



Financial Statements

December 31, 2021 and 2020

Clay-Union Electric Corporation

Clay-Union Electric Corporation

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December 31, 2021 and 2020

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Independent Auditor's Report

The Board of Directors
Clay-Union Electric Corporation
Vermillion, South Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Clay-Union Electric Corporation, which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, equities, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clay-Union Electric Corporation as of December 31, 2021 and 2020, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 Clay-Union Electric Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt Clay-Union Electric Corporation's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 GAAS 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 Clay-Union Electric Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Clay-Union Electric Corporation's ability to continue as a going concern for a reasonable period of time.

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

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information is presented for the purposes of additional analysis and is not a required part 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report Issued in Accordance with *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated April 19, 2022 on our consideration of Clay-Union Electric Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Clay-Union Electric Corporation's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the Rural Utility Service's requirements set forth in 7 CFR Part 1773, we have also issued a report dated April 19, 2022, on our consideration of Clay-Union Electric Corporation's compliance with aspects of contractual agreements and regulatory requirements for electric borrowers. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of procedures performed in accordance with Rural Utility Service's requirements in considering Clay-Union Electric Corporation's compliance with certain regulatory requirements.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Sioux Falls, South Dakota
April 19, 2022

Clay-Union Electric Corporation

Balance Sheets

December 31, 2021 and 2020

	2021	2020
Assets		
Electric Plant		
In service	\$ 35,115,008	\$ 33,877,961
Under construction	108,849	8,409
Total electric plant	35,223,857	33,886,370
Less accumulated depreciation	10,950,634	10,234,258
Electric plant - net	24,273,223	23,652,112
Other Property and Investments		
Investments in associated companies	6,189,630	5,981,615
Other special funds - rate stabilization	965,000	895,000
Other investments	81,864	80,294
Total other property and investments	7,236,494	6,956,909
Current Assets		
Cash and cash equivalents	1,880,649	1,014,859
Temporary cash investments	2,813,344	970,990
Accounts receivable, net	801,024	785,052
Material and supplies	731,536	549,617
Prepayments	36,600	47,203
Total current assets	6,263,153	3,367,721
Deferred Debits	523,091	371,424
	<u>\$ 38,295,961</u>	<u>\$ 34,348,166</u>

Clay-Union Electric Corporation

Balance Sheets

December 31, 2021 and 2020

	2021	2020
Equities and Liabilities		
Equities		
Memberships	\$ 14,410	\$ 14,230
Patronage capital	13,351,277	13,194,224
Other equities	3,638,522	3,464,818
Total equities	17,004,209	16,673,272
Long-Term Debt, Less Current Maturities	17,774,479	14,297,670
Postretirement Benefits	140,341	128,758
Current Liabilities		
Current maturities of long-term debt	660,000	539,000
Accounts payable	1,026,636	1,115,062
Customer deposits	159,902	149,722
Accrued taxes, other	203,932	198,949
Other current liabilities	317,311	305,554
Total current liabilities	2,367,781	2,308,287
Deferred Credits	1,009,151	940,179
	<u>\$ 38,295,961</u>	<u>\$ 34,348,166</u>

Clay-Union Electric Corporation
Statements of Operations
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Revenues	\$ 8,626,686	\$ 8,279,596
Operating Expenses		
Cost of power	4,995,682	4,757,506
Distribution - operations	631,670	575,831
Distribution - maintenance	241,752	313,138
Customer accounts	179,408	177,900
Customer service	155,171	143,487
Administrative and general	699,931	633,514
Depreciation	970,947	931,366
Taxes	126,994	123,816
Interest on long-term debt	538,506	567,333
Other	9,969	14,639
Total operating expenses	<u>8,550,030</u>	<u>8,238,530</u>
Operating Margin Before Capital Credits	76,656	41,066
Generation and Transmission and Other Cooperative Capital Credits	<u>365,651</u>	<u>396,929</u>
Net Operating Margin	<u>442,307</u>	<u>437,995</u>
Nonoperating Margin		
Interest income	43,803	145,899
Merchandising, net of costs (2021 - \$305,826; 2020 - \$218,974)	21,038	973
Gain on sale of assets	<u>3,627</u>	<u>2,942</u>
Total nonoperating margin	<u>68,468</u>	<u>149,814</u>
Net Margin	<u><u>\$ 510,775</u></u>	<u><u>\$ 587,809</u></u>

Clay-Union Electric Corporation
Statements of Equities
Years Ended December 31, 2021 and 2020

