BLUE GRASS ENERGY
COOPERATIVE CORPORATION
KENTUCKY 64

FINANCIAL REPORT

April 30, 2023

C O N T E N T S

JNM

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Blue Grass Energy Cooperative Corporation
Nicholasville, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Blue Grass Energy Cooperative Corporation, which comprise the balance sheets as of April 30, 2023 and 2022, and the related statements of revenue and comprehensive income, changes in members' equities, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blue Grass Energy Cooperative Corporation as of April 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Blue Grass Energy 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 the 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 the Blue Grass Energy 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.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Blue Grass Energy 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 the Blue Grass Energy 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 a report dated August 7, 2023, on our consideration of Blue Grass Energy Cooperative Corporation's internal control over financial reporting and 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 the Blue Grass Energy Cooperative Corporation'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 the Blue Grass Energy Cooperative Corporation's internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
August 7, 2023

BLUE GRASS ENERGY COOPERATIVE CORPORATION

BALANCE SHEETS
April 30, 2023 and 2022

	2023	2022
ASSETS		
Electric Plant, at Original Cost		
In service	$ 315,293,209	$ 299,095,068
Under construction	5,669,218	6,536,859
	320,962,427	305,631,927
Less accumulated depreciation	129,765,985	121,399,772
	191,196,442	184,232,155
Investments in Associated Organizations	87,550,850	85,252,226
Current Assets		
Cash and cash equivalents	5,609,125	9,961,154
Accounts receivable, less allowance for 2023 of $208,460 and 2022 of $198,035	7,211,060	6,349,211
Unbilled revenue	6,381,725	6,352,138
Accounts receivable, other	1,450,670	1,149,424
Material and supplies, at average cost	2,893,803	2,232,241
Prepayments and other current assets	637,505	588,415
Total current assets	24,183,888	26,632,583
Non-Current Assets		
Investments in equity securities	729,913	714,930
Deferred debits	1,415,779	1,729,583
Total non-current assets	2,145,692	2,444,513
Total Assets	$ 305,076,872	$ 298,561,477
MEMBERS' EQUITIES AND LIABILITIES		
Members' Equities		
Memberships	$ 1,164,718	$ 1,147,420
Patronage capital	151,657,076	148,127,757
Other equities	12,955,121	11,491,904
Accumulated other comprehensive income	1,943,736	674,289
Total members' equities	167,720,651	161,441,370
Long-Term Liabilities		
Long-term debt, less current portion	106,440,561	107,070,090
Accumulated postretirement benefits	8,024,340	9,420,911
Total long-term liabilities	114,464,901	116,491,001
Current Liabilities		
Current portion of long-term debt	6,377,443	6,025,303
Accounts payable	9,712,094	9,039,963
Consumer deposits	3,285,300	2,057,984
Accrued expenses	2,969,592	3,027,911
Total current liabilities	22,344,429	20,151,161
Consumer Advances	546,891	477,945
Total Members' Equities and Liabilities	$ 305,076,872	$ 298,561,477

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

BLUE GRASS ENERGY COOPERATIVE CORPORATION

STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Years Ended April 30, 2023 and 2022

	2023	2022
Operating Revenues		
Sales of electric energy	$ 153,705,959	$ 136,312,399
Other electric revenues	3,148,267	2,986,159
	156,854,226	139,298,558
Operating Expenses		
Cost of power	120,781,841	102,097,504
Distribution - operations	3,112,802	3,357,385
Distribution - maintenance	8,930,275	7,879,337
Consumer accounts	2,902,861	2,686,330
Customer services	539,119	546,929
Selling expense (net rebates)	(122,944)	123,907
Administrative and general	4,270,860	4,225,715
Depreciation, excluding $676,244 in 2023 and $662,146 in 2022 charged to clearing accounts	11,669,799	11,139,245
Interest on long-term debt	2,951,042	3,080,011
Other interest expense	67,570	3,966
Other deductions	16,735	20,611
	155,119,960	135,160,940
Operating Margins	1,734,266	4,137,618
Nonoperating Margins		
Interest income and unrealized gains (losses)	226,652	(41,899)
Gain on disposition of general plant	40,978	100,040
Other non-operating margins	34,221	5,802
	301,851	63,943
Patronage Capital Credits		
Generation and transmission	4,091,287	1,190,844
Other associated organizations	176,247	290,167
	4,267,534	1,481,011
Net Margins	6,303,651	5,682,572
Other Comprehensive Income (Loss)		
Postretirement benefits amortization of net benefit (loss)	(110,898)	(110,898)
Executive benefit plan actuarial gain	1,132,609	210,687
Executive benefit plan amortization of prior service cost and loss	247,736	300,500
Total Comprehensive Income	$ 7,573,098	$ 6,082,861

