# INTER-COUNTY ENERGY COOPERATIVE CORPORATION KENTUCKY 27

# FINANCIAL REPORT

**December 31, 2021**

**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 Audit of the Financial Statements

### *Opinion*

We have audited the accompanying financial statements of Inter-County Energy Cooperative Corporation, which comprise the balance sheets as of December 31, 2021 and 2020, 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.

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, 2021 and 2020, 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.

### *Basis for Opinion*

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Inter-County Energy Cooperative Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Inter-County Energy Cooperative Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.



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***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Inter-County Energy Cooperative Corporation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Inter-County Energy Cooperative Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we have identified during the audit.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated March 11, 2022, on our consideration of Inter-County Energy Cooperative Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Inter-County Energy Cooperative Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Inter-County Energy Cooperative Corporation's internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 11, 2022

**INTER-COUNTY ENERGY COOPERATIVE CORPORATION**

**BALANCE SHEETS**
**December 31, 2021 and 2020**

| | 2021 | 2020 |
|---|---|---|
| ASSETS | | |
| Electric Plant, at original cost: | | |
| In service | $ 143,083,167 | $ 138,932,318 |
| Under construction | 450,411 | 320,832 |
| | 143,533,578 | 139,253,150 |
| Less accumulated depreciation | 47,160,554 | 44,241,722 |
| | 96,373,024 | 95,011,428 |
| Investments in Associated Organizations | 33,095,377 | 32,513,892 |
| Current Assets: | | |
| Cash and cash equivalents | 7,308,877 | 4,366,662 |
| Accounts receivable, less allowance for 2021 of $368,152 and 2020 of $502,547 | 2,368,632 | 3,742,922 |
| Other receivables | 2,099,968 | 1,771,064 |
| Unbilled revenue | 1,186,646 | 1,946,529 |
| Material and supplies, at average cost | 737,135 | 601,088 |
| Other current assets | 303,812 | 271,943 |
| Total current assets | 14,005,070 | 12,700,208 |
| Deferred Debits: | | |
| Deferred GPS field inventory costs | 132,810 | - - |
| Deferred pension costs | 270,390 | 486,702 |
| Total assets | $ 143,876,671 | $ 140,712,230 |
| MEMBERS' EQUITIES AND LIABILITIES | | |
| Members' Equities: | | |
| Memberships | $ 1,105,395 | $ 1,091,010 |
| Patronage capital | 48,866,543 | 47,929,602 |
| Other equities | 3,408,230 | 3,315,334 |
| Accumulated other comprehensive (loss) | (974,854) | (1,033,570) |
| Total members' equities | 52,405,314 | 51,302,376 |
| Long-Term Liabilities: | | |
| Long-term debt, less current portion | 74,260,778 | 73,515,729 |
| Accumulated postretirement benefits | 5,002,974 | 4,918,212 |
| Total long-term liabilities | 79,263,752 | 78,433,941 |
| Current Liabilities: | | |
| Current portion of long-term debt | 4,208,537 | 4,896,298 |
| Accounts payable | 5,854,709 | 4,315,815 |
| Consumer deposits | 766,880 | 666,594 |
| Accrued expenses | 1,377,479 | 1,097,206 |
| Total current liabilities | 12,207,605 | 10,975,913 |
| Total members' equities and liabilities | $ 143,876,671 | $ 140,712,230 |

