JACKSON ENERGY COOPERATIVE CORPORATION
AND SUBSIDIARY
KENTUCKY 3

CONSOLIDATED FINANCIAL REPORT

February 29, 2020

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Jackson Energy Cooperative Corporation and Subsidiary
McKee, Kentucky

We have audited the accompanying consolidated financial statements of Jackson Energy Cooperative Corporation and Subsidiary, which comprise the consolidated balance sheet as of February 29, 2020, and the related consolidated statements of revenue and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Certified Public Accountants and Advisors
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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jackson Energy Cooperative Corporation and Subsidiary as of February 29, 2020, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated July 8, 2020, on our consideration of Jackson Energy Cooperative Corporation and Subsidiary's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance.

Prior Period Financial Statements

The consolidated financial statements of Jackson Energy Cooperative Corporation and Subsidiary, as of February 28, 2019, were audited by other auditors whose report dated May 14, 2019, expressed an unmodified opinion on those statements.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
July 8, 2020

JACKSON ENERGY COOPERATIVE CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
February 29, 2020 and February 28, 2019

Assets	2020	2019
Utility Plant, at original cost:		
In service	$ 272,106,969	$ 262,926,781
Under construction	933,891	597,815
	273,040,860	263,524,596
Less accumulated depreciation	99,581,703	93,430,952
	173,459,157	170,093,644
Investments and Other Assets:		
Associated organizations	67,915,813	63,027,152
Goodwill	262,177	262,177
	68,177,990	63,289,329
Current Assets:		
Cash and cash equivalents	4,169,984	7,741,508
Accounts receivable, less allowance for 2020 of $97,920 and 2019 of $121,513	10,703,631	11,535,244
Other receivables	2,816,423	2,067,139
Material and supplies, at average cost	2,282,224	2,195,338
Prepayments and other current assets	364,716	361,343
Total current assets	20,336,978	23,900,572
Deferred Debits	8,491,814	9,448,313
Total	$ 270,465,939	$ 266,731,858

Members' Equities and Liabilities	2020	2019
Members' Equities:		
Memberships and capital	$ 918,245	$ 1,309,950
Patronage capital and retained earnings	116,430,902	109,828,384
Other equities	4,424,811	4,034,195
Accumulated other comprehensive (loss)	(538,460)	(587,036)
	121,235,498	114,585,493
Long-Term Debt	122,242,684	126,079,725
Accumulated Postretirement Benefits	9,134,630	8,956,515
Current Liabilities:		
Current portion of long-term debt	6,029,636	5,700,000
Accounts payable	6,876,135	6,584,659
Consumer deposits	1,005,202	817,488
Accrued expenses	2,643,399	2,680,177
Total current liabilities	16,554,372	15,782,324
Consumer Advances and Others	1,298,755	1,327,801
Total	$ 270,465,939	$ 266,731,858

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

JACKSON ENERGY COOPERATIVE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Years Ended February 29, 2020 and February 28, 2019

	2020	2019
Operating Revenues	$ 105,018,965	$ 107,666,160
Operating Expenses:		
Cost of power and propane	64,602,320	65,532,325
Distribution - operations	5,976,378	5,962,472
Distribution - maintenance	6,754,892	7,400,417
Consumer accounts	3,179,069	3,213,200
Customer service and information	570,367	627,224
Administrative and general	4,869,703	5,122,570
Depreciation, excluding $543,592 in 2020 and $635,907 in 2019 charged to clearing accounts	10,442,488	10,204,958
Amortization of deferred property retirements	470,772	470,772
Interest on long-term debt	4,553,973	4,554,953
Other interest	23,868	15,942
Taxes	241,436	173,911
Other deductions	106,018	141,735
Total cost of electric service	101,791,284	103,420,479
Operating Margins	3,227,681	4,245,681
Nonoperating Margins:		
Interest income	318,999	146,375
Subsidiary and others	9,967	(97,431)
	328,966	48,944
Patronage Capital assigned from:		
East Kentucky Power Cooperative, Inc.	3,565,845	3,291,092
Other organizations	190,153	178,275
	3,755,998	3,469,367
Net Margins	7,312,645	7,763,992
Other Comprehensive Income:		
Postretirement benefits	48,576	48,576
Total Comprehensive Income	$ 7,361,221	$ 7,812,568

