GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION
KENTUCKY 61

FINANCIAL REPORT

MAY 31, 2021

C O N T E N T S

JNM

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Grayson Rural Electric Cooperative Corporation
Grayson, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Grayson Rural Electric Cooperative Corporation, 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 Grayson Rural Electric Cooperative Corporation 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 our report dated September 22, 2021, on our consideration of Grayson Rural Electric Cooperative Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Grayson Rural Electric Cooperative Corporation's internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
September 22, 2021

GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION

BALANCE SHEETS
May 31, 2021 and 2020

Assets	2021	2020
Electric Plant, at original cost		
In service	$ 85,652,424	$ 86,886,550
Under construction	216,980	74,868
	85,869,404	86,961,418
Less accumulated depreciation	28,350,971	28,878,012
	57,518,433	58,083,406
Investments in Associated Organizations	18,938,616	18,479,733
Current Assets		
Cash and cash equivalents	2,414,818	8,721,435
Accounts receivable, less allowance for 2021 of $74,219 and 2020 of $107,323	2,459,515	1,965,044
Other receivables	7,476,521	347,436
Material and supplies, at average cost	355,536	303,044
Other current assets	337,859	468,703
Total current assets	13,044,249	11,805,662
Deferred Debits	841,494	1,073,286
Total assets	$ 90,342,792	$ 89,442,087
Members' Equities and Liabilities		
Members' Equities		
Memberships	$ 158,945	$ 156,085
Patronage capital	32,346,995	29,326,943
Other equities	238,028	228,370
Accumulated other comprehensive (loss)	(361,297)	(385,181)
Total members' equities	32,382,671	29,326,217
Long-Term Liabilities		
Long-term debt, less current portion	47,767,796	50,859,778
Accumulated postretirement benefits	3,464,631	3,325,592
Total long-term liabilities	51,232,427	54,185,370
Current Liabilities		
Current portion of long-term debt	2,573,874	2,013,145
Accounts payable	1,631,756	1,457,776
Consumer deposits	1,402,568	1,386,083
Accrued expenses	1,009,409	959,955
Total current liabilities	6,617,607	5,816,959
Consumer Advances for Construction	110,087	113,541
Total members' equities and liabilities	$ 90,342,792	$ 89,442,087

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

GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION

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

	2021	2020
Operating Revenues		
Sales of electric energy	$ 31,306,808	$ 30,132,186
Other electric revenues	707,800	918,865
	32,014,608	31,051,051
Operating Expenses		
Cost of power	16,773,224	16,779,735
Distribution - operations	1,440,492	934,362
Distribution - maintenance	4,381,633	3,560,083
Consumer accounts	1,029,456	1,138,207
Customer services	104,407	116,747
Sales	3,398	3,003
Administrative and general	1,656,379	1,926,203
Depreciation, excluding $180,568 in 2021 and $191,861 in 2020 charged to clearing accounts	4,011,215	3,905,902
Taxes, other than income	43,635	44,571
Interest on long-term debt	732,240	1,122,913
Other interest expense	14,746	96,843
Other deductions	7,526	10,947
Total cost of electric service	30,198,351	29,639,516
Operating Margins	1,816,257	1,411,535
Nonoperating Margins		
Interest income	52,222	34,709
Loss on disposition of equipment	(47,271)	(7,187)
PPP loan forgiveness	641,100	- -
Others	25,065	12,815
	671,116	40,337
Patronage Capital Credits		
Generation and transmission capital credits	636,660	1,008,272
Other capital credits	127,860	135,082
	764,520	1,143,354
Net Margins	3,251,893	2,595,226
Other Comprehensive Income		
Postretirement benefits amortization of net loss	23,884	23,644
Comprehensive Income	$ 3,275,777	$ 2,618,870

