LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION
KENTUCKY 56

FINANCIAL REPORT

October 31, 2021

C O N T E N T S

JNM

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 sheets as of October 31, 2021 and 2020, 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.

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 audits. 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. 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
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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, 2021 and 2020, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated February 4, 2022, 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.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
February 4, 2022

LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION

BALANCE SHEETS
October 31, 2021 and 2020

ASSETS	2021	2020
Electric Plant, at original cost:		
In service	$ 81,139,953	$ 79,340,714
Under construction	1,459,671	1,062,475
	82,599,624	80,403,189
Less accumulated depreciation	33,303,999	31,486,442
	49,295,625	48,916,747
Investments in associated organizations	19,512,459	18,826,082
Current Assets:		
Cash and cash equivalents	1,359,721	1,084,406
Accounts receivable, less allowance for 2021 of $149,714 and 2020 of $234,216	3,315,120	3,295,073
Unbilled revenues	770,567	655,960
Other receivables	842,958	31,518
Material and supplies, at average cost	832,009	732,963
Other current assets	30,688	31,509
Total current assets	7,151,063	5,831,429
Total assets	$ 75,959,147	$ 73,574,258
MEMBERS' EQUITIES AND LIABILITIES		
Members' Equities:		
Memberships	$ 222,820	$ 220,795
Patronage capital	38,680,360	35,720,149
Other equities	138,247	133,698
Accumulated other comprehensive income (loss)	(498,418)	(543,058)
Total members' equities	38,543,009	35,531,584
Long-Term Liabilities:		
Long-term debt, less current portion	28,655,942	29,076,237
Capital lease obligation, less current portion	88,042	129,350
Accumulated postretirement benefits	3,332,385	3,324,516
Total long-term liabilities	32,076,369	32,530,103
Current Liabilities:		
Current portion of long-term debt	1,683,892	1,971,038
Current portion of capital lease obligation	41,309	39,600
Accounts payable	1,368,266	1,154,293
Consumer deposits	1,273,593	1,285,957
Accrued expenses	700,388	890,423
Total current liabilities	5,067,448	5,341,311
Consumer Advances for Construction	272,321	171,260
Total members' equities and liabilities	$ 75,959,147	$ 73,574,258

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

LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION

STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Years ended October 31, 2021 and 2020

	2021	2020
Operating Revenues		
Sales of electric energy	$ 27,885,107	$ 25,957,572
Other electric revenues	351,317	149,534
	28,236,424	26,107,106
Operating Expenses		
Cost of power	17,293,904	16,303,162
Distribution - operations	1,657,979	1,705,861
Distribution - maintenance	2,855,804	2,615,030
Consumer accounts	679,530	793,269
Customer services	58,420	45,367
Administrative and general	1,077,476	1,024,713
Depreciation, excluding $255,445 in 2021 and $240,691 in 2020 charged to clearing accounts	2,673,480	2,611,494
Taxes, other than income	36,000	37,178
Interest on long-term debt	241,792	525,992
Interest expense - other	11,919	42,471
Other deductions	7,881	12,663
Operating Margins	1,642,239	389,906
Nonoperating Margins		
Interest income	29,417	32,056
PPP loan forgiveness	563,488	- -
	592,905	32,056
Patronage Capital Credits		
Generation and transmission	652,388	989,382
Other associated organizations	72,679	58,883
	725,067	1,048,265
Net Margins	2,960,211	1,470,227
Other Comprehensive Income		
Postretirement benefits amortization of net loss	44,640	44,640
Net Margins and Comprehensive Income	$ 3,004,851	$ 1,514,867

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

LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION

STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended October 31, 2021 and 2020

