

FINANCIAL STATEMENTS

East Kentucky Power Cooperative, Inc.
Years Ended December 31, 2022 and 2021
With Report of Independent Auditors

Ernst & Young LLP



East Kentucky Power Cooperative, Inc.

Financial Statements

Years Ended December 31, 2022 and 2021

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Report of Independent Auditors

The Board of Directors
East Kentucky Power Cooperative, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of East Kentucky Power Cooperative, Inc., which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of revenue and expenses and comprehensive margin, changes in members' equities, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, 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 (GAAS) and in accordance with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 Company 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 of 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 Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibility 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 GAAS 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 GAAS 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 Company'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 Company'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 identified during the audit.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated March 31, 2023, on our consideration of East Kentucky Power Cooperatives, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely 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 East Kentucky Power Cooperative, Inc.'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 East Kentucky Power Cooperative, Inc.'s internal control over financial reporting and compliance.

Ernst + Young LLP

March 31, 2023

East Kentucky Power Cooperative, Inc.

Balance Sheets (Dollars in Thousands)

	December 31	
	2022	2021
Assets		
Electric plant:		
In-service	\$ 4,680,009	\$ 4,551,309
Construction-in-progress	81,198	92,360
	4,761,207	4,643,669
Less accumulated depreciation	1,762,598	1,655,664
Electric plant – net	2,998,609	2,988,005
Restricted investments	1,117	1,103
Investment securities:		
Available-for-sale	18,079	18,898
Held-to-maturity	7,181	7,287
Current assets:		
Cash and cash equivalents	229,669	169,619
Accounts receivable	149,448	111,782
Fuel	92,267	41,567
Materials and supplies	104,887	83,283
Regulatory assets	33,546	11,206
Other current assets	13,397	7,899
Total current assets	623,214	425,356
Regulatory assets	91,306	99,085
Deferred charges	4,497	1,790
Other noncurrent assets	8,440	8,591
Total assets	\$ 3,752,443	\$ 3,550,115
Members' equities and liabilities		
Members' equities:		
Memberships	\$ 2	\$ 2
Patronage and donated capital	743,152	727,378
Accumulated other comprehensive margin	43,792	40,078
Total members' equities	786,946	767,458
Long-term debt	2,592,627	2,436,831
Current liabilities:		
Current portion of long-term debt	96,654	92,763
Accounts payable	147,690	109,276
Accrued expenses	50,393	50,366
Regulatory liabilities	5,898	7,717
Total current liabilities	300,635	260,122
Accrued postretirement benefit cost	27,727	35,587
Asset retirement obligations and other liabilities	44,508	50,117
Total members' equities and liabilities	\$ 3,752,443	\$ 3,550,115

See notes to financial statements.

East Kentucky Power Cooperative, Inc.

Statements of Revenue and Expenses and Comprehensive Margin
(Dollars in Thousands)

	Year Ended December 31	
	2022	2021
Operating revenue	\$ 1,263,337	\$ 952,623
Operating expenses:		
Production:		
Fuel	363,948	236,947
Other	199,637	195,578
Purchased power	309,443	164,675
Transmission and distribution	63,948	61,232
Regional market operations	5,631	5,533
Depreciation and amortization	147,689	141,123
General and administrative	50,804	49,452
Total operating expenses	1,141,100	854,540
Operating margin before fixed charges and other expenses	122,237	98,083
Fixed charges and other:		
Interest expense on long-term debt	89,701	86,985
Amortization of debt expense	990	1,090
Accretion and other	1,874	1,603
Total fixed charges and other expenses	92,565	89,678
Operating margin	29,672	8,405
Nonoperating margin:		
Interest income	2,690	554
Patronage capital allocations from other cooperatives	582	625
Other	2,936	958
Total nonoperating margin	6,208	2,137
Net margin	35,880	10,542
Other comprehensive margin:		
Unrealized loss on available-for-sale securities	(133)	(13)
Postretirement benefit obligation gain	3,847	12,638
	3,714	12,625
Comprehensive margin	\$ 39,594	\$ 23,167

See notes to financial statements.

East Kentucky Power Cooperative, Inc.

Statements of Changes in Members' Equities
(Dollars in Thousands)

	Memberships	Patronage Capital	Donated Capital	Accumulated Other Comprehensive Margin	Total Members' Equities
Balance – December 31, 2020	\$ 2	\$ 713,801	\$ 3,035	\$ 27,453	\$ 744,291
Net margin	–	10,542	–	–	10,542
Unrealized loss on available for sale securities	–	–	–	(13)	(13)
Postretirement benefit obligation gain	–	–	–	12,638	12,638
Balance – December 31, 2021	2	724,343	3,035	40,078	767,458
Net margin	–	35,880	–	–	35,880
Retirement of patronage capital	–	(20,106)	–	–	(20,106)
Unrealized loss on available for sale securities	–	–	–	(133)	(133)
Postretirement benefit obligation gain	–	–	–	3,847	3,847
Balance – December 31, 2022	\$ 2	\$ 740,117	\$ 3,035	\$ 43,792	\$ 786,946

See notes to financial statements.

