

Warren Rural Electric Cooperative Corporation

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

June 30, 2020 and 2019



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Warren Rural Electric Cooperative Corporation
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June 30, 2020 and 2019

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REPORT



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Independent Auditors' Report

Board of Directors
Warren Rural Electric Cooperative Corporation
Bowling Green, Kentucky

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Warren Rural Electric Cooperative Corporation and Subsidiaries (the "Cooperative"), which comprise the consolidated balance sheets as of June 30, 2020 and 2019, and the related consolidated statements of income, 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Cooperative as of June 30, 2020 and 2019, and the results of its operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information in the consolidating statements is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the 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 consolidating information is fairly stated, in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2020, 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. The purpose of that report is solely 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 effectiveness of the Cooperative's 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 the Cooperative's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC
Bowling Green, Kentucky
October 27, 2020



FINANCIAL STATEMENTS



Warren Rural Electric Cooperative Corporation
Consolidated Balance Sheets

<i>June 30,</i>	2020	2019
Assets		
Utility plant		
Plant in service	\$ 338,786,101	\$ 323,255,457
Construction in progress	24,288,602	14,757,812
Less accumulated depreciation	(152,637,439)	(145,374,624)
Net utility plant	210,437,264	192,638,645
Other property and investments		
Non-utility plant, net of accumulated depreciation	883,187	1,033,194
Investments in associated companies	2,115,502	2,129,930
Other investments	450,285	422,313
Goodwill	503,260	503,260
Total other property and investments	3,952,234	4,088,697
Current assets		
Cash and cash equivalents	23,245,649	20,507,308
Accounts receivable, net of allowance	18,026,718	15,141,963
Other accounts receivable	1,575,566	1,522,048
Materials and supplies	4,978,253	3,857,737
Prepaid expenses	770,039	1,149,882
Total current assets	48,596,225	42,178,938
Other assets		
TVA Energy Services loans receivable	2,061	3,106
Deferred debits	747,854	868,490
Total other assets	749,915	871,596
Total assets	\$ 263,735,638	\$ 239,777,876

The accompanying notes are an integral part of the consolidated financial statements.

Warren Rural Electric Cooperative Corporation
Consolidated Balance Sheets

<i>June 30,</i>	2020	2019
Equities and Liabilities		
Equities		
Membership fees	\$ 582,415	\$ 567,660
Patronage capital	122,603,122	109,339,632
Other equities	107,634	107,634
Total equities	123,293,171	110,014,926
Long-term liabilities		
Long-term debt - net of current portion	95,812,006	81,939,748
Accrued post-retirement benefits	5,427,828	4,711,098
Total other liabilities	101,239,834	86,650,846
Current liabilities		
Accounts payable - purchased power	20,795,106	24,430,213
Accounts payable - other	1,900,363	3,630,552
Self-insured fund	367,151	280,444
Customer deposits	4,378,544	4,012,398
Accrued interest	196,238	149,377
Accrued vacation and sick leave	1,521,733	1,515,516
Current portion of post-retirement liability	561,000	469,000
Accrued taxes and other current liabilities	2,052,506	1,836,476
Current portion of long-term debt	6,079,549	5,467,461
Total current liabilities	37,852,190	41,791,437
Other liabilities		
Advances for TVA Energy Services loans	2,162	2,759
Deferred income taxes	154,696	180,686
Deferred credits	1,193,585	1,137,222
Total other liabilities	1,350,443	1,320,667
Total equities and liabilities	\$ 263,735,638	\$ 239,777,876

The accompanying notes are an integral part of the consolidated financial statements.

Warren Rural Electric Cooperative Corporation
Consolidated Statements of Income

<i>For the years ended June 30,</i>	2020	2019
Operating revenues		
Electric sales	\$ 195,270,943	\$ 196,361,987
Forfeited discounts	919,878	1,159,059
Rent from electric property	3,066,498	2,273,486
Other electric revenues	641,293	658,534
Natural gas sales	545,190	683,254
Propane and related sales	2,648,309	2,944,898
Total operating revenues	203,092,111	204,081,218
Purchased power and expenses		
Purchased power	142,475,544	151,632,183
Operation	7,564,617	7,295,290
Maintenance	6,985,984	6,805,954
Facilities rental	99,895	103,011
Customer accounts	3,251,427	3,321,740
Customer service and information	751,152	727,007
Administrative and general	7,168,276	7,009,215
Depreciation and amortization	11,332,032	10,397,641
Taxes and tax equivalents	5,437,336	5,576,102
Natural gas purchases	285,843	437,911
Propane gas and related cost of goods sold	1,032,069	1,478,620
Total purchased power and expenses	186,384,175	194,784,674
Total operating income	16,707,936	9,296,544
Other revenues		
Interest income	178,973	111,354
(Loss) Income of unconsolidated entities	(833)	133
Miscellaneous	363,832	286,192
Total other revenues	541,972	397,679
Other deductions		
Interest on long-term debt	3,834,153	3,373,118
Loss from disposition of utility plant	-	4,010,836
Total other deductions	3,834,153	7,383,954

The accompanying notes are an integral part of the consolidated financial statements.

