BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION
KENTUCKY 58

FINANCIAL REPORT

December 31, 2020

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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 sheets as of December 31, 2020 and 2019, and the related statements of revenue and comprehensive income, changes in members' equities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 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 also issued a report dated February 11, 2021, 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 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.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
February 11, 2021

BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION

BALANCE SHEETS
December 31, 2020 and 2019

ASSETS	2020	2019
Electric plant, at original cost:		
In service	$ 57,830,880	$ 55,924,136
Under construction	86,912	22,797
	57,917,792	55,946,933
Less accumulated depreciation	25,355,219	23,334,459
	32,562,573	32,612,474
Investments in associated organizations	22,340,851	17,616,578
Current Assets:		
Cash and cash equivalents	3,599,136	742,793
Accounts receivable, less allowance for 2020 of $141,413 and 2019 of $118,949	3,450,017	2,998,138
Other receivables	10,712	319,503
Material and supplies, at average cost	286,643	321,304
Other current assets	30,600	26,008
Total current assets	7,377,108	4,407,746
Deferred Debits	18,988	- -
Total assets	$ 62,299,520	$ 54,636,798
MEMBERS' EQUITIES AND LIABILITIES		
Members' Equities:		
Memberships	$ 227,410	$ 224,360
Patronage capital	29,426,117	28,039,616
Other equities	787,749	776,324
Accumulated other comprehensive (loss)	(2,244,977)	(2,377,035)
Total members' equities	28,196,299	26,663,265
Long-Term Liabilities:		
Long-term debt, less current portion	24,386,795	19,040,775
Capital lease obligations, less current portion	210,760	320,356
Accumulated postretirement benefits	4,143,995	4,148,890
Total long-term liabilities	28,741,550	23,510,021
Current Liabilities:		
Current portion of long-term debt	1,992,326	1,198,000
Current portion of capital lease obligations	109,597	109,432
Notes payable	150,000	150,000
Accounts payable	1,876,964	2,012,650
Consumer deposits	666,387	631,022
Accrued expenses	563,037	357,948
Total current liabilities	5,358,311	4,459,052
Consumer Advances for Construction	3,360	4,460
Total members' equities and liabilities	$ 62,299,520	$ 54,636,798

The Notes to Financial Statements are an integral part of these statements.

BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION

STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Revenues		
Sales of electric energy	$ 22,361,572	$ 23,550,355
Other electric revenues	537,220	802,741
	22,898,792	24,353,096
Operating Expenses		
Cost of power	14,289,675	15,515,672
Distribution - operations	958,752	1,150,563
Distribution - maintenance	1,966,076	1,818,556
Consumer accounts	748,617	922,953
Customer services	86,335	72,885
Administrative and general	1,213,202	1,302,106
Depreciation, excluding $208,172 in 2020 and $219,323 in 2019 charged to clearing accounts	2,495,774	2,442,461
Taxes, other than income	33,396	32,063
Interest on long-term debt	830,518	831,772
Other interest charges	10,934	16,208
Other deductions	16,501	12,825
Total cost of electric service	22,649,780	24,118,064
Operating Margins	249,012	235,032
Nonoperating Margins and Capital Credits		
Interest income	240,089	171,216
Other non-operating margins	17,432	9,015
Generation and transmission capital credits	873,778	627,425
Other capital credits	55,717	58,813
	1,187,016	866,469
Net Margins	1,436,028	1,101,501
Other Comprehensive Income		
Postretirement benefits amortization of net loss	132,058	132,058
Net Margins and Comprehensive Income	$ 1,568,086	$ 1,233,559

The Notes to Financial Statements are an integral part of these statements.

BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION

STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended December 31, 2020 and 2019

		Patronage Capital							
	Memberships	Assigned	Assignable	Prior Deficits	Retirements	Total	Other Equities	Accumulated Other Comprehensive (Loss)	Total Members' Equities
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		1,175,960	(1,323,741)	147,781		- -			- -
Comprehensive income:									
Net margins			1,101,501			1,101,501			1,101,501
Postretirement benefit obligation Amortization								132,058	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	30,181,254	1,101,501	(329,085)	(2,914,054)	28,039,616	776,324	(2,377,035)	26,663,265
Allocate margins		921,270	(1,101,501)	180,231		- -			- -
Comprehensive income:									
Net margins			1,436,028			1,436,028			1,436,028
Postretirement benefit obligation Amortization								132,058	132,058
Total comprehensive income									1,568,086
Net change in memberships	3,050								3,050
Refunds to estates					(48,624)	(48,624)			(48,624)
Other equities		(903)				(903)	11,425		10,522
Balance - December 31, 2020	$ 227,410	$ 31,101,621	$ 1,436,028	$ (148,854)	$ (2,962,678)	$ 29,426,117	$ 787,749	$ (2,244,977)	$ 28,196,299

The Notes to Financial Statements are an integral part of these statements.

BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 1,436,028	$ 1,101,501
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Charged to expense	2,495,774	2,442,461
Charged to clearing accounts	208,172	219,323
Patronage capital credits assigned	(929,495)	(686,238)
Amortization of postretirement actuarial adjustment	132,058	132,058
Change in assets and liabilities:		
Accounts and other receivables	(143,088)	345,360
Material and supplies	34,661	(30,270)
Other current assets	(4,592)	814
Deferred debits	(18,988)	- -
Accounts payable	(135,686)	35,858
Consumer deposits and advances	34,265	24,902
Accrued expenses	205,089	31,390
Accumulated postretirement benefits	(4,895)	10,032
Net cash provided by operating activities	3,309,303	3,627,191
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(2,439,156)	(2,127,452)
Plant removal costs	(268,106)	(365,533)
Salvage recovered from retired plant	53,217	44,474
Investments in CFC CTCs	(4,000,000)	- -
Receipts from other investments, net	205,222	40,980
Net cash (used in) investing activities	(6,448,823)	(2,407,531)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in memberships	3,050	(865)
Refund of patronage capital to members	(48,624)	(71,453)
Increase in other equities	10,522	16,052
Principal payments on capital lease obligations	(109,431)	(103,169)
Payments on long-term debt	(3,631,187)	(1,176,787)
Advances of long-term debt	7,000,000	- -
Advance payments applied to long-term debt	2,771,533	228,467
Net cash provided by (used in) financing activities	5,995,863	(1,107,755)
Net increase in cash and cash equivalents	2,856,343	111,905
Cash and cash equivalents, beginning of year	742,793	630,888
Cash and cash equivalents, end of year	$ 3,599,136	$ 742,793
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 796,359	$ 833,987

The Notes to Financial Statements are an integral part of these statements.

BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Description of business

Big Sandy Rural Electric Cooperative Corporation (Big Sandy) provides distribution electric services to residential and commercial consumers concentrated in a five-county area in eastern Kentucky. Big Sandy maintains its records in accordance with the policies 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 accounting principles generally accepted in the United States of America. The more significant of these policies are as follows:

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) 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.

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 years ended December 31, 2020 and 2019.

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 the following as of December 31, 2020 and 2019:

	2020	2019
Distribution plant	$ 50,941,607	$ 49,430,282
General plant	6,889,273	6,493,854
Total	$ 57,830,880	$ 55,924,136

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 2.20% to 6.67%, for distribution plant. General plant rates range from 2.50% to 17.00%. Amortization of assets under capital leases is included in depreciation expense.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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.

Accounts receivable

Accounts receivable consists of amounts due for sales of electric energy which were not collected at year-end. Accounts receivable are recorded at their net realizable value consisting of the carrying amount less an allowance for uncollectible accounts. Big Sandy uses the allowance method to account for uncollectible accounts receivable balances. Management charges off uncollectible receivables to the allowance when it is determined the amounts will not be realized.

Materials and supplies

Big Sandy values materials and supplies at the lower of average cost or net realizable value.

