



Barrow Utilities and Electric Cooperative, Inc.

Financial Statements
Years Ended December 31, 2020 and 2019

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Independent Auditor's Report

Board of Directors
Barrow Utilities and Electric Cooperative, Inc.
Utqiagvik, Alaska

Opinion

We have audited the financial statements of Barrow Utilities and Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of revenues and changes in patronage capital, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Cooperative 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Cooperative and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in

accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BDO USA, LLP

Anchorage, Alaska
May 6, 2021

Financial Statements

Barrow Utilities and Electric Cooperative, Inc.

Balance Sheets

December 31,	2020	2019
Assets		
Utility Plant		
Electric utility plant	\$ 25,173,381	\$ 23,936,267
Gas utility plant	3,010,349	2,981,537
Water utility plant	24,599,350	23,833,513
Buildings and improvements	6,485,658	6,449,507
Vehicles and heavy equipment	2,938,710	2,808,367
Other general plant	1,586,022	1,538,029
<hr/>		
Total utility plant in service	63,793,470	61,547,220
Construction work in progress	832,874	1,747,844
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Total utility plant	64,626,344	63,295,064
Less accumulated depreciation	(29,318,016)	(26,316,081)
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Net Utility Plant	35,308,328	36,978,983
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Other Assets and Investments		
Restricted funds:		
Consumer deposits	131,664	120,074
Certificate of deposit	25,000	25,000
Emergency fund investments	487,000	487,000
Investments in associated organizations	3,037,903	2,873,922
<hr/>		
Total Other Assets and Investments	3,681,567	3,505,996
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Current Assets		
Cash - general	2,803,151	3,160,544
Investments	94,748	102,405
Consumer accounts receivable net of allowance for doubtful accounts of \$120,819 in 2020 and \$120,891 in 2019	1,940,253	1,773,810
Other accounts receivable, net	2,654,624	2,288,370
Materials, fuel and supplies inventories	1,611,889	1,495,213
Prepayments	28,696	30,124
<hr/>		
Total Current Assets	9,133,361	8,850,466
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Deferred Charges	2,936,235	3,176,740
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Total Assets	\$ 51,059,491	\$ 52,512,185

See accompanying notes to financial statements.

Barrow Utilities and Electric Cooperative, Inc.

Balance Sheets, continued

December 31,	2020	2019
Equities and Liabilities		
Equities		
Memberships	\$ 4,698	\$ 4,698
Patronage capital	18,022,788	16,326,630
Other equities	1,911,048	1,914,263
Total Equities	19,938,534	18,245,591
Liabilities		
Long-term Liabilities		
Long-term debt	27,787,959	28,323,935
Less current maturities	(2,281,891)	(1,955,862)
Total Long-term Liabilities	25,506,068	26,368,073
Current Liabilities		
Current maturities of long-term debt	2,281,891	1,955,862
Accounts payable	1,430,717	3,840,612
Consumer deposits	131,664	120,074
Accrued payroll and benefits	801,426	675,770
Accrued taxes	23,864	5
Accrued interest	10,900	11,829
Line of credit	-	375,000
Patronage capital credits payable	477	1,404
Total Current Liabilities	4,680,939	6,980,556
Deferred Credits		
Consumer advances	1,523	2,216
ARECA allocation due to North Slope Borough	932,427	915,749
Total Deferred Credits	933,950	917,965
Total Liabilities	31,120,957	34,266,594
Total Equities and Liabilities	\$ 51,059,491	\$ 52,512,185

See accompanying notes to financial statements.

Barrow Utilities and Electric Cooperative, Inc.
Statements of Revenues and Changes in Patronage Capital

