

**MEADE COUNTY RURAL ELECTRIC
COOPERATIVE CORPORATION
KENTUCKY 18**

FINANCIAL REPORT

October 31, 2023

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Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Meade County Rural Electric Cooperative Corporation
Brandenburg, Kentucky

Opinion

We have audited the accompanying financial statements of Meade County 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 Meade County 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 Meade County 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 Meade County 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 Meade County 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 Meade County 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 January 22, 2024, on our consideration of Meade County Rural Electric Cooperative Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Meade County 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 Meade County Rural Electric Cooperative Corporation's internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
January 22, 2024

MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

BALANCE SHEETS
October 31, 2023 and 2022

ASSETS	2023	2022
Electric plant, at original cost:		
In service	\$ 145,180,593	\$ 141,291,262
Under construction	2,879,595	2,185,832
	148,060,188	143,477,094
Less accumulated depreciation	54,032,458	52,376,343
	94,027,730	91,100,751
Investments in associated organizations	2,564,163	2,426,750
Current Assets:		
Cash and cash equivalents	7,166,705	12,833,657
Accounts receivable, less allowance for 2023 of \$144,117 and 2022 of \$184,497	4,636,655	5,410,200
Unbilled revenues	543,471	666,304
Other receivables	2,803,867	606,741
Material and supplies, at average cost	1,158,852	962,568
Other current assets	336,629	307,646
Total current assets	16,646,179	20,787,116
Deferred Debits	702,736	--
Total assets	\$ 113,940,808	\$ 114,314,617
MEMBERS' EQUITIES AND LIABILITIES		
Members' Equities:		
Memberships	\$ 56,395	\$ 58,560
Patronage capital	38,390,566	36,768,504
Other equities	1,367,701	1,367,741
Accumulated other comprehensive income	916,878	332,173
Total members' equities	40,731,540	38,526,978
Long-Term Liabilities:		
Long-term debt, less current portion	59,520,639	56,706,987
Accumulated postretirement benefits	786,429	1,379,421
Total long-term liabilities	60,307,068	58,086,408
Current Liabilities:		
Current portion of long-term debt	2,691,142	8,306,780
Accounts payable	5,723,839	5,682,053
Consumer deposits	1,606,329	1,577,543
Accrued expenses	2,011,981	1,439,749
Total current liabilities	12,033,291	17,006,125
Deferred Credits	868,909	695,106
Total members' equities and liabilities	\$ 113,940,808	\$ 114,314,617

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

MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME

Years Ended October 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Revenues		
Sales of electric energy	\$ 71,613,903	\$ 63,045,052
Other electric revenues	<u>1,327,067</u>	<u>1,307,464</u>
	<u>72,940,970</u>	<u>64,352,516</u>
Operating Expenses		
Cost of power	53,868,077	46,687,054
Distribution - operations	3,197,818	2,987,872
Distribution - maintenance	4,110,095	4,017,948
Consumer accounts	1,500,207	1,488,814
Customer services	215,364	275,515
Administrative and general	1,881,159	1,820,422
Depreciation, excluding \$361,544 in 2023 and \$312,234 in 2022 charged to clearing accounts	4,893,534	4,817,926
Taxes, other than income	55,109	63,942
Interest on long-term debt	1,917,223	1,904,187
Other interest	59,056	1,567
Other deductions	<u>3,896</u>	<u>6,530</u>
	<u>71,701,538</u>	<u>64,071,777</u>
Operating Margins	<u>1,239,432</u>	<u>280,739</u>
Nonoperating Margins		
Interest income	396,053	152,908
Others	<u>101,668</u>	<u>20,356</u>
	<u>497,721</u>	<u>173,264</u>
Patronage Capital Credits	<u>192,657</u>	<u>154,979</u>
Net Margins	1,929,810	608,982
Other Comprehensive Income:		
Postretirement benefits amortization of actuarial gain	(35,393)	(18,285)
Postretirement benefits actuarial gain	<u>620,098</u>	<u>- -</u>
	<u>584,705</u>	<u>(18,285)</u>
Net Margins and Comprehensive Income	<u>\$ 2,514,515</u>	<u>\$ 590,697</u>

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

MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended October 31, 2023 and 2022