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, 2021 and 2020**

| | 2021 | 2020 |
|---|---|---|
| Operating Revenues | | |
| Sales of electric energy | $ 52,567,591 | $ 48,425,359 |
| Other electric revenues | 1,339,863 | 1,650,732 |
| | 53,907,454 | 50,076,091 |
| Operating Expenses | | |
| Cost of power | 37,147,931 | 30,633,154 |
| Distribution - operations | 3,057,326 | 3,136,591 |
| Distribution - maintenance | 3,532,161 | 3,444,405 |
| Consumer accounts | 1,910,274 | 1,767,373 |
| Customer services | 426,458 | 433,221 |
| Administrative and general | 2,252,213 | 2,295,574 |
| Depreciation, excluding $355,670 in 2021 and $377,215 in 2020 charged to clearing accounts | 4,711,006 | 4,594,914 |
| Taxes, other than income | 69,519 | 69,533 |
| Interest on long-term debt | 1,694,057 | 1,722,743 |
| Other interest charges | 5,516 | 15,519 |
| Other deductions | 16,455 | 159,629 |
| Total cost of electric service | 54,822,916 | 48,272,656 |
| Operating Margins (Deficit) | (915,462) | 1,803,435 |
| Nonoperating Margins and Patronage Capital | | |
| Interest income | 59,839 | 60,383 |
| Loss on sale of equipment | (38,284) | (108,001) |
| Other nonoperating deficits | (875) | (1,679) |
| Generation and transmission capital credits | 480,227 | 1,239,831 |
| Other capital credits | 186,105 | 100,030 |
| PPP loan forgiveness | 1,349,743 | - - |
| | 2,036,755 | 1,290,564 |
| Net Margins | 1,121,293 | 3,093,999 |
| Other Comprehensive Income | | |
| Amortization of postretirement benefit actuarial loss | 58,716 | 58,716 |
| Total Comprehensive Income | $ 1,180,009 | $ 3,152,715 |

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, 2021 and 2020**

| | | Patronage Capital | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Memberships | Assigned | Assignable | Unassigned | Prior Deficits | Retirements | Total | Other Equities | Accumulated Other Comprehensive Income (Loss) | Total Members' Equities |
| 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 |
| Allocate margins | | 3,141,617 | (3,093,999) | | (47,618) | | - - | | | - - |
| Comprehensive income: | | | | | | | | | | |
| Net margins | | | 1,121,293 | | | | 1,121,293 | | | 1,121,293 |
| Postretirement benefit obligation | | | | | | | | | | |
| Amortization | | | | | | | | | 58,716 | 58,716 |
| Total comprehensive income | | | | | | | | | | 1,180,009 |
| Net change in memberships | 14,385 | | | | | | | | | 14,385 |
| Refunds to estates | | | | | | (184,702) | (184,702) | | | (184,702) |
| Other equities | | | | | | 350 | 350 | 92,896 | | 93,246 |
| Balance - December 31, 2021 | $ 1,105,395 | $ 64,464,083 | $ 1,121,293 | $ 150,817 | $ (1,991,388) | $ (14,878,262) | $ 48,866,543 | $ 3,408,230 | $ (974,854) | $ 52,405,314 |

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, 2021 and 2020**

| | 2021 | 2020 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net margins | $ 1,121,293 | $ 3,093,999 |
| Adjustments to reconcile net margins to net cash provided by operating activities: | | |
| Depreciation: | | |
| Charged to expense | 4,711,006 | 4,594,914 |
| Charged to clearing accounts | 355,670 | 377,215 |
| Patronage capital credits assigned | (666,332) | (1,339,861) |
| Amortization of postretirement actuarial adjustment | 58,716 | 58,716 |
| Loss on disposition of equipment | 38,284 | 108,001 |
| PPP loan forgiveness | (1,349,743) | - - |
| Change in assets and liabilities, net of the effects of investing and financing activities: | | |
| Accounts and other receivables, net | 1,045,386 | (1,068,483) |
| Unbilled revenue | 759,883 | (736,228) |
| Material and supplies | (136,047) | (147,440) |
| Other current assets | (31,869) | 142,314 |
| Deferred GPS field inventory costs | (132,810) | - - |
| Deferred pension costs | 216,312 | 216,312 |
| Accounts payable | 1,538,894 | 81,232 |
| Consumer deposits | 100,286 | 29,152 |
| Accrued expenses | 280,273 | (33,236) |
| Accumulated postretirement benefits | 84,762 | 26,728 |
| Net cash provided by operating activities | 7,993,964 | 5,403,335 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Plant additions | (5,828,314) | (6,289,035) |
| Plant removal costs | (718,380) | (887,281) |
| Salvage recovered from retired plant | 80,138 | 194,705 |
| Receipts from other investments, net | 84,847 | 590,990 |
| Net cash (used in) investing activities | (6,381,709) | (6,390,621) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net increase in memberships | 14,385 | 22,445 |
| Refund of patronage capital to members | (184,702) | (110,403) |
| Increase (decrease) in other equities | 93,246 | (8,225) |
| Advances of long-term debt | 5,041,079 | 6,049,444 |
| Cushion of credit applied | 199,344 | 246,661 |
| Principal payments on long-term debt | (3,833,392) | (3,434,888) |
| Net cash provided by financing activities | 1,329,960 | 2,765,034 |
| Net increase in cash and cash equivalents | 2,942,215 | 1,777,748 |
| Cash and cash equivalents, beginning of year | 4,366,662 | 2,588,914 |
| Cash and cash equivalents, end of year | $ 7,308,877 | $ 4,366,662 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Cash payments for interest | $ 1,695,527 | $ 1,741,750 |

