# MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION
# KENTUCKY 18

## FINANCIAL REPORT

**October 31, 2024**

**C O N T E N T S**

JNM

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, 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 Meade County 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 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.



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 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 3, 2025, 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 3, 2025

## MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

### BALANCE SHEETS
### October 31, 2024 and 2023

| ASSETS | 2024 | 2023 |
|---|---|---|
| Electric plant, at original cost: | | |
| In service | $ 149,394,898 | $ 145,180,593 |
| Under construction | 1,202,035 | 2,879,595 |
| | 150,596,933 | 148,060,188 |
| Less accumulated depreciation | 56,710,515 | 54,032,458 |
| | 93,886,418 | 94,027,730 |
| Investments in associated organizations | 2,738,497 | 2,564,163 |
| Current Assets: | | |
| Cash and cash equivalents | 3,210,673 | 7,166,705 |
| Accounts receivable, less allowance for credit losses in 2024 of $129,494 and 2023 of $144,117 | 4,975,435 | 4,636,655 |
| Unbilled revenues | 583,457 | 543,471 |
| Other receivables | 2,906,992 | 2,803,867 |
| Material and supplies, at average cost | 1,390,091 | 1,158,852 |
| Other current assets | 350,601 | 336,629 |
| Total current assets | 13,417,249 | 16,646,179 |
| Other Assets: | | |
| Regulatory assets | 1,797,031 | - - |
| Deferred debits | 1,075,644 | 702,736 |
| Total other assets | 2,872,675 | 702,736 |
| Total assets | $ 112,914,839 | $ 113,940,808 |
| MEMBERS' EQUITIES AND LIABILITIES | | |
| Members' Equities: | | |
| Memberships | $ 54,015 | $ 56,395 |
| Patronage capital | 39,054,929 | 38,390,566 |
| Other equities | 1,368,570 | 1,367,701 |
| Accumulated other comprehensive income | 869,264 | 916,878 |
| Total members' equities | 41,346,778 | 40,731,540 |
| Long-Term Liabilities: | | |
| Long-term debt, less current portion | 56,457,348 | 59,520,639 |
| Accumulated postretirement benefits | 803,098 | 786,429 |
| Total long-term liabilities | 57,260,446 | 60,307,068 |
| Current Liabilities: | | |
| Current portion of long-term debt | 2,906,923 | 2,691,142 |
| Accounts payable | 6,795,441 | 5,723,839 |
| Consumer deposits | 1,679,550 | 1,606,329 |
| Accrued expenses | 2,088,294 | 2,011,981 |
| Total current liabilities | 13,470,208 | 12,033,291 |
| Deferred Credits | 837,407 | 868,909 |
| Total members' equities and liabilities | $ 112,914,839 | $ 113,940,808 |

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, 2024 and 2023

| | 2024 | 2023 |
|---|---|---|
| Operating Revenues | | |
| Sales of electric energy | $ 83,688,238 | $ 71,613,903 |
| Other electric revenues | 1,327,558 | 1,327,067 |
| | 85,015,796 | 72,940,970 |
| Operating Expenses | | |
| Cost of power | 65,483,004 | 53,868,077 |
| Distribution - operations | 3,889,797 | 3,197,818 |
| Distribution - maintenance | 4,469,364 | 4,110,095 |
| Consumer accounts | 1,539,348 | 1,500,207 |
| Customer services | 144,608 | 215,364 |
| Administrative and general | 1,898,647 | 1,881,159 |
| Depreciation, excluding $405,264 in 2024 and $361,544 in 2023 charged to clearing accounts | 5,118,303 | 4,893,534 |
| Taxes, other than income | 61,024 | 55,109 |
| Interest on long-term debt | 1,927,653 | 1,917,223 |
| Other interest | 82,361 | 59,056 |
| Other deductions | 2,155 | 3,896 |
| | 84,616,264 | 71,701,538 |
| Operating Margins | 399,532 | 1,239,432 |
| Nonoperating Margins | | |
| Interest income | 271,527 | 396,053 |
| Others | 37,883 | 101,668 |
| | 309,410 | 497,721 |
| Patronage Capital Credits | 240,893 | 192,657 |
| Net Margins | 949,835 | 1,929,810 |
| Other Comprehensive Income: | | |
| Postretirement benefits amortization of actuarial gain | (47,614) | (35,393) |
| Postretirement benefits actuarial gain | - - | 620,098 |
| | (47,614) | 584,705 |
| Net Margins and Comprehensive Income | $ 902,221 | $ 2,514,515 |

