JNM

Jones, Nale & Mattingly PLC

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

We have audited the financial statements of Licking Valley Rural Electric Cooperative Corporation (the Cooperative) for the year ended October 31, 2022, and have issued our report thereon dated March 8, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 17, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Cooperative are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2022. We noted no transactions entered into by the Cooperative during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Accumulated depreciation and depreciation expense
- Accumulated postretirement benefits

Management's estimate of these items is based upon historical data and current information. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Patronage Capital (Note 4)
- Long-Term Debt (Note 5)
- Postretirement Benefits (Note 8)

The financial statement disclosures are neutral, consistent, and clear.

Certified Public Accountants and Advisors
401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589.1680 www.jnmcpa.com

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though, in our judgment, such uncorrected misstatements are immaterial to the financial statements under audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 8, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Cooperative's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Cooperative's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors of the Cooperative and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 8, 2023

LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION

AUDIT DIFFERENCE SUMMARY
October 31, 2022

Description of Audit Difference	Financial Statements Effect - Amount of Over (Under) Statement of: Total Assets	Total Liabilities	Equity	Net Income
Environmental Surcharge	$ (46,773)	$ - -	$ (46,773)	$ (46,773)
	$ (46,773)	$ - -	$ (46,773)	$ (46,773)
Net Unadjusted Audit Differences:				
Current year	$ (46,773)	$ - -	$ (46,773)	$ (46,773)
Prior year	- -	- -	- -	- -
Net Audit Differences	$ (46,773)	$ - -	$ (46,773)	$ (46,773)

LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION
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FINANCIAL REPORT

October 31, 2022

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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 Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Licking Valley Rural Electric Cooperative Corporation, which comprise the balance sheets as of October 31, 2022 and 2021, 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 Licking Valley Rural Electric Cooperative Corporation as of October 31, 2022 and 2021, and the results of their operations and their 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 the Licking Valley Rural Electric Cooperative Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 Licking Valley Rural Electric Cooperative Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Certified Public Accountants and Advisors
401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589.1680 www.jnmcpa.com

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 Licking Valley Rural Electric Cooperative Corporation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Licking Valley Rural Electric Cooperative Corporation's ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 8, 2023, on our consideration of Licking Valley Rural Electric Cooperative Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Licking Valley Rural Electric 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 Licking Valley Rural Electric Cooperative Corporation's internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 8, 2023

LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION

BALANCE SHEETS
October 31, 2022 and 2021

ASSETS	2022	2021
Electric Plant, at original cost:		
In service	$ 84,170,024	$ 81,139,953
Under construction	1,123,939	1,459,671
	85,293,963	82,599,624
Less accumulated depreciation	34,620,133	33,303,999
	50,673,830	49,295,625
Investments in Associated Organizations	19,796,632	19,512,459
Current Assets:		
Cash and cash equivalents	649,617	1,359,721
Accounts receivable, less allowance for 2022 of $128,123 and 2021 of $149,714	4,010,444	3,315,120
Unbilled revenues	887,525	770,567
Other receivables	36,807	842,958
Material and supplies, at average cost	1,090,769	832,009
Other current assets	119,866	30,688
Total current assets	6,795,028	7,151,063
Deferred Debits	827,155	- -
Total assets	$ 78,092,645	$ 75,959,147
MEMBERS' EQUITIES AND LIABILITIES		
Members' Equities:		
Memberships	$ 225,900	$ 222,820
Patronage capital	39,769,808	38,680,360
Other equities	137,968	138,247
Accumulated other comprehensive (loss)	(1,520,562)	(498,418)
Total members' equities	38,613,114	38,543,009
Long-Term Liabilities:		
Long-term debt, less current portion	29,003,996	28,655,942
Capital lease obligation, less current portion	44,951	88,042
Accumulated postretirement benefits	4,403,375	3,332,385
Total long-term liabilities	33,452,322	32,076,369
Current Liabilities:		
Current portion of long-term debt	1,730,805	1,683,892
Current portion of capital lease obligation	43,091	41,309
Accounts payable	1,882,563	1,368,266
Consumer deposits	1,274,030	1,273,593
Accrued expenses	776,910	700,388
Total current liabilities	5,707,399	5,067,448
Consumer Advances for Construction	319,810	272,321
Total members' equities and liabilities	$ 78,092,645	$ 75,959,147