Warren Rural Electric Cooperative Corporation
Consolidated Statements of Income

<i>For the years ended June 30,</i>	2020	2019
Income before income taxes	13,415,755	2,310,269
Income tax expense	152,265	197,593
Net Income	\$ 13,263,490	\$ 2,112,676

The accompanying notes are an integral part of the consolidated financial statements.

Warren Rural Electric Cooperative Corporation
Consolidated Statements of Equities

	Memberships		Patronage Capital		Other Equities	Total Equities
Balance - July 1, 2018	\$	561,165	\$	107,226,956	\$ 107,629	\$ 107,895,750
Net income for the year		-		2,112,676	-	2,112,676
Investment from members		6,495		-	5	6,500
Balance - June 30, 2019		567,660		109,339,632	107,634	110,014,926
Net income for the year		-		13,263,490	-	13,263,490
Investment from members		14,755		-	-	14,755
Balance, June 30, 2020	\$	582,415	\$	122,603,122	\$ 107,634	\$ 123,293,171

The accompanying notes are an integral part of the consolidated financial statements.

Warren Rural Electric Cooperative Corporation
Consolidated Statements of Cash Flows

<i>For the years ended June 30,</i>	2020	2019
Cash flows from operating activities		
Net income	\$ 13,263,490	\$ 2,112,676
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,332,032	10,397,641
Loss on disposition of utility plant	-	4,010,836
(Increase) decrease in assets:		
Receivables	(2,938,273)	300,850
Materials and supplies	(1,120,516)	(22,677)
Prepaid expenses	379,843	(44,223)
Other assets	121,681	(185,239)
Increase (decrease) in liabilities:		
Accounts payable	(5,365,296)	240,923
Customer deposits	366,146	175,270
Accrued expenses and other liabilities	411,581	(10,556)
Accretion in post-retirement benefit obligation	808,730	681,051
Provision for deferred income taxes	(25,990)	42,055
Total adjustments	3,969,938	15,585,931
Net cash provided by operating activities	17,233,428	17,698,607
Cash flows from investing activities		
Additions to utility plant, net of disposals	(28,980,644)	(25,008,441)
Purchase of other investments	(27,972)	(36,933)
Change in investment in associated organizations	14,428	4,441
Net cash used in investing activities	(28,994,188)	(25,040,933)
Cash flows from financing activities		
Proceeds from long-term debt	20,000,000	12,000,000
Payments on principal of long-term debt	(5,515,654)	(4,881,265)
Use of RUS cushion of credit	-	54
Investment from members	14,755	6,500
Net cash provided by financing activities	14,499,101	7,125,289

The accompanying notes are an integral part of the consolidated financial statements.

Warren Rural Electric Cooperative Corporation
Consolidated Statements of Cash Flows

<i>For the years ended June 30,</i>	2020	2019
Increase (decrease) in cash and cash equivalents	2,738,341	(217,037)
Cash and cash equivalents – beginning of year	20,507,308	20,724,345
Cash and cash equivalents – end of year	\$ 23,245,649	\$ 20,507,308

Supplemental disclosures of cash flow information:

Cash paid during the year for interest	\$ 3,787,292	\$ 3,387,969
Cash paid for income taxes, net	\$ 115,507	\$ 198,855

The accompanying notes are an integral part of the consolidated financial statements.

Warren Rural Electric Cooperative Corporation

Notes to Consolidated Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Warren Rural Electric Cooperative Corporation ("WRECC") and its Subsidiaries (hereinafter referred to collectively as "the Cooperative") were organized under Kentucky laws and exist for the purpose of distributing various utility services to its members, primarily in south central Kentucky. Counties included in its service area include Warren, Simpson, Butler, Ohio, Grayson, Logan, Edmonson, and Barren.

Measuring Focus, Basis of Accounting, and Consolidated Financial Statement Presentation

The Cooperative's consolidated financial statements are presented on the full accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The accounting policies of the Cooperative are in accordance with the system of accounts prescribed by the United States Department of Agriculture, the Rural Utility Service (RUS) and the Tennessee Valley Authority (TVA), which do not differ materially from accounting principles generally accepted in the United States of America.

The consolidated financial statements include the accounts of WRECC and its wholly-owned for-profit subsidiaries, Propane Energy Service, Inc. ("PES") and Millennium Energy, Inc. ("Millennium"). PES is involved with propane distribution and Millennium is a natural gas distributor. All significant intercompany activity has been eliminated in consolidation.

