INTER-COUNTY ENERGY
COOPERATIVE CORPORATION
KENTUCKY 27

FINANCIAL REPORT

December 31, 2019

C O N T E N T S

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Inter-County Energy Cooperative Corporation
Danville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Inter-County Energy Cooperative Corporation, which comprise the balance sheet as of December 31, 2019, 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
642 South Fourth Street, Suite 300 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589-1680 www.jnmcpa.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Inter-County Energy Cooperative Corporation as of December 31, 2019, 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, Inter-County 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 May 22, 2020, on our consideration of Inter-County 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 Inter-County Energy Cooperative Corporation, as of December 31, 2018, were audited by other auditors whose report dated March 21, 2019, expressed an unmodified opinion on those statements.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
May 22, 2020

INTER-COUNTY ENERGY COOPERATIVE CORPORATION
BALANCE SHEETS
December 31, 2019 and 2018

	2019	2018
Assets		
Electric Plant, at original cost:		
In service	$ 135,417,621	$ 131,315,947
Under construction	479,569	286,852
	135,897,190	131,602,799
Less accumulated depreciation	42,787,243	40,139,486
	93,109,947	91,463,313
Investments in Associated Organizations	31,765,021	29,930,581
Current Assets:		
Cash and cash equivalents	2,588,914	1,848,059
Accounts receivable, less allowance for 2019 of $498,650 and 2018 of $325,711	4,073,289	4,368,128
Other receivables	245,083	270,417
Unbilled revenue	1,210,301	1,277,807
Material and supplies, at average cost	453,648	542,004
Other current assets	414,257	375,966
Total current assets	8,985,492	8,682,381
Non-current Assets:		
Deferred pension costs	703,014	919,326
Total	$ 134,563,474	$ 130,995,601
Members' Equities and Liabilities		
Members' Equities:		
Memberships	$ 1,068,565	$ 1,059,365
Patronage capital	45,620,504	44,478,816
Other equities	2,649,061	923,588
Accumulated other comprehensive (loss)	(1,092,286)	(1,151,001)
	48,245,844	45,310,768
Long-Term Liabilities:		
Long-term debt, less current portion	72,394,430	68,848,069
Accumulated postretirement benefits	4,891,484	4,807,802
	77,285,914	73,655,871
Current Liabilities:		
Short-term notes payable	- -	3,000,000
Current portion of long-term debt	3,156,380	3,190,000
Accounts payable	4,234,583	4,287,281
Consumer deposits	637,442	589,988
Accrued expenses	1,003,311	961,693
Total current liabilities	9,031,716	12,028,962
Total	$ 134,563,474	$ 130,995,601

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

INTER-COUNTY ENERGY COOPERATIVE CORPORATION
STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues		
Sales of electric energy	$ 50,284,125	$ 49,288,519
Other electric revenues	1,212,775	1,512,952
	51,496,900	50,801,471
Operating Expenses		
Cost of power	33,461,944	34,718,745
Distribution - operations	2,920,470	2,769,654
Distribution - maintenance	2,849,760	3,290,831
Consumer accounts	1,747,685	1,926,725
Customer services	339,707	366,577
Administrative and general	2,282,829	2,322,113
Depreciation, excluding $344,389 in 2019 and $340,531 in 2018 charged to clearing accounts	4,452,998	4,326,326
Taxes, other than income	65,362	70,161
Interest on long-term debt	2,208,845	2,027,164
Other interest charges	105,059	116,061
Other deductions	21,596	10,479
Total cost of electric service	50,456,255	51,944,836
Operating Margins (Deficits)	1,040,645	(1,143,365)
Nonoperating Margins and Capital Credits		
Interest income	110,685	96,570
Other non-operating margins	19,031	35,315
Generation and transmission capital credits	1,918,661	1,768,561
Other capital credits	104,847	235,068
	2,153,224	2,135,514
Net Margins	3,193,869	992,149
Other Comprehensive Income		
Postretirement benefits	58,715	58,716
Total Comprehensive Income	$ 3,252,584	$ 1,050,865

