

Union Rural Electric
Cooperative, Inc.
Audited Financial Statements

December 31, 2020 and 2019

UNION RURAL ELECTRIC COOPERATIVE, INC.

DECEMBER 31, 2020 AND 2019

TABLE OF CONTENTS

| | <u>PAGE</u> |
|---|-------------|
| Independent Auditor's Report..... | 1 |
| Balance Sheets | 2 |
| Statements of Revenue and Expense | 3 |
| Statements of Patronage Capital | 4 |
| Statements of Cash Flows | 5 |
| Notes to the Financial Statements | 6-16 |

Board of Trustees
Union Rural Electric Cooperative, Inc.
Marysville, Ohio

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Union Rural Electric Cooperative, Inc. (the "Cooperative") which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of revenue and expense, patronage capital and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

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

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

Opinion

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

Other Matter

During the years ended December 31, 2020 and 2019, the Cooperative received \$4,500,000 and \$2,500,000, respectively, in long-term loan fund advances from CFC on loans controlled by the CFC Loan Agreement and/or Mortgage or Security Agreement.

Hea & Associates, Inc.

Millersburg, OH
February 18, 2021

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION

Union Rural Electric Cooperative, Inc. (the "Cooperative") is incorporated under the laws of the State of Ohio, operates as a cooperative and is exempt from federal taxation under Section 501(c)(12)(A) of the Internal Revenue Code. The cooperative's primary business is that of providing electric and natural gas services to its membership. This membership consists of individuals, businesses and public authorities in Union, Delaware, Logan, Marion, Hardin and Champaign counties in Ohio. Providing electric and natural gas services includes construction of plant as well as purchasing electricity and natural gas to sell to its members.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Cooperative's accounting policies conform to generally accepted accounting principles of the United States of America following the accounting procedures common to rural electrical cooperatives and as recommended by the Rural Utilities Service (RUS).

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Electric Plant, Equipment and Depreciation

The Cooperative records improvements and additions to the distribution plant at cost using continuing property records. Retirements are removed from the asset and accumulated depreciation accounts at a standard cost, which approximates original cost, which is updated periodically.

The general plant and equipment is recorded at cost based on the unit method. Any retirements or disposals of general plant and equipment are removed at cost from the asset and accumulated depreciation.

Electric Plant, Equipment and Depreciation (continued)

Depreciation is provided for by the straight-line method over the estimated useful lives of the property. The provisions are determined by the use of functional composite rates as follows:

| | |
|--------------------------------|--------------|
| Distribution Plant | 3.20-6.67% |
| General Plant: | |
| Structure and improvements | 2.86 % |
| Office furniture and equipment | 20.00% |
| Computer equipment | 33.33% |
| Transportation equipment | 20.00% |
| Power operating equipment | 20.00% |
| Communications equipment | 10.00-20.00% |
| Other general plant | 10.00-20.00% |

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments in associated organizations are recorded at cost, which is the same as par value. The investments have no ready market and are included in the financial statements as long-term assets. These investments, for the most part, represent equity contributions in other cooperatives and patronage capital received from other cooperatives.

Materials and Supplies

Inventory of materials and supplies not allocated to construction in progress is valued at average cost.

Patronage Capital

Net margins arising from operations are allocated to the members in the form of capital credits based on each member's billings during the year.

Income Taxes

The Cooperative is a Rural Electric Cooperative exempt from federal income taxes under Internal Revenue Code Section 501(c) (12). Accordingly, no provision for federal income taxes has been made. An informational tax return, Form 990, is prepared and filed each year with the Internal Revenue Service.

The Cooperative presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits. Interest and penalties would be recorded as operating expenses when they are incurred.

Statements of Cash Flows

For purposes of the statements of cash flows, the Cooperative considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Net cash flows from operating activities include cash payments for interest of \$1,530,731 and \$1,476,785 for the years ended December 31, 2020 and 2019, respectively. There were no payments for federal income taxes for 2020 or 2019.

