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BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION

FINANCIAL REPORT
DECEMBER 31, 2019

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Big Sandy Rural Electric Cooperative Corporation
Paintsville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Big Sandy Rural Electric Cooperative Corporation, which comprise the balance sheet as of December 31, 2019, and the related statement of revenue and comprehensive income, changes in equities, and cash flows for the year 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 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 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 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 Big Sandy Rural Electric Cooperative Corporation as of December 31, 2019, and the results of their operations and cash flows for the year 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 a report dated January 17, 2020, on our consideration of Big Sandy Rural Electric Cooperative Corporation's internal control over financial reporting and 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 the 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 internal control over financial reporting and compliance.

The financial statements of Big Sandy Rural Electric Cooperative Corporation, as of and for the year ended December 31, 2018 were audited by other auditors whose report dated January 18, 2019 expressed an unmodified opinion on those statements.

Louisville, Kentucky
January 17, 2020

BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION
BALANCE SHEETS
December 31, 2018 and 2019

	2019	2018
Assets		
Electric Plant, at original cost:		
In service	$ 55,924,135	$ 54,915,104
Under construction	22,798	9,935
	55,946,933	54,925,039
Less accumulated depreciation	23,334,459	22,227,032
	32,612,474	32,698,007
Investments in Associated Organizations	17,616,578	16,971,320
Current Assets:		
Cash and cash equivalents	742,794	630,888
Accounts receivable, less allowance for 2018 of $118,949 and 2017 of $123,948	3,017,069	3,176,063
Other receivables	376,198	560,784
Material and supplies, at average cost	321,304	291,034
Other current assets	29,568	32,163
	4,486,933	4,690,932
Total	$ 54,715,985	$ 54,360,259
Members' Equities and Liabilities		
Members' Equities:		
Memberships	$ 224,360	$ 225,225
Patronage capital	28,039,616	27,009,568
Other equities	776,324	760,272
Accumulated comprehensive income (loss)	(2,377,035)	(2,509,093)
	26,663,265	25,485,972
Long Term Debt	19,040,775	20,027,095
Accumulated Postretirement Benefits	4,148,890	4,138,858
Current Liabilities:		
Notes payable	150,000	150,000
Accounts payable	2,501,485	2,441,056
Current portion of long term debt	1,198,000	1,160,000
Consumer deposits	631,022	604,819
Accrued expenses	378,088	346,698
	4,858,595	4,702,573
Consumer Advances	4,460	5,761
Total	$ 54,715,985	$ 54,360,259

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

BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION
STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Years ended December 31, 2018 and 2017

	2019	2018
Operating Revenues		
Sale of electricity	$ 23,550,355	$ 24,519,877
Other electric revenue	802,741	800,352
	24,353,096	25,320,229
Operating Expenses:		
Cost of power	15,515,672	16,283,925
Distribution - operations	1,150,563	1,191,301
Distribution - maintenance	1,818,556	1,709,063
Consumer accounts	922,953	950,005
Customer services	72,885	93,080
Sales	39	39
Administrative and general	1,302,106	1,395,934
Depreciation, excluding $219,323 in 2019 and $189,410 in 2018 charged to clearing accounts	2,442,461	2,389,078
Taxes, other than income	32,063	31,526
Interest on long-term debt	773,499	758,324
Other interest charges	74,481	76,618
Other deductions	12,786	(1,319)
Total cost of electric service	24,118,064	24,877,574
Operating Margins	235,032	442,655
Nonoperating Margins and Capital Credits		
Interest income	171,216	174,384
Other non operating margins	9,015	(26,603)
G&T capital credits	627,425	668,553
Other Capital Credits	58,813	64,752
	866,469	881,086
Net Margins	1,101,501	1,323,741
Comprehensive income:		
Accumulated postretirement benefits	132,058	(403,340)
Net Comprehensive Income	$ 1,233,559	$ 920,401

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

BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION
STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years ended December 31, 2018 and 2019

