FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

IPEC

INSIDE PASSAGE ELECTRIC COOPERATIVE

December 31, 2020 and 2019

BLODGETT, MICKELSEN & ADAMSON, P.S.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Inside Passage Electric Cooperative, Inc.
Auke Bay, Alaska

We have audited the accompanying financial statements of Inside Passage Electric Cooperative, Inc., which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of revenues and margins, changes in equities and margins, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

We believe 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 Inside Passage 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have issued our report dated March 1, 2021, on our consideration of Inside Passage Electric Cooperative, Inc.'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 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 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 Inside Passage Electric Cooperative, Inc.'s internal control over financial reporting and compliance.

Blodgett, Mickelsen & Adamson, P.S.

Kennewick, Washington
March 1, 2021

Inside Passage Electric Cooperative, Inc.

BALANCE SHEETS

December 31, 2020 and 2019

ASSETS

	2020	2019
UTILITY PLANT - AT COST (notes 1, 2 and 11)		
Electric plant in service - at cost	**$ 24,842,613**	$ 21,912,353
Construction work in progress	**6,319**	1,387,426
	24,848,932	23,299,779
Less accumulated depreciation and amortization	**13,656,404**	13,297,370
Net electric plant	**11,192,528**	10,002,409
INVESTMENTS IN ASSOCIATED ORGANIZATIONS AND RESTRICTED CASH (notes 1 and 4)		
Investments in associated organizations	**1,591,968**	1,549,041
Restricted cash:		
Consumer deposits	**78,192**	55,828
State of Alaska performance guarantees	**13,600**	13,600
	1,683,760	1,618,469
CURRENT ASSETS (notes 1 and 3)		
Cash and cash equivalents	**114,349**	526,938
Accounts receivable, less provision for doubtful accounts of $24,256 in 2020 and $13,842 in 2019	**372,874**	497,254
Grant receivable	**-**	439,955
Other receivables	**9,747**	32,278
Unbilled revenue	**236,940**	244,088
Materials and supplies	**257,630**	252,085
Fuel inventory	**199,850**	258,666
Prepaid expenses	**33,610**	58,040
Total current assets	**1,225,000**	2,309,304
DEFERRED CHARGES (notes 1 and 5)	**27,387**	49,734
	$ 14,128,675	$ 13,979,916

The accompanying notes are an integral part of these statements.

EQUITIES, MARGINS AND LIABILITIES

		2020		2019
EQUITIES AND MARGINS (note 1)				
Patronage capital	**$**	**1,533,670**	$	1,366,114
Other equities		**5,829,020**		5,739,773
		7,362,690		7,105,887
LONG-TERM DEBT, less current maturities (notes 6 and 11)		**4,805,730**		5,147,413
COMMITMENTS AND CONTINGENCIES (note 9)		**-**		-
CURRENT LIABILITIES (notes 1, 6, 7 and 11)				
Accounts payable		**321,967**		276,741
Consumer deposits		**78,192**		55,828
Accrued payroll and related liabilities		**91,923**		64,132
Accrued taxes		**7,025**		6,847
Line of credit		**1,000,000**		851,500
Current maturities of long-term debt		**341,682**		331,311
Total current liabilities		**1,840,789**		1,586,359
DEFERRED CREDITS (notes 1 and 8)		**119,466**		140,257
	$	**14,128,675**	$	13,979,916

The accompanying notes are an integral part of these statements.

Inside Passage Electric Cooperative, Inc.

STATEMENTS OF REVENUES AND MARGINS

Years ended December 31, 2020 and 2019

	2020	2019
Operating revenues (note 1)	**$ 4,966,551**	$ 5,256,132
Operating expenses		
Purchased power	**199,798**	211,880
Power production - operation	**1,981,622**	2,380,994
Power production - maintenance	**426,627**	386,748
Distribution - operation	**161,296**	146,231
Distribution - maintenance	**102,066**	51,572
Consumer accounts	**190,090**	189,068
Consumer service and information	**8,782**	36,642
Sales expense	**27,408**	28,740
Administrative and general	**1,069,497**	1,058,726
Depreciation and amortization	**467,363**	409,397
Taxes	**4,612**	4,565
Total operating expenses	**4,639,161**	4,904,563
Net operating margins before fixed charges	**327,390**	351,569
Fixed charges		
Interest on long-term debt	**158,549**	164,140
Donations to member communities	**1,285**	1,157
	159,834	165,297
Net operating margin	**167,556**	186,272
Non-operating margins		
Patronage capital	**66,100**	130,070
Interest income	**1,221**	5,651
Rental income, net of rental expenses	**21,145**	3,593
Other non-operating income	**781**	800
	89,247	140,114
NET MARGINS	**$ 256,803**	$ 326,386

The accompanying notes are an integral part of these statements.

