LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION
KENTUCKY 56

FINANCIAL REPORT

October 31, 2024

C O N T E N T S

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, 2024 and 2023, 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, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 10, 2025, 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
February 10, 2025

LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION

BALANCE SHEETS
October 31, 2024 and 2023

ASSETS	2024	2023
Electric Plant, at original cost:		
In service	$ 90,835,448	$ 88,010,518
Under construction	1,136,459	910,127
	91,971,907	88,920,645
Less accumulated depreciation	38,352,191	36,501,896
	53,619,716	52,418,749
Investments in Associated Organizations	20,437,961	19,916,692
Current Assets:		
Cash and cash equivalents	5,175,507	1,969,406
Accounts receivable, less allowance for credit losses in 2024 of $155,949 and 2023 of $129,677	3,278,003	3,389,742
Unbilled revenues	1,865,516	1,864,011
Other receivables	21,646	88,010
Material and supplies, at average cost	1,110,679	1,082,157
Other current assets	44,627	43,621
Total current assets	11,495,978	8,436,947
Deferred Debits	299,179	478,340
Total assets	$ 85,852,834	$ 81,250,728

MEMBERS' EQUITIES AND LIABILITIES	2024	2023
Members' Equities:		
Memberships	$ 230,450	$ 226,880
Patronage capital	38,089,307	39,233,577
Other equities	137,968	137,968
Accumulated other comprehensive (loss)	(1,374,714)	(1,447,638)
Total members' equities	37,083,011	38,150,787
Long-Term Liabilities:		
Long-term debt, less current portion	36,057,637	31,054,812
Accumulated postretirement benefits	4,583,235	4,478,441
Total long-term liabilities	40,640,872	35,533,253
Current Liabilities:		
Current portion of long-term debt	1,688,316	1,417,244
Current portion of finance lease obligation	- -	44,951
Accounts payable	1,931,512	2,185,893
Consumer deposits	2,291,829	2,404,391
Accrued expenses	1,397,307	1,167,882
Total current liabilities	7,308,964	7,220,361
Deferred Credits	819,987	346,327
Total members' equities and liabilities	$ 85,852,834	$ 81,250,728

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, 2024 and 2023

	2024	2023
Operating Revenues		
Sales of electric energy	$ 37,968,688	$ 32,541,373
Other electric revenues	603,414	566,341
	38,572,102	33,107,714
Operating Expenses		
Cost of power	26,926,034	22,364,298
Distribution - operations	2,332,390	1,916,267
Distribution - maintenance	4,064,210	3,994,715
Consumer accounts	735,731	765,661
Customer services	36,896	42,450
Administrative and general	1,360,979	1,144,442
Depreciation, excluding $293,633 in 2024 and $321,300 in 2023 charged to clearing accounts	2,982,447	2,862,774
Taxes, other than income	36,000	37,583
Interest on long-term debt	1,801,612	1,463,863
Interest expense - other	136,901	64,147
Other deductions	7,791	5,335
	40,420,991	34,661,535
Operating Deficits	(1,848,889)	(1,553,821)
Nonoperating Margins		
Interest income	118,483	39,931
Patronage Capital Credits		
Generation and transmission	402,409	820,307
Other associated organizations	183,727	157,352
	586,136	977,659
Net Deficits	(1,144,270)	(536,231)
Other Comprehensive Income		
Postretirement benefits amortization of net loss	72,924	72,924
Net Deficits and Comprehensive Income	$ (1,071,346)	$ (463,307)

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, 2024 and 2023

	Memberships	Patronage Capital	Other Equities	Accumulated Comprehensive Income (Loss)	Total Members' Equities
Balance - October 31, 2022	$ 225,900	$ 39,769,808	$ 137,968	$ (1,520,562)	$ 38,613,114
Comprehensive income:					
Net (deficit)		(536,231)			(536,231)
Postretirement benefit obligation					
Amortization				72,924	72,924
Total comprehensive (loss)					(463,307)
Net change in memberships	980				980
Balance - October 31, 2023	226,880	39,233,577	137,968	(1,447,638)	38,150,787
Comprehensive income (loss):					
Net (deficit)		(1,144,270)			(1,144,270)
Postretirement benefit obligation					
Amortization				72,924	72,924
Total comprehensive (loss)					(1,071,346)
Net change in memberships	3,570				3,570
Balance - October 31, 2024	$ 230,450	$ 38,089,307	$ 137,968	$ (1,374,714)	$ 37,083,011

