# NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION
# KENTUCKY 51

## 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
Nolin Rural Electric Cooperative Corporation
Elizabethtown, Kentucky

**Report on the Financial Statements**

We have audited the accompanying financial statements of Nolin Rural Electric Cooperative 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 Nolin Rural Electric Cooperative 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, Nolin 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.

**Prior Period Financial Statements**

The financial statements of Nolin Rural Electric Cooperative Corporation, as of December 31, 2018, were audited by other auditors whose report dated April 3, 2019, expressed an unmodified opinion on those statements.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
May 13, 2020

**NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION**
**BALANCE SHEETS**
**December 31, 2019 and 2018**

| | 2019 | 2018 |
|---|---|---|
| Assets | | |
| Electric Plant, at original cost: | | |
| In service | $ 124,078,343 | $ 119,399,295 |
| Under construction | 1,398,741 | 2,470,753 |
| | 125,477,084 | 121,870,048 |
| Less accumulated depreciation | 52,346,832 | 49,089,847 |
| | 73,130,252 | 72,780,201 |
| Investments in Associated Organizations | 49,017,830 | 46,079,885 |
| Current Assets: | | |
| Cash and cash equivalents | 3,236,880 | 4,754,633 |
| Accounts receivable, less allowance for 2019 of $1,374,796 and 2018 of $1,273,607 | 8,257,397 | 9,249,043 |
| Accounts receivable, other | 9,584,551 | 8,279,324 |
| Material and supplies, at average cost | 1,139,801 | 1,200,742 |
| Other current assets | 26,244 | 24,879 |
| Total current assets | 22,244,873 | 23,508,621 |
| Non-current Assets: | | |
| Long-term portion of other receivables | 24,175,551 | 29,943,603 |
| Prepaid pension costs | 1,135,240 | 1,503,426 |
| | 25,310,791 | 31,447,029 |
| Total | $ 169,703,746 | $ 173,815,736 |
| Members' Equities and Liabilities | | |
| Members' Equities: | | |
| Memberships | $ 261,270 | $ 264,425 |
| Patronage capital | 73,756,312 | 71,574,854 |
| Other equities | 4,004,903 | 3,935,954 |
| Accumulated other comprehensive loss | (1,874,410) | (2,036,446) |
| | 76,148,075 | 73,738,787 |
| Long-Term Liabilities: | | |
| Long-term debt, less current portion | 73,726,604 | 77,168,805 |
| Accumulated postretirement benefits | 6,820,511 | 6,697,548 |
| | 80,547,115 | 83,866,353 |
| Current Liabilities: | | |
| Current portion of long-term debt | 2,251,908 | 5,050,000 |
| Accounts payable | 6,706,880 | 6,861,979 |
| Consumer deposits | 2,401,150 | 2,400,154 |
| Accrued expenses | 1,528,781 | 1,779,084 |
| Total current liabilities | 12,888,719 | 16,091,217 |
| Consumer Advances | 119,837 | 119,379 |
| Total | $ 169,703,746 | $ 173,815,736 |

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

**NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION**
**STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME**
**Years Ended December 31, 2019 and 2018**

| | 2019 | 2018 |
|---|---|---|
| Operating Revenues: | | |
| Sales of electric energy | $ 72,196,380 | $ 75,342,509 |
| Other electric revenues | 3,527,878 | 4,364,653 |
| | 75,724,258 | 79,707,162 |
| Operating Expenses: | | |
| Cost of power | 51,398,427 | 53,818,893 |
| Distribution - operations | 4,468,511 | 4,919,092 |
| Distribution - maintenance | 4,957,143 | 5,509,726 |
| Consumer accounts | 2,445,332 | 2,562,493 |
| Customer services | 908,975 | 686,634 |
| Administrative and general | 3,420,726 | 3,491,403 |
| Depreciation, excluding $356,818 in 2019 and $329,737 in 2018 charged to clearing accounts | 4,923,789 | 4,732,986 |
| Interest on long-term debt | 2,989,963 | 3,219,031 |
| Other interest charges | 60,765 | 35,308 |
| Other deductions | 44,333 | 30,973 |
| Total cost of electric service | 75,617,964 | 79,006,539 |
| Operating Margins | 106,294 | 700,623 |
| Nonoperating Margins and Capital Credits: | | |
| Interest income | 1,355,989 | 1,501,074 |
| Other non-operating margins | 119,828 | 43,875 |
| Generation and transmission capital credits | 2,841,817 | 2,629,054 |
| Other capital credits | 391,290 | 402,598 |
| | 4,708,924 | 4,576,601 |
| Net Margins | 4,815,218 | 5,277,224 |
| Other Comprehensive Income: | | |
| Postretirement benefits | 162,036 | 186,074 |
| Total Comprehensive Income | $ 4,977,254 | $ 5,463,298 |

