Item No. 13

Witness: Jim Adkins

Kentucky 57

Cumberland Valley Electric, Inc.

Gray, Kentucky

Report on Audits of Financial Statements

for the years ended May 31, 2005 and 2004

CONTENTS

ALAN M. ZUMSTEIN
CERTIFIED PUBLIC ACCOUNTANT

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Board of Directors
Cumberland Valley Electric, Inc.
Highway 25W
Gray, Kentucky 40734

Independent Auditor's Report

I have audited the balance sheets of Cumberland Valley Electric, Inc., as of May 31, 2005 and 2004, and the related statements income and patronage capital and cash flows for the years then ended. These financial statements are the responsibility of Cumberland Valley Electric, Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and 7 CFR Part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cumberland Valley Electric, Inc. as of May 31, 2005 and 2004, and the results of operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued a report dated July 26, 2005, on my consideration of Cumberland Valley Electric, Inc.'s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Alan M. Zumstein

Alan M. Zumstein
July 26, 2005

ALAN M. ZUMSTEIN
CERTIFIED PUBLIC ACCOUNTANT

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I have audited the financial statements of Cumberland Valley Electric, Inc. as of and for the years ended May 31, 2005 and 2004, and have issued my report thereon dated July 26, 2005. I conducted my 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Cumberland Valley Electric's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended for the information of the audit committee, management, the Rural Utilities Service and supplemental lenders, and is not indented to be and should not be used by anyone other than these specified parties.

Alan M. Zumstein

Alan M. Zumstein
July 26, 2005

Cumberland Valley Electric

Balance Sheets, May 31, 2005 and 2004

ASSETS	2005	2004
Electric Plant, at original cost:		
In service	$62,954,999	$59,749,178
Under construction	385,004	98,649
	63,340,003	59,847,827
Less accumulated depreciation	23,052,037	21,721,432
	40,287,966	38,126,395
Investments in Associated Organizations	10,372,199	10,364,520
Current Assets:		
Cash and cash equivalents	981,191	403,236
Accounts receivable, less allowance for 2005 of $31,104 and 2004 of $58,851	3,398,604	2,593,533
Material and supplies, at average cost	526,609	360,751
Other current assets	379,917	367,004
	5,286,321	3,724,524
Deferred Past Service Costs	776,613	894,586
Total	$56,723,099	$53,110,025

MEMBERS' EQUITIES AND LIABILITIES	2005	2004
Members' Equities:		
Memberships	$404,540	$396,905
Patronage capital	23,386,147	23,139,064
Other equities	51,129	51,150
	23,841,816	23,587,119
Long Term Debt	26,617,328	23,584,155
Accumulated Postretirement Benefits	1,255,398	1,198,058
Current Liabilities:		
Current portion of long term debt	1,100,000	1,050,000
Accounts payable	1,992,262	1,871,300
Consumer deposits	764,448	758,558
Accrued expenses	1,129,308	1,039,917
	4,986,018	4,719,775
Consumer Advances for Construction	22,539	20,918
Total	$56,723,099	$53,110,025

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

Statements of Revenue and Patronage Capital
for the years ended May 31, 2005 and 2004

	2005	2004
Operating Revenues	$31,072,145	$27,650,637
Operating Expenses:		
Cost of power	22,609,081	20,011,500
Distribution - operations	1,154,895	1,040,371
Distribution - maintenance	1,743,830	1,851,865
Consumer accounts	1,081,310	912,085
Customer services and information	163,182	161,721
Administrative and general	1,100,960	1,026,504
Depreciation, excluding $202,438 in 2005 and $187,246 in 2004 charged to clearing accounts	2,051,721	1,960,559
Taxes	30,112	31,095
Other deductions	9,530	14,330
Total operating expenses	29,944,621	27,010,030
Operating Margins before Interest Charges	1,127,524	640,607
Interest Charges:		
Long term debt	992,611	836,198
Other	45,270	47,286
	1,037,881	883,484
Operating Margins after Interest Charges	89,643	(242,877)
Patronage Capital Assigned by:		
East Kentucky Power Cooperative	-	1,382,517
Other organizations	39,242	36,173
	39,242	1,418,690
Nonoperating Margins		
Interest income, principally	118,383	93,362
Net Margins	247,268	1,269,175
Patronage Capital - beginning of year	23,139,064	22,106,719
Retirements of capital credits	(185)	(236,830)
Patronage Capital - end of year	$23,386,147	$23,139,064