	Memberships	Patronage Capital		Other	Total
		Assigned	Assignable	Equities	Equities
Balance - January 1, 2020	\$ 14,180	\$ 12,333,699	\$ 677,119	\$ 3,434,227	\$ 16,459,225
Assign prior year net margin	-	677,119	(677,119)	-	-
Net margin	-	-	587,809	-	587,809
Retirement of capital credits	-	(404,403)	-	30,561	(373,842)
Memberships and other	50	-	-	30	80
Balance - December 31, 2020	14,230	12,606,415	587,809	3,464,818	16,673,272
Assign prior year net margin	-	587,809	(587,809)	-	-
Net margin	-	-	510,775	-	510,775
Retirement of capital credits	-	(353,722)	-	173,709	(180,013)
Memberships and other	180	-	-	(5)	175
Balance - December 31, 2021	<u>\$ 14,410</u>	<u>\$ 12,840,502</u>	<u>\$ 510,775</u>	<u>\$ 3,638,522</u>	<u>\$ 17,004,209</u>

Clay-Union Electric Corporation
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Operating Activities		
Net margin	\$ 510,775	\$ 587,809
Adjustments to reconcile net margin to net cash from operating activities		
Depreciation	1,133,433	1,086,128
General and transmission and other capital credits		
Noncash allocations	(365,651)	(396,929)
Cash retirements received	157,636	312,205
Amortization of prepayment of pension costs	29,535	29,535
Gain on sale of assets	(3,627)	(2,942)
Interest earned on cushion of credit	(9,353)	(97,457)
Revenue deferred - margin stabilization plan	70,000	250,000
Change in assets and liabilities		
Accounts receivable	(15,972)	67,032
Prepayments	(18,932)	(18,891)
Deferred debits	(151,667)	38,377
Accounts payable	(88,426)	130,835
Customer deposits	10,180	3,943
Accrued taxes, other	4,983	(2,716)
Other current and long-term liabilities	(47,688)	33,774
Net Cash from Operating Activities	1,215,226	2,020,703
Investing Activities		
Electric plant additions, net	(1,750,917)	(1,840,819)
Purchase of temporary cash investments	(5,400,000)	(1,650,000)
Maturities of temporary cash investments	3,560,000	1,500,000
Other changes in investments	(3,924)	(13,551)
Change in material and supplies	(181,919)	72,040
Net Cash used for Investing Activities	(3,776,760)	(1,932,330)
Financing Activities		
Advances on long-term debt - mortgage notes	3,900,000	1,500,000
Principal payments on long-term debt - mortgage notes	(278,895)	(569,547)
Change in other long-term debt	(13,943)	25,906
Patronage capital retirements	(180,013)	(373,842)
Change in memberships and other	175	80
Net Cash from Financing Activities	3,427,324	582,597
Net Change in Cash and Cash Equivalents	865,790	670,970
Cash and Cash Equivalents, Beginning of Year	1,014,859	343,889
Cash and Cash Equivalents, End of Year	\$ 1,880,649	\$ 1,014,859
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest on long-term debt	\$ 539,274	\$ 568,202

Note 1 - Summary of Significant Accounting Policies**General**

Clay-Union Electric Corporation (the Corporation) is subject to the accounting and reporting rules and regulations of Rural Utilities Service (RUS). The Corporation follows the Federal Energy Regulatory Commission's Uniform System of Accounts prescribed for Class A and B Electric Utilities as modified by RUS.

Rates charged to customers are established by the Board of Directors.

Electric Plant and Retirements

Electric plant is stated at cost. The cost of additions to electric plant includes contracted work, direct labor and materials and allocable overheads. When units of property are retired, sold or otherwise disposed of in the ordinary course of business, their average book cost less net salvage is charged to accumulated depreciation. Repairs and the replacement and renewal of items determined to be less than units of property are charged to maintenance expense.

Recoverability of Long-Lived Assets

The Corporation reviews its long-lived assets whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. If a review indicates that the carrying value of such asset is not recoverable as determined based on projected undiscounted cash flows related to the asset over its remaining life, the Corporation would determine whether an impairment loss should be recognized. Management has determined that no impairment exists at December 31, 2021 and 2020.

Depreciation

Depreciation of distribution plant is computed by applying composite rates to the monthly balance for all classes of distribution plant. Composite depreciation rates include cost of removal and salvage factors which are recognized as an offset to accumulated depreciation when plant is retired. Transportation equipment and other general plant assets, which are depreciated using the straight-line method over the estimated useful lives of the assets.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Corporation considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

The Corporation's revenue contracts provide it with the unconditional right to consideration upon delivery of electricity to its customers; therefore, a receivable is recognized in the period the Corporation provides energy to its customers. The unconditional right to consideration is represented by contract receivables which are presented on the balance sheet as accounts receivable. Accounts receivable are uncollateralized customer obligations due under terms established by the Board of Directors. Past due balances are subject to disconnection of service.

