

**CUMBERLAND VALLEY ELECTRIC, INC.
KENTUCKY 57**

FINANCIAL REPORT

May 31, 2025

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Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Cumberland Valley Electric, Inc., which comprise the balance sheets as of May 31, 2025 and 2024, 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, 2025 and 2024, 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 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 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.

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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of deferred debits and deferred credits, and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are 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 schedule of deferred debits and deferred credits, and the schedule of expenditures of federal awards, are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated August 25, 2025, 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 the effectiveness of Cumberland Valley Electric, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cumberland Valley Electric, Inc.'s internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
August 25, 2025

CUMBERLAND VALLEY ELECTRIC, INC.

BALANCE SHEETS
May 31, 2025 and 2024

<u>Assets</u>	<u>2025</u>	<u>2024</u>
Electric Plant, at Original Cost		
In service	\$ 126,112,607	\$ 122,646,478
Under construction	1,595,978	2,027,748
	<u>127,708,585</u>	<u>124,674,226</u>
Less accumulated depreciation	53,756,637	50,697,380
	<u>73,951,948</u>	<u>73,976,846</u>
Investments in Associated Organizations	<u>36,978,220</u>	<u>36,712,128</u>
Current Assets		
Cash and cash equivalents	13,029,302	9,875,975
Accounts receivable, less allowance for credit losses in 2025 of \$167,781 and 2024 of \$197,711	4,280,014	4,053,169
Other receivables	1,163,629	88,735
Material and supplies	1,077,374	1,093,063
Other current assets	908,991	863,201
Total current assets	<u>20,459,310</u>	<u>15,974,143</u>
Deferred Pension Costs	<u>188,121</u>	<u>249,105</u>
Total assets	<u>\$ 131,577,599</u>	<u>\$ 126,912,222</u>
<u>Members' Equities and Liabilities</u>		
Members' Equities		
Memberships	\$ 446,335	\$ 449,370
Patronage capital	59,329,980	58,203,072
Other equities	2,367,673	2,358,825
Accumulated other comprehensive income	283,326	299,046
Total members' equities	<u>62,427,314</u>	<u>61,310,313</u>
Long-Term Liabilities		
Long-term debt, less current portion	51,625,024	48,933,517
Accumulated postretirement benefits	3,812,893	3,806,813
Total long-term liabilities	<u>55,437,917</u>	<u>52,740,330</u>
Current Liabilities		
Current portion of long-term debt	2,274,532	2,120,154
Accounts payable	3,789,608	4,075,920
Consumer deposits	3,237,650	3,298,025
Accrued expenses	3,168,479	3,046,488
Total current liabilities	<u>12,470,269</u>	<u>12,540,587</u>
Consumer Advances for Construction	<u>1,242,099</u>	<u>320,992</u>
Total members' equities and liabilities	<u>\$ 131,577,599</u>	<u>\$ 126,912,222</u>

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

CUMBERLAND VALLEY ELECTRIC, INC.

STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Years Ended May 31, 2025 and 2024

	2025	2024
Operating Revenues		
Sales of electric energy	\$ 56,721,360	\$ 58,075,010
Other electric revenues	2,349,248	2,190,582
	59,070,608	60,265,592
Operating Expenses		
Cost of power	42,705,828	45,186,744
Distribution - operations	1,810,919	1,822,581
Distribution - maintenance	4,064,190	3,683,491
Consumer accounts	1,748,302	1,735,912
Customer services	169,907	165,751
Administrative and general	1,841,152	1,859,164
Depreciation, excluding \$143,372 in 2025 and \$152,714 in 2024 charged to clearing accounts	4,542,767	4,406,091
Taxes, other than income	57,176	48,535
Interest on long-term debt	1,736,431	1,835,974
Other interest charges	104,133	156,529
Other deductions	10,840	10,955
	58,791,645	60,911,727
Operating Margins (Deficits)	278,963	(646,135)
Nonoperating Margins and Capital Credits		
Interest income	420,137	538,378
Generation and transmission capital credits	271,885	739,072
Other capital credits	167,645	138,123
	859,667	1,415,573
Net Margins	1,138,630	769,438
Other Comprehensive Loss		
Amortization of actuarial gain	(15,720)	(15,541)
Net Margins and Comprehensive Loss	\$ 1,122,910	\$ 753,897