East Kentucky Power Cooperative, Inc.

Statements of Cash Flows (Dollars in Thousands)

	Year Ended December 31	
	2022	2021
Operating activities		
Net margin	\$ 35,880	\$ 10,542
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation and amortization	147,689	141,123
Amortization of debt issuance costs	1,218	1,245
Changes in operating assets and liabilities:		
Accounts receivable	(37,666)	(23,266)
Fuel	(50,700)	5,624
Materials and supplies	(21,604)	(5,588)
Regulatory assets/liabilities	(31,626)	(3,547)
Accounts payable	32,250	36,449
Accrued expenses	(388)	28,081
Accrued postretirement benefit cost	(4,013)	(862)
Other	(13,742)	(5,836)
Net cash provided by operating activities	57,298	183,965
Investing activities		
Additions to electric plant	(136,122)	(138,190)
Maturities of debt service reserve securities	5,516	4,411
Purchases of debt service reserve securities	(5,530)	(4,411)
Maturities of available-for-sale securities	19,138	80,160
Purchases of available-for-securities	(18,452)	(60,204)
Maturities of held-to-maturity securities	106	86
Additional deposits with RUS restricted investment	-	(21)
Maturities of RUS restricted investment	-	726
Other	77	1,275
Net cash used in investing activities	(135,267)	(116,168)
Financing activities		
Proceeds from long-term debt	310,905	239,603
Principal payments on long-term debt	(151,609)	(263,753)
Retirement of patronage capital	(20,106)	-
Debt issuance costs	(1,123)	-
Payment of obligation under long-term lease	(48)	(39)
Net cash provided by (used in) financing activities	138,019	(24,189)
Net change in cash and cash equivalents	60,050	43,608
Cash and cash equivalents – beginning of year	169,619	126,011
Cash and cash equivalents – end of year	\$ 229,669	\$ 169,619
Supplemental disclosure of cash flows		
Cash paid for interest	\$ 88,551	\$ 70,126
Noncash investing transactions:		
Additions to electric plant included in accounts payable	\$ 33,929	\$ 27,765
Unrealized loss on available-for-sale securities	\$ (133)	\$ (13)

See notes to financial statements.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements

Years Ended December 31, 2022 and 2021

1. Summary of Significant Accounting Policies

Nature of Operations

East Kentucky Power Cooperative (the Cooperative or EKPC) is a not-for-profit electric generation and transmission cooperative incorporated in 1941 that provides wholesale electric service to 16 distribution members with territories that include parts of 87 counties in Kentucky. The majority of customers served by members are residential. Each of the members has entered into a wholesale power agreement with the Cooperative, which remains in effect until 2051. The rates charged to members are regulated by the Kentucky Public Service Commission (PSC or Commission).

The Cooperative owns and operates two coal-fired generation plants, twelve combustion turbines, six landfill gas plants, and a solar farm. In addition, the Cooperative has rights to 170 megawatts of hydroelectric power from the Southeastern Power Administration. The capacity and energy from one landfill gas plant is designated to serve a member system through a ten-year purchase power agreement. A portion of the solar farm panels are licensed to customers of our members.

Basis of Accounting

The financial statements are prepared in accordance with policies prescribed or permitted by the Commission and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform with accounting principles generally accepted in the United States of America (GAAP) in all material respects. As a rate-regulated entity, the Cooperative's financial statements reflect actions of regulators that result in the recording of revenues and expenses in different time periods than enterprises that are not rate-regulated in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 980, *Regulated Operations*.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Electric Plant in Service

Electric plant is stated at original cost, which is the cost of the plant when first dedicated to public service by the initial owner, plus the cost of all subsequent additions. The cost of assets constructed by the Cooperative includes material, labor, contractor and overhead costs.