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, 2024 and 2023**

| | | Patronage Capital | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Memberships | Assigned | Assignable | Unassigned | Retirements | Total | Other Equities | Accumulated Other Comprehensive Income | Total Members' Equities |
| 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 |
| Allocate margins | | 1,156,408 | (1,866,918) | 710,510 | | - - | | | - - |
| Comprehensive income: | | | | | | | | | |
| Net margins | | | 949,835 | | | 949,835 | | | 949,835 |
| Postretirement benefit obligation | | | | | | | | | |
| Amortization of actuarial gain | | | | | | | | (47,614) | (47,614) |
| Total comprehensive income | | | | | | | | | 854,607 |
| Net change in memberships | (2,380) | | | | | | | | (2,380) |
| Refunds of capital credits | | | | | (285,472) | (285,472) | | | (285,472) |
| Other equities | | | | | | | 869 | | 869 |
| Balance - October 31, 2024 | $ 54,015 | $ 48,349,768 | $ 616,019 | $ 9,264,256 | $ (19,175,114) | $ 39,054,929 | $ 1,368,570 | $ 869,264 | $ 41,346,778 |

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, 2024 and 2023**

| | 2024 | 2023 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net margins | $ 949,835 | $ 1,929,810 |
| Adjustments to reconcile net margins to net cash provided by operating activities: | | |
| Depreciation: | | |
| Charged to expense | 5,118,303 | 4,893,534 |
| Charged to clearing accounts | 405,264 | 361,544 |
| Patronage capital credits assigned | (240,893) | (192,657) |
| Amortization of postretirement actuarial adjustment | (47,614) | (35,393) |
| Postretirement actuarial adjustment | - - | 620,098 |
| Change in assets and liabilities, net of the effects of investing and financing activities: | | |
| Accounts and other receivables, net | (441,905) | (1,423,581) |
| Unbilled revenues | (39,986) | 122,833 |
| Material and supplies | (231,239) | (196,284) |
| Other current assets | (13,972) | (28,983) |
| Deferred debits | (372,908) | (702,736) |
| Accounts payable | 1,071,602 | 41,786 |
| Consumer deposits | 73,221 | 28,786 |
| Accrued expenses | 76,313 | 572,232 |
| Accumulated postretirement benefits | 16,669 | (592,992) |
| Deferred credits | (31,502) | 173,803 |
| Net cash provided by operating activities | 6,291,188 | 5,571,800 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Plant additions | (6,630,681) | (7,751,496) |
| Plant removal costs | (641,768) | (575,054) |
| Salvage recovered from retired plant | 93,163 | 144,493 |
| Receipts from other investments, net | 66,559 | 55,244 |
| Net cash (used in) investing activities | (7,112,727) | (8,126,813) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net change in memberships | (2,380) | (2,165) |
| Refund of patronage capital to members | (285,472) | (307,748) |
| Increase (decrease) in other equities | 869 | (40) |
| Payments on long-term debt | (2,847,510) | (2,801,986) |
| Net cash (used in) financing activities | (3,134,493) | (3,111,939) |
| Net decrease in cash and cash equivalents | (3,956,032) | (5,666,952) |
| Cash and cash equivalents, beginning of year | 7,166,705 | 12,833,657 |
| Cash and cash equivalents, end of year | $ 3,210,673 | $ 7,166,705 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Cash payments for interest | $ 1,988,976 | $ 1,937,097 |

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

## 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, 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 | $ 137,504,520 | $ 134,170,571 |
| General plant | 11,890,378 | 11,010,022 |
| Total | $ 149,394,898 | $ 145,180,593 |

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 and allowance for credit losses

Meade County 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 $4,975,435, $4,636,655, and $5,410,200.