Years Ended December 31,	2020	2019
Operating Revenues		
Electric service	\$ 7,041,407	\$ 6,428,332
Gas service	2,895,255	2,582,189
Water sales	3,977,247	3,624,515
Service revenue:		
Barrow Utilidor System water distribution	7,172,930	7,127,073
Barrow Utilidor System sewage collection	7,298,885	6,992,218
Total Operating Revenues	28,385,724	26,754,327
Operating Expenses		
Gas for generation	756,378	749,061
Gas for resale	779,024	755,390
Water for resale	2,978,759	2,787,242
Operations and maintenance:		
Electric production	1,141,570	1,140,598
Electric distribution	873,456	912,858
Gas distribution	772,981	755,977
Water production and distribution	1,076,472	1,158,537
Barrow Utilidor System water distribution	2,444,848	2,350,652
Barrow Utilidor System sewage collection	4,719,122	4,280,394
Consumer accounts	664,670	733,441
Administrative and general	5,933,244	6,336,013
Taxes	664,581	659,802
Depreciation	2,872,171	2,676,646
Total Operating Expenses	25,677,276	25,296,611
Operating margins before fixed charges	2,708,448	1,457,716
Fixed Charges - interest on long-term debt	1,123,844	1,138,270
Operating margins after fixed charges	1,584,604	319,446
Nonoperating Margins		
Interest income	23,595	20,034
Interest on consumer deposits	(2,106)	(3,743)
Income from investments in associated organizations	202,684	259,984
Donations	(112,619)	(123,569)
Net Nonoperating Margins	111,554	152,706
Net margins	1,696,158	472,152
Patronage Capital , beginning of year	16,326,630	16,069,658
Patronage capital distributions	-	(215,180)
Patronage Capital , end of year	\$ 18,022,788	\$ 16,326,630

See accompanying notes to financial statements.

Barrow Utilities and Electric Cooperative, Inc.

Statements of Cash Flows

Years Ended December 31,	2020	2019
Cash Flows from Operating Activities		
Cash received from consumers	\$ 27,853,027	\$ 27,069,852
Cash paid to employees and suppliers	(24,956,337)	(20,404,044)
Interest paid	(1,092,489)	(1,108,552)
Interest received	23,595	20,034
Net cash from operating activities	1,827,796	5,577,290
Cash Flows for Investing Activities		
Plant additions, including retirement cost	(1,333,109)	(5,407,684)
Funds received from associated organizations, net of payments to North Slope Borough	55,381	55,819
Purchases of investments	(3,933)	(16,232)
Net cash for investing activities	(1,281,661)	(5,368,097)
Cash Flows from (for) Financing Activities		
Retirement of capital credits	(927)	(474)
Patronage capital distributions	-	(215,180)
Increase (decrease) in other equities	(3,215)	(173,404)
Consumer deposits received (returned)	11,590	(2,718)
Payments on line of credit, net	(375,000)	-
Proceeds from long-term debt	1,420,687	3,982,000
Repayment of long-term debt	(1,956,663)	(1,876,571)
Net cash from (for) financing activities	(903,528)	1,713,653
Net increase (decrease) in cash and cash equivalents	(357,393)	1,922,846
Cash and Cash Equivalents, beginning of year	3,160,544	1,237,698
Cash and Cash Equivalents, end of year	\$ 2,803,151	\$ 3,160,544

See accompanying notes to financial statements.

Barrow Utilities and Electric Cooperative, Inc.

Statements of Cash Flows, continued

Years Ended December 31,	2020	2019
Reconciliation of Net Margins to Net Cash from Operating Activities		
Net margins	\$ 1,696,158	\$ 472,152
Adjustments to reconcile net margins to net cash from operating activities:		
Depreciation	3,003,764	2,784,118
Amortization of deferred charges	33,461	33,461
Deferred charges related to operations	207,044	455,606
Income allocation from investments in associated organizations	(202,684)	(259,984)
Membership deposits applied towards billings	-	(115,425)
(Increase) decrease in assets:		
Consumer accounts receivable, net	(166,443)	(2,758)
Other accounts receivable, net	(366,254)	433,708
Materials, fuel and supplies inventories	(116,676)	(48,337)
Prepayments	1,428	2,518
Increase (decrease) in liabilities:		
Accounts payable	(2,409,895)	1,866,038
Accrued payroll and benefits	125,656	(28,879)
Accrued taxes	23,859	(22,627)
Accrued interest	(929)	715
Consumer advances	(693)	6,984
Net Cash From Operating Activities	\$ 1,827,796	\$ 5,577,290

See accompanying notes to financial statements.

Barrow Utilities and Electric Cooperative, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

1. Organization

Barrow Utilities Electric Cooperative, Inc., (Cooperative) operates electric, natural gas, water and sewer utilities in Utqiagvik, Alaska. A substantial portion of the Cooperative's revenues is derived from services provided to and subsidies received from the North Slope Borough.

The Cooperative 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 principal and interest on indebtedness and to provide for the establishment of reasonable margins and reserves. The Cooperative is deregulated and is responsible for its own rates and tariffs.

The accounting records of the Cooperative conform to the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission as modified for electric borrowers of the Rural Utilities Service (RUS) and the National Association of Regulatory Utility Commissioners. However, the Cooperative has no outstanding debt or other contractual agreements with RUS.