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

GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION

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

		Patronage Capital							
	Memberships	Assignable	Assigned	Prior Losses	Retirements	Total	Other Equities	Accumulated Other Comprehensive Income (Loss)	Total Members' Equities
Balance - May 31, 2019	$ 154,395	$ 597,333	$ 31,492,608	$ (2,023,721)	$ (3,164,667)	$ 26,901,553	$ 220,891	$ (408,825)	$ 26,868,014
Assign patronage		(597,333)	590,198	7,135		- -			
Comprehensive income:									
Net margins		2,595,226				2,595,226			2,595,226
Postretirement benefit obligation									
Amortization								23,644	23,644
Total comprehensive income									2,618,870
Net change in memberships	1,690								1,690
Refunds to estates					(138,500)	(138,500)			(138,500)
Other equities			(31,336)			(31,336)	7,479		(23,857)
Balance - May 31, 2020	156,085	2,595,226	32,051,470	(2,016,586)	(3,303,167)	29,326,943	228,370	(385,181)	29,326,217
Assign patronage		(2,595,226)	2,585,680	9,546		- -			
Comprehensive income:									
Net margins		3,251,893				3,251,893			3,251,893
Postretirement benefit obligation									
Amortization								23,884	23,884
Total comprehensive income									3,275,777
Net change in memberships	2,860								2,860
Refunds to estates					(176,099)	(176,099)			(176,099)
Other equities			(55,742)			(55,742)	9,658		(46,084)
Balance - May 31, 2021	$ 158,945	$ 3,251,893	$ 34,581,408	$ (2,007,040)	$ (3,479,266)	$ 32,346,995	$ 238,028	$ (361,297)	$ 32,382,671

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

GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION

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

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 3,251,893	$ 2,595,226
Adjustments to reconcile net margins to net cash provided by (used in) operating activities:		
Depreciation:		
Charged to expense	4,011,215	3,905,902
Charged to clearing accounts	180,568	191,861
Patronage capital credits assigned	(764,520)	(1,143,354)
Loss on disposition of equipment	47,271	7,187
Amortization of postretirement actuarial adjustment	23,884	23,644
PPP loan forgiveness	(641,100)	- -
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts and other receivables	(7,623,556)	607,236
Material and supplies	(52,492)	1,067,809
Other assets	130,844	31,783
Prepaid pension costs	231,792	177,892
Accounts payable	173,980	(391,074)
Consumer deposits	13,031	(76,567)
Accumulated postretirement benefits	139,039	116,594
Accrued expenses	49,454	(93,915)
Net cash provided by (used in) operating activities	(828,697)	7,020,224
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(3,321,947)	(6,400,955)
Plant removal costs	(395,360)	(343,440)
Salvage recovered from retired plant	43,226	9,130
Receipts from other investments, net	305,637	97,876
Net cash (used in) investing activities	(3,368,444)	(6,637,389)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in memberships	2,860	1,690
Refund of patronage capital to members	(231,841)	(169,836)
Increase in other equities	9,658	7,479
Principal payments on long-term debt	(2,531,253)	(2,039,249)
Advances of long-term debt	641,100	11,000,000
Principal payments on short-term notes payable	- -	(550,000)
Net cash provided by (used in) financing activities	(2,109,476)	8,250,084
Net increase (decrease) in cash and cash equivalents	(6,306,617)	8,632,919
Cash and cash equivalents, beginning of year	8,721,435	88,516
Cash and cash equivalents, end of year	$ 2,414,818	$ 8,721,435
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 758,132	$ 1,315,840

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

GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Description of business

Grayson Rural Electric Cooperative Corporation (Grayson) provides distribution electric services to residential, business, and commercial consumers concentrated in a six-county area of eastern Kentucky. Grayson 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 generally accepted accounting principles. The more significant of these policies are as follows:

Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the preparation of the financial statements.

Electric Plant

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

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to electric plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation for distribution plant. Gain or loss is recognized on disposition of general plant items. Electric plant consists of the following as of May 31, 2021 and 2020:

	2021	2020
Distribution plant	$ 79,248,316	$ 80,122,697
General plant	6,404,108	6,763,853
	$ 85,652,424	$ 86,886,550

Depreciation

Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Depreciation rates are as follows:

Distribution plant	2.89% - 6.67%
Structures and improvements	2.00%
Transportation equipment	16.00%
Other general plant items	6.00% - 16.00%

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents

Grayson considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. Grayson maintains its cash balances, which may exceed the federally insured limit, with several financial institutions. These financial institutions have strong credit ratings and management believes that the credit risk related to the accounts is minimal.