The carrying amount of accounts receivable is reduced by an amount that reflects management's best estimate of amounts that will not be collected. Management individually reviews all notes receivable and accounts receivable balances that exceed 90 days from invoice date, and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. The allowance for uncollectible accounts was \$13,452 and \$12,030 as of December 31, 2021 and 2020, respectively.

The Corporation requires deposits from new customers upon initiation of service. The deposits are applied to the final customer billing if service is terminated. These deposits are recognized as a contract liability as customer deposits on the balance sheets.

The beginning and ending balances for customer accounts receivable, net of allowances for doubtful accounts, and contract liabilities were as follows for the years ended December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020	January 1, 2020
Customer accounts receivable, net	\$ 772,924	\$ 767,692	\$ 850,760
Contract liabilities - customer deposits	\$ 159,902	\$ 149,722	\$ 145,779

Investments in Associated Companies

The Corporation's investments in associated companies, other than National Rural Utilities Cooperative Finance Corporation (CFC) certificates, are accounted for as equity securities. The Corporation has determined that these investments do not have a readily determinable fair value. Investments in other cooperatives are recorded at the Corporation's share of allocated patronage capital and the other investments are recorded at cost. These investments are assessed for impairment, if any, and adjusted for changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Corporation has not identified any impairments and there has not been observable price changes during the years ended December 31, 2021 and 2020.

Capital term certificates are a condition of loans from CFC. CFC certificates and member capital securities are debt securities and are accounted for at amortized cost, net of any impairment.

Fair Value Measurements

The Corporation has determined the fair value of certain assets and liabilities in accordance with the provisions of Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, which provides a framework for measuring fair value under generally accepted accounting principles

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability. The Corporation's policy is to recognize significant transfers between levels on the date of the transfer.

Material and Supplies

Materials and supplies are stated at the lower of average cost or market, except for inventory held for resale which is stated at the lower of actual cost or net realizable value.

Patronage Capital

Amounts received from the furnishing of electric energy in excess of operating costs and expenses are assigned to patrons on a patronage basis. All other amounts received by the Corporation from its operations in excess of costs and expenses may be allocated to patrons on a patronage basis, offset against current or prior losses or retained as unallocated equity. Certain amounts of nonoperating income are not allocated to patrons.

Revenue Recognition

The Corporation accounts for customer revenues under Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*. The following table depicts revenues by timing of revenue recognition and type of revenue for the years ended December 31, 2021 and 2020, respectively:

	2021	2020
Electric revenues (transferred over time)	\$ 8,626,686	\$ 8,279,596
Merchandising revenues (transferred at a point in time)	326,864	219,947
Revenue from contracts with customers	<u>\$ 8,953,550</u>	<u>\$ 8,499,543</u>

Electric revenues are shown net of the effect of the change in the rate stabilization plan (Note 3) totaling \$70,000 and \$250,000 for the years ended December 31, 2021 and 2020, respectively.

Electric Revenue

The Corporation's performance obligation related to the sale of energy is satisfied as energy is delivered to customers; therefore, revenue from the delivery of energy is recognized over time as energy is delivered to the customers. The Corporation reads customer meters at the end of each month; accordingly, revenue is recorded through the end of each accounting period.

Merchandising Revenue

The Corporation's performance obligation related to merchandising and electrical services are satisfied at the point in time when projects have been completed; therefore, revenue is recorded upon the completion of the service at a point in time.

Power Costs

The monthly billings from the wholesale power supplier, which are for power costs to the end of the month, are reflected in the accounts.

Pension Plan

The policy is to fund normal pension costs as accrued.

Income Taxes

The Corporation is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code and is annually required to file a Return of Organization Exempt Income from Income Tax (Form 990) with the IRS. In addition, the Corporation is subject to income tax on net income that is derived from business activities that are unrelated to its purpose. The Corporation files an Exempt Organization Business Income Tax Return (Form 990T) with the IRS to report its unrelated business taxable income.

The Corporation believes it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Corporation would recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if such interest and penalties are incurred.

Sales Taxes

The Corporation has customers in South Dakota and its municipalities in which those governmental units impose a sales tax on certain sales. The Corporation collects those sales taxes from its customers and remits the entire amount to the various governmental units. The Corporation's accounting policy is to exclude the tax collected and remitted from revenue and cost of revenue.

Accounting Estimates

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

Business Credit Risk

The Corporation provides electric energy on account to its members located in southeastern South Dakota.

The Corporation maintains its cash balances with financial institutions in South Dakota. At times during the year, the Corporation's balances exceeded the insurance limits of the Federal Deposit Insurance Corporation.

Regulation

The Corporation's accounting policies and the accompanying financial statements conform to generally accepted accounting principles applicable to rate-regulated enterprises and reflect the effects of the ratemaking process.