	Memberships	Patronage Capital	Other Equities	Accumulated Comprehensive Income (Loss)	Total Members' Equities
Balance - October 31, 2019	$ 217,250	$ 34,249,922	$ 125,043	$ (587,698)	$ 34,004,517
Comprehensive income:					
Net margins		1,470,227			1,470,227
Postretirement benefit obligation					
Amortization				44,640	44,640
Total comprehensive income					1,514,867
Net change in memberships	3,545				3,545
Other equities			8,655		8,655
Balance - October 31, 2020	220,795	35,720,149	133,698	(543,058)	35,531,584
Comprehensive income:					
Net margins		2,960,211			2,960,211
Postretirement benefit obligation					
Amortization				44,640	44,640
Total comprehensive income					3,004,851
Net change in memberships	2,025				2,025
Other equities			4,549		4,549
Balance - October 31, 2021	$ 222,820	$ 38,680,360	$ 138,247	$ (498,418)	$ 38,543,009

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

LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION

STATEMENTS OF CASH FLOWS
Years Ended October 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 2,960,211	$ 1,470,227
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Charged to expense	2,673,480	2,611,494
Charged to clearing accounts	255,445	240,691
Patronage capital credits assigned	(725,067)	(1,048,265)
Amortization of postretirement actuarial adjustment	44,640	44,640
PPP loan forgiveness	(563,488)	- -
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts and other receivables, net	(831,487)	112,224
Unbilled revenues	(114,607)	55,885
Material and supplies	(99,046)	(59,629)
Other current assets	821	(172)
Accounts payable	174,374	(375,469)
Consumer deposits	88,697	5,828
Accrued expenses	(190,035)	239,925
Accumulated postretirement benefits	7,869	32,276
Net cash provided by operating activities	3,681,807	3,329,655
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(3,053,069)	(2,741,208)
Plant removal costs	(366,254)	(476,970)
Salvage recovered from retired plant	111,520	84,280
Receipts from other investments, net	38,690	309,829
Net cash (used in) investing activities	(3,269,113)	(2,824,069)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in memberships	2,025	3,545
Increase in other equities	4,549	8,655
Payments on long-term debt	(1,834,953)	(1,525,868)
Proceeds from long-term debt	1,691,000	563,488
Net cash (used in) financing activities	(137,379)	(950,180)
Net increase (decrease) in cash and cash equivalents	275,315	(444,594)
Cash and cash equivalents, beginning of year	1,084,406	1,529,000
Cash and cash equivalents, end of year	$ 1,359,721	$ 1,084,406
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 277,795	$ 614,245

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

Note 1. Summary of Significant Accounting Policies

Description of business

Licking Valley Rural Electric Cooperative Corporation (Licking Valley) provides distribution electric services to residential, business, and commercial consumers concentrated in an eight-county area in eastern Kentucky. Licking Valley 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:

Estimates

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

Electric plant

Electric plant is stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead cost including any construction period interest and taxes. There was no interest required to be capitalized for the years ended October 31, 2021 and 2020.

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 October 31, 2021 and 2020:

	2021	2020
Distribution plant	$ 74,969,782	$ 73,189,297
General plant	6,170,171	6,151,417
Total	$ 81,139,953	$ 79,340,714

Depreciation

Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Amortization of assets under capital leases is included in depreciation expense. Depreciation rates range from 2.20% to 6.67% for distribution plant and from 3.00% to 15.00% for general plant.

Note 1. Summary of Significant Accounting Policies (Continued)

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 their 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.

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 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. The power bill includes a fuel adjustment and environmental surcharge component that is passed on to Licking Valley's customers using a methodology prescribed by the PSC.

Advertising

Licking Valley expenses advertising costs as incurred. Advertising expenses were $12,265 and $14,370 for the years ended October 31, 2021 and 2020, 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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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 within its service territory. 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.

Income tax status

Licking Valley qualifies as a tax-exempt organization under Section 501(c)(12) of the Internal Revenue Code. However, income from certain activities not directly related to Licking Valley's tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income tax for the years ended October 31, 2021 and 2020. Accordingly, no provision for federal and state income taxes has been made in these financial statements.

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. Licking Valley has no uncertain tax positions resulting in an accrual of tax expense or benefit.

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

Note 1. Summary of Significant Accounting Policies (Continued)

Pension accounting pronouncement

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.

Recent accounting pronouncements

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, 2023.

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.

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

Subsequent events

Management has evaluated subsequent events through February 4, 2022, the date the financial statements were available to be issued.

