JACKSON PURCHASE
ENERGY CORPORATION
KENTUCKY 20

FINANCIAL REPORT

December 31, 2019

C O N T E N T S

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Jackson Purchase Energy Corporation
Paducah, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Jackson Purchase Energy Corporation, which comprise the balance sheet as of December 31, 2019, and the related statements of revenue and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Certified Public Accountants and Advisors
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jackson Purchase Energy Corporation as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 10, 2020, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance.

Prior Period Financial Statements

The financial statements of Jackson Purchase Energy Corporation, as of December 31, 2018, were audited by other auditors whose report dated February 21, 2019, expressed an unmodified opinion on those statements.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 10, 2020

JACKSON PURCHASE ENERGY CORPORATION
BALANCE SHEETS
December 31, 2019 and 2018

Assets	2019	2018
Electric Plant, at original cost:		
In service	$ 167,719,172	$ 163,383,647
Under construction	1,826,665	1,237,939
	169,545,837	164,621,586
Less accumulated depreciation	72,148,212	69,092,604
	97,397,625	95,528,982
Investments in Associated Organizations	3,604,487	3,524,697
Current Assets:		
Cash and cash equivalents	2,064,075	2,405,639
Accounts receivable, less allowance for 2019 of $283,951 and 2018 of $174,722	4,496,228	4,956,456
Other receivables	531,401	744,600
Accrued unbilled revenue	3,190,126	3,612,505
Material and supplies, at average cost	1,713,428	1,987,072
Other current assets	286,463	418,085
Total current assets	12,281,721	14,124,357
Total	$ 113,283,833	$ 113,178,036

Members' Equities and Liabilities	2019	2018
Members' Equities:		
Memberships	$ 115,705	$ 120,150
Patronage capital	50,300,349	49,101,540
Accumulated other comprehensive income	94,448	94,970
	50,510,502	49,316,660
Long-Term Debt, less current portion	40,239,396	43,261,255
Accumulated Postretirement Benefits	2,677,095	2,524,036
Current Liabilities:		
Notes payable	8,400,000	5,000,000
Accounts payable	5,003,469	5,233,389
Consumer deposits	2,789,538	2,499,810
Current portion of long-term debt	2,560,000	2,635,000
Accrued expenses	935,737	1,804,684
Total current liabilities	19,688,744	17,172,883
Consumer Advances for Construction	168,096	903,202
Total	$ 113,283,833	$ 113,178,036

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

JACKSON PURCHASE ENERGY CORPORATION
STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues		
Sale of electric energy	$ 68,120,498	$ 73,086,138
Other electric revenues	1,327,203	1,387,640
	69,447,701	74,473,778
Operating Expenses		
Cost of power	50,688,770	55,129,619
Distribution - operations	3,308,446	3,039,268
Distribution - maintenance	2,921,678	3,864,965
Consumer accounts	1,273,783	1,548,238
Consumer service and information	44,297	81,866
Administrative and general	3,237,313	2,497,444
Depreciation, excluding $324,369 in 2019 and $385,069 in 2018 charged to clearing accounts	6,016,651	5,839,773
Taxes, other than income	90,258	86,861
Interest on long-term debt	1,961,144	2,041,806
Interest expense - other	233,334	78,422
Other deductions	2,796	1,935
Total cost of electric service	69,778,470	74,210,197
Operating Margins (Deficit)	(330,769)	263,581
Nonoperating Margins and Patronage Capital		
Interest income	415,932	406,317
Other nonoperating income (loss), net	934,232	(18,134)
Patronage capital from associated organizations	179,415	254,411
Net nonoperating margins	1,529,579	642,594
Net Margins	1,198,810	906,175
Other Comprehensive Income (Loss)		
Postretirement benefits (expenses)	(522)	213,349
Total Comprehensive Income	$ 1,198,288	$ 1,119,524

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

JACKSON PURCHASE ENERGY CORPORATION
STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended December 31, 2019 and 2018

		Patronage Capital				Accumulated Other Comprehensive	Total Members'
	Memberships	Assignable	Assigned	Retirements	Total	Income (Loss)	Equities
Balance - December 31, 2017	$ 124,495	$ 915,925	$ 48,868,574	$ (1,589,134)	$ 48,195,365	$ (118,379)	$ 48,201,481
Comprehensive income:							
Net margins		906,175			906,175		906,175
Postretirement benefit obligation							
Amortization						42,263	
Adjustments						171,086	213,349
Total comprehensive income							1,119,524
Assignment of margins		(915,925)	915,925		- -		- -
Net change in memberships	(4,345)						(4,345)
Balance - December 31, 2018	120,150	906,175	49,784,499	(1,589,134)	49,101,540	94,970	49,316,660
Comprehensive income:							
Net margins		1,198,810			1,198,810		1,198,810
Postretirement benefit obligation							
Amortization						(522)	
Adjustments						- -	(522)
Total comprehensive income							1,198,288
Assignment of margins		(906,175)	906,175		- -		- -
Net change in memberships	(4,445)						(4,445)
Other equities				(1)	(1)		(1)
Balance - December 31, 2019	$ 115,705	$ 1,198,810	$ 50,690,674	$ (1,589,135)	$ 50,300,349	$ 94,448	$ 50,510,502