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

BLUE GRASS ENERGY COOPERATIVE CORPORATION

STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended April 30, 2023 and 2022

	Memberships	Patronage Capital	Other Equities	Accumulated Other Comprehensive Income (Loss)	Total Members' Equities
Balance - April 30, 2021	$ 1,132,163	$ 145,055,619	$ 10,119,816	$ 274,000	$ 156,581,598
Comprehensive income:					
Net margins		5,682,572			5,682,572
Postretirement benefit obligation					
Amortization				(110,898)	(110,898)
Executive benefit restoration plan					
Actuarial gain				210,687	
Amortization				300,500	511,187
Total comprehensive income					6,082,861
Net change in memberships	15,257				15,257
Refunds to estates		(484,500)			(484,500)
Refunds to members		(2,125,934)			(2,125,934)
Other equities			1,372,088		1,372,088
Balance - April 30, 2022	1,147,420	148,127,757	11,491,904	674,289	161,441,370
Comprehensive income:					
Net margins		6,303,651			6,303,651
Postretirement benefit obligation					
Amortization				(110,898)	(110,898)
Executive benefit restoration plan					
Actuarial gain				1,132,609	
Amortization				247,736	1,380,345
Total comprehensive income					7,573,098
Net change in memberships	17,298				17,298
Refunds to estates		(451,628)			(451,628)
Refunds to members		(2,322,704)			(2,322,704)
Other equities			1,463,217		1,463,217
Balance - April 30, 2023	$ 1,164,718	$ 151,657,076	$ 12,955,121	$ 1,943,736	$ 167,720,651

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

BLUE GRASS ENERGY COOPERATIVE CORPORATION

STATEMENTS OF CASH FLOWS
Years Ended April 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 6,303,651	$ 5,682,572
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation		
Charged to expense	11,669,799	11,139,245
Charged to clearing accounts	676,244	662,146
Patronage capital credits assigned	(4,267,534)	(1,481,011)
Amortization of postretirement actuarial adjustments	136,838	189,602
Unrealized (gains) losses on equity securities	(14,983)	135,938
(Gain) on disposition of general plant	(40,978)	(100,040)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts and other receivables, net	(1,163,095)	(3,116,973)
Unbilled revenue	(29,587)	(328,218)
Material and supplies	(661,562)	(452,950)
Prepayments and other current assets	(49,090)	(16,144)
Prepaid pension costs	313,804	200,348
Consumer deposits	1,227,316	480,924
Accounts payable	672,131	1,696,477
Accrued expenses	(58,319)	30,357
Consumer advances	68,946	62,623
Accumulated postretirement benefits	(263,962)	268,425
Net cash provided by operating activities	14,519,619	15,053,321
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(17,988,228)	(16,102,737)
Plant removal costs	(1,507,089)	(1,081,959)
Salvage recovered from plant retirements	225,965	195,181
Purchases of equity investments	- -	(125,000)
Receipts from other investments	1,968,910	126,559
Net cash (used in) investing activities	(17,300,442)	(16,987,956)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances (repayments) of short-term notes payable	- -	(2,750,000)
Principal payments on long-term debt	(6,277,389)	(5,916,994)
Advances of long-term debt	6,000,000	20,000,000
Net increase in memberships	17,298	15,257
Refunds of patronage capital to members	(2,322,704)	(2,125,934)
Refunds to estates	(451,628)	(484,500)
Increase in other equities	1,463,217	1,372,088
Net cash provided by (used in) financing activities	(1,571,206)	10,109,917
Net increase (decrease) in cash and cash equivalents	(4,352,029)	8,175,282
Cash and cash equivalents, beginning of year	9,961,154	1,785,872
Cash and cash equivalents, end of year	$ 5,609,125	$ 9,961,154
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 3,015,853	$ 3,064,905
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment acquired through accounts payable	$ - -	$ 29,675

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

BLUE GRASS ENERGY COOPERATIVE CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Description of business

