BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION KENTUCKY 58

FINANCIAL REPORT

December 31, 2022

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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, 2022 and 2021, 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, 2022 and 2021, 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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.

Certified Public Accountants and Advisors

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 March 22, 2023, 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
March 22, 2023

BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION

BALANCE SHEETS
December 31, 2022 and 2021

ASSETS	2022	2021
Electric plant, at original cost:		
In service	$ 60,715,193	$ 59,224,103
Under construction	393,495	73,642
	61,108,688	59,297,745
Less accumulated depreciation	27,673,092	26,566,189
	33,435,596	32,731,556
Investments in associated organizations	22,636,887	22,972,521
Current Assets:		
Cash and cash equivalents	990,752	3,637,433
Accounts receivable, less allowance for 2022 of $271,308 and 2021 of $144,229	3,157,802	3,156,924
Other receivables	2,511,492	2,045,645
Material and supplies, at average cost	474,246	307,290
Other current assets	118,899	28,631
Total current assets	7,253,191	9,175,923
Deferred Debits	907,530	13,563
Total assets	$ 64,233,204	$ 64,893,563

MEMBERS' EQUITIES AND LIABILITIES	2022	2021
Members' Equities:		
Memberships	$ 225,835	$ 225,765
Patronage capital	30,358,905	30,027,394
Other equities	827,891	801,837
Accumulated other comprehensive (loss)	(1,980,861)	(2,112,919)
Total members' equities	29,431,770	28,942,077
Long-Term Liabilities:		
Long-term debt, less current portion	22,920,214	23,448,606
Finance lease obligations, less current portion	199,913	85,911
Accumulated postretirement benefits	4,276,820	4,204,037
Total long-term liabilities	27,396,947	27,738,554
Current Liabilities:		
Current portion of long-term debt	1,131,511	1,771,272
Current portion of finance lease obligations	100,798	126,058
Short-term notes payable	1,962,924	2,750,000
Accounts payable	2,881,210	2,316,385
Consumer deposits	709,350	691,662
Accrued expenses	617,398	555,227
Total current liabilities	7,403,191	8,210,604
Consumer Advances for Construction	1,296	2,328
Total members' equities and liabilities	$ 64,233,204	$ 64,893,563

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, 2022 and 2021

	2022	2021
Operating Revenues		
Sales of electric energy	$ 28,470,742	$ 24,014,365
Other electric revenues	836,258	751,059
	29,307,000	24,765,424
Operating Expenses		
Cost of power	20,333,030	16,128,723
Distribution - operations	1,254,745	989,552
Distribution - maintenance	1,788,522	2,110,650
Consumer accounts	1,149,635	1,006,967
Customer services	110,293	98,294
Administrative and general	1,582,779	1,286,273
Depreciation, excluding $316,680 in 2022 and $234,983 in 2021 charged to clearing accounts	2,521,208	2,545,141
Taxes, other than income	29,260	32,349
Interest on long-term debt	816,201	762,949
Other interest charges	766	815
Other deductions	21,812	13,636
Total cost of electric service	29,608,251	24,975,349
Operating (Deficit)	(301,251)	(209,925)
Nonoperating Margins and Capital Credits		
Interest income	227,364	210,360
Other non-operating margins	77,285	- -
Generation and transmission capital credits	323,975	605,871
Other capital credits	96,547	59,354
	725,171	875,585
Net Margins	423,920	665,660
Other Comprehensive Income		
Postretirement benefits amortization of net loss	132,058	132,058
Net Margins and Comprehensive Income	$ 555,978	$ 797,718

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, 2022 and 2021

	Memberships	Patronage Capital: Assigned	Patronage Capital: Assignable	Patronage Capital: Prior Deficits	Patronage Capital: Retirements	Patronage Capital: Total	Other Equities	Accumulated Other Comprehensive (Loss)	Total Members' Equities
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
Allocate margins		665,660	(665,660)	- -		- -			- -
Comprehensive income:									
Net margins			423,920			423,920			423,920
Postretirement benefit obligation									
Amortization								132,058	132,058
Total comprehensive income									555,978
Net change in memberships	70								70
Refunds to estates					(92,409)	(92,409)			(92,409)
Other equities							26,054		26,054
Balance - December 31, 2022	$ 225,835	$ 33,054,455	$ 423,920	$ - -	$ (3,119,470)	$ 30,358,905	$ 827,891	$ (1,980,861)	$ 29,431,770

