JEFFERSON ENERGY COOPERATIVE,
AN ELECTRIC MEMBERSHIP CORPORATION
WRENS, GEORGIA

FINANCIAL STATEMENTS AS OF
MAY 31, 2020 AND 2019 AND
INDEPENDENT AUDITOR'S REPORT

JEFFERSON ENERGY COOPERATIVE, AN ELECTRIC MEMBERSHIP CORPORATION

CONTENTS

Independent Auditor's Report..1

Balance Sheets..3

Statements of Operations..5

Statements of Changes in Members' Equity..6

Statements of Cash Flows..7

Notes to Financial Statements..8

Independent Auditor's 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*..24

Independent Auditor's Report on Compliance with Aspects of Contractual
Agreements and Regulatory Requirements for Electric Borrowers..26

Matters to be Communicated with the Board of Directors..28

McNair McLemore Middlebrooks & Co
Certified Public Accountants

389 Mulberry Street | Macon, Georgia 31201
Post Office Box One | Macon, Georgia 31202
478-746-6277 | mmmcpa.com

August 20, 2020

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Jefferson Energy Cooperative, an Electric Membership Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of **Jefferson Energy Cooperative, an Electric Membership Corporation** (the Corporation), which comprise the balance sheets as of May 31, 2020 and 2019 and the related statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 Corporation'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 Corporation'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 Jefferson Energy Cooperative, an Electric Membership Corporation as of May 31, 2020 and 2019 and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2020 on our consideration of Jefferson Energy Cooperative, an Electric Membership Corporation'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 Corporation'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 Jefferson Energy Cooperative, an Electric Membership Corporation's internal control over financial reporting and compliance.

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

JEFFERSON ENERGY COOPERATIVE, AN ELECTRIC MEMBERSHIP CORPORATION
BALANCE SHEETS
MAY 31

ASSETS

	2020	2019
Utility Plant		
Electric Plant in Service - At Cost	**$ 187,874,924**	$ 180,249,411
Construction Work in Progress	**2,134,948**	3,018,529
	190,009,872	183,267,940
Accumulated Provision for Depreciation	**(49,230,004)**	(52,537,252)
	140,779,868	130,730,688
Other Property and Investments		
Investments in Associated Organizations	**4,494,759**	4,380,956
Restricted Funds	**456,716**	486,397
	4,951,475	4,867,353
Current Assets		
Cash and Cash Equivalents	**1,719,221**	1,871,958
Accounts Receivable (Net of Accumulated Provision for Uncollectibles of $49,456 and $45,162 in 2020 and and 2019, Respectively)	**3,029,944**	3,256,885
Other Accounts Receivable	**908,979**	907,106
Materials and Supplies	**977,642**	1,022,187
Other	**172,376**	194,838
	6,808,162	7,252,974
Deferred Debits	**890,434**	5,905,858
Total Assets	**$ 153,429,939**	$ 148,756,873

See accompanying notes which are an integral part of these financial statements.

JEFFERSON ENERGY COOPERATIVE, AN ELECTRIC MEMBERSHIP CORPORATION
BALANCE SHEETS
MAY 31

MEMBERS' EQUITY AND LIABILITIES

	2020	2019
Members' Equity		
Membership Fees	**$ 479,422**	$ 488,877
Patronage Capital	**46,851,081**	47,270,181
Other Equities	**3,052,103**	2,779,262
	50,382,606	50,538,320
Long-Term Liabilities		
Long-Term Debt	**73,279,211**	68,782,708
Postretirement Healthcare Liability	**6,907,863**	6,369,868
	80,187,074	75,152,576
Current Liabilities		
Current Maturities of Long-Term Debt	**2,458,000**	3,080,000
Current Portion of Postretirement Healthcare Liability	**277,828**	257,953
Note Payable	**320,000**	-
Lines-of-Credit	**600,000**	2,000,000
Accounts Payable	**6,646,691**	4,889,600
Accrued and Withheld Taxes	**1,003,000**	1,059,926
Consumer Deposits	**4,403,620**	4,406,820
Other	**1,893,209**	1,937,308
	17,602,348	17,631,607
Deferred Credits	**5,257,911**	5,434,370
Total Members' Equity and Liabilities	**$ 153,429,939**	$ 148,756,873

See accompanying notes which are an integral part of these financial statements.

JEFFERSON ENERGY COOPERATIVE, AN ELECTRIC MEMBERSHIP CORPORATION
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED MAY 31

	2020	2019
Operating Revenues and Patronage Capital	**$ 71,453,565**	$ 71,445,439
Operating Expenses		
Cost of Power	**46,523,214**	47,472,357
Distribution Operations	**4,204,852**	4,010,771
Distribution Maintenance	**3,687,724**	3,665,005
Consumer Accounts	**2,725,373**	2,998,904
Consumer Service and Information	**200,380**	193,198
Sales	**372,211**	365,225
Administrative and General	**3,372,474**	3,135,261
Depreciation	**5,703,347**	5,520,170
	66,789,575	67,360,891
Operating Margins Before Interest Expense	**4,663,990**	4,084,548
Interest Expense	**2,678,321**	3,285,781
Operating Margins After Interest Expense	**1,985,669**	798,767
Nonoperating Margins	**(468,960)**	1,243,632
Capital Credits and Patronage Capital Allocations	**299,358**	227,645
Net Margins	**$ 1,816,067**	$ 2,270,044

See accompanying notes which are an integral part of these financial statements.