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

**NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION**
**STATEMENT OF CHANGES IN MEMBERS' EQUITIES**
**Years Ended December 31, 2019 and 2018**

| | | Patronage Capital | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Memberships | Assigned | Assignable | Prior Deficits | Unassigned | Retirements | Total | Other Equities | Accumulated Other Comprehensive Income (Loss) | Total Members' Equities |
| Balance-December 31, 2017 | $ 268,660 | $ 99,770,163 | $ 1,776,095 | $ (13,230,686) | $ 123,409 | $ (21,883,996) | $ 66,554,985 | $ 3,796,055 | $ (2,222,520) | $ 68,397,180 |
| Comprehensive income: | | | | | | | | | | |
| Net margins | | | 5,277,224 | | | | 5,277,224 | | | 5,277,224 |
| Postretirement benefit obligation | | | | | | | | | | |
| Amortization | | | | | | | | | 186,074 | 186,074 |
| Total comprehensive income | | | | | | | | | | 5,463,298 |
| Net change in memberships | (4,235) | | | | | | | | | (4,235) |
| Refunds to estates | | | | | | (257,355) | (257,355) | | | (257,355) |
| Allocate margins | | 1,648,554 | (1,776,095) | 127,541 | | | | | | - - |
| Other equities | | | | | | | | 139,899 | | 139,899 |
| Balance-December 31, 2018 | 264,425 | 101,418,717 | 5,277,224 | (13,103,145) | 123,409 | (22,141,351) | 71,574,854 | 3,935,954 | (2,036,446) | 73,738,787 |
| Comprehensive income: | | | | | | | | | | |
| Net margins | | | 4,815,218 | | | | 4,815,218 | | | 4,815,218 |
| Postretirement benefit obligation | | | | | | | | | | |
| Amortization | | | | | | | | | 162,036 | 162,036 |
| Total comprehensive income | | | | | | | | | | 4,977,254 |
| Net change in memberships | (3,155) | | | | | | | | | (3,155) |
| General refund of capital credits | | | | | | (2,378,996) | (2,378,996) | | | (2,378,996) |
| Refunds to estates | | | | | | (254,764) | (254,764) | | | (254,764) |
| Allocate margins | | 3,535,750 | (5,277,224) | 1,544,949 | 196,525 | | | | | - - |
| Other equities | | | | | | | | 68,949 | | 68,949 |
| Balance-December 31, 2019 | $ 261,270 | $ 104,954,467 | $ 4,815,218 | $ (11,558,196) | $ 319,934 | $ (24,775,111) | $ 73,756,312 | $ 4,004,903 | $ (1,874,410) | $ 76,148,075 |

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

**NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION**
**STATEMENTS OF CASH FLOWS**
**Years Ended December 31, 2019 and 2018**

| | 2019 | 2018 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net margins | $ 4,815,218 | $ 5,277,224 |
| Adjustments to reconcile net margins to net cash provided by operating activities: | | |
| Depreciation: | | |
| Charged to expense | 4,923,789 | 4,732,986 |
| Charged to clearing accounts | 356,818 | 329,737 |
| Patronage capital credits assigned | (3,233,107) | (3,031,652) |
| Amortization of postretirement actuarial adjustment | 162,036 | 186,074 |
| Change in assets and liabilities: | | |
| Accounts and other receivables | (313,581) | 1,172,729 |
| Material and supplies | 60,941 | 119,938 |
| Other current assets | (1,365) | 1,114 |
| Prepaid pension costs | 368,186 | 368,186 |
| Accounts payable | (155,099) | 304,439 |
| Consumer deposits | 996 | 108,316 |
| Accrued expenses | (250,303) | (400,147) |
| Consumer advances | 458 | (30,681) |
| Accumulated postretirement benefits | 122,963 | 106,152 |
| Net cash provided by operating activities | 6,857,950 | 9,244,415 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Plant additions | (5,209,554) | (4,630,238) |
| Salvage, net of removal costs | (421,103) | (428,623) |
| Receipts from associated organizations | 295,162 | 769,534 |
| Net cash (used in) investing activities | (5,335,495) | (4,289,327) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net decrease in memberships | (3,155) | (4,235) |
| Other finance receivables | 5,768,052 | 8,902,719 |
| Principal payments on long-term debt | (6,240,293) | (13,723,332) |
| Retirement of capital credits | (2,633,760) | (257,355) |
| Other equities | 68,949 | 139,899 |
| Net cash (used in) financing activities | (3,040,207) | (4,942,304) |
| Net increase (decrease) in cash and cash equivalents | (1,517,753) | 12,784 |
| Cash and cash equivalents, beginning of year | 4,754,633 | 4,741,849 |
| Cash and cash equivalents, end of year | $ 3,236,880 | $ 4,754,633 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Cash payments for interest | $ 3,041,300 | $ 3,254,734 |

