LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION
KENTUCKY 56

FINANCIAL REPORT

October 31, 2019

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Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Licking Valley Rural Electric Cooperative Corporation
West Liberty, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Licking Valley Rural Electric Cooperative Corporation, which comprise the balance sheet as of October 31, 2019, 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.

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Certified Public Accountants and Advisors
642 South Fourth Street, Suite 300 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589-1680 www.jnmcpa.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Licking Valley Rural Electric Cooperative Corporation as of October 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 23, 2020, on our consideration of Licking Valley Rural Electric 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 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 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 internal control over financial reporting and compliance.

Prior Period Financial Statements

The financial statements of Licking Valley Rural Electric Cooperative Corporation, as of and for the year ended October 31, 2018 were audited by other auditors whose report dated December 12, 2018 expressed an unmodified opinion on those statements.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 23, 2020

LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION
BALANCE SHEETS
October 31, 2019 and 2018

	2019	2018
Assets		
Electric Plant, at original cost:		
In service	$ 77,307,014	$ 75,749,146
Under construction	1,012,753	1,372,017
	78,319,767	77,121,163
Less accumulated depreciation	29,684,733	28,831,082
	48,635,034	48,290,081
Investments in Associated Organizations	18,087,646	17,229,825
Current Assets:		
Cash and cash equivalents	1,529,000	142,336
Accounts receivable, less allowance for 2019 of $187,681 and 2018 of $188,114	4,052,866	4,146,630
Other receivables	97,794	177,980
Material and supplies, at average cost	673,334	636,839
Other current assets	31,337	79,142
Total current assets	6,384,331	5,182,927
Total	$ 73,107,011	$ 70,702,833
Members' Equities and Liabilities		
Members' Equities:		
Memberships	$ 217,250	$ 216,665
Patronage capital	34,249,922	33,194,840
Other equities	125,043	123,459
Accumulated other comprehensive income	(587,698)	(632,338)
	34,004,517	32,902,626
Long-Term Debt and Other Liabilities		
Long-term debt, less current portion	30,681,655	28,196,257
Capital lease obligation, less current portion	168,950	254,967
Accumulated postretirement benefits	3,292,240	3,249,490
Total long-term liabilities	34,142,845	31,700,714
Current Liabilities:		
Accounts payable	1,491,802	2,389,516
Current portion of long-term debt	1,328,000	1,310,000
Current portion of capital lease obligation	37,960	36,391
Consumer deposits	1,280,270	1,292,533
Accrued expenses	650,498	876,973
Total current liabilities	4,788,530	5,905,413
Consumer Advances	171,119	194,080
Total	$ 73,107,011	$ 70,702,833

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

LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION
STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Years ended October 31, 2019 and 2018

	2019	2018
Operating Revenues		
Sales of electric energy	$ 27,074,072	$ 28,274,440
Other electric revenues	415,992	404,367
	27,490,064	28,678,807
Operating Expenses		
Cost of power	17,334,687	18,122,060
Distribution - operations	1,724,535	1,810,639
Distribution - maintenance	2,622,578	2,745,558
Consumer accounts	806,486	756,444
Customer services	20,002	7,138
Administrative and general	1,187,837	1,182,974
Depreciation, excluding $207,985 in 2019 and $238,930 in 2018 charged to clearing accounts	2,596,392	2,486,289
Taxes, other than income	37,062	37,202
Interest on long-term debt	928,335	711,612
Interest expense - other	148,478	64,094
Other deductions	32,522	13,927
Operating margins	51,150	740,870
Nonoperating Margins		
Interest income	30,893	29,846
	30,893	29,846
Patronage Capital Credits		
Generation and Transmission	917,576	502,348
Other associated organizations	55,463	62,798
	973,039	565,146
Net Margins	1,055,082	1,335,862
Other Comprehensive Income		
Postretirement benefits	44,640	44,640
Net Margins and Comprehensive Income	$ 1,099,722	$ 1,380,502

LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION
STATEMENT OF CHANGES IN MEMBERS' EQUITIES
Years Ended October 31, 2019 and 2018

