

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND OTHER INFORMATION
JUNE 30, 2022 AND 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Cumberland Electric Membership Corporation
Clarksville, Tennessee

Report on the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Cumberland Electric Membership Corporation (the Cooperative) and subsidiary (collectively, "the Group"), which comprise the consolidated balance sheets as of June 30, 2022 and 2021, and the related consolidated statements of income and retained earnings, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Group as of June 30, 2022 and 2021, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Group and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility for the Consolidated Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Group's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Group's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not required parts of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Information

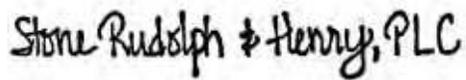
Management is responsible for the other information included in the report. The other information comprises the directory of officials and schedules of statistical data but does not include the financial statements and our

auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2022, on our consideration of the Group's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Group's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Group's internal control over financial reporting and compliance.



Clarksville, Tennessee

August 15, 2022

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2022 AND 2021

ASSETS

	<u>2022</u>	<u>2021</u>
<u>PLANT - At Cost</u>		
Plant in service	\$ 588,921,400	\$ 523,010,100
Construction work in progress	25,766,300	32,464,300
Total plant	<u>614,687,700</u>	<u>555,474,400</u>
Less: accumulated depreciation	195,078,500	185,269,000
Net plant	<u>419,609,200</u>	<u>370,205,400</u>
<u>LONG-TERM INVESTMENTS</u>		
Investment in associated organization	<u>3,788,300</u>	<u>3,727,300</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	38,154,700	11,569,900
Accounts receivable	29,822,400	25,567,100
Unbilled revenue	6,264,400	5,319,700
Interest receivable	37,300	27,700
Rents receivable	2,325,700	1,120,600
Current portion of prepaid retirement	564,900	1,130,400
Materials and supplies - at average cost	12,620,400	7,868,400
Prepayments	42,650,900	63,910,300
Total current assets	<u>132,440,700</u>	<u>116,514,100</u>
<u>OTHER ASSETS</u>		
Deposits	-	40,000
Intangible assets	1,351,700	696,300
Prepaid retirement	-	564,900
Receivables - TVA Energy Right program	2,692,200	3,171,900
Total other assets	<u>4,043,900</u>	<u>4,473,100</u>
Total assets	<u>\$ 559,882,100</u>	<u>\$ 494,919,900</u>

The accompanying notes are an integral part of the financial statements

LIABILITIES AND CAPITAL

	<u>2022</u>	<u>2021</u>
<u>CAPITAL</u>		
Memberships	\$ 1,033,600	\$ 1,009,800
Retained earnings	235,062,800	219,765,400
Total capital	<u>236,096,400</u>	<u>220,775,200</u>
<u>LONG-TERM DEBT</u>		
Co-Bank	1,158,400	2,928,000
National Rural Utilities Cooperative Finance Corporation	3,930,300	4,519,800
Rural Utilities Service	235,952,900	192,470,000
Total long-term debt	<u>241,041,600</u>	<u>199,917,800</u>
<u>CURRENT LIABILITIES</u>		
Accounts payable	49,153,100	42,496,600
Accrued taxes	2,671,200	2,545,200
Accrued interest	90,300	93,400
Current portion of accrued postretirement benefit cost	409,700	416,900
Current portion of accrued sick pay and annual leave	2,154,000	1,668,000
Current portion of long-term debt	8,876,200	7,089,100
Total current liabilities	<u>63,354,500</u>	<u>54,309,200</u>
<u>OTHER LIABILITIES</u>		
Accrued postretirement benefit cost	8,962,000	8,954,600
Accrued sick pay and annual leave	1,365,800	1,804,600
Advances - TVA Energy Right program	2,795,300	3,247,500
Customer deposits	6,266,500	5,911,000
Total other liabilities	<u>19,389,600</u>	<u>19,917,700</u>
Total liabilities and capital	<u>\$ 559,882,100</u>	<u>\$ 494,919,900</u>

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>OPERATING REVENUES</u>	<u>\$ 325,962,100</u>	<u>\$ 293,189,800</u>
<u>OPERATING EXPENSES</u>		
Cost of services	220,031,400	197,207,400
Distribution expense - operations	22,628,100	19,804,000
Distribution expense - maintenance	22,538,800	21,379,100
Customer accounts	7,337,000	7,342,100
Sales and customer services	3,038,900	2,656,500
Administrative and general	10,980,200	9,791,900
Depreciation	19,119,200	16,719,800
Interest	5,870,200	5,177,100
Maintenance of general plant	881,700	1,030,100
Total operating expenses	<u>312,425,500</u>	<u>281,108,000</u>
Income from operations	<u>13,536,600</u>	<u>12,081,800</u>
<u>OTHER INCOME</u>		
Interest	169,200	117,800
Miscellaneous (net)	1,591,600	598,300
Total other income	<u>1,760,800</u>	<u>716,100</u>
<u>NET INCOME</u>	15,297,400	12,797,900
<u>RETAINED EARNINGS - BEGINNING</u>	<u>219,765,400</u>	<u>206,967,500</u>
<u>RETAINED EARNINGS - ENDING</u>	<u>\$ 235,062,800</u>	<u>\$ 219,765,400</u>

The accompanying notes are an integral part of the financial statements.

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</u>		
Net income	\$ 15,297,400	\$ 12,797,900
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	19,119,200	16,719,800
Net interest paid from cushion of credit	-	28,800
Changes in current and deferred items:		
Accounts receivable	(4,255,300)	257,200
Unbilled revenue	(944,700)	(802,800)
Grant receivable	-	411,600
Interest receivable	(9,600)	-
Rents receivable	(1,205,100)	(103,000)
Materials and supplies	(4,752,000)	(1,760,600)
Prepayments	22,389,800	(60,877,100)
Deposits	40,000	-
Receivables - TVA Energy Right program	479,700	489,000
Accounts payable	6,656,500	18,707,200
Customer deposits	355,500	269,300
Deferred revenue	-	(175,000)
Accrued and other expenses	170,300	1,504,100
Net cash provided by (used in) operating activities	<u>53,341,700</u>	<u>(12,533,600)</u>
<u>CASH USED IN INVESTING ACTIVITIES</u>		
Additions to plant	(68,523,000)	(67,579,300)
Purchase of intangible assets	(655,400)	(372,700)
Collections of notes receivable from sales of plant	-	24,600
Investments sold and matured	(61,000)	8,300
Net cash used in investing activities	<u>(69,239,400)</u>	<u>(67,919,100)</u>
<u>CASH PROVIDED BY FINANCING ACTIVITIES</u>		
Memberships	23,800	33,800
Net proceeds from (payments on) line of credit	-	(15,000,000)
Proceeds from long-term debt	50,000,000	93,000,000
Repayments of long-term debt	(7,089,100)	(6,314,000)
Advances - TVA Energy Right program	(452,200)	(528,200)
Net cash provided by financing activities	<u>42,482,500</u>	<u>71,191,600</u>
<u>NET CHANGE IN CASH AND CASH EQUIVALENTS</u>	26,584,800	(9,261,100)
<u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	<u>11,569,900</u>	<u>20,831,000</u>
<u>CASH AND CASH EQUIVALENTS - ENDING</u>	<u>\$ 38,154,700</u>	<u>\$ 11,569,900</u>

During the years ended June 30, 2022 and 2021, the Cooperative used \$-0- and \$17,708,400, respectively, of the cushion of credit to make debt service payments.

