CUMBERLAND VALLEY ELECTRIC, INC.
KENTUCKY 57

FINANCIAL REPORT

May 31, 2023

C O N T E N T S

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

We have audited the accompanying financial statements of Cumberland Valley Electric, Inc., which comprise the balance sheets as of May 31, 2023 and 2022, and the related statements of revenue and comprehensive income, changes in members' equities, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cumberland Valley Electric, Inc. as of May 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 Cumberland Valley Electric, Inc. 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 opinions.

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 about Cumberland Valley Electric, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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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 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 Cumberland Valley Electric, Inc.'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 Cumberland Valley Electric, Inc.'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 have identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated September 11, 2023, on our consideration of Cumberland Valley Electric, Inc.'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cumberland Valley Electric, Inc.'s internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
September 11, 2023

CUMBERLAND VALLEY ELECTRIC, INC.

BALANCE SHEETS
May 31, 2023 and 2022

Assets	2023	2022
Electric Plant, at Original Cost		
In service	$ 119,127,549	$ 115,424,540
Under construction	1,348,194	1,051,889
	120,475,743	116,476,429
Less accumulated depreciation	47,685,136	45,531,233
	72,790,607	70,945,196
Investments in Associated Organizations	35,988,635	35,790,438
Current Assets		
Cash and cash equivalents	11,741,406	12,195,430
Accounts receivable, less allowance for 2023 of $233,165 and 2022 of $296,004	4,153,791	3,469,106
Other receivables	291,867	297,334
Material and supplies	1,403,813	1,258,688
Other current assets	811,125	766,609
Total current assets	18,402,002	17,987,167
Deferred Pension Costs	310,089	371,073
Total assets	$ 127,491,333	$ 125,093,874

Members' Equities and Liabilities	2023	2022
Members' Equities		
Memberships	$ 446,190	$ 439,645
Patronage capital	57,433,634	56,753,383
Other equities	2,342,093	2,335,729
Accumulated other comprehensive income (loss)	314,587	(458,164)
Total members' equities	60,536,504	59,070,593
Long-Term Liabilities		
Long-term debt, less current portion	49,822,761	51,732,390
Accumulated postretirement benefits	3,767,981	4,372,799
Total long-term liabilities	53,590,742	56,105,189
Current Liabilities		
Current portion of long-term debt	3,297,580	2,424,562
Accounts payable	3,620,102	3,240,846
Consumer deposits	3,346,794	1,958,859
Accrued expenses	2,894,916	2,090,985
Total current liabilities	13,159,392	9,715,252
Consumer Advances for Construction	204,695	202,840
Total members' equities and liabilities	$ 127,491,333	$ 125,093,874

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

CUMBERLAND VALLEY ELECTRIC, INC.

STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Years Ended May 31, 2023 and 2022

	2023	2022
Operating Revenues		
Sales of electric energy	$ 58,750,123	$ 47,882,560
Other electric revenues	2,195,643	1,946,163
	60,945,766	49,828,723
Operating Expenses		
Cost of power	46,567,126	35,649,058
Distribution - operations	1,794,837	1,579,668
Distribution - maintenance	4,147,717	3,298,545
Consumer accounts	1,659,465	1,432,106
Customer services	161,231	150,129
Administrative and general	1,865,016	1,742,644
Depreciation, excluding $227,145 in 2023 and $107,862 in 2022 charged to clearing accounts	4,274,925	4,115,867
Taxes, other than income	44,091	53,880
Interest on long-term debt	1,619,511	770,205
Other interest charges	61,890	15,394
Other deductions	10,876	11,789
	62,206,685	48,819,285
Operating Margins (Deficit)	(1,260,919)	1,009,438
Nonoperating Margins and Capital Credits		
Interest income	373,246	121,833
Generation and transmission capital credits	1,495,773	411,844
Other capital credits	72,151	234,048
	1,941,170	767,725
Net Margins	680,251	1,777,163
Other Comprehensive Income		
Amortization of actuarial loss	52,620	52,620
Postretirement actuarial gain	720,131	- -
	772,751	52,620
Total Comprehensive Income	$ 1,453,002	$ 1,829,783

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

CUMBERLAND VALLEY ELECTRIC, INC.

STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended May 31, 2023 and 2022

	Memberships	Patronage Capital	Other Equities	Accumulated Other Comprehensive Income (Loss)	Total Members' Equities
Balance - May 31, 2021	$ 452,580	$ 54,976,220	$ 2,324,153	$ (510,784)	$ 57,242,169
Comprehensive income:					
Net margins		1,777,163			1,777,163
Postretirement benefit obligation:					
Amortization of actuarial loss				52,620	52,620
Total comprehensive income					1,829,783
Net change in memberships	(12,935)				(12,935)
Other equities			11,576		11,576
Balance - May 31, 2022	439,645	56,753,383	2,335,729	(458,164)	59,070,593
Comprehensive income:					
Net margins		680,251			680,251
Postretirement benefit obligation					
Amortization of actuarial loss				52,620	
Adjustments				720,131	772,751
Total comprehensive income					1,453,002
Net change in memberships	6,545				6,545
Other equities			6,364		6,364
Balance - May 31, 2023	$ 446,190	$ 57,433,634	$ 2,342,093	$ 314,587	$ 60,536,504

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

CUMBERLAND VALLEY ELECTRIC, INC.

STATEMENTS OF CASH FLOWS
Years Ended May 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 680,251	$ 1,777,163
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Charged to expense	4,274,925	4,115,867
Charged to clearing accounts	227,145	107,862
Patronage capital credits assigned	(1,567,924)	(645,892)
Amortization of postretirement actuarial adjustment	52,620	52,620
Postretirement actuarial adjustment	720,131	- -
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts and other receivables, net	(679,218)	(189,496)
Material and supplies	(145,125)	(571,641)
Other current assets	(44,516)	(14,219)
Deferred pension costs	60,984	60,984
Accounts payable	379,256	1,140,074
Consumer deposits	1,389,790	635,995
Accumulated postretirement benefits	(604,818)	145,401
Accrued expenses	803,931	61,990
Net cash provided by operating activities	5,547,432	6,676,708
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(5,887,864)	(4,894,164)
Plant removal costs	(576,293)	(467,301)
Salvage recovered from retired plant	116,676	77,857
Receipts from other investments, net	1,258,607	92,253
Receipts from economic development loans	111,120	111,120
Net cash (used in) investing activities	(4,977,754)	(5,080,235)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in memberships	6,545	(12,935)
Increase in other equities	6,364	11,576
Advances of long-term debt	- -	6,889,000
Cushion of credit payments	1,230,737	631,297
Principal payments on long-term debt	(2,267,348)	(2,580,192)
Net cash provided by (used in) financing activities	(1,023,702)	4,938,746
Net increase (decrease) in cash and cash equivalents	(454,024)	6,535,219
Cash and cash equivalents, beginning of year	12,195,430	5,660,211
Cash and cash equivalents, end of year	$ 11,741,406	$ 12,195,430
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 1,439,568	$ 802,996

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

Note 1. Significant Accounting Policies

Description of business

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

Business activities

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

Use of estimates

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

Electric plant

Electric plant is stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead cost including any construction period interest and taxes. There was no interest required to be capitalized during the years ended May 31, 2023 and 2022.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to electric plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation. Electric plant consists of the following as of May 31, 2023 and 2022:

	2023	2022
Distribution plant	$ 110,742,233	$ 107,052,351
General plant	8,385,316	8,372,189
Total	$ 119,127,549	$ 115,424,540

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Depreciation

Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Depreciation rates range from 2.39% to 6.70%, with a composite rate of 3.69% for distribution plant. General plant rates are as follows:

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

Cash and cash equivalents

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

Accounts receivable

Accounts receivable consists of amounts due for sales of electricity. Accounts receivable are recorded at their net realizable value consisting of the carrying amount less an allowance for uncollectible accounts. Cumberland Valley uses the allowance method to account for uncollectible accounts receivable balances. Management charges off uncollectible receivables to the allowance when it is determined the amounts will not be realized.

Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification [ASC] 842, Leases) to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

Cumberland Valley adopted the standard effective June 1, 2022 and recognized and measured leases existing at, or entered into after, June 1, 2022 (the beginning of the period of adoption) with certain practical expedients available. Lease disclosures for the year ended May 31, 2022 are made under prior lease guidance in FASB ASC840.

The standard did not have a material impact on the financial statements. The accounting for leases remained substantially unchanged.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Materials and supplies

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

Taxes

Cumberland Valley is required to collect, on behalf of the Commonwealth of Kentucky, sales taxes based on six percent of gross sales from non-residential consumers, a three percent school tax from certain counties on most gross sales, and franchise fees in certain cities. Cumberland Valley's policy is to exclude taxes from revenue when collected and expenses when paid and instead, record collection and payment of taxes through a liability account.

Cost of power

Cumberland Valley is one of 16 members of East Kentucky Power Cooperative, Inc. (East Kentucky). Under a wholesale power agreement, Cumberland Valley is committed to purchase its electric power and energy requirements from East Kentucky until 2051. The rates charged by East Kentucky are subject to approval of the PSC. The cost of purchased power is recorded monthly during the period in which the energy is consumed, based upon billings from East Kentucky. The power bill includes a fuel adjustment and environmental surcharge component that is passed on to Cumberland Valley's customers using a methodology prescribed by the PSC.

Advertising

Cumberland Valley Electric, Inc. expenses advertising costs as incurred. Advertising expenses were $1,916 and $3,719 for the years ended May 31, 2023 and 2022, respectively.

Comprehensive income (loss)

Comprehensive income (loss) includes both net margin (deficit) and other comprehensive income (loss). Other comprehensive income (loss) represents the change in funded status of the accumulated postretirement benefit obligation.

Risk management

Cumberland Valley is exposed to various forms of losses of assets associated with, but not limited to, fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, workers compensation, etc. Each of these areas is covered through the purchase of commercial insurance.

Credit risk

Cumberland Valley grants credit to residents within its service territory. Concentrations of credit risk with respect to accounts receivables are limited due to its large number of customers.

Note 1. Significant Accounting Policies (Continued)

Income tax status

Cumberland Valley qualifies as a tax-exempt organization under Section 501(c)(12) of the Internal Revenue Code. Income from certain activities not directly related to Cumberland Valley's tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income activity to be reported for the years ended May 31, 2023 and 2022.

Cumberland Valley's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Cumberland Valley has no uncertain tax positions resulting in an accrual of tax expense or benefit.

Cumberland Valley recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Cumberland Valley did not recognize any interest or penalties during the years ended May 31, 2023 and 2022.

Cumberland Valley's Federal Return of Organization Exempt from Income Tax is subject to possible examination by taxing authorities until the expiration of related statutes of limitations on the return, which is generally three years.

Pension accounting

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

Recent accounting pronouncement

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses.* The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the statement of revenue and comprehensive income will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for the year ending May 31, 2024.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Recent accounting pronouncements (continued)

Cumberland Valley is currently in the process of evaluating the impact of the adoption of this ASU on the financial statements.

Subsequent events

Management has evaluated subsequent events through September 11, 2023, the date the financial statements were available to be issued.