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

# NOTES TO FINANCIAL STATEMENTS

## Note 1. 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.

### Use of 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, 2021 and 2020.

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, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Distribution plant | $ 127,515,983 | $ 123,332,410 |
| General plant | 15,567,184 | 15,599,908 |
| Total | $ 143,083,167 | $ 138,932,318 |

### 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%.

## NOTES TO FINANCIAL STATEMENTS

Note 1. 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 Commonwealth 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 $27,688 and $30,612 for the years ended December 31, 2021 and 2020, 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. 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, 2021 and 2020.

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. 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 Commission'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 amounts presented in the 2020 financial statements have been reclassified to conform to the 2021 presentation.

Subsequent events

Management has evaluated subsequent events through March 11, 2022, 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, 2021 and 2020.

*Disaggregation of revenue*

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended December 31, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Residential rural | $ 41,846,690 | $ 39,986,342 |
| Industrial | 4,749,214 | 3,713,447 |
| Large commercial | 3,551,682 | 2,595,372 |
| Small commercial | 2,420,005 | 2,130,198 |
| Other | 1,339,863 | 1,650,732 |
| Total | $ 53,907,454 | $ 50,076,091 |

## NOTES TO FINANCIAL STATEMENTS

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:

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| Contract assets | $ 1,186,646 | $ 1,946,529 | $ 1,210,301 |
| Contract liabilities | $ 766,880 | $ 666,594 | $ 637,442 |

Note 3. Investments in Associated Organizations

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

| | 2021 | 2020 |
|---|---|---|
| East Kentucky, patronage capital | $ 30,624,427 | $ 30,144,200 |
| CFC, patronage capital and CTCs | 1,239,564 | 1,248,892 |
| KAEC, patronage capital | 562,369 | 510,664 |
| Federated Insurance, patronage capital | 281,793 | 271,439 |
| Other associated organizations | 387,224 | 338,697 |
| Total | $ 33,095,377 | $ 32,513,892 |

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 ranging from zero to 5.00% and are scheduled to mature at varying times from 2023 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, 2021 and 2020 was 36.42% and 36.46% 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 had unadvanced loan funds available from FFB in the amount of $10,932,317 and $15,932,317 as of December 31, 2021 and 2020, 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 $41,079 and $98,361 for the years ended December 31, 2021 and 2020, respectively. The loans are payable in monthly installments over 72 months and the composite interest rate was 1.70% for each of the years ending December 31, 2021 and 2020.

In April 2020, Inter-County applied for and was granted a forgivable loan of $1,883,400 from the United States Small Business Administration (SBA) Paycheck Protection Program (PPP). Under the CARES Act, subject to limitations as defined, the loan may be partially or fully forgiven, depending on specified actual payroll and other qualified costs for the covered period following receipt of the loan. Inter-County accounted for the loan proceeds as debt in accordance with ASC 470. Inter-County submitted its application for forgiveness to the SBA and was notified in December 2021 that a partial amount totaling $1,349,743 had been forgiven. As such, in compliance with guidance from RUS, Inter-County has recognized this partial forgiveness of debt as nonoperating income. The remaining balance of the loan, $533,657, bears interest at a fixed rate of 1.00% per annum, has a term of two years from the initial date of receipt, and is unsecured and guaranteed by the SBA. Inter-County paid off this remaining balance subsequent to year end on January 13, 2022.