Inside Passage Electric Cooperative, Inc.

STATEMENTS OF CHANGES IN EQUITIES AND MARGINS

Years ended December 31, 2020 and 2019

	Patronage Capital	Other Equities		
	Inside Passage Operating Margins	Inside Passage Non-Operating Margins	THREA Donated Capital	Total
Balance at December 31, 2018	$ 1,179,842	$ 1,713,482	$ 3,886,177	$ 6,779,501
Net margin	186,272	140,114	-	326,386
Balance at December 31, 2019	$ 1,366,114	$ 1,853,596	$ 3,886,177	$ 7,105,887
Net margin	**167,556**	**89,247**	**-**	**256,803**
Balance at December 31, 2020	**$ 1,533,670**	**$ 1,942,843**	**$ 3,886,177**	**$ 7,362,690**

Inside Passage Electric Cooperative, Inc.

STATEMENTS OF CASH FLOWS

Years ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	**$ 256,803**	$ 326,386
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization	**467,363**	409,397
Net operating changes in:		
Accounts receivable	**124,380**	(47,266)
Grant receivable	**439,955**	46,192
Other receivables	**22,531**	(21,415)
Unbilled revenue	**7,148**	14,885
Materials and supplies	**(5,545)**	(7,666)
Fuel inventory	**58,816**	4,937
Prepaid expenses	**24,430**	(9,880)
Deferred charges	**22,347**	51,562
Accounts payable	**45,226**	15,721
Consumer deposits	**22,364**	15,212
Accrued payroll and related liabilities	**27,969**	99
Deferred credits	**(20,791)**	85,107
NET CASH PROVIDED BY OPERATING ACTIVITIES	**1,492,996**	883,271
CASH FLOWS FROM INVESTING ACTIVITIES		
Net additions to utility plant	**(1,549,153)**	(1,259,604)
Book value of property dispositions and plant removal - net of retirements	**(108,329)**	(25,639)
Net increase in investments in associated organizations	**(42,927)**	(116,004)
NET CASH USED IN INVESTING ACTIVITIES	**(1,700,409)**	(1,401,247)

The accompanying notes are an integral part of these statements.

	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	**$ (331,312)**	$ (326,326)
Proceeds from borrowings of long-term debt (see below)	**-**	-
Payments on line of credit	**(993,500)**	(3,197,500)
Proceeds from borrowings on line of credit	**1,142,000**	4,249,000
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	**(182,812)**	725,174
Net (decrease) increase in cash	**(390,225)**	207,198
Cash and cash equivalents at beginning of year	**596,366**	389,168
Cash and cash equivalents at end of year	**$ 206,141**	$ 596,366

Cash paid for interest during the years December 31, 2020 and 2019 amounted to $212,019 and $230,939, respectively.

Reconciliation of Cash and Cash Equivalents to Balance Sheet:

	2020	2019
Cash and cash equivalents	**$ 114,349**	$ 526,938
Restricted cash:		
Consumer deposits	**78,192**	55,828
State of Alaska performance guarantees	**13,600**	13,600
	91,792	69,428
	$ 206,141	$ 596,366

Non-cash transaction:

On August 16, 2019, the Cooperative converted $1,000,000 of funds borrowed on their line of credit with National Rural Utilities Cooperative Finance Corporation (CFC) into a long-term loan with a fixed rate of 3.76% and will mature on June 30, 2046. See note 11 for further details.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Inside Passage Electric Cooperative, Inc. (IPEC or the Cooperative) operates an electric utility from offices in Auke Bay, Alaska, which provides services to the southeast Alaska communities of Angoon, Hoonah, Kake, Klukwan and Chilkat Valley. IPEC operates on a not-for-profit basis and, accordingly, seeks only to generate revenues sufficient to pay operating and maintenance costs, capital expenditures, depreciation, and interest on indebtedness and to provide for the establishment of reasonable margins and reserves.

The accounting records of IPEC conform to the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission as modified for electric borrowers of the Rural Utility Service (RUS). A summary of the Cooperative's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

a. Cash and cash equivalents

For purposes of the statement of cash flows, the Cooperative considers all cash on hand, cash in banks and highly liquid instruments that are readily convertible to known amounts of cash and that present an insignificant risk of change in value due to changes in interest rates or other factors to be cash equivalents.

b. Investments in associated organizations

Because fair value is not readily determinable, the Cooperative's investments in associated organizations are carried at cost, which approximates fair value, plus patronage capital credits allocated and not retired. Investments are reduced by distributions received. Capital credits from associated organizations are not valued until allocated.