JEFFERSON ENERGY COOPERATIVE, AN ELECTRIC MEMBERSHIP CORPORATION
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED MAY 31, 2020 AND 2019

	Total Members' Equity	Membership Fees	Patronage Capital	Other Equities
Balance, May 31, 2018	$ 49,871,684	$ 505,747	$ 46,846,911	$ 2,519,026
Net Margins	2,270,044	-	2,270,044	-
Retirement of Patronage Capital	(1,586,538)	-	(1,846,774)	260,236
Other	(16,870)	(16,870)	-	-
Balance, May 31, 2019	50,538,320	488,877	47,270,181	2,779,262
Net Margins	1,816,067	-	1,816,067	-
Retirement of Patronage Capital	(1,948,985)	-	(2,235,167)	286,182
Other	(22,796)	(9,455)	-	(13,341)
Balance, May 31, 2020	**$ 50,382,606**	**$ 479,422**	**$ 46,851,081**	**$ 3,052,103**

See accompanying notes which are an integral part of these financial statements.

JEFFERSON ENERGY COOPERATIVE, AN ELECTRIC MEMBERSHIP CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31

	2020	2019
Cash Flows from Operating Activities		
Net Margins	**$ 1,816,067**	$ 2,270,044
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	**6,509,541**	6,238,944
Net Postretirement Benefit Cost	**815,823**	(481,376)
Patronage Capital from Associated Organizations	**(299,358)**	(227,645)
Change In		
Accounts Receivable	**225,068**	396,593
Other Current Assets	**22,462**	(34,869)
Deferred Debits	**13,633**	(50,569)
Accounts Payable	**1,757,091**	527,175
Consumer Deposits	**(3,200)**	(28,798)
Other Current Liabilities	**(299,616)**	(70,281)
Deferred Credits	**(206,140)**	95,747
	10,351,371	8,634,965
Cash Flows from Investing Activities		
Extensions and Replacements of Plant	**(11,556,930)**	(12,296,944)
Materials and Supplies	**44,545**	161,400
Return of Equity from Associated Organizations	**203,469**	167,483
Other	**(17,914)**	23,640
	(11,326,830)	(11,944,421)
Cash Flows from Financing Activities		
Advances of Long-Term Debt	**6,706,000**	-
Principal Payments on Long-Term Debt	**(2,719,575)**	(3,003,636)
Note Payable	**320,000**	-
Lines-of-Credit	**(1,400,000)**	2,000,000
Retirement of Patronage Capital	**(1,948,985)**	(1,586,538)
Advanced Payments Unapplied	**(111,922)**	(654,839)
Other	**(22,796)**	(16,870)
	822,722	(3,261,883)
Net Decrease in Cash and Cash Equivalents	**(152,737)**	(6,571,339)
Cash and Cash Equivalents, Beginning	**1,871,958**	8,443,297
Cash and Cash Equivalents, Ending	**$ 1,719,221**	$ 1,871,958

See accompanying notes which are an integral part of these financial statements.

(1) Summary of Significant Accounting Policies

General

Accounting policies of Jefferson Energy Cooperative, an Electric Membership Corporation (the Corporation) reflect practices appropriate to the electric utility industry and generally accepted accounting principles of the United States of America (U.S. GAAP). The records of the Corporation are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission as modified and adopted by the Rural Utilities Service (RUS).

Nature of Operations

The Corporation is a member-owned, not-for-profit corporation organized to provide electric service to its members. The Corporation operates as a cooperative whereby all monies in excess of cost of providing electric service are capital, at the moment of receipt, and are credited to each member's capital account.

Long-Lived Assets

The Corporation evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on either a specific regulatory disallowance or an estimate of undiscounted future cash flows attributable to the assets, as compared with the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a provision for loss if the carrying value is greater than the fair value. For assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment provision is required. Until the assets are disposed of, their estimated fair value is reevaluated when circumstances or events change.

U.S. GAAP requires the present value of the ultimate cost for an asset's future retirement be recorded in the period in which the liability is incurred. The cost should be capitalized as part of the related long-lived asset and depreciated over the asset's useful life. The Corporation has no legal retirement obligations related to its distribution facilities; therefore, a liability for the removal of these assets will not be recorded. Management believes the actual cost of removal, even though not a legal obligation, will be recovered through rates over the life of the distribution assets.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

Cash Equivalents

Cash equivalents include demand deposit accounts and highly liquid debt instruments with original maturities of three months or less.

(1) Summary of Significant Accounting Policies (Continued)

Utility Plant

Utility plant is capitalized at cost less related contributions in aid of construction. In general, utility plant is capitalized at the time it becomes part of an operating unit and has been energized. However, certain items of plant referred to as special equipment items (meters, transformers, oil circuit reclosers, etc.) are capitalized at the time of purchase along with related estimated cost of installation.

Depreciation and Maintenance

Depreciation of the capitalized cost is provided using composite straight-line rates. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its capitalized cost and its cost of removal less salvage are charged to the accumulated provision for depreciation.

Provision has been made for depreciation of distribution plant at a weighted average straight-line rate of 3.12 percent per annum, except automated metering equipment which is depreciated at 6.67 percent per annum.

Depreciation of general plant is provided at weighted average straight-line rates ranging from 2.0 percent to 20 percent per annum.