As a result of the ratemaking process, the Corporation applies ASC (ASC) 980, Regulated Operations. The application of generally accepted accounting principles by the Corporation differs in certain respects from the application by non-regulated businesses as a result of applying ASC 980. Such differences generally relate to the time at which certain items enter into the determination of net margins in order to follow the principle of matching costs and revenues.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on net margin or equities.

Subsequent Events

The Corporation has evaluated subsequent events through April 19, 2022, the date which the financial statements were available to be issued.

Note 2 - Electric Plant

	Depreciation Rates	2021	2020
Distribution plant	2.9 - 6.67%	\$ 32,307,312	\$ 31,136,242
General plant	2.8 - 15%	2,805,725	2,739,748
Intangible plant		1,971	1,971
Electric plant in service		35,115,008	33,877,961
Construction work in progress		108,849	8,409
Total electric plant		<u>\$ 35,223,857</u>	<u>\$ 33,886,370</u>

Note 3 - Other Special Funds/Rate Stabilization Reserve

The Board of Directors established a rate stabilization plan in 1989. The purpose of the plan is to stabilize the effect that extreme weather conditions have on cash flows and net margins generated by the Corporation's rate structure. Under this plan, all revenues collected in excess of that needed to achieve a targeted modified times interest earned rate (modified TIER) of 1.25 to 1.5 are recorded as a deferred credit. The amount deferred is amortized into revenue in the following year. The Board has established a policy whereby the cash equivalent of any deferred income will be segregated in a special fund until it is subsequently amortized into revenue.

Deferred revenues are reflected in the balance sheet as deferred credits (Note 13) and are to be amortized to revenue in the following year. The Corporation decreased revenues by \$70,000 and \$250,000 during the years ended December 31, 2021 and 2020, respectively related to the plan. The Corporation has set aside temporary cash investment reserves equal to the deferred electric revenues at the end of each year to fund the plan.

Clay-Union Electric Corporation

Notes to Financial Statements

December 31, 2021 and 2020

Note 4 - Investments in Associated Companies

	2021	2020
Patronage capital credits		
East River Electric Power Cooperative, Inc.	\$ 5,409,062	\$ 5,204,144
Federated Rural Electric Insurance Corp.	75,572	71,927
Rural Electric Supply Cooperative	5,782	3,948
National Rural Utilities Cooperative Finance Corporation	113,083	54,916
National Rural Telecommunications Cooperative	2,402	19,492
CoBank	9,990	104,232
CRC	53,647	2,864
	<u>5,669,538</u>	<u>5,461,523</u>
National Rural Utilities Cooperative Finance Corporation		
Loan term certificates - maturities 10/1/2025-2030; interest rate 3.0%	75,650	75,650
Capital term certificates - maturities 10/1/2070-2080; interest rate 5.0%	268,842	268,842
Member capital securities - first call date 3/10/2024; maturity date 3/10/2044; interest rate 5.0%	130,000	130,000
	<u>474,492</u>	<u>474,492</u>
Rural Electric Economic Development, Inc.	<u>40,000</u>	<u>40,000</u>
Other	<u>5,600</u>	<u>5,600</u>
Total investments in associated companies	<u>\$ 6,189,630</u>	<u>\$ 5,981,615</u>

Note 5 - Other Investments

	2021	2020
Energy resource conservation and other loans; 5-7 year maturities; 5% interest	\$ 69,214	\$ 67,644
Other	<u>12,650</u>	<u>12,650</u>
Total other investments	<u>\$ 81,864</u>	<u>\$ 80,294</u>

Clay-Union Electric Corporation

Notes to Financial Statements

December 31, 2021 and 2020

Note 6 - Cash and Cash Equivalents

	2021	2020
Cash on hand	\$ 200	\$ 200
Cash in checking	1,880,449	1,014,659
Total cash and cash equivalents	<u>\$ 1,880,649</u>	<u>\$ 1,014,859</u>

Note 7 - Temporary Cash Investments

	2021	2020
CFC select notes	\$ -	\$ 645,000
CFC funds - other	2,813,344	325,990
Total temporary cash investments	<u>\$ 2,813,344</u>	<u>\$ 970,990</u>

The CFC investments held as of December 31, 2021 accrue interest at .06% and mature during 2022.