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

Statements of Cash Flows

for the years ended May 31, 2005 and 2004

	2005	2004
Cash Flows from Operating Activities:		
Net margins	$247,268	$1,269,175
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation		
Charged to expense	2,051,721	1,960,559
Charged to clearing	202,438	187,246
Capital credits allocated	(39,242)	(1,418,690)
Accumulated postretirement benefits	57,340	55,576
Past service pension costs	117,973	117,973
Net change in current assets and liabilities:		
Receivables	(805,071)	(279,804)
Material and supplies	(165,858)	(63,167)
Other current assets	(12,913)	(45,572)
Accounts payable	120,962	325,796
Consumer deposits	5,890	68,199
Accrued expenses	89,391	(9,352)
Consumer advances for construction	1,621	(8,434)
Net cash provided by operating activities	1,871,520	2,159,505
Cash Flows from Investing Activities:		
Construction of plant	(4,480,134)	(3,658,203)
Salvage recovered from plant	64,404	9,664
Receipts from investments, net	31,563	8,466
Net cash used by investing activities	(4,384,167)	(3,640,073)
Net Cash Flows from Financing Activities:		
Net increase in memberships	7,635	6,600
Retirement of capital credits	(185)	(236,830)
Increase in other equities	(21)	1,308
Short-term borrowings	-	(1,099,203)
Payments on long term debt	(1,064,371)	(981,494)
Advance of long term debt	4,200,000	4,887,000
Advance payments on long term debt	(52,456)	(1,032,759)
Net cash used by financing activities	3,090,602	1,544,622
Net increase in cash balances	577,955	64,054
Cash and cash equivalents - beginning	403,236	339,182
Cash and cash equivalents - ending	$981,191	$403,236
Supplemental disclosures of cash flow information:		
Interest on long term debt	$945,993	$867,410

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

1. Summary of Significant Accounting Policies

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

Electric Plant

Electric plant is stated at original cost, less contributions, which is the cost when first dedicated to public service. Such cost includes applicable supervisory and overhead costs. There was no interest required to be capitalized on construction for the year.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to electric plant. The cost of units of property replaced or retired, including cost of removal net of any salvage value, is charged to accumulated depreciation for distribution plant and a gain or loss is recognized for general plant items.

The major classifications of electric plant in service consisted of:

	2005	2004
Distribution plant	$58,359,596	$55,309,885
General plant	4,595,403	4,439,293
Total	$62,954,999	$59,749,178

Depreciation

Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Cumberland Valley uses a composite depreciation rate of 3.34% per annum for distribution plant. General plant depreciation rates are as follows:

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

Cost of Power

The cost of purchased power is recorded monthly during the period in which the energy is consumed, based upon billings from East Kentucky Power Cooperative (East Kentucky). The membership of East Kentucky is comprised of Cumberland Valley and 15 other distribution cooperatives.

Continued

1. **Summary of Significant Accounting Policies, continued**

Revenue

Cumberland Valley records revenue as billed to its members based on monthly meter-readings. Cumberland Valley's sales are concentrated in a six county area of eastern Kentucky. There were no customers whose individual account balance exceeded 10% of outstanding accounts receivable at May 31, 2005 and 2004. Certain customers are required to pay a refundable deposit.

Estimates

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

Fair Value of Financial Instruments

Financial instruments include cash and temporary investments. Investments in associated organizations are not considered a financial instrument because they represent non transferable interests in associated organizations.

The carrying value of cash and temporary investments approximates fair value because of the short maturity of those instruments.

Off Balance Sheet Risk

Cumberland Valley has off balance sheet risk in that at certain times of the month they have cash deposits in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC).

Statement of Cash Flows

For purposes of the statement of cash flows, Cumberland Valley considers temporary investments having a maturity of three months or less to be cash equivalents.

2. **Investments in Associated Organizations**

The Capital Term Certificates (CTCs) of National Rural Utilities Cooperative Finance Corporation (NRUCFC) are recorded at cost. The CTCs were purchased from NRUCFC as a condition of obtaining long-term financing. The CTCs bear interest at 0%, 3% and 5% and are scheduled to mature at varying times from 2020 to 2080.

Continued

2. Investments in Associated Organizations, continued

Cumberland Valley records patronage capital assigned by associated organizations in the year in which such assignments are received.