Blue Grass Energy Cooperative Corporation (Blue Grass) 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

Blue Grass provides distribution electric service to residential, business, and commercial consumers primarily in 23 counties throughout central 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 costs including any construction period interest and taxes. There was no interest required to be capitalized during the years ended April 30, 2023 and 2022.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to electric plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation. Electric plant consists of the following as of April 30, 2023 and 2022:

	2023	2022
Distribution plant	$ 291,508,959	$ 276,124,161
General plant	23,784,250	22,970,907
Total	$ 315,293,209	$ 299,095,068

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 2.67% to 6.67%, with a composite rate of 3.85% for distribution plant. General plant rates are as follows:

Structures and improvements	2.5%
Transportation equipment	5.0 - 15.0%
Other general plant	2.5 - 14.4%

Cash and cash equivalents

Blue Grass considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. Blue Grass maintains its cash balances, which may exceed the federally insured limit, with several financial institutions. Cash held at Blue Grass' main bank is subject to a sweep agreement where funds in excess of FDIC limits are transferred overnight into repurchase agreements. Management believes that credit risk related to these accounts is minimal.

Accounts receivable

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

Materials and supplies

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

Leases

Adoption of Accounting Pronouncement

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

Blue Grass adopted the standard effective May 1, 2022. The adoption of this ASU had no material impact on Blue Grass's financial position or results of operations.

Deferred debits

Deferred debits consist of accumulated costs related to the development of the work plan and prepaid pension costs.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Taxes

Blue Grass 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. Blue Grass's policy is to exclude sales, school, and franchise taxes from revenue when collected and expenses when paid and instead, record collection and payment of taxes through a liability account.

Cost of power

Blue Grass is one of 16 members of East Kentucky Power Cooperative, Inc. (East Kentucky). Under a wholesale power agreement, Blue Grass 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. There are certain surcharges, clauses, and credits that East Kentucky includes to Blue Grass that are passed on to consumers using a methodology prescribed by the PSC.

Advertising

Blue Grass expenses advertising costs as incurred. Advertising expenses were $3,129 and $6,154 for the years ended April 30, 2023 and 2022, 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

Blue Grass 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 and workers compensation. Each of these areas is covered through the purchase of commercial insurance.

Credit risk

Blue Grass 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

Blue Grass 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 costs, or on an as needed basis. The duration of these contracts are one to three years.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Income tax status

Blue Grass qualifies as a tax-exempt organization under Section 501(c)(12) of the Internal Revenue Code. Income from certain activities not directly related to Blue Grass'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 April 30, 2023 and 2022.

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

Blue Grass recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Blue Grass did not recognize any interest or penalties during the years ended April 30, 2023 and 2022.

Blue Grass'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.

Environmental contingency

Blue Grass 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 Blue Grass 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 Blue Grass's financial position or its future cash flows.

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. Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncement

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses*. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the statement of revenue and comprehensive income will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for the year ending April 30, 2024.

Blue Grass is currently in the process of evaluating the impact of the adoption of this ASU on the financial statements.

Subsequent events

Management has evaluated subsequent events through August 7, 2023, the date the financial statements were available to be issued.

Note 2. Revenue Recognition

Revenue from contracts

Blue Grass is engaged in the distribution and sale of electricity to residential and commercial customers primarily in 23 counties in central Kentucky. Revenue from these activities is generated from tariffs approved by the PSC. Blue Grass 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 Blue Grass. 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 20 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

Blue Grass bills consumers on monthly cycles based on meter readings taken at approximately the same day each month. Large power consumers are billed on a monthly calendar basis and there are nine other billing cycles throughout each month consisting of an approximate thirty-day period. Blue Grass calculates unbilled revenue based on actual usage readings from the last meter reading date through the end of the month using advanced metering infrastructure. Unbilled revenues are reversed in the following month when the customer bills are generated based on usage readings for the full billing cycle. This method of revenue recognition presents fairly, Blue Grass' transfer of electricity to customers as the amount recognized is based on actual volumes delivered and the tariff rate per-unit of energy and any applicable fixed charges as set by the PSC.

Performance obligations

Blue Grass customers generally have no minimum purchase commitments except for those included in large power customer agreements. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation to recognize as of April 30, 2023 and 2022.