Investments in associated organizations were not evaluated for impairment because (a) it is not practicable to estimate their fair values due to insufficient information available and (b) management did not identify any events or changes in circumstances that might have a significant adverse effect on the fair value of those investments.

c. Accounts and other receivables

Accounts and other receivable are recorded when invoices are issued and are written off as a charge to the allowance for doubtful accounts when they are determined to be uncollectible. The allowance for doubtful accounts is estimated considering the Cooperative's historical losses, review of specific problem accounts, existing economic conditions and the financial stability of its customers. Generally, IPEC considers accounts receivable past due after 25 days.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

d. Grant receivable

Grant receivable represents the amount due to the Cooperative for reimbursable expenses from the Alaska Energy Authority (AEA) for a grant related to construction of the Gunnuk Creek hydroelectric dam project. As the Cooperative incurred expenses that were reimbursable under the grants, the expenses were billed to AEA and recorded as grant receivable until the reimbursement was received. See note 11 for further details.

e. Revenue recognition and unbilled revenue

The majority of the Cooperative's revenue is from energy sales to the Cooperative's members. Energy sales are recognized upon delivery of electricity to the member's meter based on billing rates set by the Cooperative's Board of Trustees. These rates include base charges which are fixed fees based on the type of meter and variable charges which depend on the member's usage of electricity on a per kilowatt (kWh) basis during the billing period. The Cooperative utilizes cycle billing and records revenue billed based upon monthly meter readings. In addition, the Cooperative recognizes unbilled revenue, revenue from electric power delivered but not yet billed. The Cooperative's energy rates follow the Cooperative Principles, which include operating at cost and allocating any surplus margins back to the membership. The majority of the Cooperative's contracts do not contain variable consideration and contract modifications are typically minimal.

For non-electric revenue, revenue is recognized at a single point in time when ownership, risk and rewards transfer. Any revenue recognized over time consists of performance obligations that are typically one year or less. Sales and other taxes the Cooperative collects concurrent with revenue-producing activities are excluded from revenue. There are no shipping and handling fees charged to customers or incurred by the Cooperative. Incidental items that are immaterial in the context of any contracts are recognized as expense.

Operating revenues consist of the following for the years ended December 31:

	2020	2019
Energy sales	**$ 4,894,476**	$ 5,160,304
Waste heat project	**34,801**	64,131
Pole rentals	**12,936**	12,936
Late payment fees	**12,470**	9,181
Other revenue	**11,868**	9,580
	$ 4,966,551	$ 5,256,132

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

f. Fair value of financial instruments
The fair value of current assets and current liabilities approximates carrying value because of the short-term nature of these items.

g. Materials and supplies and fuel inventory
The inventory of materials and supplies is recorded at the lower of average cost or market. Fuel inventory is recorded at the cost the fuel is purchased at during the year based on the volume on hand at year end.

h. Utility plant
Utility plant is stated substantially at original cost. Cost of utility plant includes labor, materials, payments to contractors, transportation and construction equipment use and indirect costs, such as employee benefits and general and administrative expenses, less customers' contributions. The Cooperative requires customers to pay for a majority of the costs associated with extending service to them. The Cooperative's utility plant is understated by the amount of these required customer contributions.

The Cooperative has received more than $33 million of grant funding since being founded in 2004. The grants were primarily to fund significant long-term assets that are included in the Cooperative's utility plant accounts. The funding was received from both Federal programs and the State of Alaska. The Cooperative's utility plant is understated by the amount of the grant funds received and used for these assets. These assets include hydro projects in Haines, Hoonah, and Kake; primary line extensions in Angoon, Hoonah, and Klukwan; LED streetlights in Kake and Klukwan; and power plant buildings and generation equipment in Angoon, Hoonah and Kake. Many of these assets were completed at zero cost to the Cooperative's membership and the value of these assets at December 31, 2020 and 2019 are recorded net of the grants received. This funding has therefore provided a significant number of assets to Cooperative members at significantly lower cost to them. This in turn has reduced the depreciation expense for each year and therefore allows the Cooperative to provide power to their members at lower rates.

