INTER-COUNTY ENERGY
COOPERATIVE CORPORATION
KENTUCKY 27

FINANCIAL REPORT

December 31, 2020

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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 sheets as of December 31, 2020 and 2019, and the related statements of revenue and comprehensive income, changes in members' equities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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.

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, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated May 21, 2021, 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.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
May 21, 2021

INTER-COUNTY ENERGY COOPERATIVE CORPORATION

BALANCE SHEETS
December 31, 2020 and 2019

	2020	2019
ASSETS		
Electric Plant, at original cost:		
In service	$ 138,932,318	$ 135,417,621
Under construction	320,832	479,569
	139,253,150	135,897,190
Less accumulated depreciation	44,241,722	42,787,243
	95,011,428	93,109,947
Investments in Associated Organizations	32,513,892	31,765,021
Current Assets:		
Cash and cash equivalents	4,366,662	2,588,914
Accounts receivable, less allowance for 2020 of $502,547 and 2019 of $498,650	3,742,922	4,073,289
Other receivables	1,771,064	372,214
Unbilled revenue	1,946,529	1,210,301
Material and supplies, at average cost	601,088	453,648
Other current assets	271,943	414,257
Total current assets	12,700,208	9,112,623
Non-current Assets:		
Deferred pension costs	486,702	703,014
Total assets	$ 140,712,230	$ 134,690,605
MEMBERS' EQUITIES AND LIABILITIES		
Members' Equities:		
Memberships	$ 1,091,010	$ 1,068,565
Patronage capital	47,929,602	45,620,504
Other equities	3,315,334	2,649,061
Accumulated other comprehensive (loss)	(1,033,570)	(1,092,286)
Total members' equities	51,302,376	48,245,844
Long-Term Liabilities:		
Long-term debt, less current portion	73,515,729	72,394,430
Accumulated postretirement benefits	4,918,212	4,891,484
Total long-term liabilities	78,433,941	77,285,914
Current Liabilities:		
Current portion of long-term debt	4,896,298	3,156,380
Accounts payable	4,315,815	4,234,583
Consumer deposits	666,594	637,442
Accrued expenses	1,097,206	1,130,442
Total current liabilities	10,975,913	9,158,847
Total members' equities and liabilities	$ 140,712,230	$ 134,690,605

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, 2020 and 2019

	2020	2019
Operating Revenues		
Sales of electric energy	$ 48,425,359	$ 50,284,125
Other electric revenues	1,650,732	1,212,775
	50,076,091	51,496,900
Operating Expenses		
Cost of power	30,633,154	33,461,944
Distribution - operations	3,136,591	2,920,470
Distribution - maintenance	3,444,405	2,849,760
Consumer accounts	1,767,373	1,747,685
Customer services	433,221	339,707
Administrative and general	2,295,574	2,282,829
Depreciation, excluding $377,215 in 2020 and $344,389 in 2019 charged to clearing accounts	4,594,914	4,452,998
Taxes, other than income	69,532	65,362
Interest on long-term debt	1,722,743	2,208,845
Other interest charges	15,519	105,059
Other deductions	161,309	21,596
Total cost of electric service	48,274,335	50,456,255
Operating Margins	1,801,756	1,040,645
Nonoperating Margins and Patronage Capital		
Interest income	60,383	110,685
Gain (loss) on sale of equipment	(108,001)	19,031
Generation and transmission capital credits	1,239,831	1,918,661
Other capital credits	100,030	104,847
	1,292,243	2,153,224
Net Margins	3,093,999	3,193,869
Other Comprehensive Income		
Amortization of postretirement benefit actuarial loss	58,716	58,715
Total Comprehensive Income	$ 3,152,715	$ 3,252,584

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, 2020 and 2019

	Memberships	Patronage Capital Assigned	Patronage Capital Assignable	Patronage Capital Unassigned	Patronage Capital Prior Deficits	Patronage Capital Retirements	Patronage Capital Total	Other Equities	Accumulated Other Comprehensive Income (Loss)	Total Members' Equities
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
Allocate margins		2,959,306	(3,193,869)		234,563		- -			- -
Comprehensive income:										
Net margins			3,093,999				3,093,999			3,093,999
Postretirement benefit obligation										
Amortization									58,716	58,716
Total comprehensive income										3,152,715
Net change in memberships	22,445									22,445
Refunds to estates						(110,403)	(110,403)			(110,403)
Other equities						(674,498)	(674,498)	666,273		(8,225)
Balance - December 31, 2020	$ 1,091,010	$ 61,322,466	$ 3,093,999	$ 150,817	$ (1,943,770)	$ (14,693,910)	$ 47,929,602	$ 3,315,334	$ (1,033,570)	$ 51,302,376