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 cost of units replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

Depreciation and Amortization

Depreciation for the generating plants and transmission facilities is provided on the basis of estimated useful lives at straight-line composite rates. Effective October 1, 2021, new depreciation rates were implemented based upon a depreciation study approved by the PSC and RUS. The approved composite depreciation rates for generation, transmission, and distribution include a component for non-asset retirement obligation (non-ARO) removal costs, which is credited to accumulated depreciation. Actual removal costs incurred are charged to accumulated depreciation, as prescribed by RUS. Any excess of accrued non-ARO removal costs over actual removal costs incurred will be reclassified from accumulated depreciation and reflected as a regulatory liability on the balance sheets. The depreciation rates in effect as of December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Generation plant	1.81%–11.67%	1.81%–11.67%
Transmission and distribution plant	1.12%–6.31%	1.12%–6.31%
General plant	0.99%–6.67%	0.99%–6.67%

Depreciation and amortization expense was \$147.7 million and \$141.1 million for 2022 and 2021, respectively. Depreciation and amortization expense includes amortization expense of \$11.1 million in 2022 and \$10.8 million in 2021 related to plant abandonments granted regulatory asset treatment (Note 4).

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

The Cooperative received PSC approval to charge depreciation associated with asset retirement obligations to regulatory assets. These regulatory assets are charged to depreciation expense as recovery occurs. Depreciation charged to regulatory assets was \$3.3 million and \$3.0 million in 2022 and 2021, respectively.

Asset Impairment

Long-lived assets held and used by the Cooperative are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Specifically, the evaluation for impairment involves comparison of an asset's carrying value to the estimated undiscounted cash flows the asset is expected to generate over its remaining life. If this evaluation were to conclude that the carrying value of the asset is impaired, an impairment charge would be recorded as a charge to operations based on the difference between the asset's carrying amount and its fair value. No impairment was recognized for long-lived assets during the years ended December 31, 2022 or 2021.

Restricted Investments

Restricted investments represent funds restricted by contractual stipulations or other legal requirements and are shown as noncurrent on the balance sheets. Restricted investment activity is classified as investing activities on the statements of cash flows.

Restricted investments at December 31, 2022 and 2021 were \$1.1 million and consisted of debt service reserve funds required to be on deposit with a trustee throughout the term of the Series 1993B Solid Waste Disposal Revenue Bonds (Note 5).

Cash and Cash Equivalents

The Cooperative considers temporary investments having an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents at December 31, 2022 and 2021, consisted primarily of money market mutual funds and investments in commercial paper.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Investment Securities

Investment securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investment securities are classified as available-for-sale when they might be sold before maturity. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported in other comprehensive margin on the statements of revenue and expenses and comprehensive margin.

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Investment securities are written down to fair value when a decline in fair value is other-than-temporary.

Fair Value of Financial Instruments

The carrying amount of cash, receivables and certain other current liabilities approximates fair value due to the short maturity of the instruments.

The Cooperative uses fair value to measure certain financial instruments. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Observable inputs or unobservable inputs, defined by ASC Topic 820, *Fair Value Measurements and Disclosures*, may be used in the calculation of fair value. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below:

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 – Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;
- Level 3 – Prices or valuations that require inputs that are both significant to the fair value measure and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

The inputs used to measure cash equivalents are Level 1 measurements, as the money market funds are exchange traded funds in an active market. The inputs used to measure the available-for-sale and debt service reserve investments are Level 1 measurements, as the securities are based on quoted market prices for identical investments or securities. Included in the available-for-sale securities on the following table are securities held in connection with the directors' and certain employees' elective deferred compensation programs and the supplemental executive retirement plan covering certain executives of \$3.3 million and \$3.6 million at December 31, 2022 and 2021, respectively. These assets are included in other noncurrent assets on the balance sheets.

Estimated fair values of the Cooperative's financial instruments as of December 31, 2022 and 2021, were as follows (dollars in thousands):

	Fair Value at Reporting Date Using			
	Fair Value December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 140,000	\$ 140,000	\$ —	\$ —
Available-for-sale securities	21,425	21,425	—	—
Debt service reserve	1,117	1,117	—	—

	Fair Value at Reporting Date Using			
	Fair Value December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 90,000	\$ 90,000	\$ —	\$ —
Available-for-sale securities	22,545	22,545	—	—
Debt service reserve	1,103	1,103	—	—

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

The estimated fair values of the Cooperative's financial instruments carried at cost at December 31, 2022 and 2021, were as follows (dollars in thousands):

	2022		2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Held-to-maturity investments	\$ 7,181	\$ 7,168	\$ 7,287	\$ 12,545
Long-term debt	2,689,281	2,556,154	2,529,594	2,755,624

The inputs used to measure held-to-maturity investment securities are considered Level 2 and are based on third-party yield rates of similarly maturing instruments determined by recent market activity. The fair value of long-term debt, including current maturities and prepayment costs, is calculated using published interest rates for debt with similar terms and remaining maturities and is a Level 2 fair value measurement.

Concentration of Credit Risk

Credit risk represents the risk of loss that would occur if suppliers or customers did not meet their contractual obligations to EKPC. Concentration of credit risk occurs when significant suppliers or customers possess similar characteristics that would cause their ability to meet contractual obligations to be affected by the same events.