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

JACKSON ENERGY COOPERATIVE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended February 29, 2020 and February 28, 2019

	Memberships and Capital	Patronage Total	Other Equities	Accumulated Other Comprehensive Income (Loss)	Total Members' Equities
Balance - February 28, 2018	$ 1,311,060	$102,716,696	$ 4,046,869	$ (635,612)	$107,439,013
Comprehensive income:					
Net margins		7,763,992			7,763,992
Postretirement benefit obligation					
Amortization				48,576	48,576
Total comprehensive income					7,812,568
Refunds of capital credits		(652,304)			(652,304)
Memberships, net	(1,110)				(1,110)
Other equities			(12,674)		(12,674)
Balance - February 28, 2019	1,309,950	109,828,384	4,034,195	(587,036)	114,585,493
Comprehensive income:					
Net margins		7,312,645			7,312,645
Postretirement benefit obligation					
Amortization				48,576	48,576
Total comprehensive income					7,361,221
Refunds of capital credits		(710,127)			(710,127)
Memberships, net	(391,705)				(391,705)
Other equities			390,616		390,616
Balance - February 29, 2020	$ 918,245	$116,430,902	$ 4,424,811	$ (538,460)	$121,235,498

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

JACKSON ENERGY COOPERATIVE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended February 29, 2020 and February 28, 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 7,312,645	$ 7,763,992
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation		
Charged to expense	10,442,488	10,204,958
Charged to clearing accounts	543,592	635,907
Amortization of deferred retirements	470,772	470,772
Amortization of postretirement benefits	48,576	48,576
Patronage capital credits	(3,755,998)	(3,469,367)
Accumulated postretirement benefits	178,115	122,153
Change in assets and liabilities:		
Receivables	82,329	996,002
Material and supplies	(86,886)	(127,820)
Prepayments	(3,373)	377,174
Deferred debits	485,727	485,727
Payables	291,476	(684,072)
Consumer deposits	187,714	98,286
Accrued expenses	(36,778)	(191,705)
Consumer advances for construction	(29,046)	(1,098)
Net cash provided by operating activities	16,131,353	16,729,485
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(12,926,769)	(10,076,392)
Salvage, net of removal costs	(1,424,823)	(1,315,849)
Other investments, net	(1,132,663)	539,679
Net cash (used in) investing activities	(15,484,256)	(10,852,562)
CASH FLOWS FROM FINANCING ACTIVITIES		
Memberships, capital and other equities	(1,089)	(13,784)
Retirement of patronage capital	(710,127)	(652,304)
Additional long-term borrowings	2,000,000	6,940,000
Payments on long-term debt	(5,507,405)	(9,397,100)
Short-term repayments	- -	(1,600,000)
Net cash (used in) financing activities	(4,218,621)	(4,723,188)
Net increase (decrease) in cash and cash equivalents	(3,571,524)	1,153,735
Cash and cash equivalents, beginning of year	7,741,508	6,587,773
Cash and cash equivalents, end of year	$ 4,169,984	$ 7,741,508
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 4,652,887	$ 4,466,520
Cash payments for income taxes	45,888	120,000

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

Note 1. Summary of Significant Accounting Policies

Jackson Energy Cooperative Corporation and Subsidiary (Jackson Energy) 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:

Principals of Consolidation The consolidated financial statements include the accounts of Jackson Energy Cooperative Corporation and Jackson Propane Plus, LLC (Propane Plus). Jackson Energy owns 100% of the member units of Propane Plus. All significant intercompany accounts and transactions have been eliminated. Propane Plus uses a calendar year-end for reporting purposes, and the consolidated financial statements include the activity of Propane Plus as of and for the years ended December 31, 2019 and 2018. There were no events through February 29, 2020, that had a material affect on the financial position or results of operations of Propane Plus.

Business Activity Jackson Energy provides distribution electric service to residential, business, and commercial consumers in 14 counties in eastern Kentucky. Propane Plus sells propane and related accessories to residential and commercial customers in the Jackson Energy service area. Jackson Energy provides overall business direction to Propane Plus.