Investments in associated organizations consisted of:

	2005	2004
Associated Organizations:		
East Kentucky:		
Patronage capital assigned	$9,024,188	$9,024,188
National Rural Utilities Cooperative Finance Corporation:		
Capital Term Certificates	856,633	857,748
Patronage capital assigned	160,870	167,689
Other associated organizations	330,508	314,895
Total	$10,372,199	$10,364,520

3. Patronage Capital:

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30% of total assets, except that distributions may be made to estates of deceased patrons. The debt agreement provides, however, that should such distributions to estates not exceed 25% of net margins for the next preceding year, Cumberland Valley may distribute the difference between 25% and the payments made to such estates. The equity at May 31, 2004 was 42% of total assets.

Patronage capital consisted of:

	2005	2004
Assigned to date	$25,350,541	$25,298,092
Assignable	323,295	128,475
Retirements to date	(2,287,689)	(2,287,503)
Total	$23,386,147	$23,139,064

4. Long Term Debt

All assets, except vehicles, are pledged as collateral on the long term debt to RUS, Federal Financing Bank (FFB) and NRUCFC under a joint mortgage agreement. Long term debt consisted of:

Continued

4. Long Term Debt, continued

	2005	2004
First mortgage notes due RUS:		
2%	$35,949	$71,240
1.00% to 5.37%%	10,931,693	11,483,931
Advance payment	(1,085,215)	(1,032,759)
	9,882,427	10,522,412
First mortgage notes due FFB:		
2.828% (0.955% in 2004)	12,806,553	8,832,933
First mortgage notes due NRUCFC:		
7%	137,333	172,021
5.0% variable rate (2.65% in 2004)	4,004,530	4,136,782
5.70% - 7.95%	886,485	970,007
	5,028,348	5,278,810
	27,717,328	24,634,155
Less current portion	1,100,000	1,050,000
	$26,617,328	$23,584,155

The interest rates on notes payable to NRUCFC at 5.70% - 7.95% are subject to change every seven years. The 5.0% variable rate loans can be fixed at any time based on Board action. The long term debt payable to RUS and NRUCFC is due in quarterly and monthly installments of varying amounts through 2027. Cumberland Valley has loan funds approved from FFB in the amount of $6,106,000. These funds will be used for future plant additions.

As of May 31, 2005, the current annual portion of long term debt outstanding for the next five years are as follows: 2006 - $1,100,000; 2007 - $1,170,000; 2008 - $1,200,000; 2009 - $1,300,000; 2010 - $1,400,000.

5. Short Term Borrowings

At May 31, 2005, Cumberland Valley had a short term line of credit of $5,000,000 available from NRUCFC. Cumberland Valley has repaid all advances against this line of credit.

6. Related Party Transactions

Several Directors of Cumberland Valley, the Manager and another employee are on the Board of Directors of various associated organizations.

7. Advertising

Cumberland Valley expenses advertising costs as incurred.

Continued

8. Pension Plan

All eligible employees of Cumberland Valley participate in the NRECA Retirement and Security Program, a defined benefit pension plan qualified under section 401 and tax-exempt under section 501(a) of the Internal Revenue Code. Cumberland Valley makes annual contributions to the Program equal to the amounts accrued for pension expense. In this multiemployer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. Cumberland Valley also sponsors a Retirement Savings Plan available for all eligible employees. The plan allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. Cumberland Valley makes contributions of 10% of the participant's base compensation. Contributions were $254,346 for 2005 and $260,460 for 2004.

Effective July 1, 1993, Cumberland Valley adopted the NRECA Retirement and Security Program to recognize salaried employees' prior service. The cost to provide this benefit was $1,568,591. During 2002, Cumberland Valley included additional employees as salaried. The cost to recognize the past service benefits for these employees was an additional $395,389. The past service benefits have been recorded as a deferred asset and are being amortized over a twenty year period. RUS approval has been granted for this deferred treatment.

9. Accumulated Postretirement Benefits

Cumberland Valley sponsors a defined benefit plan that provides medical insurance coverage to retired employees, their dependents and retired directors. Cumberland Valley pays all the premiums for retired employees, their dependents and retired directors. For purposes of the liability estimates, the substantive plan is assumed to be the same as the extant written plan.