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

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies

Nolin Rural Electric Cooperative Corporation (Nolin) maintains its records in accordance with the policies prescribed or permitted by the Kentucky Public Service Commission (PSC) and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform in all material respects with accounting principles generally accepted in the United States of America. The significant accounting policies are as follows:

**Business Activities** Nolin provides distribution electric service to residential, business, and commercial consumers in a nine (9) county area of central Kentucky.

Nolin is operating the distribution system for a local government unit through a privatization process with the federal government. Nolin is reimbursed for all costs incurred, plus a management fee, on a monthly basis. Payments for the construction of plant facilities are recorded as contributions to plant for the total cost of each project, therefore, there is no net original cost for electric plant from the privatization process.

Nolin also provides demand side management and energy efficiency services to the local federal government installation. Nolin subcontracts almost all work performed, then bills the government installation for the subcontractor costs, plus a management fee. The reimbursements are due over a 10-year period. Included in accounts receivable other, is $24,175,551 and $29,943,603 for 2019 and 2018, respectively. Nolin charges the government installation 1.05% times Nolin's current variable interest rate on the unpaid balance. Interest income recognized was $1,176,575 and $1,369,215 for 2019 and 2018, respectively.

**Cash and Cash Equivalents** Nolin considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. Nolin maintains its cash balances, which may exceed the federally insured limit, with several financial institutions. Management believes that credit risk related to these accounts is minimal.

**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.

**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.

**Accounts Receivable** Accounts receivable consists of amounts due for sales of electricity 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. Nolin 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** Nolin 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)

**Taxes** Nolin 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. Nolin'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** Nolin is one of 16 members of East Kentucky Power Cooperative, Inc. (East Kentucky). Under a wholesale power agreement, Nolin 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 Nolin that are passed on to consumers using a methodology prescribed by the PSC.

**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 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Distribution plant | $ 105,434,821 | $ 101,079,015 |
| General plant | 18,643,522 | 18,320,280 |
| Total | $ 124,078,343 | $ 119,399,295 |

**Depreciation** Nolin's provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. General plant rates are as follows:

| | |
|---|---|
| Distribution plant | 2.5 - 6.9% |
| Structures and improvements | 2.5% |
| Transportation equipment | 10.0 - 20.0% |
| Other general plant | 5.0 - 10.0% |

**Income Tax Status** Nolin is exempt from federal and state income taxes under provisions of Section 501(c)(12) of the Internal Revenue Code. Accordingly, the financial statements for Nolin include no provision for income taxes. Nolin'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 Nolin has no uncertain tax positions resulting in an accrual of tax expense or benefit. Nolin recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Nolin did not recognize any interest or penalties during the years ended December 31, 2019 and 2018. Nolin'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.

**Note 1. Summary of Significant Accounting Policies (Continued)**

**Advertising** Nolin expenses advertising costs as incurred. Advertising expenses were $23,367 and $19,335 for the years ended December 31, 2019 and 2018, respectively.

**Risk Management** Nolin 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** Nolin 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.

**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.

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

**Reclassifications** Certain amounts presented in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

**Subsequent Events** Management has evaluated subsequent events through May 13, 2020, the date the financial statements were available to be issued.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Revenue Recognition

*Adoption of accounting pronouncement*

Nolin 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 Nolin'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. Nolin has no contract assets or long-term contract liabilities.

*Revenue from contracts*

Nolin is engaged in the distribution and sale of electricity to residential and commercial customers in nine counties in central Kentucky. Revenue from these activities is generated from tariffs approved by the PSC. Nolin 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 Nolin. 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.