	Memberships	Patronage Capital	Other Equities	Accumulated Comprehensive Income (Loss)	Total Members' Equities
Balance-October 31, 2017	$ 216,810	$ 31,858,978	$ 119,593	$ (676,978)	$ 31,518,403
Comprehensive income:					
Net margins		1,335,862			1,335,862
Postretirement benefit obligation					
Amortization				44,640	
Adjustments				- -	44,640
Total comprehensive income					1,380,502
Net change in memberships	(145)				(145)
Other equities			3,866		3,866
Balance-October 31, 2018	216,665	33,194,840	123,459	(632,338)	32,902,626
Comprehensive income:					
Net margins		1,055,082			1,055,082
Postretirement benefit obligation					
Amortization				44,640	
Adjustments				- -	44,640
Total comprehensive income					1,099,722
Net change in memberships	585				585
Other equities			1,584		1,584
Balance-October 31, 2019	$ 217,250	$ 34,249,922	$ 125,043	$ (587,698)	$ 34,004,517

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

LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION
STATEMENTS OF CASH FLOWS
Years Ended October 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 1,055,082	$ 1,335,862
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Charged to expense	2,596,392	2,486,289
Charged to clearing accounts	207,985	238,930
Patronage capital credits assigned	(973,039)	(565,146)
Accumulated postretirement benefits	87,390	92,796
Change in assets and liabilities:		
Accounts and other receivables	173,950	(290,813)
Material and supplies	(36,495)	(121,462)
Other assets	47,805	(41,891)
Accounts payable	(982,162)	752,735
Consumer deposits and advances	(35,224)	(31,923)
Accrued expenses	(226,475)	24,448
Net cash provided by operating activities	1,915,209	3,879,825
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(2,655,817)	(4,515,027)
Plant removal costs	(582,143)	(372,172)
Salvage recovered from (paid for) retired plant	88,630	(16,716)
Receipts from other investments, net	115,218	30,340
Net cash (used in) investing activities	(3,034,112)	(4,873,575)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in memberships	585	(145)
Increase in other equities	1,584	3,866
Payments on long-term debt	(1,298,602)	(1,289,262)
Proceeds from long-term debt	3,802,000	2,000,000
Net cash provided by financing activities	2,505,567	714,459
Net increase (decrease) in cash and cash equivalents	1,386,664	(279,291)
Cash and cash equivalents, beginning of year	142,336	421,627
Cash and cash equivalents, end of year	$ 1,529,000	$ 142,336
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 1,075,060	$ 769,906

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

LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

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

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 year.

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

	2019	2018
Distribution plant	$ 71,338,816	$ 69,949,718
General plant	5,968,198	5,799,428
Total	$ 77,307,014	$ 75,749,146

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 2.20% to 6.67% for distribution plant and from 3.00% to 15.00% for general plant.

Cash and Cash Equivalents Licking Valley considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. Licking Valley 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 credit risk related to the accounts is minimal.

Accounts Receivable Accounts receivable consists of amounts due for sales of electric energy which were not collected at year-end. Accounts receivable are recorded at net realizable value consisting of the carrying amount less an allowance for uncollectible accounts. Licking Valley uses the allowance method to account for uncollectible accounts receivable balances. Management charges off uncollectible receivables to the allowance when it is determined the amounts will not be realized.

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

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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Revenue Licking Valley records revenue as billed to its consumers through the 20th day of each month. All consumers are required to pay a refundable deposit, however, it may be waived under certain circumstances. Licking Valley's sales are concentrated in an eight county area of eastern Kentucky. There were no consumers whose individual account balance exceeded 10.00% of outstanding accounts receivable as of October 31, 2019 or 2018. Consumers must pay their bill within 20 days of billing, at which time a 5.00% discount is forfeited, then are subject to disconnect after another 10 days. Accounts are written off when they are deemed to be uncollectible. The allowance for uncollectible accounts is based on the aging of receivables.

Sales Tax Licking Valley is required to collect, on behalf of the Commonwealth of Kentucky, sales taxes based on 6 percent of gross sales from non-residential consumers, a 3 percent school tax from certain counties on most gross sales, and franchise fees in certain cities. Licking Valley's policy is to exclude sales tax from revenue when collected and expenses when paid and instead, record collection and payment of sales taxes through a liability account.

Cost of Power Licking Valley is one of sixteen (16) members of East Kentucky Power Cooperative ("East Kentucky"). Under a wholesale power agreement, Licking Valley is committed to purchase its electric power and energy requirements from East Kentucky until 2051. The rates charged by East Kentucky are subject to approval of the PSC. The cost of purchased power is recorded monthly during the period in which the energy is consumed, based upon billings from East Kentucky.

