NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY
KENTUCKY 51

CONSOLIDATED FINANCIAL REPORT

December 31, 2020

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 and Subsidiary
Elizabethtown, Kentucky

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Certified Public Accountants and Advisors
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Opinion

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

Jones, Nale & Mattingly PLC

Louisville, Kentucky
April 15, 2021

NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2020 and 2019

	2020	2019
ASSETS		
Utility Plant, at original cost		
In service	$ 128,082,040	$ 124,078,343
Under construction	1,506,131	1,398,741
	129,588,171	125,477,084
Less accumulated depreciation	55,300,547	52,346,832
	74,287,624	73,130,252
Investments in Associated Organizations	50,530,645	49,017,830
Current Assets		
Cash and cash equivalents	10,968,539	3,236,880
Accounts receivable, less allowance for 2020 of $1,453,314 and 2019 of $1,374,796	8,894,845	8,257,397
Accounts receivable, other	7,644,332	9,584,551
Material and supplies, at average cost	1,110,455	1,139,801
Other current assets	38,048	26,244
Total current assets	28,656,219	22,244,873
Non-current Assets		
Long-term portion of accounts receivable, other	16,494,246	24,175,551
Prepaid pension costs	1,058,501	1,135,240
Total non-current assets	17,552,747	25,310,791
Total assets	$ 171,027,235	$ 169,703,746
MEMBERS' EQUITIES AND LIABILITIES		
Members' Equities		
Memberships	$ 259,695	$ 261,270
Patronage capital	77,701,383	73,756,312
Other equities	4,526,709	4,004,903
Accumulated other comprehensive loss	(1,712,374)	(1,874,410)
Total members' equities	80,775,413	76,148,075
Long-Term Liabilities		
Long-term debt, less current portion	67,420,989	73,726,604
Accumulated postretirement benefits	6,781,932	6,820,511
Total long-term liabilities	74,202,921	80,547,115
Current Liabilities		
Current portion of long-term debt	4,918,621	2,251,908
Accounts payable	7,037,106	6,706,880
Consumer deposits	2,336,089	2,401,150
Accrued expenses	1,572,010	1,528,781
Total current liabilities	15,863,826	12,888,719
Consumer Advances	185,075	119,837
Total members' equities and liabilities	$ 171,027,235	$ 169,703,746

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

NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Revenues		
Sales of electric energy	$ 66,889,039	$ 72,196,380
Other electric revenues	3,821,399	3,527,878
	70,710,438	75,724,258
Operating Expenses		
Cost of power	45,339,762	51,398,427
Distribution - operations	3,937,945	4,468,511
Distribution - maintenance	5,277,366	4,957,143
Consumer accounts	2,373,598	2,445,332
Customer services	457,662	908,975
Administrative and general	3,655,785	3,420,726
Depreciation, excluding $289,409 in 2020 and $356,818 in 2019 charged to clearing accounts	4,578,630	4,923,789
Interest on long-term debt	2,311,086	2,989,963
Other interest charges	36,000	60,765
Other deductions	32,275	44,333
Total cost of electric service	68,000,109	75,617,964
Operating Margins	2,710,329	106,294
Nonoperating Margins and Capital Credits		
Interest income	974,551	1,355,989
Gain (loss) on sale of equipment	49,811	(1,035)
Other non-operating margins	5,557	120,863
Generation and transmission capital credits	1,772,441	2,841,817
Other capital credits	324,472	391,290
	3,126,832	4,708,924
Net Margins	5,837,161	4,815,218
Other Comprehensive Income		
Amortization of postretirement benefit actuarial loss	162,036	162,036
Net Margins and Comprehensive Income	$ 5,999,197	$ 4,977,254