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, 2022 and 2021

	2022	2021
Operating Revenues		
Sales of electric energy	$ 33,456,303	$ 27,885,107
Other electric revenues	547,597	351,317
	34,003,900	28,236,424
Operating Expenses		
Cost of power	22,746,512	17,293,904
Distribution - operations	1,897,264	1,657,979
Distribution - maintenance	3,581,668	2,855,804
Consumer accounts	662,432	679,530
Customer services	67,320	58,420
Administrative and general	1,086,456	1,077,476
Depreciation, excluding $267,976 in 2022 and $255,445 in 2021 charged to clearing accounts	2,754,659	2,673,480
Taxes, other than income	37,424	36,000
Interest on long-term debt	425,545	241,792
Interest expense - other	12,658	11,919
Other deductions	8,558	7,881
Operating Margins	723,404	1,642,239
Nonoperating Margins		
Interest income	29,437	29,417
PPP loan forgiveness	- -	563,488
	29,437	592,905
Patronage Capital Credits		
Generation and transmission	238,103	652,388
Other associated organizations	98,504	72,679
	336,607	725,067
Net Margins	1,089,448	2,960,211
Other Comprehensive Income (Loss)		
Postretirement benefits amortization of net loss	44,640	44,640
Postretirement actuarial loss	(1,066,784)	- -
	(1,022,144)	44,640
Net Margins and Comprehensive Income	$ 67,304	$ 3,004,851

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, 2022 and 2021

	Memberships	Patronage Capital	Other Equities	Accumulated Comprehensive Income (Loss)	Total Members' Equities
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
Comprehensive income:					
Net margins		1,089,448			1,089,448
Postretirement benefit obligation					
Amortization				44,640	
Adjustments				(1,066,784)	(1,022,144)
Total comprehensive income					67,304
Net change in memberships	3,080				3,080
Other equities			(279)		(279)
Balance - October 31, 2022	$ 225,900	$ 39,769,808	$ 137,968	$ (1,520,562)	$ 38,613,114

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, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 1,089,448	$ 2,960,211
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Charged to expense	2,754,659	2,673,480
Charged to clearing accounts	267,976	255,445
Patronage capital credits assigned	(336,607)	(725,067)
Amortization of postretirement actuarial adjustment	44,640	44,640
Postretirement actuarial adjustment	(1,066,784)	- -
PPP loan forgiveness	- -	(563,488)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts and other receivables, net	110,827	(831,487)
Unbilled revenues	(116,958)	(114,607)
Material and supplies	(258,760)	(99,046)
Other current assets	(89,178)	821
Deferred debits	(827,155)	- -
Accounts payable	472,988	174,374
Consumer deposits	47,926	88,697
Accrued expenses	76,522	(190,035)
Accumulated postretirement benefits	1,070,990	7,869
Net cash provided by operating activities	3,240,534	3,681,807
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(3,972,021)	(3,053,069)
Plant removal costs	(558,952)	(366,254)
Salvage recovered from retired plant	130,133	111,520
Receipts from other investments, net	52,434	38,690
Net cash (used in) investing activities	(4,348,406)	(3,269,113)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in memberships	3,080	2,025
Increase (decrease) in other equities	(279)	4,549
Payments on long-term debt	(1,605,033)	(1,834,953)
Proceeds from long-term debt	2,000,000	1,691,000
Net cash provided by (used in) financing activities	397,768	(137,379)
Net increase (decrease) in cash and cash equivalents	(710,104)	275,315
Cash and cash equivalents, beginning of year	1,359,721	1,084,406
Cash and cash equivalents, end of year	$ 649,617	$ 1,359,721
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 365,849	$ 277,795

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

LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION

NOTES TO FINANCIAL 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:

Use of estimates

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

Electric plant

Electric plant is stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead cost including any construction period interest and taxes. There was no interest required to be capitalized for the years ended October 31, 2022 and 2021.

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, 2022 and 2021:

	2022	2021
Distribution plant	$ 78,017,525	$ 74,969,782
General plant	6,152,499	6,170,171
Total	$ 84,170,024	$ 81,139,953

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.

NOTES TO FINANCIAL STATEMENTS

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.

Deferred debits

Regulatory requirements authorized by the PSC allow the electric supplier to impose a fuel adjustment surcharge upon the Cooperative. In turn, the Cooperative is required to pass on the fuel surcharge to the consumer. Due to regulatory requirements in calculating the surcharge the Cooperative may experience an over or under recovery of the fuel adjustment surcharge.

Taxes

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 taxes from revenue when collected and expenses when paid and instead, record collection and payment of 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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Advertising

Licking Valley expenses advertising costs as incurred. Advertising expenses were $13,911 and $12,265 for the years ended October 31, 2022 and 2021, 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

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 its 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, 2022 and 2021. 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.

NOTES TO FINANCIAL STATEMENTS

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 March 8, 2023, the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

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, 2022 and 2021.