The accompanying notes are an integral part of the financial statements

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

1. Summary of Significant Accounting Policies

General

Cumberland Electric Membership Corporation (the Cooperative) was incorporated under the laws of the State of Tennessee on April 20, 1938, and provides electric power to Cheatham, Montgomery, Robertson, Stewart, and the larger portion of Sumner County, Tennessee. This service area covers all the above counties, except the cities of Clarksville, Gallatin, and Springfield, which have municipally owned plants. The Cooperative purchases all of its electricity from the Tennessee Valley Authority (TVA) under a contract requiring a 20-year notification to terminate. Under this contract, the Cooperative is prohibited from using surplus revenues to make dividend payments. Instead, any surplus revenue is to be reinvested in electric plant or to make debt service payments.

Cumberland Connect, LLC (Connect) was formed in April 2019, under the laws of Tennessee, to provide commercial and residential high-speed internet, video and phone services to their members in the service area described above. Connect is a wholly owned subsidiary of the Cooperative. The liability of the member of Connect is limited in accordance with Tennessee state law. Connect began operations and delivering broadband services during the year ended June 30, 2020. Effective May 1, 2020, the Cooperative began leasing fiber to Connect under a 20-year agreement. The operations of Connect are consolidated in these financial statements. Revenue from these services accounted for less than 3.90 and 1.70 percent of consolidated operating revenue during the years ended June 30, 2022 and 2021, respectively.

The Cooperative is directed by a board of directors whose members are elected on a staggered basis from the various counties served. The board of directors of the Cooperative serve as the board of directors of Connect.

The consolidated financial statements of the Cooperative have been prepared on the accrual basis of accounting and include the accounts of the Cooperative and Connect (together referred to as "the Group"). All material intercompany balances and transactions have been eliminated in the consolidation. At June 30, 2022 and 2021, Connect had a payable to the Cooperative of \$29,836,500 and \$20,183,900, respectively.

Use of Estimates

The Group's consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America which require the use of management's estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from estimates in the near term and variances could have a material effect on the consolidated financial statements.

Concentrations of Credit Risk

Financial instruments that potentially subject the Group to significant concentrations of credit risk consist principally of cash, notes receivable and accounts receivable. The Group places its cash with federally-insured financial institutions after a review of the institutions' consolidated financial statements. With respect to accounts receivable, credit risk is dispersed across a large number of customers who are geographically concentrated in the Group's service area. The Group obtains a security deposit or third-party guaranty when necessary. Accounts receivable are otherwise unsecured.

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2022 AND 2021

1. Summary of Significant Accounting Policies (Cont'd)

System of Accounts

The Cooperative maintains its records in accordance with the Uniform System of Accounts prescribed by the Rural Utility Service (RUS).

Functional Accounting

The Cooperative classifies certain expenses under functional classifications as required by the RUS. Specifically, expenses such as taxes, insurance and employee benefits are allocated to the function to which they relate.

Electric Plant, Maintenance and Depreciation

Electric plant is stated at the original cost of construction which includes the cost of contracted services, direct labor, materials and overhead items. Contributions from others toward the construction of electric plant are credited to the applicable plant accounts.

When property which represents a retirement unit is replaced or removed, the cost of such property, as determined from the continuing property records, is credited to electric plant and such cost, together with cost of removal less salvage, is charged to the accumulated provision for depreciation. Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating and other accounts. Planned major maintenance costs are expensed as incurred.

When purchased, line transformers and electric meters are added to plant at the cost of material and an estimation for installation costs. The installation cost estimate is recorded as a reduction of operating distribution expense at the time of purchase and is offset with the actual labor and overhead costs upon installation of the equipment.

The electric plant is depreciated by classification on a straight-line basis using rates which estimate the useful life of each classification. The provision for depreciation of \$19,845,000 and \$18,223,000 for the years ended June 30, 2022 and 2021, consists of \$18,250,100 and \$16,410,800 charged directly to operations, and \$1,594,900 and \$1,812,200 charged to transportation expense - clearing.

Telecommunications Plant, Maintenance and Depreciation

Telecommunications plant is stated at the original cost of construction which includes the cost of contracted services, direct labor, material and overhead items. Engineering and other network design-related costs are allocated to work orders based on the work order for each circuit unit. Maintenance and repairs, including the renewal of minor items of plant not comprising a plant unit, are charged to the appropriate expense account.

The telecommunications plant is depreciated by classification on a straight-line basis using rates which estimate the useful life of each classification. Estimated useful lives range from five to thirty years depending on the classification of the asset. The provision for depreciation was \$869,100 and \$309,000 for the years ended June 30, 2022 and 2021, respectively.

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2022 AND 2021

1. Summary of Significant Accounting Policies (Cont'd)

Cash Equivalents and Cash Flow Information

The Group considers all highly liquid debt instruments purchased with maturities of 90 days or less to be cash equivalents, including investments in repurchase agreements, which are secured by the underlying securities. Cash payments for interest were \$5,873,300 and \$5,183,400 for the years ended June 30, 2022 and 2021, respectively. The Cooperative made interest payments from the cushion of credit account of \$-0- and \$150,600 for the years ended June 30, 2022 and 2021, respectively. For cash flow presentation, these amounts were netted with interest earned on the cushion of credit, which were \$-0- and \$121,800 for the years ended June 30, 2022 and 2021, respectively.

Certain financial institutions pledge collateral for deposits exceeding federal assurance limits. At June 30, 2022 and 2021, cash and cash equivalents were represented by deposits at financial institutions totaling \$1,276,300 and \$10,860,300, respectively, of which \$333,400 and \$526,200, respectively, was insured by the FDIC and \$942,900 and \$10,334,100, respectively, was uninsured.

Also included in cash and cash equivalents at June 30, 2022 and 2021 was \$36,050,000 and \$-0-, respectively, invested in a constant-dollar mutual fund under a reverse repurchase agreement. These amounts invested in a mutual fund are held under an agreement to resell the investment at a fixed price ("reverse repurchase agreements"). The reverse repurchase agreement may result in market and credit exposure in the event the fund value declines and the counterparty to the transaction is unable to fulfill its contractual obligations. However, the mutual fund's objective is to maintain a constant dollar value with a return on the amount invested. The mutual fund investment is not held by the financial institution; therefore it is not included in the deposits in financial institutions total in the preceding paragraph.