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, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (deficits)	$ (1,144,270)	$ (536,231)
Adjustments to reconcile net (deficits) to net cash provided by operating activities:		
Depreciation:		
Charged to expense	2,982,447	2,862,774
Charged to clearing accounts	293,633	321,300
Amortization of ROU asset	11,669	45,335
Patronage capital credits assigned	(586,136)	(977,659)
Amortization of postretirement actuarial adjustment	72,924	72,924
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts and other receivables, net	178,103	(156,658)
Unbilled revenues	(1,505)	(250,329)
Material and supplies	(28,522)	8,612
Other current assets	(1,006)	76,245
Deferred debits	179,161	348,815
Accounts payable	(254,381)	303,330
Consumer deposits	(112,562)	1,130,361
Accrued expenses	229,425	390,972
Accumulated postretirement benefits	104,794	75,066
Deferred credits	473,660	26,517
Net cash provided by operating activities	2,397,434	3,741,374
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(4,025,516)	(4,533,413)
Plant removal costs	(575,452)	(604,056)
Salvage recovered from retired plant	112,252	163,141
Receipts from other investments, net	64,867	857,599
Net cash (used in) investing activities	(4,423,849)	(4,116,729)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in memberships	3,570	980
Principal payments on finance lease obligations	(44,951)	(43,091)
Payments on long-term debt	(1,326,103)	(1,262,745)
Proceeds from long-term debt	6,600,000	3,000,000
Net cash provided by financing activities	5,232,516	1,695,144
Net increase in cash and cash equivalents	3,206,101	1,319,789
Cash and cash equivalents, beginning of year	1,969,406	649,617
Cash and cash equivalents, end of year	$ 5,175,507	$ 1,969,406
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 1,887,390	$ 1,426,265

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

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, 2024 and 2023.

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, 2024 and 2023:

	2024	2023
Distribution plant	$ 84,118,200	$ 81,400,194
General plant	6,717,248	6,610,324
Total	$ 90,835,448	$ 88,010,518

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 and allowance for credit losses

Licking Valley operates in the electric services distribution industry, and its accounts receivable are primarily derived from the sales of electric energy. Accounts receivable are stated at net realizable value and are usually collected within thirty days. The balance in accounts receivable as of October 31, 2024, 2023 and 2022 was $3,278,003, $3,389,742, and $3,284,287.

Licking Valley uses the allowance method to account for uncollectible accounts receivable. Management maintains an allowance for potential credit losses based on its assessment of the current status of the customer accounts using a pooled basis approach where similar characteristics exist (See Note 3). The allowance estimate is derived from a review of Licking Valley's historical losses based on the aging of receivables. The estimate is adjusted for management's assessment of current conditions, reasonable, and supportable forecasts regarding future events, and any other factors deemed relevant by Licking Valley.

Licking Valley writes off receivables when there is information that indicates the debtor is facing significant financial difficulty and there is no possibility of recovery. Subsequent recoveries are credited to the allowance for credit losses.

Materials and supplies

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

Leases

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.

Right-of-use 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. When a lease does 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 lease terms may include options to extend or terminate the lease when it is reasonably certain the option will be exercised.

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

Note 1. Significant Accounting Policies (Continued)

Deferred debits and credits

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

Similarly, the PSC has an environmental cost recovery mechanism that allows the electric supplier to recover certain costs incurred in complying with the Federal Clean Air Act as amended and those federal, state, and local environmental requirements which apply to coal combustion wastes and byproducts from facilities utilized for the production of energy from coal. In turn, Licking Valley is required to pass on this environmental cost recovery mechanism to the consumer and may experience an over or under recovery of the environmental 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 2068. The rates charged by East Kentucky are subject to approval of the PSC. The cost of purchased power is recorded monthly during the period in which the energy is consumed, based upon billings from East Kentucky. The power bill includes a fuel adjustment and environmental surcharge component that is passed on to Licking Valley's customers using a methodology prescribed by the PSC.