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

INTER-COUNTY ENERGY COOPERATIVE CORPORATION
STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended December 31, 2019 and 2018

		Patronage Capital								Accumulated Other	Total
					Prior				Other	Comprehensive	Members'
	Memberships	Assigned	Assignable	Unassigned	Deficits	Retirements	Total		Equities	Income (Loss)	Equities
Balance-December 31, 2017	$ 1,053,640	$ 55,433,784	$ (241,106)	$ 150,817	$ - -	$ (11,699,832)	$ 43,643,663		$ 858,677	$ (1,209,717)	$ 44,346,263
Allocate margins		1,160,815	241,106		(1,401,921)		- -				- -
Comprehensive income:											
Net margins			992,149				992,149				992,149
Postretirement benefit obligation											
Amortization										58,716	58,716
Total comprehensive income											1,050,865
Net change in memberships	5,725										5,725
Refunds to estates						(156,996)	(156,996)				(156,996)
Other equities									64,911		64,911
Balance-December 31, 2018	1,059,365	56,594,599	992,149	150,817	(1,401,921)	(11,856,828)	44,478,816		923,588	(1,151,001)	45,310,768
Allocate margins		1,768,561	(992,149)		(776,412)		- -				- -
Comprehensive income:											
Net margins			3,193,869				3,193,869				3,193,869
Postretirement benefit obligation											
Amortization										58,715	58,715
Total comprehensive income											3,252,584
Net change in memberships	9,200										9,200
Refunds to estates						(148,057)	(148,057)				(148,057)
Other equities						(1,904,124)	(1,904,124)		1,725,473		(178,651)
Balance-December 31, 2019	$ 1,068,565	$ 58,363,160	$ 3,193,869	$ 150,817	$ (2,178,333)	$ (13,909,009)	$ 45,620,504		$ 2,649,061	$ (1,092,286)	$ 48,245,844

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

INTER-COUNTY ENERGY COOPERATIVE CORPORATION
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 3,193,869	$ 992,149
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Charged to expense	4,452,998	4,326,326
Charged to clearing accounts	344,389	340,531
Patronage capital credits assigned	(2,023,508)	(2,003,629)
Amortization of postretirement actuarial adjustment	58,715	58,716
Change in assets and liabilities:		
Accounts and other receivables	320,173	(623,706)
Unbilled revenue	67,506	618,442
Material and supplies	88,356	(90,540)
Other current assets	(38,291)	87,303
Deferred pension costs	216,312	216,312
Accounts payable	(52,698)	44,393
Consumer deposits	47,454	(2,743)
Accrued expenses	41,618	23,141
Accumulated postretirement benefits	83,682	88,367
Net cash provided by operating activities	6,800,575	4,075,062
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(5,909,616)	(5,570,959)
Plant removal costs	(608,490)	(496,345)
Salvage recovered from retired plant	74,085	56,965
Receipts from other investments, net	189,068	109,055
Net cash (used in) investing activities	(6,254,953)	(5,901,284)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in memberships	9,200	5,725
Refund of patronage capital to members	(148,057)	(156,996)
Increase (decrease) in other equities	(178,651)	64,911
Repayments of short-term borrowings	(3,000,000)	(2,000,000)
Advances of long-term debt	5,171,184	5,000,000
Cushion of credit applied (payment)	1,660,142	(1,310,182)
Principal payments on long-term debt	(3,318,585)	(3,392,823)
Net cash provided by (used in) financing activities	195,233	(1,789,365)
Net increase (decrease) in cash and cash equivalents	740,855	(3,615,587)
Cash and cash equivalents, beginning of year	1,848,059	5,463,646
Cash and cash equivalents, end of year	$ 2,588,914	$ 1,848,059
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 2,312,501	$ 2,143,254

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

INTER-COUNTY ENERGY COOPERATIVE CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Inter-County Energy Cooperative Corporation (Inter-County) 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 Inter-County provides distribution electric service to residential, business, and commercial consumers in a 12 county area of central Kentucky.