Accounts and Notes Receivable

Accounts receivable for electric services are recorded at the time of billing based upon the reading of the metered electric consumption of the member. Forfeited discounts on accounts receivable are considered earned when the discount period expires. Accounts receivable for telecommunication services are recorded at time of billing based upon the service selected by the customer. Notes receivable are recorded at cost less imputed interest, when applicable, at the time the underlying transaction is completed. Imputed interest income on these notes is recorded as the income is earned.

Material and Supplies Inventories

Inventories are stated at average cost and are determined by the moving average inventory method. A perpetual inventory is maintained by the Group with a physical inventory being taken annually at each inventory location.

Prepayments

Prepayments include \$38,793,600 and \$60,716,100 paid to TVA to prepay the Cooperative's monthly power bill. Prepayments also include \$564,900 and \$1,699,800 paid to NRECA for health insurance and pension expenses as of June 30, 2022 and 2021, respectively. See note eight, RS Plan Prepayment Option section for additional information.

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2022 AND 2021

1. Summary of Significant Accounting Policies (Cont'd)

Intangible Assets

Intangible assets include purchase of internet protocol addresses necessary for activities of Connect. The IP addresses are not amortized due to the infinite life of these assets.

TVA Energy Right Receivables and Advances

These accounts represent amounts due from members for conservation loans for purchases of electric heat pumps. The loans are pass-through transactions for the Cooperative. The Cooperative does not retain the risk of loss on these receivables as long as they comply with the terms of their agreement with TVA. The Cooperative is in substantial compliance with the terms of this agreement.

Customer Deposits

The Cooperative requires deposits as collateral for electricity usage on certain accounts when the accounts are established. These deposits are applied to accounts receivable when an account becomes uncollectible or is terminated. Once a residential member has demonstrated good credit for three years the deposit is refunded. Deposits refunded or applied to accounts receivable were \$2,269,500 and \$1,616,700 during the years ended June 30, 2022 and 2021, respectively.

Deferred Revenue

The Cooperative entered into a voltage reduction agreement with TVA in January 2011. TVA paid the Cooperative \$3,500,000 in exchange for 10,000 kW of peak load reduction through voltage control over a ten year period. Revenue from the agreement is recognized pro-rata over the ten year period. Revenue of \$0- and \$175,000 was recognized in the during the years ended June 30, 2022 and 2021, respectively. Revenue of \$3,325,000 was recognized in prior fiscal years. No deferred revenue remained at June 30, 2022 or 2021.

Revenue Recognition

Electric sales revenue and cost of power are recognized when power is distributed. Cost of power is billed monthly as of the last day of the month. Revenue is recorded net of sales tax. Electric sales revenue and cost of power are netted with pass-through credits from TVA to customers. During the years ended June 30, 2022 and 2021, total credits were \$4,843,600 and \$3,781,700, respectively. Telecommunication service revenue is recognized in the period in which it is billed in advance of the service being provided. The related unearned revenue is not material to the financial statements.

The timing of revenue recognition, billings and cash collections results in billed accounts receivable and unbilled revenue (contract assets) on the balance sheet. Amounts are billed monthly. Generally, billing occurs subsequent to revenue recognition, resulting in contract assets (unbilled revenue).

The ending balances were as follows:

	<u>June 30,</u>		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
Receivables	\$ 29,822,400	\$ 25,567,100	\$ 25,824,300
Unbilled revenue	6,264,400	5,319,700	4,516,900

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2022 AND 2021

1. Summary of Significant Accounting Policies (Cont'd)

Uncollectible Accounts

Bad debts are charged to expense using the direct-write-off method which is not materially different from the allowance-for-bad-debt method. Service is terminated for nonpayment approximately twenty-five days after the bill is prepared. Collection efforts continue for thirty to forty-five days after service is terminated. Once these collection efforts are completed, the account is written off to bad debts unless other arrangements for payment are made. These uncollectible amounts are approved monthly by the board of directors. Between March 17, 2020 and June 15, 2020, service terminations and late fee assessments were deferred due to the ongoing presence of the COVID-19 pandemic. Any past due amounts present at June 15, 2020, were added equally over the next eight months to members' invoices.

Income Taxes

The Cooperative has been determined by the Internal Revenue Service (IRS) to be a tax exempt organization under Section 501(c)(12) of the Internal Revenue Code. The Cooperative has not been determined to be a private foundation by the IRS. The Cooperative is no longer subject to U.S. federal or state income tax examinations by tax authorities for fiscal years ended before June 30, 2019. Connect is a disregarded entity for federal income tax purposes. Therefore the activity of Connect is included in the tax filings of the consolidated entity. The activities of Connect are not expected to negatively impact the tax exempt status of these tax filings.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising costs expensed were \$777,200 and \$489,300 for the years ended June 30, 2022 and 2021, respectively.

Date of Management's Review

Subsequent events have been evaluated through August 15, 2022, which is the date the consolidated financial statements were available to be issued.

2. Plant

A summary of changes in Electric Plant for the year ended June 30, 2022, is as follows:

	<u>Balance</u> <u>July 1, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2022</u>
<u>Distribution and</u>				
<u>Transmission Plant</u>				
Land and land rights	\$ 1,521,000	\$ -	\$ -	\$ 1,521,000
Station equipment	64,406,100	69,200	63,400	64,411,900
Electric transmission system	<u>365,608,000</u>	<u>25,112,700</u>	<u>7,025,100</u>	<u>383,695,600</u>
	<u>431,535,100</u>	<u>25,181,900</u>	<u>7,088,500</u>	<u>449,628,500</u>
<u>General Plant</u>				
Land and land rights	3,697,100	-	-	3,697,100
Structures and improvements	19,451,000	355,000	-	19,806,000
Transportation equipment	15,704,600	1,183,200	378,600	16,509,200
Communication equipment	34,122,800	41,636,700	64,600	75,694,900
Furniture and equipment	<u>11,901,000</u>	<u>752,500</u>	<u>201,300</u>	<u>12,452,200</u>
	<u>84,876,500</u>	<u>43,927,400</u>	<u>644,500</u>	<u>128,159,400</u>
Work in progress	<u>31,520,200</u>	<u>12,800,000</u>	<u>19,440,500</u>	<u>24,879,700</u>
Total electric plant	<u>\$ 547,931,800</u>	<u>\$ 81,909,300</u>	<u>\$ 27,173,500</u>	<u>\$ 602,667,600</u>

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2022 AND 2021

2. **Plant (Cont'd)**

A summary of changes in Accumulated Depreciation on Electric Plant for the year ended June 30, 2022, is as follows:

	Balance July 1, 2021	Additions	Deletions	Balance June 30, 2022
Distribution and Transmission Plant				
Land and land rights	\$ -	\$ -	\$ -	\$ -
Station equipment	34,634,600	908,000	63,400	35,479,200
Electric transmission system	<u>117,704,800</u>	<u>15,187,300</u>	<u>10,480,000</u>	<u>122,412,100</u>
	<u>152,339,400</u>	<u>16,095,300</u>	<u>10,543,400</u>	<u>157,891,300</u>
General Plant				
Land and land rights	-	-	-	-
Structures and improvements	5,194,700	394,000	-	5,588,700
Transportation equipment	6,178,100	1,689,100	378,600	7,488,600
Communications equipment	10,466,600	1,831,400	80,200	12,217,800
Furniture and equipment	<u>10,764,200</u>	<u>128,400</u>	<u>195,600</u>	<u>10,697,000</u>
	<u>32,603,600</u>	<u>4,042,900</u>	<u>654,400</u>	<u>35,992,100</u>
Total accumulated depreciation on electric plant	<u>\$ 184,943,000</u>	<u>\$ 20,138,200</u>	<u>\$ 11,197,800</u>	<u>\$ 193,883,400</u>

A summary of changes in Telecommunications Plant for the year ended June 30, 2022, is as follows:

	Balance July 1, 2021	Additions	Deletions	Balance June 30, 2022
Customer premise equipment	\$ 3,034,600	\$ 2,223,700	\$ -	\$ 5,258,300
Network equipment	2,607,000	1,777,300	-	4,384,300
Fiber hubsites	<u>956,900</u>	<u>533,900</u>	-	<u>1,490,800</u>
	<u>6,598,500</u>	<u>4,534,900</u>	-	<u>11,133,400</u>
Work in progress	<u>944,100</u>	<u>267,300</u>	<u>324,700</u>	<u>886,700</u>
Total telecommunications plant	<u>\$ 7,542,600</u>	<u>\$ 4,802,200</u>	<u>\$ 324,700</u>	<u>\$ 12,020,100</u>

A summary of changes in Accumulated Depreciation on Telecommunications Plant for the year ended June 30, 2022, is as follows:

	Balance July 1, 2021	Additions	Deletions	Balance June 30, 2022
Customer premise equipment	\$ 169,500	\$ 423,800	\$ -	\$ 593,300
Network equipment	142,900	405,700	-	548,600
Fiber hubsites	<u>13,600</u>	<u>39,600</u>	-	<u>53,200</u>
Total accumulated depreciation on telecommunications plant	<u>\$ 326,000</u>	<u>\$ 869,100</u>	<u>\$ -</u>	<u>\$ 1,195,100</u>

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2022 AND 2021

2. **Plant (Cont'd)**

A summary of changes in Electric Plant for the year ended June 30, 2021, is as follows:

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2021</u>
Distribution and				
Transmission Plant				
Land and land rights	\$ 1,521,000	\$ -	\$ -	\$ 1,521,000
Station equipment	64,347,700	64,700	6,300	64,406,100
Electric transmission system	<u>347,778,700</u>	<u>23,504,900</u>	<u>5,675,600</u>	<u>365,608,000</u>
	<u>413,647,400</u>	<u>23,569,600</u>	<u>5,681,900</u>	<u>431,535,100</u>
General Plant				
Land and land rights	3,697,100	-	-	3,697,100
Structures and improvements	17,679,700	1,771,300	-	19,451,000
Transportation equipment	14,108,800	1,832,500	236,700	15,704,600
Communication equipment	16,629,200	17,496,800	3,200	34,122,800
Furniture and equipment	<u>11,732,500</u>	<u>201,100</u>	<u>32,600</u>	<u>11,901,000</u>
	<u>63,847,300</u>	<u>21,301,700</u>	<u>272,500</u>	<u>84,876,500</u>
Work in progress	<u>14,725,100</u>	<u>34,654,000</u>	<u>17,858,900</u>	<u>31,520,200</u>
Total electric plant	<u>\$ 492,219,800</u>	<u>\$ 79,525,300</u>	<u>\$ 23,813,300</u>	<u>\$ 547,931,800</u>

A summary of changes in Accumulated Depreciation on Electric Plant for the year ended June 30, 2021, is as follows:

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2021</u>
Distribution and				
Transmission Plant				
Land and land rights	\$ -	\$ -	\$ -	\$ -
Station equipment	33,733,100	907,700	6,200	34,634,600
Electric transmission system	<u>111,616,200</u>	<u>14,302,700</u>	<u>8,214,100</u>	<u>117,704,800</u>
	<u>145,349,300</u>	<u>15,210,400</u>	<u>8,220,300</u>	<u>152,339,400</u>
General Plant				
Land and land rights	-	-	-	-
Structures and improvements	4,814,100	380,600	-	5,194,700
Transportation equipment	4,717,600	1,676,800	216,300	6,178,100
Communication equipment	9,752,300	719,500	5,200	10,466,600
Furniture and equipment	<u>10,662,000</u>	<u>124,400</u>	<u>22,200</u>	<u>10,764,200</u>
	<u>29,946,000</u>	<u>2,901,300</u>	<u>243,700</u>	<u>32,603,600</u>
Total accumulated depreciation on electric plant	<u>\$ 175,295,300</u>	<u>\$ 18,111,700</u>	<u>\$ 8,464,000</u>	<u>\$ 184,943,000</u>

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2022 AND 2021

2. **Plant (Cont'd)**

A summary of changes in Telecommunications Plant for the year ended June 30, 2021, is as follows:

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2021</u>
Customer premise equipment	\$ 556,300	\$ 2,794,800	\$ 316,500	\$ 3,034,600
Network equipment	399,800	2,322,000	114,800	2,607,000
Fiber hubsites	<u>193,900</u>	<u>763,000</u>	<u>-</u>	<u>956,900</u>
	<u>1,150,000</u>	<u>5,879,800</u>	<u>431,300</u>	<u>6,598,500</u>
Work in progress	<u>1,288,400</u>	<u>2,344,800</u>	<u>2,689,100</u>	<u>944,100</u>
Total telecommunications plant	<u>\$ 2,438,400</u>	<u>\$ 8,224,600</u>	<u>\$ 3,120,400</u>	<u>\$ 7,542,600</u>

A summary of changes in Accumulated Depreciation on Telecommunications Plant for the year ended June 30, 2021, is as follows:

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2021</u>
Customer premise equipment	\$ 12,300	\$ 157,200	\$ -	\$ 169,500
Network equipment	4,700	138,200	-	142,900
Fiber hubsites	<u>-</u>	<u>13,600</u>	<u>-</u>	<u>13,600</u>
Total accumulated depreciation on telecommunications plant	<u>\$ 17,000</u>	<u>\$ 309,000</u>	<u>\$ -</u>	<u>\$ 326,000</u>

3. **Investments**

The investments in Capital Term Certificates (CTCs) are required investments issued by the National Rural Utilities Cooperative Finance Corporation (NRUCFC) and are classified as held-to-maturity. The CTCs are required as a condition of borrowing from NRUCFC and are not readily marketable except through redemption with the NRUCFC. The estimated value shown is the cost which was verified by NRUCFC. These CTCs bear interest at the rate of 3 - 5%.

