

**GRAYSON RURAL ELECTRIC  
COOPERATIVE CORPORATION  
KENTUCKY 61**

**FINANCIAL REPORT**

**May 31, 2024**

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*Jones, Nale & Mattingly PLC*

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Grayson Rural Electric Cooperative Corporation  
Grayson, Kentucky

### **Opinion**

We have audited the accompanying financial statements of Grayson Rural Electric Cooperative Corporation, which comprise the balance sheets as of May 31, 2024 and 2023, 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 Grayson Rural Electric Cooperative Corporation as of May 31, 2024 and 2023, 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 Grayson Rural Electric Cooperative Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Grayson Rural Electric Cooperative Corporation'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 Grayson Rural Electric Cooperative Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Grayson Rural Electric Cooperative Corporation's ability to continue as a going concern for a reasonable period of time.

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2024, on our consideration of Grayson Rural Electric Cooperative Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 Grayson Rural Electric Cooperative Corporation's internal control over financial reporting and compliance.

*Jones, Nale & Mattingly PC*

Louisville, Kentucky  
September 13, 2024

**GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION**

**BALANCE SHEETS**  
**May 31, 2024 and 2023**

| <u>Assets</u>   | <u>2024</u>   | <u>2023</u>   |
|---|---------------|---------------|
| Electric Plant, at Original Cost  |               |               |
| In service  | \$ 94,454,111 | \$ 90,218,162 |
| Under construction  | 1,037,763     | 841,394       |
|   | 95,491,874    | 91,059,556    |
| Less accumulated depreciation   | 35,965,959    | 33,005,640    |
|   | 59,525,915    | 58,053,916    |
| Investments in Associated Organizations   | 20,066,566    | 19,535,714    |
| Current Assets  |               |               |
| Cash and cash equivalents   | 6,004,762     | 9,149,500     |
| Accounts receivable, less allowance for credit losses<br>in 2024 of \$128,214 and 2023 of \$102,783 | 4,179,817     | 3,559,011     |
| Other receivables   | 1,224,040     | 1,256,617     |
| Material and supplies   | 1,248,098     | 1,301,774     |
| Other current assets  | 375,240       | 361,360       |
| Total current assets  | 13,031,957    | 15,628,262    |
| Deferred Debits   | 347,900       | 406,700       |
| Total assets  | \$ 92,972,338 | \$ 93,624,592 |
| <u>Members' Equities and Liabilities</u>  |               |               |
| Members' Equities   |               |               |
| Memberships   | \$ 162,840    | \$ 160,715    |
| Patronage capital   | 39,756,063    | 38,548,241    |
| Other equities  | 303,841       | 281,320       |
| Accumulated other comprehensive income  | 926,914       | 969,321       |
| Total members' equities   | 41,149,658    | 39,959,597    |
| Long-Term Liabilities   |               |               |
| Long-term debt, less current portion  | 41,389,777    | 42,983,190    |
| Accumulated postretirement benefits   | 2,463,335     | 2,409,690     |
| Total long-term liabilities   | 43,853,112    | 45,392,880    |
| Current Liabilities   |               |               |
| Current portion of long-term debt   | 1,878,743     | 2,291,362     |
| Accounts payable  | 2,431,925     | 2,445,051     |
| Consumer deposits   | 2,116,401     | 2,106,809     |
| Accrued expenses  | 1,349,886     | 1,246,282     |
| Total current liabilities   | 7,776,955     | 8,089,504     |
| Consumer Advances for Construction  | 192,613       | 182,611       |
| Total members' equities and liabilities   | \$ 92,972,338 | \$ 93,624,592 |