Disaggregation of revenue

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended October 31, 2022 and 2021, respectively:

	2022	2021
Residential	$ 26,918,925	$ 22,601,130
Large Commercial	5,085,621	4,081,928
Small Commercial	1,419,316	1,172,605
Other	32,441	29,444
	$ 33,456,303	$ 27,885,107

Contract assets and cost liabilities

Contract cost liabilities include consumer deposits. The balance in contract liabilities was $1,274,030, $1,273,593 and $1,285,957 as of October 31, 2022, 2021 and 2020, respectively. Contract assets include unbilled revenues. The balance in contract assets was $887,525, $770,567 and $655,960 as of October 31, 2022, 2021 and 2020, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 3. Investments in Associated Organizations

Investments in associated organizations consist of the following as of October 31, 2022 and 2021:

	2022	2021
East Kentucky, patronage capital	$ 18,103,553	$ 17,865,451
CFC, patronage capital	175,212	182,108
CFC, CTC's	635,771	636,347
Others	882,096	828,553
Total	$ 19,796,632	$ 19,512,459

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, 2022 and 2021 was 49.4% and 50.4% of total assets, respectively.

	2022	2021
Assigned to date	$ 40,569,171	$ 39,622,957
Assignable margins	705,334	1,125,138
Unassigned	19,739	19,739
Prior year losses	(1,524,436)	(2,087,474)
Total	$ 39,769,808	$ 38,680,360

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 $16,000,000 and $18,000,000 as of October 31, 2022 and 2021, respectively. These funds will be used for future plant additions.

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

Long-term debt consists of the following as of October 31, 2022 and 2021:

	2022	2021
RUS:		
2.88% to 5.38% fixed rate notes	$ 1,618,646	$ 1,817,421
0.13% to 2.13% variable rate notes	713,399	797,916
	2,332,045	2,615,337
FFB:		
6.48% fixed rate notes	959,184	1,015,472
0.04% to 4.44% variable rate notes	26,200,327	25,314,945
	27,159,511	26,330,417
CFC:		
1.66% to 1.93% fixed rate notes	1,243,245	1,394,080
	30,734,801	30,339,834
Less current portion	1,730,805	1,683,892
Long-term portion	$ 29,003,996	$ 28,655,942

As of October 31, 2022, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2023	$ 1,730,805
2024	1,749,470
2025	1,767,468
2026	1,679,915
2027	1,694,777
Thereafter	22,112,366
	$ 30,734,801

Note 6. Short-Term Notes Payable

As of October 31, 2022 and 2021, Licking Valley has a short-term line of credit of $2,000,000 available from CFC, with a variable interest rate of 5.00% as of October 31, 2022. There were no advances against this line of credit as of October 31, 2022 and 2021. The line of credit matures in September 2024.

NOTES TO FINANCIAL STATEMENTS

Note 7. Savings Plan

All eligible employees of Licking Valley participate in the NRECA Retirement and Security Program (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 2022 and 2021. Contributions to this plan were $277,063 for 2022 and $264,867 for 2021. 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 up to 100.00% of the cost of a policy, depending on length of service. For measurement purposes, an annual rate of increase of 6.00% starting in 2022, 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% and 5.00% in 2022 and 2021, respectively. The interest rate increased in 2022 from 3.50% to 4.50%. 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, 2022 and 2021 was as follows:

	2022	2021
Projected benefit obligation	$ (4,403,375)	$ (3,332,385)
Plan assets at fair value	- -	- -
Funded status (deficit)	$ (4,403,375)	$ (3,332,385)

The components of net periodic postretirement benefit cost for the years ended October 31, 2022 and 2021 are as follows:

	2022	2021
Benefit obligation - beginning of period	$ 3,332,385	$ 3,324,516
Actuarial adjustment	1,066,784	- -
Net periodic benefit cost:		
Service cost	31,126	58,097
Interest cost	193,394	166,423
Net periodic benefit cost:	224,520	224,520
Benefit payments to participants	(220,314)	(216,651)
Benefit obligation - end of period	$ 4,403,375	$ 3,332,385

NOTES TO FINANCIAL STATEMENTS

Note 8. Postretirement Benefits (Continued)

The components of net periodic postretirement benefit cost for the years ended October 31, 2022 and 2021 are as follows:

	2022	2021
Amounts recognized in the balance sheet consists of:		
Accumulated postretirement benefits	$ 4,403,375	$ 3,332,385
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	$ 4,650,000	
Net periodic benefit cost	$ 292,000	

Projected retiree benefit payments for the next five years are expected to be as follows: 2023 - $234,900; 2024 - $230,900; 2025 - $193,400; 2026 - $174,800; 2027 - $134,400.

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:

2023	$	45,988
2024		45,988
		91,976
Less amounts representing interest		(3,934)
Present value of minimum lease payments		88,042
Less current portion		(43,091)
Long-term portion	$	44,951

The cost of equipment under capital lease was $283,414 with related accumulated amortization of $226,410 as of October 31, 2022. The cost of equipment under capital lease was $283,414 with related accumulated amortization of $181,075 as of October 31, 2021.

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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, 2022 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 8, 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been 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 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 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
March 8, 2023

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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, 2022, and the related statements of revenue and comprehensive income, changes in members' equities, and changes in cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 8, 2023. In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 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;

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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 debits are as follows:

Fuel adjustment surcharge	$ 827,155

The deferred credits are as follows:

Consumer advances for construction	$ 319,810

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 8, 2023