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 December 31, 2019 and 2018.

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 December 31, 2019 and 2018:

	2019	2018
Distribution plant	$ 119,382,957	$ 115,719,658
General plant	16,034,664	15,596,289
Total	$ 135,417,621	$ 131,315,947

Depreciation Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Distribution plant depreciation is based on a composite rate of 3.35% per annum. General plant rates range from 2.50% to 18.00%.

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

Accounts Receivable Accounts receivable consists of amounts due for sales of electric 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. Inter-County 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 Inter-County values materials and supplies at the lower of average cost or net realizable value.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Taxes Inter-County 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. Inter-County's policy is to exclude sales tax from revenue when collected and expenses when paid and instead, record collection and payment of sales taxes through a liability account.

Cost of Power Inter-County is one of 16 members of East Kentucky Power Cooperative, Inc. (East Kentucky). Under a wholesale power agreement, Inter-County 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.

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

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.

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

Credit Risk Inter-County 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.

Comprehensive Income Comprehensive income 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.

Income Tax Status Inter-County 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 Inter-County include no provision for income taxes. Inter-County'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 Inter-County has no uncertain tax positions resulting in an accrual of tax expense or benefit. Inter-County recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Inter-County did not recognize any interest or penalties during the years ended December 31, 2019 and 2018. Inter-County'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 Inter-County expenses advertising costs as incurred. Advertising expenses were $35,387 and $43,676 for the years ended December 31, 2019 and 2018, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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 December 31, 2021.

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 December 31, 2023.

Inter-County is currently in the process of evaluating the impact of the adoption of these ASUs on the financial statements.

Reclassifications Certain reclassifications have been made to the 2018 financial statement presentation to correspond to the 2019 format.

Subsequent Events Management has evaluated subsequent events through May 22, 2020, the date the financial statements were available to be issued.

Note 2. Revenue Recognition

Adoption of accounting pronouncement

Inter-County adopted ASU 2014-09, *Revenue from Contracts with Customers* as of January 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 approach and had no effect on Inter-County's financial position or results of operations.

NOTES TO FINANCIAL STATEMENTS

Note 2. Revenue Recognition (Continued)

Adoption of accounting pronouncement (continued)

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 liabilities are classified as consumer deposits. Inter-County has no long-term contract liabilities.

Revenue from contracts

Inter-County is engaged in the distribution and sale of electricity to residential and commercial customers in nine counties in central Kentucky. Revenue from these activities is generated from tariffs approved by the PSC. Inter-County 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 Inter-County. 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 15 days of the date of the bill.

Significant judgements

Unbilled revenues are recognized as a result of customers' bills being generated throughout the month on different billing cycles rather than all customers being billed at the end of the month. Unbilled revenues for a month are calculated by taking the difference of actual kilowatt hours purchased by Inter-County and the number of kilowatt hours billed to customers, multiplied by the average rate per kilowatt hour for the month. The difference between estimated and actual revenues is adjusted the following month when the previous unbilled estimate is reversed and actual billings are generated. This method of revenue recognition presents fairly, Inter-County's transfer of electricity to customers as the amount recognized is based on actual and estimated volumes delivered and the tariff rate per-unit of energy plus any applicable fixed charges as set by the PSC.

Performance obligations

Inter-County customers generally have no minimum purchase commitments. Revenue is recognized as each performance obligation is satisfied. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation to recognize as of December 31, 2019 and 2018.

Disaggregation of revenue

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended December 31, 2019 and 2018:

	2019	2018
Residential rural	$ 41,188,912	$ 40,461,142
Industrial	4,397,682	4,462,256
Large commercial	2,639,955	2,561,001
Small commercial	2,057,576	1,804,119
Total	$ 50,284,125	$ 49,288,518

NOTES TO FINANCIAL STATEMENTS

Note 2. Revenue Recognition (Continued)

Contract assets and cost liabilities

Contract cost liabilities include consumer deposits. The balance in contract liabilities was $637,442 and $589,988 as of December 31, 2019 and 2018, respectively. Contract assets include unbilled revenues. The balance in contract assets was $1,210,301 and $1,277,807 as of December 31, 2019 and 2018, respectively.