		Patronage Capital						Accumulated	Total
				Prior			Other	Comprehensive	Members'
	Memberships	Assigned	Assignable	Deficits	Retirements	Total	Equities	Income (Loss)	Equities
Balance-December 31, 2017	$ 226,470	$ 28,417,294	$ 137,453	$ (26,319)	$ (2,783,638)	$ 25,744,790	$744,528	$ (2,105,753)	$ 24,610,035
Allocate margins		588,000	(137,453)	(450,547)		-			-
Comprehensive income:									
Net margins			1,323,741			1,323,741			1,323,741
Postretirement benefit obligation									
Amortization								132,058	
Adjustments								(535,398)	(403,340)
Total comprehensive income									920,401
Net change in memberships	(1,245)								(1,245)
Refunds to estates					(58,963)	(58,963)			(58,963)
Other equities						-	15,744		15,744
Balance-December 31, 2018	225,225	29,005,294	1,323,741	(476,866)	(2,842,601)	27,009,568	760,272	(2,509,093)	25,485,972
Allocate margins		1,471,522	(1,323,741)	(147,781)		-			-
Comprehensive income:									
Net margins			1,101,501			1,101,501			1,101,501
Postretirement benefit obligation									
Amortization								132,058	
Adjustments								-	132,058
Total comprehensive income									1,233,559
Net change in memberships	(865)								(865)
Refunds to estates					(71,453)	(71,453)			(71,453)
Other equities						-	16,052		16,052
Balance-December 31, 2019	$ 224,360	$ 30,476,816	$ 1,101,501	$ (624,647)	$ (2,914,054)	$ 28,039,616	$776,324	$ (2,377,035)	$ 26,663,265

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

BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION
STATEMENTS OF CASH FLOWS
Years ended December 31, 2018 and 2017

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 1,101,501	$ 1,323,741
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation:		
Charged to expense	2,442,461	2,389,078
Charged to clearing accounts	219,323	189,410
Patronage capital credits assigned	(686,238)	(733,305)
Accumulated postretirement benefits	142,090	160,221
Change in assets and liabilities:		
Receivables	343,580	(130,900)
Material and supplies	(30,270)	(24,914)
Other assets	2,595	1,056
Payables	60,429	(129,735)
Consumer deposits and advances	24,902	(5,017)
Accrued expenses	31,390	(40,032)
	3,651,763	2,999,603
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(2,255,192)	(1,613,097)
Plant removal costs	(365,533)	(395,303)
Salvage recovered from retired plant	44,474	63,957
Receipts from other investments, net	40,980	37,634
	(2,535,271)	(1,906,809)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in memberships	(865)	(1,245)
Refund of patronage capital to members	(71,453)	(58,963)
Increase in other equities	16,052	15,744
Short term borrowings (net)	-	150,000
Principal payments on long term debt	(1,176,787)	(1,484,834)
Advances of long term debt	-	-
Advance payments made (applied)	228,467	-
	(1,004,586)	(1,379,298)
Net increase (decrease) in cash	111,906	(286,504)
Cash and cash equivalents, beginning of year	630,888	917,392
Cash and cash equivalents, end of year	$ 742,794	$ 630,888
Supplemental cash flows information:		
Interest paid on long-term debt	$ 849,286	$ 839,422

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

Note 1. Summary of Significant Accounting Policies

Big Sandy Rural Electric Cooperative ("Big Sandy") maintains its records in accordance with the policies prescribed or permitted by the Kentucky Public Service Commission ("PSC") and the United States Department of Agriculture, Rural Utilities Service ("RUS"), which conform in all material respects with generally accepted accounting principles.. The more significant of these policies are as follows:

Electric Plant Electric plant is stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead cost including any construction period interest and taxes. There was no interest required to be capitalized during the year.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to electric plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation. Electric plant consists of:

	2019	2018
Distribution plant	$49,430,281	$48,510,165
General plant	6,493,854	6,404,939
Total	$55,924,135	$54,915,104

Depreciation Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Depreciation rates range from 2.2% to 6.67%, with a composite rate of 4.7% for distribution plant. General plant rates range from 2.5% to 17%.

Cash and Cash Equivalents Big Sandy considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. Big Sandy maintains its cash balances, which may exceed the federally insured limit, with several financial institutions. Management believes that credit risk related to these accounts is minimal.

Revenue Big Sandy records revenue as billed to its consumers based on monthly meter-readings through the end of the month. All consumers are required to pay a refundable deposit, however, it may be waived under certain circumstances. Big Sandy's sales are concentrated in a six county area of southeastern Kentucky. There were no consumers whose individual account balance exceeded 10% of outstanding accounts receivable at December 31, 2019 or 2018. Consumers must pay their bill within 20 days of billing, then are subject to disconnect after another 10 days. Accounts are written off when they are deemed to be uncollectible. The allowance for uncollectible accounts is based on the aging of receivables.