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

**GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION**

**STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME**

**Years Ended May 31, 2024 and 2023**

|   | 2024          | 2023          |
|---|---------------|---------------|
| Operating Revenues  |               |               |
| Sales of electric energy  | \$ 39,742,853 | \$ 40,205,742 |
| Other electric revenues   | 1,165,572     | 1,152,454     |
|   | 40,908,425    | 41,358,196    |
| Operating Expenses  |               |               |
| Cost of power   | 25,033,022    | 26,274,649    |
| Distribution - operations   | 1,391,588     | 1,427,887     |
| Distribution - maintenance  | 4,741,917     | 4,451,560     |
| Consumer accounts   | 1,202,926     | 1,197,674     |
| Customer services   | 102,449       | 105,353       |
| Sales   | 3,038         | 3,719         |
| Administrative and general  | 1,677,261     | 1,604,855     |
| Depreciation, excluding \$226,754 in 2024 and<br>\$158,173 in 2023 charged to clearing accounts | 4,186,313     | 4,004,683     |
| Taxes, other than income  | 36,681        | 31,596        |
| Interest on long-term debt  | 2,056,100     | 1,535,217     |
| Other interest expense  | 101,032       | 39,315        |
| Other deductions  | 9,184         | 7,431         |
|   | 40,541,511    | 40,683,939    |
| Operating Margins   | 366,914       | 674,257       |
| Nonoperating Margins  |               |               |
| Interest income   | 434,187       | 183,735       |
| Gain on disposition of equipment  | 22,100        | --            |
| Others  | 28,797        | 18,768        |
|   | 485,084       | 202,503       |
| Patronage Capital Credits   |               |               |
| Generation and transmission capital credits   | 429,098       | 859,764       |
| Other capital credits   | 173,621       | 116,585       |
|   | 602,719       | 976,349       |
| Net Margins   | 1,454,717     | 1,853,109     |
| Other Comprehensive Income  |               |               |
| Postretirement benefits amortization of net (gain) loss   | (42,407)      | 24,264        |
| Postretirement benefits actuarial gain  | --            | 1,282,230     |
|   | (42,407)      | 1,306,494     |
| Net Margins and Comprehensive Income  | \$ 1,412,310  | \$ 3,159,603  |

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

**GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION**

**STATEMENTS OF CHANGES IN MEMBERS' EQUITIES**  
**Years Ended May 31, 2024 and 2023**

|                                   | <u>Memberships</u> | <u>Patronage Capital</u> |                 |                     |                    | <u>Total</u>  | <u>Other Equities</u> | <u>Accumulated Other Comprehensive Income (Loss)</u> | <u>Total Members' Equities</u> |
|-----------------------------------|--------------------|--------------------------|-----------------|---------------------|--------------------|---------------|-----------------------|--|--------------------------------|
|                                   |                    | <u>Assignable</u>        | <u>Assigned</u> | <u>Prior Losses</u> | <u>Retirements</u> |               |                       |  |                                |
| Balance - May 31, 2022            | \$ 159,550         | \$ 4,889,770             | \$ 37,118,045   | \$ (1,321,017)      | \$ (3,692,816)     | \$ 36,993,982 | \$ 261,321            | \$ (337,173)   | \$ 37,077,680                  |
| Assign patronage                  |                    | (4,889,770)              | 4,796,783       | 92,987              |                    | --            |                       |  |                                |
| Comprehensive income:             |                    |                          |                 |                     |                    |               |                       |  |                                |
| Net margins                       |                    | 1,853,109                |                 |                     |                    | 1,853,109     |                       |  | 1,853,109                      |
| Postretirement benefit obligation |                    |                          |                 |                     |                    |               |                       |  |                                |
| Amortization                      |                    |                          |                 |                     |                    |               | 24,264                |  |                                |
| Adjustments                       |                    |                          |                 |                     |                    |               |                       | 1,282,230  | 1,306,494                      |
| Total comprehensive income        |                    |                          |                 |                     |                    |               |                       |  | 3,159,603                      |
| Net change in memberships         | 1,165              |                          |                 |                     |                    |               |                       |  | 1,165                          |
| Refunds to estates                |                    |                          |                 |                     | (251,542)          | (251,542)     |                       |  | (251,542)                      |
| Other equities                    |                    |                          | (47,308)        |                     |                    | (47,308)      | 19,999                |  | (27,309)                       |
| Balance - May 31, 2023            | 160,715            | 1,853,109                | 41,867,520      | (1,228,030)         | (3,944,358)        | 38,548,241    | 281,320               | 969,321  | 39,959,597                     |
| Assign patronage                  |                    | (1,853,109)              | 1,388,546       | 464,563             |                    | --            |                       |  |                                |
| Comprehensive income:             |                    |                          |                 |                     |                    |               |                       |  |                                |
| Net margins                       |                    | 1,454,717                |                 |                     |                    | 1,454,717     |                       |  | 1,454,717                      |
| Postretirement benefit obligation |                    |                          |                 |                     |                    |               |                       |  |                                |
| Amortization                      |                    |                          |                 |                     |                    |               |                       | (42,407)   | (42,407)                       |
| Total comprehensive income        |                    |                          |                 |                     |                    |               |                       |  | 1,412,310                      |
| Net change in memberships         | 2,125              |                          |                 |                     |                    |               |                       |  | 2,125                          |
| Refunds to estates                |                    |                          |                 |                     | (179,303)          | (179,303)     |                       |  | (179,303)                      |
| Other equities                    |                    |                          | (67,592)        |                     |                    | (67,592)      | 22,521                |  | (45,071)                       |
| Balance - May 31, 2024            | \$ 162,840         | \$ 1,454,717             | \$ 43,188,474   | \$ (763,467)        | \$ (4,123,661)     | \$ 39,756,063 | \$ 303,841            | \$ 926,914   | \$ 41,149,658                  |

