

**MEADE COUNTY RURAL ELECTRIC
COOPERATIVE CORPORATION
KENTUCKY 18**

FINANCIAL REPORT

October 31, 2020

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Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Meade County Rural Electric Cooperative Corporation
Brandenburg, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Meade County Rural Electric Cooperative Corporation, which comprise the balance sheets as of October 31, 2020 and 2019, and the related statements of revenue and comprehensive income, changes in members' equities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Meade County Rural Electric Cooperative Corporation as of October 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated January 11, 2021, on our consideration of Meade County Rural Electric Cooperative Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
January 11, 2021

MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

BALANCE SHEETS
October 31, 2020 and 2019

ASSETS	2020	2019
Electric plant, at original cost:		
In service	\$ 130,830,817	\$ 127,374,401
Under construction	2,878,610	1,921,033
	<u>133,709,427</u>	<u>129,295,434</u>
Less accumulated depreciation	47,359,713	44,897,152
	<u>86,349,714</u>	<u>84,398,282</u>
Investments in associated organizations	<u>2,280,602</u>	<u>2,275,751</u>
Current Assets:		
Cash and cash equivalents	20,971,364	23,054,778
Accounts receivable, less allowance for		
2020 of \$116,202 and 2019 of \$86,173	4,305,386	4,278,011
Unbilled revenues	461,551	540,383
Other receivables	187,729	138,415
Material and supplies, at average cost	711,949	726,342
Other current assets	310,770	305,829
Total current assets	<u>26,948,749</u>	<u>29,043,758</u>
Prepaid retirement costs	<u>469,414</u>	<u>635,090</u>
Total assets	<u>\$ 116,048,479</u>	<u>\$ 116,352,881</u>
 MEMBERS' EQUITIES AND LIABILITIES		
Members' Equities:		
Memberships	\$ 64,750	\$ 67,175
Patronage capital	33,880,470	33,967,436
Other equities	1,357,951	1,358,749
Accumulated other comprehensive income	368,743	383,981
Total members' equities	<u>35,671,914</u>	<u>35,777,341</u>
Long-Term Liabilities:		
Long-term debt, less current portion	64,556,870	69,458,765
Accumulated postretirement benefits	1,281,173	1,235,946
Total long-term liabilities	<u>65,838,043</u>	<u>70,694,711</u>
Current Liabilities:		
Current portion of long-term debt	7,410,820	2,692,000
Accounts payable	2,996,648	3,328,579
Consumer deposits	1,608,825	1,462,420
Accrued expenses	1,852,798	1,827,233
Total current liabilities	<u>13,869,091</u>	<u>9,310,232</u>
Consumer Advances for Construction	<u>669,431</u>	<u>570,597</u>
Total members' equities and liabilities	<u>\$ 116,048,479</u>	<u>\$ 116,352,881</u>

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

MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME

Years Ended October 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Sales of electric energy	\$ 51,865,175	\$ 54,646,610
Other electric revenues	707,498	1,341,741
	<u>52,572,673</u>	<u>55,988,351</u>
Operating Expenses		
Cost of power	35,914,870	39,434,431
Distribution - operations	2,770,268	2,897,799
Distribution - maintenance	3,885,108	3,540,135
Consumer accounts	1,589,627	1,681,036
Customer services	281,799	265,146
Administrative and general	1,662,875	1,621,056
Depreciation, excluding \$370,352 in 2020 and \$343,352 in 2019 charged to clearing accounts	4,470,330	4,369,877
Taxes, other than income	73,213	71,600
Interest on long-term debt	2,066,634	2,132,541
Other interest	24,608	29,006
Other deductions	22,191	14,108
	<u>52,761,523</u>	<u>56,056,735</u>
Operating (Deficits)	<u>(188,850)</u>	<u>(68,384)</u>
Nonoperating Margins		
Interest income	179,119	513,785
Others	125,954	12,069
	<u>305,073</u>	<u>525,854</u>
Patronage Capital Credits	<u>69,117</u>	<u>58,046</u>
Net Margins	185,340	515,516
Other Comprehensive Income:		
Postretirement benefits amortization of net loss (gain)	<u>(15,238)</u>	<u>18,285</u>
Net Margins and Comprehensive Income	<u>\$ 170,102</u>	<u>\$ 533,801</u>

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

MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended October 31, 2020 and 2019