Big Sandy is required to collect, on behalf of the State of Kentucky, sales taxes based on 6 percent of gross sales from non-residential consumers, a 3 percent school tax from certain counties on most gross sales, and franchise fees in certain cities. Big Sandy's policy is to exclude sales tax from revenue when collected and expenses when paid and instead, record collection and payment of sales taxes through a liability account.

Cost of Power Big Sandy is one of sixteen members of East Kentucky Power Cooperative, Inc. ("East Kentucky"). Under a wholesale power agreement, Big Sandy is committed to purchase its electric power and energy requirements from East Kentucky until 2051. The rates charged by East Kentucky are subject to approval of the PSC. The cost of purchased power is recorded monthly during the period in which the energy is consumed, based upon billings from East Kentucky.

Advertising Big Sandy expenses advertising costs as incurred.

Note 1. Summary of Significant Accounting Policies, continued

Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 used in the preparation of the financial statements.

Fair Value Measurements FASB ASC 820, *Fair Value Measurements and Disclosures,* requires that Big Sandy to disclose estimated fair values of its financial instruments. Fair value estimates, methods, and assumptions are set forth below for Big Sandy' financial instruments.

The carrying amounts of Big Sandy's cash and cash equivalents, receivables, inventories, accounts payable, and accrued expenses and liabilities approximate fair value due to their short maturity. Investments in associated organizations are not considered a financial instrument because they represent nontransferable interests in associated organizations. Other assets are not considered financial instruments because they represent activities specifically related to Big Sandy. Long term debt cannot be traded in the market, and is specifically for electric cooperatives and a value other than its outstanding principal cannot be determined.

Big Sandy may, and also does, invest idle funds in local banks. These investments are classified as held-to-maturity in accordance with provisions of the *Financial Instruments Topic* of FASB ASC 320. Held-to-maturity securities are presented at amortized cost. The fair value of held-to-maturity securities approximates cost at 2019 and 2018.

Risk Management Big Sandy is exposed to various forms of losses of assets associated with, but not limited to, fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, workers compensation, etc. Each of these areas is covered through the purchase of commercial insurance.

Comprehensive Income Comprehensive income includes both net margin and other comprehensive income. Other comprehensive income represents the change in funded status of the accumulated postretirement benefit obligation.

Contingencies Big Sandy is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

Note 1. Summary of Significant Accounting Policies, continued

Income Tax Status Big Sandy is exempt from federal and state income taxes under provisions of Section 501(c)(12). Accordingly, the financial statements for Big Sandy include no provision for income taxes. Big Sandy's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Management believes Big Sandy has no uncertain tax positions resulting in an accrual of tax expense or benefit. Big Sandy recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Big Sandy did not recognize any interest or penalties during the years ended December 31, 2019 and 2018. Big Sandy's income tax return is subject to possible examination by taxing authorities until the expiration of related statues of limitations on the return, which is generally three years.

Recent Accounting Pronouncements In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers.* The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for the reporting year ending December 31, 2020.

In February 2016, the FASB issued ASU 2016-02, *Leases.* The standard requires all leases with lease terms over 12 months to be capitalized as right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of income and comprehensive income. This standard will be effective for the calendar year ending December 31, 2021.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses.* The Standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the statement of income and comprehensive income will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for calendar year ending December 31, 2022.

Big Sandy is currently in the process of evaluating the impact of the adoption of these ASU's on the financial statements.

In May 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* The standard specifies how the amount of pension costs and costs for post-retirement benefits other than pensions ("PBOP") should be presented on the income statement under Generally Accepted Accounting Principles ("GAAP"), and what components of those costs are eligible for capitalization in assets. This standard is effective for years beginning after December 15, 2018. The Federal Energy Regulatory Commission ("FERC") issued Docket No. AI18-1-000 that allowed jurisdictional public utilities to continue to record PBOP costs in their entirety, less amounts capitalized, without change. Pension and PBOP costs are made up of several components: service cost, interest cost, actual return on plan assets, gain or loss, amortization of prior service cost or credit, and amortization of ASC Subtopic 715-30. Though pension and PBOP costs are computed using the aggregate total of these various components, the Commission's longstanding policy is to consider the amount as a singular cost to the employer. This cost is calculated based on SFAS No. 106 and reported as an accrued expense under net income from continuing operations.