Contractual maturities of these investments at June 30, 2022 are as follows:

After Ten Years	<u>\$ 3,788,300</u>
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4. **Unbilled Revenue**

Included in accounts payable at June 30, 2022 and 2021, is \$4,477,200 and \$3,737,900 respectively, of power costs representing the amount billed by TVA for power costs incurred by the Cooperative but not yet billed to customers. The unbilled revenue of \$6,264,400 and \$5,319,700 at June 30, 2022 and 2021, respectively, is an estimate of the revenue related to these power costs.

5. **Credit Quality on Long-Term Receivables**

Long-term receivables consist of notes receivable from sales of plant and amounts due under the TVA Energy Right Receivables and Advances program, described in note one.

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2022 AND 2021

5. Credit Quality on Long-Term Receivables (Cont'd)

Notes receivable from sales of plant are considered past due according to the terms of their respective contracts. At June 30, 2022 and 2021, there were no amounts past due for notes receivable from the sales of plant.

As of June 30, 2022 and 2021, the amounts past due under the TVA Energy Right Receivables and Advances program were not material to the consolidated financial statements taken as a whole.

The Cooperative is required to abide by the requirements of TVA in attempting to collect on any past due accounts. The Cooperative obtains approval from TVA to write-off accounts and is released from any liability associated with the written-off accounts. TVA reimburses the third-party financier for any loans written-off; therefore the Cooperative bears no risk associated with the TVA Energy Right loan program and has not established an allowance for doubtful accounts in regard to this program.

6. Long-Term Debt and Line of Credit

Long-term debt is represented by mortgage notes payable as follows:

<u>Payee</u>	<u>Rate</u>	<u>2022</u>	<u>2021</u>
FFB	1.421%-1.707%	\$ 79,942,100	\$ 80,593,200
FFB	2.65%-2.79%	105,746,300	57,659,700
FFB	3.01-3.94%	56,781,600	58,941,900
Co-Bank	3.62-4.61%	2,928,000	4,716,800
NRUCFC	6.35-6.75%	<u>4,519,800</u>	<u>5,095,300</u>
Total long-term debt		249,917,800	207,006,900
Less: current portion		<u>8,876,200</u>	<u>7,089,100</u>
Long-term debt excluding current portion		<u>\$ 241,041,600</u>	<u>\$ 199,917,800</u>

The mortgage notes payable described is secured by various deeds of trust on the properties of the Cooperative and all rights, title and interest in and to the electric transmission and distribution lines and facilities. The FFB notes are notes that are payable to Federal Financing Bank and guaranteed by RUS, for 17-34 year periods with payments due quarterly. The Co-Bank notes are for 10-15 year periods with payments due monthly. The NRUCFC notes are due in quarterly installments and are not eligible for prepayment without penalty.

Changes in mortgage notes payable during the year ended June 30, 2022, was as follows:

	<u>Balance</u> <u>July 1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2022</u>
Mortgage notes payable	<u>\$ 207,006,900</u>	<u>\$ 50,000,000</u>	<u>\$ 7,089,100</u>	<u>\$ 249,917,800</u>

Long-term debt matures in each of the next five years and thereafter as follows:

<u>Year ending</u> <u>June 30,</u>	
2023	\$ 8,876,200
2024	6,518,900
2025	10,881,300
2026	9,104,700
2027	8,814,000
Later years	<u>205,722,700</u>
Total	<u>\$ 249,917,800</u>

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2022 AND 2021

6. Long-Term Debt and Line of Credit (Cont'd)

The Cooperative has a line of credit established with the NRUCFC for \$15,000,000, secured by various deeds of trust on the properties of the Cooperative and all rights, title and interest in and to the electric transmission and distribution lines and facilities. The interest rate, which varies with the lender's cost of funds, was 2.25% at June 30, 2022. There was no outstanding balance and the amount unused was \$15,000,000 at June 30, 2022.

The Cooperative has a line of credit established with CoBank for \$20,000,000, secured by equity of the Cooperative as well as all real and personal property of the Cooperative. The interest rate, which is based on the Farm Credit System's 30-day average cost of funding, was 2.26% at June 30, 2022. There was no outstanding balance of and the amount unused was \$20,000,000 at June 30, 2022.

All interest incurred has been charged to expense.

7. Pension Plan

Narrative Description

The Retirement Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Association (NRECA), is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multi-employer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Plan Information

The Cooperative's contributions to the RS Plan during the years ended June 30, 2022 and 2021, represented less than 5 percent of the total contributions to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of \$5,612,700 and \$4,346,400 during the years ended June 30, 2022 and 2021, respectively. There have been no significant changes that affect the comparability of 2022 and 2021 contributions.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded at January 1, 2021 and January 1, 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.

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2022 AND 2021

7. Pension Plan (Cont'd)

RS Plan Prepayment Option

At the December 2012, meeting of the Insurance and Financial Services Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the RS Plan to make a contribution prepayment to reduce future required contributions. The prepayment amount is the Cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The prepayment amount is typically equal approximately 2.5 times a cooperative's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, the contribution is expected to decrease by approximately 25 percent, retroactive to January 1, 2013. The 25 percent differential in billing rates is expected to continue for approximately 10 years. However, changes in interest rates, asset returns, and other plan experience difference from expected, plan assumption changes and other factors may have an impact on the differential in billing rates and the 10 year period. The prepayment is amortized over the 10 year benefit period using the straight-line method and will be fully amortized in December 2022.

8. Postretirement Benefits

The Cooperative provides health care benefits for substantially all retired employees until they reach age 65. Retirement can begin at age 55. Approximately 27 retirees were eligible to receive benefits as of June 30, 2022. The Cooperative currently pays the cost of medical insurance for these retirees. The postretirement prescription plan ceases for retirees once they reach age 65, therefore the Medicare Prescription Drug, Improvement and Modernization Act of 2003 has no effect on the plan.

In the actuarial report dated August 11, 2022, a discount rate of 4.40% was used to measure the accumulated postretirement benefit obligation (APBO). The postretirement benefit plan is unfunded.

The APBO and annual net periodic postretirement benefit cost consisted of the following:

	<u>2022</u>	<u>2021</u>
APBO – Beginning	\$ 9,371,500	\$ 9,099,300
Service cost	291,000	509,900
Interest cost	118,900	179,200
Estimated benefits paid	<u>(409,700)</u>	<u>(416,900)</u>
APBO – Ending	<u>\$ 9,371,700</u>	<u>\$ 9,371,500</u>

The following table sets forth the status of the plans and the amounts recognized in the Cooperative's balance sheets:

	<u>2022</u>	<u>2021</u>
Retirees	\$ 1,590,600	\$ 622,700
Eligible active employees	1,958,100	2,370,300
Other active employees	<u>5,823,000</u>	<u>6,378,500</u>
Total APBO	9,371,700	9,371,500
Less: Fair value of plan assets	<u>-</u>	<u>-</u>
Postretirement liability recognized at June 30	<u>\$ 9,371,700</u>	<u>\$ 9,371,500</u>
Less: Unrecognized net actuarial loss	<u>-</u>	<u>-</u>
Net postretirement benefit liability	<u>\$ 9,371,700</u>	<u>\$ 9,371,500</u>

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2022 AND 2021

8. Postretirement Benefits (Cont'd)

Contributions expected to be paid to the plan in fiscal year 2023 are \$409,700.