	Memberships	Patronage Capital				Total	Other Equities	Accumulated Other Comprehensive Income	Total Members' Equities
		Assigned	Assignable	Unassigned	Retirements				
Balance - October 31, 2021	\$ 61,680	\$ 44,792,227	\$ 1,997,724	\$ 7,951,465	\$ (18,190,903)	\$ 36,550,513	\$ 1,361,999	\$ 350,458	\$ 38,324,650
Allocate margins		1,628,919	(1,866,668)	237,749		--			--
Comprehensive income:									
Net margins			608,982			608,982			608,982
Postretirement benefit obligation									
Amortization of actuarial gain								(18,285)	(18,285)
Total comprehensive income									590,697
Net change in memberships	(3,120)								(3,120)
Refunds of capital credits					(390,991)	(390,991)			(390,991)
Other equities							5,742		5,742
Balance - October 31, 2022	58,560	46,421,146	740,038	8,189,214	(18,581,894)	36,768,504	1,367,741	332,173	38,526,978
Allocate margins		772,214	(1,136,746)	364,532		--			--
Comprehensive income:									
Net margins			1,929,810			1,929,810			1,929,810
Postretirement benefit obligation									
Amortization of actuarial gain								(35,393)	
Adjustments								620,098	584,705
Total comprehensive income									2,514,515
Net change in memberships	(2,165)								(2,165)
Refunds of capital credits					(307,748)	(307,748)			(307,748)
Other equities							(40)		(40)
Balance - October 31, 2023	\$ 56,395	\$ 47,193,360	\$ 1,533,102	\$ 8,553,746	\$ (18,889,642)	\$ 38,390,566	\$ 1,367,701	\$ 916,878	\$ 40,731,540

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

MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

STATEMENTS OF CASH FLOWS
Years Ended October 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	\$ 1,929,810	\$ 608,982
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Charged to expense	4,893,534	4,817,926
Charged to clearing accounts	361,544	312,234
Patronage capital credits assigned	(192,657)	(154,979)
Amortization of postretirement actuarial adjustment	(35,393)	(18,285)
Postretirement actuarial adjustment	620,098	--
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts and other receivables, net	(1,423,581)	(1,864,262)
Unbilled revenues	122,833	(165,028)
Material and supplies	(196,284)	(220,895)
Other current assets	(28,983)	(5,921)
Deferred debits	(702,736)	--
Accounts payable	41,786	2,248,135
Consumer deposits	28,786	(57,925)
Accrued expenses	572,232	172,372
Accumulated postretirement benefits	(592,992)	43,350
Deferred credits	173,803	67,672
Net cash provided by operating activities	<u>5,571,800</u>	<u>5,783,376</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(7,751,496)	(7,702,536)
Plant removal costs	(575,054)	(588,513)
Salvage recovered from retired plant	144,493	59,894
Receipts from other investments, net	55,244	58,715
Net cash (used in) investing activities	<u>(8,126,813)</u>	<u>(8,172,440)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in memberships	(2,165)	(3,120)
Refund of patronage capital to members	(307,748)	(390,991)
Increase (decrease) in other equities	(40)	5,742
Payments on long-term debt	(2,801,986)	(2,760,380)
Net cash (used in) financing activities	<u>(3,111,939)</u>	<u>(3,148,749)</u>
Net decrease in cash and cash equivalents	(5,666,952)	(5,537,813)
Cash and cash equivalents, beginning of year	<u>12,833,657</u>	<u>18,371,470</u>
Cash and cash equivalents, end of year	<u>\$ 7,166,705</u>	<u>\$ 12,833,657</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	\$ 1,937,097	\$ 1,911,322

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

MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Description of business

Meade County Rural Electric Cooperative Corporation (Meade County) provides distribution electric services to residential, business, and commercial consumers concentrated in a six-county area in western Kentucky. Meade County 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:

	2023	2022
Distribution plant	\$ 134,170,571	\$ 130,854,477
General plant	11,010,022	10,436,785
Total	<u>\$ 145,180,593</u>	<u>\$ 141,291,262</u>

Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Depreciation rates range from 2.2% to 6.7% for distribution plant. General plant rates are as follows:

Structures and improvements	2.5% - 3.0%
Transportation equipment	12.5% - 25.0%
Other general plant items	5.0% - 14.3%

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Cash and cash equivalents

Meade County considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. Meade County 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 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. Meade County 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

Meade County 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], *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 standard is the recognition of ROU assets and lease liabilities by lessees for those leases 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.