Subsequent Events Management has evaluated subsequent events through January 17, 2020, the date the financial statements were available to be issued. There were no significant subsequent events to report.

Note 2. Investments in Associated Organizations

Big Sandy records patronage capital assigned by associated organizations in the year in which such assignments are received. The Capital Term Certificates ("CTCs") of CFC are recorded at cost. The CTCs were purchased from CFC as a condition of obtaining long-term financing. The CTCs bear interest at 3% and 5% and are scheduled to mature at varying times from 2020 to 2080.

Note 2. Investments in Associated Organizations, continued

Investments in associated organizations consist of:

	2019	2018
East Kentucky, patronage capital	$16,399,530	$15,779,536
CFC, CTC's	458,410	458,410
CFC, patronage capital	219,600	216,509
Other associated organizations	539,038	516,865
Total	$17,616,578	$16,971,320

Note 3. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30% of total assets, except that distributions may be made to estates of deceased patrons. The debt agreement provides, however, that should such distributions to estates not exceed 25% of the net margins for the next preceding year, Big Sandy may distribute the difference between 25% and the payments made to such estates. The equity at December 31, 2019 was 49% of total assets. Prior years' deficits will be offset with future years' non operating margins.

Note 4. Long Term Debt

All assets, except vehicles, are pledged as collateral on the long term debt to RUS, Federal Financing Bank ("FFB"), CFC, and National Bank for Cooperatives ("CoBank") under a joint mortgage agreement.

The long term debt is due in quarterly and monthly installments of varying amounts through 2039. The 6.46% notes due CFC are available for repricing every 7 years to either a variable or fixed rate. RUS assess 12.5 basis points to administer the FFB loans. Big Sandy has loan funds available from FFB in the amount of $7,000,000. These funds will be used for future plant additions.

First mortgage notes consist of:

	2019	2018
RUS, 1.0% to 4.25%	$1,238,356	$1,333,485
Advance payments at 5%	(2,771,533)	(3,000,000)
	(1,533,177)	(1,666,515)
FFB, 2.206% and 4.472%	15,580,415	16,124,515
CoBank, 3.07%	252,269	453,935
CFC:		
6.46% notes	283,850	301,061
Refinance RUS loans 3.10% to 4.30%	5,655,418	5,974,099
	5,939,268	6,275,160
	20,238,775	21,187,095
Less current portion	1,198,000	1,160,000
Long term portion	$19,040,775	$20,027,095

Note 4. Long Term Debt, continued

During 2017 Big Sandy refinanced $6,292,779 of higher rate RUS notes with proceeds from CFC.

As of December 31, 2019, the annual principal portion of long term debt outstanding for the next five years are as follows: 2020 - $1,198,000; 2021 - $1,050,000; 2022 - $1,021,000; 2023 - $1,037,000; 2024 - $1,053,000.

Note 5. Short Term Borrowings

At December 31, 2019, Big Sandy had short term lines of credit of $2,500,000 available from CFC and $2,000,000 from CoBank. Big Sandy advanced $150,000 from CoBank at an interest rate of 3.89%.

Note 6. Pension Plan

All eligible non-union employees of Big Sandy participate in the NRECA Retirement and Security Plan ("R&S Plan"), 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 multiemployer plan under the accounting standards. Eligible employees include employees hired prior to August 1, 2002. Non-eligible employees are those hired after August 1, 2002. The Plan sponsor's 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.

Big Sandy's contributions to the R&S Plan in 2019 and 2018 represent less than 5 percent of the total contributions made to the plan by all participating employers. Big Sandy made contributions to the plan for eligible employees of $231,943 in 2019 and $253,425 in 2018. There have been no significant changes that affect the comparability of 2019 and 2018. A portion of these benefits are capitalized.

In the R&S 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 R&S Plan was over 80 percent funded at January 1, 2019 and 2018 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 R&S 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.

Note 7. Savings Plan

Big Sandy participates in the NRECA Savings Plan, a multiemployer, defined contribution master pension plan. Non-eligible employees, as defined above, participate in the Savings Plan with Big Sandy contributing 10% of annual base pay. Employer contributions to the plan were $37,543 for 2019 and $36,522 for 2018, and vest immediately.