Sales tax

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 16 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. Advertising expense amounted to $877 for the years ended December 31, 2020 and 2019.

Comprehensive income (loss)

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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.

Credit risk

Big Sandy grants credit to residents within its service territory. Concentrations of credit risk with respect to accounts receivables are limited due to its large number of customers.

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.

Income taxes

Big Sandy qualifies as a tax-exempt organization under Section 501(c)(12) of the Internal Revenue Code. However, income from certain activities not directly related to Big Sandy's tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income tax for the years ended December 31, 2020 and 2019. 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. Big Sandy has no uncertain tax positions resulting in an accrual of tax expense or benefit.

Big Sandy's Federal Return of Organization Exempt from Income Tax is subject to possible examination by taxing authorities until the expiration of related statutes of limitations on the return, which is generally three years.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Pension accounting

In May 2017, the Financial Accounting Standards Board (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 accounting principles generally accepted in the United States of America, 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 Accounting Standards Codification (ASC) Subtopic 715-30. Though pension and PBOP costs are computed using the aggregate total of these various components, the PSC's longstanding policy is to consider the amount as a singular cost to the employer. This cost is calculated based on Statement of Financial Accounting Standards No. 106 and reported as an expense under net margins from continuing operations.

Recent Accounting Pronouncements

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 a 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 revenue and comprehensive income. This standard will be effective for the year ending December 31, 2022.

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 revenue 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 the year ending December 31, 2023.

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

Reclassifications

Certain reclassifications have been made to the 2019 financial statement presentation to correspond to the 2020 presentation.

Subsequent Events

Management has evaluated subsequent events through February 11, 2021, the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

Note 2. Revenue Recognition

Revenue from contracts

Big Sandy is engaged in the distribution and sale of electricity to residential and commercial customers in five counties in eastern Kentucky. Revenue from these activities is generated from tariffs approved by the PSC. Big Sandy satisfies their performance obligation upon the delivery of electricity to customers. Revenue is recognized over-time as the customer simultaneously receives and consumes the benefits provided by Big Sandy. The amount of revenue recognized is the billed volume of electricity multiplied by a tariff rate per-unit of energy, plus any applicable fixed or additional regulatory charges. Customers are billed monthly and outstanding amounts are typically due within 20 days of the date of the bill.

Significant judgements

Big Sandy produces customer bills during the first week of each month for service provided in the previous month. Revenue is recorded in the month in which the electric service is delivered based on kilowatt usage. There are no significant judgements for over or under-billed revenues because each month's revenue is based on actual meter readings. This method of revenue recognition presents fairly, Big Sandy's transfer of electricity to customers as the amount recognized is based on actual volumes delivered and the tariff rate per-unit of energy plus any applicable fixed charges as set by the PSC.

Performance obligations

Big Sandy customers generally have no minimum purchase commitments. Big Sandy recognizes revenue as each performance obligation is satisfied. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation to recognize as of December 31, 2020 and 2019.

Disaggregation of revenue

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended December 31, 2020 and 2019:

	2020	2019
Residential rural	$ 17,876,173	$ 18,514,481
Large industrial	3,274,070	3,761,727
Small commercial	1,211,329	1,274,147
Total	$ 22,361,572	$ 23,550,355

Contract cost liabilities

Contract cost liabilities include consumer deposits. The balance in contract liabilities was as follows as of December 31:

	2020	2019	2018
Consumer deposits	$ 666,387	$ 631,022	$ 604,819

NOTES TO FINANCIAL STATEMENTS

Note 3. Investments in Associated Organizations

Investments in associated organizations consist of the following as of December 31, 2020 and 2019:

	2020	2019
East Kentucky, patronage capital	$ 17,112,964	$ 16,399,530
CFC member capital securities	4,000,000	- -
CFC CTC's	449,710	458,410
CFC patronage capital	224,213	219,600
Other associated organizations	553,964	539,038
Total	$ 22,340,851	$ 17,616,578

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 3.00% and 5.00% and are scheduled to mature at varying times from 2025 to 2080. The CFC member capital securities were purchased in April 2020 and bear interest at 5.00%. The member capital securities mature in April 2050 and are callable by CFC, in whole or in part, at any time after ten years from the date of issuance at 100 percent of the principal amount to be redeemed together with accrued and unpaid interest to the redemption date.