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

NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY

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

		Patronage Capital							Accumulated Other	Total
								Other	Comprehensive	Members'
	Memberships	Assigned	Assignable	Prior Deficits	Unassigned	Retirements	Total	Equities	Income (Loss)	Equities
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 of actuarial loss									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
Comprehensive income:										
Net margins			5,837,161				5,837,161			5,837,161
Postretirement benefit obligation										
Amortization of actuarial loss									162,036	162,036
Total comprehensive income										5,999,197
Net change in memberships	(1,575)									(1,575)
General refund of capital credits						(1,515,606)	(1,515,606)			(1,515,606)
Refunds to estates						(376,484)	(376,484)			(376,484)
Allocate margins		3,535,750	(4,815,218)	1,279,468						- -
Other equities								521,806		521,806
Balance - December 31, 2020	$ 259,695	$ 108,490,217	$ 5,837,161	$ (10,278,728)	$ 319,934	$ (26,667,201)	$ 77,701,383	$ 4,526,709	$ (1,712,374)	$ 80,775,413

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

NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 5,837,161	$ 4,815,218
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Charged to expense	4,578,630	4,923,789
Charged to clearing accounts	289,409	356,818
Patronage capital credits assigned	(2,096,913)	(3,233,107)
Amortization of postretirement actuarial adjustment	162,036	162,036
(Gain) loss on disposition of equipment	(49,811)	1,035
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts and other receivables	1,302,771	(313,581)
Material and supplies	29,346	60,941
Other current assets	(11,804)	(1,365)
Prepaid pension costs	76,739	368,186
Accounts payable	330,226	(155,099)
Consumer deposits	(65,061)	996
Accrued expenses	43,229	(250,303)
Consumer advances	65,238	458
Accumulated postretirement benefits	(38,579)	122,963
Net cash provided by operating activities	10,452,617	6,858,985
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(5,639,338)	(5,210,591)
Plant removal costs	(474,497)	(613,480)
Salvage recovered from retired plant	138,235	192,378
Receipts from investments, net	584,098	295,162
Net cash (used in) investing activities	(5,391,502)	(5,336,531)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in memberships	(1,575)	(3,155)
Other finance receivables	7,681,305	5,768,052
Principal payments on long-term debt	(6,010,849)	(6,240,293)
Advances of long-term debt	2,371,947	- -
Retirement of capital credits	(1,892,090)	(2,633,760)
Other equities	521,806	68,949
Net cash provided by (used in) financing activities	2,670,544	(3,040,207)
Net increase (decrease) in cash and cash equivalents	7,731,659	(1,517,753)
Cash and cash equivalents, beginning of year	3,236,880	4,754,633
Cash and cash equivalents, end of year	$ 10,968,539	$ 3,236,880
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 2,411,405	$ 3,041,300

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Description of business

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:

Principals of consolidation

The consolidated financial statements include the accounts of Nolin Rural Electric Cooperative Corporation and its wholly-owned subsidiary, Wide Open Utility Service LLC (Wide Open). All significant intercompany accounts and transactions have been eliminated.

Business activities

Nolin provides distribution electric service to residential, business, and commercial consumers in a nine-county area of central Kentucky. Wide Open’s principal operations consist of providing vegetation management and fleet mechanic services to support the operations of Nolin.

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 $19,305,989 and $27,187,155 for 2020 and 2019, respectively. Nolin charges the government installation 1.05% times Nolin’s current variable interest rate on the unpaid balance. Interest income recognized was $764,609 and $1,176,575 for 2020 and 2019, respectively.

Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the preparation of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Utility plant

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

	2020		2019	
Distribution plant	$	107,789,943	$	105,434,821
General plant		19,858,356		18,643,522
Subtotal electric plant	$	127,648,299	$	124,078,343
Vehicles	$	68,333	$	- -
Trailers and equipment		365,408		- -
Subtotal subsidiary plant	$	433,741	$	- -
Utility plant, at original cost	$	128,082,040	$	124,078,343

Depreciation

Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Distribution plant depreciation is based on a composite rate of 3.89% per annum. General plant rates are as follows:

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

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.

Note 1. Summary of Significant Accounting Policies (Continued)

Accounts receivable

Accounts receivable consists of amounts due for sales of electricity. Accounts receivable are recorded at their 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.

Taxes

Nolin 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. Nolin’s policy is to exclude taxes from revenues when collected and expenses when paid and instead, record collection and payment of taxes through a liability account.

Cost of power

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.

Advertising

Nolin expenses advertising costs as incurred. Advertising expenses were $31,531 and $23,367 for the years ended December 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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Credit risk

Nolin grants credit to residents within its service territory. Concentrations of credit risk with respect to accounts receivables are limited due to its large number of customers.