Advertising

Licking Valley expenses advertising costs as incurred. Advertising expenses were $12,778 and $11,640 for the years ended October 31, 2024 and 2023, 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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

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.

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.

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.

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, 2024 and 2023. 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, 2024 and 2023.

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. 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.

Adoption of accounting pronouncement

In June 2016, the FASB issued guidance (FASB ASC 326) which significantly changed how entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net margins. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing Licking Valley's exposure to credit risk and the measurement of credit losses. Licking Valley's financial assets subject to the guidance include accounts receivable.

Licking Valley adopted the standard effective November 1, 2023. The impact of the adoption was not material to the financial statements and primarily resulted in new and enhanced disclosures.

Subsequent events

Management has evaluated subsequent events through February 10, 2025, the date the financial statements were available to be issued.

Note 2. Revenue Recognition

Revenue from contracts

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

Note 2. Revenue Recognition (Continued)

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, 2024 and 2023.

Disaggregation of revenue

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended October 31, 2024 and 2023, respectively:

	2024	2023
Residential	$ 26,005,153	$ 25,333,509
Large Commercial	10,620,867	5,826,957
Small Commercial	1,312,945	1,350,246
Other	29,723	30,661
	$ 37,968,688	$ 32,541,373

Contract assets and cost liabilities

Contract assets include unbilled revenues and fuel adjustment surcharges. Contract liabilities include consumer deposits and environmental surcharges. Contract assets and liabilities were as follows as of October 31:

	2024	2023	2022
Contract assets	$ 2,098,576	$ 2,342,351	$ 2,440,837
Contract liabilities	$ 2,735,826	$ 2,404,391	$ 1,274,030

NOTES TO FINANCIAL STATEMENTS

Note 3. Allowance for Credit Losses

The allowance for credit losses for accounts receivable and the related activity are as follows as of October 31, 2024 and 2023:

	2024	2023
Beginning balance	$ 129,677	$ 128,123
Provision for credit losses	60,000	52,000
Write-offs	(59,182)	(82,509)
Recoveries	25,454	32,063
Ending balance	$ 155,949	$ 129,677

Note 4. Investments in Associated Organizations

Investments in associated organizations consist of the following as of October 31, 2024 and 2023:

	2024	2023
East Kentucky, patronage capital	$ 18,525,120	$ 18,122,711
CFC, patronage capital	157,875	167,265
CFC, CTC's	634,567	635,175
Others	1,120,399	991,541
Total	$ 20,437,961	$ 19,916,692

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 5. Leases

Licking Valley had a finance lease for a vehicle. The lease was paid in full during the current 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 the lease expense were as follows for the year ended October 31:

	2024	2023
Finance lease cost		
Right-of-use asset amortization	$ 11,669	$ 45,335
Interest expense	1,037	2,897
Total lease cost, net	$ 12,706	$ 48,232

Note 5. Leases (Continued)

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

	2024	2023
Supplemental cash flow information		
Cash paid for amounts included in the measurement of the lease liability		
Operating cash flows from the finance lease	$ 1,037	$ 2,897
Financing cash flows from the finance lease	$ 44,951	$ 43,091
Right-of-use asset obtained in exchange for the lease obligation		
Finance lease	$ - -	$ 57,004
Weighted average remaining lease term		
Finance lease	- -	1 year
Weighted average discount rate		
Finance lease	- -	4.23%

Note 6. 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, 2024 and 2023 was 43.2% and 47.0% of total assets, respectively.

	2024	2023
Assigned to date	$ 41,238,137	$ 42,404,822
Assignable (deficits)	(1,724,929)	(1,695,984)
Unassigned	19,739	19,739
Prior year losses	(1,443,640)	(1,495,000)
Total	$ 38,089,307	$ 39,233,577

NOTES TO FINANCIAL STATEMENTS

Note 7. 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 5.95% are subject to change every seven years. Licking Valley had unadvanced loan funds available from FFB in the amount of $6,400,000 and $13,000,000 as of October 31, 2024 and 2023, respectively. These funds will be used for future plant additions.