Meade County 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 Meade County'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 Meade County.

Meade County 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

Meade County values materials and supplies at the lower of average cost or net realizable value.

Regulatory assets

Per approval of the PSC, Meade County will continue to depreciate, at their original 15-year rate, the TS2 meters that were replaced with the new Advanced Metering Infrastructure.

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.

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.

Note 1. Significant Accounting Policies (Continued)

Deferred debits and credits (continued)

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.

Advertising

Meade County expenses advertising costs as incurred. Advertising expenses were $15,853 and $17,118 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.

# NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

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.

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

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, 2024 and 2023.

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

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 Meade County's exposure to credit risk and the measurement of credit losses. Meade County's financial assets subject to the guidance include accounts receivable.

Meade County 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 January 3, 2025, the date the financial statements were available to be issued.

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.

Note 2. Revenue Recognition (Continued)

*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, 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:

| | 2024 | 2023 |
|---|---|---|
| Residential | $ 48,559,218 | $ 46,801,602 |
| Large commercial | 30,705,640 | 20,728,015 |
| Small commercial | 4,279,263 | 3,944,402 |
| Other | 144,117 | 139,884 |
| | $ 83,688,238 | $ 71,613,903 |

*Contract assets and liabilities*

Contract assets include unbilled revenues, environmental surcharges, fuel adjustment surcharges, and non-smelter non-FAC PPA. Contract liabilities include consumer deposits and the member rate stability mechanism. Contract assets and liabilities were as follows as of October 31:

| | 2024 | 2023 | 2022 |
|---|---|---|---|
| Contract assets | $ 1,659,101 | $ 1,246,207 | $ 666,304 |
| Contract liabilities | $ 1,826,050 | $ 1,770,008 | $ 1,577,543 |

## 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 | $ 144,117 | $ 184,497 |
| Provision for credit losses | 3,500 | 15,000 |
| Write-offs | (52,205) | (80,838) |
| Recoveries | 34,082 | 25,458 |
| Ending balance | $ 129,494 | $ 144,117 |

Note 4. Investments in Associated Organizations

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

| | 2024 | 2023 |
|---|---|---|
| CFC, CTC's | $ 835,471 | $ 838,157 |
| KAEC, patronage capital | 1,020,720 | 854,406 |
| CFC, patronage capital | 346,139 | 358,798 |
| Others | 536,167 | 512,802 |
| Total | $ 2,738,497 | $ 2,564,163 |

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 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, Meade County may distribute the difference between 25.0% and the payments made to such estates. Members' equity as of October 31, 2024 and 2023 was 36.6% and 35.8% of total assets, respectively.

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 2047. RUS assesses 12.5 basis points to administer the FFB loans.

## NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (Continued)

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

| | 2024 | 2023 |
|---|---|---|
| RUS, 1.49% to 4.86% fixed rate notes | $ 21,191,278 | $ 22,356,640 |
| FFB: | | |
| 1.39% to 6.05% fixed rate notes | 31,722,468 | 33,006,909 |
| 3.89% variable rate note | 5,319,372 | 5,490,109 |
| | 37,041,840 | 38,497,018 |
| CFC, 2.06% to 3.85% fixed rate notes | 1,131,153 | 1,358,123 |
| | 59,364,271 | 62,211,781 |
| Less current portion | 2,906,923 | 2,691,142 |
| Long-term portion | $ 56,457,348 | $ 59,520,639 |

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 | $ 2,906,923 |
| 2026 | 2,970,995 |
| 2027 | 3,031,084 |
| 2028 | 11,999,990 |
| 2029 | 3,283,142 |
| Thereafter | 35,172,137 |
| | $ 59,364,271 |

Note 7. Short-Term Borrowings

As of October 31, 2024 and 2023, Meade County had a short-term line of credit of $5,000,000 available from CFC, with a variable interest rate of 7.25%. There were no advances against this line of credit as of October 31, 2024 and 2023. The line of credit matures in December 2069.

Note 8. 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.

Note 8. Pension Plan (Continued)

Meade County's contributions to the R&S Plan in 2024 and 2023 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 $207,971 in 2024 and $221,095 in 2023. There have been no significant changes that affect the comparability of 2024 and 2023.