The following is a reconciliation of the postretirement benefit obligation:

	2005	2004
Postretirement Benefit Obligation:		
Balance, beginning of period	$1,198,058	$1,142,482
Recognition of components of net periodic postretirement benefit cost:		
Service cost	17,000	16,200
Interest cost	56,900	57,700
Amortization of gains or losses	12,400	12,400
	86,300	86,300
Benefits paid to participants	(28,960)	(30,724)
Net change	57,340	55,576
Balance, beginning of period	$1,255,398	$1,198,058

Continued

9. Accumulated Postretirement Benefits, continued

The funded status of the plan was as follows:

	2005	2004
Accumulated postretirement benefit obligation	$2,390,000	$1,210,281
Plan assets at fair value	-	-
Funded status	2,390,000	1,210,281
Unrecognized net (gains) / losses	62,700	75,100
Unrecognized prior service cost	(1,197,302)	(87,323)
Accrued postretirement benefit cost	$1,255,398	$1,198,058

An 8.0% annual rate of increase in the per capita cost of covered medical benefits was assumed for 2005, decreasing gradually to 5.5% per year by 2010 and remaining at that level thereafter. The discount rate used was 6.50% for 2005 and 2004.

10. Income Tax Status

Cumberland Valley is exempt from federal and state income taxes under provisions of Section 501(c)(12). Accordingly, the financial statements include no provision for income taxes.

11. Contingencies and Commitments

Cumberland Valley is contingently liable as guarantor for approximately $533,000 of long term obligations of East Kentucky to RUS, NRUCFC and institutional investors. Substantially all assets of Cumberland Valley are pledged as collateral for this guarantee, in addition to the pledge in the mortgage agreement referred to in Note 4. This contingent liability was part of an overall financing plan for the construction of a generating facility near Maysville, Kentucky.

Cumberland Valley has various agreements outstanding with local contractors. Under these agreements, the contractors will perform certain construction and maintenance work at specified hourly rates or unit cost, on an as needed basis. The duration of these contracts are either one or two years.

12. Risk Management

Cumberland Valley is exposed to various risks of loss related to torts; theft of ,damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Cumberland Valley carries commercial insurance for all risks of loss, including workers' compensation, general liability and property loss insurance. As is customary in the utility industry, Electric Plant is not insured. Settled claims resulting from these risks have not exceeded commercial insurance coverage in 2005 or 2004.

CUMBERLAND VALLEY ELECTRIC, INC.
CASE NO. 2005-00187

Witness: Jim Adkins

RESPONSE TO PSC STAFF REQUEST NO. 2

14. Q. Refer to the Application, Exhibit N, page 10, Pension Plans. Did Cumberland Valley seek Commission approval of the deferred asset referenced in the second paragraph? If no, explain why it did not seek approval of the deferred asset.

R. Cumberland Valley Electric did not ask Public Service Commissioner's approval and was not aware Public Service Commissioner's approval was required.

Case No. 2005-00187
Cumberland Valley Electric

Second Data Request of Commission Staff

15. Refer to the Application, Exhibit O, Depreciation Study.

a. Has Cumberland Valley sought RUS approval of the depreciation rates proposed in the depreciation study? If yes, provide a copy of the approval. If no, explain why RUS approval has not been sought.

Response.

Cumberland Valley has requested RUS approval, however, RUS has not responded at this time. When notification from RUS is obtained, that correspondence will be submitted to the Commission.

b. Explain why the depreciation study was performed on distribution plant only and does not include general plant.

Response.

In Jackson Energy Cooperative, Case No. 2000-373, RUS response regarding the depreciation study indicated that specific approval is not required for general plant items. Cumberland Valley did not include general plant items since these are on an item specific rate and not as mass units.

c. Provide the source of the computer program used to perform the depreciation study.

Response.

Cumberland Valley used the depreciation consultant that Fleming-Mason Energy used in Case No.2001-244 for the actuarial calculations. Cumberland Valley's staff, along with my assistance completed the remaining part of the depreciation study.

d. Refer to the last page of the Scope section. Describe what is meant by "considered the whole life method" as stated in the first paragraph. Provide any analysis performed using the whole life method used in the consideration.

Response.

Cumberland Valley considered both the Remaining Life Method and the Whole Life Method for calculating the depreciation rates. The calculated Remaining Life Method rates are shown as Section 3 of the study. The calculated Whole Life Method rates are shown as Section 10 of the study.

The Remaining Life Method rates are determined by calculating the future accruals divided by the remaining net book value to arrive at the depreciation rate, before net salvage.