Amounts in accumulated other comprehensive income expected to be recognized in net periodic benefit cost in the 2023 fiscal year is \$-0-.

Benefits expected to be paid in each of the next five years and five years thereafter as follows:

<u>Year ended</u> <u>June 30,</u>	
2023	\$ 409,700
2024	508,100
2025	487,500
2026	485,500
2027	433,400
2028-2032	2,706,300

A 7.5% annual increase in health care costs is assumed in fiscal year 2023. The rate of increase is assumed to decline to an ultimate 5% by the year 2027. Should the health care costs trend rate increase by 1% each year, the fiscal year impact increases the APBO by \$1,123,200 and the aggregate of the service and interest cost components of the net period cost by \$186,700.

9. Defined Contribution 401(k) Plan

The Cooperative administers a defined contribution 401(k) plan sponsored by NRECA. Expenses of \$564,800 and \$496,300 were incurred during the years ended June 30, 2022 and 2021, respectively, for matching employee contributions to the 401(k) plan.

10. Accumulated Unpaid Vacation and Sick Leave

Accumulated unpaid vacation is accrued as it is earned. At December 31st of each year employees are divested of all accumulated vacation in excess of the amount earned in the prior two years. Final compensation includes payment for all unused vacation leave for those having been employed longer than 6 months.

In case of disability or retirement, final compensation includes payment for any unused sick leave, not to exceed 2,250 hours, less 800 hours, multiplied by 80%.

11. Memberships

During 2022, changes in memberships were as follows:

	<u>Balance</u> <u>July 1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2022</u>
Memberships	<u>\$ 1,009,800</u>	<u>\$ 110,000</u>	<u>\$ 86,200</u>	<u>\$ 1,033,600</u>

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2022 AND 2021

12. Unrelated Business Tax – Income Tax Loss Carryforwards

At June 30, 2022, the Utility had net operating loss carryforwards totaling \$1,503,100 that may be offset against future unrelated business income. If not used, the carryforwards will expire as follows:

<u>Year ended</u> <u>June 30,</u>	
2029	\$ 30,300
2030	187,200
2031	227,100
2032	235,600
2035	286,800
2036	368,200
2037	107,600
2038	60,300
	<u>\$ 1,503,100</u>

13. Collective Bargaining Agreement

The Cooperative employs electrical workers of the International Brotherhood of Electrical Workers (IBEW). Approximately forty-five percent of the Cooperative’s labor force is covered by an agreement with the IBEW which expires October 31, 2023.

14. Commitments

In May 2021, the board of directors approved a loan application to RUS for \$150 million. As of June 30, 2022, \$50 million in funds have been received. The Cooperative anticipates utilizing the remaining \$100 million during the year ending June 30, 2023.

15. Contingencies

The Cooperative is party to various lawsuits whose ultimate outcomes are not determinable. The Cooperative’s management believes that the outcome of those proceedings will not have a materially adverse effect on the accompanying financial statements.

16. Revenue Disaggregation

The following is total operating revenue disaggregated by customer type:

	<u>2022</u>	<u>2021</u>
Residential - electric	\$ 195,129,400	\$ 179,862,800
Commercial – electric	105,738,200	96,034,200
Residential – telecommunications	11,972,700	4,731,800
Commercial – telecommunications	663,800	240,400
Street and outdoor lights – electric	3,826,000	3,553,800
Other operating revenue – electric	8,632,000	8,766,800
	<u>\$ 325,962,100</u>	<u>\$ 293,189,800</u>

17. Rural Digital Opportunity Fund

During the year ended June 30, 2021, Connect was awarded funds from the FCC initiative Rural Digital Opportunity Fund. The funds will be paid over a ten-year period, beginning during the year ended June 30, 2022. Total expected revenue from RDOF is \$8,527,400. During the years ended June 30, 2022 and 2021, Connect recognized \$710,600 and \$-0-, respectively, in revenue in conjunction with this program.

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
DIRECTORY OF OFFICIALS
UNAUDITED
JUNE 30, 2022

BOARD OF DIRECTORS

Tommy G. Whittaker
Wesley H. Aymett
Shela K. Williams
Dr. Jeanie Beauchamp
Charles R. Hancock
Michael A. Mason
Charles D. Morgan, Sr.
Edward L. Oliver
Edgar E. Swan
J. Bryan Watson

President
Vice President
Secretary-Treasurer
Assistant Secretary-Treasurer

OFFICE PERSONNEL

Chris Davis
David Abernathy

Annebelle Pittenger
Seth Roberts
Mark Cook
Michael Blackwell
Michael Batson
Brad Taylor
Jonathan Fielder
Beau Baggett
Linda Turner

Angie Adkins

General Manager
Manager Engineering and
Operations Division
Manager Administrative Division
Manager Member Services
Manager of Broadband Division
Manager District Operations
Controller
Manager of Financial Services
Manager of Engineering Services
Manager of Member Experience
Supervisor of Billing and
Collections
Supervisor of General
Accounting

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
SCHEDULES OF STATISTICAL DATA
UNAUDITED
JUNE 30, 2022 AND 2021

	<u>Consumers</u>		<u>Kilowatt-Hours</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Class of Electric Service:				
Residential	97,078	94,684	1,620,008,514	1,578,700,069
Small lighting and power sales	10,322	10,251	133,029,422	129,838,469
Large lighting and power sales	825	782	1,052,540,393	1,021,972,442
Street and outdoor lighting sales	518	520	28,390,062	28,620,879
 Total	 <u>108,743</u>	 <u>106,237</u>	 <u>2,833,968,391</u>	 <u>2,759,131,859</u>
 Purchased power			 <u>2,947,348,957</u>	 <u>2,871,547,864</u>
 Kilowatt-hours sold (As above)			 2,833,968,391	 2,759,131,859
Kilowatt-hours in unbilled revenue - previous year			(45,589,402)	(39,118,495)
Kilowatt-hours in unbilled revenue - current year			49,702,618	45,589,402
Kilowatt-hours for own use			<u>1,604,600</u>	<u>1,528,245</u>
 Total kilowatt-hours sold and used			 <u>2,839,686,207</u>	 <u>2,767,131,011</u>
 Line losses and kilowatt-hours unaccounted for			 <u>107,662,750</u>	 <u>104,416,853</u>
 Percent of losses and unaccounted for Kilowatt-hours to purchases			 3.65%	 3.64%
 Cost per kilowatt-hour purchases (cents)			 7.39	 6.84
 Miles of line (pole miles) in service at end of year			 8,432	 8,312