NOTES TO FINANCIAL STATEMENTS

Note 2. Revenue Recognition (Continued)

Disaggregation of revenue

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended April 30, 2023 and 2022:

	2023	2022
Residential rural	$ 105,770,613	$ 98,028,521
Small commercial	21,458,528	17,993,873
Large commercial	25,883,681	19,714,174
Public lights	593,137	575,831
	$ 153,705,959	$ 136,312,399

Contract assets and contract liabilities

Contract assets include accounts receivable net of allowance, unbilled electric revenue and unbilled pole attachment revenue. Contract liabilities include consumer deposits. Contract assets and liabilities were as follows as of April 30:

	2023	2022	2021
Contract assets			
Accounts receivable, net	$ 7,211,060	$ 6,349,211	$ 3,404,920
Unbilled electric revenue	5,810,065	5,815,035	5,490,990
Unbilled pole attachments	571,660	537,103	532,930
	$ 13,592,785	$ 12,701,349	$ 9,428,840
Contract liabilities			
Consumer deposits	$ 3,285,300	$ 2,057,984	$ 1,577,060

Note 3. Investments in Associated Organizations

Investments in associated organizations consist of the following as of April 30, 2023 and 2022:

	2023	2022
East Kentucky, patronage capital	$ 82,557,318	$ 80,353,424
CFC, patronage capital and CTCs	2,359,379	2,387,317
KAEC, patronage capital	1,583,149	1,479,208
Federated Insurance, patronage capital	524,459	505,160
SEDC, patronage capital	388,022	398,848
Other associated organizations	138,523	128,269
	$ 87,550,850	$ 85,252,226

Note 3. Investments in Associated Organizations (Continued)

Blue Grass 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 ranging from zero to 5.00% and are scheduled to mature at varying times from 2024 to 2080.

Note 4. Investments in Equity Securities

Investments are reported at fair value. Accounting principles generally accepted in the United States of America provide a framework for fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The methodology for measuring fair value specifies a three-tier hierarchy of valuation techniques based upon whether the inputs to those valuation techniques are based on quoted prices of identical assets or liabilities (Level 1), significant other observable inputs (Level 2), or significant other unobservable inputs that reflect a company's own assumptions of market participant valuation (Level 3).

Blue Grass makes contributions to an investment account for the purpose of funding a pension plan for the benefit of executive employees that meet certain criteria (See Note 10). The fair values are based primarily on quoted market prices. Investments securities measured at fair value on a recurring basis are as follows as of April 30:

	2023	2022
Level 1		
Cost of investments:		
Equity funds	$ 590,940	$ 590,940
Net unrealized gains	138,973	123,990
Equity securities at fair value	$ 729,913	$ 714,930

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 total equity to be less than 30% of total assets, except that distributions may be made to estates of deceased patrons. The debt agreement provides, however, that should such distributions to estates not exceed 25% of the net margins for the next preceding year, Blue Grass may distribute the difference between 25% and the payments made to such estates. As of April 30, 2023 and 2022, the equities were 55% and 54% of total assets, respectively. Other equities consist primarily of retired capital credit gains.

As of April 30, 2023 and 2022, patronage capital consisted of the following:

	2023	2022
Assigned to date	$ 182,033,936	$ 174,566,240
Assignable margins	1,058,377	2,222,422
Retirements to date	(31,435,237)	(28,660,905)
Total	$ 151,657,076	$ 148,127,757

Note 6. Long-Term Debt

All assets, except vehicles, are pledged as collateral on the long-term debt to RUS, Federal Financing Bank (FFB), and CFC under a joint mortgage agreement. The long-term debt payable to FFB and CFC are due in quarterly and monthly installments of varying amounts through 2057.

During 2004, Blue Grass refinanced $22,710,297 of 5% RUS loans with funds advanced from CFC. The long-term debt to refinance the RUS loans is due in a combination of fourteen annual installments of $1,094,587 and nine annual installments of $640,039. During 2006, Blue Grass restructured one of the installments into four installments of $273,674 which were paid in full in May 2019. During 2017, Blue Grass refinanced approximately $70,300,000 of RUS loans with $60,300,000 of CFC funds and the remaining from general funds. As of April 30, 2023 and 2022, Blue Grass had loan funds available from FFB in the amount of $54,000,000 and zero, respectively. RUS assesses 12.5 basis points to administer the FFB loans and these funds will be used for future plant additions.