Through the business of providing services to customers, nearly all of whom are regional residents, the Cooperative grants credit to those customers, which is basically unsecured. This results in the Cooperative incurring monthly losses associated with uncollectible accounts and is reflected in the Cooperative's operating expenses.

Use of Estimates

The preparation of consolidated financial statements in conformity 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 disclosure 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. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period that are determined to be necessary. Actual results could differ from the estimates.

Estimates that are particularly susceptible to significant change in the near term are related to allowance for uncollectable accounts, post-retirement benefits liability, and self-insurance liability.

Warren Rural Electric Cooperative Corporation

Notes to Consolidated Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

Financial instruments that potentially subject the Cooperative to concentrations of credit risk consist principally of cash deposits and accounts receivable. The Cooperative maintains its cash balances in institutions whose deposits are covered by the FDIC. Deposits are insured up to \$250,000 per financial institution. At June 30, 2020 and 2019, the Cooperative had deposits of \$1,409,846 and \$1,439,737 in excess of the FDIC insured amount, respectively. The Cooperative has a geographical concentration in accounts receivable because most of the balances are due from individuals and businesses located in the same geographical region.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Cooperative considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2020 and 2019, cash equivalents consisted primarily of commercial paper and repurchase agreements.

Accounts Receivable

Accounts receivable result from unpaid billings and accrued unbilled amounts for service to customers and from unpaid billings related to work performed or materials sold to certain entities. Accounts receivable are stated at amounts expected to be collected from customers, less an allowance for uncollectible accounts that includes unpaid balances in excess of 90 days plus an additional amount based on management's estimation of future doubtful accounts. The allowance for doubtful accounts was \$4,907,741 and \$4,652,457 at June 30, 2020 and 2019, respectively.

Utility bills are due 15 days after the billing date, with a 5% penalty assessed for late payments. A cut-off notice is sent, allowing the customer seven days to pay before their service is disconnected. The customer then has five days to pay before the meter is read and entered to create a final bill. A collection letter is sent if the account remains unpaid after the due date of the final bill. A second collection letter is sent after ten days. The account is turned over to a collection agency ten days after the issuance of the second collection letter.

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. On March 17, 2020 as a result of the pandemic, the Cooperative temporarily suspended all disconnections for non-payment in order to provide relief for customers during the coronavirus pandemic. On May, 08 2020 the Governor of the Commonwealth of Kentucky issued executive order 2020-323 ordering all entities who provide electric utility service to suspend all disconnections for non-payment, as well as late payment fees, for the duration of the State of Emergency.

Materials and Supplies

All materials and supplies inventories are valued at average cost.

Warren Rural Electric Cooperative Corporation

Notes to Consolidated Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the consolidated financial statements.

Utility Plant and Depreciation Procedures

Utility plant, which includes property, plant, equipment, and construction in progress, is stated at original cost and includes direct labor, materials, overhead, and special services (contract labor, etc.). Work orders are used to accumulate these costs, which are closed into plant when complete. Replacing only part of an installation is considered a repair and charged to maintenance expense.

Depreciation expense is computed on the composite-rate method at rates recommended by TVA and RUS. Retirements of property from service have been charged to the accumulated provision for depreciation accounts at the original cost of the units plus cost of removal. Salvage value of the units retired is returned to inventory.

Investments in Associated Enterprises

Investments in other cooperative's equities are carried at cost plus the Cooperative's share of allocated equities. Capital term certificates issued by the National Rural Utilities Cooperative Finance Corporation (CFC) are required investments for cooperatives that borrow funds from CFC. The required investment amount is based on a predetermined formula. Since there is not a market for these securities, management has determined that it is not practicable to estimate the fair value of these investments.

The Cooperative has a 50% investment in Penwar, Inc., which is accounted for under the equity method. Penwar provides billing and collection services for the Cooperative and one other electric utility. The Cooperative's share of (loss) income from Penwar for the years ended June 30, 2020 and 2019 was \$(833) and \$133, respectively.

Goodwill

The Cooperative's goodwill represents the excess of the purchase price over the fair value of assets acquired in business combinations. Goodwill is evaluated annually for impairment, or whenever impairment indicators arise.

Compensated Absences

It is the Cooperative's policy to permit employees to accumulate earned but unused personal benefits. Personal leave earned by employees is accrued based on years of continuous service. All personal leave pay has been accrued and is reflected as a liability in the consolidated financial statements. When an employee ceases to be employed, all benefits shall cease to accrue.

Warren Rural Electric Cooperative Corporation

Notes to Consolidated Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Revenues and Purchased Power

Revenues are recognized for power delivered including unbilled revenues which are accrued at the end of each month, which coincides with billings from TVA for purchased power in the month delivered.

