounts accrued for pension expense. Contributions vest immediately in the plan. There have been no significant changes that affect the comparability of 2020 and 2019. Blue Grass contributed $145,768 and $143,242 to the plan for the years ended April 30, 2020 and 2019, respectively.

Note 10. Postretirement Benefits

Blue Grass sponsors a defined benefit plan that provides medical insurance coverage for qualified retired employees and their dependents. Blue Grass pays premiums for retirees and their dependents based on years of service. Qualified employees are those that have been hired prior to January 1, 1999. For measurement purposes, an annual rate of increase of 6.5% in 2019, then decreasing by 0.5% per year until 4.0% per year, in the per capita cost of covered health care benefit was assumed. The discount rate used in determining the accumulated postretirement benefit obligation was 4.5% in 2020 and 2019. The Plan is not funded.

The funded status of the plan as of April 30, 2020 and 2019 was as follows:

	2020	2019
Projected benefit obligation	$ (9,868,608)	$ (9,556,049)
Plan assets at fair value	- -	- -
Funded status (deficit)	$ (9,868,608)	$ (9,556,049)

The components of net periodic postretirement benefit costs as of and for the years ended April 30, 2020 and 2019 are as follows:

	2020	2019
Benefit obligation - beginning of period	$ 9,556,049	$ 9,280,599
Net periodic benefit cost:		
Service cost	344,981	377,028
Interest cost	400,279	435,600
Net period cost	745,260	812,628
Benefit payments to participants	(432,701)	(537,178)
Benefit obligation - end of period	$ 9,868,608	$ 9,556,049
Amounts recognized in the balance sheet consists of:		
Accumulated postretirement benefits	$ 9,868,608	$ 9,556,049
Amounts included in other comprehensive income (loss):		
Amortization of net loss	$ 67,368	$ (43,666)
Effect of 1% increase in the health care trend:		
Postemployment benefit obligation	$ 10,510,000	
Net periodic benefit cost	$ 794,000	

Note 10. Postretirement Benefits (Continued)

Projected retiree benefit payments for the next five years are expected to be as follows: 2021 - $555,000; 2022 - $545,000; 2023 - $530,000; 2024 - $520,000; 2024 - $510,000.

Blue Grass also sponsors a defined benefit plan, Executive Benefit Restoration Plan ("EBRP"), for executive employees that meet certain criteria. Contributions are made to a separate investment account for the purpose of funding the plan upon retirement of the executives covered by the plan (Note 4).

The funded status of the plan as of April 30, 2020 and 2019 was as follows:

	2020	2019
Projected benefit obligation	$ (1,507,803)	$ (974,940)
Plan assets at fair value	- -	- -
Funded status (deficit)	$ (1,507,803)	$ (974,940)

The calculation of net periodic benefit cost, change in projected benefit obligation, and change in fair value of plan assets as of and for the years ended April 30, 2020 and 2019 are as follows:

	2020	2019
Net Periodic Benefit Cost		
Service cost	$ 40,062	$ 47,248
Interest cost	41,104	39,793
Amortizaion of prior service cost	83,101	83,101
Amortization loss	942	35,147
Net periodic benefit cost	$ 165,209	$ 205,289
Change in Projected Benefit Obligation		
Projected benefit obligation at beginning of year	$ 974,940	$ 684,719
Service cost	40,062	47,248
Interest cost	41,104	39,793
Actuarial loss	451,697	203,180
Projected benefit obligation at end of year	$ 1,507,803	$ 974,940
Amounts recognized in the balance sheet consists of:		
Accumulated postretirement benefits	$ 1,507,803	$ 974,940
Amounts included in other comprehensive income (loss):		
Actuarial loss	$ (465,372)	$ - -
Amortization of prior service cost and loss	$ 84,357	$ 78,720
Key assumptions for disclosure purposes are as follows:		
Discount rate assumption	3.22%	4.34%
Expected return on plan assets	N/A	N/A
Salary increase assumption	3.00%	3.00%

NOTES TO FINANCIAL STATEMENTS

Note 11. Related Party Transactions

Several of the Directors of Blue Grass and its President and CEO are on the Boards of Directors of various associated organizations.

Note 12. Contingencies

Blue Grass is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

Note 13. Risks & Uncertainties

In March 2020, local, U.S., and world governments encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to Blue Grass as of July 27, 2020, management believes that a material impact on Blue Grass's financial position and results of future operations is reasonably possible.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Blue Grass Energy Cooperative Corporation
Nicholasville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Blue Grass Energy Cooperative Corporation (the Cooperative), which comprise the balance sheet as of April 30, 2020 and the related statements of revenue and comprehensive income, changes in members' equities and cash flows for the year then ended, and related notes to the financial statements, and have issued our report thereon dated July 27, 2020.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
July 27, 2020

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

To the Board of Directors
Blue Grass Energy Cooperative Corporation
Nicholasville, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Blue Grass Energy Cooperative Corporation (the Cooperative), which comprise the balance sheet as of April 30, 2020, and the related statements of revenue and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 27, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2020, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, Policy on Audits of Rural Utilities Service Borrowers and Grantees, §1773.33, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over material and supplies;
- Prepare accurate and timely Financial and Operating Reports;

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- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements ("See RUS Bulletin 183-1, Depreciation Rates and Procedures");
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits, which are listed below; and
- Comply with the requirements for the detailed schedule of investments, of which there were none.

The deferred debits are as follows:

Accelerated pension payment	$ 2,219,424

The deferred credits are as follows:

Consumer advances for construction	$ 472,081

The purpose of this report is solely to communicate, in connection with the audit of the financial statements, on compliance with aspects of contractual agreements and the regulatory requirements for electric borrowers based on the requirements of 7 CFR Part 1773, Policy on Audits of Rural Utilities Service Borrowers and Grantees. Accordingly, this report is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
July 27, 2020