Meade County 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.

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

Deferred debits and credits

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Deferred debits and credits (continued)

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, Meade County is required to pass on this environmental cost recovery mechanism to the consumer.

Meade County is serviced by Big Rivers Electric Corporation, Inc. (Big Rivers) and has two additional deferred mechanisms. There is a Non-Smelter Non-FAC PPA Factor that is calculated as a per-kWh billing credit or charge and is applied on a monthly basis. Also, in years in which Big Rivers earns in excess of a 1.30 TIER, 40% of the excess margin is returned to Big Rivers' members over the following year through a monthly bill credit named the Member Rate Stability Mechanism. These amounts are passed on to the consumers monthly.

Taxes

Meade County 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. Meade County'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

Meade County is one of three members of Big Rivers. Under a wholesale power agreement, Meade County is committed to purchase its electric power and energy requirements from Big Rivers until 2043. The rates charged by Big Rivers 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 Big Rivers.

Generation and transmission corporation

As discussed in the preceding note, Meade County purchases electric power from Big Rivers, a generation and transmission cooperative association. The membership of Big Rivers is comprised of Meade County and two other distribution cooperatives.

Meade County has elected to value the non-cash allocations received from Big Rivers at zero for financial statement purposes, a practice it has followed since Big Rivers emerged from bankruptcy in 1998 during which all previous booked non-cash allocations were reduced to zero. Meade County will continue to make memorandum entries in its patronage subsidiary ledger of the face amount of the allocations received from Big Rivers. Refer to the subsequent footnote for the income tax treatment of these non-cash allocations.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Advertising

Meade County expenses advertising costs as incurred. Advertising expenses were \$17,118 and \$10,927 for the years ended October 31, 2023 and 2022, respectively.

Comprehensive income

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

Risk management

Meade County 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

Meade County grants credit to residents of local counties. Concentrations of credit risk with respect to accounts receivables are limited due to its large number of customers.

Environmental contingency

Meade County 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 environmental conditions may arise which would require Meade County 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 Meade County's financial position or its future cash flows.

Income tax status

Meade County is exempt from federal and state income taxes under provisions of Section 501(c)(12). When applying the 85 percent test of IRC 501(c)(12), Meade County excludes the Big Rivers non-cash allocations from gross income. Accordingly, the financial statements for Meade County include no provision for income taxes.

Meade County's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Management believes Meade County has no uncertain tax positions resulting in an accrual of tax expense or benefit.

Meade County recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Meade County did not recognize any interest or penalties during the years ended October 31, 2023 and 2022.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Income tax status (continued)

Meade County'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.

Pension accounting pronouncement

In May 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The standard specifies how the amount of pension costs and costs for post-retirement benefits other than pensions (PBOP) should be presented on the income statement under accounting principles generally accepted in the United States of America, and what components of those costs are eligible for capitalization in assets. This standard is effective for years beginning after December 15, 2018. The Federal Energy Regulatory Commission issued Docket No. AI18-1-000 that allowed jurisdictional public utilities to continue to record PBOP costs in their entirety, less amounts capitalized, without change. Pension and PBOP costs are made up of several components: service cost, interest cost, actual return on plan assets, gain or loss, amortization of prior service cost or credit, and amortization of FASB Accounting Standards Codification (ASC) Subtopic 715-30. Though pension and PBOP costs are computed using the aggregate total of these various components, the Commission's longstanding policy is to consider the amount as a singular cost to the employer. This cost is calculated based on ASC 715 and reported as an expense under net margins from continuing operations.

Recent accounting pronouncement

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 credits losses that have taken place during the period. This standard will be effective for the year ending October 31, 2024.

Meade County is currently in the process of evaluating the impact of the adoption of this ASU on the financial statements.

Subsequent events

Management has evaluated subsequent events through January 22, 2024, the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

Note 2. Revenue Recognition

Revenue from contracts

Meade County is engaged in the distribution and sales of electricity to residential and commercial customers in six counties in western Kentucky. Revenue from these activities is generated from tariffs approved by the PSC. Meade County 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 Meade County. 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 15 days of the date of the bill.