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, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 3,093,999	$ 3,193,869
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Charged to expense	4,594,914	4,452,998
Charged to clearing accounts	377,215	344,389
Patronage capital credits assigned	(1,339,861)	(2,023,508)
Amortization of postretirement actuarial adjustment	58,716	58,715
(Gain) loss on disposition of equipment	108,001	(19,031)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts and other receivables	(1,068,483)	320,173
Unbilled revenue	(736,228)	67,506
Material and supplies	(147,440)	88,356
Other current assets	142,314	(38,291)
Deferred pension costs	216,312	216,312
Accounts payable	81,232	(52,698)
Consumer deposits	29,152	47,454
Accrued expenses	(33,236)	41,618
Accumulated postretirement benefits	26,728	83,682
Net cash provided by operating activities	5,403,335	6,781,544
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(6,289,035)	(5,909,616)
Plant removal costs	(887,281)	(608,490)
Salvage recovered from retired plant	194,705	93,116
Receipts from other investments, net	590,990	189,068
Net cash (used in) investing activities	(6,390,621)	(6,235,922)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in memberships	22,445	9,200
Refund of patronage capital to members	(110,403)	(148,057)
Decrease in other equities	(8,225)	(178,651)
Repayments of short-term borrowings	- -	(3,000,000)
Advances of long-term debt	6,049,444	5,171,184
Cushion of credit applied	246,661	1,660,142
Principal payments on long-term debt	(3,434,888)	(3,318,585)
Net cash provided by financing activities	2,765,034	195,233
Net increase in cash and cash equivalents	1,777,748	740,855
Cash and cash equivalents, beginning of year	2,588,914	1,848,059
Cash and cash equivalents, end of year	$ 4,366,662	$ 2,588,914
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 1,741,750	$ 2,312,501

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.

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.

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, 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 December 31, 2020 and 2019:

	2020	2019
Distribution plant	$ 123,332,410	$ 119,382,957
General plant	15,599,908	16,034,664
Total	$ 138,932,318	$ 135,417,621

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%.

Note 1. Summary of Significant Accounting Policies (Continued)

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 energy. Accounts receivable are recorded at their 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.

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 taxes from revenues when collected and expenses when paid and instead, record collection and payment of 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.

Advertising

Inter-County expenses advertising costs as incurred. Advertising expenses were $30,612 and $35,387 for the years ended December 31, 2020 and 2019, respectively.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

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 within its service territory. Concentrations of credit risk with respect to accounts receivables are limited due to its large number of customers.

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.

Income tax status

Inter-County qualifies as a tax-exempt organization under Section 501(c)(12) of the Internal Revenue Code. Income from certain activities not directly related to Inter-County's tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income activity to be reported for the years ending December 31, 2020 and 2019.

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. Inter-County has no uncertain tax positions resulting in an accrual of tax expense or benefit.

Inter-County's Federal Return of Organization Exempt from Income Tax is subject to possible examination by taxing authorities until the expiration of related statutes of limitations on the return, which is generally three years.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Pension accounting

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 FASB Accounting Standards Codification (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 ASC 715 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, 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 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 2019 financial statement presentation to correspond to the 2020 format.

Subsequent events

Management has evaluated subsequent events through May 21, 2021, the date the financial statements were available to be issued.

Note 2. Revenue Recognition

Revenue from contracts

Inter-County is engaged in the distribution and sale of electricity to residential and commercial customers in 12 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. Revenue for pole attachments is invoiced at the end of the year. The performance obligation is satisfied ratably over the time of the contract and revenue is recognized monthly as earned.

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, 2020 and 2019.

Disaggregation of revenue

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended December 31, 2020 and 2019:

	2020	2019
Residential rural	$ 39,986,342	$ 41,188,912
Industrial	3,713,447	4,397,682
Large commercial	2,595,372	2,639,955
Small commercial	2,130,198	2,057,576
Other	1,650,732	1,212,775
Total	$ 50,076,091	$ 51,496,900

Note 2. Revenue Recognition (Continued)

Contract assets and cost liabilities

Contract assets include unbilled revenues and contract cost liabilities include consumer deposits. The balance in contract assets and liabilities were as follows as of December 31:

	2020	2019	2018
Contract assets	$ 1,946,529	$ 1,210,301	$ 1,277,807
Contract liabilities	$ 666,594	$ 637,442	$ 589,988

Note 3. Investments in Associated Organizations

Investments in associated organizations consist of the following as of December 31:

	2020	2019
East Kentucky, patronage capital	$ 30,144,200	$ 29,250,075
CFC, patronage capital and CTCs	1,248,891	1,293,840
KAEC, patronage capital	510,664	497,480
Federated Insurance, patronage capital	271,439	261,147
Other associated organizations	338,698	462,479
Total	$ 32,513,892	$ 31,765,021

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 2025 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 as of December 31, 2020 and 2019 was 36.46% and 35.82% of total assets, respectively.