Income tax status

Nolin qualifies as a tax-exempt organization under Section 501(c)(12) of the Internal Revenue Code. As a single member limited liability company, Wide Open is considered a disregarded entity for federal income tax purposes. Income from certain activities not directly related to Nolin's tax-exempt purpose is subject to taxation as unrelated business income. Nolin is responsible for reporting any unrelated business income generated by Wide Open. There was no unrelated business income activity to be reported for the years ending December 31, 2020 and 2019.

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. Nolin has no uncertain tax positions resulting in an accrual of tax expense or benefit.

Nolin's Federal Return of Organization Exempt from Income Tax is subject to possible examination by taxing authorities until the expiration of related statutes of limitations on the return, which is generally three years.

Pension accounting

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of revenue and comprehensive income. This standard will be effective for the year ending December 31, 2022.

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

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

Reclassifications

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

Subsequent Events

Management has evaluated subsequent events through April 15, 2021, the date the consolidated financial statements were available to be issued.

Note 2. Revenue Recognition

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. Revenue for pole attachments is invoiced at the end of the year. The performance obligation is satisfied ratably over the time of the contract and revenue is recognized monthly as earned.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Revenue Recognition (Continued)

Revenue from contracts (continued)

Nolin is also engaged in the operation and maintenance of Fort Knox Army Base through a privatization process with the United States 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 1st through May 31st. 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.

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, 2020 and 2019.

NOTES TO CONSOLIDATED 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 December 31, 2020 and 2019:

	2020	2019
Sales of electric energy:		
Residential rural	$ 50,965,596	$ 53,492,754
Small commercial	9,285,782	10,299,982
Large commercial	6,274,143	8,043,235
Public lights	363,518	360,409
	$ 66,889,039	$ 72,196,380
Other electric revenues:		
Ft. Knox privatization	$ 2,900,837	$ 2,339,178
Ft. Knox modifications	325,311	178,901
Rent of electric property	398,449	381,760
Late charges	65,907	463,433
Miscellaneous charges	130,895	164,606
	$ 3,821,399	$ 3,527,878

Contract cost liabilities

Contract cost liabilities related to electric distribution include consumer deposits. Contract cost liabilities related to the Fort Knox privatization contract include the annual true-up included in accounts payable. The balances in contract liabilities were as follows as of December 31:

	2020	2019	2018
Consumer deposits	$ 2,336,089	$ 2,401,150	$ 2,400,154
Ft. Knox true-up	274,636	654,379	436,996
	$ 2,610,725	$ 3,055,529	$ 2,837,150

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investments in Associated Organizations

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

	2020	2019
East Kentucky, patronage capital	$ 45,979,080	$ 44,588,620
CFC, patronage capital and CTCs	3,020,424	2,936,833
KAEC, patronage capital	828,676	809,392
Federated Insurance, patronage capital	388,231	370,666
Other associated organizations	314,234	312,319
	$ 50,530,645	$ 49,017,830

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 2025 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. Nolin returned $1,515,606 and $2,378,996 of capital to members for the years ended December 31, 2020 and 2019, respectively. Total members' equity as of December 31, 2020 and 2019 was 47.23% and 44.87% 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, 2020 and 2019. These funds will be used for future plant additions.

In April 2020, Nolin qualified for and received a loan for $2,371,947 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 Nolin'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 Nolin. Nolin is accounting for the loan proceeds as debt in accordance with ASC 470. As such, Nolin will recognize the forgiveness of debt in accordance with RUS guidance once the conditions for loan forgiveness have been substantially met. Nolin applied for forgiveness of the PPP Loan in March 2021.