Note 8 - Deferred Debits

	2021	2020
Preliminary survey costs	\$ 1,790	\$ 11,281
Prepayment of pension costs	329,805	359,339
Land held for future use	190,857	-
Jobs in progress and clearing accounts	639	804
Total deferred debits	<u>\$ 523,091</u>	<u>\$ 371,424</u>

Clay-Union Electric Corporation

Notes to Financial Statements

December 31, 2021 and 2020

Note 9 - Patronage Capital

	2021	2020
Assignable	\$ 510,775	\$ 587,809
Assigned to date	18,286,949	17,699,140
	<u>18,797,724</u>	<u>18,286,949</u>
Retired to date	5,446,447	5,092,725
	<u>5,446,447</u>	<u>5,092,725</u>
Total patronage capital	<u>\$ 13,351,277</u>	<u>\$ 13,194,224</u>

The mortgage provisions restrict the retirement of patronage capital unless, after retirement, the capital of the Corporation equals at least 30% of the total assets of the Corporation provided however, that retirements can be made if such distributions do not exceed 25% of the preceding year's margins. No distribution can be made if there is unpaid, when due, any installments of principal or interest on the notes.

Note 10 - Other Equities

	2021	2020
Retired capital credits - gain	\$ 1,425,228	\$ 1,251,519
Unallocated nonoperating margins	2,179,242	2,179,242
Donated capital	34,052	34,057
	<u>34,052</u>	<u>34,057</u>
Total other equities	<u>\$ 3,638,522</u>	<u>\$ 3,464,818</u>

Clay-Union Electric Corporation

Notes to Financial Statements

December 31, 2021 and 2020

Note 11 - Long-Term Debt

	2021	2020
Rural Utilities Service (RUS) mortgage notes		
3.00% note due in monthly installments through 2039	\$ 666,393	\$ 696,007
Federal Financing Bank (FFB) mortgage notes		
2.59% - 3.63% notes due in quarterly installments through 2042	2,594,701	2,676,163
2.19% - 3.02% notes due in quarterly installments through 2047	5,394,949	5,535,543
1.58% - 2.39% notes due in quarterly installments through 2052	6,274,976	2,485,956
Advance payments	-	(309,449)
	<u>14,931,019</u>	<u>11,084,220</u>
National Rural Utilities Cooperative Finance Corporation (CFC) mortgage notes		
4.45% - 5.20% notes due in quarterly installments through 2038	<u>982,270</u>	<u>1,019,182</u>
CoBank, ACB mortgage notes		
4.47% note due in monthly installments through 2030	772,441	843,021
4.39% note due in monthly installments through 2029	799,586	884,512
4.77% note due in monthly installments through 2036	878,034	920,663
	<u>2,450,061</u>	<u>2,648,196</u>
East River Electric Power Cooperative, Inc.		
5.00% notes due in monthly installments over 5-7 years	<u>71,129</u>	<u>85,072</u>
Total long-term debt	18,434,479	14,836,670
Less current maturities	<u>(660,000)</u>	<u>(539,000)</u>
Long-term debt, less current maturities	<u>\$ 17,774,479</u>	<u>\$ 14,297,670</u>

Substantially all assets are pledged as security on the mortgage notes. Certain loans are subject to repricing.

Estimated principal repayments on the above debt for the next five years will be as follows:

2022	\$ 660,000
2023	689,000
2024	723,000
2025	737,000
2026	762,000

All loan funds advanced by RUS and FFB are deposited in a special trust bank account, the disbursements from which are restricted by the provisions of the loan agreement to purposes approved by RUS. There was \$1,270,000 in unadvanced loan funds available from FFB at December 31, 2021.

The mortgage provisions restrict the Corporation's debt limit to \$25,000,000.

Long-term debt agreements contain certain financial and other covenants including a restriction on dividends and redemptions of equity capital. Management believes the Corporation is in compliance with all debt covenants as of December 31, 2021 and 2020.

Note 12 - Line-of-Credit

An unsecured perpetual line-of-credit agreement has been executed with the National Rural Utilities Cooperative Finance Corporation providing the Corporation with short-term loans in the total amount of \$1,000,000 on a revolving basis. Interest on unpaid principal is payable quarterly at rates established by CFC, which are not to exceed the lowest prime rate as published in the "Money Rates" column of "The Wall Street Journal" plus 1% per annum or such lesser total rate as may be fixed by CFC. There were no outstanding balances on this line-of-credit at December 31, 2021 and 2020. The interest rate on the line-of-credit at was 2.45% as of December 31, 2021 and 2020.

Note 13 - Deferred Credits

	2021	2020
Rate stabilization plan (Note 3)	\$ 965,000	\$ 895,000
Special equipment installation costs	44,151	45,179
Total deferred credits	<u>\$ 1,009,151</u>	<u>\$ 940,179</u>

Note 14 - Pension and Retirement Plans**Pension Plan**

The Corporation participates in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan), which is a defined benefit pension plan intended to be qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. The Plan is a multiemployer plan under accounting standards. The plan sponsor's Employer 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.