Net operating margins in excess of current period costs in any year are considered assignable margins. Retained assignable margins are included on the Cooperative's balance sheet as patronage capital, which is assigned to each member on the basis of patronage. This patronage capital constitutes the principal equity of the Cooperative.

Net operating losses in any year are accumulated separately within patronage capital and are offset by future nonoperating margins.

2. Summary of Significant Accounting Policies

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required 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.

Utility Plant in Service

Utility plant in service is recorded at cost including direct labor, materials, freight and indirect overhead charges. General plant is recorded at cost. Depreciation is computed using the straight-line method. For property replaced or retired, the average unit cost of the property unit replaced or retired plus removal cost less salvage is charged to accumulated provision for depreciation. The cost of related replacements and renewals is added to plant. Generally, no gain or loss on sale or retirement is recognized for property other than general plant.

A portion of the electric generation and water production plant is owned by the North Slope Borough and is not included in these financial statements. The Cooperative has agreed to operate and maintain the plant.

Barrow Utilities and Electric Cooperative, Inc.

Notes to Financial Statements

Contributions in Aid of Construction

Contributions in aid of construction are credited to the associated cost of construction of the related property units.

Deferred Plant and Equipment Maintenance Costs

Scheduled major overhauls and extraordinary maintenance costs incurred by the Cooperative are initially deferred and subsequently amortized to operating expenses over periods generally ranging from one to five years. Utility rates are stabilized at levels intended to fund these maintenance costs as they are amortized.

Materials, Fuel and Supplies

Inventories of materials, fuel and supplies are stated at average cost.

Cash and Cash Equivalents

The Cooperative considers cash and short-term investments 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.

Investments in Associated Organizations

Investments in associated organizations are accounted for at cost and adjusted for the Cooperative's proportionate share of earnings and distributions.

Revenue Recognition

In 2019, the Cooperative adopted Accounting Standards Codification (ASC) Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09), which provides guidance for the recognition, measurement and disclosure of revenue related to the transfer of promised goods or services to customers. The Cooperative elected to use the modified retrospective transition method, which resulted in no cumulative effect adjustment, nor any significant change to the timing or process for revenue recognition.

In adopting ASC 606, the Cooperative elected to use certain practical expedients permitted by the standard including using the portfolio approach where contracts with similar characteristics were assessed collectively to evaluate risk over the impact of ASC 606.

Utility Revenue

The Cooperative generates revenue primarily from sales of electric energy, natural gas, and water sales. Electric energy sales represent approximately 24% of operating revenue for the years ended December 31, 2020 and 2019. Energy sales are recognized upon a customer's use of electricity, based on a reading at the calendar month end. Electric sales consist entirely of retail usage by residential, commercial, and industrial customers. Actual usage per kilowatt hour is applied to standard tariff rates that are approved by the Board of Directors. Natural gas sales represent approximately 10% of operating revenue for the years ended December 31, 2020 and 2019. Gas sales are recognized upon consumer's consumption, based on a meter reading at the calendar month end. Gas sales consist entirely of retail usage by residential, commercial, and industrial customers. Actual usage per cubic foot is applied to standard tariff rates that are approved by the

Barrow Utilities and Electric Cooperative, Inc.

Notes to Financial Statements

Board of Directors. In addition to the billing for actual gas and electricity consumed, customers are billed a customer charge that is a monthly access charge applied by meter. Other charges can include new permanent and temporary electric and gas service connections, late fees, name changes and other related charges. Water sales represent approximately 14% of operating revenue for the years ended December 31, 2020 and 2019. Water sales consist of commercial sales to large wholesale customers and are billed monthly. Approximately 95% of water is sold to the Barrow Utilidor System (BUS). Payments on utility invoices are due within 30 days.

Other Miscellaneous Revenue

Other miscellaneous revenues include interest income and income from investments in associated organizations, which represent approximately 1% of total revenue. These accounts are generally highly collectible, and no allowance for collectability has been recorded.

A proportionate share of the income from investments in associated organizations is allocated to the North Slope Borough and recorded as a deferred credit. Capital credit distributions are allocated and distributed in the same proportions.

Accounts Receivable

Accounts receivable are carried at original billed amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts on a regular basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Trade receivables are generally highly collectible, and management believes write offs to be insignificant. Uncollectible amounts can be deducted from patronage capital balances upon distribution.

Consumer accounts receivable are considered to be past due if any portion of the receivable balance is outstanding for more than 55 days. After the receivable becomes past due, the Cooperative implements procedures to disconnect utility access on past due accounts. In some cases, the Cooperative attempts to make alternative payment arrangements with the utility consumer. Other accounts receivable are considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. Interest is not accrued on past due accounts receivable.