The Cooperative's sales are primarily to its member cooperatives and totaled approximately \$1,157.0 million and \$887.5 million for 2022 and 2021, respectively. Accounts receivable at December 31, 2022 and 2021, were primarily from billings to member cooperatives.

At December 31, 2022 and 2021, individual accounts receivable balances that exceeded 10% of total accounts receivable are as follows (dollars in thousands):

	2022		2021	
Owen Electric Cooperative	\$ 19,578	\$ 11,766		

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Inventories

Inventories of fuel and materials and supplies are valued at the lower of average cost or net realizable value. Upon removal from inventory for use, the average cost method is used. Physical adjustments of fuel inventories are charged to expense over the subsequent six months and recovered or refunded, as required, through the fuel adjustment clause.

Regulatory Assets and Liabilities

ASC Topic 980 applies to regulated entities for which rates are designed to recover the costs of providing service. In accordance with this topic, certain items that would normally be reflected in the statements of revenue and expenses are deferred on the balance sheets. Regulatory assets represent probable future revenues associated with certain incurred costs, which will be recovered from customers through the rate-making process. Regulatory assets are charged to earnings as collection of the cost in rates is recognized or when future recovery is no longer probable. Conversely, regulatory liabilities represent future reductions in revenues associated with amounts that are to be credited to customers through the rate-making process.

Debt Issuance Costs

Debt issuance costs are presented as a direct deduction from long-term debt with the exception of those issuance costs associated with line-of-credit arrangements which are classified as a deferred charge asset on the balance sheet.

Debt issuance costs are amortized to interest expense over the life of the respective debt using the effective interest rate method or the straight-line method when results approximate the effective interest rate method.

Asset Retirement Obligations

ASC Topic 410, *Asset Retirement Obligations*, requires legal obligations associated with the retirement of long-lived assets to be recognized at fair value when incurred and capitalized as part of the related long-lived asset, including asset retirement obligations where an obligation exists even though the method or timing of settlement may be conditional. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. When the asset is retired, the entity settles the obligation for its recorded amount or incurs a gain or loss.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Fair value of each respective asset retirement obligation (ARO), when incurred, is determined by discounting expected future cash outflows associated with required retirement activities using a credit adjusted risk-free rate. Cash outflows for retirement activities are based upon market information, historical information and management's estimates and would be considered Level 3 under the fair value hierarchy.

The Cooperative's AROs represent the requirements related to asbestos abatement and reclamation and capping of ash disposal sites at its coal-fired plants. Estimated cash flow revisions in 2021 primarily related to changes in the estimated cost to settle ash disposal sites to comply with the closure and post-closure requirements of the Coal Combustion Residuals (CCR) Rule. Settlement activities in 2022 and 2021 are associated with the closure of an ash disposal site.

The Cooperative continues to evaluate the useful lives of its plants and the costs of remediation required by law.

The following table represents the details of asset retirement obligation activity as reported on the accompanying balance sheets (dollars in thousands):

	<u>2022</u>	<u>2021</u>
Balance – beginning of year	\$ 45,902	\$ 48,851
Liabilities settled	(7,070)	(6,098)
Estimated cash flow revisions	–	1,731
Accretion	1,536	1,418
Balance – end of year	<u>\$ 40,368</u>	<u>\$ 45,902</u>

As discussed in Note 4, the PSC granted regulatory asset treatment of accretion and depreciation associated with AROs on EKPC's books by type and location beginning in January 2014. These regulatory assets will be charged to accretion expense and depreciation expense as recovery of settlement costs occurs.

Accretion charged to regulatory assets in 2022 and 2021 was \$1.5 million and \$1.4 million, respectively. Accretion expense recognized in 2022 and 2021 was \$1.9 million and \$1.6 million, respectively, which represented the recovery of settlement costs associated with ash disposal sites and asbestos abatement at Dale Station.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Operating revenues are primarily derived from sales of electricity to members. These sales, which comprise approximately 92% of EKPC's operating revenues, are pursuant to identical long-term wholesale power contracts maintained with RUS and each of the Cooperative's 16 members that extend through December 31, 2050. The wholesale power contract obligates each member to pay EKPC for demand and energy furnished in accordance with rates established by the PSC. Energy and demand have the same pattern of transfer to members as one cannot be provided without the other. Therefore, these components of electric power sales to members are considered one performance obligation. Electricity revenues are recognized over time as energy is delivered based upon month-end meter readings and rates set forth in EKPC's tariffs, as approved by the PSC.

