CUMBERLAND VALLEY ELECTRIC, INC.
KENTUCKY 57

FINANCIAL REPORT

May 31, 2021

C O N T E N T S

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Cumberland Valley Electric, Inc.
Gray, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Cumberland Valley Electric, Inc., which comprise the balance sheets as of May 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Certified Public Accountants and Advisors
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cumberland Valley Electric, Inc. as of May 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated August 5, 2021, on our consideration of Cumberland Valley Electric, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
August 5, 2021

CUMBERLAND VALLEY ELECTRIC, INC.

BALANCE SHEETS
May 31, 2021 and 2020

Assets	2021	2020
Electric Plant, at original cost		
In service	$ 111,152,431	$ 112,698,324
Under construction	1,973,682	1,203,328
	113,126,113	113,901,652
Less accumulated depreciation	43,240,796	46,933,597
	69,885,317	66,968,055
Investments in Associated Organizations	35,347,919	34,513,329
Current Assets		
Cash and cash equivalents	5,660,211	8,587,757
Accounts receivable, less allowance for 2021 of $290,385 and 2020 of $318,677	2,651,309	2,547,849
Other receivables	925,635	523,108
Material and supplies, at average cost	687,047	1,586,972
Other current assets	752,390	717,539
Total current assets	10,676,592	13,963,225
Deferred Pension Costs	432,057	493,041
Total assets	$ 116,341,885	$ 115,937,650

Members' Equities and Liabilities	2021	2020
Members' Equities		
Memberships	$ 452,580	$ 445,095
Patronage capital	54,976,220	51,358,547
Other equities	2,324,153	2,320,631
Accumulated other comprehensive (loss)	(510,784)	(563,404)
Total members' equities	57,242,169	53,560,869
Long-Term Liabilities		
Long-term debt, less current portion	46,765,620	50,416,982
Accumulated postretirement benefits	4,227,398	4,071,625
Total long-term liabilities	50,993,018	54,488,607
Current Liabilities		
Current portion of long-term debt	2,451,227	2,497,685
Accounts payable	2,100,772	2,111,014
Consumer deposits	1,170,754	1,123,739
Accrued expenses	2,028,995	2,036,302
Total current liabilities	7,751,748	7,768,740
Consumer Advances for Construction	354,950	119,434
Total members' equities and liabilities	$ 116,341,885	$ 115,937,650

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

CUMBERLAND VALLEY ELECTRIC, INC.

STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Years Ended May 31, 2021 and 2020

	2021	2020
Operating Revenues		
Sales of electric energy	$ 41,049,247	$ 39,954,229
Other electric revenues	1,863,974	1,603,450
	42,913,221	41,557,679
Operating Expenses		
Cost of power	29,006,358	28,245,378
Distribution - operations	1,617,870	1,495,412
Distribution - maintenance	2,861,588	3,065,524
Consumer accounts	1,517,063	1,608,207
Customer services	137,192	99,891
Administrative and general	1,705,149	1,752,299
Depreciation, excluding $159,832 in 2021 and $158,153 in 2020 charged to clearing accounts	4,164,788	4,131,631
Taxes, other than income	56,797	58,193
Interest on long-term debt	786,274	1,172,901
Other interest charges	28,828	27,668
Other deductions	13,090	12,832
Total cost of electric service	41,894,997	41,669,936
Operating Margins (Deficits)	1,018,224	(112,257)
Nonoperating Margins and Capital Credits		
Interest income	116,120	208,805
PPP loan forgiveness	1,119,202	- -
Generation and transmission capital credits	1,115,963	1,712,191
Other capital credits	248,164	66,501
	2,599,449	1,987,497
Net Margins	3,617,673	1,875,240
Other Comprehensive Income		
Amortization of actuarial loss	52,620	52,620
Total Comprehensive Income	$ 3,670,293	$ 1,927,860

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

CUMBERLAND VALLEY ELECTRIC, INC.

STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended May 31, 2021 and 2020

	Memberships	Patronage Capital	Other Equities	Accumulated Other Comprehensive Income (Loss)	Total Members' Equities
Balance - May 31, 2019	$ 440,495	$ 49,483,307	$ 2,315,598	$ (616,024)	$ 51,623,376
Comprehensive income:					
Net margins		1,875,240			1,875,240
Postretirement benefit obligation:					
Amortization of actuarial loss				52,620	52,620
Total comprehensive income					1,927,860
Net change in memberships	4,600				4,600
Other equities			5,033		5,033
Balance - May 31, 2020	445,095	51,358,547	2,320,631	(563,404)	53,560,869
Comprehensive income:					
Net margins		3,617,673			3,617,673
Postretirement benefit obligation					
Amortization of actuarial loss				52,620	52,620
Total comprehensive income					3,670,293
Net change in memberships	7,485				7,485
Other equities			3,522		3,522
Balance - May 31, 2021	$ 452,580	$ 54,976,220	$ 2,324,153	$ (510,784)	$ 57,242,169

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

CUMBERLAND VALLEY ELECTRIC, INC.

STATEMENTS OF CASH FLOWS
Years Ended May 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 3,617,673	$ 1,875,240
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Charged to expense	4,164,788	4,131,631
Charged to clearing accounts	159,832	158,153
Patronage capital credits assigned	(1,364,127)	(1,778,692)
PPP loan forgiveness	(1,119,202)	- -
Amortization of postretirement actuarial adjustment	52,620	52,620
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts and other receivables	(505,987)	(8,643)
Material and supplies	899,925	(373,164)
Other current assets	(34,851)	(30,592)
Deferred pension costs	60,984	60,984
Accounts payable	(10,242)	(565,038)
Consumer deposits	282,531	99,854
Accumulated postretirement benefits	155,773	150,341
Accrued expenses	(7,307)	40,961
Net cash provided by operating activities	6,352,410	3,813,655
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(6,903,722)	(6,582,374)
Plant removal costs	(435,841)	(499,730)
Salvage recovered from retired plant	97,680	120,434
Receipts from other investments, net	418,418	119,439
Receipts from economic development loans	111,120	64,820
Net cash (used in) investing activities	(6,712,345)	(6,777,411)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in memberships	7,485	4,600
Increase in other equities	3,522	5,033
Advances of long-term debt	- -	8,119,202
Cushion of credit payments	(63,772)	(87,352)
Principal payments on long-term debt	(2,514,846)	(2,129,293)
Net cash provided by (used in) financing activities	(2,567,611)	5,912,190
Net increase (decrease) in cash and cash equivalents	(2,927,546)	2,948,434
Cash and cash equivalents, beginning of year	8,587,757	5,639,323
Cash and cash equivalents, end of year	$ 5,660,211	$ 8,587,757
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 864,215	$ 1,212,643

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

Note 1. Summary of Significant Accounting Policies

Description of business

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

Business activities

Cumberland Valley provides distribution electric service to residential, business, and commercial consumers concentrated in a nine-county area of southeastern Kentucky.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 May 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 May 31, 2021 and 2020:

	2021	2020
Distribution plant	$ 102,931,296	$ 104,305,953
General plant	8,221,135	8,392,371
Total	$ 111,152,431	$ 112,698,324

Note 1. Summary of Significant Accounting Policies (Continued)

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 2.39% to 6.70%, with a composite rate of 3.77% for distribution plant. General plant rates are as follows:

Structures and improvements	2.5%
Transportation equipment	11.3%
Office furniture and equipment	5.0%
Other general plant	4.0% - 6.0%

Cash and cash equivalents

Cumberland Valley considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. Cumberland Valley maintains its cash balances, which may exceed the federally insured limit, with a local bank. Cumberland Valley uses insured cash sweep services for FDIC coverage for all accounts.

Accounts receivable

Accounts receivable consists of amounts due for sales of electricity. Accounts receivable are recorded at their net realizable value consisting of the carrying amount less an allowance for uncollectible accounts. Cumberland Valley 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

Cumberland Valley values materials and supplies at the lower of average cost or net realizable value.

Taxes

Cumberland Valley 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. Cumberland Valley's policy is to exclude sales tax from revenue when collected and expenses when paid and instead, record collection and payment of sales taxes through a liability account.

Cost of power

Cumberland Valley is one of 16 members of East Kentucky Power Cooperative, Inc. (East Kentucky). Under a wholesale power agreement, Cumberland Valley 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. The power bill includes a fuel adjustment and environmental surcharge component that is passed on to Cumberland Valley's customers using a methodology prescribed by the PSC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Advertising

Cumberland Valley Electric, Inc. expenses advertising costs as incurred. Advertising expenses were $4,190 and $1,551 for the years ended May 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.

Risk management

Cumberland Valley 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

Cumberland Valley 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.