The cost of maintenance and repairs, including replacement of minor items of property, is charged to operating expense. The cost for replacement of depreciable property units, as distinguished from minor items, is charged to utility plant. The cost of units of property replaced or retired, including cost of removal less salvage value from the transmission or distribution plants, is charged to accumulated depreciation as prescribed by standard industry practice.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

i. Depreciation

Depreciation rates have been applied on a straight-line basis using the following annual rates which are taken from a depreciation study performed for the year ended December 31, 2017 (see note 5):

Production plant	0.72% to 9.03%
Distribution plant	1.26% to 5.93%
General plant	1.98% to 25.00%

j. Recoverability of long-lived assets

The Cooperative reviews its long-lived assets whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable and determines whether an impairment loss should be recognized. No impairment losses have been identified in the financial statements.

k. Asset retirement obligation

Professional accounting standards require entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which obligations are incurred. The Cooperative has determined it does not have a material legal obligation to remove long-lived assets, and accordingly has not recognized any asset retirement obligation costs in its financial statements.

l. Capitalization of interest

The Cooperative follows the policy of capitalizing interest as a component of the cost of significant property, plant and equipment constructed for its own use. In 2020, total interest incurred was $212,019 of which $53,470 was capitalized. In 2019, total interest incurred was $230,939 of which $66,799 was capitalized.

m. Income taxes

The Cooperative is exempt from federal income taxes under section 501(c)(12) of the Internal Revenue Code while functioning for the benefit of its members. The Cooperative had no unrelated business income. The Cooperative adopted Accounting Standards Codification (ASC) 740-10, relating to accounting for uncertain tax positions. The Cooperative does not have any uncertain tax positions. The Cooperative files an exempt organization tax return in the U.S. federal jurisdiction and is no longer subject to examination by taxing authorities before 2017.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

n. Credit risk

Financial instruments which could potentially subject the Cooperative to concentrations of credit risk consist principally of temporary cash investments and trade receivables. The Cooperative maintains its cash and cash equivalents with First National Bank Alaska.

The balances are insured by the Federal Deposit Insurance Corporation up to $250,000. At December 31, 2020 and 2019, there were uninsured balances of $0 and $0, respectively. Concentrations of credit risk with respect to trade receivables are limited due to the number of customers comprising the Cooperative's customer base. However, there is a risk that adverse economic conditions in the Cooperative's service area could impact the Cooperative's ability to collect amounts due from customers.

o. Other equities

Other equities consists of the equity balances of Tlingit-Haida Regional Electrical Authority (THREA) which transferred at the formation of IPEC and the collective non-operating margins of the Cooperative since the Cooperative was founded.

p. Deferred charges and credits

Due to regulation of its rates by its Board, the Cooperative is subject to the accounting requirements of the Accounting Standards Codification (ASC) 980, *Regulated Operations*. Accordingly, certain costs and income may be capitalized as a regulatory asset or liability that would otherwise be charged to expense or revenues. Regulatory assets and liabilities are recorded when it is probable that future rates will permit recovery.

q. Regulation

Since its formation, IPEC has been subject to economic regulation by the Regulatory Commission of Alaska (RCA). In September 2018, a deregulation election was held which made IPEC no longer subject to certain regulations. The Cooperative is still required to make quarterly cost of power adjustment (COPA) filings in order to participate in the power cost equalization program which is a State subsidy to individual customers and community facilities in rural Alaska locations. Management anticipates recognizing significant cost savings as a result of being deregulated.

r. Use of estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect certain reported amounts of assets and liabilities, the 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

s. Reclassifications
Certain prior year balances have been reclassified to conform with the current year's presentation. The reclassifications had no effect on net margins or equity for either period.

t. Subsequent events
The Cooperative has evaluated subsequent events through March 1, 2021, the date the financial statements were available to be issued. Management is not aware of any material subsequent events.

NOTE 2 – ELECTRIC PLANT IN SERVICE

Electric plant in service consisted of the following at December 31:

	2020	2019
Production	$ 8,283,459	$ 5,294,178
Distribution	13,873,381	14,069,413
General plant	2,685,773	2,548,762
	$ 24,842,613	$ 21,912,353

NOTE 3 – ACCOUNTS AND OTHER RECEIVABLES

Accounts receivable consisted of the following at December 31:

	2020	2019
Consumer accounts	$ 289,632	$ 356,649
Power cost equalization (PCE)	107,498	154,447
Total accounts receivable	397,130	511,096
Allowance for doubtful accounts	(24,256)	(13,842)
	$ 372,874	$ 497,254

Other receivables consisted of the following at December 31:

	2020	2019
Outside non-electric receivables	$ 2,599	$ 29,398
NRECA receivable	5,969	1,701
Interest receivable on CFC investments	1,179	1,179
	$ 9,747	$ 32,278

NOTE 4 – INVESTMENTS IN ASSOCIATED ORGANIZATIONS

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

	2020	2019
Alaska Rural Electric Cooperative Association (ARECA) Insurance Exchange patronage capital credits	**$ 1,450,406**	$ 1,412,374
National Rural Utilities Cooperative Finance Corporation (CFC):		
Membership	**1,000**	1,000
Capital term certificates, interest bearing, 3 to 5 percent	**93,543**	93,543
Patronage capital certificates	**29,404**	25,234
National Information Solutions Cooperative (NISC) patronage capital	**17,615**	16,890
	$ 1,591,968	$ 1,549,041

NOTE 5 – DEFERRED CHARGES

Deferred charges consisted of the following as of December 31:

	2020	2019
Depreciation study	**$ 27,387**	$ 41,080
Community based rates study	**-**	8,654
	$ 27,387	$ 49,734

The depreciation study for the year ended December 31, 2017 was completed in October 2018 and was approved by the Rural Utility Service (RUS) in April 2019. The Cooperative began amortizing the cost of the study during 2019 and it is being amortized over a four-year period. The cost of the community-based rates study was being amortized over a period of five years. Total amortization expense for the years ended December 31, 2020 and 2019 was $22,348 and $28,519, respectively.

NOTE 6 – LONG-TERM DEBT

Long-term debt consisted of the following at December 31:

	2020	2019
Mortgages payable to the United States of America (Rural Utilities Service), payable in monthly installments of $28,783, including interest at either 2% or 5%, maturing between May 2028 and July 2029	**$ 2,341,817**	$ 2,612,710
Mortgages payable to the National Rural Utilities Cooperative Finance Corporation, payable in quarterly installments of $50,394, including interest at either 3.76% or 4.65%, maturing between December 2045 and June 2046	**2,805,595**	2,866,014
	5,147,412	5,478,724
Less current maturities	**(341,682)**	(331,311)
	$ 4,805,730	$ 5,147,413

The aggregate long-term debt maturing over the next five years is approximately as follows: 2021 - $341,682; 2022 - $352,439; 2023 - $363,602; 2024 - $375,188; 2025 - $387,214 and succeeding years of $3,327,287. The mortgage notes are subject to various covenants and requirements detailed in the loan documents. All assets of the Cooperative are pledged as collateral on these notes. See notes 7 and 11 for details of a $1,000,000 loan converted from the line of credit with CFC during 2019.

NOTE 7 – LINE OF CREDIT

The Cooperative has a $3,000,000 perpetual line of credit with National Rural Utilities Cooperative Finance Corporation (CFC). Provisions on the line of credit require repayment in full within 360 days of the advance. Interest is accrued and payable quarterly. The interest rate is determined and set by CFC each month and was 2.25% at December 31, 2020. At December 31, 2020 and 2019, the outstanding balance due on the line of credit was $1,000,000 and $851,500, respectively. In August, 2019, the balance on the line of credit of $1,000,000 was converted to a long-term loan with CFC. Proceeds on the line of credit are being used to fund work on the Gunnuk Creek hydroelectric dam project in Kake (see note 11). Accordingly, interest on the line of credit is capitalized to that project through October 2020 when the project was completed. The Cooperative has borrowed an additional $500,000 on the line so far during 2021.

NOTE 8 – DEFERRED CREDITS

Deferred credits consisted of the following at December 31:

	2020	2019
Cost of power adjustment	**$ 82,008**	$ 84,118
Special equipment costs	**26,050**	40,200
Customer advances for construction	**11,408**	12,139
Tenant rent deposit	**-**	3,800
	$ 119,466	$ 140,257

NOTE 9 – CONTINGENCIES AND COMMITMENTS

The Cooperative is party to various claims, for and against its interest, which are either covered by insurance or which management believes will not have a material effect to its financial position. There are no pending or threatened claims against the Cooperative as of December 31, 2020.

NOTE 10 – EMPLOYEE BENEFIT PLANS

Retirement Security Plan

The Retirement Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Association (NRECA), is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer plan under the 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’s contributions to the RS Plan in 2020 and in 2019 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of $316,333 in 2020 and $355,692 in 2019. There have been no significant changes that affect the comparability of 2020 and 2019 contributions.