Advertising Licking Valley expenses advertising costs as incurred.

Income Tax Status Licking Valley is exempt from federal and state income taxes under provisions of Section 501(c)(12) of the Internal Revenue Code. Accordingly, the financial statements for Licking Valley include no provision for income taxes. Licking Valley's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Management believes Licking Valley has no uncertain tax positions resulting in an accrual of tax expense or benefit. Licking Valley recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Licking Valley did not recognize any interest or penalties during the years ended October 31, 2019 and 2018. Licking Valley's income tax return is subject to possible examination by taxing authorities until the expiration of related statutes of limitations on the return, which is generally three years.

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

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

Credit Risk Licking Valley grants credit to residents of local counties. Concentrations of credit risk with respect to accounts receivables are limited due to it large number of customers.

Contingencies Licking Valley, on occasion, is subject to various lawsuits that arise from the normal course of business. Licking Valley's management does not believe the outcome of these cases will have a material effect on the financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers.* The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for the year ending October 31, 2020.

In February 2016, the FASB issued ASU 2016-02, *Leases.* The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of revenue and comprehensive income. This standard will be effective for the year ending October 31, 2022.

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 October 31, 2024.

In May 2017, the 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 will be effective for the year ending October 31, 2020.

Licking Valley is currently in the process of evaluating the impact of the adoption of these ASUs on the financial statements.

Reclassifications Certain reclassifications have been made to the 2018 financial statement presentation to correspond to the 2019 format.

Subsequent Events Management has evaluated subsequent events through March 23, 2020, the date the financial statements were available to be issued.

Note 2. Investments in Associated Organizations

Investments in associated organizations consist of:

	2019	2018
East Kentucky, patronage capital	$ 16,475,210	$ 15,636,924
CFC, patronage capital	191,762	197,212
CFC, CTC's	653,512	654,976
Others	767,162	740,713
Total	$ 18,087,646	$ 17,229,825

NOTES TO FINANCIAL STATEMENTS

Note 2. Investments in Associated Organizations (Continued)

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

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 0.00%, 3.00%, and 5.00% and are scheduled to mature at varying times from 2023 to 2080.

Note 3. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30.00% 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, Licking Valley may distribute the difference between 25.00% and the payments made to such estates. Equity as of October 31, 2019 and 2018 was 47.00% of total assets.

	2019	2018
Assigned to date	$ 36,325,276	$ 35,337,628
Assignable margins	(10,275)	(47,863)
Unassigned	19,739	19,739
Prior year losses	(2,084,818)	(2,114,664)
Total	$ 34,249,922	$ 33,194,840

Note 4. 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. Long-term debt consists of the following as of December 31:

	2019	2018
RUS, 1.00% to 5.38%	$ 3,392,427	$ 3,673,562
FFB, 1.80% and 6.48%	26,902,756	23,960,939
CFC:		
4.40% fixed rate notes	1,657,944	1,781,022
3.50% variable rate notes	56,528	90,734
	1,714,472	1,871,756
	32,009,655	29,506,257
Less current portion	1,328,000	1,310,000
Long-term portion	$ 30,681,655	$ 28,196,257

The long-term debt is due in quarterly and monthly installments of varying amounts through 2041. RUS assesses 12.5 basis points to administer the FFB loans. The interest rates on notes payable to CFC at 4.40% are subject to change every seven years. The 3.50% interest rate notes to CFC adjusts monthly and may be converted to a fixed rate at any time upon board approval by Licking Valley. Licking Valley has unadvanced loan funds from FFB in the amount of $19,691,000, which can be advanced upon future construction projects.

NOTES TO FINANCIAL STATEMENTS

Note 4. Long-Term Debt (Continued)

As of October 31, 2019, the annual principal portion of long-term debt outstanding for the next five years are as follows: 2020 - $1,328,000; 2021 - $1,360,000; 2022 - $1,392,000; 2023 - $1,424,000; 2024 - $1,458,000.

Note 5. Short-Term Borrowings

As of October 31, 2019 and 2018, Licking Valley has a short-term line of credit of $2,000,000 available from CFC. There were no advances against this line of credit as of October 31, 2019 and 2018. The maturity of the letter of credit coincides with the maturity of the long-term debt (see Note 4).