Nolin is also engaged in the operation and maintenance of Fort Knox through a privatization process with the federal government. The contract includes an energy security and power efficiency program and a solar array project. The contract is renewed annually and runs from June through May. The annual contract amount is based on estimated management and maintenance costs, and Nolin earns a fixed margin on top of the actual costs incurred for maintenance and improvements.

*Significant judgements*

Nolin bills consumers on monthly cycles based on meter readings taken at approximately the same day each month. There are four billing cycles each month consisting of an approximate thirty-day period. Nolin calculates customer bills based on actual kilowatt hour usage obtained through meter readings using advanced metering infrastructure. There is no material difference in revenue recognition from the timing difference of the billing cycles as a full 30-days of revenue is recognized monthly for each cycle. This method of revenue recognition presents fairly, Nolin'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.

Nolin bills Fort Knox in 12 equal monthly installments in accordance with the annual contract. Revenue is recognized each month based on the actual cost of maintenance and improvements multiplied by a fixed margin. The revenue is recognized as work is completed each month. When the costs of maintenance and improvements exceed the budgeted amount, Nolin records a receivable from Fort Knox. Conversely, when the costs of maintenance and improvements are less than the budgeted amount, Nolin records a payable to Fort Knox. The payable or receivable due to or from Fort Knox is settled annually in May when the contract expires. Amounts payable to Fort Knox are used to pay down the principal balance of the long-term receivables.

**Note 2. Revenue Recognition (Continued)**

*Performance obligations*

Nolin customers generally have no minimum purchase commitments. Performance obligations are limited to the service requested and received to date. There are no performance obligations remaining related to revenues recognized through year-end related to the Fort Knox contract. Accordingly, there is no unsatisfied performance obligation to recognize as of December 31, 2019 and 2018.

*Disaggregation of revenue*

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended December 31, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Sales of electric energy: | | |
| Residential rural | $ 53,492,754 | $ 55,621,726 |
| Small commercial | 10,299,982 | 10,443,631 |
| Large commercial | 8,043,235 | 8,923,066 |
| Public lights | 360,409 | 354,086 |
| | $ 72,196,380 | $ 75,342,509 |
| Other electric revenues: | | |
| Ft. Knox privatization | $ 2,339,178 | $ 3,171,972 |
| Ft. Knox modifications | 178,901 | 188,070 |
| Rent of electric property | 381,760 | 314,999 |
| Late charges | 463,433 | 512,469 |
| Miscellaneous charges | 164,606 | 177,143 |
| | $ 3,527,878 | $ 4,364,653 |

*Contract assets and cost liabilities*

Contract cost liabilities related to electric distribution include consumer deposits. The balance in contract liabilities was $2,401,150 and $2,400,154 as of December 31, 2019 and 2018, respectively. Contract cost liabilities related to the Fort Knox privatization contract include the annual true-up included in accounts payable. The balance in contract liabilities was $654,379 and $436,996 as of December 31, 2019 and 2018, respectively.

## NOTES TO FINANCIAL STATEMENTS

### Note 3. Investments in Associated Organizations

Investments in associated organizations consist of the following as of December 31, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| East Kentucky, patronage capital | $ 44,588,620 | $ 41,853,409 |
| CFC, patronage capital and CTCs | 2,936,833 | 2,799,971 |
| KAEC, patronage capital | 809,392 | 803,562 |
| Federated Insurance, patronage capital | 370,666 | 348,744 |
| Other associated organizations | 312,319 | 274,199 |
| | $ 49,017,830 | $ 46,079,885 |

Nolin 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 CFC's long-term debt agreement, return to patrons of capital contributed by them is limited to a maximum of 30.00% of total margins for the preceding calendar year, unless, after giving effect to the distribution, the total equity will be at least 20.00% of total assets. For the year ended December 31, 2019, Nolin returned $2,378,996 of capital to members. There were no general returns of capital to members for the year ended December 31, 2018. Total member's equity as of December 31, 2019 and 2018 was 45.00% and 42.00% of total assets, respectively.