The costs of maintenance, repairs and replacements of minor items of property are charged to maintenance expense accounts.

Accounts Receivable and Credit Policies

An allowance is made for doubtful accounts based on experience and other circumstances which may affect the ability of members to meet their obligations. Accounts considered uncollectible are charged against the allowance. Delinquent receivables are written off based on individual credit evaluations and specific circumstances of the members. Recoveries of accounts receivable previously written off are recorded against the allowance when received. Receivables are reported on the balance sheets net of such accumulated allowance.

Credit evaluations are performed on most potential members before accepting them for service. Depending upon the results of the credit evaluation, a deposit may be required. If a member does not pay its bill based on the terms of the Corporation's service agreement, the Corporation may require an additional deposit as a condition of continued service.

Materials and Supplies

Materials and supplies are generally used for construction and for operation and maintenance work and are not for resale. Cost is determined by the moving average method of inventory valuation. Materials and supplies are charged to construction or operations at moving average cost when used.

(1) Summary of Significant Accounting Policies (Continued)

Restricted Funds

Restricted funds represent funds set aside to fund deferred compensation liabilities. Although the participants have the ability to direct the investment allocations, the amounts credited to the deferred compensation accounts, including gains and losses, are retained by the Corporation until the entire amount credited to the participant accounts has been distributed to the participant or to the participant's beneficiary in accordance with a written designation which has been delivered to the Corporation. Participants are general, unsecured creditors of the Corporation. See Note 5 for a description of the plan.

Equities and Margins

The Corporation is organized and operates under the cooperative form of organization. As such, patronage capital or margins are allocated to patrons on the basis of individual consumption of electric energy. Under provisions of the long-term debt agreements, until the total equities and margins equal or exceed 30 percent of the total assets of the Corporation, the return to patrons of capital contributed by them, patronage capital, is limited. The Corporation's equities were 32.84 percent and 33.97 percent of total assets as of May 31, 2020 and 2019, respectively.

Revenue Recognition

Electric revenue is generated from contracts (service agreements) with retail electric customers. This revenue, generated from the integrated service to deliver electricity when and if called upon by the customer, is recognized as a single performance obligation satisfied over time and as electricity is delivered to the customer during the month.

Electricity which had been used by the members of the Corporation but had not been billed to the members was not recorded. The components of this unbilled revenue can fluctuate based on factors including rate structure, weather, period of use, cost of purchased power and other factors. As a result, the overall estimate of unbilled revenues could be significantly affected, which could have a material impact on the Corporation's results of operations if recorded in the financial statements. As a result, management has continued the accepted utility industry practice of disclosing the amount of unbilled revenue but has chosen not to book this estimate. Management estimates unbilled revenue to be approximately $2,664,000 and $3,045,000 as of May 31, 2020 and 2019, respectively. *Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers,* required the Corporation to accrue unbilled electric revenue beginning June 1, 2020.

Sales Tax

Certain portions of the Corporation's sales are subject to sales tax imposed by jurisdictions. When required, the Corporation collects sales tax from customers and remits it to the applicable jurisdiction. The Corporation's accounting policy is to exclude the tax collected and remitted from revenues and cost of sales.

Cost of Purchased Power

Cost of power is expensed as consumed.

(1) Summary of Significant Accounting Policies (Continued)

Regulated Operations

The Corporation, in its rate-making capacity, accounts for certain revenue and expense deferrals in accordance with *ASC 980, Regulated Operations*.

Investments in Associated Organizations

Investments in associated organizations generally consist of membership fees, contributed capital and patronage capital (allocated retains). Membership fees and contributed capital are valued at cost.

Patronage capital from associated organizations represent capital investments made primarily to obtain an economical source of supply, financing, product or service. Patronage capital assigned to the Corporation by cooperative organizations not organized under the State of Georgia Electric Membership Act (GA EMC Act) are carried at the cost of the allocated equities in accordance with *ASC 905-325-30.*

Patronage capital assigned to the Corporation by cooperative organizations organized under the GA EMC Act are accounted for as contingent assets based on guidance provided in *ASC 450*. Although these amounts are not recorded, patronage allocations from organizations organized under the GA EMC Act are assigned to the members.

Income Taxes

The Corporation is exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code which provides, in part, that the Corporation derive at least 85 percent of its annual gross income from members to retain the exemption. The Corporation met the requirement for the tax year ended December 31, 2019. Accordingly, no provision for income taxes has been made in the financial statements.

Recently Adopted Accounting Pronouncement

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-07, *Compensation - Retirement Benefits (ASC Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* ASU 2017-07 requires that an entity report the service cost component of net periodic pension and postretirement benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The remaining components of net benefit costs are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The amendment further allows only the service cost component of net periodic pension and postretirement benefit costs to be eligible for capitalization. ASU 2017-07 is effective for private companies for annual periods beginning after December 15, 2018, and the interim periods within annual periods beginning after December 15, 2019, with early adoption permitted. ASU 2017-07 was effective for the Corporation beginning on June 1, 2019. ASU 2017-07 was applied retrospectively for the presentation of the service cost component and the other components of net postretirement benefit cost in the statement of operations, and prospectively, on and after the effective date, for the capitalization of the service cost component of net postretirement benefit cost in assets. Certain amounts included in the accompanying financial statements for the year ended May 31, 2019 have been reclassified through implementation provisions of ASU 2017-07. The reclassification had no effect on net margins for the year ended May 31, 2019. Components of net postretirement benefit cost other than service cost are included as a component of nonoperating margins.