Fair Value Measurements

The Cooperative applies the provision of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*. ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements.

Included in investment related line items in the financial statements are certain financial instruments carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, that is, other than in a forced liquidation or distress sale.

Barrow Utilities and Electric Cooperative, Inc.

Notes to Financial Statements

The Cooperative's financial assets carried at fair value have been classified based on a hierarchy defined by ASC 820. All of the Cooperative's assets are considered to be Level 1, as they are determined using unadjusted quoted prices in active markets for identical assets and liabilities.

Unamortized Debt Refinance Charges

Unamortized debt refinance charges relate to the Cooperative's long-term debt, including current maturities, and are amortized over the life of the related debt. Annual amortization is computed using the straight-line method and is included in interest expense in the statements of revenues and changes in patronage capital.

Patronage Capital

Patronage capital consists of net margins accumulated since inception less the retirement of capital credits to members. The distribution of such patronage capital to members of the Cooperative is restricted under the covenants of the National Rural Utilities Cooperative Finance Corporation (NRUCFC) mortgage notes. Electric and gas capital credits are currently retired on a fifteen-year rotation cycle and water capital credits are currently retired on a twelve-year rotation cycle, as authorized by the Board of Directors. Unclaimed retired capital credits may be transferred to other equities one year after the date authorized for the distribution.

Nonoperating Margins

Nonoperating margins are an accumulation of all nonoperating margins reduced by nonoperating losses. If a positive balance exists at year-end, it is first used to offset any accumulated net operating losses from previous years. Any remaining margin amounts are transferred to patronage capital assignable.

Income Taxes

The Cooperative is exempt from federal and state income taxes under the provisions of Section 501(c)(12) of the Internal Revenue Code.

The Cooperative applies the provisions of Topic 740 of the FASB Accounting Standards Codification relating to accounting for uncertainty in income taxes. The Cooperative annually reviews its tax return and positions taken in accordance with the recognition standards. The Cooperative believes that it has no uncertain tax positions which would require disclosure or adjustment in these financial statements. Tax years 2017-2019 remain open to examination.

Reclassifications

Certain amounts have been reclassified from the prior period presentation to conform to the current year presentation.

Subsequent Events

The Cooperative has evaluated subsequent events through May 6, 2021, the date on which the financial statements were available to be issued.

Barrow Utilities and Electric Cooperative, Inc.

Notes to Financial Statements

3. Barrow Utilidor System

The Cooperative operates and maintains the Barrow Utilidor System (BUS) under a contract with the North Slope Borough, which is subject to appropriation by the Borough Assembly. The BUS is owned by the North Slope Borough and any additions to the system are the property of the North Slope Borough.

Reimbursement to the Cooperative for maintenance of the BUS is on a cost basis, with zero profit. Therefore, annual revenues cannot exceed related operating expenses. A portion of the reimbursement is derived from BUS metered water and sewer fees, billed monthly, with the remainder of the costs reimbursed from the BUS.

Any deficiencies, up to an annually predetermined limit, are paid by the North Slope Borough on a monthly basis and excesses, if any, are remitted to the North Slope Borough. Deficiencies reimbursed by the North Slope Borough totaling \$12,345,496 and \$11,762,983 for the years ended December 31, 2020 and 2019, respectively, are included in BUS revenues.

The BUS water and sewage rates are set by the North Slope Borough. The water rate for residential customers is \$55 per month, and the rate for senior citizen residential customers is \$11 per month. There is an additional charge of 2 cents per gallon for usage exceeding 3,000 gallons of water per month for all residential customers. The monthly water rate for commercial customers is 8 cents per gallon. The sewer rate is \$14 per month for residential customers and \$3 per month for senior citizen residential customers. There is no sewer charge for commercial customers.

BUS revenues consisted of the following:

<i>Years Ended December 31,</i>	2020	2019
BUS water distribution revenue	\$ 1,964,604	\$ 2,195,812
BUS water distribution Borough subsidy	5,208,326	4,931,261
Total BUS water distribution revenue	7,172,930	7,127,073
BUS sewer collection revenue	161,715	160,496
BUS sewer collection Borough subsidy	7,137,170	6,831,722
Total BUS sewer collection revenue	7,298,885	6,992,218
Total BUS Revenue	\$ 14,471,815	\$ 14,119,291

Barrow Utilities and Electric Cooperative, Inc.