Income Taxes and Uncertain Tax Positions

WRECC is exempt from income taxes under section 501(c)(12) of the Internal Revenue Code and applicable state laws and regulations. For the Cooperative's wholly-owned, for-profit enterprises, income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the bases of certain assets and liabilities for financial statement and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

It is the Cooperative's policy to recognize interest and penalties related to income taxes in income tax expense, when applicable.

As of June 30, 2020 and 2019, the Cooperative believes it has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Reclassifications

Amounts in the 2019 consolidated financial statements have been reclassified to be comparable with the 2020 consolidated financial statements' presentation. The reclassifications had no impact on the 2019 net income.

Subsequent Events

The Cooperative has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying consolidated financial statements through October 27, 2020, which was the date the consolidated financial statements were made available.

Warren Rural Electric Cooperative Corporation
Notes to Consolidated Financial Statements

NOTE 2: CHANGE IN ACCOUNTING ESTIMATE

A change in accounting estimate has the effect of adjusting the carrying amount of an existing asset or liability or altering the subsequent accounting for existing or future assets or liabilities. As a result of the Advanced Metering Infrastructure (AMI) project being completed in the current year, the Cooperative made a change in the estimation of unbilled revenue which effects receivables and operating revenue for the year ended June 30, 2020. Changes in the estimation of unbilled revenue resulted in an increase to current year revenue from electric sales of approximately \$4,700,000.

NOTE 3: INVESTMENTS

Investments in Associated Enterprises

The Cooperative had the following investments in associated enterprises at June 30, 2020 and 2019:

<i>June 30,</i>	2020	2019
CFC capital term certificates	\$ 2,069,452	\$ 2,083,880
Penwar, Inc.	45,050	45,050
Co-Bank stock	1,000	1,000
	<u>\$ 2,115,502</u>	<u>\$ 2,129,930</u>

Investments in Subsidiaries

WRECC holds investments in two wholly-owned for-profit entities, PES and Millennium. PES is involved with propane distribution and Millennium is a natural gas distributor. For the years ended June 30, 2020 and 2019, PES reported a net income after tax of \$441,988 and \$331,904, respectively. For the years ended June 30, 2020 and 2019, Millennium reported a net income after tax of \$72,363 and \$24,738, respectively.

Warren Rural Electric Cooperative Corporation
Notes to Consolidated Financial Statements

NOTE 4: UTILITY PLANT

Utility plant at June 30, 2020 and 2019 is summarized as follows:

<i>June 30,</i>	2020	2019
Electric plant in service:		
Transmission plant	\$ 28,679,636	\$ 27,987,381
Distribution plant	277,099,459	263,798,531
General plant	33,007,006	31,469,545
Total electric plant in service	338,786,101	323,255,457
Construction work in progress	24,288,602	14,757,812
Total utility plant	363,074,703	338,013,269
Accumulated depreciation	(152,637,439)	(145,374,624)
Net utility plant	\$ 210,437,264	\$ 192,638,645

Depreciation rates have been applied to the general plant, distribution plant, and transmission plant on a straight-line basis ranging as follows:

General Plant	3.00% to 20.00%
Distribution Plant	2.50% to 6.70%
Transmission Plant	2.75% to 3.34%

NOTE 5: LINES OF CREDIT

The Cooperative has a line of credit for \$8,000,000 with CFC that renews annually each year unless terminated by either party. The note has a variable interest rate and is unsecured. The Cooperative also has a revolving line of credit with Co-Bank for \$1,000,000 that also has a variable interest rate and is unsecured. There were no outstanding balances against either of these notes at June 30, 2020 or 2019.

Warren Rural Electric Cooperative Corporation
Notes to Consolidated Financial Statements

NOTE 6: LONG-TERM DEBT

At June 30, 2020 and 2019, long-term debt consisted of the following:

<i>June 30,</i>	2020	2019
<hr/>		
Mortgage notes payable to CFC due in quarterly installments ranging from approximately \$3,000 to \$728,000 including interest at fixed rates ranging from 3.51% to 6.15%, maturing August 2020 through February 2050; secured by all assets.	\$ 55,043,632	\$ 38,804,567
Mortgage notes payable to Federal Financing Bank, RUS, due in quarterly installments of approximately \$581,000 including interest at fixed rates ranging from 2.65% to 6.14%, maturing March 2028 through December 2047; secured by all assets.	34,862,023	35,942,557
Mortgage notes payable to CoBank due in monthly installments of approximately \$95,000 including interest at rates ranging from 3.26% to 3.76%, maturing December 2021 through 2034; secured by all assets not otherwise securing pre-existing loans.	11,985,900	12,660,087
<hr/>		
Total long-term debt	101,891,555	87,407,211
Less current maturities	6,079,549	5,467,461
Less RUS cushion of credit	-	2
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Net long-term debt	\$ 95,812,006	\$ 81,939,748
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Warren Rural Electric Cooperative Corporation
Notes to Consolidated Financial Statements

NOTE 6: LONG-TERM DEBT (CONTINUED)

The provisions of the mortgage notes payable place certain restrictions and limitations upon the Cooperative. These include maintenance of certain financial ratios, as well as restrictions or limitations on the payment of distributions, rentals of property, and additional borrowings. The Cooperative was in compliance with these covenants at June 30, 2020 and 2019.