Non-member revenues are primarily comprised of PJM Interconnection, LLC (PJM) electric and capacity revenues, and other revenues. In the PJM market, electricity sales are separately identifiable from participation in the capacity market as the two can be transacted independently of one another. Therefore, PJM electric sales are considered a separate contract with a single performance obligation and revenue is recognized based upon the megawatt-hours delivered in each hour at the market price. Capacity revenues represent compensation received from PJM for making generation capacity available to satisfy system integrity and reliability requirements. Capacity is a stand-ready obligation to deliver energy when called upon and is considered a single performance obligation. Revenue is recognized over time based upon megawatts and the prices set by the PJM competitive auction for the delivery year.

Other revenues primarily consist of transmission, wheeling, and leasing activities. Transmission and wheeling are related to contractual agreements with PJM and other electric utilities for transmitting electricity over EKPC's transmission lines. Each of these services are provided over time with progress measured using the output method. Lease revenue is related to a power sales arrangement that is required to be accounted for as a lease since the arrangement conveys the right to the output of a specific plant facility for a stated period of time. See Note 9.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

The following represents operating revenues by revenue stream for the years ended December 31, 2022 and 2021 (dollars in thousands):

	Year Ended December 31	
	2022	2021
Member electric sales	\$ 1,156,966	\$ 887,525
Non-member sales:		
Electric	90,887	43,074
Capacity	8,122	16,468
Other	7,362	5,556
Total operating revenues	<u>\$ 1,263,337</u>	<u>\$ 952,623</u>

Rate Matters

The base rates charged by the Cooperative to its members are regulated by the PSC. Any change in base rates requires that EKPC file an application with the PSC and interested parties may seek intervention in the proceeding if they satisfy certain regulatory requirements. EKPC's last base rate increase was authorized by the PSC for service rendered on and after October 1, 2021, and resulted in a 4.4% increase in EKPC's wholesale base rates, or approximately \$36.4 million in annual revenue.

The PSC's final rate order contained a provision for the establishment of an earnings mechanism whereby in any given year that EKPC achieves a times interest earned ratio (TIER) in excess of 1.4, the excess margin will be recorded as a regulatory liability at year-end and returned to Owner-Members through a bill credit in the subsequent year.

The PSC's rate order also authorized the establishment of a generation maintenance tracker, effective for the year ending December 31, 2022 and thereafter, whereby EKPC will record a regulatory asset or regulatory liability for 75% of all actual generation maintenance expenses over/under a historical level of generation maintenance expense. The recovery of the regulatory asset or refund of the regulatory liability will then be addressed in EKPC's next base rate case.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

The PSC has adopted a uniform fuel adjustment clause for all electric utilities within its jurisdiction. Under this clause, fuel cost above or below a stated amount per kWh is charged or credited to the member cooperatives for all energy sales during the month following actual fuel costs being incurred and is included in member electric sales. The regulatory asset or liability represents the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

The PSC has an environmental cost recovery mechanism that allows utilities 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. This environmental surcharge is billed on a percentage of revenue basis, one month following the actual costs incurred and is included in member electric sales. The regulatory asset or liability represents the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

Members' Equities

Memberships represent contributions to the Cooperative made by members. Should the Cooperative cease business, these amounts, if available, will be returned to the members.

Patronage capital represents net margin allocated to the Cooperative's members on a contribution-to-gross margin basis pursuant to the provisions of its bylaws. The Cooperative's bylaws permit the Board of Directors to retire capital contributed by or allocated to members when, after any proposed retirement, the total capital of the Cooperative equals or exceeds 20% of total assets, as defined by RUS. In addition, provisions of certain financing documents prohibit the retirement of capital until stipulated requirements related to aggregate margins and equities are met.

The Cooperative's Board of Directors authorized the retirement of patronage capital in 2022 in the amount of \$20.1 million, which represented all unpaid margin allocations assigned to members from 1976 through 1983.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Comprehensive Margin

Comprehensive margin includes both net margin and other comprehensive margin. Other comprehensive margin represents the change in unrealized gains and losses on available-for-sale securities, as well as the change in the funded status of the accumulated postretirement benefit obligation. The Cooperative presents each item of other comprehensive margin on a net basis in the statements of revenue and expenses and comprehensive margin. Reclassification adjustments are disclosed in Note 7. For any item required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period, the affected line item(s) on the statements of revenue and expenses and comprehensive margin are provided.

Income Taxes

The Cooperative is exempt under Section 501(c)(12) of the Internal Revenue Code from federal income tax for any year in which at least 85% of its gross income is derived from members but is responsible for income taxes on certain unrelated business income. ASC Topic 740, *Income Taxes*, clarifies the accounting for uncertainty in income taxes recognized in the financial statements. This interpretation requires financial statement recognition of the impact of a tax position if a position is more likely than not of being sustained on audit, based on the technical merits of the position. Additionally, ASC Topic 740 provides guidance on measurement, recognition, classification, accounting in interim periods, and disclosure requirements for uncertain tax positions. The Cooperative has determined that more than 85% of its gross income is derived from members and it meets the exemption status under Section 501(c)(12).