Note 2. Revenue Recognition

Revenue from contracts

Licking Valley is engaged in the distribution and sales of electricity to residential and commercial customers in eight counties in eastern Kentucky. Revenue from these activities is generated from tariffs approved by the PSC. Licking Valley satisfies their performance obligation upon the delivery of electricity to customers. Revenue is recognized over time as the customer simultaneously receives and consumes the benefits provided by Licking Valley. The amount of revenue recognized is the billed volume of electricity multiplied by a tariff rate per-unit of energy, plus any applicable fixed or additional regulatory charges. Customers are billed monthly and outstanding amounts are typically due within 20 days of the date of the bill.

Significant judgements

Licking Valley has one billing cycle and processes customer bills on approximately the same day each month. The amounts billed are based on actual meter readings of kilowatt hours used for the billing period. The amount of revenue recorded each month represents a full month of kilowatt hour usage. Unbilled revenues approximate the amount of revenue earned for the unbilled days in the month based on actual meter readings. This method of revenue recognition presents fairly, Licking Valley's transfer of electricity to customers as the amount recognized is based on actual volumes delivered and the tariff rate per-unit of energy plus any applicable fixed charges as set by the PSC.

Performance obligations

Licking Valley customers generally have no minimum purchase commitments. Revenue is recognized as each performance obligation is satisfied. Performance obligations are limited to the service requested and received to date. Accordingly, there are no unsatisfied performance obligations to recognize as of October 31, 2021 and 2020.

Disaggregation of revenue

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended October 31, 2021 and 2020, respectively:

	2021	2020
Residential	$ 22,601,130	$ 20,954,271
Large Commercial	4,081,928	3,856,978
Small Commercial	1,172,605	1,113,830
Other	29,444	32,493
	$ 27,885,107	$ 25,957,572

Contract assets and cost liabilities

Contract cost liabilities include consumer deposits. The balance in contract liabilities was $1,273,593, $1,285,957 and $1,280,270 as of October 31, 2021, 2020 and 2019, respectively. Contract assets include unbilled revenues. The balance in contract assets was $770,567, $655,960 and $711,845 as of October 31, 2021, 2020 and 2019, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 3. Investments in Associated Organizations

Investments in associated organizations consist of the following as of October 31, 2021 and 2020:

	2021	2020
East Kentucky, patronage capital	$ 17,865,451	$ 17,213,063
CFC, patronage capital	182,108	187,538
CFC, CTC's	636,347	638,304
Others	828,553	787,177
Total	$ 19,512,459	$ 18,826,082

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 ranging from zero to 5.0% and are scheduled to mature at varying times from 2025 to 2080.

Note 4. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30.0% 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 25.0% of the net margins for the next preceding year, Licking Valley may distribute the difference between 25.0% and the payments made to such estates.

Members' equity as of October 31, 2021 and 2020 was 50.4% and 48.3% of total assets, respectively.

	2021	2020
Assigned to date	$ 39,622,957	$ 37,389,591
Assignable margins	1,125,138	428,163
Unassigned	19,739	19,739
Prior year losses	(2,087,474)	(2,117,344)
Total	$ 38,680,360	$ 35,720,149

Note 5. 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 is due in quarterly and monthly installments of varying amounts through 2046. 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 2.45% interest rate notes to CFC adjust monthly and may be converted to a fixed rate at any time upon board approval by Licking Valley. Licking Valley had unadvanced loan funds available from FFB in the amount of $18,000,000 and $19,691,000 as of October 31, 2021 and 2020, respectively. These funds will be used for future plant additions.

Note 5. Long-Term Debt (Continued)

In May 2020, Licking Valley applied for and was granted a forgivable loan of $563,488 from the United States Small Business Administration (SBA) Paycheck Protection Program (PPP). Under the CARES Act, subject to limitations, as defined, the loan may be partially or fully forgiven, depending on specified actual payroll and other qualified costs for the covered period following receipt of the loan. Licking Valley accounted for the loan proceeds as debt in accordance with ASC 470. Licking Valley submitted its application for forgiveness to the SBA and was notified in December 2020 that the entire loan was forgiven. As such, in compliance with guidance from RUS, Licking Valley has recognized the forgiveness of debt as nonoperating income.