(1) Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

In May 2014, the FASB released ASU 2014-09, *Revenue from Contracts with Customers (ASC Topic 606)*. ASU 2014-09 is designed to create greater comparability for financial statement users across industries and jurisdictions through a more principles-based approach than companies in the United States are used to following. The standard would require companies to recognize revenue through a five-step process: (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the separate performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The standard, as deferred one year by ASU 2015-14, was to be effective for annual reporting periods beginning after December 15, 2018 and interim reporting periods within annual reporting periods beginning after December 15, 2019. On June 3, 2020, as a result of the Coronavirus pandemic (COVID-19), the FASB amended the effective dates for *ASC Topic 606* through the issuance of ASU 2020-05, to give immediate relief to entities that had not issued their financial statements as of June 3, 2020. The standard will require the Corporation to accrue unbilled electric revenue using either a full retrospective or retrospective with cumulative effect transition method and will require a change in accounting principle in the period adopted. The Corporation will utilize the full retrospective approach upon adoption and will require a prior period adjustment for a change in accounting principle.

In February 2016, the FASB issued ASU 2016-02, *Leases (ASC Topic 842)* for lease accounting under U.S. GAAP. The new standard is intended to eliminate off-balance-sheet recording of lease obligations in an effort to create financial statements that more accurately reflect leasing activities. In general, an entity will record on the balance sheet the right-of-use assets and the corresponding lease obligations. The new standard was to become effective for private companies for fiscal years beginning after December 15, 2020. On June 3, 2020, as a result of COVID-19, the FASB amended the effective dates for *ASC Topic 842,* through the issuance of ASU 2020-05, to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Comparative periods presented in financial statements must use the same standards, as if ASU 2016-02 was in effect for the prior year presented. The adoption of ASU 2016-02 is not expected to have a material impact on the financial statements.

Reclassifications

Certain amounts included in the accompanying financial statements for the year ended May 31, 2019 have been reclassified from their original presentation to conform to the presentation for the year ended May 31, 2020. The reclassifications had no effect on net margins for the year ended May 31, 2019.

Subsequent Events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through August 20, 2020, the date the financial statements were available to be issued.

(2) Utility Plant

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

	2020	2019
Intangible Plant	**$ 42**	$ 42
Distribution Plant	**161,575,104**	154,694,231
General Plant	**26,299,778**	25,555,138
Electric Plant in Service	**187,874,924**	180,249,411
Construction Work in Progress	**2,134,948**	3,018,529
	$ 190,009,872	$ 183,267,940

(3) Investments in Associated Organizations

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

	2020	2019
Georgia Transmission Corporation		
Contributed Capital	**$ 1,162,504**	$ 1,162,504
National Rural Utilities Cooperative Finance Corporation		
Member Capital Securities	**250,000**	250,000
Capital Term Certificates	**941,948**	954,572
Capital Credits	**419,513**	430,118
GRESCO Utility Supply, Inc.		
Capital Credits	**762,139**	731,125
Federated Rural Electric Insurance Exchange		
Capital Credits	**270,193**	254,471
Southeastern Data Cooperative		
Capital Credits	**269,692**	255,063
Other		
Capital Credits	**321,939**	264,186
Contributed Capital	**91,365**	73,451
Membership Fees	**5,466**	5,466
	$ 4,494,759	$ 4,380,956

Patronage capital assigned to the Corporation by cooperative organizations organized under the GA EMC Act consist principally amounts assigned the Corporation by Oglethorpe Power Corporation and Georgia Transmission Corporation. Capital credits assigned to the Corporation from these two organizations cumulatively totaled $26,896,934 and $25,505,914 as of May 31, 2020 and 2019, respectively. Although these amounts are not recorded, patronage allocations from organizations organized under the GA EMC Act are assigned to the Corporation's members.

(4) Deferred Debits

Deferred debits consist of the following as of May 31:

		2020		2019
Voluntary Prepaid Pension Contribution (See Note 8)	**$**	**731,323**	$	1,096,021
AMI Metering Project		**30,697**		4,667,790
Other		**128,414**		142,047
	$	**890,434**	$	5,905,858

(5) Deferred Credits

Deferred credits consist of the following as of May 31:

		2020		2019
Unclaimed Capital Credits	**$**	**3,802,812**	$	3,661,630
Employee Benefits Clearing		**298,700**		615,922
Advance Payments on Consumer Bills		**658,421**		670,421
Deferred Compensation Plan Liabilities		**456,716**		486,397
Other		**41,262**		-
	$	**5,257,911**	$	5,434,370

Deferred Compensation Plans

The Corporation has a nonqualified deferred compensation arrangement with a select group of management and highly compensated employees, as well as a plan for directors. The plan is funded with elective deferrals from the employees and directors. The Corporation made no matching contributions for the years ended May 31, 2020 and 2019. Deferred compensation assets set aside for the plan totaled $456,716 and $486,397 as of May 31, 2020 and 2019, respectively and are included on the balance sheets as restricted funds.