Cash and Cash Equivalents Jackson Energy considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. Jackson Energy maintains cash deposits in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC). As of February 29, 2020 and February 28, 2019, the financial institutions reported deposits in excess of the $250,000 FDIC insured limit several times during the audit period. These financial institutions have strong credit ratings and management believes that credit risk related to the accounts is minimal.

Accounts Receivable Accounts receivable consists of amounts due for sales of electric energy and propane, which were not collected at year-end. Accounts receivable are recorded at net realizable value consisting of the carrying amount less an allowance for uncollectible accounts. Jackson Energy and Propane Plus use 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 Jackson Energy and Propane Plus value materials and supplies at the lower of average cost or net realizable value.

Propane Inventory Propane Plus purchases all of its propane requirements from unrelated parties through Kentucky Propane Plus, LLC. Propane is delivered to bulk tanks owned by Propane Plus, then delivered to customers on an as needed basis.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Utility 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 year.

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.

Propane Plus's fixed assets consist primarily of propane tanks located on customers' premises, bulk tanks, trucks used for delivery, and office equipment.

The major classifications of utility plant in service consist of the following as of February 29, 2020 and February 28, 2019:

	2020	2019
Electric Plant:		
Distribution plant	$ 242,128,800	$ 234,627,833
General plant	23,641,598	22,884,818
	265,770,398	257,512,651
Plant under construction	933,891	597,815
	266,704,289	258,110,466
Less accumulated depreciation	96,690,429	90,893,816
Net electric plant	170,013,860	167,216,650
Propane Plant:		
Propane tanks on customer premises	2,256,084	2,108,130
Bulk tanks	983,100	928,643
Delivery and other trucks	1,771,883	1,531,374
Land and buildings	1,023,403	616,544
Office and other equipment	302,101	229,439
	6,336,571	5,414,130
Less accumulated depreciation	2,891,274	2,537,136
Net propane plant	3,445,297	2,876,994
Net utility plant	$ 173,459,157	$ 170,093,644

Depreciation Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Depreciation rates range from 1.44% to 10.00%, with a composite rate of 4.10% for distribution plant. General plant rates range from 2.50% to 20.00%. Propane Plus's depreciation is computed using the straight-line method over the useful lives of its assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Management Services Propane Plus is one of 4 members of a group of propane companies that utilize the abilities of an individual who manages the day to day operations of each propane company and arranges for the purchase of bulk propane. Propane Plus shares the cost equally for the labor, benefits, and other costs of this manager.

Advertising Jackson Energy and Propane Plus expense advertising costs as incurred. Jackson Energy advertising expense amounted to $103,073 and $110,020 for the years ended February 29, 2020 and February 28, 2019, respectively.

Goodwill The goodwill has been recorded in connection with the purchase of one-half (1/2) of the interest from an unrelated party on June 30, 2000. The excess of the payment price over the value of assets acquired has been recorded as goodwill. Propane Plus tests goodwill for impairment when a triggering event occurs that indicates the fair value of the entity may be below its carrying value. As of February 29, 2020 and February 28, 2019, management does not believe an impairment exists.

Estimates The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States 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 consolidated 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 consolidated financial statements.

Deferred Property Retirement During 1994, Jackson Energy initiated a Geographic Information System (GIS) project to establish detailed maps of its distribution electric system and provide a database containing detailed information on the facilities and quantities installed. A physical inventory was performed and the difference between the facilities reported on the GIS base map and the accounting records resulted in an adjustment to decrease plant by $14,535,593, and a reduction in accumulated depreciation of $2,530,647. This resulted in a net adjustment of $12,004,946. The PSC required this amount to be amortized over 25.5 years, which results in annual amortization of $470,772.

Risk Management Jackson Energy 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 Jackson Energy grants credit to residents of local counties. Concentrations of credit risk with respect to accounts receivables are limited due to its large number of customers. Jackson Energy carries insurance that covers receivables from the largest commercial customers.