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. Grayson 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

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

Taxes

Grayson 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. Grayson'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

Grayson is one of 16 members of East Kentucky Power Cooperative, Inc. (East Kentucky). Under a wholesale power agreement, Grayson 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 Grayson's customers using a methodology prescribed by the PSC.

Advertising

Grayson expenses advertising costs as incurred. Advertising expenses were $1,868 and $607 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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Risk Management

Grayson 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

Grayson 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

Grayson qualifies as a tax-exempt organization under Section 501(c)(12) of the Internal Revenue Code. Income from certain activities not directly related to Grayson'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.

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

Grayson'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.

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 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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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 credits losses that have taken place during the period. This standard will be effective for the year ending May 31, 2024.

Grayson 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 September 22, 2021, the date the financial statements were available to be issued.

Note 2. Revenue Recognition

Revenue from contracts

Grayson is engaged in the distribution and sales of electricity to residential and commercial customers in six counties in eastern Kentucky. Revenue from these activities is generated from tariffs approved by the PSC. Grayson 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 Grayson. 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.

Note 2. Revenue Recognition (Continued)

Significant judgements

Grayson has two billing cycles that process 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, Grayson'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

Grayson 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	$ 24,122,967	$ 23,250,214
Large commercial	2,976,603	2,823,753
Small commercial	2,321,479	2,271,122
Industrial	1,877,308	1,778,090
Other	8,451	9,007
	$ 31,306,808	$ 30,132,186

Contract assets and cost liabilities

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

	2021	2020	2019
Contract assets			
Unbilled pole attachments	$ 229,105	$ 223,315	$ 215,650
Contract liabilities			
Consumer deposits	$ 1,402,568	$ 1,386,083	$ 1,486,999

NOTES TO FINANCIAL STATEMENTS

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	$ 17,221,711	$ 16,794,644
CFC, CTCs	604,944	618,949
CoBank, patronage capital	269,303	248,610
CFC, patronage capital	208,214	200,322
Other	634,444	617,208
	$ 18,938,616	$ 18,479,733

Grayson records patronage capital assigned by associated organizations in the year in which such assignments are received. Investments and purchases from National Bank for Cooperatives (CoBank) are a condition of borrowing loan funds. 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.

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, Grayson may distribute the difference between 25.00% and the payments made to such estates. Members' equity as of May 31, 2021 and 2020 was 35.84% and 32.79% of total assets, respectively.

Note 5. Long-Term Debt

All assets, except vehicles, are pledged as collateral on the long-term debt to Federal Financing Bank (FFB), CoBank, and National Rural Utilities Cooperative Finance Corporation (CFC) under a joint mortgage agreement. The long-term debt is due in quarterly and monthly installments of varying amounts through 2040. RUS assess 12.5 basis points to administer the FFB loans.

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

	2021	2020
FFB notes at 0.02% to 1.14%	$ 36,469,200	$ 37,996,733
CoBank (refinanced RUS notes) at 4.62%	5,759,348	6,332,247
CFC notes at 3.06% to 3.15%	215,854	280,668
CFC (refinanced RUS notes) at 3.25% to 3.70%	7,897,268	8,263,275
	50,341,670	52,872,923
	2,573,874	2,013,145
	$ 47,767,796	$ 50,859,778

Note 5. Long-Term Debt (Continued)

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	$	2,573,874
2023		2,581,965
2024		2,587,863
2025		2,641,851
2026		2,645,975
Thereafter		37,310,142
	$	50,341,670

Note 6. Short-Term Notes Payable

As of May 31, 2021 and 2020, Grayson had a short-term line of credit of $4,200,000 with CFC and a short-term line of credit of $2,000,000 with 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 in March 2022 and the CoBank line of credit matures in December 2021.

Note 7. Pension Plan

All eligible employees of Grayson 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.

Grayson's contributions to the RS Plan in 2021 and 2020 represent less than 5 percent of the total contributions made to the plan by all participating employers. Grayson made contributions to the plan of $634,133 in 2021 and $638,286 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 percent 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.

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan (Continued)

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 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 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 chooses 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).

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). On March 15, 2013, Grayson made a prepayment of $1,701,130 to the RS Plan. The amount is being amortized over 15 years.