Significant judgements

Meade County has multiple billing cycles that process customer bills on approximately the same day each month. The amounts billed are based on actual meter reading of kilowatt hours used for the billing period. Unbilled revenues are recognized as a result of customers' bills being generated throughout the month rather than at the end of the month. Unbilled revenues for a month are calculated based on the kilowatt hour usage readings for the unbilled days in the month plus any adjustments for the month from Big Rivers. This method of revenue recognition presents fairly, Meade County'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

Meade County 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:

	2023	2022
Residential	\$ 46,801,602	\$ 47,852,190
Large commercial	20,728,015	11,055,919
Small commercial	3,944,402	3,996,948
Other	139,884	139,995
	<u>\$ 71,613,903</u>	<u>\$ 63,045,052</u>

NOTES TO FINANCIAL STATEMENTS

Note 2. Revenue Recognition (Continued)

Contract assets and liabilities

Contract assets include accounts receivable net of allowance, unbilled revenues and deferred debits. Contract liabilities include consumer deposits and the member rate stability mechanism. Contract assets and liabilities were as follows as of October 31:

	2023	2022	2021
Contract assets			
Accounts receivable, net	\$ 4,636,655	\$ 5,410,200	\$ 4,106,843
Unbilled revenues	543,471	666,304	501,276
Deferred debits	702,736	--	--
	\$ 5,882,862	\$ 6,076,504	\$ 4,608,119
Contract liabilities			
Consumer deposits	\$ 1,606,329	\$ 1,577,543	\$ 1,635,468
Member rate stability mechanism	163,679	--	--
	\$ 12,033,291	\$ 17,006,125	\$ 1,635,468

Note 3. Investments in Associated Organizations

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

	2023	2022
CFC, CTC's	\$ 838,157	\$ 840,316
KAEC, patronage capital	854,406	717,707
CFC, patronage capital	358,798	367,250
Others	512,802	501,477
Total	\$ 2,564,163	\$ 2,426,750

Meade County 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 2024 to 2080.

Note 4. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30.0% of total assets, except that distributions may be made to estates of deceased patrons. The debt agreement provides, however, that should such distributions to estates not exceed 25.0% of the net margins for the next preceding year, Meade County may distribute the difference between 25.0% and the payments made to such estates. Members' equity as of October 31, 2023 and 2022 was 35.8% and 33.7% of total assets, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt

All assets, except vehicles, are pledged as collateral on the long-term debt to RUS, Federal Financing Bank (FFB), and CFC under a joint mortgage agreement. The long-term debt is due in quarterly and monthly installments of varying amounts through 2047. RUS assesses 12.5 basis points to administer the FFB loans.

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

	2023	2022
RUS, 1.49% to 4.86% fixed rate notes	\$ 22,356,640	\$ 23,484,129
FFB:		
1.39% to 6.05% fixed rate notes	33,006,909	34,242,470
3.89% variable rate note	5,490,109	5,697,265
	38,497,018	39,939,735
CFC, 2.06% to 3.85% fixed rate notes	1,358,123	1,589,903
	62,211,781	65,013,767
Less current portion	2,691,142	8,306,780
Long-term portion	\$ 59,520,639	\$ 56,706,987

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	\$ 2,691,142
2025	2,734,062
2026	2,791,391
2027	2,844,308
2028	11,744,268
Thereafter	39,406,610
	\$ 62,211,781

Note 6. Short-Term Borrowings

As of October 31, 2023 and 2022, Meade County had a short-term line of credit of \$5,000,000 available from CFC, with variable interest rates of 7.25% and 5.00%, respectively. There were no advances against this line of credit as of October 31, 2023 and 2022. The line of credit matures in December 2049.

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan

All eligible employees of Meade County participate in the NRECA Retirement and Security Plan (R&S Plan), a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The plan sponsor's identification number is 53-0116145 and the Plan Number is 333. Eligible employees include employees hired prior to August 31, 2002. Non-eligible employees are those hired after August 31, 2002. A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Meade County's contributions to the R&S Plan in 2023 and 2022 represent less than 5 percent of the total contributions made to the plan by all participating employers. Meade County made contributions to the plan of \$221,095 in 2023 and \$249,530 in 2022. There have been no significant changes that affect the comparability of 2023 and 2022.