	<u>Memberships</u>	<u>Patronage Capital</u>				<u>Total</u>	<u>Other Equities</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Members' Equities</u>
		<u>Assigned</u>	<u>Assignable</u>	<u>Unassigned</u>	<u>Retirements</u>				
Balance - October 31, 2018	\$ 69,985	\$ 42,939,488	\$ 1,592,611	\$ 6,493,405	\$ (17,306,367)	\$ 33,719,137	\$ 1,294,656	\$ 365,696	\$ 35,449,474
Allocate margins		1,120,004	(1,751,326)	631,322		--			--
Comprehensive income:									
Net margins			515,516			515,516			515,516
Postretirement benefit obligation									
Amortization								18,285	18,285
Total comprehensive income									533,801
Net change in memberships	(2,810)								(2,810)
Refunds of capital credits					(267,217)	(267,217)			(267,217)
Other equities							64,093		64,093
Balance - October 31, 2019	67,175	44,059,492	356,801	7,124,727	(17,573,584)	33,967,436	1,358,749	383,981	35,777,341
Allocate margins			(491,205)	491,205		--			--
Comprehensive income:									
Net margins			185,340			185,340			185,340
Postretirement benefit obligation									
Amortization								(15,238)	(15,238)
Total comprehensive income									170,102
Net change in memberships	(2,425)								(2,425)
Refunds of capital credits					(272,306)	(272,306)			(272,306)
Other equities							(798)		(798)
Balance - October 31, 2020	\$ 64,750	\$ 44,059,492	\$ 50,936	\$ 7,615,932	\$ (17,845,890)	\$ 33,880,470	\$ 1,357,951	\$ 368,743	\$ 35,671,914

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

MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

STATEMENTS OF CASH FLOWS
Years Ended October 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	\$ 185,340	\$ 515,516
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Charged to expense	4,470,330	4,369,877
Charged to clearing accounts	370,352	343,352
Patronage capital credits assigned	(69,117)	(58,046)
Amortization of postretirement actuarial adjustment	(15,238)	18,285
Change in assets and liabilities:		
Accounts and other receivables	(76,689)	472,164
Unbilled revenues	78,832	92,436
Material and supplies	14,393	(99,262)
Other current assets	(4,941)	10,357
Prepaid retirement costs	165,676	165,676
Accounts payable	(331,931)	(266,369)
Consumer deposits and advances	245,239	321,412
Accrued expenses	25,565	693,403
Accumulated postretirement benefits	45,227	9,617
Net cash provided by operating activities	<u>5,103,038</u>	<u>6,588,418</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(6,428,620)	(5,680,323)
Plant removal costs	(531,113)	(557,118)
Salvage recovered from retired plant	167,620	40,136
Receipts from other investments, net	64,266	40,283
Net cash (used in) investing activities	<u>(6,727,847)</u>	<u>(6,157,022)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in memberships	(2,425)	(2,810)
Refund of patronage capital to members	(272,306)	(267,217)
Increase (decrease) in other equities	(798)	64,093
Payments on long-term debt	(2,650,695)	(2,590,306)
Advances on long-term debt	1,456,523	--
Advance payments applied to long-term debt	1,011,096	4,220,311
Net cash provided by (used in) financing activities	<u>(458,605)</u>	<u>1,424,071</u>
 Net increase (decrease) in cash and cash equivalents	 (2,083,414)	 1,855,467
 Cash and cash equivalents, beginning of year	 <u>23,054,778</u>	 <u>21,199,311</u>
 Cash and cash equivalents, end of year	 <u>\$ 20,971,364</u>	 <u>\$ 23,054,778</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid on long-term debt	\$ 2,095,962	\$ 2,163,985

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

MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Description of business

Meade County Rural Electric Cooperative Corporation (Meade County) provides distribution electric services to residential, business, and commercial consumers concentrated in a six-county area in western Kentucky. Meade County maintains its records in accordance with the policies 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 generally accepted accounting principles. The more significant of these policies are as follows:

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the preparation of the financial statements.