Note 2. Revenue Recognition

Revenue from contracts

Cumberland Valley is engaged in the distribution and sale of electricity to residential and commercial customers concentrated in nine counties in southeastern Kentucky. Revenue from these activities is generated from tariffs approved by the PSC. Cumberland Valley satisfies their performance obligation upon the delivery of electricity to customers. Revenue is recognized over time as the customer simultaneously receives and consumes the benefits provided by Cumberland Valley. The amount of revenue recognized is the billed volume of electricity multiplied by a tariff rate per-unit of energy, plus any applicable fixed or additional regulatory charges. Customers are billed monthly and outstanding amounts are typically due within 15 days of the date of the bill. Revenue for pole attachments is invoiced at the end of the year. The performance obligation is satisfied ratably over the term of the contract and revenue is recognized monthly as earned.

Significant judgements

Cumberland Valley has one billing cycle that processes customer bills on approximately the same day each month. The amounts billed are based on actual meter reading of kilowatt hours used for the billing period. The amount of revenue recorded each month represent a full month of kilowatt hour usage. There are no significant judgements for over or under-billed revenues because each month's revenue is based on actual meter readings. This method of revenue recognition presents fairly, Cumberland Valley's transfer of electricity to customers as the amount recognized is based on actual volumes delivered and the tariff rate per-unit of energy plus any applicable fixed charges as set by the PSC.

Performance obligations

Cumberland Valley customers generally have no minimum purchase commitments. Revenue is recognized as each performance obligation is satisfied. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation to recognize as of May 31, 2023 and 2022.

NOTES TO FINANCIAL STATEMENTS

Note 2. Revenue Recognition (Continued)

Disaggregation of revenue

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended May 31, 2023 and 2022:

	2023	2022
Residential rural	$ 38,392,111	$ 36,382,371
Large commercial	8,643,317	7,352,602
Small commercial	11,714,695	4,147,587
Total	$ 58,750,123	$ 47,882,560

Contract assets and liabilities

Contract assets include accounts receivable net of allowance and unbilled pole attachment revenue, which are included in other current assets on the balance sheets. Contract liabilities include consumer deposits. Contract assets and liabilities were as follows as of May 31:

	2023	2022	2021
Contract assets			
Accounts receivable, net	$ 4,153,791	$ 3,469,106	2,651,309
Unbilled pole attachments	550,000	510,000	505,000
	$ 4,703,791	$ 3,979,106	$ 3,156,309
Contract liabilities			
Consumer deposits	$ 3,346,794	$ 1,958,859	$ 1,170,754

Note 3. Investments in Associated Organizations

Investments in associated organizations consist of the following as of May 31, 2023 and 2022:

	2023	2022
East Kentucky, patronage capital	$ 33,194,108	$ 32,926,001
CFC, patronage capital and CTCs	988,250	998,391
Economic development loans	601,820	712,940
KAEC, patronage capital	409,469	384,009
Federated Insurance, patronage capital	323,340	311,946
NISC, patronage capital	156,798	154,071
Other associated organizations	314,850	303,080
Total	$ 35,988,635	$ 35,790,438

Note 3. Investments in Associated Organizations (Continued)

Cumberland Valley records patronage capital assigned by associated organizations in the year in which such assignments are received. The Capital Term Certificates (CTCs) of National Rural Utilities Cooperative Finance Corporation (CFC) are recorded at cost. The CTCs were purchased from CFC as a condition of obtaining long-term financing. The CTCs bear interest at 3.00% and 5.00% and are scheduled to mature at varying times from 2025 to 2080. Cumberland Valley has an economic development loan through RUS at no interest to an industrial authority and is secured by a portion of the assets pledged by the industrial authority or guaranty from a local bank.

Note 4. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30.00% of total assets, except that distributions may be made to estates of deceased patrons. The debt agreement provides, however, that should such distributions to estates not exceed 25.00% of the net margins for the next preceding year, Cumberland Valley may distribute the difference between 25.00% and the payments made to such estates. Members' equity as of May 31, 2023 and 2022 was 47.48% and 47.22% of total assets, respectively.