NOTE 10 – EMPLOYEE BENEFIT PLANS - Continued

Retirement Security Plan - continued

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

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

401(k) Plan

The Cooperative also participates in a 401(k) plan that is available to all employees. Employees may contribute to the plan on a payroll deduction basis. The Cooperative matches 100% of the first 3% of employee contributions and up to an additional 50% of the next 2% of employee contributions. Contributions made during 2020 and 2019 were $31,372 and $30,678, respectively.

NOTE 11 – GUNNUK CREEK HYDROELECTRIC DAM PROJECT

During 2018 the Cooperative was awarded a $3,920,000 grant by the Alaska Energy Authority (AEA) from the Alaska Renewable Energy Fund. An additional $3,000,000 was awarded by the Rural Utility Service (RUS) under its High Energy Costs Grant program. These funds were used to construct a 500kW Run of River hydro project on Gunnuk Creek in Kake which is expected to produce approximately 50-55% of Kake's annual energy needs. Start up and commissioning of the project took place in October 2020.

Through December 31, 2020 the Cooperative had received all grant funding related to this project. The Cooperative has invested over $2,900,000 of its own funds into the project through December 31, 2020. These funds were obtained by using the CFC line of credit and on August 16, 2019 the Cooperative converted $1,000,000 of the line of credit into a long-term loan with interest at 3.76% and maturing on June 30, 2046. This conversion is recorded as a non-cash transaction on the statement of cash flows. See notes 6 and 7. The project was capitalized as part of production plant in October 2020 at a final cost of $2,904,976 and had been recorded in construction work in progress at $1,383,498 as of December 31, 2019. These balances reflect project costs being reduced by total grant funding of $7,000,000.

NOTE 12 – NOVEL CORONAVIRUS OUTBREAK

On March 13, 2020, President Trump declared a national emergency over the novel coronavirus or COVID-19. Alaska Governor Mike Dunleavy issued a public health disaster emergency declaration on March 11, 2020 and has taken a number of steps to restrict social contact since that time. Many other state and local governments have imposed other restrictions. At this point, the Cooperative has maintained its normal hours of operation and at times certain staff have been asked to work remotely or on a rotating basis. It is unclear at this time how the outbreak will impact the operations of the Cooperative going forward as the length and severity of the situation remains unknown.

RUS AND GOVERNMENT AUDITING STANDARDS REPORTS

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

Board of Directors
Inside Passage Electric Cooperative, Inc.
Auke Bay, Alaska

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 Inside Passage Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of revenue and margins, changes in equities and margins, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 1, 2021. In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2021, 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 recommendations 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*, §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 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 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 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; and

- Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the board of directors, management, and the 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.

Blodgett, Mickelsen & Adamson, P.S.

Kennewick, Washington
March 1, 2021

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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*

Board of Directors
Inside Passage Electric Cooperative, Inc.
Auke Bay, Alaska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Inside Passage Electric Cooperative, Inc. (a nonprofit organization) (the Cooperative), which comprise the balance sheets as of December 31, 2020, and the related statements of revenues and margins, changes in equities and margins, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 1, 2021.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered Inside Passage Electric Cooperative, Inc.'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 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 Cooperative'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 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. 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 Inside Passage Electric Cooperative, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 and 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.

Blodgett, Mickelsen & Adamson, P.S.

Kennewick, Washington
March 1, 2021

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AUDITOR'S CERTIFICATION OF CFC LOAN PROCEEDS

Board of Directors
Inside Passage Electric Cooperative, Inc.
Auke Bay, Alaska

We have audited, in accordance with U.S. generally accepted auditing standards, the balance sheet of Inside Passage Electric Cooperative, Inc. as of December 31, 2020 and the related statements of revenues and margins, changes in equities and margins, and cash flows for the year then ended, and have issued our report thereon dated March 1, 2021.

In conducting our audit, nothing came to our attention that caused us to believe that the Cooperative was not in compliance with the provisions of the Loan Agreement with National Rural Utilities Cooperative Finance Corporation (CFC) insofar as it relates to accounting matters. During the year ended December 31, 2019, the Cooperative received $0 in long-term loan fund advances and $1,142,000 of draws on the line of credit from CFC loans and line of credit controlled by the Loan and Line of Credit Agreements. The loan proceeds in the year ended December 31, 2020 were used for purposes contemplated in the loan agreement for such loans.

It should be noted, however, that our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Board of Trustees, management and CFC and is not intended to be and should not be used by anyone other than these specified parties.

Blodgett, Mickelsen & Adamson, P.S.

Kennewick, Washington
March 1, 2021