The Corporation's contributions to the RS Plan in 2021 and in 2020 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Corporation made normal contributions to the plan of approximately \$226,000 in 2021 and \$212,000 in 2020. There have been no significant changes that affect the comparability of 2021 and 2020 contributions.

In February 2013, the Corporation made an accelerated funding payment of \$590,695 under NRECA's RS Plan voluntary prepayment option. Participation in the RS Plan prepayment option will reduce the Corporation's RS Plan billing rates by approximately 25% effective April 1, 2013, lower ongoing contributions and minimize the likelihood and impact of any future Deficit Reduction Contributions. The prepayment is included in deferred charges and will be expensed over 20 years. The payment was financed by a loan from CoBank that was paid off in 2020.

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 Retirement Security Plan was over 80 percent funded on 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.

Defined Contribution Plan

The Corporation also participates in the NRECA SelectRE Pension Plan, which is a defined contribution, multi-employer plan qualified under Section 401(k) of the Internal Revenue Code. Participants are not required to make contributions but may elect to contribute a percentage of their salary, subject to IRS maximum limitations. The Corporation contributes 3% of each employee's base wages under the plan. The Corporation also contributes an additional 50% of the current RS contribution rate to employees with over 30 years of service. The Corporation's SelectRE pension expense was approximately \$90,000 and \$79,000 for the years ended December 31, 2021 and 2020, respectively.

Note 15 - Postretirement Benefits

The Corporation sponsors a defined postretirement plan relating to health insurance premiums. The Corporation will pay 50% of the retiree's monthly postretirement health insurance premium (giving effect for Medicare contributions) for 3 years or until the retiree reaches 65 years of age, whichever occurs first.

The Corporation follows the provisions of FASB Accounting Standards Codification Topic ASC 715, *Compensation – Retirement Benefits*. This Statement requires the Corporation to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statements of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. As of December 31, 2021, the Corporation's plan has no unamortized prior service transition costs or actuarial gains and losses not recognized in the financial statements.

A summary of the accumulated postretirement benefit obligation as of December 31, 2021 and 2020, is as follows:

	2021	2020
Accumulated postretirement benefit obligation		
Fully eligible active plan participants	\$ 87,129	\$ 70,302
Other active plan participants	53,212	58,456
	<u>\$ 140,341</u>	<u>\$ 128,758</u>
Net postretirement obligation cost	<u>\$ 7,410</u>	<u>\$ 11,435</u>

The Corporation has estimated that the annual increase in per capita cost of applicable health care benefits for current employees will be approximately 5%. This assumption has an effect on the amounts reported. To illustrate, increasing the assumed health care trend rate by 1 percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 2021, by approximately \$2,513. The discount rate used in determining the accumulated postretirement benefit obligation was 4.75%.

Note 16 - Commitments**Wholesale Power Agreement**

The Corporation is committed under a long-term wholesale power agreement whereby it is to purchase its electric power and energy requirements from East River Electric Power Cooperative, Inc. until December 31, 2075. The rates paid are subject to periodic review.

Note 17 - Related Party Transactions

The Corporation is a member of and purchases its wholesale power from East River Electric Power Cooperative, Inc. Following is a summary of material transactions with East River Electric Power Cooperative, Inc. for the years ended December 31, 2021 and 2020.

	2021	2020
Purchase of wholesale power	\$ 4,995,682	\$ 4,757,506
Accounts payable for purchased power at December 31	\$ 458,123	\$ 465,274
Notes payable at December 31	\$ 71,129	\$ 85,072
Accumulated patronage capital credit allocations	\$ 5,409,062	\$ 5,204,144
Capital credit payments received	\$ 118,573	\$ 270,826
Capital credit allocations recorded	\$ 323,491	\$ 353,676



Supplemental Information
December 31, 2021 and 2020

Clay-Union Electric Corporation

<u>Name</u>	<u>Position</u>
Tom Larsen	President
Chris Kinney	Vice President
Jim Ryken	Secretary
Mike Slattery	Treasurer
Gary Glover	Assistant Secretary
Chris Larson	General Manager