Taxes Jackson Energy 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. Jackson Energy’s policy is to exclude sales tax from revenue when collected and expenses when paid and instead, record collection and payment of sales taxes through a liability account.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Income Tax Status Jackson Energy is exempt from federal and state income taxes under provisions of Section 501(c)(12). Accordingly, the financial statements for Jackson Energy include no provision for income taxes. Propane Plus is a limited liability company treated as a partnership for federal income tax purposes.

Management evaluates its potential exposures from tax positions taken that have or could be challenged by taxing authorities. These potential exposures result because taxing authorities may take positions that differ from those taken by management in the interpretation and application of statutes, regulations, and rules. There are no tax positions for which the ultimate deductibility is highly uncertain included in the accompanying consolidated financial statements. Jackson Energy recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Jackson Energy did not recognize any interest or penalties during the years ended February 29, 2020 or February 28, 2019. Jackson Energy's income tax return is subject to possible examination by taxing authorities until the expiration of related statues of limitations on the return, which is generally three years.

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

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

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

Recent Accounting Pronouncements In February 2016, the FASB issued ASU 2016-02, *Leases.* The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of revenue and comprehensive income. This standard will be effective for the year ending February 28, 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued) 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 February 29, 2024.

Jackson Energy is currently in the process of evaluating the impact of the adoption of these ASUs on the consolidated financial statements.

Subsequent Events Management has evaluated subsequent events through July 8, 2020, the date the consolidated financial statements were available to be issued.

Note 2. Revenue Recognition

Adoption of accounting pronouncement

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

Under ASU 2014-09, the timing of recognition of revenue for each performance obligation may differ from the timing of the customer billing, creating a contract asset or contract liability. Short-term contract liabilities are classified as consumer deposits. Jackson Energy and Propane Plus have no contract assets or long-term contract liabilities.

Revenue from contracts

Jackson Energy is engaged in the distribution and sale of electricity to residential and commercial customers in 15 counties in southeastern Kentucky. Revenue from these activities is generated from tariffs approved by the PSC. Jackson Energy 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 Jackson Energy. 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 14 days of the date of the bill.

Propane Plus is primarily engaged in the sale of propane to residential and commercial customers in eastern Kentucky. Propane Plus has standard prices for regular customers but also enters into contracts with some customers for an agreed-upon fixed price per gallon. Customers request propane as needed, and Propane Plus recognizes revenue at the point in time when the propane is delivered. The amount of revenue recognized is the volume of propane delivered multiplied by the price per gallon. Customers are billed at the point of sale and outstanding amounts are typically due within 30 days of the date of the bill.

Note 2. Revenue Recognition (Continued)

Significant judgements

Jackson Energy bills all consumers for electricity used from the first day of the month to the first day of the following month. The amount of revenue recognized each month is equal to the actual customer usage multiplied by the approved tariff rate, plus any additional regulatory charges. This method of revenue recognition presents fairly, Jackson Energy's transfer of electricity to customers as the amount recognized is based on actual volumes delivered and the tariff rate per-unit of energy and any applicable fixed charges as set by the PSC. Propane Plus recognizes revenue at the point when customer orders are delivered, therefore, there are no unbilled or overbilled amounts to recognize.

Performance obligations

Jackson Energy and Propane Plus customers generally have no minimum purchase commitments. Jackson Energy and Propane Plus recognize revenue as each performance obligation is satisfied. Performance obligations are limited to the service requested and received to date. Accordingly, there are no unsatisfied performance obligations to recognize as of February 29, 2020 and February 28, 2019.

Disaggregation of revenue

The following table shows Jackson Energy's revenues from contracts with customers disaggregated by customer class, for the years ended February 29, 2020 and February 28, 2019:

	2020	2019
Residential	$ 74,032,177	$ 76,668,582
Large commercial	11,619,409	11,687,999
Small commercial	7,308,706	7,409,818
Public lights	3,791,364	3,913,637
Other	3,399,382	3,075,589
Propane	4,867,927	4,910,535
Total	$ 105,018,965	$ 107,666,160

Contract cost liabilities

Contract cost liabilities include consumer deposits. The balance in contract liabilities was $1,005,202 and $817,488 as of February 29, 2020 and February 28, 2019, respectively.