Note 4. 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 30.00% 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 25.00% of the net margins for the next preceding year, Big Sandy may distribute the difference between 25.00% and the payments made to such estates. Members' equity at December 31, 2020 and 2019 was 45.30% and 48.80% of total assets, respectively. Prior years' deficits will be offset with future years' non-operating margins.

Note 5. Long-Term Debt

All assets, except vehicles, are pledged as collateral on the long-term debt to RUS, Federal Financing Bank (FFB), CoBank, and CFC under a joint mortgage agreement. The long-term debt is due in quarterly and monthly installments of varying amounts through 2050. RUS assesses 12.5 basis points to administer the FFB loans. Big Sandy had unadvanced loan funds available from FFB in the amount of zero and $7,000,000 as of December 31, 2020 and 2019, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

Long-term debt consists of the following as of December 31, 2020 and 2019:

	2020	2019
First mortgage notes due RUS:		
1.00% to 4.25%	$ 1,139,105	$ 1,238,356
Advance payment, earns 5.00% interest	- -	(2,771,533)
	1,139,105	(1,533,177)
First mortgage notes due FFB, 1.12% to 4.47%	19,469,473	15,580,415
First mortgage notes due CoBank, 3.07%	168,305	252,269
First mortgage notes due CFC:		
6.46% notes	265,499	283,850
Refinance RUS loans 3.30% to 6.46%	5,336,740	5,655,418
	26,379,121	20,238,775
Less current portion	1,992,326	1,198,000
Long-term portion	$ 24,386,795	$ 19,040,775

As of December 31, 2020, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2021	$ 1,992,326
2022	1,735,651
2023	1,422,827
2024	1,329,051
2025	1,204,194
Thereafter	18,695,072
	$ 26,379,121

Note 6. Short-Term Notes Payable

As of December 31, 2020 and 2019, Big Sandy had short-term lines of credit of $2,500,000 available from CFC and $1,000,000 from CoBank. Big Sandy had $150,000 outstanding on the CoBank line of credit as of December 31, 2020 and 2019. The interest rate on the CoBank line of credit was 2.45% and 3.89% as of December 31, 2020 and 2019, respectively, and the line of credit matures on July 31, 2021. There were no amounts outstanding on the CFC line of credit as of December 31, 2020 and 2019.

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans

All eligible non-union employees of Big Sandy participate in the NRECA Retirement Security Plan (RS 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 multi-employer 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 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.

Big Sandy's contributions to the RS Plan in 2020 and 2019 represent less than 5.00% of the total contributions made to the plan by all participating employers. Big Sandy made contributions to the plan for eligible employees of $214,209 in 2020 and $231,943 in 2019. There have been no significant changes that affect the comparability of 2020 and 2019.

In the RS Plan, a zone status determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80.00% funded at 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.

Note 8. Savings Plans

Big Sandy participates in the NRECA Savings Plan, a multi-employer, defined contribution master pension plan. Non-eligible employees, as defined above, participate in the Savings Plan with Big Sandy contributing 10.00% of annual base pay. Employer contributions to the plan were $42,574 for 2020 and $37,543 for 2019, 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 6.00% of base wages to the plan. Employer contributions to the plan totaled $102,632 in 2020 and $92,064 in 2019, and vest immediately. There have been no significant changes that affect the comparability of 2020 and 2019 for either plan.

Note 9. 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 6.00% in 2020, then decreasing by 0.25% per year until 5.00% 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%.