Note 5. Long-Term Debt (Continued)

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

	2020	2019
First mortgage notes due CFC:		
2.45% to 4.55% fixed rate	$ 2,140,607	$ 2,317,955
3.40% fixed for local government programs	- -	566,004
3.50% to 4.10% fixed rate	20,051,365	20,625,284
2.05% variable rate (3.25% in 2019)	10,997,085	11,572,734
4.00% and 4.30% fixed rate	13,767,916	14,253,781
2.45% variable rate (3.25% in 2019) for local government programs	23,010,690	26,642,755
South Central Bank, PPP Loan	2,371,947	- -
	72,339,610	75,978,512
Less current portion	(4,918,621)	(2,251,908)
	$ 67,420,989	$ 73,726,604

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

2021	$ 4,918,621
2022	5,448,440
2023	4,807,010
2024	4,974,770
2025	5,150,920
Thereafter	47,039,849
	$ 72,339,610

Note 6. Short-Term Notes Payable

As of December 31, 2020 and 2019, 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, 2020 and 2019. 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 (RS Plan), a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The Plan sponsor's identification number is 53-0116145 and the Plan Number is 333. A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Pension Plans (Continued)

Nolin's contributions to the RS Plan in 2020 and 2019 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 $1,423,625 in 2020 and $1,605,795 in 2019. There have been no significant changes that affect the comparability of 2020 and 2019.

In the RS Plan, a zone status determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80.00% funded at January 1, 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 RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

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

Two prepayment options were available to participating cooperatives:

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

On February 14, 2013, RUS issued a memorandum to all of its borrowers regarding the proper accounting treatment of the RS Plan prepayment. RUS stipulated that the prepayment shall be recorded as a long-term prepayment in Account 186, Miscellaneous Deferred Debits. This prepaid expense shall be amortized to Account 926, Employee Pensions and Benefits, over a ten-year period. Alternatively, RUS borrowers may calculate the amortization period by subtracting the cooperative's average age of its workforce as provided by NRECA from the cooperative's normal retirement age under the RS Plan, up to a maximum period of 20 years. If the entity 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 RS 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 2020, then decreasing by 0.25% per year until 3.00% per year, in the per capita cost of covered health care benefit was assumed. The discount rate used in determining the accumulated postretirement benefit obligation was 4.50%. There have been no significant changes that affect the comparability of 2020 and 2019.

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

	2020	2019
Projected benefit obligation	$ (6,781,932)	$ (6,820,511)
Plan assets at fair value	- -	- -
Funded status (deficit)	$ (6,781,932)	$ (6,820,511)

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

	2020	2019
Benefit obligation - beginning of period	$ 6,820,511	$ 6,697,548
Net periodic benefit cost:		
Service cost	72,781	74,258
Interest cost	238,043	236,566
Net period cost	310,824	310,824
Benefit payments to participants	(349,403)	(187,861)
Benefit obligation - end of period	$ 6,781,932	$ 6,820,511
Amounts recognized in the balance sheet consists of:		
Accumulated postretirement benefits	$ 6,781,932	$ 6,820,511
Amounts included in other comprehensive income:		
Unrecognized actuarial loss	$ 162,036	$ 162,036
Effect of 1% increase in the health care trend:		
Postemployment benefit obligation	$ 7,120,000	
Net periodic benefit cost	$ 326,000	

Projected retiree benefit payments for the next five years are expected to be as follows: 2021 - $172,400; 2022 - $179,700; 2023 - $168,200; 2024 - $174,500; 2025 - $170,600.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 to a member of the Board of Directors during the period ended December 31, 2019. There were no leases with related parties during the period ended December 31, 2020.

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.

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 consolidated financial statements.

Note 13. Risks & 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 Nolin as of April 15, 2021, management believes that a material impact on Nolin's financial position and results of future operations is reasonably possible.

JNM

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Nolin Rural Electric Cooperative Corporation and Subsidiary
Elizabethtown, Kentucky

We have audited the consolidated financial statements of Nolin Rural Electric Cooperative Corporation and Subsidiary as of and for the years ended December 31, 2020 and 2019, and our report thereon dated April 15, 2021, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating supplementary information shown on pages 20 and 21 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
April 15, 2021

Certified Public Accountants and Advisors
401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589-1680 www.jnmcpa.com

NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET
December 31, 2020

ASSETS	Nolin	Wide Open	Eliminations	Consolidated
Utility Plant, at original cost:				
In Service	$ 127,648,299	$ 433,741	$ - -	$ 128,082,040
Under construction	1,506,131	- -	- -	1,506,131
	129,154,430	433,741	- -	129,588,171
Less accumulated depreciation	55,300,547	- -	- -	55,300,547
	73,853,883	433,741	- -	74,287,624
Investments:				
Associated organizations	50,530,645	- -	- -	50,530,645
Investment in subsidiary	441,528	- -	(441,528)	- -
Total investments	50,972,173	- -	(441,528)	50,530,645
Current Assets:				
Cash and cash equivalents	10,968,539	- -	- -	10,968,539
Accounts receivable, less allowance of $1,453,314	8,894,845	- -	- -	8,894,845
Accounts receivable, other	7,644,332	- -	- -	7,644,332
Materials and supplies, at average cost	1,110,455	- -	- -	1,110,455
Other current assets	30,261	7,787	- -	38,048
Total current assets	28,648,432	7,787	- -	28,656,219
Non-Current Assets:				
Long-term portion of other receivables	16,494,246	- -	- -	16,494,246
Prepaid pension costs	1,058,501	- -	- -	1,058,501
Total non-current assets	17,552,747	- -	- -	17,552,747
Total assets	$ 171,027,235	$ 441,528	$ (441,528)	$ 171,027,235
Members' Equities and Liabilities				
Members' Equities:				
Capital investment	$ - -	$ 441,528	$ (441,528)	$ - -
Memberships	259,695	- -	- -	259,695
Patronage capital	77,701,383	- -	- -	77,701,383
Other equities	4,526,709	- -	- -	4,526,709
Accumulated other comprehensive loss	(1,712,374)	- -	- -	(1,712,374)
Total members's equities	80,775,413	441,528	(441,528)	80,775,413
Long-Term Liabilities:				
Long-term debt, less current portion	67,420,989	- -	- -	67,420,989
Accumulated postretirement benefits	6,781,932	- -	- -	6,781,932
Total long-term liabilities	74,202,921	- -	- -	74,202,921
Current Liabilities:				
Current portion of long-term debt	4,918,621	- -	- -	4,918,621
Accounts payable	7,037,106	- -	- -	7,037,106
Consumer deposits	2,336,089	- -	- -	2,336,089
Accrued expenses	1,572,010	- -	- -	1,572,010
Total current liabilities	15,863,826	- -	- -	15,863,826
Consumer Advances	185,075	- -	- -	185,075
Total members' equities and liabilities	$ 171,027,235	$ 441,528	$ (441,528)	$ 171,027,235

NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY

CONSOLIDATING STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Year Ended December 31, 2020

	Nolin	Wide Open	Eliminations	Consolidated
Operating Revenues				
Sales of electric energy	$ 66,889,039	$ - -	$ - -	$ 66,889,039
Other electric revenues	3,821,399	- -	- -	3,821,399
	70,710,438	- -	- -	70,710,438
Operating Expenses				
Cost of power	45,339,762	- -	- -	45,339,762
Distribution - operations	3,937,945	- -	- -	3,937,945
Distribution - maintenance	5,277,366	- -	- -	5,277,366
Consumer accounts	2,373,598	- -	- -	2,373,598
Customer services	457,662	- -	- -	457,662
Administrative and general	3,655,785	- -	- -	3,655,785
Depreciation, excluding $289,409 charged to clearing accounts	4,578,630	- -	- -	4,578,630
Interest on long-term debt	2,311,086	- -	- -	2,311,086
Other interest charges	36,000	- -	- -	36,000
Other deductions	32,275	- -	- -	32,275
Total operating expenses	68,000,109	- -	- -	68,000,109
Operating Margins	2,710,329	- -	- -	2,710,329
Nonoperating Margins and Capital Credits				
Interest income	974,551	- -	- -	974,551
Gain on sale of equipment	49,811	- -	- -	49,811
Other non-operating margins	5,557	- -	- -	5,557
Generation and transmission capital credits	1,772,441	- -	- -	1,772,441
Other capital credits	324,472	- -	- -	324,472
	3,126,832	- -	- -	3,126,832
Net Margins	5,837,161	- -	- -	5,837,161
Other Comprehensive Income:				
Postretirement benefits	162,036	- -	- -	162,036
Net Margins and Comprehensive Income	$ 5,999,197	$ - -	$ - -	$ 5,999,197