All eligible union employees participate in the American Funds Retirement Planning Center's 401(k) Savings Plan. This plan was converted from NRECA effective January 1, 2010. Big Sandy contributes 6% of base wages to the plan. Employer contributions to the plan totaled $92,064 in 2019 and $99,344 in 2018, and vest immediately. There have been no significant changes that affect the comparability of 2019 and 2018 for either plan. A portion of these benefits are capitalized.

Note 8. Postretirement Benefits

Big Sandy sponsors a defined benefit plan that provides medical insurance coverage to retirees and their dependents. Participating retirees and dependents do not contribute to the projected cost of coverage. For measurement purposes, an annual rate of increase of 7% in 2019, then decreasing by 0.5% per year until 5% per year, in the per capita cost of covered health care benefit was assumed. The discount rate used in determining the accumulated postretirement benefit obligation was 4.50%.

The funded status of the plan is as follows:

	2019	2018
Projected benefit obligation	($4,148,890)	($4,138,858)
Plan assets at fair value	-	-
Funded status	($4,148,890)	($4,138,858)

The components of net periodic postretirement benefit costs are as follows:

	2019	2018
Benefit obligation - beginning of period	$4,138,858	$3,575,297
Net periodic benefit cost:		
Service cost	73,520	83,888
Interest cost	173,568	163,200
Net period cost	247,088	247,088
Actuarial adjustment	-	535,398
Benefit payments to participants	(237,056)	(218,925)
Benefit obligation - end of period	$4,148,890	$4,138,858
Amounts included in accumulated other comprehensive income:		
Unrecognized actuarial gain (loss)	$2,377,035	$2,509,093
Effect of 1% increase in the health care trend:		
Postemployment benefit obligation	$4,402,000	
Net periodic benefit cost	262,000	

Projected retiree benefit payments for the next five years are expected to be as follows: 2020 - $216,000; 2021 - $213,000; 2022 - $206,000; 2023 - $207,000; 2024 - $188,000.

Note 9. Related Party Transactions

Several of the Directors of Big Sandy and its President & General Manager are on the Boards of Directors of various associated organizations.

Note 10. Commitments

Big Sandy has various other agreements outstanding with local contractors. Under these agreements, the contractors will perform certain construction and maintenance work at specified hourly rates or unit cost, or on an as needed basis. The duration of these contracts are one to three years.

Note 11. Environmental Contingency

Big Sandy from time to time is required to work with and handle PCBs, herbicides, automotive fluids, lubricants, and other hazardous materials in the normal course of business. As a result, there is the possibility that environmental conditions may arise which would require Big Sandy to incur cleanup costs. The likelihood of such an event, or the amount of such costs, if any, cannot be determined at this time. However, management does not believe such costs, if any, would materially affect Big Sandy's financial position or its future cash flows.

Note 12. Labor Force

Approximately 40% of Big Sandy's labor force is subject to a collective bargaining agreement. A three (3) year agreement was negotiated and approved for the period starting January 1, 2018 between Big Sandy and the International Brotherhood of Electric Workers ("IBEW").

Note 13. Contingencies

Big Sandy occasionally is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

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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 the Board of Directors
Big Sandy Rural Electric Cooperative Corporation
Paintsville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Big Sandy Rural Electric Cooperative Corporation (the Cooperative), which comprise the balance sheet as of December 31, 2019 and the related statements of revenue and comprehensive income, members' equities and cash flows for the year then ended, and related notes to the financial statements, and have issued our report thereon dated January 17, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cooperative'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 entity'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 December exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatement, we performed test 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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Louisville, Kentucky
January 17, 2020

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

To the Board of Directors
Big Sandy Rural Electric Cooperative Corporation
Paintsville, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Big Sandy Rural Electric Cooperative Corporation ("the Cooperative"), which comprise the balance sheet as of December 31, 2019, and the related statements of revenue and comprehensive income, members' equities, and changes in cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 17, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2020, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and 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 December 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 material 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 are listed below; and
- Comply with the requirements for the detailed schedule of investments, of which there were none.

Deferred debits and credits are as follows:

Consumer advances for construction	$4,460

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

Louisville, Kentucky
January 17, 2020