Note 3. Investments in Associated Organizations

Investments in associated organizations consist of the following as of February 29, 2020 and February 28, 2019:

	2020	2019
East Kentucky, patronage capital	$ 59,635,375	$ 56,247,251
CFC, CTC's	1,631,122	1,637,967
CFC, patronage capital	1,392,060	1,404,600
Federated Insurance	508,758	424,003
National Information Solutions Cooperative	282,965	274,092
United Utility Supply	1,004,513	1,004,513
Kentucky Association of Electric Cooperatives	192,627	183,987
Other associated organizations	35,193	31,011
Economic development loans	3,233,200	1,819,728
Total	$ 67,915,813	$ 63,027,152

Jackson Energy records patronage capital assigned by associated organizations in the year in which such assignments are received. The Capital Term Certificates (CTCs) of CFC are recorded at cost. The CTCs were purchased from CFC as a condition of obtaining long-term financing. The CTCs bear interest at 3.00% and 5.00% and are scheduled to mature at varying times from 2020 to 2080. The economic development loans are through United States Department of Agriculture (USDA) at no interest to local businesses and are secured by either a portion of the assets pledged by Jackson Energy's consumers, or guarantees from local banks.

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, Jackson Energy may distribute the difference between 25.00% and the payments made to such estates. Jackson Energy's equity at February 29, 2020 and February 28, 2019 was 43.00% and 41.00% of total assets, respectively.

Note 5. Long-Term Debt

All assets of Jackson Energy, 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 2048. Long-term debt consists of the following as of February 29, 2020 and February 28, 2019:

	2020	2019
Jackson Energy		
RUS, cushion of credit	$ (3,584,839)	$ (3,411,061)
Notes due FFB, 1.70 - 4.64%	97,819,258	101,105,206
Economic Development, USDA, no interest	3,656,581	2,132,807
Notes due CoBank, 3.47%	22,726,983	24,186,228
Notes due CFC, 6.20 - 6.70%	6,972,337	7,570,903
	127,590,320	131,584,083
Less current portion	6,004,709	5,685,000
	$ 121,585,611	$ 125,899,083
Propane Plus		
Cumberland Valley National Bank	$ 682,000	$ 195,642
Less current portion	24,927	15,000
	657,073	180,642
Total long-term portion	$ 122,242,684	$ 126,079,725

The interest rates on a portion of the notes to FFB are subject to repricing at various dates. RUS assesses 12.5 basis points to administer the FFB loans. As of February 29, 2020 and February 28, 2019, there was $36,000,000 of FFB loan funds unadvanced, respectively. These funds will be used for future plant additions.

The note due to National Bank for Cooperatives (CoBank) is a 15-year note and represents amounts to refinance higher rate RUS loans.

In December 2019, Propane Plus borrowed $682,000 from Cumberland Valley National Bank to acquire land in Floyd County. The note is payable over 20 years in monthly installments at 4.75% interest.

As of February 29, 2020, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2021	$ 6,029,636
2022	6,084,673
2023	6,092,804
2024	6,146,350
2025	6,352,414
Thereafter	97,566,442
	$ 128,272,320

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Short-Term Borrowings

Jackson Energy has a short-term line of credit of $10,000,000 available from CFC and $5,000,000 from CoBank. There were no advances against the lines of credit as of February 29, 2020 and February 28, 2019.

Note 7. Pension Plans

All eligible employees of Jackson Energy participate in the NRECA Retirement and Security Plan (R&S Plan), a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The Plan sponsor's identification number is 53-0116145 and the Plan Number is 333. A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Employees hired prior to December 1, 2013 participate in Cost of Living Allowance (COLA) benefits for contributions made prior to February 2014 and have a contribution rate of 2.00%. All contributions after February 2014 are not covered by COLA. Employees hired after December 1, 2013, do not participate in COLA and have a contribution rate of 1.70%.

Jackson Energy's contributions to the R&S Plan in 2020 and 2019 represent less than 5.00% of the total contributions made to the plan by all participating employers. Jackson Energy made contributions to the plan of $1,820,887 in 2020 and $1,804,890 in 2019. There have been no significant changes that affect the comparability of 2020 and 2019. During 2012, Jackson Energy purchased COLA benefits for participating employees at a cost of $2,040,627. This amount is being amortized over 30 years.