Income tax status

Cumberland Valley qualifies as a tax-exempt organization under Section 501(c)(12) of the Internal Revenue Code. Income from certain activities not directly related to Cumberland Valley's tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income activity to be reported for the years ended May 31, 2021 and 2020.

Cumberland Valley'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. Cumberland Valley has no uncertain tax positions resulting in an accrual of tax expense or benefit.

Cumberland Valley'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.

Note 1. Summary of Significant Accounting Policies (Continued)

Pension accounting

In May 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* The standard specifies how the amount of pension costs and costs for post-retirement benefits other than pensions (PBOP) should be presented on the income statement under accounting principles generally accepted in the United States of America, and what components of those costs are eligible for capitalization in assets. This standard is effective for years beginning after December 15, 2018. The Federal Energy Regulatory Commission (FERC) issued Docket No. AI18-1-000 that allowed jurisdictional public utilities to continue to record PBOP costs in their entirety, less amounts capitalized, without change. Pension and PBOP costs are made up of several components: service cost, interest cost, actual return on plan assets, gain or loss, amortization of prior service cost or credit, and amortization of FASB Accounting Standards Codification (ASC) Subtopic 715-30. Though pension and PBOP costs are computed using the aggregate total of these various components, the FERC'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 May 31, 2023.

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 May 31, 2024.

Cumberland Valley is currently in the process of evaluating the impact of the adoption of these ASUs on the financial statements.

Reclassifications

Certain reclassifications have been made to the 2020 financial statement presentation to correspond to the 2021 presentation.

Subsequent Events

Management has evaluated subsequent events through August 5, 2021, the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

Note 2. Revenue Recognition

Revenue from contracts

Cumberland Valley is engaged in the distribution and sale of electricity to residential and commercial customers concentrated in nine counties in southeastern Kentucky. Revenue from these activities is generated from tariffs approved by the PSC. Cumberland Valley 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 Cumberland Valley. 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 15 days of the date of the bill. Revenue for pole attachments is invoiced at the end of the year. The performance obligation is satisfied ratably over the term of the contract and revenue is recognized monthly as earned.

Significant judgements

Cumberland Valley has one billing cycle that processes customer bills on approximately the same day each month. The amounts billed are based on actual meter reading of kilowatt hours used for the billing period. The amount of revenue recorded each month represent a full month of kilowatt hour 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, Cumberland Valley'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

Cumberland Valley customers generally have no minimum purchase commitments. Revenue is recognized as each performance obligation is satisfied. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation to recognize as of May 31, 2021 and 2020.

Disaggregation of revenue

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

	2021	2020
Residential rural	$ 32,004,030	$ 30,569,343
Large commercial	6,207,840	6,649,263
Small commercial	2,837,377	2,735,623
Total	$ 41,049,247	$ 39,954,229

Note 2. Revenue Recognition (Continued)

Contract assets and liabilities

Contract assets include unbilled pole attachment revenue and are included in other current assets on the balance sheet. Contract liabilities include consumer deposits. Contract assets and liabilities were as follows as of May 31:

	2021	2020	2019
Contract assets			
Unbilled pole attachments	$ 505,000	$ 430,000	$ 407,500
Contract liabilities			
Consumer deposits	$ 1,170,754	$ 1,123,739	$ 1,023,559

Note 3. Investments in Associated Organizations

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

	2021	2020
East Kentucky, patronage capital	$ 32,514,157	$ 31,686,904
CFC, patronage capital and CTCs	1,007,461	1,047,567
Economic development loans	824,060	935,180
KAEC, patronage capital	364,302	353,160
Federated Insurance, patronage capital	294,432	280,695
NISC, patronage capital	145,607	142,491
Other associated organizations	197,900	67,332
Total	$ 35,347,919	$ 34,513,329

Cumberland Valley 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. Cumberland Valley has an economic development loan through RUS at no interest to an industrial authority and is secured by a portion of the assets pledged by the industrial authority or guaranty from a local bank.

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, Cumberland Valley may distribute the difference between 25.00% and the payments made to such estates. Members' equity as of May 31, 2021 and 2020 was 49.20% and 46.20% of total assets, respectively.