Note 8. Postretirement Benefits

Grayson sponsors a defined benefit plan that provides medical insurance coverage for retired employees and their spouses. Grayson pays all the premiums for retirees and their spouses. For measurement purposes, an annual rate of increase of 5.00% in 2021, 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% in 2021 and 2020. There have been no significant changes that affect the comparability of 2021 and 2020.

Note 8. Postretirement Benefits (Continued)

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

	2021	2020
Projected benefit obligation	$ (3,464,631)	$ (3,325,592)
Plan assets at fair value	- -	- -
Total	$ (3,464,631)	$ (3,325,592)

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

	2021	2020
Benefit obligation at beginning of year	$ 3,325,592	$ 3,208,998
Components of net periodic benefit cost:		
Service cost	109,548	109,580
Interest cost	152,780	147,028
Net periodic benefit cost	262,328	256,608
Benefits paid	(123,289)	(140,014)
Benefit obligation at end of year	$ 3,464,631	$ 3,325,592

	2021	2020
Amounts recognized in the balance sheet consists of:		
Accumulated postretirement benefits	$ (3,464,631)	$ (3,325,592)
Amounts included in other comprehensive income:		
Postretirement benefits amortization of net loss	$ 23,884	$ 23,644
Effect of 1.00% increase in the health care trend:		
Postemployment benefit obligation	$ 3,690,000	
Net periodic benefit cost	$ 280,000	

Projected retiree benefit payments for the next five years are expected to be as follows: 2022 - $140,000; 2023 - $117,700; 2024 - $115,000; 2025 - $111,800; 2026 - $99,900.

Note 9. Commitments

Grayson 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.

NOTES TO FINANCIAL STATEMENTS

Note 10. Environmental Contingency

Grayson 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 Grayson 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 Grayson's financial position or its future cash flows.

Note 11. Related Party Transactions

Several of the directors of Grayson and its General Manager and CEO are on the boards of directors of various associated organizations.

Note 12. Contingencies

Grayson 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 13. Labor Force

Approximately 45.00% of Grayson's labor force is subject to a collective bargaining agreement. A five-year agreement was negotiated and approved for the period starting January 1, 2018 between Grayson and the International Brotherhood of Electric Workers (IBEW).

Note 14. 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 Grayson as of September 22, 2021, management believes that a material impact on Grayson'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
Grayson Rural Electric Cooperative Corporation
Grayson, 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 Grayson Rural Electric Cooperative Corporation (the Cooperative), which comprise the balance sheet as of May 31, 2021 and the related statements of revenue and comprehensive income, members' equities and cash flows for the year then ended, and related notes to the financial statements, and have issued our report thereon dated September 22, 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 results 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
September 22, 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
Grayson Rural Electric Cooperative Corporation
Grayson, 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 Grayson Rural Electric Cooperative Corporation (the Cooperative), which comprise the balance sheet as of May 31, 2021, and the related statements of revenue and comprehensive income, 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 September 22, 2021. In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 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;

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- Seek approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over material and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits, which are listed below; and
- Comply with the requirements for the detailed schedule of investments, of which there were none.

The deferred debits are as follows:

Accelerated pension payment	$	317,194
System mapping costs		524,300
	$	841,494

The deferred credits are as follows:

Consumer advances for construction	$	110,087

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
September 22, 2021

JNM

Jones, Nale & Mattingly PLC

To the Board of Directors
Grayson Rural Electric Cooperative Corporation
Grayson, Kentucky

We have audited the financial statements of Grayson Rural Electric Cooperative (the Cooperative) for the years ended May 31, 2021 and 2020, and have issued our report thereon dated September 22, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 17, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Cooperative are described in Note 1 to the financial statements. We noted no transactions entered into by the Cooperative during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

> Management's estimate of depreciation expense is based on the depreciation method employed and the estimate of the remaining useful lives of the depreciable assets. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

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

- Patronage Capital (Note 4)
- Long-Term Debt (Note 5)
- Pension Plan (Note 7)
- Postretirement Benefits (Note 8)

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

- $6,682,278 increase to Miscellaneous Accounts Receivable for FEMA reimbursement

- $448,770 increase to nonoperating margins for PPP loan forgiveness

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 22, 2021.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

Jones, Nale & Mattingly PLC

Louisville, Kentucky
September 22, 2021