Long-term debt consists of the following as of April 30:

	2023	2022
FFB, 1.699% to 3.561%	$ 70,999,716	$ 67,533,658
CFC:		
4.550% to 7.100% notes	1,468,863	1,920,566
Refinance RUS loans, 2.950%	40,349,425	43,641,169
	41,818,288	45,561,735
	112,818,004	113,095,393
Less current portion	(6,377,443)	(6,025,303)
Long-term portion	$ 106,440,561	$ 107,070,090

As of April 30, 2023, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2024	$ 6,377,443
2025	6,426,044
2026	6,588,807
2027	6,729,361
2028	6,926,525
Thereafter	79,769,824
	$ 112,818,004

Note 7. Short-Term Notes Payable

As of April 30, 2023 and 2022, Blue Grass had a short-term line of credit of $16,000,000 available from CFC with variable interest rates of 6.75% and 2.45%, respectively. There were no advances on the CFC line of credit as of April 30, 2023 and 2022, and the line of credit matures on May 28, 2024. Blue Grass also had a short-term line of credit of $1,000,000 available from CoBank with variable interest rates of 6.87% and 2.98% as of April 30, 2023 and 2022, respectively. The line of credit matures on October 31, 2023. There were no advances against the line of credit as of April 30, 2023 and 2022.

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plans

All eligible employees of Blue Grass participate in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Plan (RS Plan), a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The Plan sponsor's identification number is 53-0116145 and the Plan Number is 333. A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers. Employees who are hired, rehired, or transferred from a participating system to Blue Grass on or after February 1, 2021, are ineligible to participate in the RS Plan.

Blue Grass's contributions to the RS Plan in 2023 and 2022 represent less than 5.00% of the total contributions made to the plan by all participating employers. Blue Grass made contributions to the plan for eligible employees of $1,271,751 in 2023 and $1,372,524 in 2022. There have been no significant changes that affect the comparability of 2023 and 2022.

In the RS Plan, a zone status determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80.00% funded at January 1, 2023 and 2022 based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

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

Two prepayment options were available to participating cooperatives:

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

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plans (Continued)

On February 14, 2013, RUS issued a memorandum to all of its borrowers regarding the proper accounting treatment of the RS Plan prepayment. RUS stipulated that the prepayment shall be recorded as a long-term prepayment in Account 186, Miscellaneous Deferred Debits. This prepaid expense shall be amortized to Account 926, Employee Pensions and Benefits, over a ten-year period. Alternatively, RUS borrowers may calculate the amortization period by subtracting the cooperative's average age of its workforce as provided by NRECA from the cooperative's normal retirement age under the RS Plan, up to a maximum period of 20 years. If the entity choses to finance the prepayment, interest expense associated with the loan shall be recorded in the year incurred as is required under the RUS Uniform System of Accounts (USoA). During February 2013, Blue Grass made a prepayment of $4,342,389 to the RS Plan. The amount is being amortized over 15 years.

Note 9. Savings Plan

All eligible employees of Blue Grass participate in the NRECA 401(k) plan, a defined contribution plan qualified under section 401(k) and tax-exempt under section 501(a) of the Internal Revenue Code. Blue Grass makes annual contributions to the Program equal to the amounts accrued for pension expense. Contributions vest immediately in the plan. There have been no significant changes that affect the comparability of 2023 and 2022. Blue Grass contributed $187,032 and $141,478 to the plan for the years ended April 30, 2023 and 2022, respectively.

Employees hired on or after February 1, 2021, who are ineligible to participate in the RS Plan, are eligible to participate in the 401(k) plan after one year of service. These employees will receive an employer base contribution equal to 8% of the participant's base salary. No participant contribution is required to receive the employer base contribution.

The employer matching contribution shall be equal to 100% of a participant's employee elective contributions up to 2% of the participant's base compensation.

Note 10. Postretirement Benefits

Blue Grass sponsors a defined benefit plan that provides medical insurance coverage for qualified retired employees and their dependents. Blue Grass pays premiums for retirees and their dependents based on years of service. Qualified employees are those that have been hired prior to January 1, 1999. For measurement purposes, an annual rate of increase of 6.00% in 2021, 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 2023 and 2022. The Plan is not funded.