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

JACKSON PURCHASE ENERGY CORPORATION
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 1,198,810	$ 906,175
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation		
Charged to expense	6,016,651	5,839,773
Charged to clearing accounts	324,369	385,069
Patronage capital credits assigned	(179,415)	(254,411)
Accumulated postretirement benefits	152,537	189,902
Change in assets and liabilities:		
Accounts and other receivables	1,095,806	23,907
Material and supplies	273,644	192,263
Other current assets	131,622	(185,334)
Accounts payable	(229,920)	(1,039,121)
Consumer deposits	289,728	211,154
Accrued expenses	(868,947)	48,084
Consumer advances for construction	(735,106)	9,176
Net cash provided by operating activities	7,469,779	6,326,637
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(7,081,639)	(6,234,235)
Plant removal costs	(1,134,461)	(1,039,324)
Salvage recovered from retired plant	6,436	51,511
Receipts from investments, net	99,625	168,559
Net cash (used in) investing activities	(8,110,040)	(7,053,489)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in memberships	(4,445)	(4,345)
Proceeds from notes payable, net	3,400,000	3,800,000
Cushion of credit applied (payment)	(326,174)	120,154
Payments on long-term debt	(2,770,685)	(2,792,500)
Net cash provided by financing activities	298,696	1,123,309
Net increase (decrease) in cash and cash equivalents	(341,564)	396,457
Cash and cash equivalents, beginning of year	2,405,639	2,009,182
Cash and cash equivalents, end of year	$ 2,064,075	$ 2,405,639
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 2,187,356	$ 2,046,480

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Jackson Purchase Energy Corporation (“the Corporation”) 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:

Electric Plant Electric plant is stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead cost including any construction period interest and taxes. There was no interest required to be capitalized during the years ended December 31, 2019 and 2018.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to electric plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation. Electric plant consists of the following as of December 31:

	2019	2018
Distribution plant	$ 156,917,809	$ 152,608,706
General plant	10,801,363	10,774,941
Total	$ 167,719,172	$ 163,383,647

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 1.48% to 12.09%, for a composite rate of 3.79% for distribution plant. General plant rates are as follows:

Structures and improvements	2.5%
Transportation equipment	12.5 - 20%
Other general plant	5 - 14%

Cash and Cash Equivalents The Corporation considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. The Corporation maintains cash deposits in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2019 and 2018, the financial institutions reported deposits in excess of the $250,000 FDIC insured limit on several of the accounts. Deposits and repurchase agreements in excess of the FDIC limits are 100% secured with collateral from each respective financial institution.

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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

Cost of Power The Corporation is one of three (3) members of Big Rivers Electric Corporation ("Big Rivers"), a generation and transmission cooperative association. Under a wholesale power agreement, the Corporation is committed to purchase its electric power and energy requirements from Big Rivers until 2043. The rates charged by Big Rivers 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 Big Rivers. There are certain surcharges, clauses, and credits that Big Rivers includes to the Corporation that are passed on to consumers using a methodology prescribed by the PSC.

Commitments The Corporation has various 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 generally one to three years.

Advertising The Corporation expenses advertising costs as incurred. Advertising expense amounted to $11,179 and $3,547 for the years ended December 31, 2019 and 2018, respectively.

Risk Management The Corporation 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 The Corporation grants credit to residents of local counties. Concentrations of credit risk with respect to accounts receivables are limited due to its large number of customers.

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

Generation and Transmission Corporation As discussed in the preceding footnotes, the Corporation purchases electric power from Big Rivers, a generation and transmission cooperative association. The membership of Big Rivers is comprised of the Corporation and two other distribution cooperatives.

The Corporation has elected to continue valuing the non-cash allocations received from Big Rivers at zero for financial accounting purposes, a practice it has followed since Big Rivers emerged from bankruptcy in 1998 during which all previous booked non-cash allocations were reduced to zero. The Corporation will continue to make memorandum entries in its patronage subsidiary ledger of the face amount of the allocations received from Big Rivers. Refer to the subsequent footnote for the income tax treatment of these non-cash allocations.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Income Tax Status The Corporation is exempt from federal and state income taxes under provisions of Section 501(c)(12). Accordingly, the financial statements for the Corporation include no provision for income taxes. When applying the 85 percent test of IRC 501(c)(12), the Corporation excludes the Big Rivers non-cash allocations from gross income. The Corporation's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Management believes the Corporation has no uncertain tax positions resulting in an accrual of tax expense or benefit. The Corporation recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Corporation did not recognize any interest or penalties during the years ended December 31, 2019 and 2018. The Corporation'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.