As of May 31, 2023 and 2022, patronage capital consisted of the following:

	2023	2022
Assigned to date	$ 60,883,970	$ 58,936,435
Assignable margins	26,870	1,294,154
Retirements to date	(3,477,206)	(3,477,206)
Total	$ 57,433,634	$ 56,753,383

Note 5. Long-Term Debt

All assets, except vehicles, are pledged as collateral on the long-term debt to RUS, Federal Financing Bank (FFB), CoBank, CFC, and National Cooperative Services Corporation (NCSC), under a joint mortgage agreement. The long-term debt is due in quarterly and monthly installments of varying amounts through 2051. RUS assesses 12.5 basis points to administer the FFB loans. During 2010, $3,839,834 of RUS loans were refinanced with lower interest rate notes from NCSC. During 2013, $2,892,121 of CFC loans were refinanced with lower interest rates from CoBank. During 2018, $2,023,762 of RUS loans were refinanced with lower interest rate notes from CoBank. Cumberland Valley had loan funds available from FFB in the amounts of $24,122,000 as of May 31, 2023 and 2022. These funds will be used for future plant additions.

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

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

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

	2023	2022
Rural Utilities Service:		
First mortgage notes due RUS, 1.875% variable rate notes	$ 565,023	$ 608,847
Advance payments	(118)	(1,230,857)
	564,905	(622,010)
FFB:		
2.161% to 2.865% fixed rate notes	22,737,019	23,466,322
4.969% variable rate notes	26,931,323	28,045,034
	49,668,342	51,511,356
Economic development loan, no interest	596,330	706,422
CoBank, 3.68% to 4.29% fixed rate notes	2,290,764	2,519,346
NCSC, 4.30% fixed rate note	- -	41,838
	53,120,341	54,156,952
Less current portion	3,297,580	2,424,562
Long-term portion	$ 49,822,761	$ 51,732,390

As of May 31, 2023, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2024	$ 3,297,580
2025	3,378,518
2026	3,468,369
2027	3,570,812
2028	3,660,084
Thereafter	35,744,978
	$ 53,120,341

Note 6. Short-Term Notes Payable

As of May 31, 2023 and 2022, Cumberland Valley had a short-term line of credit of $5,000,000 available from CFC with variable interest rates of 6.75% and 2.45%, respectively. Advances against the CFC line of credit were zero as of May 31, 2023 and 2022. The CFC line of credit matures on December 31, 2049. Additionally, Cumberland Valley had a line of credit of $1,000,000 available from CoBank, with variable interest rates of 7.21% and 3.55% as of May 31, 2023 and 2022, respectively. There were no advances against the CoBank line of credit as of May 31, 2023 and 2022. The CoBank line of credit matures March 31, 2024.

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans

All eligible employees of Cumberland Valley participate in the NRECA Retirement and Security Plan (RS Plan), a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The Plan sponsor's identification number is 53-0116145 and the Plan Number is 333. A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Cumberland Valley's contributions to the RS Plan in 2023 and 2022 represent less than 5.00% of the total contributions made to the plan by all participating employers. Cumberland Valley made contributions to the plan for eligible employees of $394,177 in 2023 and $373,873 in 2022. There have been no significant changes that affect the comparability of 2023 and 2022.

In the RS Plan, a zone status determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 85.00% funded at January 1, 2023 and 2022 based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

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

Two prepayment options were available to participating cooperatives:

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

Note 7. Pension Plans (Continued)

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

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

Note 8. Savings Plan

Cumberland Valley sponsors a Retirement Savings Plan available to all eligible employees. The plan allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. Cumberland Valley makes contributions of 10% for non-salaried employees and zero percent for salaried employees of the participant's base compensation. Contributions to the plan were $212,237 for 2023 and $214,939 for 2022.