Notes to Financial Statements

4. Utility Plant

Listed below are the major classes of the Cooperative's utility plant:

<i>December 31,</i>	2020	2019
General plant	\$ 11,010,390	\$ 10,795,903
Electric utility plant	25,173,381	23,936,267
Gas utility plant	3,010,349	2,981,537
Water utility plant	24,599,350	23,833,513
Total plant in service	63,793,470	61,547,220
Construction work in progress	832,874	1,747,844
Total Utility Plant	\$ 64,626,344	\$ 63,295,064

5. Depreciation and Amortization

In 2013, the Cooperative performed a depreciation study, which resulted in adjusted depreciation rates beginning in 2014. Depreciation is computed using the straight-line method based on composite annual rates as follows:

	Rates		
Water utility plant	5.00%	to	10.00%
Electric utility plant	4.47%	to	11.89%
Street lighting	-	to	15.81%
Gas utility plant	3.15%	to	13.24%
Buildings and improvements	3.00%	to	20.00%
Vehicles and heavy equipment	7.00%	to	20.00%
Other general plant	5.00%	to	20.00%
Generators	3.20%	to	20.00%

The following is a summary of depreciation expense:

<i>Years Ended December 31,</i>	2020	2019
Depreciation	\$ 2,872,171	\$ 2,676,646
Depreciation charged to clearing accounts	131,593	107,472
Total Depreciation	\$ 3,003,764	\$ 2,784,118

Barrow Utilities and Electric Cooperative, Inc.

Notes to Financial Statements

6. Deferred Charges

Deferred charges, net of accumulated amortization, at December 31, 2020 and 2019 consisted of the following:

<i>December 31,</i>	2020	2019
Employee benefits	\$ 2,936,235	\$ 3,155,356
NARL preliminary work	-	21,384
Total Deferred Charges	\$ 2,936,235	\$ 3,176,740

Included in deferred charges are preliminary study and research expenses. Such costs are originally deferred and subsequently capitalized to resultant construction or amortized over three to five years if construction does not materialize. During 2015, the Cooperative joined the NRECA Retirement Security Plan (see Note 15) and incurred other employee benefit costs. Employee benefit deferred charges are amortized over the average estimated remaining years of employee service.

7. Cash and Cash Equivalents

The Cooperative maintains its cash and cash equivalents with Wells Fargo Bank Alaska, N.A. Amounts held by the bank (bank balances) totaled \$3,664,026 and \$4,751,761 as of December 31, 2020 and 2019, respectively. The balances insured by the Federal Deposit Insurance Corporation (FDIC) at December 31, 2020 and 2019 were limited to \$250,000. The Cooperative's uninsured bank balances at December 31, 2020 and 2019 were \$3,414,026 and \$4,501,761, respectively.

8. Investments

The Cooperative's investment policy allows for a variety of investments with maturities of five years or less, including investments in obligations of U.S. Government agencies, certificates of deposit, repurchase agreements, commercial paper, money market funds, and certain U.S. corporate obligations. In accordance with Accounting Standards Codification 820, the Cooperative's investments are held at fair value as determined through Level 1 inputs as described in Note 2 under "Fair Value Measurements." All investments were fully insured at December 31, 2020 and 2019.

Consumer deposits and certificate of deposit included in restricted funds have restrictions placed on them by third parties. The emergency fund investments are restricted by choice of the Board of Directors of Barrow Utilities and Electric Cooperative, Inc.

Barrow Utilities and Electric Cooperative, Inc.

Notes to Financial Statements

Investments consisted of the following:

<i>December 31,</i>	2020	2019
Certificates of deposit	\$ 493,141	\$ 481,264
Cash sweep accounts	245,271	253,215
Total Investments	\$ 738,412	\$ 734,479

In the financial statements, investments are presented as follows:

<i>December 31,</i>	2020	2019
Consumer deposits	\$ 131,664	\$ 120,074
Certificate of deposit	25,000	25,000
Emergency fund investments	487,000	487,000
Total restricted investments	643,664	632,074
Current investments	94,748	102,405
Total Investments	\$ 738,412	\$ 734,479

9. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

<i>December 31,</i>	2020	2019
National Rural Utilities Cooperative Finance Corporation (NRUCFC):		
Capital term certificates	\$ 543,343	\$ 491,054
Patronage capital credits	155,503	155,503
Statutory income allocations from Alaska Rural Electric Cooperative Association (ARECA) Insurance Exchange	2,192,430	2,083,355
Arctic Slope Telephone Association Cooperative	120,114	120,115
National Information Solutions Cooperative	26,513	23,895
Total Investments in Associated Organizations	\$ 3,037,903	\$ 2,873,922

The increase in the balance of investments in associated organizations allocated to the North Slope Borough was \$16,678 and \$40,884 in 2020 and 2019, respectively. The amount of income allocated to the North Slope Borough was \$9,030 and \$7,434 in 2020 and 2019, respectively.