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, 2024 and 2023 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 9. 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 $581,625 for 2024 and $510,981 for 2023, and vest immediately.

Note 10. 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% in 2024 and 2023. 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 2024 and 2023.

The funded status of the plan as of October 31, 2024 and 2023 was as follows:

| | 2024 | 2023 |
|---|---|---|
| Projected benefit obligation | $ (803,098) | $ (786,429) |
| Plan assets at fair value | - - | - - |
| Funded status | $ (803,098) | $ (786,429) |

Note 10. Postretirement Benefits (Continued)

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

| | 2024 | 2023 |
|---|---|---|
| Benefit obligation - beginning of period | $ 786,429 | $ 1,379,421 |
| Net periodic benefit cost: | | |
| Service cost | 29,461 | 27,553 |
| Interest cost | 35,764 | 48,732 |
| Net periodic benefit cost: | 65,225 | 76,285 |
| Benefit payments to participants | (48,556) | (49,179) |
| Actuarial gain | - - | (620,098) |
| Benefit obligation - end of period | $ 803,098 | $ 786,429 |
| Amounts recognized in the balance sheets consists of: | | |
| Unrecognized actuarial gain | $ 869,264 | $ 916,878 |
| Accumulated postretirement benefits | $ 803,098 | $ 786,429 |
| Amounts included in other comprehensive income: | | |
| Actuarial gain | $ - - | $ 620,098 |
| Amortization of actuarial gain | $ (47,614) | $ (35,393) |
| Effect of 1% increase in the health care trend: | | |
| Postretirement benefit obligation | $ 851,000 | |
| Net periodic benefit cost | $ 38,000 | |

Projected retiree benefit payments for the next five years are expected to be as follows: 2025 - $47,900; 2026 - $48,500; 2027 - $50,600; 2028 - $44,600; 2029 - $36,300.

Note 11. 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 $796,323 and $649,829 for the years ended October 31, 2024 and 2023, respectively. Amounts due from Big Rivers are included in other receivables and were $76,789 and $105,501 as of October 31, 2024 and 2023, respectively.

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.

JNM

Jones, Nale & Mattingly PLC

## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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

We have audited the financial statements of Meade County Rural Electric Cooperative Corporation as of and for the years ended October 31, 2024 and 2023, and our report thereon dated January 3, 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 19 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
January 3, 2025



Certified Public Accountants and Advisors

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**MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION**

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

| | 2024 | 2023 | RUS Approval |
|---|---|---|---|
| Deferred Debits | | | |
| Regulatory assets | $ 1,797,031 | $ - - | §1767, account #182.3 |
| Environmental surcharge | 240,108 | 200,558 | §1767, account #186 |
| Fuel adjustment surcharge | 584,066 | 276,896 | §1767, account #186 |
| Non-smelter non-FAC PPA | 251,470 | 225,282 | §1767, account #186 |
| Total deferred debits | $ 2,872,675 | $ 702,736 | |
| Deferred Credits | | | |
| Consumer advances for construction | $ 690,907 | $ 705,230 | §1767, account #252 |
| Member rate stability mechanism | 146,500 | 163,679 | §1767, account #253 |
| Total deferred credits | $ 837,407 | $ 868,909 | |

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, 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 January 3, 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
January 3, 2025

Jones, Nale & Mattingly PLC

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

We have audited the financial statements of Meade County Rural Electric Cooperative Corporation (the Cooperative) for the year ended October 31, 2024, and have issued our report thereon dated January 3, 2025. 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 September 23, 2024. 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 the allowance for credit losses by adopting FASB Accounting Standards Codification No. 326, *Financial Instruments – Credit Losses*, in 2024. Accordingly, the accounting change has been applied prospectively. 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)
- Pension Plan (Note 8)
- Postretirement Benefits (Note 10)

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. There were no misstatements identified as a result of our audit.

***Disagreements with Management***

For purposes of this letter, a disagreement with management is a disagreement on 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 January 3, 2025.

***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.

**Other Matters**

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
January 3, 2025