The annual debt service requirements of principal to maturity at June 30 are as follows:

<i>For the years ending June 30,</i>	
	Principal
2021	\$ 6,079,549
2022	6,951,428
2023	6,551,391
2024	6,120,604
2025	6,390,606
Thereafter	69,797,977
Total	\$ 101,891,555

NOTE 7: DEFERRED DEBITS AND CREDITS

The Cooperative's deferred debits and credits as presented in the balance sheets consisted of the following items:

<i>June 30,</i>	2020	2019
Deferred debits:		
Computer software, amortized over 1 to 5 years	\$ 433,810	\$ 494,580
WRECC rebate program	313,560	373,910
Transportation overhead clearing	484	-
	\$ 747,854	\$ 868,490
Deferred credits:		
Refundable contributions	\$ 577,332	\$ 561,366
Unearned revenue	177,516	195,085
Advance receipts of subdivision street light assessments	438,737	380,771
	\$ 1,193,585	\$ 1,137,222

Warren Rural Electric Cooperative Corporation
Notes to Consolidated Financial Statements

NOTE 8: INCOME TAXES

The provision for income taxes for the years ended June 30, 2020 and 2019 consisted of the following:

<i>As of and for the years ended June 30,</i>	2020	2019
Current tax expense	\$ 178,255	\$ 155,538
Deferred taxes	(25,990)	42,055
Total	\$ 152,265	\$ 197,593

The Cooperative has net deferred tax liabilities of \$154,696 and \$180,686 at June 30, 2020 and 2019, respectively, primarily related to the use of accelerated methods of depreciation of property and equipment for income tax purposes.

NOTE 9: RETIREMENT PLANS

Defined Benefit Pension Plan

The Cooperative participates in the National Rural Electrification Cooperative Association (NRECA) Retirement Security Plan (RS Plan). The NRECA RS Plan is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501 (a) of the Internal Revenue Code. It is a multi-employer plan under accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multi-employer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Cooperative made contributions to the plan of \$1,950,039 for the year ended June 30, 2020, and \$2,327,634 for the year ended June 30, 2019. Beginning in May 2020, NRECA changed from an accelerated rate billing structure where annual contributions are billed over 9 months, to a standard billing structure where annual contributions are billed over 12 months. This had the effect of reducing the annual contributions for the year ended June 30, 2020.

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 Retirement Security Plan was approximately 96 percent funded on January 1, 2019, and approximately 95 percent funded on January 1, 2018, based on the PPA funding target and PPA actuarial value of assets on those dates.

Warren Rural Electric Cooperative Corporation
Notes to Consolidated Financial Statements

NOTE 9: RETIREMENT PLANS (CONTINUED)

Defined Benefit Pension Plan (Continued)

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. The Cooperative's normal retirement age is 62.

Deferred Compensation Retirement Plans

The Cooperative has a 401(k) plan which is available to all employees who have completed one month of service. The Cooperative contributes 1% of the employees' base pay if the employee contributes 4%.

For employees hired after January 1, 2014, the Cooperative contributes 1% of the employee's base salary. In addition, the Cooperative will provide a matching contribution of 3% if the employee contributes 4% of his/her base pay.

The Cooperative made contributions to the plan of \$178,749 for 2020 and \$157,401 for 2019.

The Cooperative also has a 457(b) Plan which is administered by Homestead Funds. The Plan is for management or highly compensated employees of the Cooperative. The Plan is for participant contributions only; the Cooperative does not contribute. The Plan's assets will remain solely the property of the Cooperative, subject only to the claims of the Cooperative's creditors until made available to the participant or beneficiary of the Plan's assets. Amounts at June 30, 2020 and 2019 were \$447,939 and \$419,967, respectively.

NOTE 10: POSTRETIREMENT HEALTHCARE BENEFITS

The Cooperative provides certain healthcare benefits for retired employees hired prior to January 1, 2014. In order to receive retiree medical and dental benefits, an employee must be at least 55 years of age, with a minimum of 5 years of service, and the sum of age plus years of service must be at least 75. The Cooperative will pay up to five years of benefits for the retiree, or until age 65 is attained. Employees hired after January 1, 2014, will not be eligible for postretirement healthcare benefits.