Workers' Compensation

During 2020, the Ohio Bureau of Workers' Compensation approved three dividends. The dividend in late April represented a rebate for the 2018 policy year. The dividend in October represented a rebate for the 2019 policy year. The November dividend was not a rebate of premium for any given year. The Cooperative has elected to record these dividends totaling \$129,389 against labor costs and spread them to the appropriate accounts through the work order system.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3: ACCOUNTS RECEIVABLE AND REVENUE

Revenue from the sale of electricity and natural gas is recorded monthly based on consumer usage. The Cooperative bills monthly for all consumers. The majority of consumers have automatic meters and are billed based upon automatic meter readings reported monthly. A few commercial consumers have "demand" meters and are billed based upon meter readings made by Cooperative personnel. Substantially all of the cooperative's consumers are located in Union, Delaware, Logan, Marion, Hardin and Champaign counties. The allowance for doubtful accounts at December 31, 2020 and 2019 was \$13,877 and \$23,571, respectively. Bad debt expense for 2020 and 2019 was \$17,238 and \$12,725, respectively.

The Cooperative derives its revenues primarily from sales of electricity and natural gas. For such revenues, the Cooperative recognizes revenues in an amount derived from the electricity and natural gas delivered to customers.

The Cooperative calculates revenue earned but not yet billed based on meter readings completed at month-end. Differences between actual and estimated unbilled revenue are immaterial.

The performance obligation in all arrangements is satisfied at a point in time because the customer simultaneously receives the benefits when the Cooperative delivers or sells the electricity and natural gas. The Cooperative records revenue for all of those sales based upon the volume delivered, which corresponds to the amount that the Cooperative has a right to invoice.

There are no material initial incremental costs of obtaining a contract in any of the arrangements. The Cooperative does not adjust the promised consideration for the effects of a significant financing component if it expects, at contract inception, that the time between the delivery of promised goods or service and customer payment will be one year or less. The Cooperative does not have any material significant payment terms because it receives payment at or shortly after the point of sale.

The Cooperative also has various other sources of revenue including billing, collection, other administrative charges, rent of utility property, and miscellaneous revenue. It classifies such revenues as other ASC 606 revenues to the extent they are not related to revenue generating activities from leasing.

NOTE 4: UTILITY PLANT

Listed below are the major classes of the utility plant as of December 31:

| | <u>2020</u> | <u>2019</u> |
|-------------------------------|----------------------|----------------------|
| Distribution Plant | \$ 77,412,877 | \$ 75,483,045 |
| General Plant | <u>15,189,931</u> | <u>14,361,909</u> |
| Utility Plant in Service | 92,602,808 | 89,844,954 |
| Construction Work in Progress | <u>3,977,973</u> | <u>2,139,684</u> |
| Total Utility Plant at Cost | <u>\$ 96,580,781</u> | <u>\$ 91,984,638</u> |

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations consisted of the following on December 31:

| | 2020 | 2019 |
|--|------------|------------|
| Investments in Associated Organizations: | | |
| Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC) | \$ 560,770 | \$ 573,094 |
| Buckeye Power, Inc. membership | 416,969 | 416,969 |
| Other investments in associated organizations | 2,000 | 2,050 |
| Total investments in associated organizations | \$ 979,739 | \$ 992,113 |

NOTE 6: PATRONAGE CAPITAL FROM ASSOCIATED ORGANIZATIONS

Patronage Capital from associated organizations consisted of the following on December 31:

| | 2020 | 2019 |
|---|---------------|---------------|
| Patronage Capital from Associated Organizations: | | |
| United Utility Supply Cooperative Corporation | \$ 117,197 | \$ 125,389 |
| Buckeye Power, Inc. | 27,414,989 | 27,033,952 |
| NRUCFC | 1,083,317 | 1,046,068 |
| Federated Rural Electric Insurance Exchange | 187,764 | 179,895 |
| National Rural Telecommunications Co-op | 69,200 | 73,482 |
| National Information Solutions Cooperative | 81,100 | 77,921 |
| Cooperative Response Center, Inc. | 7,941 | 7,348 |
| CoBank Communications and Energy Group | 7,824 | 7,628 |
| Total patronage capital from associated organizations | \$ 28,969,332 | \$ 28,551,683 |

NOTE 7: PATRONAGE CAPITAL

At December 31, 2020 and 2019, patronage capital consisted of:

| | 2020 | 2019 |
|--------------------------------------|---------------|---------------|
| Patronage capital – assignable | \$ 3,517,477 | \$ 3,511,120 |
| Patronage capital – assigned to date | 87,441,967 | 83,930,847 |
| Total | 90,959,444 | 87,441,967 |
| Less: retirements to date | (37,611,888) | (34,014,766) |
| Total patronage capital | \$ 53,347,556 | \$ 53,427,201 |

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7: PATRONAGE CAPITAL (Continued)

The Cooperative's patronage capital balances represent 50.4 percent and 52.0 percent of the total assets at December 31, 2020 and 2019, respectively. Capital credit retirements in the amount of \$3,597,122 and \$2,849,279 were paid in 2020 and 2019, respectively.