Regional Transmission Organization

The Cooperative is a transmission-owning member of PJM and functional control of certain transmission facilities is maintained by PJM. Open access to the EKPC transmission system is managed by PJM pursuant to the FERC approved PJM Open Access Transmission Tariff and the Cooperative is an active participant in PJM's Regional Transmission Planning process, which develops a single approved transmission plan for the entire PJM footprint. Energy related purchases and sales transactions within PJM are recorded on an hourly basis with all transactions within each market netted to a single purchase or sale for each hour.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Power Sales Arrangement

The Cooperative is the lessor under a power sales arrangement that is required to be accounted for as an operating lease due to the terms of the agreement. The details of the agreement are discussed in Note 9. The revenue from this arrangement is included in operating revenues on the statements of revenue and expenses and comprehensive margin.

New Accounting Guidance

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The core principle of this revised accounting guidance requires that lessees recognize all leases (other than leases with a term of twelve months or less) on the balance sheet as lease liabilities, based upon the present value of the lease payments, with corresponding right of use assets. ASU 2016-02 also makes targeted changes to other aspects of the current guidance, but does not substantially change the accounting for finance leases (previously capital leases) or the lessor accounting model. The Cooperative adopted the new lease accounting guidance effective January 1, 2022, utilizing the modified retrospective approach. The Cooperative also elected the package of practical expedients under the transition guidance which enabled the Cooperative to avoid reassessing under the new standard prior conclusions for lease identification and lease classification on expired or existing contracts and land easements. The Cooperative also elected to utilize a risk-free discount rate for certain classifications of operating leases when an implicit rate is not readily determinable. Adoption of the standard was not material to the Cooperative's financial statements. The Cooperative recognized right-of-use assets as part of electric plant in-service and offsetting operating lease liabilities, included in current and accrued liabilities, of approximately \$1.0 million at adoption.

In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*, to increase the transparency of government assistance received by entities. Specifically, ASU 2021-10 requires disclosure of the types of assistance received, significant terms and conditions related to the assistance, the accounting for the assistance, and the effect of the assistance on the entity's financial statements. The standard was prospectively adopted, effective January 1, 2022. There was no impact on EKPC's financial statements. See Note 10 for required disclosures.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, a new standard to replace the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The standard is effective for the Cooperative on January 1, 2023, and early adoption is permitted. The Cooperative does not believe implementation of this standard will have a material impact on its financial statements.

2. Electric Plant in Service

Electric plant in service at December 31, 2022 and 2021, consisted of the following (dollars in thousands):

	<u>2022</u>	<u>2021</u>
Production plant	\$ 3,191,277	\$ 3,185,421
Transmission plant	970,558	929,969
General plant	120,168	115,067
Completed construction, not classified, and other	398,006	320,852
Electric plant in service	<u>\$ 4,680,009</u>	<u>\$ 4,551,309</u>

Acquisition adjustments of \$4 million were included in electric plant in service at December 31, 2022 and 2021. Acquisition adjustments represent the difference between the net book value of the original owner and the fair value of the assets at the date of acquisition.

3. Investment Securities

Cost and estimated fair value of available-for-sale investment securities at December 31, 2022 and 2021, were as follows (dollars in thousands):

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
2022				
U.S. Treasury bill/note	\$ 18,224	\$ –	\$ (145)	\$ 18,079
	<u>\$ 18,224</u>	<u>\$ –</u>	<u>\$ (145)</u>	<u>\$ 18,079</u>

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

3. Investment Securities (continued)

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2021				
U.S. Treasury bill/note	\$ 18,910	\$ –	\$ (12)	\$ 18,898
	<u>\$ 18,910</u>	<u>\$ –</u>	<u>\$ (12)</u>	<u>\$ 18,898</u>

Proceeds from maturities of securities were \$19.1 million and \$80.2 million in 2022 and 2021, respectively.