NOTES TO FINANCIAL STATEMENTS

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 had unadvanced loan funds available from FFB in the amount of $15,932,317 and $20,000,000 as of December 31, 2020 and 2019, respectively. These funds will be used for future plant additions.

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 $98,361 and $171,184 for the years ended December 31, 2020 and 2019, respectively. The loans are payable in monthly installments over 72 months and the composite interest rate was 1.70% and 1.90% as of December 31, 2020 and 2019, respectively.

In April 2020, Inter-County qualified for and received a loan pursuant to the Paycheck Protection Program (PPP), a program implemented by the United States Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the PPP Loan). The PPP Loan bears interest at a fixed rate of 1.00% per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the SBA. The principal amount of the PPP Loan is subject to forgiveness upon Inter-County's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the PPP, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by Inter-County. Inter-County is accounting for the loan proceeds as debt in accordance with ASC 470. As such, Inter-County will recognize the forgiveness of debt in accordance with RUS guidance once the conditions for loan forgiveness have been substantially met. Inter-County submitted the application for loan forgiveness in January 2021.

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

	2020	2019
First mortgage notes due RUS:		
0.75% to 5.13%	$ 2,610,236	$ 2,790,295
Advance payment, earns 4.00% interest	(199,344)	(446,006)
	2,410,892	2,344,289
First mortgage notes due FFB, 0.90% to 2.75%	53,589,914	51,458,826
CFC, 6.35% to 6.50%	2,555,846	2,809,607
CoBank, 4.55% and 4.48%	2,437,138	2,816,350
CoBank, 3.80%	15,293,719	15,913,542
East Kentucky, 1.70% to 1.90%	241,118	208,196
PPP loan, 1.00%	1,883,400	- -
	78,412,027	75,550,810
Less current portion	4,896,298	3,156,380
	$ 73,515,729	$ 72,394,430

Note 5. Long-Term Debt (Continued)

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

2021	$ 4,896,298
2022	3,932,900
2023	3,579,100
2024	3,650,000
2025	3,684,600
Thereafter	58,669,129
	$ 78,412,027

Note 6. Short-Term Notes Payable

As of December 31, 2020 and 2019, 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, 2020 and 2019.

Note 7. Pension Plans

All eligible employees of Inter-County participate in the NRECA Retirement and Security Plan (RS 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 RS Plan in 2020 and 2019 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 $852,568 in 2020 and $743,046 in 2019. There have been no significant changes that affect the comparability of 2020 and 2019.

In the RS Plan, a zone status determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was 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 RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

Note 7. Pension Plans (Continued)

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 RS 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 RS 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 RS 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 RS 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 RS Plan, up to a maximum period of 20 years. If the entity chose 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).

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 RS 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 RS 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 2020, 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 2020 and 2019.

Note 8. Postretirement Benefits (Continued)

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

	2020	2019
Projected benefit obligation	$ (4,918,212)	$ (4,891,484)
Plan assets at fair value	- -	- -
Funded status (deficit)	$ (4,918,212)	$ (4,891,484)

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

	2020	2019
Benefit obligation - beginning of period	$ 4,891,484	4,807,802
Net periodic benefit cost:		
Service cost	101,184	105,310
Interest cost	218,234	214,363
Net period cost	319,418	319,673
Benefit payments to participants	(292,690)	(235,991)
Benefit obligation - end of period	$ 4,918,212	$ 4,891,484
Amounts recognized in the balance sheet consists of:		
Accumulated postretirement benefits	$ 4,918,212	$ 4,891,484
Amounts included in other comprehensive income:		
Postretirement benefits	$ 58,716	$ 58,715
Effect of 1% increase in the health care trend:		
Postemployment benefit obligation	$ 5,238,000	
Net periodic benefit cost	$ 340,200	

Projected retiree benefit payments for the next five years are expected to be as follows: 2021 - $225,530; 2022 - $190,500; 2023 - $150,700; 2024 - $130,100; 2025 - $123,900.

Note 9. 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 10. 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.

NOTES TO FINANCIAL STATEMENTS

Note 11. 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 12. Risks and Uncertainties

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 21, 2021, management believes that a material impact on the Inter-County'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
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, 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 May 21, 2021.

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.

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 21, 2021

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, 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 May 21, 2021. In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2021, 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;

- 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	$ 486,702

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 21, 2021