Warren Rural Electric Cooperative Corporation
Notes to Consolidated Financial Statements

NOTE 10: POSTRETIREMENT HEALTHCARE BENEFITS (CONTINUED)

The annual measurement date is July 1 for the postretirement benefits. The following summarizes the postretirement benefit plan for the years ended June 30, 2020 and 2019.

<i>As of and for the years ended June 30,</i>	2020	2019
Reconciliation of funded status		
Benefit obligation at June 30	\$ 5,540,889	\$ 4,760,131
Fair value of plan assets at June 30	-	-
Unfunded benefit obligation	<u>\$ 5,540,889</u>	<u>\$ 4,760,131</u>
Benefits paid	\$ 103,934	\$ 4,790
Employer contributions	\$ 103,934	\$ 4,790
Reconciliation of net periodic benefit cost		
Net loss	\$ 124,236	\$ 106,229
Prior service cost	155,808	148,881
Interest cost	185,084	187,234
Net periodic benefit cost	<u>\$ 465,128</u>	<u>\$ 442,344</u>

The weighted average assumptions used in the accounting for the Cooperative's postretirement benefit plan was as follows:

<i>For the years ended June 30,</i>	2020	2019
Discount rate	2.70%	3.50%

The following benefit payments, which reflect expected future service, as appropriate, as expected to be paid:

<i>For the years ending June 30,</i>	
2021	\$ 561,000
2022	580,000
2023	435,000
2024	368,000
2025	473,000
Thereafter	1,825,000
Total	<u>\$ 4,242,000</u>

Warren Rural Electric Cooperative Corporation

Notes to Consolidated Financial Statements

NOTE 11: SELF-INSURANCE

The Cooperative is self-insured for a significant portion of its employee healthcare claims. During 2020 and 2019, the Cooperative paid claims of \$2,878,731 and \$3,569,541, respectively. Management has recorded an estimate for an amount it considers reasonable related to its obligation for claims incurred but not reported as of year-end. At June 30, 2020 and 2019, the Cooperative had accrued \$367,151 and \$280,444, respectively, for these projected claims.

NOTE 12: COMMITMENTS

The Cooperative has a wholesale power contract with Tennessee Valley Authority (TVA) whereby the electric system purchases all of its electric power from TVA. The rates paid for such purchases are subject to review periodically. A five-year notice to TVA is required to terminate the contract.

On November 15, 2017, the Cooperative secured a loan commitment with CoBank for \$20,000,000. The loan commitment expires December 31, 2021. As of June 30, 2020, the Cooperative has borrowed \$12,000,000 of the \$20,000,000 loan commitment.

On March 1, 2019, the Cooperative signed a two-year contract with Ervin Cable Construction for the installation of 400 linear miles of fiber optic backbone. The contract is for approximately \$4,500,000. Total cost incurred as of June 30, 2020, is \$1,344,000.

On July 31, 2020, the Cooperative signed a one-year contract with Townsend Tree Service for right-of-way clearing services. The contract price totaled \$619,000 for services provided between August 1, 2020 and June 30, 2021.

NOTE 13: RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended June 30, 2020 and 2019, the Cooperative purchased commercial insurance for all of the above risks. The Cooperative is involved in lawsuits from time to time, which are considered to be in the normal course of business. In the opinion of management, based on information furnished by counsel, the ultimate liability, if any, will have no material effect on the financial position of the Cooperative.

NOTE 14: UNCERTAINTY

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the operating activities and results of the Cooperative. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.

Warren Rural Electric Cooperative Corporation
Consolidating Balance Sheets

<i>June 30, 2020</i>	WRECC	PES	Millennium	Eliminations	Total
Assets					
Utility plant					
Plant in service	\$ 338,786,101	\$ -	\$ -	\$ -	\$ 338,786,101
Construction in progress	24,288,602	-	-	-	24,288,602
Less accumulated depreciation	(152,637,439)	-	-	-	(152,637,439)
Net utility plant	210,437,264	-	-	-	210,437,264
Other property and investments					
Non-utility plant, net of accumulated	-	487,859	395,328	-	883,187
Investments in associated companies	6,145,932	-	-	(4,030,430)	2,115,502
Other investments	450,285	-	-	-	450,285
Goodwill	503,260	-	-	-	503,260
Total other property and investments	7,099,477	487,859	395,328	(4,030,430)	3,952,234
Current assets					
Cash and cash equivalents	19,850,104	2,413,027	982,518	-	23,245,649
Accounts receivable, net of allowance	17,921,567	82,372	59,036	(36,257)	18,026,718
Other accounts receivable	1,575,566	-	-	-	1,575,566
Materials and supplies	4,901,589	71,616	5,048	-	4,978,253
Prepaid expenses	758,658	12,281	(900)	-	770,039
Total current assets	45,007,484	2,579,296	1,045,702	(36,257)	48,596,225
Other assets					
TVA Energy Services loans receivable	2,061	-	-	-	2,061
Deferred debits	747,854	-	-	-	747,854
Total other assets	749,915	-	-	-	749,915
Total assets	\$ 263,294,140	\$ 3,067,155	\$ 1,441,030	\$ (4,066,687)	\$ 263,735,638