Reclassifications Certain amounts presented in the 2018 financial statements have been reclassified to conform to the 2019 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 December 31, 2021.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses.* The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the statement of revenue and comprehensive income will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for the year ending December 31, 2023.

The Corporation is currently in the process of evaluating the impact of the adoption of these ASUs on the financial statements.

Subsequent Events Management has evaluated subsequent events through March 10, 2020, the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

Note 2. Revenue Recognition

Adoption of accounting pronouncement

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

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

Revenue from contracts

The Corporation is engaged in the distribution and sale of electricity to residential and commercial customers in six counties in western Kentucky. Revenue from these activities is generated from tariffs approved by the PSC. The Corporation 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 the Corporation. 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 18 days of the date of the bill.

Significant judgements

Unbilled revenues are recognized as a result of customers' bills being generated throughout the month rather than at the end of the month. Unbilled revenues for a month are calculated based on estimated usage and the number of days in the period to accrue for each billing cycle. Any 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, the Corporation'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 and any applicable fixed charges as set by the PSC.

Performance obligations

The Corporation customers generally have no minimum purchase commitments. The Corporation recognizes revenue as each performance obligation is satisfied. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation to recognize as of December 31, 2019 and 2018.

Note 2. Revenue Recognition (Continued)

Disaggregation of revenue

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

	2019	2018
Residential	$ 43,457,659	$ 46,886,743
Commercial	20,223,394	21,777,051
Large Industrial	4,297,603	4,286,127
Public Lights	126,880	124,891
Other	14,962	11,326
	$ 68,120,498	$ 73,086,138

Contract assets and cost liabilities

Contract cost liabilities include consumer deposits. The balance in contract liabilities was $2,789,538 and $2,499,810 as of December 31, 2019 and 2018, respectively. Contract assets include unbilled revenues. The balance in contract assets was $3,190,126 and $3,612,505 as of December 31, 2019 and 2018, respectively.

Note 3. Investments in Associated Organizations

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

	2019	2018
CFC, CTCs	$ 928,929	$ 931,837
CoBank, patronage capital	902,582	856,878
National Rural Telecommunications Coop.	845,420	845,419
Others	927,556	890,563
Total	$ 3,604,487	$ 3,524,697

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

Note 4. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by patrons 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, the Corporation may distribute the difference between 25.00% and the payments made to such estates. The equity and margins as of December 31, 2019 and 2018 were 45.00% and 44.00%, respectively. The Corporation adopted a policy whereby it would refund capital credits to its members in any annual period that a Times Interest Earned Ratio ("TIER") of 2.0 is exceeded. No refunds of capital credits are anticipated for the year ending December 31, 2020.

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 2045. RUS assesses 12.5 basis points to administer the FFB loans. Long-term debt consists of the following as of December 31:

	2019	2018
RUS: Advance payment, earns 5.00% interest	$ (6,728,615)	$ (6,402,440)
First mortgage notes due FFB:		
2.332% to 5.158%	19,753,319	20,761,549
First mortgage notes due CoBank:		
3.19% to 4.90%	12,547,580	13,686,552
First mortgage notes due CFC:		
CFC: 3.25%	- -	63,324
CFC: Refinance RUS loans 2.55% to 3.75%	17,227,112	17,787,270
	42,799,396	45,896,255
Less Current Portion	(2,560,000)	(2,635,000)
Long-term portion	$ 40,239,396	$ 43,261,255

As of December 31, 2019, the annual principal portion of long-term debt outstanding for the next five years are as follows: 2020 - $2,560,000; 2021 - $2,804,000; 2022 - $2,859,000; 2023 - $2,915,000; 2024 - $2,973,000.

Note 6. Short-Term Notes Payable

As of December 31, 2019, the Corporation has a short-term line of credit of $5,000,000 available from CFC and a short-term line of credit of $5,000,000 available from CoBank. As of December 31, 2019 and 2018, advances on the CFC line of credit were $3,400,000 at an interest rate of 3.25% and $5,000,000 at an interest rate of 3.75%, respectively. As of December 31, 2019, advances on the CoBank line of credit were $5,000,000 at an interest rate of 3.19%. There were no advances against the CoBank line of credit as of December 31, 2018.

Note 7. Pension Plans

Qualified union and non-union employees of the Corporation 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.

The Corporation's contributions to the R&S Plan in 2019 and 2018 represent less than 5.00% of the total contributions made to the plan by all participating employers. The Corporation made contributions to the plan of $750,522 in 2019 and $787,734 in 2018. There have been no significant changes that affect the comparability of 2019 and 2018 contributions.