Barrow Utilities and Electric Cooperative, Inc.

Notes to Financial Statements

10. Patronage Capital

Patronage capital consisted of the following:

<i>December 31,</i>	2020	2019
Assigned	\$ 16,326,630	\$ 15,854,478
Assignable	1,696,158	472,152
Total Patronage Capital	\$ 18,022,788	\$ 16,326,630

Under provisions of its long-term debt agreements (Note 13), unless the total of equities and margins is equal to or greater than 40 percent of the total assets of the Cooperative, returns to patrons are limited to 30 percent of the patronage capital and margins in the prior year. In addition, no returns to patrons are permitted if the Cooperative is in default under the agreement or accrued liabilities are in excess of current assets. Also, annual distributions of capital credits cannot reduce total equity below 21 percent of total assets.

11. Other Equities

Other equities consisted of the following:

<i>December 31,</i>	2020	2019
Donated capital	\$ 126,114	\$ 126,114
Cancellation of debt by the Bureau of Indian Affairs	981,505	981,505
Excess fire insurance proceeds, net of administration building accumulated amortization of \$349,027 in 2020 and \$345,512 in 2019	406,563	410,078
Retired capital credit gains	391,866	391,566
Deceased membership capital transferred to equity	5,000	5,000
Total Other Equities	\$ 1,911,048	\$ 1,914,263

12. Line of Credit

At December 31, 2020, the Cooperative had a \$3,000,000 unsecured line of credit available with NRUCFC. It is a perpetual line of credit that is renewed automatically each year. Interest is based on the prevailing bank prime rate plus one percent per annum or a lesser rate as may be established by NRUCFC. There was \$0 and \$375,000 outstanding under the line of credit at December 31, 2020 and 2019, respectively. The remaining balance was available to be drawn.

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13. Long-term Debt

The Cooperative has a loan agreement with NRUCFC. Loan payments are due quarterly with interest until final maturities, which vary through 2052. The interest rates are fixed on each loan and vary from 3.40% to 7.05%. The loans are collateralized by all of the Cooperative's assets except for vehicles. The loan agreements require the Cooperative to maintain an average debt service coverage ratio of not less than 1.35. Additional debt covenants are discussed in Note 10.

The Cooperative participates in NRUCFC's Powervision loan program. This program allows a qualifying utility to be pre-approved for general-purpose loans that are secured by the assets and revenues of the utility. The Cooperative was approved for an aggregate commitment of \$71 million accessible upon Board approval and by maintaining certain debt covenants. The Cooperative has an unadvanced loan balance of \$19,247,515 at December 31, 2020. In April 2021, the Cooperative obtained a \$1,600,000 loan from NRUCFC to purchase a property.

In June 2020, the Cooperative received a \$1,420,687 Small Business Administration (SBA) Payroll Protection Program (PPP) loan as part of the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act. The loan will have a two-year maturity with a 1% interest rate, accruing from the disbursement date. Payments are deferred until a forgiveness determination is made by the SBA. The Cooperative has reported the loan as a long-term liability until legal release is received.

The following are the outstanding balances on the loans:

<i>December 31,</i>	2020	2019
NRUCFC Powervision notes, quarterly installments currently at \$769,151 including interest at varying rates from 3.40% to 7.05% through 2052	\$ 26,367,272	\$ 28,323,935
Paycheck Protection Program loan	1,420,687	-
Total long-term debt	27,787,959	28,323,935
Less current maturities	(2,281,891)	(1,955,862)
Long-term Debt, net of current maturities	\$ 25,506,068	\$ 26,368,073

Future principal payments are due as follows:

<i>Year Ending December 31,</i>	Amount
2021	\$ 2,281,891
2022	2,213,282
2023	1,943,936
2024	1,701,341
2025	1,458,364
Thereafter	18,189,145
	\$ 27,787,959

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14. Revenue From Contracts With Customers

Disaggregation of Revenue

Operating revenue recognized for the years ended December 31, 2020 and 2019 consists of the following:

<i>Years Ended December 31,</i>	2020	2019
Electric Service:		
Base rate	\$ 6,557,296	\$ 6,038,572
Access charge	1,114,786	934,943
Other charges	1,756	950
Discounts	(632,431)	(546,133)
Total Electric Service	\$ 7,041,407	\$ 6,428,332
Natural Gas Service:		
Base rate	\$ 2,650,519	\$ 2,362,629
Access charge	509,853	433,542
Other charges	653	240
Discounts	(265,770)	(214,222)
Total Natural Gas Service	\$ 2,895,255	\$ 2,582,189
Water Sales:		
Base rate	\$ 3,726,330	\$ 3,185,551
Access charge	670,018	661,046
Other charges	18,152	10,578
Discounts	(437,253)	(232,660)
Total Water Sales	\$ 3,977,247	\$ 3,624, 515

15. Employee Benefit Plans

Defined Benefit Pension Plans

Pension benefits for substantially all employees are provided through participation in the National Rural Electric Cooperative Association (NRECA) and Alaska Electrical Trust Fund retirement programs. Both plans are master multi-employer defined benefit plans qualified under Section 401 and tax exempt under Section 501(a) of the Internal Revenue Code.

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.

NRECA Retirement Security Plan Information

The National Rural Electric Cooperative Association (NRECA), Retirement Security Plan (RS Plan) sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

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The Cooperative contributions to the RS Plan in 2020 and 2019 represented less than 5 percent of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of \$723,984 in 2020 and \$644,092 in 2019. This plan is 100% paid by employer (ER) contributions. There have been no significant changes that affect the comparability of 2020 and 2019 contributions.

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

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

Alaska Electrical Pension Plan Information

The Alaska Electrical Pension Plan sponsor’s Employer Identification Number is 92-6005171 and the Plan Number is 001. The Cooperative’s contributions to the Plan in 2020 and in 2019 represented less than 5% of the total contributions made to the Plan by all participating employers. The Cooperative made contributions to the Plan of \$994,453 in 2020 and \$908,794 in 2019. There have been no significant changes that affect the comparability of 2020 and 2019 contributions.

In total, the Alaska Electrical Pension Plan was more than 80% funded at December 31, 2020 and 2019 as certified by the Plan actuary. The Plan is not subject to funding improvement plans or rehabilitation plans and as a result, the Cooperative is not subject to contribution surcharges. There are no minimum funding commitments as negotiated contributions currently satisfy the Cooperative’s commitment towards meeting the annual minimum funding requirement for the Alaska Electrical Pension Plan. 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 participates in a defined contribution employee savings plan created in accordance with Section 401(k) of the Internal Revenue Code and sponsored by the National Rural Electric Cooperative Association. The Plan is a master multiple-employer plan in which all nonunion and other eligible employees who have completed three months of employment are participants. The Cooperative contributes 6.0 percent of the eligible nonunion salaries. Contributions to the Plan by the Cooperative totaled \$166,752 and \$165,107 during the years ended December 31, 2020 and 2019, respectively. Eligible nonunion and union employees may also contribute to the Plan from their annual compensation.

Health and Welfare Benefit Plans

The Cooperative participates in multi-employer plans that provide all employees with healthcare, life insurance, and other welfare benefits during their working lives and certain benefits after retirement. Amounts charged to benefit cost and contributed to the health and welfare plans for those benefits totaled \$2,012,945 and \$1,877,777 for the years ended December 31, 2020 and 2019, respectively.

Barrow Utilities and Electric Cooperative, Inc.

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16. Operating Leases

The Cooperative has two land lease agreements with the State of Alaska. The first lease, for which the Cooperative pays \$10,044 annually, expires April 1, 2023 and is renewable upon expiration. The second lease requires future annual payments of \$46,587 and expires April 1, 2047. The Cooperative also leases employee housing from an unrelated party.

The following is a schedule of future minimum lease payments for the operating leases:

<i>Year Ending December 31,</i>	<i>Amount</i>
2021	\$ 114,231
2022	105,999
2023	58,866
2024	56,355
2025	56,355
Thereafter	1,197,552
Total	\$ 1,589,358

17. Concentrations

The Cooperative sells utility services and grants credit to customers in Utqiagvik, Alaska, including operations of the BUS under the contract with the North Slope Borough. Accordingly, the risk exists that the ability to collect amounts due from customers could be affected by economic fluctuations and operations could be affected by the geography and climate in this area. Historically credit losses have not been significant.

18. Commitments and Contingencies

The Cooperative purchases all of the natural gas used for generation and resale from the North Slope Borough under an agreement which was to terminate on December 31, 2000. Under this agreement, if a new agreement was not negotiated by December 31, 2000, then the terms of the original agreement will stay in effect until such time that the parties renegotiate and renew the agreement. As of December 31, 2020, no new agreement has been negotiated. The Cooperative is not required to take any gas in excess of its use requirements at any given time.