Patronage capital at December 31, 2020 and 2019 includes \$29,035,185 and \$29,065,566, respectively, of capital credits allocated to the Cooperative from Buckeye Power, Inc. that were subsequently allocated to members of the Cooperative.

NOTE 8: OTHER EQUITIES

At December 31, 2020 and 2019, other equities consisted of:

| | 2020 | 2019 |
|-----------------------------|------------|------------|
| Retired capital credit gain | \$ 838,542 | \$ 803,060 |
| Appropriated margins | 68,796 | 68,375 |
| Subsidiary deficit | (242,157) | (242,157) |
| Total other equities | \$ 665,181 | \$ 629,278 |

NOTE 9: ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following table sets forth the accumulated other comprehensive (loss) income at December 31:

| | 2020 | 2019 |
|--|-------------|-------------|
| Accumulated other comprehensive (loss) income, beginning of year | \$ (82,951) | \$ 224,538 |
| Actuarial gain (loss) | 42,720 | (307,489) |
| Accumulated other comprehensive loss, end of year | \$ (40,231) | \$ (82,951) |

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10: EMPLOYEE POSTRETIREMENT BENEFITS

The Cooperative sponsors an unfunded defined benefit postretirement medical insurance plan, which covers all employees retiring from the Cooperative that were hired prior to January 1, 2006. Such a plan requires the recording of the net periodic postretirement benefit cost as employees render services necessary to earn such benefits, and requires the accrual of the postretirement benefit obligation (including any unfunded portion of the plan).

RUS is not requiring the Cooperative to fund the plan. The Cooperative is paying benefits to retirees on a “pay-as-you-go” basis. There is no trust fund established for the plan to pay plan benefits.

The following table sets forth the plan’s accrued postretirement benefit obligation (“APBO”) at December 31:

| | 2020 | 2019 |
|------------------------------------|--------------|--------------|
| APBO, beginning of year | \$ 1,270,628 | \$ 986,262 |
| Service cost | 24,025 | 21,136 |
| Interest cost | 40,407 | 48,439 |
| Actuarial (gain) loss (See Note 9) | (42,720) | 307,489 |
| Less: expected benefit payments | (99,404) | (92,698) |
| APBO, end of year | 1,192,936 | 1,270,628 |
| Less: current portion | (64,934) | (99,404) |
| APBO, long-term portion | \$ 1,128,002 | \$ 1,171,224 |

Benefits expected to be paid, representing expected future service, are as follows:

| | | |
|-----------|--|-----------|
| 2021 | | \$ 64,934 |
| 2022 | | 53,315 |
| 2023 | | 70,312 |
| 2024 | | 85,392 |
| 2025 | | 100,458 |
| 2026-2030 | | 391,339 |

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10: EMPLOYEE POSTRETIREMENT BENEFITS (Continued)

The annual health care cost trend rates, which have a significant effect on the amounts reported, are assumed as follows:

| | Pre-Age 65 <u>Medical & Drug</u> | Post-Age 65 <u>Medical & Drug</u> |
|----------------|---|--|
| 2021 | 6.40% | 4.75% |
| 2022 | 6.15% | 4.70% |
| 2023 | 5.96% | 4.65% |
| 2024 | 5.65% | 4.60% |
| 2025 | 5.40% | 4.60% |
| 2026 | 5.20% | 4.60% |
| 2027 and later | 5.00% | 4.60% |

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 3.45 percent.

NOTE 11: BENEFIT PLANS

All full-time employees of Union Rural Electric Cooperative, Inc. participate in the National Rural Electric Cooperative Association (NRECA) Retirement & Security Program, a multi-employer defined benefit pension plan qualified under Section 410 and tax exempt under Section 501(a) of the Internal Revenue Code.

The Cooperative makes annual contributions to the Program equal to the amounts accrued for pension expense except for the period when a moratorium on contributions is in effect. In this Plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. The pension expense for 2020 and 2019 was \$692,771 and \$640,250, respectively.