The Whole Life Method rates are determined by dividing the plant balance by the average service life of the plant account to arrive at a depreciation rate, before net salvage. The rte can also be calculated by dividing the average service life by 100, i.e. for Account 364, Poles, towers and fixtures as follows:

(a) Plant Balance	(b) Average Service Life	(c) Annual Accrual	(d) Rate
17,966,549	26	691,021	3.85%

Where (c) equals (a) divided by (b), and (d) equals (c) divided by (a).

Or, the calculation can be as follows:

100 / 26 years = 3.85%

e. Refer to the last page of the depreciation study titled "Whole Life Depreciation Rates." Explain the purpose of this schedule.

Response.

This page represents the allocation of the net salvage to each of the plant accounts. The Commission in Jackson Energy Cooperative, Case No. 2000-373 and in Fleming-Mason Energy Case No. 2001-244 required the use of the five (5) year average net salvage amount to be used for the net salvage portion of the depreciation rates. Page 2 of Section 10 reflects a Five Year Average net salvage of ($238,593). The last page allocates this five year average to various plant accounts to be used in the calculation of depreciation rates as reflected in Section 10, page 1. Actually, the last page and page 1 of Section 9 are the same schedule and this page should have been omitted.

The net salvage percent calculated in Section 9 is added to the Whole Life Method rate as described in the Response to d. above to arrive at the rates proposed in this study.

CUMBERLAND VALLEY ELECTRIC, INC.
CASE NO. 2005-00187

RESPONSE TO PSC STAFF REQUEST NO. 2

TIER CALCULATIONS FOR RATE SCHEDULE II

	Schedule II Commercial	Schedule II Comm w/Demand	Total
Revenue	966,830	700,371	1,667,201
Purchased Power Costs	607,683	340,676	948,359
O&M	200,871	65,297	266,168
Admin & General	43,735	10,152	53,887
Depreciation & Misc.	108,274	32,552	140,827
Interest	48,836	14,677	63,513
Total Costs	1,009,398	463,355	1,472,753
Operating Margin	(42,568)	237,016	194,448
Other Income	46,996	14,124	61,120
Net Margins	4,427	251,140	255,568
TIER	1.09	18.87	5.02

Rate Schedule II is a rate schedule with two sections. One section has a demand charge while the second section does not. Both sections have energy rates that the same. Therefore, it is felt that the rate schedule should really be viewed as one before a change in rates is considered. No change in rates is recommended for this rate class as a decrease in any rates for this class would require a larger increase in rates for the residential rate class. The route we have chosen does not change the rates for Rate Schedule II and placing most of the increase on those rate classes where costs are not being recovered. We believe that this approach is consistent with the Commission's position on continuity and gradualism.

Case No. 2005-00187
Cumberland Valley Electric

Second Data Request of Commission Staff

17. Refer to the First Data Request of Commission Staff dated May 20, 2005 ("Staff First Request"), Item 3. Explain the change in the margins excluding generation and transmission capital credits annually between 2000 and 2004.

Response:

The reduction in margins is the result of several items that have been occurring over the years from 2000 to 2004. Among these are the mark up on revenue over purchase power has been steadily decreasing, operating expenses and depreciation expense have been increasing. The combination of above have contributed to the decrease in margins.

RESPONSE TO PSC STAFF REQUEST NO. 2

18. Refer to the Staff First Request, Item 8(a).

a. Q. Refer to page 1 of 2. Four of the RUS notes listed have maturity dates in 2005.

(1) Provide the status of each note as of the date of this request.

(2) Explain why each of the notes maturing in 2005 were included in the normalization of long-term debt.

R. (1) Note 4170 - paid off
Note H0010 – maturity date extended
Note H0015 – maturity date extended
Note H0020 – maturity date extended

(2) The maturity dates on these notes will be extended to future years as they mature.

RESPONSE TO PSC STAFF REQUEST NO. 2

18 b. Q. For all long-term debt, identify which interest rates are variable and the current term of the variable rate.

R. Variable Interest Rate

RUS Debt

Note Number	Interest Rate	Current Interest Rate	Term
H0010	1.73	3.129	Quarterly
H0015	1.73	3.129	Quarterly
F0020	1.65	3.129	Quarterly

CFC and Other Debt

Note Number	Interest Rate	Current Interest Rate	Term
9007	4.35	5.60	Monthly
9008	4.35	5.60	Monthly
9017	4.35	5.60	Monthly
9018	4.35	5.60	Monthly
9019	4.35	5.60	Monthly
9020	4.35	5.60	Monthly
9021	4.35	5.60	Monthly

Case No. 2005-00187
Cumberland Valley Electric

Second Data Request of Commission Staff

19. Refer to Staff First Request, Item 8(a), page 2 of 2, and Item 9, page 6 of 7. Reconcile the total interest expense between the schedules.