Electric plant

Electric plant is stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead cost including any construction period interest and taxes. There was no interest required to be capitalized for the years ended October 31, 2020 and 2019.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to electric plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation. Electric plant consists of the following as of October 31, 2020 and 2019:

	2020	2019
Distribution plant	\$ 121,318,209	\$ 118,158,511
General plant	9,512,608	9,215,890
Total	<u>\$ 130,830,817</u>	<u>\$ 127,374,401</u>

Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Depreciation rates range from 2.2% to 6.7% for distribution plant. General plant rates are as follows:

Structures and improvements	2.5% - 3.0%
Transportation equipment	12.5 - 25.0%
Other general plant items	5.0% - 14.3%

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents

Meade County considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. Meade County maintains its cash balances, which may exceed the federally insured limit, with several financial institutions. 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 which were not collected at year-end. Accounts receivable are recorded at their net realizable value consisting of the carrying amount less an allowance for uncollectible accounts. Meade County uses the allowance method to account for uncollectible accounts receivable balances. Management charges off uncollectible receivables to the allowance when it is determined the amounts will not be realized.

Materials and supplies

Meade County values materials and supplies at the lower of average cost or net realizable value.

Sales tax

Meade County is required to collect, on behalf of the State of Kentucky, sales taxes based on 6 percent of gross sales from non-residential consumers, a 3 percent school tax from certain counties on most gross sales, and franchise fees in certain cities. Meade County's policy is to exclude sales tax from revenue when collected and expenses when paid and instead, record collection and payment of sales taxes through a liability account.

Cost of power

Meade County is one of three members of Big Rivers Electric Corporation, Inc. (Big Rivers). Under a wholesale power agreement, Meade County 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.

Generation and transmission corporation

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

Meade County has elected to value the non-cash allocations received from Big Rivers at zero for financial statement 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. Meade County 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)

Advertising

Meade County expenses advertising costs as incurred. Advertising expense were \$7,317 and \$6,298 for the years ended October 31, 2020 and 2019, respectively.

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.

Risk Management

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

Credit risk

Meade County grants credit to residents of local counties. Concentrations of credit risk with respect to accounts receivables are limited due to its large number of customers.

Environmental contingency

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

Income tax status

Meade County is exempt from federal and state income taxes under provisions of Section 501(c)(12). When applying the 85 percent test of IRC 501(c)(12), Meade County excludes the Big Rivers non-cash allocations from gross income. Accordingly, the financial statements for Meade County include no provision for income taxes.

Meade County's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Management believes Meade County has no uncertain tax positions resulting in an accrual of tax expense or benefit. Meade County recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Meade County did not recognize any interest or penalties during the years ended October 31, 2020 and 2019.

Meade County's income tax return is subject to possible examination by taxing authorities until the expiration of related statutes of limitations on the return, which is generally three years.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Pension accounting 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 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 October 31, 2023.

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 credits losses that have taken place during the period. This standard will be effective for the year ending October 31, 2024.

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

Reclassifications

Certain reclassifications have been made to the 2019 financial statement presentation to correspond to the 2020 presentation.

Subsequent events

Management has evaluated subsequent events through January 11, 2021, the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

Note 2. Revenue Recognition

Adoption of accounting pronouncement

Meade County adopted ASU 2014-09, *Revenue from Contracts with Customers* as of November 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 Meade County'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 assets are classified as unbilled revenues. Short-term contract liabilities are classified as consumer deposits. Meade County has no long-term contract liabilities.

Revenue from contracts

Meade County is engaged in the distribution and sales 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. Meade County satisfies their performance obligation upon the delivery of electricity to customers. Revenue is recognized over time as the customer simultaneously receives and consumes the benefits provided by Meade County. The amount of revenue recognized is the billed volume of electricity multiplied by a tariff rate per-unit of energy, plus any applicable fixed or additional regulatory charges. Customers are billed monthly and outstanding amounts are typically due within 15 days of the date of the bill.

Significant judgements

Meade County has multiple billing cycles that process customer bills on approximately the same day each month. The amounts billed are based on actual meter reading of kilowatt hours used for the billing period. 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 the kilowatt hour usage readings for the unbilled days in the month plus any adjustments for the month from Big Rivers. This method of revenue recognition presents fairly, Meade County's transfer of electricity to customers as the amount recognized is based on actual volumes delivered and the tariff rate per-unit of energy plus any applicable fixed charges as set by the PSC.

Performance obligations

Meade County customers generally have no minimum purchase commitments. Revenue is recognized as each performance obligation is satisfied. Performance obligations are limited to the service requested and received to date. Accordingly, there are no unsatisfied performance obligations to recognize as of October 31, 2020 and 2019.