Note 9. Postretirement Benefits (Continued)

The funded status of the plan as of December 31, 2020 and 2019 was as follows:

	2020	2019
Projected benefit obligation	$ (4,143,995)	$ (4,148,890)
Plan assets at fair value	--	--
Funded status	$ (4,143,995)	$ (4,148,890)

The components of net periodic postretirement benefit cost for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Benefit obligation - beginning of period	$ 4,148,890	$ 4,138,858
Net periodic benefit cost:		
Service cost	60,614	73,520
Interest cost	186,474	173,568
Net period cost	247,088	247,088
Benefit payments to participants	(251,983)	(237,056)
Benefit obligation - end of period	$ 4,143,995	$ 4,148,890
Amounts recognized in the balance sheet consists of:		
Accumulated postretirement benefits	$ 4,143,995	$ 4,148,890
Amounts included in other comprehensive income:		
Postretirement benefits amortization of net loss	$ 132,058	$ 132,058
Effect of 1% increase in the health care trend:		
Postemployment benefit obligation	$ 4,372,000	
Net periodic benefit cost	$ 261,000	

Projected retiree benefit payments for the next five years are expected to be as follows: 2021 - $207,000; 2022 - $208,000; 2023 - $188,000; 2024 - $144,000; 2025 - $140,000.

Note 10. Related Party Transactions

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

Note 11. 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.

NOTES TO FINANCIAL STATEMENTS

Note 12. 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 13. Labor Force

Approximately 40.00% of Big Sandy's labor force is subject to a collective bargaining agreement. A three-year agreement was negotiated and approved for the period starting January 2018 through January 2021 between Big Sandy and the International Brotherhood of Electric Workers (IBEW). A new agreement between Big Sandy and the IBEW was negotiated and approved for the period starting January 2021 through December 2025.

Note 14. Capital Lease Obligations

Big Sandy leases vehicles under capital lease agreements. The economic substance of the leases is that Big Sandy is financing the acquisition of the vehicles through the leases, and accordingly, the leases are recorded in the assets and liabilities on the balance sheet.

Future minimum lease payments are as follows for the year ending December 31:

2021	$ 117,415
2022	130,831
2023	47,780
2024	39,193
	335,219
Less amounts representing interest	(14,862)
Present value of minimum lease payments	320,357
Less current portion	(109,597)
Long-term portion	$ 210,760

The cost of vehicles under capital leases was $680,517 with related accumulated amortization of $476,772 as of December 31, 2020. The cost of vehicles under capital leases was $680,517 with related amortization of $380,210 as of December 31, 2019.

Note 15. Risks and Uncertainties

Since March 2020, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impacts to Big Sandy as of February 11, 2021, management believes that a material impact on Big Sandy's financial position and results of future operations is reasonably possible.

Note 16. Paycheck Protection Program Loan

In April 2020, Big Sandy applied for and was granted a forgivable loan of $538,970 from the United States Small Business Administration (SBA) Paycheck Protection Program (PPP). Under the CARES Act, subject to limitations, as defined, the loan may be partially or fully forgiven, depending on specified actual payroll and other qualified costs for the covered period following receipt of the loan. Any amount not forgiven will be payable in 24 monthly installments of principal and interest at 1.00% and will be unsecured. Big Sandy accounted for the loan proceeds as debt in accordance with ASC 470. Big Sandy submitted its application for forgiveness to the SBA and was notified in December 2020 that the entire loan was forgiven. As such, Big Sandy, in compliance with guidance from RUS, has recognized the forgiveness of debt as a reduction to expenses and distribution plant for the qualified costs that were incurred during the covered period of the loan.

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, 2020 and the related statements of revenue and comprehensive income, changes in members' equities and cash flows for the year then ended, and related notes to the financial statements, and have issued our report thereon dated February 11, 2021.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
February 11, 2021

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, 2020, and the related statements of revenue and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 11, 2021. In accordance with *Government Auditing Standards,* we have also issued our report dated February 11, 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 and Grantees*, §1773.33, 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 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.

The deferred debits are as follows:

Work plan study	$ 18,988

The deferred credits are as follows:

Consumer advances for construction	$ 3,360

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.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
February 11, 2021