



*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, 2023, and have issued our report thereon dated February 5, 2024. 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 6, 2023. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Matters**

#### ***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. As described in Note 1, the Cooperative changed accounting policies related to leases by adopting FASB Accounting Standards Codification 842, *Leases*. 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 5)
- Long-Term Debt (Note 6)
- Postretirement Benefits (Note 9)

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

### ***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 February 5, 2024.

### ***Management Consultations with Other Independent Accountants***

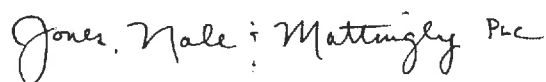
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Cooperative's financial statements or a determination of 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,



Louisville, Kentucky  
February 5, 2024

**LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION**

**AUDIT DIFFERENCE SUMMARY**

**October 31, 2023**

Description of Audit Difference	Financial Statements Effect - Amount of Over (Under) Statement of:			
	Total Assets	Total Liabilities	Equity	Net Income
Environmental Surcharge	\$       --	\$ (46,075)	\$ 46,075	\$ 46,075
	\$       --	\$ (46,075)	\$ 46,075	\$ 46,075
Net Unadjusted Audit Differences:				
Current year	\$       --	\$ (46,075)	\$ 46,075	\$ 46,075
Prior year	(46,773)	--	(46,773)	(46,773)
Net Audit Differences	\$ (46,773)	\$ (46,075)	\$ (698)	\$ (698)

**LICKING VALLEY RURAL ELECTRIC  
COOPERATIVE CORPORATION  
KENTUCKY 56**

**FINANCIAL REPORT**

**October 31, 2023**

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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

### **Opinion**

We have audited the accompanying financial statements of Licking Valley Rural Electric Cooperative Corporation, which comprise the balance sheets as of October 31, 2023 and 2022, and the related statements of revenue and comprehensive income, changes in members' equities, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Licking Valley Rural Electric Cooperative Corporation as of October 31, 2023 and 2022, 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.

## **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 February 5, 2024, 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* PC

Louisville, Kentucky  
February 5, 2024



**LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION**

**BALANCE SHEETS**  
**October 31, 2023 and 2022**

ASSETS	<u>2023</u>	<u>2022</u>
Electric Plant, at original cost:		
In service	\$ 88,010,518	\$ 84,170,024
Under construction	910,127	1,123,939
	<u>88,920,645</u>	<u>85,293,963</u>
Less accumulated depreciation	36,501,896	34,620,133
	<u>52,418,749</u>	<u>50,673,830</u>
Investments in Associated Organizations	<u>19,916,692</u>	<u>19,796,632</u>
Current Assets:		
Cash and cash equivalents	1,969,406	649,617
Accounts receivable, less allowance for 2023 of \$129,677 and 2022 of \$128,123	3,389,742	3,284,287
Unbilled revenues	1,864,011	1,613,682
Other receivables	88,010	36,807
Material and supplies, at average cost	1,082,157	1,090,769
Other current assets	43,621	119,866
Total current assets	<u>8,436,947</u>	<u>6,795,028</u>
Deferred Debits	<u>478,340</u>	<u>827,155</u>
Total assets	<u>\$ 81,250,728</u>	<u>\$ 78,092,645</u>
<b>MEMBERS' EQUITIES AND LIABILITIES</b>		
Members' Equities:		
Memberships	\$ 226,880	\$ 225,900
Patronage capital	39,233,577	39,769,808
Other equities	137,968	137,968
Accumulated other comprehensive (loss)	(1,447,638)	(1,520,562)
Total members' equities	<u>38,150,787</u>	<u>38,613,114</u>
Long-Term Liabilities:		
Long-term debt, less current portion	31,054,812	29,003,996
Capital lease obligation, less current portion	--	44,951
Accumulated postretirement benefits	4,478,441	4,403,375
Total long-term liabilities	<u>35,533,253</u>	<u>33,452,322</u>
Current Liabilities:		
Current portion of long-term debt	1,417,244	1,730,805
Current portion of capital lease obligation	--	43,091
Current portion of finance lease obligation	44,951	--
Accounts payable	2,185,893	1,882,563
Consumer deposits	2,404,391	1,274,030
Accrued expenses	1,167,882	776,910
Total current liabilities	<u>7,220,361</u>	<u>5,707,399</u>
Consumer Advances for Construction	<u>346,327</u>	<u>319,810</u>
Total members' equities and liabilities	<u>\$ 81,250,728</u>	<u>\$ 78,092,645</u>