Clay-Union Electric Corporation

Schedule of Long-Term Debt December 31, 2021 and 2020

Note and Date		Principal Amount	Principal Payments	Net Obligations	
				2021	2020
RUS					
RET-8-5 (3.00%)	1/2/2004	1,000,000	333,607	666,393	696,007
FFB					
FFB-1-1 (3.633%)	9/30/2008	3,000,000	689,877	2,310,123	2,381,574
FFB-1-2 (2.594%)	9/30/2008	390,000	105,422	284,578	294,589
FFB-2-1 (2.851%)	3/1/2013	500,000	70,709	429,291	440,189
FFB-2-4 (3.018%)	3/1/2013	250,000	34,454	215,546	220,878
FFB-2-5 (2.188%)	3/1/2013	500,000	79,072	420,928	432,749
FFB-2-6 (2.810%)	3/1/2013	400,000	56,362	343,638	352,417
FFB-2-7 (2.576%)	3/1/2013	500,000	63,039	436,961	448,532
FFB-2-8 (2.247%)	3/1/2013	500,000	63,119	436,881	449,042
FFB-2-9 (2.823%)	3/1/2013	500,000	51,836	448,164	459,590
FFB-2-10 (2.726%)	3/1/2013	500,000	50,247	449,753	461,393
FFB-2-11 (2.763%)	3/1/2013	2,421,000	207,213	2,213,787	2,270,753
FFB-3-1 (2.386%)	11/1/2018	1,000,000	25,940	974,060	994,862
FFB-3-2 (1.580%)	3/2/2020	1,500,000	44,827	1,455,173	1,491,094
FFB-3-3 (1.5930%)	1/8/2021	3,000,000	54,257	2,945,743	-
FFB-3-4 (1.803%)	12/10/2021	900,000	-	900,000	-
Total FFB		15,861,000	1,596,374	14,264,626	10,697,662
Less Advance Payments		-	-	-	(309,449)
Total RUS & FFB		16,861,000	1,929,981	14,931,019	11,084,220
CFC					
9013001 (4.45%)	1/2/2009	500,000	155,684	344,316	357,601
9013002 (5.20%)	1/2/2009	500,000	145,963	354,037	366,709
9013003 (4.45%)	1/2/2009	405,000	121,083	283,917	294,872
Total CFC		1,405,000	422,730	982,270	1,019,182
CoBank					
RI0936T02 (4.47%)	10/25/2010	1,407,111	634,670	772,441	843,021
RI0936T03 (4.39%)	10/25/2010	1,548,540	748,954	799,586	884,512
RI0936T04 (4.77%)	10/25/2010	1,253,768	375,734	878,034	920,663
Total CoBank		4,209,419	1,759,358	2,450,061	2,648,196
East River (5.00%)		91,468	20,339	71,129	85,072
Total long-term debt		\$ 22,566,887	\$ 4,132,408	\$ 18,434,479	\$ 14,836,670

Clay-Union Electric Corporation
Comparative Statements of Operations
For the Years Ended December 31

	2021		2020		2019		2018		2017	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Total Operating Revenues	<u>\$ 8,626,686</u>	<u>100.00%</u>	<u>\$ 8,279,596</u>	<u>100.00%</u>	<u>\$ 8,711,005</u>	<u>100.00%</u>	<u>\$ 8,452,176</u>	<u>100.00%</u>	<u>\$ 8,324,280</u>	<u>100.00%</u>
Operating Expenses										
Cost of power	4,995,682	57.91	4,757,506	57.46	5,041,390	57.87	4,953,386	58.60	4,965,542	59.65
Distribution-operations	631,670	7.32	575,831	6.95	699,230	8.03	599,078	7.09	634,230	7.62
Distribution-maintenance	241,752	2.80	313,138	3.78	277,609	3.19	304,851	3.61	280,584	3.37
Customer accounts	179,408	2.08	177,900	2.15	174,576	2.00	156,174	1.85	156,162	1.88
Customer service	155,171	1.80	143,487	1.73	139,178	1.60	128,449	1.52	175,023	2.10
Administrative and general	699,931	8.11	633,514	7.65	664,702	7.63	640,886	7.58	609,145	7.32
Depreciation	970,947	11.26	931,366	11.25	898,109	10.31	854,347	10.11	824,361	9.90
Taxes	126,994	1.47	123,816	1.50	123,562	1.42	122,806	1.45	121,759	1.46
Interest on long-term debt	538,506	6.24	567,333	6.85	635,493	7.30	643,322	7.61	585,037	7.03
Other	9,969	0.12	14,639	0.18	10,959	0.13	16,498	0.20	8,364	0.10
Total operating expenses	<u>8,550,030</u>	<u>99.11</u>	<u>8,238,530</u>	<u>99.50</u>	<u>8,664,808</u>	<u>99.47</u>	<u>8,419,797</u>	<u>99.62</u>	<u>8,360,207</u>	<u>100.43</u>
Operating Margin (Loss)										
Before Capital Credits	76,656	0.89	41,066	0.50	46,197	0.53	32,379	0.38	(35,927)	(0.43)
Generation and Transmission and Other Cooperative Capital Credits	<u>365,651</u>	<u>4.24</u>	<u>396,929</u>	<u>4.79</u>	<u>358,042</u>	<u>4.11</u>	<u>815,217</u>	<u>9.65</u>	<u>380,545</u>	<u>4.57</u>
Net Operating Margin	<u>442,307</u>	<u>5.13%</u>	<u>437,995</u>	<u>5.29%</u>	<u>404,239</u>	<u>4.64%</u>	<u>847,596</u>	<u>10.03%</u>	<u>344,618</u>	<u>4.14%</u>
Nonoperating Margin	<u>68,468</u>		<u>149,814</u>		<u>272,880</u>		<u>270,440</u>		<u>368,288</u>	
Net Margin	<u>\$ 510,775</u>		<u>\$ 587,809</u>		<u>\$ 677,119</u>		<u>\$ 1,118,036</u>		<u>\$ 712,906</u>	