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
CONSOLIDATED SCHEDULES OF OPERATING REVENUES
JUNE 30, 2022 AND 2021

<u>OPERATING REVENUES</u>	<u>2022</u>	<u>2021</u>
Residential	\$ 207,622,600	\$ 184,784,100
Small commercial	21,213,000	19,871,000
Large commercial	84,525,200	76,163,200
Street and outdoor lights	3,826,000	3,553,800
Rent	5,306,900	5,206,100
Forfeited discounts	1,695,700	1,594,900
Miscellaneous services	1,772,700	2,016,700
	<u>1,772,700</u>	<u>2,016,700</u>
 Total operating revenues	 <u>\$ 325,962,100</u>	 <u>\$ 293,189,800</u>

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
CONSOLIDATED SCHEDULES OF OPERATING EXPENSES
JUNE 30, 2022 AND 2021

	2022	2021
<u>OPERATING EXPENSES</u>		
Cost of services	\$ 220,031,400	\$ 197,207,400
Distribution expense - operations		
Supervision and engineering	3,656,000	3,593,500
Stations	1,925,200	1,684,600
Overhead lines	6,154,800	5,664,400
Removing and resetting line transformers	834,100	337,000
Underground lines	845,300	737,200
Street lighting and signal systems	183,700	164,100
Meters	1,851,400	1,937,500
Customer installations	1,320,400	502,900
Security lights	644,100	674,100
Building expense	327,500	354,000
Maps and records	1,668,600	1,649,600
Miscellaneous	3,066,000	2,346,600
Rents	151,000	158,500
Total	22,628,100	19,804,000
Distribution expense - maintenance		
Supervision and engineering	428,000	417,700
Station equipment	1,477,500	1,405,000
Overhead lines	7,007,300	6,276,600
Rights of way	13,111,700	12,863,200
Oil circuit reclosures	107,500	151,700
Underground lines	281,200	118,600
Line transformers	121,800	141,000
Miscellaneous	3,800	5,300
Total	22,538,800	21,379,100
Customer accounts		
Supervision	760,000	710,500
Meter reading	355,700	437,900
Consumer contracts and orders	2,730,900	2,385,800
Collecting	1,595,300	1,798,700
Uncollectible accounts	256,400	281,900
Billing and accounting	1,638,700	1,727,300
Total	7,337,000	7,342,100

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
CONSOLIDATED SCHEDULES OF OPERATING EXPENSES (CONT'D)
JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Sales and customer services		
Supervision	151,800	146,200
Customer assistance	1,626,800	1,596,000
Advertising	777,200	489,300
Selling expenses	483,100	425,000
Total	<u>3,038,900</u>	<u>2,656,500</u>
Administrative and general		
Compensation	5,964,400	5,404,100
Office supplies and expense	2,488,000	2,139,100
General management and area development	57,100	58,700
Outside services	1,139,700	1,142,500
Duplicate charges	(221,200)	(198,200)
Miscellaneous	1,552,200	1,245,700
Total	<u>10,980,200</u>	<u>9,791,900</u>
Depreciation	<u>19,119,200</u>	<u>16,719,800</u>
Interest	<u>5,870,200</u>	<u>5,177,100</u>
Maintenance of general plant	<u>881,700</u>	<u>1,030,100</u>
Total operating expenses	<u>\$ 312,425,500</u>	<u>\$ 281,108,000</u>

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION

CONSOLIDATING BALANCE SHEET SCHEDULE

JUNE 30, 2022

ASSETS

	Cumberland Electric Membership Corporation	Cumberland Connect, LLC	Eliminations	Total
<u>PLANT - At Cost</u>				
Plant in service	\$ 577,788,000	\$ 11,133,400	\$ -	\$ 588,921,400
Construction work in progress	24,879,600	886,700	-	25,766,300
Total plant	602,667,600	12,020,100	-	614,687,700
Less: accumulated depreciation	193,883,400	1,195,100	-	195,078,500
Net plant	408,784,200	10,825,000	-	419,609,200
<u>LONG-TERM INVESTMENTS</u>				
Investment in associated organization	3,788,300	-	-	3,788,300
<u>CURRENT ASSETS</u>				
Cash and cash equivalents	36,961,800	1,192,900	-	38,154,700
Accounts receivable	28,710,700	1,111,700	-	29,822,400
Unbilled revenue	6,264,400	-	-	6,264,400
Interest receivable	349,100	-	(311,800)	37,300
Rents receivable	2,325,700	-	-	2,325,700
Current portion of prepaid retirement	564,900	-	-	564,900
Materials and supplies - at average cost	11,393,200	1,227,200	-	12,620,400
Prepayments	39,523,200	3,127,700	-	42,650,900
Total current assets	126,093,000	6,659,500	(311,800)	132,440,700
<u>OTHER ASSETS</u>				
Intangible assets	-	1,351,700	-	1,351,700
Due from related party	29,836,500	-	(29,836,500)	-
Prepaid retirement	-	-	-	-
Receivables - TVA Energy Right program	2,692,200	-	-	2,692,200
Total other assets	32,528,700	1,351,700	(29,836,500)	4,043,900
Total assets	\$ 571,194,200	\$ 18,836,200	\$ (30,148,300)	\$ 559,882,100

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
CONSOLIDATING BALANCE SHEET SCHEDULE (CONT'D)

JUNE 30, 2022

LIABILITIES AND CAPITAL

	Cumberland Electric Membership Corporation	Cumberland Connect, LLC	Eliminations	Total
<u>CAPITAL</u>				
Memberships	\$ 1,033,600	\$ -	\$ -	\$ 1,033,600
Retained earnings	246,435,600	(11,372,800)	-	235,062,800
Total capital	<u>247,469,200</u>	<u>(11,372,800)</u>	<u>-</u>	<u>236,096,400</u>
<u>LONG-TERM DEBT</u>				
Co-Bank	1,158,400	-	-	1,158,400
Related party payable	-	29,836,500	(29,836,500)	-
National Rural Utilities Cooperative Finance Corporation	3,930,300	-	-	3,930,300
Rural Utilities Service	235,952,900	-	-	235,952,900
Total long-term debt	<u>241,041,600</u>	<u>29,836,500</u>	<u>(29,836,500)</u>	<u>241,041,600</u>
<u>CURRENT LIABILITIES</u>				
Accounts payable	49,153,100	-	-	49,153,100
Accrued taxes	2,610,500	60,700	-	2,671,200
Accrued interest	90,300	311,800	(311,800)	90,300
Current portion of accrued postretirement benefit cost	409,700	-	-	409,700
Current portion of accrued sick pay and annual leave	2,154,000	-	-	2,154,000
Current portion of deferred revenue	-	-	-	-
Current portion of long-term debt	8,876,200	-	-	8,876,200
Total current liabilities	<u>63,293,800</u>	<u>372,500</u>	<u>(311,800)</u>	<u>63,354,500</u>
<u>OTHER LIABILITIES</u>				
Accrued postretirement benefit cost	8,962,000	-	-	8,962,000
Accrued sick pay and annual leave	1,365,800	-	-	1,365,800
Advances - TVA Energy Right program	2,795,300	-	-	2,795,300
Customer deposits	6,266,500	-	-	6,266,500
Total other liabilities	<u>19,389,600</u>	<u>-</u>	<u>-</u>	<u>19,389,600</u>
Total liabilities and capital	<u>\$ 571,194,200</u>	<u>\$ 18,836,200</u>	<u>\$ (30,148,300)</u>	<u>\$ 559,882,100</u>