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, 2025 and 2024

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Other Equities</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equities</u>
Balance - May 31, 2023	\$ 446,190	\$ 57,433,634	\$ 2,342,093	\$ 314,587	\$ 60,536,504
Comprehensive income:					
Net margins		769,438			769,438
Postretirement benefit obligation:					
Amortization of actuarial loss				(15,541)	(15,541)
Total comprehensive income					<u>753,897</u>
Net change in memberships	3,180				3,180
Other equities			16,732		16,732
Balance - May 31, 2024	449,370	58,203,072	2,358,825	299,046	61,310,313
Comprehensive income:					
Net margins		1,138,630			1,138,630
Postretirement benefit obligation					
Amortization of actuarial gain				(15,720)	(15,720)
Total comprehensive income					<u>1,122,910</u>
Net change in memberships	(3,035)				(3,035)
Special retirements		(11,722)			(11,722)
Other equities			8,848		8,848
Balance - May 31, 2025	<u>\$ 446,335</u>	<u>\$ 59,329,980</u>	<u>\$ 2,367,673</u>	<u>\$ 283,326</u>	<u>\$ 62,427,314</u>

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

CUMBERLAND VALLEY ELECTRIC, INC.

STATEMENTS OF CASH FLOWS
Years Ended May 31, 2025 and 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	\$ 1,138,630	\$ 769,438
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Charged to expense	4,542,767	4,406,091
Charged to clearing accounts	143,372	152,714
Patronage capital credits assigned	(439,530)	(877,195)
Amortization of postretirement actuarial adjustment	(15,720)	(15,541)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts and other receivables, net	(1,301,739)	303,754
Material and supplies	15,689	310,750
Other current assets	(45,790)	(52,076)
Deferred pension costs	60,984	60,984
Accounts payable	(286,312)	455,818
Consumer deposits	(60,375)	(48,769)
Accumulated postretirement benefits	6,080	38,832
Accrued expenses	121,991	151,572
Consumer advances for construction	921,107	116,297
Net cash provided by operating activities	4,801,154	5,772,669
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(4,340,844)	(5,459,709)
Plant removal costs	(395,138)	(375,465)
Salvage recovered from retired plant	74,741	90,130
Receipts from other investments, net	62,318	42,582
Receipts from economic development loans	111,120	111,120
Net cash (used in) investing activities	(4,487,803)	(5,591,342)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in memberships	(3,035)	3,180
Special retirements of patronage capital	(11,722)	--
Increase in other equities	8,848	16,732
Advances of long-term debt	5,000,000	--
Cushion of credit payments	--	118
Principal payments on long-term debt	(2,154,115)	(2,066,788)
Net cash provided by (used in) financing activities	2,839,976	(2,046,758)
Net increase (decrease) in cash and cash equivalents	3,153,327	(1,865,431)
Cash and cash equivalents, beginning of year	9,875,975	11,741,406
Cash and cash equivalents, end of year	\$ 13,029,302	\$ 9,875,975
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	\$ 1,871,567	\$ 1,995,039

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

CUMBERLAND VALLEY ELECTRIC, INC.

NOTES TO FINANCIAL 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, 2025 and 2024.

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, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Distribution plant	\$ 117,919,495	\$ 114,413,672
General plant	8,193,112	8,232,806
Total	<u>\$ 126,112,607</u>	<u>\$ 122,646,478</u>

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 3.70% for distribution plant. General plant rates are as follows:

Structures and improvements	2.8%
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 and allowance for credit losses

Cumberland Valley operates in the electric services distribution industry, and its accounts receivable are primarily derived from the sales of electric energy. Accounts receivable are stated at net realizable value and are usually collected within thirty days. The balance in accounts receivable as of May 31, 2025, 2024, and 2023 was \$4,280,014, \$4,053,169, and \$4,153,791, respectively.

Cumberland Valley uses the allowance method to account for uncollectible accounts receivable. Management maintains an allowance for potential credit losses based on its assessment of the current status of the customer accounts using a pooled basis approach where similar characteristics exist (See Note 3). The allowance estimate is derived from a review of Cumberland Valley historical losses based on the aging of receivables. The estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by Cumberland Valley.

Cumberland Valley writes off receivables when there is information that indicates the debtor is facing significant financial difficulty and there is no possibility of recovery. Subsequent recoveries are credited to the allowance for credit losses.

Materials and supplies

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

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 2068. 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 \$2,381 and \$2,446 for the years ended May 31, 2025 and 2024, 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.

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 1. Significant Accounting Policies (Continued)

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.

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, 2025 and 2024.

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, 2025 and 2024.

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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Subsequent events

Management has evaluated subsequent events through August 25, 2025, 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, 2025 and 2024.