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, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 423,920	$ 665,660
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Charged to expense	2,521,208	2,545,141
Charged to clearing accounts	316,680	234,983
Amortization of finance lease ROU assets	63,827	- -
Patronage capital credits assigned	(420,522)	(665,225)
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	(466,725)	(1,741,840)
Material and supplies	(166,956)	(20,647)
Other current assets	(90,268)	1,969
Deferred debits	(893,967)	5,425
Accounts payable	564,825	439,421
Consumer deposits and advances	16,656	24,243
Accrued expenses	62,171	(7,810)
Accumulated postretirement benefits	72,783	60,042
Net cash provided by operating activities	2,135,690	1,673,420
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(3,155,573)	(2,625,590)
Plant removal costs	(348,461)	(360,611)
Salvage recovered from retired plant	122,754	37,094
Receipts from other investments, net	756,156	33,555
Net cash (used in) investing activities	(2,625,124)	(2,915,552)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in memberships	70	(1,645)
Refund of patronage capital to members	(92,409)	(64,383)
Increase in other equities	26,054	14,088
Proceeds from short-term notes payable	- -	2,600,000
Payments on short-term notes payable	(787,076)	- -
Principal payments on finance lease obligations	(135,733)	(108,388)
Payments on long-term debt	(1,168,153)	(1,159,243)
Net cash provided by (used in) financing activities	(2,157,247)	1,280,429
Net increase (decrease) in cash and cash equivalents	(2,646,681)	38,297
Cash and cash equivalents, beginning of year	3,637,433	3,599,136
Cash and cash equivalents, end of year	$ 990,752	$ 3,637,433
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	$ 799,589	$ 767,966
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Electric plant financed through notes payable	$ 230,983	$ - -

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

BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION

NOTES TO FINANCIAL 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, 2022 and 2021.

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, 2022 and 2021:

	2022	2021
Distribution plant	$ 54,045,760	$ 52,664,969
General plant	6,669,433	6,559,134
Total	$ 60,715,193	$ 59,224,103

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%.

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.

Deferred debits

Regulatory requirements authorized by the PSC allow the electric supplier to impose a fuel adjustment surcharge upon Big Sandy. In turn, Big Sandy is required to pass on the fuel surcharge to the consumer. Due to regulatory requirements in calculating the surcharge Big Sandy may experience an over or under recovery of the fuel adjustment surcharge.

Similarly, the PSC has an environmental cost recovery mechanism that allows the electric supplier to recover certain costs incurred in complying with the Federal Clean Air Act as amended and those federal, state, and local environmental requirements which apply to coal combustion wastes and byproducts from facilities utilized for the production of energy from coal. In turn, Big Sandy is required to pass on this environmental cost recovery mechanism to the consumer.

Leases

Adoption of Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification [ASC] 842, *Leases*) to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

Big Sandy adopted the standard effective January 1, 2022, and recognized and measured leases existing at, or entered into after, January 1, 2022 (the beginning of the period of adoption), with certain practical expedients available. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Leases (continued)

Big Sandy elected the available practical expedients to account for our existing capital leases as finance leases, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, Big Sandy recognized on January 1, 2022, a lease liability at the carrying amount of the capital lease obligations on December 31, 2021, of $211,969 and a right-of-use asset at the carrying amount of the capital lease asset of $85,416.

The standard did not have a material impact on the financial statements, the accounting for finance leases remained substantially unchanged.

Big Sandy leases vehicles and determines if an arrangement is a lease at inception. Finance leases are included in electric plant, current liabilities, and long-term liabilities on the balance sheets.

ROU assets represent Big Sandy's right to use an underlying asset for the lease term and lease liabilities represent Big Sandy's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, Big Sandy uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Big Sandy's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Advertising

Big Sandy expenses advertising costs as incurred. Advertising expenses were $1,418 and $2,572 for the years ended December 31, 2022 and 2021, 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.

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, 2022 and 2021. 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 pronouncement

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 this ASU on the financial statements.

Subsequent events

Management has evaluated subsequent events through March 22, 2023, 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, 2022 and 2021.

Disaggregation of revenue

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended December 31, 2022 and 2021:

	2022	2021
Residential rural	$ 22,500,806	$ 19,045,157
Large industrial	4,469,498	3,660,255
Small commercial	1,500,438	1,308,953
Total	$ 28,470,742	$ 24,014,365

Contract cost liabilities

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

	2022	2021	2020
Consumer deposits	$ 709,350	$ 691,662	$ 666,387

NOTES TO FINANCIAL STATEMENTS

Note 3. Investments in Associated Organizations

Investments in associated organizations consist of the following as of December 31, 2022 and 2021:

	2022	2021
East Kentucky, patronage capital	$ 17,315,866	$ 17,718,835
CFC member capital securities	4,000,000	4,000,000
CFC CTC's	449,710	449,710
CFC patronage capital	231,590	228,280
Other associated organizations	639,721	575,696
Total	$ 22,636,887	$ 22,972,521

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. Leases

Big Sandy has finance leases for vehicles and equipment. The leases have remaining lease terms of 1 year to 5 years. As of December 31, 2022, assets recorded under finance leases were $292,442 and accumulated depreciation associated with finance leases was $44,286. The ROU assets are included with electric plant on the balance sheet.