Note 4. Patronage Capital (Continued)

As of May 31, 2021 and 2020, patronage capital consisted of the following:

	2021	2020
Assigned to date	$ 56,242,119	$ 55,082,517
Assignable margins	2,321,842	22,359
Prior deficits	(110,535)	(269,123)
Retirements to date	(3,477,206)	(3,477,206)
Total	$ 54,976,220	$ 51,358,547

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, CFC, and National Cooperative Services Corporation (NCSC), under a joint mortgage agreement. The long-term debt is due in quarterly and monthly installments of varying amounts through 2040. RUS assesses 12.5 basis points to administer the FFB loans. During 2010, $3,839,834 of RUS loans were refinanced with lower interest rate notes from NCSC. During 2013, $2,892,121 of CFC loans were refinanced with lower interest rates from CoBank. During 2018, $2,023,762 of RUS loans were refinanced with lower interest rate notes from CoBank. Cumberland Valley had loan funds available from FFB in the amount of $6,889,000 as of May 31, 2021 and 2020. These funds will be used for future plant additions.

The Economic Development note is dated November 2018 for a 10-year period with monthly principal payments of $9,174 which commenced in November 2019.

In May 2020, Cumberland Valley applied for and was granted a forgivable loan of $1,119,202 from the United States Small Business Administration (SBA) Paycheck Protection Program (PPP). Under the CARES Act, subject to limitations, as defined, the loan may be partially or fully forgiven, depending on specified actual payroll and other qualified costs for the covered period following receipt of the loan. Any amount not forgiven will be payable in 24 monthly installments of principal and interest at 1.00% and will be unsecured. Cumberland Valley accounted for the loan proceeds as debt in accordance with ASC 470. Cumberland Valley submitted its application for forgiveness to the SBA and was notified in April 2021 that the entire loan was forgiven. As such, in compliance with guidance from RUS, Cumberland Valley has recognized the forgiveness of debt as other nonoperating income.

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

Long-term debt consists of the following as of May 31:

	2021	2020
Rural Utilities Service:		
First mortgage notes due RUS, 0.25%	$ 656,095	$ 701,919
Advance payments, earns 4.00% interest	(1,862,154)	(1,798,381)
	(1,206,059)	(1,096,462)
Economic development loan, no interest	816,514	926,606
FFB, 0.04% to 2.87%	46,582,023	48,397,124
CoBank, 2.59% to 4.29%	2,805,872	3,124,601
NCSC, 4.20% to 4.30%	218,497	443,596
CoBank, PPP loan, 1.00%	- -	1,119,202
	49,216,847	52,914,667
Less current portion	2,451,227	2,497,685
Long-term portion	$ 46,765,620	$ 50,416,982

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

2022	$ 2,451,227
2023	2,320,519
2024	2,325,415
2025	2,389,368
2026	2,447,198
Thereafter	37,283,120
	$ 49,216,847

Note 6. Short-Term Notes Payable

As of May 31, 2021 and 2020, Cumberland Valley had short-term lines of credit of $5,000,000 available from CFC and $1,000,000 from CoBank. There were no advances against the CFC or CoBank lines of credit as of May 31, 2021 and 2020. The CFC line of credit matures December 31, 2049 and the CoBank line of credit matures March 31, 2022.

Note 7. Pension Plans

All eligible employees of Cumberland Valley participate in the NRECA Retirement and 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 a multiemployer plan under the accounting standards. The Plan sponsor's identification number is 53-0116145 and the Plan Number is 333. A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (Continued)

Cumberland Valley'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. Cumberland Valley made contributions to the plan for eligible employees of $364,681 in 2021 and $347,442 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 85.00% 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.

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the RS Plan (a defined benefit multiemployer pension plan) to make a prepayment and reduce future required contributions. The prepayment amount is a cooperative share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. However, changes in interest rates, asset returns and other plan experience different from that expected, plan assumptions changes, and other factors may have an impact on the differential in billing rates and the 15-year period.

Two prepayment options were available to participating cooperatives:

1. Use current assets to make the prepayment over a period of not more than 4 years, or,
2. Borrow funds sufficient to make the prepayment in a lump sum, with the prepayment of the borrowed amount determined by the loan's amortization schedule.

On February 14, 2013, RUS issued a memorandum to all of its borrowers regarding the proper accounting treatment of the RS Plan prepayment. RUS stipulated that the prepayment shall be recorded as a long-term prepayment in Account 186, Miscellaneous Deferred Debits. This prepaid expense shall be amortized to Account 926, Employee Pensions and Benefits, over a ten-year period. Alternatively, RUS borrowers may calculate the amortization period by subtracting the cooperative's average age of its workforce as provided by NRECA from the cooperative's normal retirement age under the RS Plan, up to a maximum period of 20 years. If the entity choses to finance the prepayment, interest expense associated with the loan shall be recorded in the year incurred as is required under the RUS Uniform System of Accounts (USoA).