Response:

The beginning and ending interest rates were used to determine the amount of interest calculated in Item 8(a). Since there were changes in rates during the year that were not at midyear, there are some minor differences in the loans in page 1 of 2, lines 15 to 18, and on page 2 of 2, the loans at 4.35%. The interest expense shown on Item 9, page 6 of 7 is the correct interest for the test period.

Case No. 2005-00187
Cumberland Valley Electric

Second Data Request of Commission Staff

20. Refer to the Staff First Request, Item 10. For each balance sheet account listed below, describe the reason(s) for the change in the account balance between December 31, 2003 and December 31, 2004.:

a. Account 362, Station equipment
Metering equipment added to the substations for Turtle II technology.

b. Account 370, Meters AMR
Purchase of Turtle II meters.

c. Account 396, Power operated
Purchase of Caterpillar mower for right-of-way clearing.

d. Account 107.20, Construction work in progress
One (1) larger work order not completed as of December 31, 2004.

e. Account 136, Temporary investment
Almost all cash money was spent.

f. Account 143.30, Other receivables
Sent construction crews to another cooperative to assist with storm damage.

g. Account 144.10, Allowance for uncollectible
There were more write-offs during 2004 than in the allowance. The accrual for 2005 has been increased from $10,000 to $14,000 per month.

h. Account 154.00, Material and supplies
See Account 107,20 increase. The material on open work orders is not taken from material and supplies until the work order has been closed.

i. Account 182.30, Past service pension cost
The annual amortization for this account is $117,972.

j. Account 224.20, FFB notes
New FFB note and advances against same. Federal Financing Bank, loans are issued and administered by RUS.

k. Account 232.10, Accounts payable
Since there was less cash and temporary investments available, invoices were held a little longer prior to paying at December 2004.

Case No. 2005-00187
Cumberland Valley Electric

Second Data Request of Commission Staff

21. Refer to the Staff First Request, Item 11. For each income statement account listed below, describe the reason(s) for the change in the account balance between December 31, 2003 and December 31, 2004:

a. Account 442.20, Large commercial
Discovered several industrial customers meter was only reading on two of the three phases. Adjust revenues for the slow readings by approximately $266,585 for 2002-2003 during the months of October and November 2004.

b. Account 593.03, Right-of-way bushhogging
Performed more bushhogging clearing than cutting. See decrease in Account 593.01.

c. Account 593.04, Right-of-way contractors
During March 2003, right of way contractors worked for other cooperatives during ice storm.

d. Account 597.00, Meter maintenance
Tested more meters and retrofitted for Turtle II technology. As meter are being replaced in the normal course of business, they are being replaced with the Turtle II technology.

e. Account 598.00, Miscellaneous distribution
Approximately $4,000 less direct labor allocated to this account. Other costs that flow with this account would also be less.

f. Account 902.00, Meter reading
Approximately $17,780 for training and service agreement for Turtle II. Additional $27,830 of labor, plus related benefits allocated to this account that would be charged to other accounts for Turtle II and slow reading meters. See Account 442.20 above.

g. Account 903.20, Collection agencies
This account is used to record amounts due from various county and other heat assistance programs, then amounts collected are charged back against this account. At the end of December of each year this account is adjusted to zero, except for December 2004, which has been done during 2005.

h. Account 904.00, Uncollectibles
Increase in accounts written-off.

i. Account 908.00, Consumer Assistance
Received more in rebates from East Kentucky Power during 2004 than in 2003.

j. Account 909.00, Information and instruction
During May 2003, starting allocating part of Kentucky Living magazine monthly cost to this account.

k. Account 921.00, Office supplies and exp
Office labor charged to this account during 2003 that was misclassified and should have been in other accounts.

l. Account 923.00, Outside services
In December 2004, wrote-off $75,000 of estimated amount that was expected to be received from KAEC for defense of territory dispute.

m. Account 427.15, FFB interest
Adjust accrual of interest based on advances from FFB.

n. Account 419.00, Interest income
Interest earned on RUS cushion of credit starting November 2003.