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

**GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION**

**STATEMENTS OF CASH FLOWS**  
**Years Ended May 31, 2024 and 2023**

|   | 2024         | 2023         |
|---|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |              |              |
| Net margins   | \$ 1,454,717 | \$ 1,853,109 |
| Adjustments to reconcile net margins to net cash provided by operating activities:          |              |              |
| Depreciation:   |              |              |
| Charged to expense  | 4,186,313    | 4,004,683    |
| Charged to clearing accounts  | 226,754      | 158,173      |
| Patronage capital credits assigned  | (602,719)    | (976,349)    |
| (Gain) on disposition of equipment  | (22,100)     | --           |
| Amortization of postretirement benefits actuarial adjustment                                | (42,407)     | 24,264       |
| Postretirement benefits actuarial adjustment  | --           | 1,282,230    |
| Change in assets and liabilities, net of the effects of investing and financing activities: |              |              |
| Accounts and other receivables, net   | (588,229)    | 6,874,590    |
| Material and supplies   | 53,676       | (673,855)    |
| Other assets  | (13,880)     | 9,297        |
| Deferred debits   | 58,800       | 203,002      |
| Accounts payable  | (13,126)     | 216,549      |
| Consumer deposits   | 19,594       | 116,248      |
| Accumulated postretirement benefits   | 53,645       | (1,173,332)  |
| Accrued expenses  | 103,604      | 183,261      |
| Net cash provided by operating activities   | 4,874,642    | 12,101,870   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |              |              |
| Plant additions   | (5,380,995)  | (4,247,451)  |
| Proceeds from sale of equipment   | 22,100       | --           |
| Plant removal costs   | (481,971)    | (415,173)    |
| Salvage recovered from retired plant  | (22,100)     | 14,435       |
| Receipts from other investments, net  | 71,867       | 675,898      |
| Net cash (used in) investing activities   | (5,791,099)  | (3,972,291)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |              |              |
| Net increase in memberships   | 2,125        | 1,165        |
| Refund of patronage capital to members  | (246,895)    | (298,850)    |
| Increase in other equities  | 22,521       | 19,999       |
| Principal payments on long-term debt  | (2,006,032)  | (2,426,259)  |
| Net cash (used in) financing activities   | (2,228,281)  | (2,703,945)  |
| Net increase (decrease) in cash and cash equivalents  | (3,144,738)  | 5,425,634    |
| Cash and cash equivalents, beginning of year  | 9,149,500    | 3,723,866    |
| Cash and cash equivalents, end of year  | \$ 6,004,762 | \$ 9,149,500 |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>   |              |              |
| Cash payments for interest  | \$ 2,139,956 | \$ 1,326,369 |

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

# GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Significant Accounting Policies

#### Description of business

Grayson Rural Electric Cooperative Corporation (Grayson) provides distribution electric services to residential, business, and commercial consumers concentrated in a six-county area of eastern Kentucky. Grayson maintains its records in accordance with the policies permitted by the Kentucky Public Service Commission (PSC) and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform in all material respects with generally accepted accounting principles. The more significant of these policies are as follows:

#### Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles 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, 2024 and 2023.

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 for distribution plant. Gain or loss is recognized on disposition of general plant items. Electric plant consists of the following as of May 31, 2024 and 2023:

|                    | <u>2024</u>          | <u>2023</u>          |
|--------------------|----------------------|----------------------|
| Distribution plant | \$ 87,136,248        | \$ 83,755,366        |
| General plant      | 7,317,863            | 6,462,796            |
|                    | <u>\$ 94,454,111</u> | <u>\$ 90,218,162</u> |

#### Depreciation

Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Depreciation rates are as follows:

|                             |                |
|-----------------------------|----------------|
| Distribution plant          | 2.89% - 6.67%  |
| Structures and improvements | 2.00%          |
| Transportation equipment    | 16.00%         |
| Other general plant items   | 6.00% - 16.00% |

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Significant Accounting Policies (Continued)

#### Cash and cash equivalents

Grayson considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. Grayson maintains its cash balances, which may exceed the federally insured limit, with several financial institutions. These financial institutions have strong credit ratings and management believes that the credit risk related to the accounts is minimal.