The funded status (deficit) of the plan as of April 30, 2023 and 2022 was as follows:

	2023	2022
Projected benefit obligation	$ (7,390,911)	$ (7,307,968)
Plan assets at fair value	- -	- -
Funded status (deficit)	$ (7,390,911)	$ (7,307,968)

NOTES TO FINANCIAL STATEMENTS

Note 10. Postretirement Benefits (Continued)

The components of net periodic postretirement benefit costs as of and for the years ended April 30, 2023 and 2022 are as follows:

	2023	2022
Benefit obligation - beginning of period	$ 7,307,968	$ 7,176,375
Net periodic benefit cost:		
Service cost	230,419	172,805
Interest cost	325,898	383,512
Net period cost	556,317	556,317
Benefit payments to participants	(473,374)	(424,724)
Benefit obligation - end of period	$ 7,390,911	$ 7,307,968
Amounts recognized in the balance sheet consists of:		
Accumulated postretirement benefits	$ 7,390,911	$ 7,307,968
Amounts included in other comprehensive income (loss):		
Amortization of net gain	$ (110,898)	$ (110,898)
Effect of 1% increase in the health care trend:		
Postemployment benefit obligation	$ 7,910,000	
Net periodic benefit cost	$ 595,000	

Projected retiree benefit payments for the next five years are expected to be as follows: 2024 - $454,000; 2025 - $479,000; 2026 - $505,000; 2027 - $533,000; 2028 - $562,000.

Blue Grass also sponsors a defined benefit plan, Executive Benefit Restoration Plan (EBRP), for executive employees that meet certain criteria. Contributions are made to a separate investment account for the purpose of funding the plan upon retirement of the executives covered by the plan (See Note 4).

The funded status (deficit) of the plan as of April 30, 2023 and 2022 was as follows:

	2023	2022
Projected benefit obligation	$ (633,429)	$ (2,112,943)
Plan assets at fair value	- -	- -
Funded status (deficit)	$ (633,429)	$ (2,112,943)

NOTES TO FINANCIAL STATEMENTS

Note 10. Postretirement Benefits (Continued)

The calculation of net periodic benefit cost, change in projected benefit obligation, and change in fair value of plan assets as of and for the years ended April 30, 2023 and 2022 are as follows:

	2023	2022
Net Periodic Benefit Cost		
Service cost	$ 72,978	$ 80,757
Interest cost	52,507	50,473
Amortizaion of prior service cost	83,101	83,101
Amortization loss	103,012	187,711
Net periodic benefit cost	$ 311,598	$ 402,042
Change in Projected Benefit Obligation		
Projected benefit obligation at beginning of year	$ 2,112,943	$ 2,186,798
Service cost	72,978	80,757
Interest cost	52,507	50,473
Settlement	(470,475)	- -
Actuarial (gain)	(1,134,524)	(205,085)
Projected benefit obligation at end of year	$ 633,429	$ 2,112,943
Amounts recognized in the balance sheet consists of:		
Accumulated postretirement benefits	$ 633,429	$ 2,112,943
Amounts included in other comprehensive income (loss):		
Actuarial gain	$ 1,132,609	$ 210,687
Amortization of prior service cost and loss	$ 247,736	$ 300,500
Key assumptions for disclosure purposes are as follows:		
Discount rate assumption	4.83%	2.67%
Expected return on plan assets	N/A	N/A
Salary increase assumption	1.50%	1.50%

Note 11. Related Party Transactions

Several of the Directors of Blue Grass and its President and CEO are on the Boards of Directors of various associated organizations.

Note 12. Contingencies

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Blue Grass Energy Cooperative Corporation
Nicholasville, 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 Blue Grass Energy Cooperative Corporation (the Cooperative), which comprise the balance sheet as of April 30, 2023 and the related statements of revenue and comprehensive income, changes in members' equities and cash flows for the year then ended, and related notes to the financial statements, and have issued our report thereon dated August 7, 2023.

Report on Internal Control over Financial Reporting

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

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

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

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 7, 2023

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

To the Board of Directors
Blue Grass Energy Cooperative Corporation
Nicholasville, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Blue Grass Energy Cooperative Corporation (the Cooperative), which comprise the balance sheet as of April 30, 2023, and the related statements of revenue and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 7, 2023. In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2023, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

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

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

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

The deferred debits are as follows:

Work plan development costs	$	64,833
Accelerated pension payment		1,350,946
	$	1,415,779

The deferred credits are as follows:

Consumer advances	$	546,891

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

Jones, Nale & Mattingly PLC

Louisville, Kentucky
August 7, 2023