Note 7. Pension Plans (Continued)

Section 6.13(e) of the RUS Loan Contract limits the amount of unsecured debt that a borrower may incur to 15% on Net Utility Plant if the equity level of the borrower, after considering such unsecured debt, is below 30% of its Total Assets, unless the borrower obtains RUS consent. RUS will consider any unsecured debt associated with the RS Plan prepayment to be Permitted Debt and accordingly, it will be excluded from the application of Section 6.13(e). During May 2013, Cumberland Valley made a prepayment of $914,847 to the RS Plan. The amount is being amortized over 15 years.

Note 8. Savings Plan

Cumberland Valley sponsors a Retirement Savings Plan available to all eligible employees. The plan allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. Cumberland Valley makes contributions of 10% for non-salaried employees and zero percent (reduced from 2% effective June 2020) for salaried employees of the participant's base compensation. Contributions to the plan were $216,300 for 2021 and $238,842 for 2020.

Note 9. Postretirement Benefits

Cumberland Valley sponsors a defined benefit plan that provides medical insurance coverage to retirees and their spouses. Cumberland Valley pays all the premiums for retirees and their spouses. For measurement purposes, an annual rate of increase of 7.00% in 2020, then decreasing by 0.25% per year until 3.00% 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%. There have been no significant changes that affect the comparability of 2021 and 2020.

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

	2021	2020
Projected benefit obligation	$ (4,227,398)	$ (4,071,625)
Plan assets at fair value	- -	- -
Funded status (deficit)	$ (4,227,398)	$ (4,071,625)

Note 9. Postretirement Benefits (Continued)

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

	2021	2020
Benefit obligation - beginning of period	$ 4,071,625	$ 3,921,284
Net periodic benefit cost:		
Service cost	36,652	43,540
Interest cost	186,728	179,840
Net period cost	223,380	223,380
Benefit payments to participants	(67,607)	(73,039)
Benefit obligation - end of period	$ 4,227,398	$ 4,071,625
Amounts recognized in the balance sheet consists of:		
Accumulated postretirement benefits	$ 4,227,398	$ 4,071,625
Amounts included in other comprehensive income:		
Amortization of actuarial loss	$ 52,620	$ 52,620
Effect of 1.00% increase in the health care trend:		
Postemployment benefit obligation	$ 4,500,000	
Net periodic benefit cost	$ 237,900	

Projected retiree benefit payments for the next five years are expected to be as follows: 2022 - $116,000; 2023 - $108,000; 2024 - $101,000; 2025 - $88,000; 2026 - $71,000.

Note 10. Environmental Contingency

Cumberland Valley 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 Cumberland Valley 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 Cumberland Valley's financial position or its future cash flows.

Note 11. Commitments

Cumberland Valley 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 two years.

Note 12. Related Party Transactions

Several of the Directors of Cumberland Valley and its President and CEO are on the boards of directors of various associated organizations.

NOTES TO FINANCIAL STATEMENTS

Note 13. Labor Force

Approximately 80% of Cumberland Valley's labor force is subject to a collective bargaining agreement. A three year agreement was negotiated and approved for the period September 1, 2019 to August 31, 2022 between Cumberland Valley and the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union.

Note 14. Contingencies

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

Note 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 impact to Cumberland Valley as of August 5, 2021, management believes that a material impact on the Cumberland Valley's financial position and results of future operations is reasonably possible.

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
Cumberland Valley Electric, Inc.
Gray, 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 Cumberland Valley Electric, Inc. (the Cooperative), which comprise the balance sheet as of May 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 August 5, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cooperative's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
August 5, 2021

JNM

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
Cumberland Valley Electric, Inc.
Gray, 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 Cumberland Valley Electric, Inc. (the Cooperative), which comprise the balance sheet as of May 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 August 5, 2021. In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2021, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*, §1773.33, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over material and supplies;
- Prepare accurate and timely Financial and Operating Reports;

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- 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:

Deferred pension costs	$ 432,057

The deferred credits are as follows:

Consumer advances for construction	$ 354,950

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
August 5, 2021