NOTES TO FINANCIAL STATEMENTS

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 October 31, 2020 and 2019:

	2020	2019
Residential	\$ 40,066,145	\$ 41,733,508
Large commercial	8,502,099	9,347,422
Small commercial	3,173,899	3,439,940
Other	123,032	125,740
	\$ 51,865,175	\$ 54,646,610

Contract assets and cost liabilities

Contract cost liabilities include consumer deposits. The balance in contract liabilities was \$1,608,825 and \$1,462,420 as of October 31, 2020 and 2019, respectively. Contract assets include unbilled revenues. The balance in contract assets was \$461,551 and \$540,383 as of October 31, 2020 and 2019, respectively.

Note 3. Investments in Associated Organizations

Investments in associated organizations consist of the following as of October 31, 2020 and 2019:

	2020	2019
CFC, CTC's	\$ 845,983	\$ 866,395
KAEC, patronage capital	642,373	627,309
CFC, patronage capital	381,778	386,366
Others	410,468	395,681
Total	\$ 2,280,602	\$ 2,275,751

Meade County records patronage capital assigned by associated organizations in the year in which such assignments are received. The Capital Term Certificates (CTCs) of CFC are recorded at cost. The CTCs were purchased from CFC as a condition of obtaining long-term financing. The CTCs bear interest ranging from zero to 5.0% and are scheduled to mature at varying times from 2021 to 2080.

Note 4. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30.0% 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 25.0% of the net margins for the next preceding year, Meade County may distribute the difference between 25.0% and the payments made to such estates. Members' equity as of October 31, 2020 and 2019 was 30.7% of total assets.

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt

All assets, except vehicles, are pledged as collateral on the long-term debt to RUS, Federal Financing Bank (FFB), and CFC under a joint mortgage agreement. The long-term debt is due in quarterly and monthly installments of varying amounts through 2047. RUS assesses 12.5 basis points to administer the FFB loans.

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

Long-term debt consists of the following as of October 31, 2020 and 2019:

	2020	2019
RUS:		
1.75% to 4.86%	\$ 25,683,000	\$ 26,731,952
Advance payments unapplied	-	(1,011,096)
	25,683,000	25,720,856
FFB, 1.01% and 6.05%	42,753,007	44,105,163
CFC, 3.45% to 3.85% fixed rate	2,075,160	2,324,746
Meade County Bank, PPP loan at 1.00%	1,456,523	-
	71,967,690	72,150,765
Less current portion	7,410,820	2,692,000
Long-term portion	\$ 64,556,870	\$ 69,458,765

As of October 31, 2020, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2021	\$ 7,410,820
2022	3,071,389
2023	8,136,208
2024	2,504,140
2025	2,533,993
Thereafter	48,311,140
	\$ 71,967,690

NOTES TO FINANCIAL STATEMENTS

Note 6. Short-Term Borrowings

As of October 31, 2020 and 2019, Meade County had a short-term line of credit of \$5,000,000 available from CFC. There were no advances against this line of credit as of October 31, 2020 and 2019. The line of credit matures in December 2049.

Note 7. Pension Plan

All eligible employees of Meade County participate in the NRECA Retirement and Security Plan (R&S Plan), a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The Plan sponsor's identification number is 53-0116145 and the Plan Number is 333. Eligible employees include employees hired prior to August 31, 2002. Non-eligible employees are those hired after August 31, 2002. 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.

Meade County's contributions to the R&S Plan in 2020 and 2019 represent less than 5 percent of the total contributions made to the plan by all participating employers. Meade County made contributions to the plan of \$278,833 in 2020 and \$376,580 in 2019. There have been no significant changes that affect the comparability of 2020 and 2019.

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 approximately 80 percent funded at January 1, 2020 and 2019 based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the R&S Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the Retirement Security (R&S) Plan (a defined benefit multiemployer pension plan) to make a prepayment and reduce future required contributions. The prepayment amount is a cooperative share, as of January 1, 2013, of future contributions required to fund the R&S Plan's unfunded value of benefits earned to date using Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual R&S Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. However, changes in interest rates, asset returns and other plan experience different from that expected, plan assumptions changes, and other factors may have an impact on the differential in billing rates and the 15-year period.

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan (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).

On March 15, 2013, Meade County made a prepayment of \$1,656,757 to the R&S Plan. Meade County is amortizing this amount over 10 years.