(6) Other Equities

Other equities consist of the following as of May 31:

		2020		2019
Retired Capital Credits - Gain	**$**	**93,303**	$	82,501
Donated Capital		**2,958,800**		2,696,761
	$	**3,052,103**	$	2,779,262

(7) Debt

Long-Term Debt

Long-term debt consists of mortgage notes payable to the United States of America acting through the Federal Financing Bank (FFB), National Rural Utilities Cooperative Finance Corporation (NRUCFC) and CoBank. The notes are secured by a mortgage agreement among the Corporation, FFB, NRUCFC and CoBank. Substantially all the assets of the Corporation are pledged as security for the long-term debt. The notes generally have 35-year maturity periods and are payable in quarterly and monthly installments. The notes contain certain affirmative and negative covenants, including maintenance of certain financial ratios as defined in the agreement. At May 31, 2020 and 2019, the Corporation was in compliance with the covenants.

Long-term debt is comprised of the following as of May 31:

Holder of Note	**Weighted Average Interest Rate at May 31, 2020**	**2020**	2019
NRUCFC	4.677%	**$ 2,450,231**	$ 2,816,182
FFB	2.486%	**57,525,193**	64,759,227
CoBank	4.290%	**17,064,273**	17,795,899
		77,039,697	85,371,308
RUS Advance Payments Unapplied		**(1,302,486)**	(13,508,600)
Maturities Due Within One Year		**(2,458,000)**	(3,080,000)
		$ 73,279,211	$ 68,782,708

Approximate principal maturities of long-term debt for each of the ensuing five years are as follows:

Year	**Amount**
2021	$ 2,458,000
2022	2,521,000
2023	2,545,000
2024	2,634,000
2025	2,721,000
Thereafter	64,160,697
	$ 77,039,697

Although the majority of the Corporation's long-term debt is fixed to maturity, $12,216,097 in FFB notes are currently set to reprice at various quarters through September 30, 2020. As of May 31, 2020, the rates on these notes ranged from .104 percent to .171 percent.

Long-Term Debt (Continued)

The Corporation has $13,294,000 in unadvanced loan funds on commitment from FFB. The availability of the funds is contingent on the Corporation's compliance with one or more preconditions set forth in the mortgage agreements.

The Corporation has made unapplied advance payments to the RUS Cushion-of-Credit program. Under this program the Corporation may make voluntary deposits into a special cushion-of-credit account. The cushion-of-credit account balance accrues interest to the Corporation at a rate of 5 percent per annum. The use of the cushion-of-credit account is restricted to funding the future debt service payments that the Corporation is obligated to pay against its outstanding indebtedness to FFB.

On December 20, 2018, the President of the United States signed the Agriculture Improvement Act which made the following changes to the RUS Cushion-of-Credit program:

- No new cushion-of-credit deposits will be allowed after December 20, 2018,
- Cooperatives in the program may transfer their cushion-of-credit money to prepay RUS loans without penalty through September 30, 2020,
- Remaining cushion-of-credit funds after September 30, 2020, may be applied only to regular RUS and FFB debt service payments,
- Existing cushion-of-credit balances will earn 5 percent interest until October 1, 2020, when that rate will drop to 4 percent. Beginning October 1, 2021, interest on remaining balances will be paid at a floating one-year Treasury rate.

On July 16, 2019, the Corporation utilized $12,346,077 of its cushion-of-credit balance to pay off FFB notes with interest rates ranging from 5.16 percent to 5.60 percent and accrued interest totaling $28,042.

Cash payments of interest payments totaled $2,652,880 and $3,288,907 for the years ended May 31, 2020 and 2019, respectively.

Lines-of-Credit

The Corporation has a $14,200,000 line-of-credit with NRUCFC at an interest rate of 3.25 percent with an outstanding balance of $0 and $2,000,000 as of May 31, 2020 and 2019, respectively. In addition, the Corporation has a $4,000,000 line-of-credit with CoBank at an interest rate of 2.42 percent with an outstanding balance of $600,000 and $0 as of May 31, 2020 and 2019, respectively.

Note Payable

President Donald J. Trump authorized $349 billion to provide loans from the U.S. Small Business Administration (SBA) as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) to combat the effects of COVID-19 (See Note 14). The program, titled the Paycheck Protection Program (PPP), provides for forgiveness of up to the full principal amount of qualifying loans guaranteed under the PPP. The PPP and loan forgiveness are intended to provide economic relief to small businesses nationwide adversely impacted by COVID-19.

(7) Debt (Continued)

Note Payable (Continued)

The amount of loan forgiveness can be up to the full principal amount of the loan and any accrued interest. That is, the Corporation will not be responsible for any loan payment if the Corporation uses all of the loan proceeds for forgivable purposes described below and employee and compensation levels are maintained. The actual amount of loan forgiveness will depend, in part, on the total amount of payroll costs, payments of interest on mortgage obligations incurred before February 15, 2020, lease agreements dated before February 15, 2020, and utility service agreements dated before February 15, 2020, over the eight-week or twenty-four week period following the date of the loan. However, not more than 40 percent of the loan forgiveness amount may be attributable to non-payroll costs.

The Corporation will not have to make any payments for six months after receipt of the loan. However, interest will continue to accrue (at one percent) on PPP loans during this six-month deferment. The loan, if not forgiven, matures two years from the date the Corporation applies for loan forgiveness. The Corporation received $320,000 under the PPP on May 12, 2020, all of which is outstanding as of May 31, 2020.