Amortized cost and estimated fair value of held-to-maturity investment securities at December 31, 2022 and 2021, are as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2022				
National Rural Utilities Cooperative Finance Corporation:				
5% capital term certificates	\$ 6,998	\$ –	\$ (10)	\$ 6,988
6.59% subordinated term certificate	70	1	–	71
0% subordinated term certificate	113	–	(4)	109
	<u>\$ 7,181</u>	<u>\$ 1</u>	<u>\$ (14)</u>	<u>\$ 7,168</u>
2021				
National Rural Utilities Cooperative Finance Corporation:				
5% capital term certificates	\$ 6,998	\$ 5,250	\$ –	\$ 12,248
6.59% subordinated term certificate	105	10	–	115
0% subordinated term certificate	184	–	(2)	182
	<u>\$ 7,287</u>	<u>\$ 5,260</u>	<u>\$ (2)</u>	<u>\$ 12,545</u>

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

3. Investment Securities (continued)

The amortized cost and fair value of securities at December 31, 2022, by contractual maturity, are shown below (dollars in thousands). Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Available-for-sale:		
Due in one year or less	\$ 18,224	\$ 18,079
	\$ 18,224	\$ 18,079
Held-to-maturity:		
Due in one year or less	\$ 183	\$ 180
Due after ten years	6,998	6,988
	\$ 7,181	\$ 7,168

4. Regulatory Assets and Liabilities

Regulatory assets (liabilities) were comprised of the following as of December 31, 2022 and 2021 (dollars in thousands):

	2022	2021
Plant abandonment – Smith Unit 1	\$ 42,575	\$ 53,544
Plant abandonment – Dale Station	281	656
ARO-related depreciation and accretion expenses	34,255	38,771
Major maintenance projects – Spurlock Station	4,528	5,433
Rate case expenses	433	681
Generation maintenance tracker	9,234	–
Fuel adjustment clause	33,546	11,206
	\$ 124,852	\$ 110,291
Environmental cost recovery	\$ (4,505)	\$ (7,717)
Earnings mechanism	(1,393)	–
	\$ (5,898)	\$ (7,717)

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

4. Regulatory Assets and Liabilities (continued)

Detailed information regarding regulatory assets and liabilities is provided below.

Smith Unit 1 – Represents the remaining regulatory asset balance authorized by the PSC in connection with the cancelled construction of the Smith Unit 1 coal-fired plant in 2010. The PSC approved recovery of the remaining amortization in base rates. The regulatory asset will be fully amortized on December 31, 2026.

Dale Station – Represents the remaining unrecovered balance of environmental surcharge capital projects associated with the abandonment of Dale Station at December 31, 2015. The PSC approved recovery and a two-year amortization period, which ends on September 30, 2023.

ARO related depreciation and accretion expenses – The PSC authorized regulatory asset treatment of depreciation and accretion expenses related to EKPC's asbestos abatement and ash disposal AROs. The PSC authorized recovery of the costs incurred to settle the majority of EKPC's ash disposal AROs through the environmental surcharge mechanism. The PSC also authorized the recovery and amortization of a regulatory asset related to the settlement of the Dale Station asbestos ARO over a period of two years, which will end on September 30, 2023. While the Cooperative has not yet requested recovery of two ARO related regulatory assets, management believes it is probable that the PSC will allow the Cooperative to recover the full amount through rates or other mechanisms.

Major maintenance projects – In 2019, the RUS authorized the Cooperative to establish a regulatory asset for the costs related to major maintenance and the replacement of minor components of property at Spurlock Station and to amortize the balance over eight years. The PSC subsequently authorized amortization and recovery over the months remaining in the eight-year period, which ends on December 31, 2027.

Rate case expenses – The PSC authorized EKPC to establish a regulatory asset for expenses incurred as part of the 2021 rate case proceeding. The PSC also authorized the recovery and a three-year amortization period, which ends on September 30, 2024.

Generation maintenance tracker – As discussed in Note 1, Rate Matters, this amount represents 75% of the 2022 generation maintenance expenses that exceeded the historical expense level established as part of the 2021 base rate case. The amount will be considered for recovery during EKPC's next base rate case.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

4. Regulatory Assets and Liabilities (continued)

Fuel adjustment clause and environmental surcharge – Represents recovery mechanisms adopted by the PSC (Note 1, Rate Matters). Any under (over) recovery is classified as a current regulatory asset or regulatory liability on the balance sheet.

Earnings mechanism – As discussed in Note 1, Rate Matters, this amount represents 2022 excess earnings to be refunded to Owner-Members through a bill credit due to TIER exceeding 1.4. This regulatory liability is classified as current on the balance sheet.

5. Long-Term Debt

The Cooperative executed an Indenture of Mortgage, Security Agreement and Financing Statement, dated as of October 11, 2012 (Indenture) between the Cooperative, as Grantor, to U.S. Bank National Association, as Trustee. The Indenture provides first mortgage note holders and tax-exempt bond holders with a pro-rated interest in substantially all owned assets.