The Cooperative, in the normal course of its activities, is involved in various claims and litigation. In the opinion of management and legal counsel for the Cooperative, the disposition of these matters is not expected to have a material positive or adverse effect on the Cooperative's financial statements.

19. Related Parties

Certain utility plant construction contracts were awarded to a company which a Board member of the Cooperative is also a Board member. Total costs incurred during the year ended December 31, 2020 and 2019 on these contracts were \$1,363,707 and \$3,611,901, respectively.

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20. Adoption of New Accounting Standard

Leases (Topic 842)

In February 2016, the FASB issued ASU 2016-02, which supersedes the current lease guidance under Leases (Topic 840) and makes several changes, such as requiring an entity to recognize a right-of-use ("ROU") asset and corresponding lease obligation on the balance sheet, classified as financing or operating, as appropriate. The update was effective for private companies for annual and interim reporting periods beginning after December 15, 2019 and is adopted under the modified retrospective approach.

In July 2018, the FASB issued ASU 2018-10 "Codification Improvements to Topic 842, Leases" to add clarity to certain areas within ASU 2016-02 and ASU 2018-11 "Targeted Improvements", to add an additional and optional transition method, to adopt the new leases standard by allowing recognition of a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In December 2018, the FASB issued ASU 2018-20 "Narrow-Scope Improvements for Lessors" to add clarity to lessors accounting for sales taxes and other similar taxes collected from lessees, accounting for variable payments for contracts with lease and non-lease components, and accounting for certain lessor costs. The effective date and transition requirements of these updates will be the same as ASU 2016-02. However, on July 17, 2019, the FASB decided to postpone the effective date for private companies for twelve months pending a public comment period. On May 20, 2020, the FASB decided to postpone the effective date for private companies to fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. The Cooperative will evaluate the effect that adoption of this new standard will have on the Cooperative's financial statements.

21. COVID-19 Pandemic

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus originating in China and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally, and Governor Dunleavy issued a public health disaster emergency for the State of Alaska.

In subsequent months, the State of Alaska extended emergency declarations and issued emergency orders to allow for both closure and measured expansion of economic and social activities within the state. Travel mandates were imposed, but modified restrictions now allow for more travelers to enter the state for work, commerce, tourism and other purposes. The State public health disaster emergency declaration subsequently expired on February 14, 2021.

To date, the Cooperative has continued to provide services to its members as an essential business. The Cooperative has experienced certain impacts as a result of the pandemic, including the following:

- Alaska Senate Bill 241 put a moratorium on disconnections of residential utility service and suspended penalty and interest fees on utility bills to ease the financial burden on those who have experienced financial loss as a result of COVID-19 in 2020.

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- Actual retail sales of energy for 2020 reflect an overall 2% decrease in total MWhs sold over the prior year. Residential MWh sales actually increased 8% over the prior year, small commercial sales decreased 2%, and large commercial sales decreased 14%. Compared to the prior year, retail energy revenues actually increased 10%, due in part to the April rate increase.
- Various suppliers have decreased production due to factory closures, reduced operating hours or smaller work forces in those facilities. While the Cooperative considers this disruption to be temporary, continued disruption in the supply chain has led to longer lead times for some equipment and supplies, increased costs of construction and rescheduling of some projects.
- The Cooperative can continue to deliver energy to members and perform essential functions with a reduced work force, but new construction and non-essential maintenance work may continue to be curtailed or delayed.

On March 27, 2020, the “Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. The CARES Act, among other things, appropriated funds for the SBA Paycheck Protection Program loans that are forgivable in certain situations to promote continual employment. In June 2020, the Cooperative received a \$1,420,687 PPP loan (see Note 13 for additional information). While the Cooperative expects for the loan to be forgiven, there is no assurance that formal forgiveness will occur. The Cooperative continues to examine the impact that the CARES Act may have on its business but is not able to determine the full impact that it will have on the financial condition, results of operations, or liquidity.

Additional federal legislation consisting of the Consolidated Appropriations Act (December 2020) and the American Rescue Plan (March 2021) are currently being evaluated by management. Given the evolution of the COVID-19 outbreak and the global responses to curb its spread, the magnitude of the pandemic is uncertain and the Cooperative is not currently able to determine the impact it and related federal legislation may have on financial conditions, results of operations, or liquidity for fiscal year 2021.