Union Rural Electric Cooperative, Inc. also maintains a 401(k) plan in which all employees are eligible to participate. The Cooperative matches 50% of full-time participant contributions, with a minimum contribution of 2% and maximum contribution of 12% eligible for employer match. The Cooperative expensed \$177,714 and \$167,946 for the years ended December 31, 2020 and 2019, respectively.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12: LONG-TERM DEBT

Long-term debt is represented by mortgage notes payable to the National Rural Utilities Cooperative Finance Corporation (CFC) and Federal Agricultural Mortgage Cooperation (Farmer Mac). Following is a summary of outstanding long-term debt as of December 31, 2020 and 2019:

| Fixed Interest Rate | Maturity Date | 2020 | 2019 |
|---|---------------|----------------------|----------------------|
| 4.850% | 10/1/2023 | \$ 149,581 | \$ 199,244 |
| 4.400% | 9/30/2028 | 272,277 | 301,152 |
| 4.700%-4.950% | 9/29/2038 | 3,124,064 | 3,303,130 |
| 4.500%-4.750% | 8/26/2043 | 2,167,815 | 2,228,047 |
| 4.750% | 11/28/2046 | 1,996,280 | 2,043,194 |
| 2.450%-5.150% | 1/26/2050 | 6,607,327 | 6,916,628 |
| 3.240%-4.550% | 11/17/2055 | 14,722,820 | 10,509,876 |
| 4.250% | 3/31/2032 | 493,873 | 524,828 |
| 4.350% | 12/31/2036 | 343,878 | 357,881 |
| 4.350% | 6/30/2037 | 348,718 | 362,335 |
| 4.670% | 9/30/2040 | 782,368 | 804,743 |
| 4.430% | 12/29/2041 | 639,781 | 657,299 |
| 4.670% | 12/29/2041 | 1,125,129 | 1,155,013 |
| 4.710% | 3/1/2020 | - | 169,828 |
| 3.730% | 10/1/2035 | 1,244,912 | 1,305,883 |
| 3.449% | 10/1/2039 | 298,013 | 311,672 |
| 3.449% | 12/1/2040 | 138,203 | 144,178 |
| 3.449% | 1/1/2039 | 254,628 | 267,034 |
| 4.310% | 1/1/2021 | - | 67,561 |
| 4.350% | 2/1/2021 | 35,161 | 103,252 |
| 3.449% | 2/1/2043 | 108,100 | 112,182 |
| 2.750% | 11/1/2041 | 1,295,338 | 1,340,394 |
| 3.449% | 3/1/2042 | 843,301 | 876,915 |
| 3.620% | 9/4/2039 | 1,248,598 | 1,293,629 |
| 3.790% | 11/1/2042 | 361,624 | 372,001 |
| 3.730% | 1/2/2043 | 1,257,410 | 1,293,769 |
| 3.150% | 2/1/2026 | 518,275 | 603,304 |
| Total mortgage notes | | 40,377,474 | 37,624,972 |
| Less: current portion of mortgage notes | | 1,623,715 | 1,730,971 |
| Long-term mortgage notes payable | | <u>\$ 38,753,759</u> | <u>\$ 35,894,001</u> |

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12: LONG-TERM DEBT (Continued)

The annual maturities of long-term debt for the next five years are as follows:

| | | |
|------------|----|----------------------|
| 2020 | \$ | 1,623,715 |
| 2021 | | 1,647,000 |
| 2022 | | 1,553,000 |
| 2023 | | 1,519,000 |
| 2024 | | 1,577,000 |
| Thereafter | | 32,457,759 |
| | | <u>\$ 40,377,474</u> |

NOTE 13: SHORT-TERM DEBT

The short-term line of credit of \$10,000,000 maximum is available to the Cooperative on loan commitments from NRUCFC at December 31, 2020. The interest rate on the line of credit was 2.25 and 2.85 percent at December 31, 2020 and 2019, respectively, with outstanding balances on the line of \$0 for both 2020 and 2019. The line of credit matures December 2049. Substantially all of the assets of the Cooperative are pledged for the mortgage notes payable and the line of credit. Principal and interest installments on the above notes are due either quarterly or monthly.

The Cooperative also has a \$20,000,000 loan commitment under the Power Vision loan arrangement with National Rural Utilities Cooperative Finance Corporation. As of December 31, 2020 and 2019, \$14,722,820 and \$10,509,876 was drawn on this commitment, respectively.