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, 2023 and 2022

	2023	2022
Operating Revenues		
Sales of electric energy	\$ 32,541,373	\$ 33,456,303
Other electric revenues	566,341	547,597
	33,107,714	34,003,900
Operating Expenses		
Cost of power	22,364,298	22,746,512
Distribution - operations	1,916,267	1,897,264
Distribution - maintenance	3,994,715	3,581,668
Consumer accounts	765,661	662,432
Customer services	42,450	67,320
Administrative and general	1,144,442	1,086,456
Depreciation, excluding \$321,300 in 2023 and \$267,976 in 2022 charged to clearing accounts	2,862,774	2,754,659
Taxes, other than income	37,583	37,424
Interest on long-term debt	1,463,863	425,545
Interest expense - other	64,147	12,658
Other deductions	5,335	8,558
	(1,553,821)	723,404
Operating Margins (Deficit)		
Nonoperating Margins		
Interest income	39,931	29,437
Patronage Capital Credits		
Generation and transmission	820,307	238,103
Other associated organizations	157,352	98,504
	977,659	336,607
Net Margins (Deficit)	(536,231)	1,089,448
Other Comprehensive Income (Loss)		
Postretirement benefits amortization of net loss	72,924	44,640
Postretirement benefits actuarial loss	--	(1,066,784)
	72,924	(1,022,144)
Net Margins (Deficit) and Comprehensive Income (Loss)	\$ (463,307)	\$ 67,304

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, 2023 and 2022**

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Other Equities</u>	<u>Accumulated Comprehensive Income (Loss)</u>	<u>Total Members' Equities</u>
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				<u>67,304</u>	<u>67,304</u>
Net change in memberships	3,080				3,080
Other equities			(279)		(279)
					<hr/>
Balance - October 31, 2022	225,900	39,769,808	137,968	(1,520,562)	38,613,114
Comprehensive income (loss):					
Net (deficit)		(536,231)			(536,231)
Postretirement benefit obligation					
Amortization				72,924	72,924
Total comprehensive (loss)				<u>(463,307)</u>	<u>(463,307)</u>
Net change in memberships	980				980
					<hr/>
Balance - October 31, 2023	<u>\$ 226,880</u>	<u>\$ 39,233,577</u>	<u>\$ 137,968</u>	<u>\$ (1,447,638)</u>	<u>\$ 38,150,787</u>

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, 2023 and 2022**

	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net margins (deficit)	\$ (536,231)	\$ 1,089,448
Adjustments to reconcile net margins (deficit) to net cash provided by operating activities:		
Depreciation:		
Charged to expense	2,862,774	2,754,659
Charged to clearing accounts	321,300	267,976
Amortization of ROU asset	45,335	--
Patronage capital credits assigned	(977,659)	(336,607)
Amortization of postretirement actuarial adjustment	72,924	44,640
Postretirement actuarial adjustment	--	(1,066,784)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts and other receivables, net	(156,658)	836,984
Unbilled revenues	(250,329)	(843,115)
Material and supplies	8,612	(258,760)
Other current assets	76,245	(89,178)
Deferred debits	348,815	(827,155)
Accounts payable	303,330	472,988
Consumer deposits	1,156,878	47,926
Accrued expenses	390,972	76,522
Accumulated postretirement benefits	75,066	1,070,990
Net cash provided by operating activities	3,741,374	3,240,534
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Plant additions	(4,533,413)	(3,972,021)
Plant removal costs	(604,056)	(558,952)
Salvage recovered from retired plant	163,141	130,133
Receipts from other investments, net	857,599	52,434
Net cash (used in) investing activities	(4,116,729)	(4,348,406)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in memberships	980	3,080
(Decrease) in other equities	--	(279)
Principal payments on finance lease obligations	(43,091)	(45,988)
Payments on long-term debt	(1,262,745)	(1,559,045)
Proceeds from long-term debt	3,000,000	2,000,000
Net cash provided by financing activities	1,695,144	397,768
 Net increase (decrease) in cash and cash equivalents	1,319,789	(710,104)
Cash and cash equivalents, beginning of year	649,617	1,359,721
Cash and cash equivalents, end of year	\$ 1,969,406	\$ 649,617
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash payments for interest	\$ 1,426,265	\$ 365,849