Note 9. Postretirement Benefits

Cumberland Valley sponsors a defined benefit plan that provides medical insurance coverage to retirees and their spouses. Cumberland Valley pays all the premiums for retirees and their spouses. For measurement purposes, an annual rate of increase of 5.00% in 2023, then decreasing by 0.25% per year until 3.00% per year, in the per capita cost of covered health care benefit was assumed. The discount rate used in determining the accumulated postretirement benefit obligation was 4.50%. There have been no significant changes that affect the comparability of 2023 and 2022.

The funded status of the plan was as follows as of May 31, 2023 and 2022:

	2023	2022
Projected benefit obligation	$ (3,767,981)	$ (4,372,799)
Plan assets at fair value	- -	- -
Funded status (deficit)	$ (3,767,981)	$ (4,372,799)

Note 9. Postretirement Benefits (Continued)

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

	2023	2022
Benefit obligation - beginning of period	$ 4,372,799	$ 4,227,398
Net periodic benefit cost:		
Service cost	40,212	29,642
Interest cost	183,168	193,738
Net period cost	223,380	223,380
Benefit payments to participants	(108,067)	(77,979)
Actuarial gain	(720,131)	- -
Benefit obligation - end of period	$ 3,767,981	$ 4,372,799
Amounts recognized in the balance sheet consists of:		
Accumulated postretirement benefits	$ 3,767,981	$ 4,372,799
Amounts included in other comprehensive income:		
Actuarial gain	$ 720,131	$ - -
Amortization of actuarial loss	$ 52,620	$ 52,620
Effect of 1.00% increase in the health care trend:		
Postemployment benefit obligation	$ 4,010,000	
Net periodic benefit cost	$ 237,900	

Projected retiree benefit payments for the next five years are expected to be as follows: 2024 - $112,400; 2025 - $117,700; 2026 - $99,200; 2027 - $97,300; 2028 - $88,700.

Note 10. Environmental Contingency

Cumberland Valley from time to time is required to work with and handle PCBs, herbicides, automotive fluids, lubricants, and other hazardous materials in the normal course of business. As a result, there is the possibility that environmental conditions may arise which would require Cumberland Valley to incur cleanup costs. The likelihood of such an event, or the amount of such costs, if any, cannot be determined at this time. However, management does not believe such costs, if any, would materially affect Cumberland Valley's financial position or its future cash flows.

Note 11. Commitments

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

NOTES TO FINANCIAL STATEMENTS

Note 12. Related Party Transactions

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

Note 13. Labor Force

Approximately 80% of Cumberland Valley's labor force is subject to a collective bargaining agreement. A three-year agreement was negotiated and approved for the period September 1, 2022 to August 31, 2025 between Cumberland Valley and the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union.

Note 14. Contingencies

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

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*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cumberland Valley Electric, Inc. (the Cooperative), which comprise the balance sheet as of May 31, 2023 and the related statements of revenue and comprehensive income, changes in members' equities and cash flows for the year then ended, and related notes to the financial statements, and have issued our report thereon dated September 11, 2023.

Report on Internal Control over Financial Reporting

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

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

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

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Report on Compliance and Other Matters

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

Purpose of this Report

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

Jones, Nale & Mattingly PLC

Louisville, Kentucky
September 11, 2023

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cumberland Valley Electric, Inc. (the Cooperative), which comprise the balance sheet as of May 31, 2023, and the related statements of revenue and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 11, 2023. In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2023, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

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

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

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- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements ("See RUS Bulletin 183-1, Depreciation Rates and Procedures");
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits, which are listed below; and
- Comply with the requirements for the detailed schedule of investments, of which there were none.

The deferred debits are as follows:

Deferred pension costs	$ 310,089

The deferred credits are as follows:

Consumer advances for construction	$ 204,695

The purpose of this report is solely to communicate, in connection with the audit of the financial statements, on compliance with aspects of contractual agreements and the regulatory requirements for electric borrowers based on the requirements of 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*. Accordingly, this report is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
September 11, 2023