In the R&S Plan, a zone status determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the R&S Plan was over 85.00% funded at January 1, 2019 and 2018 based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the R&S Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the Retirement Security (R&S) Plan (a defined benefit multiemployer pension plan) to make a prepayment and reduce future required contributions. The prepayment amount is a cooperative share, as of January 1, 2013, of future contributions required to fund the R&S Plan's unfunded value of benefits earned to date using Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual R&S Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25.00%, retroactive to January 1, 2013. The 25.00% 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.

Note 7. Pension Plans, continued

Two prepayment options were available to participating cooperatives:

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

On February 14, 2013, RUS issued a memorandum to all of its borrowers regarding the proper accounting treatment of the R&S Plan prepayment. RUS stipulated that the prepayment shall be recorded as a long-term prepayment in Account 186, Miscellaneous Deferred Debits. This prepaid expense shall be amortized to Account 926, Employee Pensions and Benefits, over a ten-year period. Alternatively, RUS borrowers may calculate the amortization period by subtracting the cooperative's average age of its workforce as provided by NRECA from the cooperative's normal retirement age under the R&S Plan, up to a maximum period of 20 years. If the entity chooses 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 15.00% of net utility plant if the equity level of the borrower, after considering such unsecured debt, is below 30.00% of its total assets, unless the borrower obtains RUS consent. RUS will consider any unsecured debt associated with the R&S Plan prepayment to the permitted debt and accordingly, it will be excluded from the application of Section 6.13(e). on March 15, 2013, Jackson Energy made a prepayment of $6,383,300 to the R&S Plan. The amount is being amortized over 16 years. Interest expense associated with the prepayment loan is being accounted for in accordance with the RUS USoA.

All eligible employees of Jackson Energy participate in the NRECA Retirement and Security Program, a defined contribution pension plan qualified under section 401(k) and tax-exempt under section 501(a) of the Internal Revenue Code. Jackson Energy makes annual contributions to the Program equal to the amounts accrued for pension expense. There have been no significant changes that affect the comparability of 2020 and 2019. Jackson Energy contributed $150,038 and $154,064 for the years ended February 29, 2020 and February 28, 2019, respectively.

Propane Plus has a profit-sharing plan of 10.00% of net profits before the pension amount, where managers receive 5.00% and the remaining employees share the remaining 5.00%. The pension contribution amount was $64,105 and $67,709 for the years ended February 29, 2020 and February 28, 2019, respectively.

Note 8. Postretirement Benefits

Jackson Energy sponsors a defined benefit plan that provides medical insurance coverage to retired employees and their dependents. The plan calls for benefits to be paid at retirement based primarily upon years of service with Jackson Energy. Participating retirees after January 4, 2016 are provided with a single coverage plan that does not cover dependents. The following is a reconciliation of the postretirement obligation.

The funded status of the plan is as follows:

	2020	2019
Projected benefit obligation	$ (9,134,630)	$ (8,956,515)
Plan assets at fair value	- -	- -
Funded status (deficit)	$ (9,134,630)	$ (8,956,515)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Postretirement Benefits (Continued)

The components of net periodic postretirement benefit cost are as follows as of and for the year ended February 29, 2020 and February 28, 2019:

	2020	2019
Projected benefit obligation	$ (9,134,630)	$ (8,956,515)
Plan assets at fair value	- -	- -
Funded status (deficit)	$ (9,134,630)	$ (8,956,515)

	2020	2019
Benefit obligation at beginning of year	$ 8,956,515	$ 8,834,362
Components of net periodic benefit cost:		
Service cost	266,305	273,061
Interest cost	407,051	400,295
Net periodic benefit cost	673,356	673,356
Benefits paid	(495,241)	(551,203)
Benefit obligation at end of year	$ 9,134,630	$ 8,956,515
Amounts recognized in the balance sheet consists of:		
Accumulated Postretirement Benefits	$ 9,134,630	$ 8,956,515
Amounts included in other comprehensive (loss):		
Unrecognized actuarial (loss)	$ (538,460)	$ (587,036)
Effect of 1% increase in the health care trend:		
Postemployment benefit obligation	$ 9,680,000	
Net periodic benefit cost	$ 714,000	

For measurement purposes, an annual rate of increase of 6.00% in 2020, then decreasing by .25% per year until 4.50% per year, in the per capita cost of covered healthcare benefit was assumed. The discount rate used in determining the accumulated postretirement benefit obligation was 4.50% in 2020 and 2019.