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Clay-Union Electric Corporation
Vermillion, South Dakota

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 Clay-Union Electric Corporation, which comprise the balance sheet as of December 31, 2021, and the related statements of operations, equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 19, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Clay-Union Electric Corporation'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Clay-Union Electric Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Clay-Union Electric Corporation'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings as Finding 2021-001 and 2021-002, that we consider to be significant deficiencies.

Report on Compliance and Other Matters

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

Clay-Union Electric Corporation's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Clay-Union Electric Corporation's response to the findings identified in our audit and described in the accompanying Schedule of Audit Findings. Clay-Union Electric Corporation's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Association'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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Sioux Falls, South Dakota
April 19, 2022

Finding 2021-001 – Preparation of Full Disclosure Financial Statements

Criteria: Proper controls over financial reporting include the ability to prepare financial statements with accompanying notes to the financial statements.

Condition: The Corporation does not have an internal control system designed to provide for the preparation of the full disclosure financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Cause: The Corporation has limited staff. They cannot justify incurring the costs necessary for preparing the financial statements with accompanying notes to the financial statements.

Effect: Inadequate controls over financial reporting of the Corporation could result in the likelihood that the Corporation would not be able to draft the financial statements with accompanying notes to the financial statements without the assistance of the auditors.

Recommendation: While we recognize that this condition is not unusual for an organization of your size, it is important that you be aware of this condition for financial reporting purposes.

Management's Response: Since it is not cost effective for an organization of our size to prepare audit ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare our full disclosure financial statements as part of the annual audit. We have designated a member of management to review the propriety of the draft financial statements and accompanying notes to the financial statements.

Finding 2021-002 – Lack of Proper Segregation of Duties

Criteria: In order to achieve a high level of internal control, the functions of executing transactions, recording transactions and maintaining accountability for assets should be performed by different employees or be maintained under dual control.

Condition: The Corporation does not currently have an internal control system to allow for proper segregation of duties in certain areas of the accounting function.

Cause: The Corporation has limited staff and cannot justify hiring an additional individual in order to better segregate accounting duties.

Effect: Proper segregation of duties helps to minimize the chance of undetected errors or defalcations, since the work of one person serves as a “check” on the work of another.

Recommendation: Due to the small size of the office, the Corporation is limited in the options available to them. Under this situation, the most effective control is management and the board’s oversight and knowledge of matters relating to the operations of the Corporation.

Management’s Response: We have evaluated the segregation of duties and have segregated duties to the extent possible with our available staff. Management and the board of directors will continue to exercise oversight of the accounting functions, which we believe mitigates the risk of material misstatement to a low level. Due to the Corporation’s size and other cost considerations, we believe the cost of any further controls would outweigh the related benefits.



Independent Auditors' Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements

The Board of Directors
Clay-Union Electric Corporation
Vermillion, South Dakota

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 Clay-Union Electric Corporation (the Corporation), which comprise the balance sheet as of December 31, 2021, and the related statements of operations, equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 19, 2022. In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2022, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 Corporation 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*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, 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 Corporation'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 Corporation's accounting and records to indicate that the Corporation did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;

- Record and properly price the retirement of plant;
- Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over materials 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*); and
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits

Detailed Schedule of Deferred Debits and Deferred Credits

	2021	2020
Deferred debits		
Preliminary survey costs	\$ 1,790	\$ 11,281
Prepayments of pension costs	329,805	359,339
Land held for future use	190,857	-
Jobs in progress and clearing accounts	639	804
	<u>\$ 523,091</u>	<u>\$ 371,424</u>
Total deferred debits	<u>\$ 523,091</u>	<u>\$ 371,424</u>
Deferred credits		
Rate stabilization plan	\$ 965,000	\$ 895,000
Special equipment installation costs	44,151	45,179
	<u>\$ 1,009,151</u>	<u>\$ 940,179</u>
Total deferred credits	<u>\$ 1,009,151</u>	<u>\$ 940,179</u>

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Eide Bailly LLP

Sioux Falls, South Dakota
April 19, 2022