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

# LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### Note 1. 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, 2023 and 2022.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to electric plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation. Electric plant consists of the following as of October 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Distribution plant	\$ 81,400,194	\$ 78,017,525
General plant	<u>6,610,324</u>	<u>6,152,499</u>
Total	<u>\$ 88,010,518</u>	<u>\$ 84,170,024</u>

#### 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 finance 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. 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.

#### Leases

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

Licking Valley adopted the standard effective November 1, 2022, and recognized and measured leases existing at, or entered into after November 1, 2022 (the beginning of the period of adoption), with certain practical expedients available. Lease disclosures for the year ended October 31, 2022 are made under prior lease guidance in FASB ASC 840.

Licking Valley elected the available practical expedients to account for existing capital leases as finance leases, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, Licking Valley recognized on November 1, 2022, a lease liability as the carrying amount of the capital lease obligations on October 31, 2022, of \$88,042 and a right-of-use asset and the carrying amount of the capital lease asset of \$57,004.

## NOTES TO FINANCIAL STATEMENTS

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

#### Leases (continued)

This standard did not have a material impact on the financial statements. The accounting for finance leases remained substantially unchanged.

Licking Valley leases vehicles and determines if an arrangement is a lease at inception. Finance lease right-of-use assets are included in electric plant on the balance sheets. Finance lease obligations are included in current liabilities and long-term liabilities on the balance sheets.

ROU assets represent Licking Valley's right to use an underlying asset for the lease term and lease liabilities represent Licking Valley's obligation to make lease payments arising from the lease. Finance lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, Licking Valley uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The finance lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Licking Valley's lease agreement does not contain any material residual value guarantees or material restrictive covenants.

#### 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 six percent of gross sales from non-residential consumers, a three percent school tax from certain counties on most gross sales, and franchise fees in certain cities. 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. Significant Accounting Policies (Continued)

#### Advertising

Licking Valley expenses advertising costs as incurred. Advertising expenses were \$11,640 and \$13,911 for the years ended October 31, 2023 and 2022, respectively.

#### Comprehensive income (loss)

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

#### Risk management

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, 2023 and 2022. 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 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, 2023 and 2022.

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. 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. A118-1-000 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 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 the ASU on the financial statements.

#### Subsequent events

Management has evaluated subsequent events through February 5, 2024, the date the financial statements were available to be issued.

#### Reclassification

Certain amounts in the 2022 financial statements have been reclassified to conform to the 2023 presentation.

## 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, 2023 and 2022.

#### *Disaggregation of revenue*

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended October 31, 2023 and 2022, respectively:

	2023	2022
Residential	\$ 25,333,509	\$ 26,918,925
Large Commercial	5,826,957	5,085,621
Small Commercial	1,350,246	1,419,316
Other	30,661	32,441
	<u>\$ 32,541,373</u>	<u>\$ 33,456,303</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Revenue Recognition (Continued)

#### *Contract assets and cost liabilities*

Contract assets include accounts receivable net of allowance, unbilled revenues and fuel adjustment surcharges. Contract liabilities include consumer deposits. Contract assets and liabilities were as follows as of October 31:

	2023	2022	2021
<b>Contract assets</b>			
Accounts receivable, net	\$ 3,389,742	\$ 3,284,287	\$ 2,684,657
Unbilled revenues	1,864,011	1,613,682	1,401,030
Fuel adjustment surcharges	478,340	827,155	-
	\$ 5,732,093	\$ 5,725,124	\$ 4,085,687
<b>Contract liabilities</b>			
Consumer deposits	\$ 2,404,391	\$ 1,274,030	\$ 1,273,593

### Note 3. Investments in Associated Organizations

Investments in associated organizations consist of the following as of October 31, 2023 and 2022:

	2023	2022
East Kentucky, patronage capital	\$ 18,122,711	\$ 18,103,553
CFC, patronage capital	167,265	175,212
CFC, CTC's	635,175	635,771
Others	991,541	882,096
Total	\$ 19,916,692	\$ 19,796,632

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.

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Leases

Licking Valley has a finance lease for a vehicle. The lease has a remaining lease term of 1 year. As of October 31, 2023, the asset recorded under a finance lease was \$283,414 and accumulated amortization associated with the finance lease was \$271,745. The ROU asset is included with electric plant on the balance sheets.

The components of leases expense were as follows for the year ended October 31:

	2023
Finance lease cost	
Right-of-use asset amortization	\$ 45,335
Interest expense	2,897
Total lease cost, net	\$ 48,232

Other information related to leases was as follows for the year ended October 31:

	2023
Supplemental cash flow information	
Cash paid for amounts included in the measurement of lease liability	
Operating cash flows from finance lease	\$ 2,897
Financing cash flows from finance lease	\$ 43,091
Right-of-use asset obtained in exchange for lease obligation	
Finance lease	\$ 57,004
Weighted average remaining lease term	
Finance lease	1 year
Weighted average discount rate	
Finance lease	4.23%

Future undiscounted lease payments for the finance lease with initial terms of one year or more as October 31, 2023, were as follows:

2024	\$ 45,988
Less imputed interest	(1,037)
Net lease liability	\$ 44,951

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Leases (Continued)

As of October 31, 2022, Licking Valley's finance (capital) lease was accounted for under ASC 840, Leases. Licking Valley leased one of its vehicles under a capital lease. The economic substance of the lease is that Licking Valley is financing the acquisition of the asset through the lease, and accordingly, it is recorded in Licking Valley's assets and liabilities. The following is an analysis of the leased asset included in electric plant:

	2022
Vehicle	\$ 283,414
Less accumulated amortization	(226,410)
Total	\$ 57,004

### Note 5. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30.0% 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, 2023 and 2022 was 47.0% and 49.4% of total assets, respectively.

	2023	2022
Assigned to date	\$ 42,404,822	\$ 40,569,171
Assignable margins (deficit)	(1,695,984)	705,334
Unassigned	19,739	19,739
Prior year losses	(1,495,000)	(1,524,436)
Total	\$ 39,233,577	\$ 39,769,808

### Note 6. Long-Term Debt

All assets, except vehicles, are pledged as collateral on the long-term debt to RUS, Federal Financing Bank (FFB), and CFC under a joint mortgage agreement. The long-term debt is due in quarterly and monthly installments of varying amounts through 2053. RUS assesses 12.5 basis points to administer the FFB loans. The interest rates on notes payable to CFC at 1.66% are subject to change every seven years. Licking Valley had unadvanced loan funds available from FFB in the amount of \$13,000,000 and \$16,000,000 as of October 31, 2023 and 2022, respectively. These funds will be used for future plant additions.