Note 7. Pension Plans (Continued)

For the R&S Plan, a zone status determination is not required, and therefore not determined, under the Pension Protection Act ("PPA") of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the R&S Plan was over 80 percent 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.

Qualified union employees participate in the International Brotherhood of Electrical Workers ("IBEW") Savings Plan. The Corporation contributes 10.00% of base wages to the plan. The Corporation contributions to the plan totaled $218,859 in 2019 and $209,017 in 2018.

Qualified non-union employees participate in the NRECA 401(k) Plan. The Corporation contributes 4.00% of annual wages to the plan for employees hired prior to January 1, 2006, and 14.00% of annual wages for employees hired after January 1, 2006. Contributions for these plans totaled $269,930 for 2019 and $203,437 for 2018.

A summary of plan benefits are as follows:

	Pre 2006	Post 2006
Union Employees		
Union Savings Plan	10.00%	10.00%
R&S Benefit level	1.60%	1.00%
Non-Union Employees		
401(k), Employer contribution	4.00%	14.00%
R&S Benefit level	1.80%	none

Note 8. Postretirement Benefits

The Corporation sponsors a defined benefit plan that provides medical insurance coverage to retirees. The premiums are paid for a maximum of ten years or until age 65, whichever comes first. For measurement purposes, an annual rate of increase of 5.00% in 2019, then decreasing by 0.50% per year until 3.00% per year, in the per capita cost of covered health care benefit was assumed. The discount rate used in determining the accumulated postretirement benefit obligation was 4.50%. There have been no significant changes that affect the comparability of 2019 and 2018. This is a non-contributory plan.

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

	2019	2018
Projected benefit obligation	$ (2,677,095)	$ (2,524,036)
Plan assets at fair value	- -	- -
Funded status (deficit)	$ (2,677,095)	$ (2,524,036)

Note 8. Postretirement Benefits (Continued)

The components of net periodic postretirement benefit cost are as follows as of and for the year ended December 31:

	2019	2018
Benefit obligation at beginning of year	$2,524,036	$ 2,547,483
Net periodic benefit cost:		
Service cost	70,010	56,546
Interest cost	117,025	114,109
	187,035	170,655
Benefits paid	(33,976)	(23,016)
Actuarial gain/loss	- -	(171,086)
Benefit obligation at end of year	$ 2,677,095	$ 2,524,036
Amounts recognized in the balance sheet consists of:		
Accumulated Postretirement Benefits	$ 2,677,095	$ (2,524,036)
Amounts included in other comprehensive income:		
Unrecognized actuarial (loss)	$ (94,448)	$ (94,970)
Effect of 1.00% increase in the health care trend:		
Postemployment benefit obligation	$ 2,824,000	
Net periodic benefit cost	$ 197,300	

Projected retiree benefit payments for the next five years are expected to be as follows: 2020 - $26,000; 2021 - $27,000; 2022 - $28,000; 2023 - $26,000; 2024 - $25,000.

Note 9. Related Party Transactions

Several of the Directors of the Corporation and its President and CEO serve on the Boards of Directors of various associated organizations.

Note 10. Labor Force

Approximately 45.00% of the Corporation's labor force is subject to a collective bargaining agreement. A five (5) year agreement was negotiated and approved for the period from November 2019 through November 2024 between the Corporation and the International Brotherhood of Electric Workers ("IBEW").

Note 11. Environmental Contingency

The Corporation 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 the Corporation 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 the Corporation's financial position or its future cash flows.

Note 12. Contingencies

The Corporation, 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 statements.

Note 13. Rate Matters

In June 2019, the PSC granted the Corporation an increase in rates of approximately $1,320,000, or 4.00% of base rates.

Note 14. Risks & Uncertainties

Subsequent to December 31, 2019, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the Corporation as of March 10, 2020, management believes that a material impact on the Corporation's financial position and results of future operations is reasonably possible.

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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 Purchase Energy Corporation
Paducah, 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 Jackson Purchase Energy Corporation (the Corporation), which comprise the balance sheet as of December 31, 2019 and the related statements of revenue and comprehensive income, changes in members' equities and cash flows for the year then ended, and related notes to the financial statements, and have issued our report thereon dated March 10, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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 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 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
March 10, 2020

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

To the Board of Directors
Jackson Purchase Energy Corporation
Paducah, 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 Jackson Purchase Energy Corporation (the Corporation), which comprise the balance sheet as of December 31, 2019, and the related statements of revenue and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 10, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 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 financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements ("See RUS Bulletin 183-1, Depreciation Rates and Procedures");
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits, which are listed below; and
- Comply with the requirements for the detailed schedule of investments, of which there were none.

The deferred credits are as follows:

Consumer advances for construction	$168,096

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 10, 2020