JNM

Jones, Nale & Mattingly PLC

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

We have audited the financial statements of Big Sandy Rural Electric Cooperative (the Cooperative) for the year ended December 31, 2021, and have issued our report thereon dated February 11, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 2, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Cooperative are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2021. We noted no transactions entered into by the Cooperative during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Accumulated depreciation and depreciation expense
- Accumulated postretirement benefits

Management's estimate of these items is based upon historical data and current information. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Patronage Capital (Note 4)
- Long-Term Debt (Note 5)
- Pension Plans (Note 7)
- Postretirement Benefits (Note 9)

The financial statement disclosures are neutral, consistent, and clear.

Certified Public Accountants and Advisors
401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589.1680 www.jnmcpa.com

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Our audit procedures resulted in the following material uncorrected misstatement:

	Decrease In Net Income
Adjust EKP allocation	$ 390,263

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 11, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Cooperative's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

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

Sincerely,

Jones, Nale & Mattingly PLC

Louisville, Kentucky
February 11, 2022

BIG SANDY RURAL ELECTRIC
COOPERATIVE CORPORATION
KENTUCKY 58

FINANCIAL REPORT

December 31, 2021

Jones, Nale & Mattingly PLC

CONTENTS

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Big Sandy Rural Electric Cooperative Corporation, which comprise the balance sheets as of December 31, 2021 and 2020, 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.

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, 2021 and 2020, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Big Sandy Rural Electric Cooperative Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Big Sandy Rural Electric Cooperative Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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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 generally accepted auditing standards and *Government Auditing Standards* 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 generally accepted auditing standards and *Government Auditing Standards*, 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 Big Sandy Rural Electric Cooperative Corporation'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 Big Sandy Rural Electric Cooperative Corporation'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 have identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated February 11, 2022, on our consideration of Big Sandy Rural Electric Cooperative Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Big Sandy Rural Electric Cooperative Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Big Sandy Rural Electric Cooperative Corporation's internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
February 11, 2022

BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION

BALANCE SHEETS
December 31, 2021 and 2020

ASSETS	2021	2020
Electric plant, at original cost:		
In service	$ 59,224,103	$ 57,830,880
Under construction	73,642	86,912
	59,297,745	57,917,792
Less accumulated depreciation	26,566,189	25,355,219
	32,731,556	32,562,573
Investments in associated organizations	22,972,521	22,340,851
Current Assets:		
Cash and cash equivalents	3,637,433	3,599,136
Accounts receivable, less allowance for 2021 of $144,229 and 2020 of $141,413	3,156,924	3,450,017
Other receivables	2,045,645	10,712
Material and supplies, at average cost	307,290	286,643
Other current assets	28,631	30,600
Total current assets	9,175,923	7,377,108
Deferred Debits	13,563	18,988
Total assets	$ 64,893,563	$ 62,299,520

MEMBERS' EQUITIES AND LIABILITIES	2021	2020
Members' Equities:		
Memberships	$ 225,765	$ 227,410
Patronage capital	30,027,394	29,426,117
Other equities	801,837	787,749
Accumulated other comprehensive (loss)	(2,112,919)	(2,244,977)
Total members' equities	28,942,077	28,196,299
Long-Term Liabilities:		
Long-term debt, less current portion	23,448,606	24,386,795
Capital lease obligations, less current portion	85,911	210,760
Accumulated postretirement benefits	4,204,037	4,143,995
Total long-term liabilities	27,738,554	28,741,550
Current Liabilities:		
Current portion of long-term debt	1,771,272	1,992,326
Current portion of capital lease obligations	126,058	109,597
Short-term notes payable	2,750,000	150,000
Accounts payable	2,316,385	1,876,964
Consumer deposits	691,662	666,387
Accrued expenses	555,227	563,037
Total current liabilities	8,210,604	5,358,311
Consumer Advances for Construction	2,328	3,360
Total members' equities and liabilities	$ 64,893,563	$ 62,299,520