(8) Retirement Benefits

Defined Benefit Pension Plans

Pension benefits for substantially all employees of the Corporation are provided through participation in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan), a defined benefit plan qualified under Section 401 and tax-exempt under 501(a) of the Internal Revenue Code. The plan sponsor's employer 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.

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 greater than 80 percent funded at January 1, 2020 and 2019 based on the PPA funding target and PPA actuarial value of assets on those dates.

The Corporation's required annual contributions to the program represented less than 5 percent of total contributions made to the plan by all participating employers and are equal to the amounts recorded for pension cost. The Corporation has two separate plans for employees hired before January 1, 2010 and employees hired on or after January 1, 2010. Required plan contributions were $1,084,230 and $1,084,432 for the years ended May 31, 2020 and 2019, respectively.

(8) Retirement Benefits (Continued)

Defined Benefit Pension Plans (Continued)

The Corporation made a voluntary prepaid pension contribution to the RS Plan of $3,288,062 during the year ended May 31, 2013. The prepayment was equivalent to approximately 2.5 times the calendar year 2013 annual required contribution and, based on assumptions utilized by RS Plan actuaries, will reduce the Corporation's billing rate by approximately 25 percent over the next 15 years. However, assumptions utilized by RS Plan actuaries are subject to changes in interest rates, asset returns and other factors that may have an impact on the differential in billing rates over the 15-year period. RUS approved the accounting treatment for the voluntary prepayment and issued guidance on amortization. The voluntary prepayment is being amortized over 108 months in accordance with the guidance issued. As of May 31, 2020 and 2019, the unamortized balance of the voluntary prepayment was $731,323 and $1,096,021, respectively. These amounts are included as a component of deferred debits on the balance sheets.

Defined Contribution Plans

The Corporation also provides additional employee benefits to substantially all employees through the NRECA sponsored defined contribution Savings Plan (401-k). The Corporation has two separate plans for employees hired before January 1, 2010 and employees hired on or after January 1, 2010. In these defined contribution plans, the Corporation's contributory portion totaled $196,717 and $118,876 for the years ended May 31, 2020 and 2019, respectively.

Postretirement Healthcare Benefits

The Corporation provides major medical benefits upon retirement as follows:

- Retirees hired prior to January 1, 2000 who retire at age 62 or older and have a minimum of 10 years of service with the Corporation are eligible to participate in the group medical insurance plan. The Corporation will pay the same amount that is paid for regular full-time employees up to $714 per month. If the retiree chooses the high deductible option and it is less than the cost paid by the Corporation, the balance will be deposited in the retiree's health savings account. Once a retiree reaches 65 years of age, the retiree is automatically enrolled in a Medicare supplemental plan up to an employer contribution not to exceed $714 per month.
- Retirees hired prior to January 1, 2000, who retire between the ages of 55 and 62 and have a minimum of 10 years of service, are eligible to continue to participate in the Corporation's medical insurance plan at their own cost. Upon reaching age of 62, the Corporation will pay the same benefit as retirees who retired at 62 or older and have 10 years of service.
- Retirees hired on or after January 1, 2000 and have a minimum of 10 years of service, who retire at or after age 55 can continue to participate in the Corporation's medical insurance group plan at the retiree's cost.

(8) Retirement Benefits (Continued)

Postretirement Healthcare Benefits (Continued)

The status of the Corporation's postretirement healthcare plan as of May 31 is detailed as follows:

	2020	2019
Accumulated Benefit Obligation - Beginning of Year	**$ 6,627,821**	$ 7,396,500
Service Cost	**66,105**	72,012
Interest Cost	**248,425**	246,079
Change in Actuarial Assumptions	**501,293**	(799,467)
Benefits Paid	**(257,953)**	(287,303)
Accumulated Benefit Obligation - End of Year	**7,185,691**	6,627,821
Fair Value of Plan Assets - Beginning of Year	**-**	-
Employer Contributions	**257,953**	287,303
Benefits Paid	**(257,953)**	(287,303)
Fair Value of Plan Assets - End of Year	**-**	-
Funded Status - Over (Under)	**$ (7,185,691)**	$ (6,627,821)

The Corporation's net postretirement benefit cost is calculated using various actuarial assumptions and methodologies. These assumptions include discount rates, mortality rates and other factors. Actuarial assumptions are reviewed on an annual basis.

The following table shows key assumptions used for the measurement of obligations for the plan as of May 31:

Description	**2020**	2019	2018
Discount Rate on Net Postretirement Benefit Cost	**3.90%**	3.90%	3.95%
Discount Rate on Accumulated Benefit Obligation	**3.30%**	3.90%	3.90%
Healthcare Cost Trend Rate			
Pre-65 Medical and Prescription Drugs			
Initial	**3.00%**	3.00%	7.50%
Ultimate	**5.00%**	5.00%	5.00%
Fiscal Year Reached	**2028**	2026	2027
Post-65 Medical and Prescription Drugs			
Initial	**4.70%**	4.70%	6.15%
Ultimate	**4.60%**	4.60%	5.00%
Fiscal Year Reached	**2025**	2022	2024

(8) Retirement Benefits (Continued)

Postretirement Healthcare Benefits (Continued)

Components of net postretirement benefit cost are as follows:

	2020	2019
Service Cost	**$ 66,105**	$ 72,012
Interest Cost	**248,425**	246,079
Amortization of Actuarial (Gain) Loss	**501,293**	(799,467)
	$ 815,823	$ (481,376)

The Corporation has elected to recognize actuarial gains or losses in the year incurred. As a result, the Corporation does not recognize other comprehensive income related to its postretirement healthcare plan. The components of net postretirement benefit cost, other than the service cost component, are included in the line item nonoperating margins for the year ended May 31, 2020. All components of net postretirement benefit cost included in the statement of operations for the year ended May 31, 2019 have been reclassified to the line item nonoperating margins.