In the R&S Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the R&S Plan was approximately 80 percent funded at January 1, 2023 and 2022 based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the R&S Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

Note 8. Savings Plan

Meade County participates in the NRECA Savings Plan, a multiemployer, defined contribution master pension plan. All employees are eligible to participate in the Savings Plan upon completion of six months employment. Eligible employees, as defined above, participate in the Savings Plan with Meade County contributing 3.0% of annual base pay, and the employee contributing from 1.0% to 3.0%. Non-eligible employees, as defined above, participate in the Savings Plan with Meade County contributing 12.0% of annual base pay, and the employee contributing from 1.0% to 3.0%. Employer contributions to the plan were \$510,981 for 2023 and \$437,000 for 2022, and vest immediately.

Note 9. Postretirement Benefits

Meade County sponsors a defined benefit plan that provides medical insurance coverage to retirees by contributing 50.00% of the cost of a single policy. For measurement purposes, an annual rate of increase of 5.00%, 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% and 4.25% in 2023 and 2022, respectively. A portion of the net periodic benefit cost is allocated to construction of electric plant. There have been no significant changes that affect the comparability of 2023 and 2022 other than the change in the discount rate noted above.

NOTES TO FINANCIAL STATEMENTS

Note 9. Postretirement Benefits (Continued)

The funded status of the plan as of October 31, 2023 and 2022 was as follows:

	2023	2022
Projected benefit obligation	\$ (786,429)	\$ (1,379,421)
Plan assets at fair value	--	--
Funded status	\$ (786,429)	\$ (1,379,421)

The components of net periodic postretirement benefit cost are as follows:

	2023	2022
Benefit obligation - beginning of period	\$ 1,379,421	\$ 1,336,071
Net periodic benefit cost:		
Service cost	27,553	30,673
Interest cost	48,732	61,099
Net periodic benefit cost:	76,285	91,772
Benefit payments to participants	(49,179)	(48,422)
Actuarial gain	(620,098)	--
Benefit obligation - end of period	\$ 786,429	\$ 1,379,421

Amounts recognized in the balance sheet consists of:

Accumulated postretirement benefits	\$ 786,429	\$ 1,379,421
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Amounts included in other comprehensive income:

Actuarial gain	\$ 620,098	\$ --
Amortization of actuarial gain	\$ (35,393)	\$ (18,285)

Effect of 1% increase in the health care trend:

Postretirement benefit obligation	\$ 834,000
Net periodic benefit cost	\$ 52,000

Projected retiree benefit payments for the next five years are expected to be as follows: 2024 - \$51,263; 2025 - \$47,850; 2026 - \$48,541; 2027 - \$50,604; 2028 - \$44,603.

Note 10. Related Party Transactions

Several of the Directors of Meade County and its President and CEO are on the Boards of Directors of various associated organizations.

In previous years, Big Rivers provided billing, IT, and other services to its three distribution cooperative members. In 2013, Big Rivers discontinued providing these services directly to its distribution cooperative members, but instead began reimbursing members for the cost of the services. The amount reimbursed from Big Rivers was \$649,829 and \$478,302 for the years ended October 31, 2023 and 2022, respectively. Amounts due from Big Rivers are included in other receivables and were \$105,501 and \$47,126 as of October 31, 2023 and 2022, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 11. Commitments

Meade County 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 12. Contingencies

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



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
Meade County Rural Electric Cooperative Corporation
Brandenburg, 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 Meade County 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 January 22, 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.

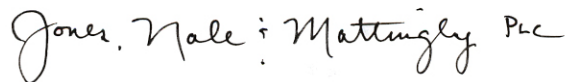
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

A handwritten signature in cursive script that reads "Jones, Nale & Mattingly PLC".

Louisville, Kentucky
January 22, 2024



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
Meade County Rural Electric Cooperative Corporation
Brandenburg, 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 Meade County 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 January 22, 2024. In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 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:

Environmental surcharge	\$	200,558
Fuel adjustment surcharge		276,896
Non-smelter non-FAC PPA		225,282
	\$	<u>702,736</u>

The deferred credits are as follows:

Consumer advances for construction	\$	705,230
Member rate stability mechanism		163,679
	\$	<u>868,909</u>

The purpose of this report is solely to communicate, in connection with the audit of the financial statements, on compliance with aspects of contractual agreements and the regulatory requirements for electric borrowers based on the requirements of 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*. Accordingly, this report is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
January 22, 2024