Projected retiree benefit payments for the next five years are expected to be as follows: 2021 - $711,000; 2022 - $750,000; 2023 - $792,000; 2024 - $835,000; 2024 - $880,000.

Note 9. Commitments

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

Note 10. Related Party Transactions

Several of the Directors of Jackson Energy, its President and CEO, and another employee are on the boards of directors of various associated organizations.

Note 11. Environmental Contingency

Jackson Energy 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 Jackson Energy 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 Jackson Energy's financial position or its future cash flows.

Note 12. Contingencies

Jackson Energy, on occasion, 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 consolidated statements.

Note 13. Uncertainties

Subsequent to February 29, 2020, 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 Jackson Energy and Propane Plus as of July 8, 2020, management believes that a material impact on Jackson Energy and Propane Plus's consolidated financial position and results of future operations is reasonably possible.

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Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Jackson Energy Cooperative Corporation and Subsidiary
McKee, Kentucky

We have audited the consolidated financial statements of Jackson Energy Cooperative Corporation and Subsidiary as of and for the year ended February 29, 2020, and our report thereon dated July 8, 2020, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating supplementary information shown on pages 20 and 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
July 8, 2020

Certified Public Accountants and Advisors
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JACKSON ENERGY COOPERATIVE CORPORATION AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
February 29, 2020

Assets	Jackson Energy	Propane Plus	Eliminations	Consolidated
Utility Plant, at original cost:				
In service	$ 265,770,398	$ 6,336,571	$ - -	$ 272,106,969
Under construction	933,891	- -	- -	933,891
	266,704,289	6,336,571	- -	273,040,860
Less accumulated depreciation	96,690,429	2,891,274	- -	99,581,703
	170,013,860	3,445,297	- -	173,459,157
Investments and Other Assets:				
Associated organizations	67,915,813	- -	- -	67,915,813
Goodwill, net of amortization	- -	262,177	- -	262,177
Investment in Subsidiary	4,575,324	- -	(4,575,324)	- -
	72,491,137	262,177	(4,575,324)	68,177,990
Current Assets:				
Cash and cash equivalents	3,243,348	926,636	- -	4,169,984
Accounts receivable, less allowance for Energy of $60,690 and Propane of $37,230	10,474,520	229,111	- -	10,703,631
Other receivables	2,816,423	- -	- -	2,816,423
Material and supplies, at average cost	1,777,013	505,211	- -	2,282,224
Prepayments	304,838	59,878	- -	364,716
	18,616,142	1,720,836	- -	20,336,978
Deferred Debits	8,491,814	- -	- -	8,491,814
Total	$ 269,612,953	$ 5,428,310	$ (4,575,324)	$ 270,465,939
Members' Equities and Liabilities				
Members' and Stockholder's Equities:				
Memberships and capital	$ 918,245	$ 1,283,717	$ (1,283,717)	$ 918,245
Patronage capital and retained earnings	116,430,902	3,291,607	(3,291,607)	116,430,902
Other equities	4,424,811	- -	- -	4,424,811
Other comprehensive income	(538,460)	- -	- -	(538,460)
	121,235,498	4,575,324	(4,575,324)	121,235,498
Long Term Debt	121,585,611	657,073	- -	122,242,684
Accumulated Postretirement Benefits	9,134,630	- -	- -	9,134,630
Current Liabilities:				
Accounts payable	6,832,241	43,894	- -	6,876,135
Short term borrowings	- -	- -	- -	- -
Current portion of long term debt	6,004,709	24,927	- -	6,029,636
Consumer deposits	1,005,202	- -	- -	1,005,202
Accrued expenses	2,516,307	127,092	- -	2,643,399
	16,358,459	195,913	- -	16,554,372
Consumer Advances and Others	1,298,755	- -	- -	1,298,755
Total	$ 269,612,953	$ 5,428,310	$ (4,575,324)	$ 270,465,939