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, 2021 and 2020

	2021	2020
Operating Revenues		
Sales of electric energy	$ 24,014,365	$ 22,361,572
Other electric revenues	751,059	537,220
	24,765,424	22,898,792
Operating Expenses		
Cost of power	16,128,723	14,289,675
Distribution - operations	989,552	958,752
Distribution - maintenance	2,110,650	1,966,076
Consumer accounts	1,006,967	748,617
Customer services	98,294	86,335
Administrative and general	1,286,273	1,213,202
Depreciation, excluding $234,983 in 2021 and $208,172 in 2020 charged to clearing accounts	2,545,141	2,495,774
Taxes, other than income	32,349	33,396
Interest on long-term debt	762,949	830,518
Other interest charges	815	10,934
Other deductions	13,636	16,501
Total cost of electric service	24,975,349	22,649,780
Operating Margins (Deficit)	(209,925)	249,012
Nonoperating Margins and Capital Credits		
Interest income	210,360	240,089
Other non-operating margins	- -	17,432
Generation and transmission capital credits	605,871	873,778
Other capital credits	59,354	55,717
	875,585	1,187,016
Net Margins	665,660	1,436,028
Other Comprehensive Income		
Postretirement benefits amortization of net loss	132,058	132,058
Net Margins and Comprehensive Income	$ 797,718	$ 1,568,086

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, 2021 and 2020

		Patronage Capital							
	Memberships	Assigned	Assignable	Prior Deficits	Retirements	Total	Other Equities	Accumulated Other Comprehensive (Loss)	Total Members' Equities
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
Allocate margins		1,287,174	(1,436,028)	148,854		--			--
Comprehensive income:									
Net margins			665,660			665,660			665,660
Postretirement benefit obligation									
Amortization								132,058	132,058
Total comprehensive income									797,718
Net change in memberships	(1,645)								(1,645)
Refunds to estates					(64,383)	(64,383)			(64,383)
Other equities							14,088		14,088
Balance - December 31, 2021	$ 225,765	$ 32,388,795	$ 665,660	$ --	$ (3,027,061)	$ 30,027,394	$ 801,837	$ (2,112,919)	$ 28,942,077

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, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 665,660	$ 1,436,028
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Charged to expense	2,545,141	2,495,774
Charged to clearing accounts	234,983	208,172
Patronage capital credits assigned	(665,225)	(929,495)
Amortization of postretirement actuarial adjustment	132,058	132,058
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts and other receivables, net	(1,741,840)	(143,088)
Material and supplies	(20,647)	34,661
Other current assets	1,969	(4,592)
Deferred debits	5,425	(18,988)
Accounts payable	439,421	(135,686)
Consumer deposits and advances	24,243	34,265
Accrued expenses	(7,810)	205,089
Accumulated postretirement benefits	60,042	(4,895)
Net cash provided by operating activities	1,673,420	3,309,303
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(2,625,590)	(2,439,156)
Plant removal costs	(360,611)	(268,106)
Salvage recovered from retired plant	37,094	53,217
Investments in CFC CTCs	- -	(4,000,000)
Receipts from other investments, net	33,555	205,222
Net cash (used in) investing activities	(2,915,552)	(6,448,823)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in memberships	(1,645)	3,050
Refund of patronage capital to members	(64,383)	(48,624)
Increase in other equities	14,088	10,522
Proceeds from short-term notes payable	2,600,000	- -
Principal payments on capital lease obligations	(108,388)	(109,431)
Payments on long-term debt	(1,159,243)	(3,631,187)
Advances of long-term debt	- -	7,000,000
Advance payments applied to long-term debt	- -	2,771,533
Net cash provided by financing activities	1,280,429	5,995,863
Net increase in cash and cash equivalents	38,297	2,856,343
Cash and cash equivalents, beginning of year	3,599,136	742,793
Cash and cash equivalents, end of year	$ 3,637,433	$ 3,599,136
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 767,966	$ 796,359

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

Note 1. 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:

Use of 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, 2021 and 2020.

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, 2021 and 2020:

	2021		2020	
Distribution plant	$	52,664,969	$	50,941,607
General plant		6,559,134		6,889,273
Total	$	59,224,103	$	57,830,880

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. 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.

Taxes

Big Sandy is required to collect, on behalf of the Commonwealth 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 taxes from revenue when collected and expenses when paid and instead, record collection and payment of 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 expenses were $2,572 and $877 for the years ended December 31, 2021 and 2020, respectively.

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. 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, 2021 and 2020. 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. 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 FASB Accounting Standards Codification (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 ASC 715 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.

Subsequent events

Management has evaluated subsequent events through February 11, 2022, 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 are no unsatisfied performance obligations to recognize as of December 31, 2021 and 2020.