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, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Residential rural	\$ 39,799,753	\$ 36,500,838
Large commercial	7,525,182	8,809,140
Small commercial	9,396,425	12,765,032
Total	<u>\$ 56,721,360</u>	<u>\$ 58,075,010</u>

Contract assets and liabilities

Contract assets include unbilled pole attachment revenues, 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:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Contract assets			
Unbilled pole attachments	<u>\$ 590,000</u>	<u>\$ 560,000</u>	<u>\$ 550,000</u>
Contract liabilities			
Consumer deposits	<u>\$ 3,237,650</u>	<u>\$ 3,298,025</u>	<u>\$ 3,346,794</u>

Note 3. Allowance for Credit Losses

The allowance for credit losses for accounts receivable and the related activity are as follows:

	<u>2025</u>	<u>2024</u>
Beginning balance	\$ 197,711	\$ 233,165
Provision for credit losses	14,326	16,759
Write-offs	(60,571)	(75,963)
Recoveries	16,315	23,750
Ending balance	<u>\$ 167,781</u>	<u>\$ 197,711</u>

NOTES TO FINANCIAL STATEMENTS

Note 4. Investments in Associated Organizations

Investments in associated organizations consist of the following as of May 31, 2025 and 2024:

	2025	2024
East Kentucky, patronage capital	\$ 34,205,064	\$ 33,933,180
CFC, patronage capital and CTCs	967,979	978,331
Economic development loans	379,580	490,700
KAEC, patronage capital	583,478	491,859
Federated Insurance, patronage capital	349,833	336,210
NISC, patronage capital	168,794	162,228
Other associated organizations	323,492	319,620
Total	\$ 36,978,220	\$ 36,712,128

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 5. 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, 2025 and 2024 was 47.45% and 48.31% of total assets, respectively.

As of May 31, 2025 and 2024, patronage capital consisted of the following:

	2025	2024
Assigned to date	\$ 62,257,036	\$ 61,596,585
Assignable margins	561,872	83,693
Retirements to date	(3,488,928)	(3,477,206)
Total	\$ 59,329,980	\$ 58,203,072

NOTES TO FINANCIAL STATEMENTS

Note 6. 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 \$19,122,00 and \$24,122,000 as of May 31, 2025 and 2024, respectively. 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.

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

	2025	2024
FFB:		
2.161% to 4.038% fixed rate notes	\$ 46,238,351	\$ 47,991,599
4.332% variable rate note	5,000,000	-
	51,238,351	47,991,599
RUS, 2.625% fixed rate notes	480,238	523,007
Economic development loan, no interest	376,147	486,239
CoBank, 3.68% to 4.29% fixed rate notes	1,804,820	2,052,826
	53,899,556	51,053,671
Less current portion	2,274,532	2,120,154
Long-term portion	\$ 51,625,024	\$ 48,933,517

As of May 31, 2025, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2026	\$	2,274,532
2027		2,260,668
2028		2,317,226
2029		2,296,534
2030		2,329,406
Thereafter		42,421,190
	\$	53,899,556

NOTES TO FINANCIAL STATEMENTS

Note 7. Short-Term Notes Payable

As of May 31, 2025 and 2024, Cumberland Valley had a short-term line of credit of \$5,000,000 available from CFC with a variable interest rate of 7.25%. Advances against the CFC line of credit were zero as of May 31, 2025 and 2024. The CFC line of credit matures on December 31, 2069. Additionally, Cumberland Valley had a line of credit of \$1,000,000 available from CoBank, with variable interest rates of 6.38% and 7.38% as of May 31, 2025 and 2024, respectively. There were no advances against the CoBank line of credit as of May 31, 2025 and 2024. The CoBank line of credit matures March 31, 2026.

Note 8. 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 multi-employer 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 2025 and 2024 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 \$407,720 in 2025 and \$424,505 in 2024. There have been no significant changes that affect the comparability of 2025 and 2024.

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, 2025 and 2024 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.

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plans (Continued)

Two prepayment options were available to participating cooperatives:

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

On February 14, 2013, RUS issued a memorandum to all 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 chooses to finance the prepayment, interest expense associated with the loan shall be recorded in the year incurred as is required under the RUS Uniform System of Accounts (USoA).

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

Note 9. 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 \$232,713 for 2025 and \$230,453 for 2024.

Note 10. 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 2025 and 2024.

The funded status of the plan was as follows as of May 31, 2025 and 2024:

	2025	2024
Projected benefit obligation	\$ (3,812,893)	\$ (3,806,813)
Plan assets at fair value	--	--
Funded status (deficit)	\$ (3,812,893)	\$ (3,806,813)

NOTES TO FINANCIAL STATEMENTS

Note 10. Postretirement Benefits (Continued)

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

	2025	2024
Benefit obligation - beginning of period	\$ 3,806,813	\$ 3,767,981
Net periodic benefit cost:		
Service cost	26,938	27,624
Interest cost	128,583	127,897
Net period cost	155,521	155,521
Benefit payments to participants	(149,441)	(116,689)
Benefit obligation - end of period	\$ 3,812,893	\$ 3,806,813
Amounts recognized in the balance sheets consists of:		
Unrecognized actuarial gain	\$ 283,326	\$ 299,046
Accumulated postretirement benefits	\$ 3,812,893	\$ 3,806,813
Amounts included in other comprehensive income:		
Amortization of actuarial gain	\$ (15,720)	\$ (15,541)
Effect of 1.00% increase in the health care trend:		
Postemployment benefit obligation	\$ 4,060,000	
Net periodic benefit cost	\$ 165,600	

Projected retiree benefit payments for the next five years are expected to be as follows: 2026 - \$99,200; 2027 - \$97,300; 2028 - \$88,700; 2029 - \$85,500; 2030 - \$75,000.