The Corporation's expected future benefit payments under the plan are as follows:

Year	**Amount**
2021	$ 277,828
2022	290,138
2023	308,231
2024	318,125
2025	332,136
2026 - 2030	2,019,895

Amounts recognized on the balance sheets consist of:

	2020	2019
Noncurrent Liabilities	**$ 6,907,863**	$ 6,369,868
Current Liabilities	**277,828**	257,953
	$ 7,185,691	$ 6,627,821

(9) Other Current Liabilities

Other current liabilities consist of the following as of May 31:

		2020		2019
Accrued Interest	**$**	**324,647**	$	459,072
Accrued Payroll		**320,808**		315,410
Accrued Vacation		**647,792**		579,828
Accrued Vested Sick Leave		**599,962**		582,998
	$	**1,893,209**	$	1,937,308

(10) Nonoperating Margins

Nonoperating margins consist of the following for the years ended May 31:

		2020		2019
Other Components of Net Postretirement Benefit Cost	**$**	**(749,718)**	$	339,715
Interest Income		**207,443**		802,512
Other		**73,315**		101,405
	$	**(468,960)**	$	1,243,632

(11) Commitments

The Corporation has entered into various long-term contracts to meet the power supply demands of its consumers. The Corporation has a commitment to pay for its assignment of fixed costs through the term of these contracts, as well as any variable cost incurred above the allocated fixed cost amounts. The Corporation is a member of a generation cooperative known as Oglethorpe Power Corporation (OPC) and has contracted with OPC based on a percentage of fixed or designated costs to purchase power supply from various facilities owned by OPC. The Corporation has multiple contracts with various expiration terms through 2050. Related fixed costs under these contracts were $20,737,000 for the year ended May 31, 2020.

The Corporation elected to participate in OPC's "5 for 5 Rate Management Program." The objective of this program is to provide a means by which existing obligations of OPC that would otherwise be recognized as expense and billed in the future can be billed to OPC members over a five-year period then credited back against the OPC member's power bill in the subsequent five years. The Corporation elected to make payments through 2021 and receive credits from 2022 through 2027. The Corporation paid approximately $2,072,000 into OPC's 5 for 5 Rate Management Program for the year ended May 31, 2020. The Corporation earns a return on the amounts funded into this program which are credited against the Corporation's power bill.

(11) Commitments (Continued)

The Corporation has a transmission service agreement dated August 1, 1996 with Georgia Transmission Corporation (GTC). The agreement was amended and extended through December 31, 2060. Under the terms of the amended agreement, GTC will own, operate and provide transmission services to the Corporation. The cost for these transmission services totaled approximately $4,982,000 for the year ended May 31, 2020.

The Corporation has an agreement with Georgia Energy Cooperative (GEC) whereby GEC agrees to provide all power requirement needs and scheduling agent services. The current agreement is effective through December 31, 2022. In 2020, the Corporation entered into a new agreement which will begin January 1, 2022 and will extend through December 31, 2028.

As part of the current agreement, the Corporation has:

- Agreed to be jointly and severally liable for all GEC's obligations, including costs and expenses incurred under the supplier agreement.
- Provided a guaranty to a third party as part of GEC's Power Purchased and Scheduling Agent Services Agreement with the third party. The Corporation's maximum obligation is $3,185,000 as of May 31, 2020 and is systematically reduced in subsequent years to an ultimate level of $1,365,000 in 2022.
- Provided a guaranty of a line-of-credit. The Corporation's maximum exposure is $276,000.
- To meet certain financial covenants or provide credit enhancement in accordance with the terms of the agreement. The Corporation currently meets the required covenants.

Under current law, the Corporation has the ability to recover these costs from its members; however, any change to existing laws could adversely affect the ability to recover these costs.

(12) Concentrations of Credit Risk

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash and cash equivalents, restricted funds and member accounts receivable. The Corporation maintains its cash balances in financial institutions; cash balances throughout the year periodically exceed federally insured deposit limits of $250,000. At May 31, 2020, bank balances exceeded federally insured deposit limits by $1,502,592.

The Corporation serves members in the state of Georgia. The geographic concentration of the Corporation's members results in a concentration of credit risk with respect to the collection of accounts receivable. Credit evaluations are performed on most potential customers before accepting them for service. Depending upon the results of the credit evaluation, a deposit may be required.

(13) Litigation

The Corporation is periodically involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without a material adverse effect on the Corporation's future financial position or results from operations.

(14) Risks and Uncertainties

As of the issuance date of these financial statements, the Coronavirus pandemic (COVID-19) was continuing to have an adverse effect on financial markets. The effects of COVID-19 are widespread and unprecedented. However, the full impact of COVID-19 is uncertain as to the full magnitude that the pandemic will have on the Corporation's financial condition, liquidity and future results of operations. Management is actively monitoring the situation but given the daily evolution of the COVID-19, the Corporation is not able to estimate the effects at this time.