### Note 5. Long-Term Debt

All assets, except vehicles, are pledged as collateral on the long-term debt to CFC under its mortgage agreement. The long-term debt is due in quarterly installments of varying amounts through 2043. Nolin received a $25,000,000 loan from CFC in 2019, of which no funds were advanced as of December 31, 2019, and the funds are available for future use. Long-term debt consists of the following as of December 31:

| | 2019 | 2018 |
|---|---|---|
| First mortgage notes due CFC: | | |
| 3.25% to 4.55% fixed rate | $ 2,317,955 | $ 2,488,374 |
| 3.40% fixed for local government programs | 566,004 | 843,474 |
| 3.50% to 4.10% fixed rate | 20,625,284 | 22,300,159 |
| 3.25% variable rate (3.75% in 2018) | 11,572,734 | 13,313,326 |
| 4.00% and 4.30% fixed rate | 14,253,781 | 16,198,744 |
| 3.25% variable rate (3.75% in 2018) for local government programs | 26,642,755 | 27,074,728 |
| | 75,978,512 | 82,218,805 |
| Less current portion | (2,251,908) | (5,050,000) |
| | $ 73,726,604 | $ 77,168,805 |

**Note 5. Long-Term Debt (Continued)**

As of December 31, 2019, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

| | | |
|---|---|---|
| 2020 | $ | 2,251,908 |
| 2021 | | 4,702,221 |
| 2022 | | 4,891,489 |
| 2023 | | 5,086,028 |
| 2024 | | 5,294,561 |
| Thereafter | | 53,752,305 |
| | $ | 75,978,512 |

**Note 6. Short-Term Notes Payable**

As of December 31, 2019 and 2018, Nolin had a short-term line of credit of $7,000,000 available from CFC. There were no advances against the line of credit as of December 31, 2019 and 2018. The line of credit renews on a regular basis throughout the term of the long-term debt (See Note 5).

**Note 7. Pension Plans**

All eligible employees of Nolin 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.

Nolin'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. Nolin made contributions to the plan for eligible employees of $1,605,795 in 2019 and $1,570,410 in 2018. There have been no significant changes that affect the comparability of 2019 and 2018.

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 80.00% funded at January 01, 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.

**Note 7. Pension Plans (Continued)**

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the 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.

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 choses 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). During February 2013, Nolin made a prepayment of $3,681,860 to the R&S Plan. The amount is being amortized over 10 years.

**Note 8. Postretirement Benefits**

Nolin sponsors a defined benefit plan that provides medical insurance coverage to retired employees and dependents. Participating retirees and dependents contribute 10.00% of the cost of coverage. For measurement purposes, an annual rate of increase of 5.00% in 2019, then decreasing by 0.25% per year until 4.00% 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.

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

| | 2019 | 2018 |
|---|---|---|
| Projected benefit obligation | $ (6,820,511) | $ (6,697,548) |
| Plan assets at fair value | - - | - - |
| Funded status (deficit) | $ (6,820,511) | $ (6,697,548) |

**Note 8. Postretirement Benefits (Continued)**

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

| | 2019 | 2018 |
|---|---|---|
| Benefit obligation - beginning of period | $ 6,697,548 | $ 6,591,396 |
| Net periodic benefit cost: | | |
| Service cost | 74,258 | 87,766 |
| Interest cost | 236,566 | 232,557 |
| Net period cost | 310,824 | 320,323 |
| Benefit payments to participants | (187,861) | (214,171) |
| Benefit obligation - end of period | $ 6,820,511 | $ 6,697,548 |
| Amounts recognized in the balance sheet consists of: | | |
| Accumulated postretirement benefits | $ 6,820,511 | $ 6,697,548 |
| Amounts included in other comprehensive income: | | |
| Postretirement benefits | $ 162,036 | $ 186,074 |
| Effect of 1% increase in the health care trend: | | |
| Postemployment benefit obligation | $ 7,200,000 | |
| Net periodic benefit cost | $ 330,000 | |

Projected retiree benefit payments for the next five years are expected to be as follows: 2020 - $173,230; 2021 - $182,758; 2022 - $192,810; 2023 - $203,414; 2024 - $214,600.

**Note 9. Commitments**

Nolin 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.

**Note 10. Related Party Transactions**

Several of the Directors of Nolin, its President and General Manager, and another employee are on the Boards of Directors of various associated organizations. Nolin leased 12 acres of land at an annual cost of $600 from a member of the Board of Directors during the period ending December 31, 2019 and 2018, respectively.

**Note 11. Environmental Contingency**

Nolin 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 Nolin 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 Nolin's financial position or its future cash flows.

## NOTES TO FINANCIAL STATEMENTS

### Note 12. Contingencies

Nolin 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. 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 Nolin as of May 13, 2020, management believes that a material impact on Nolin's financial position and results of future operations is reasonably possible.