Note 11. 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 12. 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 (the Union). Currently, Cumberland Valley is in negotiations with the Union on a new collective bargaining agreement.

Note 13. 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.

CUMBERLAND VALLEY ELECTRIC, INC.

SCHEDULE OF DEFERRED DEBITS AND DEFERRED CREDITS
May 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>	<u>RUS Approval</u>
Deferred Debits			
Deferred pension costs	<u>\$ 188,121</u>	<u>\$ 249,105</u>	§1767.13(d)(1)
Deferred Credits			
Consumer advances for construction	<u>\$ 1,242,099</u>	<u>\$ 320,992</u>	§1767, account #252

CUMBERLAND VALLEY ELECTRIC, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2025**

<u>Federal Grantor/Program Title</u>	<u>Federal ALN</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Homeland Security Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4497	\$ 10,528
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4804	493,804
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4848	175,694
			<u>680,026</u>
U.S. Department of Energy Clean Energy Demonstrations	81.255	DE-CD000134	<u>341,150</u>
Total expenditures of federal awards			<u><u>\$ 1,021,176</u></u>

The accompanying notes are an integral part of this schedule.

CUMBERLAND VALLEY ELECTRIC, INC.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2025**

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of Cumberland Valley Electric, Inc. (the Cooperative) under programs of the federal government for the year ended May 31, 2025. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Cooperative, it is not intended to and does not present the financial position, changes in members' equities, or cash flows of the Cooperative.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Cooperative has elected not to use the 10% de minimis indirect cost rate allowed under Uniform Guidance. Pass-through entity identifying numbers are presented where available.

Note 3. Subrecipients

There were no awards passed through to subrecipients for the year ended May 31, 2025.

Note 4. Prior Expenditures and Reporting Period

The schedule of expenditures of federal awards for the year ended May 31, 2025, includes \$407,028 of expenditures that were incurred during the years ended prior to June 1, 2024 and subsequently obligated by the Federal Emergency Management Agency for the period beginning June 1, 2024 through May 31, 2025.



Jones, Nale & Mattingly PLC

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, 2025 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 August 25, 2025.

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) as a basis for designing 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 were not identified.

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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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
August 25, 2025



Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Cumberland Valley Electric, Inc.’s (the Cooperative) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Cooperative's major federal programs for the year ended May 31, 2025. The Cooperative's major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Cooperative complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Cooperative and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Cooperative’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Cooperative's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Cooperative's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Cooperative's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Cooperative's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Cooperative's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Jones, Nale & Mattingly PC

Louisville, Kentucky
August 25, 2025

CUMBERLAND VALLEY ELECTRIC, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended May 31, 2025

Section I- Summary of Auditors' Results

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Cumberland Valley Electric, Inc. were prepared in accordance with U.S. GAAP.

2. Internal control over financial reporting:

- Material weakness identified? Yes No
- Significant deficiency identified? Yes None reported

3. Noncompliance material to financial statements noted? Yes No

4. Internal control over major programs:

- Material weakness identified? Yes No
- Significant deficiency identified? Yes None reported

5. The auditor's report on compliance for the major federal award programs for Cumberland Valley Electric, Inc. expresses an unmodified opinion.

6. The audit did not disclose audit findings required to be reported in accordance with 2 CFR section 200.516(a).

7. The programs tested as a major program were:

<u>Federal ALN Number</u>	<u>Name of Major Federal Program</u>
97.036	U.S. Department of Homeland Security: Disaster Grants – Public Assistance (Presidentially Declared Disasters)

8. The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The auditee did not qualify as a low-risk auditee.

Section II- Findings - Financial Statement Audit

There are no findings required to be reported.

Section III- Findings and Questioned Costs - Major Federal Award Programs Audit

There are no findings required to be reported.

CUMBERLAND VALLEY ELECTRIC, INC.

**CORRECTIVE ACTION PLAN
Year Ended May 31, 2025**

There were no findings for the year ended May 31, 2025; therefore, no corrective action plan is necessary.

CUMBERLAND VALLEY ELECTRIC, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended May 31, 2025

There were no prior audit findings for the year ended May 31, 2024.