JACKSON ENERGY COOPERATIVE CORPORATION AND SUBSIDIARY
CONSOLIDATING STATEMENT OF REVENUE AND COMPREHENSIVE INCOME
Year ended February 29, 2020

	Jackson Energy	Propane Plus	Eliminations	Consolidated
Operating Revenues	$ 100,151,038	$ 4,867,927	$ - -	$ 105,018,965
Operating Expenses:				
Cost of purchases	62,507,447	2,094,873	- -	64,602,320
Distribution - operations	4,623,765	1,352,613	- -	5,976,378
Distribution - maintenance	6,754,892		- -	6,754,892
Consumer accounts	2,872,904	306,165	- -	3,179,069
Customer service and information	527,962	42,405	- -	570,367
Administrative and general	4,705,653	166,650	(2,600)	4,869,703
Depreciation, excluding $543,592 charged		- -		
to clearing accounts	10,087,196	355,292	- -	10,442,488
Amortization of deferred retirements	470,772	- -	- -	470,772
Interest on long term debt	4,548,720	5,253	- -	4,553,973
Other interest	23,868	- -	- -	23,868
Taxes	141,752	99,684	- -	241,436
Other	106,018	- -	- -	106,018
Total cost of electric service	97,370,949	4,422,935	(2,600)	101,791,284
Operating Margins	2,780,089	444,992	2,600	3,227,681
Nonoperating Margins:				
Interest income	316,606	2,393	- -	318,999
Subsidiary and others	459,952	10,506	(460,491)	9,967
	776,558	12,899	(460,491)	328,966
Patronage Capital assigned from:				
East Kentucky Power Cooperative	3,565,845	- -	- -	3,565,845
Other organizations	190,153	- -	- -	190,153
	3,755,998	- -	- -	3,755,998
Net Margins	7,312,645	457,891	(457,891)	7,312,645
Other comprehensive Income:				
Postretirement benefits	48,576	- -	- -	48,576
Total Comprehensive Income	$ 7,361,221	$ 457,891	$ (457,891)	$ 7,361,221

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
Jackson Energy Cooperative Corporation and Subsidiary
McKee, 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 consolidated financial statements of Jackson Energy Cooperative Corporation and Subsidiary (the Corporation), which comprise the consolidated balance sheet as of February 29, 2020 and the related consolidated statements of revenue and comprehensive income, changes in members' equities and cash flows for the year then ended, and related notes to the consolidated financial statements, and have issued our report thereon dated July 8, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Corporation'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's consolidated 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
July 8, 2020

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

To the Board of Directors
Jackson Energy Cooperative Corporation and Subsidiary
McKee, 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 consolidated financial statements of Jackson Energy Cooperative Corporation and Subsidiary (the Corporation), which comprise the consolidated balance sheet as of February 29, 2020, and the related consolidated statements of revenue and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated July 8, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2020, on our consideration of the 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. 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 Corporation 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 Corporation'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 Corporation's accounting and records to indicate that the Corporation 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;

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- 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 consolidated 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, which are listed below.

The deferred debits are as follows:

Deferred property retirements	$	3,177,717
Past service pension benefits		1,485,123
Accelerated pension benefit payment		3,828,974
	$	8,491,814

The deferred credits are as follows:

Consumer advances for construction	$	382,716
Joint use attachments paid in advance		916,039
	$	1,298,755

Jackson Energy is a 100% owner of a subsidiary, Jackson Propane Plus, LLC, which is engaged in the distribution sales of propane gas in and around the areas in which Jackson Energy provides electric service. The activity of the subsidiary is as follows for the year ended December 31, 2019:

	Investment		Profits	
Beginning balance	$	2,526,836	$	1,590,597
Activity for 2020		- -		457,891
Ending balance	$	2,526,836	$	2,048,488

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

Jones, Nale & Mattingly PLC

Louisville, Kentucky
July 8, 2020