The components of lease expense were as follows for the year ended December 31:

	2022
Finance lease cost	
Right-of-use asset amortization	$ 63,827
Interest expense	6,660
Total lease cost, net	$ 70,487

NOTES TO FINANCIAL STATEMENTS

Note 4. Leases (Continued)

Other information related to leases was as follows for the year ended December 31:

		2022
Supplemental cash flow information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	$	5,825
Financing cash flows from finance leases	$	135,733
Right-of-use assets obtained in exchange for lease obligations		
Finance leases	$	435,610
Weighted average remaining lease term		
Finance leases		3.21 years
Weighted average discount rate		
Finance leases		3.44%

Future undiscounted lease payments for finance leases with initial terms of one year or more as of December 31, 2022, were as follows:

2023	$	109,399
2024		98,555
2025		54,035
2026		35,099
2027		23,399
		320,487
Less imputed interest		(19,776)
Net lease liabilities	$	300,711

As of December 31, 2021, Big Sandy's finance (capital) leases were accounted for under ASC 840, Leases. Big Sandy leased four of its vehicles under a capital lease. The economic substance of the leases is that Big Sandy is financing the acquisition of the assets through the lease, and accordingly, it is recorded in Big Sandy's assets and liabilities. The following is an analysis of the leased assets included in electric plant:

		2021
Vehicles	$	629,182
Less accumulated amortization		(543,766)
Total	$	85,416

The lease agreements contain a bargain purchase option at the end of the lease term. Amortization of assets held under capital leases is included in depreciation expense.

NOTES TO FINANCIAL STATEMENTS

Note 5. 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, 2022 and 2021 was 45.83% and 44.60% of total assets, respectively.

Note 6. 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, 2022 and 2021.

Long-term debt consists of the following as of December 31, 2022 and 2021:

	2022	2021
First mortgage notes due RUS, 1.00% to 4.25%	$ 932,023	$ 1,037,148
First mortgage notes due FFB, 1.12% to 4.47%	18,195,251	18,837,010
First mortgage notes due CoBank, 3.07%	- -	81,728
First mortgage notes due CFC, 6.46%	225,072	245,933
Refinance RUS loans 3.45% to 4.30%	4,699,379	5,018,059
	24,051,725	25,219,878
Less current portion	1,131,511	1,771,272
Long-term portion	$ 22,920,214	$ 23,448,606

As of December 31, 2022, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2023	$ 1,131,511
2024	1,170,149
2025	1,210,391
2026	1,252,312
2027	1,295,988
Thereafter	17,991,374
	$ 24,051,725

NOTES TO FINANCIAL STATEMENTS

Note 7. Short-Term Notes Payable

As of December 31, 2022 and 2021, Big Sandy had a short-term line of credit of $2,500,000 available from CFC, with a variable interest rate of 5.75% as of December 31, 2022. There were no amounts outstanding on the CFC line of credit as of December 31, 2022 and 2021. The CFC line of credit matures in December 2049. As of December 31, 2022 and 2021, Big Sandy had a short-term line of credit of $7,000,000 available from CoBank. Big Sandy had $1,962,924 and $2,750,000 outstanding on the CoBank line of credit as of December 31, 2022 and 2021, respectively. The interest rate on the CoBank line of credit was 6.35% and 2.41% as of December 31, 2022 and 2021, respectively, and the line of credit matures on July 31, 2023.

Note 8. 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 2022 and 2021 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 $228,144 in 2022 and $214,064 in 2021. There have been no significant changes that affect the comparability of 2022 and 2021.

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, 2022 and 2021 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 9. 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 $58,181 for 2022 and $52,823 for 2021, 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 $134,553 in 2022 and $128,368 in 2021, and vest immediately. There have been no significant changes that affect the comparability of 2022 and 2021 for either plan.

NOTES TO FINANCIAL STATEMENTS

Note 10. 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, 2022 and 2021 was as follows:

	2022	2021
Projected benefit obligation	$ (4,276,820)	$ (4,204,037)
Plan assets at fair value	- -	- -
Funded status	$ (4,276,820)	$ (4,204,037)

The components of net periodic postretirement benefit cost for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Benefit obligation - beginning of period	$ 4,204,037	$ 4,143,995
Net periodic benefit cost:		
Service cost	59,257	60,498
Interest cost	187,831	186,590
Net period cost	247,088	247,088
Benefit payments to participants	(174,305)	(187,046)
Benefit obligation - end of period	$ 4,276,820	$ 4,204,037
Amounts recognized in the balance sheet consists of:		
Accumulated postretirement benefits	$ 4,276,820	$ 4,204,037
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	$ 4,512,000	
Net periodic benefit cost	$ 261,000	

Projected retiree benefit payments for the next five years are expected to be as follows: 2023 - $188,000; 2024 - $144,000; 2025 - $142,000; 2026 - $139,000; 2027 - $134,000.

Note 11. 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 12. 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 13. 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 14. 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 15. Subsequent Event

In January 2023, the board of directors voted to organize a right-of-way subsidiary, Big Sandy Forestry, LLC. The subsidiary will begin operations during 2023 and will be included in the consolidated financial statements for the year ending December 31, 2023.

Jones, Nale & Mattingly PLC

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, 2022 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 March 22, 2023.

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.

Certified Public Accountants and Advisors

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
March 22, 2023

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Jones, Nale & Mattingly PLC

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, 2022, 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 March 22, 2023. In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2023, 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;

Certified Public Accountants and Advisors

- 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	$ 8,138
NISC conversion costs	248,953
Environmental surcharge	342,879
Fuel adjustment surcharge	307,560
	$ 907,530

The deferred credits are as follows:

Consumer advances for construction	$ 1,296

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
March 22, 2023