The Cooperative has established an unsecured short-term line of credit with CoBank in the amount of \$2,000,000. The interest rate was 2.45% and 3.34% at December 31, 2020 and 2019, respectively, with outstanding balances on the line of \$0 for both 2020 and 2019. The line of credit matures June 2021.

NOTE 14: COMMITMENTS AND RELATED PARTY TRANSACTIONS

The Cooperative purchases all of its power from Buckeye Power, Inc., a non-profit corporation operating on a cooperative basis whose membership includes Union Rural Electric Cooperative, Inc. Rates for service members of Buckeye Power, Inc. are in accordance with the provisions of the Wholesale Power Agreement. The Cooperative had accounts payable due to Buckeye Power, Inc. of \$3,348,261 and \$2,789,264 at December 31, 2020 and 2019, respectively.

The Cooperative purchases material from the United Utility Supply Cooperative, formerly, Rural Electric Supply Cooperative, Inc., of which it is an owner and member. Total purchases were \$987,400 and \$854,757 for the years ended December 31, 2020 and 2019, respectively.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14: COMMITMENTS AND RELATED PARTY TRANSACTIONS (Continued)

The Cooperative has an agreement with National Information Solutions Cooperative (NISC), St. Louis, Missouri to participate in data processing services offered by NISC. This contract will continue until terminated by written notice given by either party. The total expense under this agreement was \$172,855 and \$162,174 for the years ended December 31, 2020 and 2019, respectively.

The Cooperative borrows funds from National Rural Utilities Cooperative Finance Corporation of which it is a member and owner (see also Note 12).

The Cooperative has an investment in Cooperative Response Center (CRC). CRC provides after hours emergency telephone services for the Cooperative. Total fees for services were \$25,633 and \$25,174 for the years ended December 31, 2020 and 2019, respectively.

The Cooperative maintains insurance coverage through Federated Rural Electric Insurance Exchange of which it is a member and owner. Total premiums paid were \$118,062 and \$229,527 for the years ended December 31, 2020 and 2019, respectively.

The Cooperative had investments in Rural Americas Cooperative Bank (CoBank) of \$1,000 as of December 31, 2020 and 2019 and patronage capital in CoBank of \$7,824 and \$7,628 as of December 31, 2020 and 2019, respectively. In addition the Cooperative has established an unsecured short-term line of credit with CoBank in the amount of \$2,000,000 that accrues interest at a current rate of 2.45% and matures June 2021. There was no outstanding balance at December 31, 2020 or 2019.

NOTE 15: RETIREMENT SECURITY PLAN PREPAYMENT

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the Retirement Security (RS) Plan (a defined benefit multiemployer pension plan) to make a prepayment and reduce future required contributions. The prepayment amount is a cooperative's 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 10 years. However, changes in interest rates, asset returns and other plan experience different from that expected, plan assumption changes, and other factors may have an impact on the differential in billing rates and the 10 year period.

On April 30, 2013 the Cooperative made a prepayment of \$1,578,991 to the NRECA RS Plan. The cooperative is amortizing this amount over 10 years. The Cooperative obtained a loan through NRUCFC to finance the RS Plan prepayment. Interest expense associated with the prepayment loan is being accounted for in accordance with the RUS USOA.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16: SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 18, 2021, the date on which the financial statements were issued.

NOTE 17: DEFERRED CREDITS

Deferred credits are summarized as follows:

| | <u>2020</u> | <u>2019</u> |
|------------------------------|---------------------|---------------------|
| Consumer utility prepayments | <u>\$ 2,811,793</u> | <u>\$ 2,973,899</u> |

NOTE 18: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02 entitled “Leases (Topic 842),” which will change the Cooperative’s balance sheet by adding lease-related assets and liabilities. This may affect compliance with any contractual agreements and loan covenants. This new standard is effective for annual reporting periods beginning after December 15, 2020. Early implementation is permitted. Management has determined this new standard will not have a material effect on its financial statements.

NOTE 19: COVID-19

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States and the world. The Cooperative is monitoring the outbreak of COVID-19 and the related business and travel restrictions, as well as changes to behavior intended to reduce its spread and its impact on the Cooperative’s employees. Due to the rapid development and fluidity of this situation, the magnitude and duration of the pandemic and its impact on the Cooperative’s operations and liquidity is uncertain as of the date of this report. No adjustments have been made to the amounts reported in these financial statements as a result of this matter.