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

| | 2021 | 2020 |
|---|---|---|
| First mortgage notes due RUS: | | |
| 0.75% to 5.13% | $ 2,268,738 | $ 2,610,236 |
| Advance payment, earns 4.00% interest | - - | (199,344) |
| | 2,268,738 | 2,410,892 |
| First mortgage notes due FFB, 0.90% to 2.75% | 56,466,502 | 53,589,914 |
| CFC, 6.35% to 6.50% | 2,297,047 | 2,555,846 |
| CoBank, 4.55% and 4.48% | 2,043,141 | 2,437,138 |
| CoBank, 3.80% | 14,647,860 | 15,293,719 |
| East Kentucky, 1.70% to 1.90% | 212,370 | 241,118 |
| PPP loan, 1.00% | 533,657 | 1,883,400 |
| | 78,469,315 | 78,412,027 |
| Less current portion | 4,208,537 | 4,896,298 |
| | $ 74,260,778 | $ 73,515,729 |

## NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

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

| | | |
|---|---|---|
| 2022 | $ | 4,208,537 |
| 2023 | | 3,932,900 |
| 2024 | | 3,579,100 |
| 2025 | | 3,650,000 |
| 2026 | | 3,684,600 |
| Thereafter | | 59,414,178 |
| | $ | 78,469,315 |

Note 6. Short-Term Notes Payable

As of December 31, 2021 and 2020, 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, 2021 and 2020.

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 2021 and 2020 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 $856,638 in 2021 and $852,568 in 2020. There have been no significant changes that affect the comparability of 2021 and 2020. Employer contributions to the 401(k) plan amounted to $95,504 for 2021 and $88,766 for 2020.

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, 2021 and 2020 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.

## NOTES TO FINANCIAL STATEMENTS

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 2021, 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 2021 and 2020.

## NOTES TO FINANCIAL STATEMENTS

Note 8. Postretirement Benefits (Continued)

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

| | 2021 | 2020 |
|---|---|---|
| Projected benefit obligation | $ (5,002,974) | $ (4,918,212) |
| Plan assets at fair value | - - | - - |
| Funded status (deficit) | $ (5,002,974) | $ (4,918,212) |

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

| | 2021 | 2020 |
|---|---|---|
| Benefit obligation - beginning of period | $ 4,918,212 | 4,891,484 |
| Net periodic benefit cost: | | |
| Service cost | 98,700 | 101,184 |
| Interest cost | 220,718 | 218,234 |
| Net period cost | 319,418 | 319,418 |
| Benefit payments to participants | (234,656) | (292,690) |
| Benefit obligation - end of period | $ 5,002,974 | $ 4,918,212 |
| | | |
| Amounts recognized in the balance sheet consists of: | | |
| Accumulated postretirement benefits | $ 5,002,974 | $ 4,918,212 |
| | | |
| Amounts included in other comprehensive income: | | |
| Postretirement benefits | $ 58,716 | $ 58,716 |
| | | |
| Effect of 1% increase in the health care trend: | | |
| Postemployment benefit obligation | $ 5,328,000 | |
| Net periodic benefit cost | $ 340,200 | |

Projected retiree benefit payments for the next five years are expected to be as follows: 2022 - $190,500; 2023 - $150,700; 2024 - $130,100; 2025 - $123,900; 2026 - $107,700.

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 March 11, 2022, management believes that a material impact on the Inter-County's financial position and results of future operations is reasonably possible.

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# INDEPENDENT AUDITOR'S 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, 2021 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 March 11, 2022.

**Report on 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 or significant deficiencies may exist that were not identified.



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**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free from 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 financial statements. 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
March 11, 2022

# 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, 2021, 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 March 11, 2022. In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2022, 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:

| | | |
|---|---|---|
| GPS field inventory costs | $ | 132,810 |
| Prepaid pension cost | | 270,390 |
| | $ | 403,200 |

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
March 11, 2022