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
CONSOLIDATING SCHEDULE OF INCOME AND RETAINED EARNINGS
YEAR ENDED JUNE 30, 2022

	Cumberland Electric Membership Corporation	Cumberland Connect, LLC	Eliminations	Total
<u>OPERATING REVENUES</u>	\$ 313,325,600	\$ 12,636,500	\$ -	\$ 325,962,100
<u>OPERATING EXPENSES</u>				
Cost of services	217,924,400	2,107,000	-	220,031,400
Distribution expenses - operations	18,557,900	4,070,200	-	22,628,100
Distribution expenses - maintenance	22,538,800	-	-	22,538,800
Customer accounts	6,338,700	998,300	-	7,337,000
Sales and customer services	2,657,200	381,700	-	3,038,900
Administrative and general	8,928,700	2,051,500	-	10,980,200
Depreciation	18,250,100	869,100	-	19,119,200
Interest	5,870,200	583,000	(583,000)	5,870,200
Maintenance of general plant	881,700	-	-	881,700
Total operating expenses	<u>301,947,700</u>	<u>11,060,800</u>	<u>(583,000)</u>	<u>312,425,500</u>
Income (loss) from operations	<u>11,377,900</u>	<u>1,575,700</u>	<u>583,000</u>	<u>13,536,600</u>
<u>OTHER INCOME (EXPENSE)</u>				
Fiber lease income (expense)	5,048,600	(5,048,600)	-	-
Interest	752,200	-	(583,000)	169,200
Miscellaneous	825,700	765,900	-	1,591,600
Total other income (expense)	<u>6,626,500</u>	<u>(4,282,700)</u>	<u>(583,000)</u>	<u>1,760,800</u>
<u>NET INCOME (LOSS)</u>	18,004,400	(2,707,000)	-	15,297,400
<u>RETAINED EARNINGS (DEFICIT) - BEGINNING</u>	<u>228,431,200</u>	<u>(8,665,800)</u>	<u>-</u>	<u>219,765,400</u>
<u>RETAINED EARNINGS (DEFICIT) - ENDING</u>	<u>\$ 246,435,600</u>	<u>\$ (11,372,800)</u>	<u>\$ -</u>	<u>\$ 235,062,800</u>

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
CONSOLIDATING SCHEDULE OF CASH FLOWS
YEAR ENDED JUNE 30, 2022

	Cumberland Electric Membership Corporation	Cumberland Connect, LLC	Eliminations	Total
<u>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</u>				
Net income (loss)	\$ 18,004,400	\$ (2,707,000)	\$ -	\$ 15,297,400
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation	18,250,100	869,100	-	19,119,200
Changes in current and deferred items:				
Accounts receivable	(3,820,000)	(435,300)	-	(4,255,300)
Unbilled revenue	(944,700)	-	-	(944,700)
Interest receivable	(256,600)	-	247,000	(9,600)
Rents receivable	(1,205,100)	-	-	(1,205,100)
Materials and supplies	(4,200,600)	(551,400)	-	(4,752,000)
Prepayments	23,540,700	(1,150,900)	-	22,389,800
Deposits	40,000	-	-	40,000
Receivables - TVA Energy Right program	479,700	-	-	479,700
Due from related party	(9,652,600)	-	9,652,600	-
Accounts payable	6,656,500	-	-	6,656,500
Customer deposits	355,500	-	-	355,500
Accrued and other expenses	222,800	194,500	(247,000)	170,300
Net cash provided by (used) in operating activities	<u>47,470,100</u>	<u>(3,781,000)</u>	<u>9,652,600</u>	<u>53,341,700</u>
<u>CASH USED IN INVESTING ACTIVITIES</u>				
Additions to plant	(64,045,500)	(4,477,500)	-	(68,523,000)
Purchase of intangible assets	-	(655,400)	-	(655,400)
Investments sold and matured	(61,000)	-	-	(61,000)
Net cash used in investing activities	<u>(64,106,500)</u>	<u>(5,132,900)</u>	<u>-</u>	<u>(69,239,400)</u>

CUMBERLAND ELECTRIC MEMBERSHIP CORPORATION
CONSOLIDATING SCHEDULE OF CASH FLOWS (CONT'D)
YEAR ENDED JUNE 30, 2022

	Cumberland Electric Membership Corporation	Cumberland Connect, LLC	Eliminations	Total
<u>CASH PROVIDED BY FINANCING ACTIVITIES</u>				
Memberships	23,800	-	-	23,800
Proceeds from related party payable	-	9,652,600	(9,652,600)	-
Proceeds from long-term debt	50,000,000	-	-	50,000,000
Repayments of long-term debt	(7,089,100)	-	-	(7,089,100)
Advances - TVA Energy Right program	(452,200)	-	-	(452,200)
Net cash provided by financing activities	<u>42,482,500</u>	<u>9,652,600</u>	<u>(9,652,600)</u>	<u>42,482,500</u>
 <u>NET CHANGE IN CASH AND CASH EQUIVALENTS</u>	 25,846,100	 738,700	 -	 26,584,800
 <u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	 <u>11,115,700</u>	 <u>454,200</u>	 <u>-</u>	 <u>11,569,900</u>
 <u>CASH AND CASH EQUIVALENTS - ENDING</u>	 <u>\$ 36,961,800</u>	 <u>\$ 1,192,900</u>	 <u>\$ -</u>	 <u>\$ 38,154,700</u>

During the years ended June 30, 2022 and 2021, Cumberland Electric Membership Corporation used \$0- and \$17,708,400, respectively, of the cushion of credit to make debt service payments.



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

To the Board of Directors
Cumberland Electric Membership Corporation
Clarksville, Tennessee

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 consolidated financial statements of Cumberland Electric Membership Corporation (the Cooperative) and subsidiary (collectively, "the Group"), as of and for the year ended June 30, 2022, and the related notes to the consolidated financial statements, and have issued our report thereon dated August 15, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Group's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, we do not express an opinion on the effectiveness of the Group'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 consolidated financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Group'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 Group's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stone Rudolph & Henry, PLC

Clarksville, Tennessee

August 15, 2022