Disaggregation of revenue

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended December 31, 2021 and 2020:

	2021	2020
Residential rural	$ 19,045,157	$ 17,876,173
Large industrial	3,660,255	3,274,070
Small commercial	1,308,953	1,211,329
Total	$ 24,014,365	$ 22,361,572

Contract cost liabilities

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

	2021	2020	2019
Consumer deposits	$ 691,662	$ 666,387	$ 631,022

NOTES TO FINANCIAL STATEMENTS

Note 3. Investments in Associated Organizations

Investments in associated organizations consist of the following as of December 31, 2021 and 2020:

	2021	2020
East Kentucky, patronage capital	$ 17,112,964	$ 17,112,964
CFC member capital securities	4,000,000	4,000,000
CFC CTC's	449,710	449,710
CFC patronage capital	224,213	224,213
Other associated organizations	1,185,634	553,964
Total	$ 22,972,521	$ 22,340,851

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, 2021 and 2020 was 44.60% and 45.30% 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 no unadvanced loan funds available from FFB as of December 31, 2021 and 2020.

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

Long-term debt consists of the following as of December 31, 2021 and 2020:

	2021	2020
First mortgage notes due RUS, 1.00% to 4.25%	$ 1,037,148	$ 1,139,105
First mortgage notes due FFB, 1.12% to 4.47%	18,837,010	19,469,473
First mortgage notes due CoBank, 3.07%	81,728	168,305
First mortgage notes due CFC, 6.46%	245,933	265,499
Refinance RUS loans 3.30% to 6.46%	5,018,059	5,336,740
	25,219,878	26,379,121
Less current portion	1,771,272	1,992,326
Long-term portion	$ 23,448,606	$ 24,386,795

As of December 31, 2021, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2023	1,569,547
2024	1,440,915
2025	1,316,071
2026	1,216,956
Thereafter	17,905,117
	$ 25,219,878

Note 6. Short-Term Notes Payable

As of December 31, 2021 and 2020, Big Sandy had short-term lines of credit of $2,500,000 available from CFC and $7,000,000 from CoBank. Big Sandy had $2,750,000 and $150,000 outstanding on the CoBank line of credit as of December 31, 2021 and 2020, respectively. The interest rate on the CoBank line of credit was 2.41% and 2.45% as of December 31, 2021 and 2020, respectively, and the line of credit matures on July 31, 2022. There were no amounts outstanding on the CFC line of credit as of December 31, 2021 and 2020.

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.

Note 7. Pension Plans (Continued)

Big Sandy's contributions to the RS Plan in 2021 and 2020 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 $214,064 in 2021 and $214,209 in 2020. There have been no significant changes that affect the comparability of 2021 and 2020.

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, 2021 and 2020 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 $52,823 for 2021 and $42,574 for 2020, 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 $128,368 in 2021 and $102,632 in 2020, and vest immediately. There have been no significant changes that affect the comparability of 2021 and 2020 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 2021, 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%.

The funded status of the plan as of December 31, 2021 and 2020 was as follows:

	2021	2020
Projected benefit obligation	$ (4,204,037)	$ (4,143,995)
Plan assets at fair value	--	--
Funded status	$ (4,204,037)	$ (4,143,995)

NOTES TO FINANCIAL STATEMENTS

Note 9. Postretirement Benefits (Continued)

The components of net periodic postretirement benefit cost for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Benefit obligation - beginning of period	$ 4,143,995	$ 4,148,890
Net periodic benefit cost:		
Service cost	60,498	60,614
Interest cost	186,590	186,474
Net period cost	247,088	247,088
Benefit payments to participants	(187,046)	(251,983)
Benefit obligation - end of period	$ 4,204,037	$ 4,143,995
Amounts recognized in the balance sheet consists of:		
Accumulated postretirement benefits	$ 4,204,037	$ 4,143,995
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	$ 4,435,000	
Net periodic benefit cost	$ 261,000	

Projected retiree benefit payments for the next five years are expected to be as follows: 2022 - $208,000; 2023 - $188,000; 2024 - $144,000; 2025 - $142,000; 2026 - $139,000.

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.

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.

NOTES TO FINANCIAL STATEMENTS

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:

2022	$ 130,831
2023	47,780
2024	40,401
	219,012
Less amounts representing interest	(7,043)
Present value of minimum lease payments	211,969
Less current portion	(126,058)
Long-term portion	$ 85,911

The cost of vehicles under capital leases was $629,182 with related accumulated amortization of $464,285 as of December 31, 2021. The cost of vehicles under capital leases was $680,517 with related amortization of $476,772 as of December 31, 2020.

Note 15. Risks and Uncertainties

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, 2022, management believes that a material impact on Big Sandy's financial position and results of future operations is reasonably possible.

NOTES TO FINANCIAL STATEMENTS

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. 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, 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.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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, 2021 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, 2022.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free from 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 financial statements. 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, 2022

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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, 2021, 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, 2022. In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2022, 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;

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- 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	$ 13,563

The deferred credits are as follows:

Consumer advances for construction	$ 2,328

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, 2022