#### Accounts receivable and allowance for credit losses

Grayson operates in the electric services distribution industry, and its accounts receivable are primarily derived from the sales of electric energy. Accounts receivable are stated as net realizable value and are usually collected within thirty days. The balance in accounts receivable as of May 31, 2024, 2023 and 2022 was \$4,179,817, \$3,559,011, and \$3,643,929, respectively.

Grayson 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 Grayson's 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 Grayson.

Grayson 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

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

#### Deferred debits

Deferred debits consist of system mapping costs.

#### Taxes

Grayson 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. Grayson'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.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Significant Accounting Policies (Continued)

#### Cost of power

Grayson is one of 16 members of East Kentucky Power Cooperative, Inc. (East Kentucky). Under a wholesale power agreement, Grayson 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 Grayson's customers using a methodology prescribed by the PSC.

#### Advertising

Grayson expenses advertising costs as incurred. Advertising expenses were \$794 and \$1,117 for the years ended May 31, 2024 and 2023, respectively.

#### Comprehensive income (loss)

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

#### Risk management

Grayson 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

Grayson 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.

#### Environmental contingency

Grayson 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 Grayson 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 Grayson's financial position or its future cash flows.

#### Commitments

Grayson 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)

#### Income tax status

Grayson qualifies as a tax-exempt organization under Section 501(c)(12) of the Internal Revenue Code. Income from certain activities not directly related to Grayson'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, 2024 and 2023.

Grayson'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. Grayson has no uncertain tax positions resulting in an accrual of tax expense or benefit.

Grayson recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Grayson did not recognize any interest or penalties during the years ended May 31, 2024 and 2023.

Grayson'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 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.

#### Adoption of accounting pronouncement

In June 2016, the FASB issued guidance (FASB ASC 326) which significantly changed how entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net margins. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing Grayson's exposure to credit risk and the measurement of credit losses. Grayson's financial assets subject to the guidance include accounts receivable

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Significant Accounting Policies (Continued)

#### Adoption of accounting pronouncement (continued)

Grayson adopted the standard effective June 1, 2023. The impact of the adoption was not material to the financial statements and primarily resulted in new and enhanced disclosures.

#### Subsequent events

Management has evaluated subsequent events through September 13, 2024, the date the financial statements were available to be issued

### Note 2. Revenue Recognition

#### *Revenue from contracts*

Grayson is engaged in the distribution and sales of electricity to residential and commercial customers in six counties in eastern Kentucky. Revenue from these activities is generated from tariffs approved by the PSC. Grayson 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 Grayson. 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*

Grayson has two billing cycles that process 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 Grayson'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*

Grayson 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, 2024 and 2023.

## 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, 2024 and 2023:

|                  | <u>2024</u>          | <u>2023</u>          |
|------------------|----------------------|----------------------|
| Residential      | \$ 26,034,200        | \$ 27,377,585        |
| Large commercial | 3,662,701            | 3,744,013            |
| Small commercial | 2,567,555            | 2,412,917            |
| Industrial       | 7,468,155            | 6,661,086            |
| Other            | 10,242               | 10,141               |
|                  | <u>\$ 39,742,853</u> | <u>\$ 40,205,742</u> |

#### *Contract assets and liabilities*

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

|                           | <u>2024</u>         | <u>2023</u>         | <u>2022</u>         |
|---------------------------|---------------------|---------------------|---------------------|
| Contract assets           |                     |                     |                     |
| Unbilled pole attachments | <u>\$ 260,680</u>   | <u>\$ 246,845</u>   | <u>\$ 232,365</u>   |
| Contract liabilities      |                     |                     |                     |
| Consumer deposits         | <u>\$ 2,116,401</u> | <u>\$ 2,106,809</u> | <u>\$ 2,065,099</u> |