Note 8. Savings Plan

Meade County participates in the NRECA Savings Plan, a multiemployer, defined contribution master pension plan. All employees are eligible to participate in the Savings Plan upon completion of six months employment. Eligible employees, as defined above, participate in the Savings Plan with Meade County contributing 3.0% of annual base pay, and the employee contributing from 1.0% to 3.0%. Non-eligible employees, as defined above, participate in the Savings Plan with Meade County contributing 12.0% of annual base pay, and the employee contributing from 1.0% to 3.0%. Employer contributions to the plan were \$384,194 for 2020 and \$372,109 for 2019, and vest immediately.

Note 9. Postretirement Benefits

Meade County sponsors a defined benefit plan that provides medical insurance coverage to retirees by contributing 50.00% of the cost of a single policy. For measurement purposes, an annual rate of increase of 5.00%, then decreasing by 0.25% per year until 3.00% per year, in the per capita cost of covered health care benefit was assumed. The discount rate used in determining the accumulated postretirement benefit obligation was 4.50%. A portion of the net periodic benefit cost is allocated to construction of electric plant. There have been no significant changes that affect the comparability of 2020 and 2019.

The funded status of the plan as of October 31, 2020 and 2019 was as follows:

	2020	2019
Projected benefit obligation	\$ (1,281,173)	\$ (1,235,946)
Plan assets at fair value	--	--
Funded status	\$ (1,281,173)	\$ (1,235,946)

NOTES TO FINANCIAL STATEMENTS

Note 9. Postretirement Benefits (Continued)

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

	2020	2019
Benefit obligation - beginning of period	\$ 1,235,946	\$ 1,226,329
Net periodic benefit cost:		
Service cost	32,088	200
Interest cost	56,636	55,001
Net periodic benefit cost:	88,724	55,201
Benefit payments to participants	(43,497)	(45,584)
Benefit obligation - end of period	\$ 1,281,173	\$ 1,235,946

Amounts recognized in the balance sheet consists of:

Accumulated postretirement benefits	\$ 1,281,173	\$ 1,235,946
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Amounts included in other comprehensive income:

Postretirement benefits amortization of net gain (loss)	\$ (15,238)	\$ 18,285
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Effect of 1% increase in the health care trend:

Postretirement benefit obligation	\$ 1,358,000
Net periodic benefit cost	\$ 60,000

Projected retiree benefit payments for the next five years are expected to be as follows: 2021 - \$75,736; 2022 - \$75,741; 2023 - \$73,374; 2024 - \$70,499; 2025 - \$66,301.

Note 10. Related Party Transactions

Several of the Directors of Meade County and its President and CEO are on the Boards of Directors of various associated organizations.

In previous years, Big Rivers provided billing, IT, and other services to its three distribution cooperative members. In 2013, Big Rivers discontinued providing these services directly to its distribution cooperative members, but instead began reimbursing members for the cost of the services. The amount reimbursed from Big Rivers was \$649,624 and \$720,055 for the years ended October 31, 2020 and 2019, respectively. Amounts due from Big Rivers are included in other receivables and were \$27,762 and \$4,448 as of October 31, 2020 and 2019, respectively.

Note 11. Commitments

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

NOTES TO FINANCIAL STATEMENTS

Note 12. Contingencies

Meade County, on occasion, is subject to various lawsuits that arise from the normal course of business. Meade County's management does not believe the outcome of these cases will have a material effect on the financial statements.

Note 13. Risks and Uncertainties

Since March 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 Meade County as of January 11, 2021, management believes that a material impact on Meade County's financial position and results of future operations is reasonably possible.



Jones, Nale & Mattingly PLC

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
Meade County Rural Electric Cooperative Corporation
Brandenburg, 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 Meade County Rural Electric Cooperative Corporation (the Cooperative), which comprise the balance sheet as of October 31, 2020 and the related statements of revenue and comprehensive income, changes in members' equities and cash flows for the year then ended, and related notes to the financial statements, and have issued our report thereon dated January 11, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cooperative's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones, Nale & Mattingly P.C.

Louisville, Kentucky
January 11, 2021



Jones, Nale & Mattingly PLC

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

To the Board of Directors
Meade County Rural Electric Cooperative Corporation
Brandenburg, 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 Meade County Rural Electric Cooperative Corporation (the Cooperative), which comprise the balance sheet as of October 31, 2020, and the related statements of revenue and comprehensive income, changes in members' equities, and changes in cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 11, 2021. In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2021, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*, §1773.33, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over material and supplies;

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

The deferred debits are as follows:

Prepaid retirement costs	<u>\$469,414</u>
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The deferred credits are as follows:

Consumer advances for construction	<u>\$669,431</u>
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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
January 11, 2021