Long-term debt consists of the following as of October 31, 2024 and 2023:

	2024	2023
RUS:		
2.88% to 5.38% fixed rate notes	$ 1,172,117	$ 1,413,561
3.25% variable rate notes	544,998	632,627
	1,717,115	2,046,188
FFB:		
6.48% fixed rate note	835,210	899,484
4.50% to 5.29% variable rate notes	34,251,217	28,436,574
	35,086,427	29,336,058
CFC:		
1.93% to 5.95% fixed rate notes	942,411	1,089,810
	37,745,953	32,472,056
Less current portion	1,688,316	1,417,244
Long-term portion	$ 36,057,637	$ 31,054,812

As of October 31, 2024, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2025	$ 1,688,316
2026	1,696,868
2027	1,773,554
2028	1,857,545
2029	1,871,409
Thereafter	28,858,261
	$ 37,745,953

Note 8. Short-Term Notes Payable

Licking Valley had a short-term line of credit of $2,000,000 available from CFC with a variable interest rate of 7.25% as of October 31, 2024, and 2023. There were no advances against this line of credit as of October 31, 2024 and 2023. The line of credit matures in August 2026.

NOTES TO FINANCIAL STATEMENTS

Note 9. 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 $318,143 in 2024 and $295,198 in 2023. Participants vest immediately in their contributions and the contributions of Licking Valley. There have been no significant changes that affect the comparability of 2024 and 2023.

Note 10. 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 2024 and 2023. 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, 2024 and 2023 was as follows:

	2024	2023
Projected benefit obligation	$ (4,583,235)	$ (4,478,441)
Plan assets at fair value	- -	- -
Funded status (deficit)	$ (4,583,235)	$ (4,478,441)

The components of net periodic postretirement benefit cost for the years ended October 31, 2024 and 2023 are as follows:

	2024	2023
Benefit obligation - beginning of period	$ 4,478,441	4,403,375
Net periodic benefit cost:		
Service cost	65,862	70,359
Interest cost	226,542	222,045
Net periodic benefit cost:	292,404	292,404
Benefit payments to participants	(187,610)	(217,338)
Benefit obligation - end of period	$ 4,583,235	$ 4,478,441

NOTES TO FINANCIAL STATEMENTS

Note 10. Postretirement Benefits (Continued)

The components of net periodic postretirement benefit cost for the years ended October 31, 2024 and 2023 are as follows:

		2024		2023
Amounts recognized in the balance sheets consists of:				
Unrecognized actuarial loss	$	(1,374,714)	$	(1,447,638)
Accumulated postretirement benefits	$	4,583,235	$	4,478,441
Amounts included in other comprehensive income:				
Amortization of actuarial loss	$	72,924	$	72,924
Effect of 1.00% increase in the health care trend:				
Postemployment benefit obligation	$	4,835,000		
Net periodic benefit cost	$	308,000		

Projected retiree benefit payments for the next five years are expected to be as follows: 2025 - $194,400; 2026 - $174,800; 2027 - $134,400; 2028 - $100,900; 2029 - $104,700.

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. 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.

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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 as of and for the years ended October 31, 2024 and 2023, and our report thereon dated February 10, 2025, which expressed an unmodified opinion on those financial statements, appears on pages 1 - 3. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of deferred debits and deferred credits shown on page 20 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
February 10, 2025

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

LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION

SCHEDULE OF DEFERRED DEBITS AND DEFERRED CREDITS
October 31, 2024 and 2023

	2024	2023	RUS Approval
Deferred Debits			
Rate case expenses	$ 66,119	$ - -	§1767, account #186
Fuel adjustment surcharge	233,060	478,340	§1767, account #186
Total deferred debits	$ 299,179	$ 478,340	
Deferred Credits			
Consumer advances for construction	$ 375,990	$ 346,327	§1767, account #252
Environmental surcharge	443,997	- -	§1767, account #253
Total deferred credits	$ 819,987	$ 346,327	

JNM

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, 2024 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 10, 2025.

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.

Certified Public Accountants and Advisors

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Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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 10, 2025