### Note 3. Allowance for Credit Losses

The allowance for credit losses for accounts receivable and the related activity are as follows for the years ended May 31:

|                             | <u>2024</u>       | <u>2023</u>       |
|-----------------------------|-------------------|-------------------|
| Beginning balance           | \$ 102,783        | \$ 101,277        |
| Provision for credit losses | 53,261            | 47,830            |
| Write-offs                  | (35,240)          | (54,905)          |
| Recoveries                  | 7,410             | 8,581             |
| Ending balance              | <u>\$ 128,214</u> | <u>\$ 102,783</u> |

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Investments in Associated Organizations

Investments in associated organizations consist of the following as of May 31, 2024 and 2023:

|                                  | 2024          | 2023          |
|----------------------------------|---------------|---------------|
| East Kentucky, patronage capital | \$ 18,139,992 | \$ 17,710,894 |
| CFC, CTCs                        | 602,884       | 602,884       |
| CoBank, patronage capital        | 317,436       | 302,968       |
| CFC, patronage capital           | 216,726       | 213,625       |
| Other                            | 789,528       | 705,343       |
|                                  | \$ 20,066,566 | \$ 19,535,714 |

Grayson records patronage capital assigned by associated organizations in the year in which such assignments are received. Investments and purchases from National Bank for Cooperatives (CoBank) are a condition of borrowing loan funds. The Capital Term Certificates (CTCs) of 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.

### 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, Grayson may distribute the difference between 25.00% and the payments made to such estates. Members' equity as of May 31, 2024 and 2023 was 44.26% and 42.68% of total assets, respectively.

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Long-Term Debt

All assets, except vehicles, are pledged as collateral on the long-term debt to Federal Financing Bank (FFB), CoBank, and National Rural Utilities Cooperative Finance Corporation (CFC) under a joint mortgage agreement. The long-term debt is due in quarterly and monthly installments of varying amounts through 2048. RUS assesses 12.5 basis points to administer the FFB loans.

Long-term debt consists of the following as of May 31, 2024 and 2023:

|   | 2024          | 2023          |
|---|---------------|---------------|
| FFB:  |               |               |
| 1.137% fixed rate note  | \$ 5,317,194  | \$ 5,501,899  |
| 5.451% variable rate notes                                      | 27,236,507    | 28,078,344    |
|   | 32,553,701    | 33,580,243    |
| <br>CFC (refinanced RUS notes), 3.45% to 3.70% fixed rate notes | <br>6,728,250 | <br>7,129,984 |
| <br>CoBank (refinanced RUS notes), 4.62% fixed rate note        | <br>3,986,569 | <br>4,564,325 |
|   | 43,268,520    | 45,274,552    |
| Less current portion  | 1,878,743     | 2,291,362     |
| Long-term portion   | \$41,389,777  | \$42,983,190  |

As of May 31, 2024, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

|            |              |
|------------|--------------|
| 2025       | \$ 1,878,743 |
| 2026       | 1,930,988    |
| 2027       | 1,958,973    |
| 2028       | 1,941,755    |
| 2029       | 1,994,152    |
| Thereafter | 33,563,909   |
|            | \$43,268,520 |

### Note 7. Short-Term Notes Payable

As of May 31, 2024 and 2023, Grayson had a short-term line of credit of \$4,200,000 available from CFC with variable interest rates of 7.25% and 6.75%, respectively. Advances against the CFC line of credit were zero as of May 31, 2024 and 2023. The CFC line of credit matures in January 2026. Additionally, Grayson had a short-term line of credit of \$2,000,000 available from CoBank, with variable interest rates of 7.38% and 7.21% as of May 31, 2024 and 2023, respectively. There were no advances against the CoBank line of credit as of May 31, 2024 and 2023. The CoBank line of credit matures in December 2024.

## NOTES TO FINANCIAL STATEMENTS

### Note 8. Pension Plan

All eligible employees of Grayson 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.

Grayson's contributions to the RS Plan in 2024 and 2023 represent less than 5 percent of the total contributions made to the plan by all participating employers. Grayson made contributions to the plan of \$684,932 in 2024 and \$682,434 in 2023. There have been no significant changes that affect the comparability of 2024 and 2023.

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 percent funded at January 1, 2024 and 2023 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.

### Note 9. Savings Plan

Grayson 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. Grayson made contributions of 0.9504% and 0.9048% of the employee's base compensation for the calendar years of 2024 and 2023, respectively. Employees do not need to contribute to the plan to receive the employer's contribution. Contributions to the plan were \$25,398 and \$25,517 for the years ended May 31, 2024 and 2023, respectively.