Warren Rural Electric Cooperative Corporation
Consolidating Balance Sheets

<i>June 30, 2020</i>	WRECC	PES	Millennium	Eliminations	Total
Equities and Liabilities					
Equities					
Membership fees	\$ 582,415	\$ -	\$ -	\$ -	\$ 582,415
Patronage capital	122,603,122	-	-	-	122,603,122
Other equities	107,634	2,729,579	1,300,851	(4,030,430)	107,634
Total equities	123,293,171	2,729,579	1,300,851	(4,030,430)	123,293,171
Long-term liabilities					
Long-term debt - net of current portion	95,812,006	-	-	-	95,812,006
Accrued post-retirement benefits	5,427,828	-	-	-	5,427,828
Total other liabilities	101,239,834	-	-	-	101,239,834
Current liabilities					
Accounts payable - purchased power	20,795,106	-	-	-	20,795,106
Accounts payable - other	1,892,129	13,780	30,711	(36,257)	1,900,363
Self-insured fund	367,151	-	-	-	367,151
Customer deposits	4,369,014	-	9,530	-	4,378,544
Accrued interest	196,238	-	-	-	196,238
Accrued vacation and sick leave	1,521,733	-	-	-	1,521,733
Current portion of post-retirement liability	561,000	-	-	-	561,000
Accrued taxes and other current liabilities	1,960,984	80,021	11,501	-	2,052,506
Current portion of long-term debt	6,079,549	-	-	-	6,079,549
Total current liabilities	37,742,904	93,801	51,742	(36,257)	37,852,190

Warren Rural Electric Cooperative Corporation
Consolidating Balance Sheets

<i>June 30, 2020</i>	WRECC	PES	Millennium	Eliminations	Total
Other liabilities					
Advances for TVA Energy Services loans	2,162	-	-	-	2,162
Deferred income taxes	-	66,259	88,437	-	154,696
Deferred credits	1,016,069	177,516	-	-	1,193,585
Total other liabilities	1,018,231	243,775	88,437	-	1,350,443
Total equities and liabilities	\$ 263,294,140	\$ 3,067,155	\$ 1,441,030	\$ (4,066,687)	\$ 263,735,638

Warren Rural Electric Cooperative Corporation
Consolidating Statements of Income

For the year ended June 30, 2020

	WRECC	PES	Millennium	Eliminations	Total
Operating Revenues					
Electric sales	\$ 195,270,943	\$ -	\$ -	\$ -	\$ 195,270,943
Forfeited discounts	919,878	-	-	-	919,878
Rent from electric property	3,066,498	-	-	-	3,066,498
Other electric revenues	641,293	-	-	-	641,293
Natural gas sales	-	-	545,190	-	545,190
Propane and related sales	-	2,648,309	-	-	2,648,309
Total operating revenues	199,898,612	2,648,309	545,190	-	203,092,111
Purchased power and expenses					
Purchased power	142,475,544	-	-	-	142,475,544
Operation	6,702,181	815,860	46,576	-	7,564,617
Maintenance	6,978,880	-	7,104	-	6,985,984
Facilities rental	99,895	-	-	-	99,895
Customer accounts	3,251,427	-	-	-	3,251,427
Customer service and information	749,189	-	1,963	-	751,152
Administrative and general	7,024,296	102,298	41,682	-	7,168,276
Depreciation and amortization	11,151,441	141,236	39,355	-	11,332,032
Taxes and tax equivalents	5,354,254	49,145	33,937	-	5,437,336
Natural gas purchases	-	-	285,843	-	285,843
Propane gas and related cost of goods sold	-	1,032,069	-	-	1,032,069
Total purchased power and expenses	183,787,107	2,140,608	456,460	-	186,384,175
Total operating income	16,111,505	507,701	88,730	-	16,707,936

Warren Rural Electric Cooperative Corporation
Consolidating Statements of Income

<i>For the year ended June 30, 2020</i>	WRECC	PES	Millennium	Eliminations	Total
Other revenues					
Interest income	157,344	20,124	1,505	-	178,973
Loss of unconsolidated entities	(833)	-	-	-	(833)
Miscellaneous	829,627	34,765	13,791	(514,351)	363,832
Total other revenues	986,138	54,889	15,296	(514,351)	541,972
Other deductions					
Interest on long-term debt	3,834,153	-	-	-	3,834,153
Total other deductions	3,834,153	-	-	-	3,834,153
Income before income taxes	13,263,490	562,590	104,026	(514,351)	13,415,755
Income tax expense	-	120,602	31,663	-	152,265
Net Income	\$ 13,263,490	\$ 441,988	\$ 72,363	\$ (514,351)	\$ 13,263,490

**Independent Auditors' 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***

Board of Directors
Warren Rural Electric Cooperative Corporation
Bowling Green, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the Warren Rural Electric Cooperative Corporation and Subsidiaries (the "Cooperative"), which comprise the consolidated balance sheet as of June 30, 2020 and the related consolidated statements of income, equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 27, 2020.