Note 3. Investments in Associated Organizations

Investments in associated organizations consist of the following as of December 31, 2019 and 2018:

	2019	2018
East Kentucky, patronage capital	$ 29,250,075	$ 27,451,801
CFC, patronage capital and CTCs	1,293,842	1,301,999
KAEC, patronage capital	497,480	493,158
Federated Insurance, patronage capital	261,147	256,454
Other associated organizations	462,477	427,169
Total	$ 31,765,021	$ 29,930,581

Inter-County records patronage capital assigned by associated organizations in the year in which such assignments are received. The Capital Term Certificates (CTCs) of 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. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30.00% 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 25.00% of the net margins for the next preceding year, Inter-County may distribute the difference between 25.00% and the payments made to such estates. Members' equity at December 31, 2019 and 2018 was 36.00% and 34.00% of total assets, respectively.

Note 5. Long-Term Debt

All assets, except vehicles, are pledged as collateral on the long-term debt to RUS, Federal Financing Bank (FFB), CoBank, and CFC under a joint mortgage agreement. The long-term debt is due in quarterly and monthly installments of varying amounts through 2052. RUS assesses 12.5 basis points to administer the FFB loans. Inter-County received a $25,000,000 loan from FFB in 2019, of which $20,000,000 was unadvanced and available for future use as of December 31, 2019.

Inter-County borrows funds from East Kentucky as part of a program to lend cooperative members money to make energy efficiency improvements in order to reduce kilowatt hour usage. Advances from East Kentucky were $171,184 for the year ended December 31, 2019. The loans are payable in monthly installments over 72 months and the interest rate was 1.60% and 1.75% as of December 31, 2019 and 2018, respectively.

Note 5. Long-Term Debt (Continued)

Long-term debt consists of the following as of December 31:

	2019	2018
First mortgage notes due RUS:		
1.63% to 5.13%	$ 2,790,295	$ 2,953,983
Advance payment, earns 5.00% interest	(446,006)	(2,106,148)
	2,344,289	847,835
First mortgage notes due FFB, 1.57% to 2.75%	51,458,826	48,122,663
CFC, 6.20% to 6.50%	2,809,607	3,079,649
CoBank, 4.55% and 4.48%	2,816,350	3,254,239
CoBank, 2.25%	- -	128,214
CoBank, 3.80%	15,913,542	16,511,639
East Kentucky, 1.60%	208,196	93,830
	75,550,810	72,038,069
Less current portion	3,156,380	3,190,000
	$ 72,394,430	$ 68,848,069

Principal payments for the next five years and thereafter are due as follows:

2020	$ 3,156,380
2021	3,222,961
2022	3,279,483
2023	3,337,800
2024	3,380,215
Thereafter	59,173,971
	$ 75,550,810

Note 6. Short-Term Notes Payable

As of December 31, 2019 and 2018, Inter-County had short-term lines of credit of $5,000,000 available from CFC and $3,000,000 from CoBank. There were no advances against the CFC or CoBank lines of credit as of December 31, 2019. Advances on the CoBank line of credit were $3,000,000 at an interest rate of 4.66% as of December 31, 2018. There were no advances on the CFC line of credit as of December 31, 2018.

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans

All eligible employees of Inter-County 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.

Inter-County's contributions to the R&S Plan in 2019 and 2018 represent less than 5.00% of the total contributions made to the plan by all participating employers. Inter-County made contributions to the plan for eligible employees of $743,046 in 2019 and $727,059 in 2018. There have been no significant changes that affect the comparability of 2019 and 2018.

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 01, 2019 and 2018 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).