In response to the growing concern related to COVID-19, the United States Department of Agriculture waived all RUS/FFB covenant requirements for loan agreement financial ratios from January 1, 2020 through December 31, 2020.

(15) Self Insurance

The Corporation entered into a multi-party captive insurance arrangement for medical and prescription drug insurance effective April 1, 2020. Under this captive arrangement, the Corporation is responsible for up to $50,000 in claims per covered person and the captive insurer is responsible for claims in excess of $50,000 per covered person. The captive insurer has obtained adequate stop loss coverage up to an aggregate benefit maximum of $1,000,000 to mitigate risk related to its potential obligation.

MCNAIR MCLEMORE
MIDDLEBROOKS & CO
CERTIFIED PUBLIC ACCOUNTANTS

389 Mulberry Street | Macon, Georgia 31201
Post Office Box One | Macon, Georgia 31202
478-746-6277 | mmmcpa.com

August 20, 2020

**INDEPENDENT AUDITOR'S 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***

The Board of Directors
Jefferson Energy Cooperative, an Electric Membership Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Jefferson Energy Cooperative, an Electric Membership Corporation** (the Corporation), which comprise the balance sheet as of May 31, 2020 and the related statements of operations, changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 20, 2020.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

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

Purpose of this Report

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

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

MCNAIR MCLEMORE
MIDDLEBROOKS & CO
CERTIFIED PUBLIC ACCOUNTANTS

389 Mulberry Street | Macon, Georgia 31201
Post Office Box One | Macon, Georgia 31202
478-746-6277 | mmmcpa.com

August 20, 2020

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

The Board of Directors
Jefferson Energy Cooperative, an Electric Membership Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Jefferson Energy Cooperative, an Electric Membership Corporation** (the Corporation), which comprise the balance sheet as of May 31, 2020 and the related statements of operations, changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 20, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2020 on our consideration of the Corporation'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 have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Corporation 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,* §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Corporation's noncompliance with the above-referenced terms, covenants, provisions or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Corporation's accounting and records, except as reflected in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards,* to indicate that the Corporation 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 financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits which is included in the notes to the financial statements; and
- Comply with the requirements for the detailed schedule of investments which consists of investments in associated organizations and is disclosed in the notes to the financial statements.

This report is intended solely for the information and use of the board of directors, management, RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

Auditor's Responsibility Under Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter, the auditor is responsible for forming and expressing an opinion about whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP). Professional standards also require that we provide you with information about our responsibilities under *Government Auditing Standards*. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Planned Scope and Timing of the Audit

The audit was performed according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Accounting Policies

Management is responsible for the selection of appropriate accounting policies. The significant accounting policies used by Jefferson Energy Cooperative, an Electric Membership Corporation (the Corporation) are outlined in Note 1 to the financial statements. The Corporation adopted the following new accounting standard during the year ended May 31, 2020:

- ASU 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* - The adoption of the ASU 2017-07 required reclassification of components of net postretirement benefit cost that are not related to the annual service cost. The adoption of the standard resulted in a reclassification of costs but had no effect on operations.

We noted no transaction entered into by the Corporation during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a period other than when the transaction occurred.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimates may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Useful lives of utility plant
- Allocations from construction work in progress
- Reserve for uncollectible accounts
- Expense accruals
- Actuarial assumptions for retirement plans

We evaluated the key factors and assumptions used to develop management's estimates in determining that they are reasonable in relation to the financial statements as a whole.

Significant Audit Adjustments and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Journal entries for the year ended May 31, 2020 are attached as Exhibit A. There were no significant uncorrected misstatements.

Disagreements with Management

Professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 20, 2020.

Consultation with Other Accountants

To our knowledge, management did not consult with other accountants relating to auditing or accounting matters.

Major Issues Discussed with Management Prior to Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

There were no difficulties encountered in dealing with management related to the performance of the audit.

Restriction of Use

This information is intended solely for the information and use of the board of directors and management is not intended to be used by anyone other than these specified parties.

EXHIBIT A

JEFFERSON ENERGY COOPERATIVE, AN ELECTRIC MEMBERSHIP CORPORATION
JOURNAL ENTRIES
FOR THE YEAR ENDED MAY 31, 2020

Entry #	Financial Statement Line	Debit	Credit
Entry 1			
	Accumulated Provision for Postretirement Benefits - Noncurrent	$ 277,828	
	Accumulated Provision for Postretirement Benefits - Current		$ 277,828
	To reclass current portion of postretirement benefits.		
Entry 2			
	Long-Term Debt - FFB	$ 1,374,000	
	Long-Term Debt - CoBank	$ 766,000	
	Long-Term Debt - NRUCFC	$ 318,000	
	Current Maturities of Mortgage Notes		$ 2,458,000
	To reclass current portion of long-term debt.		
Entry 3			
	Accounts Receivable	$ 655,421	
	Deferred Credits		$ 655,421
	To reclass credit balances in accounts receivable.		
Entry 4			
	Net Postretirement Benefit Cost - Other	$ 650,493	
	Deferred Debits		$ 585,482
	Administrative and General Expense		$ 65,011
	To true-up postretirement healthcare liablity based on the results of the actuarial valuation for audit purposes.		
Entry 5			
	Other Special Funds - Deferred Compensation	$ 456,716	
	Deferred Compensation Liabilities		$ 456,716
	To record assets and liabilities of 457(b) deferred compensation plan.		