Long-term debt consists of the following as of October 31, 2021 and 2020:

	2021	2020
RUS:		
2.88% to 5.38% fixed rate notes	$ 1,817,421	$ 2,017,291
0.13% to 1.13% variable rate notes	797,916	1,082,958
	2,615,337	3,100,249
FFB:		
6.48% fixed rate notes	1,015,472	1,068,317
0.08% variable rate notes	25,314,945	24,762,588
	26,330,417	25,830,905
CFC:		
4.40% fixed rate notes	1,394,080	1,533,058
2.45% variable rate notes	- -	19,575
	1,394,080	1,552,633
Bank of the Mountains:		
1.00% fixed rate note	- -	563,488
	30,339,834	31,047,275
Less current portion	1,683,892	1,971,038
Long-term portion	$ 28,655,942	$ 29,076,237

As of October 31, 2021, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2022	$ 1,683,892
2023	1,700,408
2024	1,717,694
2025	1,735,791
2026	1,647,522
Thereafter	21,854,527
	$ 30,339,834

NOTES TO FINANCIAL STATEMENTS

Note 6. Short-Term Notes Payable

As of October 31, 2021 and 2020, 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, 2021 and 2020. The line of credit matures in September 2022.

Note 7. 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 2021 and 2020. Contributions to this plan were $264,867 for 2021 and $262,564 for 2020. 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 8. 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 8.50%, then decreasing by 0.50% 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 5.00%. There have been no significant changes that affect the comparability of 2021 and 2020. A portion of the net periodic benefit cost is allocated to construction of the electric plant.

The funded status of the plan as of October 31, 2021 and 2020 was as follows:

	2021	2020
Projected benefit obligation	$ (3,332,385)	$ (3,324,516)
Plan assets at fair value	- -	- -
Funded status (deficit)	$ (3,332,385)	$ (3,324,516)

The components of net periodic postretirement benefit cost for the years ended October 31, 2021 and 2020 are as follows:

	2021	2020
Benefit obligation - beginning of period	$ 3,324,516	$ 3,292,240
Net periodic benefit cost:		
Service cost	58,097	59,101
Interest cost	166,423	165,419
Net periodic benefit cost:	224,520	224,520
Benefit payments to participants	(216,651)	(192,244)
Benefit obligation - end of period	$ 3,332,385	$ 3,324,516

Note 8. Postretirement Benefits (Continued)

	2021	2020
Amounts recognized in the balance sheet consists of:		
Accumulated postretirement benefits	$ 3,332,385	$ 3,324,516
Amounts included in other comprehensive income:		
Postretirement benefits amortization of net loss	$ 44,640	$ 44,640
Effect of 1.00% increase in the health care trend:		
Postemployment benefit obligation	$ 3,516,000	
Net periodic benefit cost	$ 237,000	

Projected retiree benefit payments for the next five years are expected to be as follows: 2022 - $225,000; 2023 - $234,000; 2024 - $244,000; 2025 - $253,000; 2026 - $264,000.

Note 9. 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 10. 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.

Note 11. 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 12. 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:

2022	$ 45,988
2023	45,988
2024	45,988
	137,963
Less amounts representing interest	(8,612)
Present value of minimum lease payments	129,351
Less current portion	(41,309)
Long-term portion	$ 88,042

The cost of equipment under capital lease was $283,414 with related accumulated amortization of $181,075 as of October 31, 2021. The cost of equipment under capital lease was $283,414 with related accumulated amortization of $135,740 as of October 31, 2020.

Note 13. Uncertainty

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 February 4, 2022, management believes that a material impact on the Licking Valley's financial position and results of future operations is reasonably possible.

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
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, 2021 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 February 4, 2022.

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 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free from 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 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 PLC

Louisville, Kentucky
February 4, 2022

JNM

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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, 2021, 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 February 4, 2022. In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2022, 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;

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- Prepare accurate and timely Financial and Operating Reports;
- 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	$ 272,321

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
February 4, 2022