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Long-Term Debt (Continued)

Long-term debt consists of the following as of October 31, 2023 and 2022:

	2023	2022
RUS:		
2.88% to 5.38% fixed rate notes	\$ 1,413,561	\$ 1,618,646
2.13% to 2.75% variable rate notes	632,627	713,399
	2,046,188	2,332,045
FFB:		
6.48% fixed rate notes	899,484	959,184
5.46% to 5.50% variable rate notes	28,436,574	26,200,327
	29,336,058	27,159,511
CFC:		
1.66% to 1.93% fixed rate notes	1,089,810	1,243,245
	32,472,056	30,734,801
Less current portion	1,417,244	1,730,805
Long-term portion	\$ 31,054,812	\$ 29,003,996

As of October 31, 2023, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2024	\$ 1,417,244
2025	1,470,963
2026	1,455,241
2027	1,520,143
2028	1,591,578
Thereafter	25,016,887
	\$ 32,472,056

### Note 7. Short-Term Notes Payable

Licking Valley had a short-term line of credit of \$2,000,000 available from CFC with variable interest rates of 7.25% and 5.00% as of October 31, 2023, and 2022, respectively. There were no advances against this line of credit as of October 31, 2023 and 2022. The line of credit matures in September 2024.

### Note 8. Savings Plan

All eligible employees of Licking Valley participate in the NRECA 401(k) Savings Plan, 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 contributions for each participant equal to 11.0% of participants' base compensation with employees required to make a minimum contribution of 4% of base wages. Licking Valley contributed \$295,198 in 2023 and \$277,063 in 2022. Participants vest immediately in their contributions and the contributions of Licking Valley. There have been no significant changes that affect the comparability of 2023 and 2022.

## NOTES TO FINANCIAL STATEMENTS

### Note 9. 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%, 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%. There have been no significant changes that affect the comparability of 2023 and 2022. 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, 2023 and 2022 was as follows:

	<u>2023</u>	<u>2022</u>
Projected benefit obligation	\$ (4,478,441)	\$ (4,403,375)
Plan assets at fair value	--	--
Funded status (deficit)	<u>\$ (4,478,441)</u>	<u>\$ (4,403,375)</u>

The components of net periodic postretirement benefit cost for the years ended October 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Benefit obligation - beginning of period	\$ 4,403,375	\$ 3,332,385
Actuarial adjustment	--	1,066,784
Net periodic benefit cost:		
Service cost	70,359	31,126
Interest cost	222,045	193,394
Net periodic benefit cost:	<u>292,404</u>	<u>224,520</u>
Benefit payments to participants	<u>(217,338)</u>	<u>(220,314)</u>
Benefit obligation - end of period	<u>\$ 4,478,441</u>	<u>\$ 4,403,375</u>

The components of net periodic postretirement benefit cost for the years ended October 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Amounts recognized in the balance sheet consists of:		
Accumulated postretirement benefits	<u>\$ 4,478,441</u>	<u>\$ 4,403,375</u>
Amounts included in other comprehensive income:		
Postretirement benefits amortization of net loss	<u>\$ 72,924</u>	<u>\$ 44,640</u>
Postretirement benefits actuarial loss	<u>\$ --</u>	<u>\$ (1,066,784)</u>
Effect of 1.00% increase in the health care trend:		
Postemployment benefit obligation	\$ 4,725,000	
Net periodic benefit cost	\$ 308,000	

## NOTES TO FINANCIAL STATEMENTS

### Note 9. Postretirement Benefits (Continued)

Projected retiree benefit payments for the next five years are expected to be as follows: 2024 - \$230,900; 2025 - \$193,400; 2026 - \$174,800; 2027 - \$134,400; 2028 - \$100,900.

### Note 10. 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 11. 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 12. 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.





*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, 2023, 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 February 5, 2024. In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2024, 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;
- 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	<u>\$ 478,340</u>
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The deferred credits are as follows:

Consumer advances for construction	<u>\$ 346,327</u>
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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 P.C.*

Louisville, Kentucky  
February 5, 2024



*Jones, Nale & Mattingly PLC*

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

To the Board of Directors  
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, 2023 and the related statements of revenue and comprehensive income, changes in members' equities and cash flows for the year then ended, and related notes to the financial statements, and have issued our report thereon dated February 5, 2024.

**Report on Internal Control over Financial Reporting**

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

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

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

## Report on Compliance and Other Matters

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

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Jones, Nale & Mattingly PLC*

Louisville, Kentucky  
February 5, 2024