Internal Control Over Financial Reporting

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

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

did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: 2020-001 and 2020-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's consolidated financial statements are free from 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 consolidated financial statements. 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*.

We noted other matters involving internal control over financial reporting that we have reported to management of the Cooperative in a separate letter dated October 27, 2020.

The Cooperative's Response to Findings

The Cooperative's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Cooperative's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative'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 Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carr, Riggs & Ingram, LLC

CARR, RIGGS & INGRAM, LLC
Bowling Green, Kentucky
October 27, 2020

**Independent Auditors' Report on Compliance with Aspects
of Contractual Agreements and Regulatory Requirements
for Electric Borrowers**

Board of Directors
Warren Rural Electric Cooperative Corporation
Bowling Green, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Warren Rural Electric Cooperative Corporation and Subsidiaries (the "Cooperative"), which comprise the consolidated balance sheet as of June 30, 2020, and the related consolidated statements of income, equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 27, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2020, 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 responses 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 the accounting matters 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, except as noted in the schedule of findings and responses, 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 materials 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 consolidated financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures) and other Federal agency (TVA) requirements;
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and
- Comply with the requirements for the detailed schedule of investments.

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

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC
Bowling Green, Kentucky
October 27, 2020

Warren Rural Electric Cooperative Corporation Schedule of Findings and Responses

2020-001 MATERIALS AND SUPPLIES MANAGEMENT

Criteria and Condition: In our procedures over materials and supplies, it was noted that the account balance of materials and supplies appeared to be misstated. Upon investigation by management, the Cooperative discovered that materials used in the installation of the fiber project were not being charged to work orders thereby causing the materials and supplies account to be overstated. No fiber materials were being transferred to the construction work in progress account. As a result, an audit adjustment was made in the amount of approximately \$2,000,000 to the areas of materials and supplies and construction work in progress.

Cause: Proper procedures were not in place to track and charge fiber cable installation to the associated work orders and relieve materials and supplies account for usage.

Effect or Potential Effect: Misappropriations and misstatements could occur and not be detected or prevented by the Cooperative's internal controls.

Recommendation: We recommend management strengthen internal controls in relation to materials and supplies management by implementing procedures related to the fiber project to ensure proper recording of the materials and supplies account and the construction work in progress account.

Views of Responsible Officials and Planned Corrective Actions: The Accounting department and Fiber Network Engineer are taking steps to create a documented process related to fiber material management. This process will ensure proper recording of materials and the construction work in progress account. We are also planning on doing a full inventory of fiber during the Fall of 2020.

2020-002 SEGREGATION OF DUTIES

Criteria and Condition: Proper segregation of duties is a significant component to the internal control structure. There is a lack of segregation of duties in relation to the cash disbursements. Compensating controls have been implemented in an attempt to reduce this risk.

Cause: Select employees have access to the Cooperative's assets and financial records.

Effect or Potential Effect: Misappropriations could occur and not be detected by the Cooperative's internal controls.

Recommendation: We recommend management strengthen internal controls in relation to cash disbursements by segregating access to the Cooperative's assets and financial records.

Views of Responsible Officials and Planned Corrective Actions: In our opinion, the Accounting department is not large enough to have full segregation of duties. The Manager of Accounting acts as backup for accounts payable, payroll and all other functions within the Accounting Department. The VP of Administrative Services reviews all check written to ensure that all checks are accounted for. Bank reconciliations are performed by individuals who do not have access to the bank accounts. There are no planned corrective actions, other than continuous review of procedures for reasonableness.



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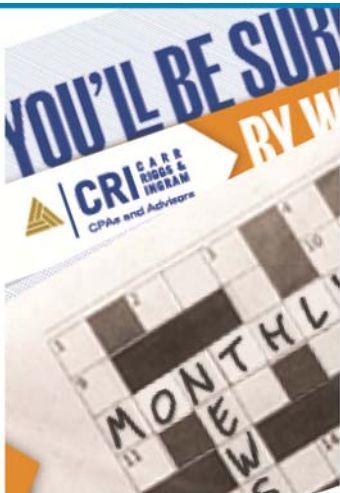
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- Key Considerations of Health Care Law
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