## NOTES TO FINANCIAL STATEMENTS

### Note 10. Postretirement Benefits

Grayson sponsors a defined benefit plan that provides medical insurance coverage for retired employees and their spouses. For 2024 and 2023, the retirees and their spouses paid 12% and 9%, respectively, of the medical insurance premiums with Grayson paying the difference. For measurement purposes, an annual rate of increase of 5.00% in 2024, 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% in 2024 and 2023. Additionally, the cost to fund the medical plan for retirees over age 65 decreased.

The funded status of the plan was as follows as of May 31, 2024 and 2023:

|                              | 2024           | 2023           |
|------------------------------|----------------|----------------|
| Projected benefit obligation | \$ (2,463,335) | \$ (2,409,690) |
| Plan assets at fair value    | -              | -              |
| Total                        | \$ (2,463,335) | \$ (2,409,690) |

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

|  | 2024         | 2023         |
|--|--------------|--------------|
| Benefit obligation at beginning of year  | \$ 2,409,690 | \$ 3,583,022 |
| Components of net periodic benefit cost: |              |              |
| Service cost                             | 129,242      | 132,172      |
| Interest cost                            | 109,643      | 134,852      |
| Net periodic benefit cost                | 238,885      | 267,024      |
| Benefits paid                            | (185,240)    | (158,126)    |
| Actuarial gain                           | -            | (1,282,230)  |
| Benefit obligation at end of year        | \$ 2,463,335 | \$ 2,409,690 |

|   | 2024         | 2023         |
|---|--------------|--------------|
| Amounts recognized in the balance sheets consists of: |              |              |
| Unrecognized actuarial gain                           | \$ 926,914   | \$ 969,321   |
| Accumulated postretirement benefits                   | \$ 2,463,335 | \$ 2,409,690 |

|   |             |              |
|---|-------------|--------------|
| Amounts included in other comprehensive income:         |             |              |
| Postretirement benefits amortization of net (gain) loss | \$ (42,407) | \$ 24,264    |
| Postretirement benefits actuarial gain                  | \$ -        | \$ 1,282,230 |

|  |              |
|--|--------------|
| Effect of 1.00% increase in the health care trend: |              |
| Postemployment benefit obligation                  | \$ 2,598,800 |
| Net periodic benefit cost                          | \$ 252,000   |

Projected retiree benefit payments for the next five years are expected to be as follows: 2025 - \$146,200; 2026 - \$154,300; 2027 - \$162,700; 2028 - \$171,700; 2029 - \$181,100.

## NOTES TO FINANCIAL STATEMENTS

### Note 11. Related Party Transactions

Several of the directors of Grayson and its General Manager and CEO are on the boards of directors of various associated organizations.

### Note 12. Contingencies

Grayson, 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.

### Note 13. Labor Force

Approximately 45.00% of Grayson's labor force is subject to a collective bargaining agreement. A three-year agreement was negotiated and approved for the period starting January 1, 2024 between Grayson and the International Brotherhood of Electric Workers (IBEW).



*Jones, Nale & Mattingly PLC*

## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION**

To the Board of Directors  
Grayson Rural Electric Cooperative Corporation  
Grayson, Kentucky

We have audited the financial statements of Grayson Rural Electric Cooperative Corporation as of and for the years ended May 31, 2024 and 2023, and our report thereon dated September 13, 2024, which expressed an unmodified opinion on those financial statements, appears on pages 1 - 3. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of deferred debits and deferred credits shown on page 20 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Jones, Nale & Mattingly PLC*

Louisville, Kentucky  
September 13, 2024

**GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION**

**SCHEDULE OF DEFERRED DEBITS AND DEFERRED CREDITS**

**May 31, 2024 and 2023**

|                                    | <u>2024</u>       | <u>2023</u>       | <u>RUS Approval</u>  |
|------------------------------------|-------------------|-------------------|----------------------|
| Deferred Debits                    |                   |                   |                      |
| System mapping costs               | <u>\$ 347,900</u> | <u>\$ 406,700</u> | § 1767, account #186 |
| Deferred Credits                   |                   |                   |                      |
| Consumer advances for construction | <u>\$ 192,613</u> | <u>\$ 182,611</u> | § 1767, account #252 |



*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  
Grayson Rural Electric Cooperative Corporation  
Grayson, 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 Grayson Rural Electric Cooperative Corporation (the Cooperative), which comprise the balance sheet as of May 31, 2024 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 13, 2024.

**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 Cooperative’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 results 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 P.C.*

Louisville, Kentucky  
September 13, 2024