Note 6. Savings Plan

All eligible employees of Licking Valley participate in the NRECA Retirement and Security Program, a defined contribution pension plan qualified under section 401(k) and tax-exempt under section 501(a) of the Internal Revenue Code. Licking Valley makes annual contributions to the Program equal to the amounts accrued for pension expense. There have been no significant changes that affect the comparability of 2019 and 2018. Contributions to this plan were $256,024 for 2019 and $259,700 for 2018. In this multiemployer plan, which is available to all member corporations of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. A portion of this cost is allocated to construction of electric plant.

Note 7. Postretirement Benefits

Licking Valley sponsors a defined benefit plan that provides medical insurance coverage to retirees by contributing 50.00% of the cost of a single policy. For measurement purposes, an annual rate of increase of 6.00%, then decreasing by 0.25% per year until 5.00% per year, in the per capita cost of covered health care benefit was assumed. The discount rate used in determining the accumulated postretirement benefit obligation was 4.50%. There have been no significant changes that affect the comparability of 2019 and 2018. A portion of the net periodic benefit cost is allocated to construction of the electric plant.

The funded status of the plan is as follows:

	2019	2018
Projected benefit obligation	$ (3,292,240)	$ (3,249,490)
Plan assets at fair value	- -	- -
Funded status (deficit)	$ (3,292,240)	$ (3,249,490)

Note 7. Postretirement Benefits (Continued)

The reconciliation of the benefits obligations of postretirement benefits are as follows:

	2019	2018
Benefit obligation - beginning of period	$ 3,249,490	$ 3,201,334
Net periodic benefit cost:		
Service cost	60,977	63,249
Interest cost	163,543	161,271
Net periodic benefit cost:	224,520	224,520
Benefit payments to participants	(181,770)	(176,364)
Benefit obligation - end of period	$ 3,292,240	$ 3,249,490
Amounts included in accumulated comprehensive income:		
Unrecognized actuarial (loss)	$ (587,698)	$ (632,338)
Effect of 1.00% increase in the health care trend:		
Postemployment benefit obligation	$ 3,473,000	
Net periodic benefit cost	$ 237,000	

Projected retiree benefit payments for the next five years are expected to be as follows: 2020 - $170,000; 2021 - $160,000; 2022 - $145,000; 2023 - $140,000; 2024 - $130,000.

Note 8. Commitments

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

Note 9. Related Party Transactions

Several of the Directors of Licking Valley and its President and CEO are on the Boards of Directors of various associated organizations. Licking Valley occasionally sells old vehicles to employees and others.

Note 10. Environmental Contingency

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

NOTES TO FINANCIAL STATEMENTS

Note 11. Capital Lease Obligation

Licking Valley leases a vehicle under a capital lease agreement. The economic substance of the lease is that Licking Valley is financing the acquisition of the vehicle through the lease, and accordingly, the lease is recorded in the assets and liabilities on the balance sheet.

Future minimum lease payments are as follows for the year ending October 31:

2020	$ 45,988
2021	45,988
2022	45,988
2023	45,988
2024	45,988
	229,939
Less amounts representing interest	(23,029)
Present value of minimum lease payments	206,910
Less current portion	(37,960)
Long-term portion	$ 168,950

Note 12. Uncertainty

Subsequent to October 31, 2019, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to Licking Valley as of March 23, 2020, management believes that a material impact on the Licking Valley's financial position and results of future operations is reasonably possible.

JNM

Jones, Nale & Mattingly PLC

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
Licking Valley Rural Electric Cooperative Corporation
West Liberty, 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 Licking Valley Rural Electric Cooperative Corporation (the Cooperative), which comprise the balance sheet as of October 31, 2019 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 March 23, 2020.

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 may exist that have not been identified.

Certified Public Accountants and Advisors
642 South Fourth Street, Suite 300 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589-1680 www.jnmcpa.com

Compliance and Other Matters

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

Purpose of this Report

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

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 23, 2020

JNM

Jones, Nale & Mattingly PLC

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

To the Board of Directors
Licking Valley Rural Electric Cooperative Corporation
West Liberty, 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 Licking Valley Rural Electric Cooperative Corporation ("the Cooperative"), which comprise the balance sheet as of October 31, 2019, 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 March 23, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2020, 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 credits are as follows:

Consumer advances for construction	$ 171,119

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
March 23, 2020