Note 7. Pension Plans (Continued)

Section 6.13(e) of the RUS Loan Contract limits the amount of unsecured debt that a borrower may incur to 15% on Net Utility Plant if the equity level of the borrower, after considering such unsecured debt, is below 30% of its Total Assets, unless the borrower obtains RUS consent. RUS will consider any unsecured debt associated with the R&S Plan prepayment to be Permitted Debt and accordingly, it will be excluded from the application of Section 6.13(e). On April 22, 2013 Inter-County made a prepayment of $2,163,206 to the R&S Plan. The amount is being amortized over 10 years.

Note 8. Postretirement Benefits

Inter-County sponsors a defined benefit plan that provides medical insurance coverage to retirees and their dependents. Participating retirees and dependents do not contribute to the projected cost of coverage until eligible for Medicare at which time they contribute 50.00% of the cost of coverage. For measurement purposes, an annual rate of increase of 5.00% in 2019, then decreasing by 0.25% per year until 3.00% 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 4.50%. There have been no significant changes that affect the comparability of 2019 and 2018.

The funded status of the plan was as follows as of December 31:

	2019	2018
Projected benefit obligation	$ (4,891,484)	$ (4,807,802)
Plan assets at fair value	- -	- -
Funded status (deficit)	$ (4,891,484)	$ (4,807,802)

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

	2019	2018
Benefit obligation - beginning of period	$ 4,807,802	$ 4,719,435
Net periodic benefit cost:		
Service cost	105,310	101,644
Interest cost	214,363	215,636
Net period cost	319,673	317,280
Benefit payments to participants	(235,991)	(228,913)
Benefit obligation - end of period	$ 4,891,484	$ 4,807,802
Amounts recognized in the balance sheet consists of:		
Accumulated postretirement benefits	$ 4,891,484	$ 4,807,802
Amounts included in other comprehensive income:		
Postretirement benefits	$ 58,715	$ 58,716
Effect of 1% increase in the health care trend:		
Postemployment benefit obligation	$ 5,209,000	
Net periodic benefit cost	$ 340,400	

Note 8. Postretirement Benefits (Continued)

Projected retiree benefit payments for the next five years are expected to be as follows: 2020 - $279,420; 2021 - $294,790; 2022 - $311,000; 2023 - $328,105; 2024 - $346,150.

Note 9. Commitments

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

Note 10. Related Party Transactions

Several of the Directors of Inter-County and its President and General Manager are on the Boards of Directors of various associated organizations.

Note 11. Environmental Contingency

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

Note 12. Contingencies

Inter-County 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 and Uncertainties

Subsequent to December 31, 2019, local, U.S., and world governments have 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 Inter-County as of May 22, 2020, management believes that a material impact on the Inter-County's financial position and results of future operations is reasonably possible.

Note 14. Subsequent Events

Subsequent to December 31, 2019, Inter-County applied for and was granted a $1,883,400 loan under the PPP administered by a Small Business Administration (SBA) approved lender. The loan is uncollateralized and is fully guaranteed by the Federal government. The loan accrues interest at 1%, but payments are not required to begin for six months to one year after the funding of the loan. Inter-County is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. Inter-County intends to take measures to maximize the loan forgiveness but cannot reasonably determine the portion of the loan that will ultimately be forgiven.

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
Inter-County Energy Cooperative Corporation
Danville, 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 Inter-County Energy Cooperative Corporation (the Cooperative), which comprise the balance sheet as of December 31, 2019 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 May 22, 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
May 22, 2020

Jones, Nale & Mattingly PLC

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

To the Board of Directors
Inter-County Energy Cooperative Corporation
Danville, 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 Inter-County Energy Cooperative Corporation (the Cooperative), which comprise the balance sheet as of December 31, 2019, 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 May 22, 2020. In accordance with Government Auditing Standards, we have also issued our report dated May 22, 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;

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

The deferred credits are as follows:

Prepaid pension cost	$ 703,014

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
May 22, 2020