Long-term debt outstanding at December 31, 2022 and 2021, consisted of the following (dollars in thousands):

	2022	2021
First mortgage notes:		
1.14%–4.80%, payable quarterly to Federal Financing Bank (FFB) in varying amounts through 2050, weighted average 3.43%	\$ 1,938,773	\$ 1,953,259
First Mortgage Bonds, Series 2014A, fixed rate of 4.61%, payable semi-annual, matures February 6, 2044	164,000	169,000
First Mortgage Bonds, Series 2019, fixed rate of 4.45%, payable semi-annual, matures April 19, 2049	135,000	140,000
First Mortgage Promissory Note, fixed rate of 4.30%, payable semi-annual, matures April 30, 2049	90,000	93,333
Tax-exempt bonds:		
Solid Waste Disposal Revenue Bonds, Series 1993B, variable rate bonds, due August 15, 2023 2.88% and 0.30% at December 31, 2022 and 2021, respectively	700	1,400
Clean Renewable Energy Bonds, fixed rate of 0.40% payable quarterly to CFC to December 1, 2023	444	888
New Clean Renewable Energy Bonds, fixed rate of 4.5% payable annually to CFC to January 31, 2047, reimbursed by IRS annually of up to 2.97% for a net rate of 1.53%	16,386	16,738

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

5. Long-Term Debt (continued)

	2022	2021
Promissory notes:		
Variable rate notes payable to CFC, 5.37% at December 31, 2022	\$ 350,000	\$ 160,000
5.40%–5.50% fixed rate notes payable to National Cooperative Services Corporation, weighted average 5.43%	1,306	2,695
Total debt	2,696,609	2,537,313
Less debt issuance costs	(7,328)	(7,719)
Total debt adjusted for debt issuance costs	2,689,281	2,529,594
Less current maturities	(96,654)	(92,763)
Total long-term debt	\$ 2,592,627	\$ 2,436,831

FFB and RUS First Mortgage Notes

The Cooperative received loan funds in varying amounts through its first mortgage notes payable to the Federal Financing Bank and RUS. All such loans are subject to certain conditions outlined by RUS. Listed below are descriptions of those loan applications for which additional funds were advanced to the Cooperative during the year and the status of any remaining funds approved and available for advance at December 31, 2022. The amounts outstanding under these notes are \$1.9 billion at December 31, 2022.

In June 2015, the Cooperative submitted to RUS a loan application in the amount of \$238.9 million for various generation projects. The loan was revised to \$221.8 million and approved by RUS in September 2015. The loan documents were subsequently executed in January 2017 with a maturity date of December 31, 2049; \$14.9 million was advanced in 2022. As of December 31, 2022, no loan funds remained available for advance.

In September 2019, the Cooperative submitted to RUS a loan application in the amount of \$153.0 million for various transmission projects. The loan documents were subsequently executed in March 2020 with a maturity date of December 31, 2050; \$27.1 million was advanced in 2022. As of December 31, 2022, \$66.9 million of the loan remained available for advance.

In September 2019, the Cooperative submitted to RUS a loan application in the amount of \$347.0 million for various generation projects. The loan documents were subsequently executed in March 2020 with a maturity date of December 31, 2050; \$18.9 million was advanced in 2022. As of December 31, 2022, \$251.4 million of the loan remained available for advance.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

5. Long-Term Debt (continued)

Other First Mortgage Notes and Bonds

On December 11, 2013, the Cooperative entered into a bond purchase agreement for \$200 million 4.61% First Mortgage Bonds, Series 2014A due February 2044. The transaction closed and funded on February 6, 2014. The debt is secured on equal footing with the Cooperative's other secured debt under the Indenture. The amount outstanding under these notes is \$164.0 million at December 31, 2022.

On April 18, 2019, the Cooperative entered into a bond purchase agreement for \$150 million 4.45% First Mortgage Bonds, Series 2019 due to mature on April 19, 2049. The transaction closed and was funded on April 18, 2019. The debt is secured on equal footing with the Cooperative's other secured debt under the Indenture. The amount outstanding under these bonds is \$135.0 million at December 31, 2022.

On April 19, 2019, the Cooperative signed a promissory note to CFC for \$100 million at a fixed rate of 4.30% with a maturity date of April 30, 2049. The debt is secured and on equal footing with other secured debt. The balance on the loan was \$90.0 million at December 31, 2022.

Tax-Exempt Bonds

The interest rate on the Series 1993B Solid Waste Disposal Revenue Bonds is subject to change semiannually. The interest rate adjustment period on the variable rate bonds may be converted to a weekly, semiannual, annual or three-year basis, or to a fixed-rate basis, at the option of the Cooperative. A CFC guarantee secures payment of the outstanding Series 1993B bonds and has an expiration date of August 15, 2023. The balance outstanding under these bonds is \$0.7 million at December 31, 2022. The 1993B solid waste disposal revenue bonds require that debt service reserve funds be on deposit with a trustee throughout the term of the bonds in the amount of \$1.1 million. In addition, mandatory sinking fund payments are required of \$0.7 million in 2023. Debt service reserve and construction funds are held by a trustee and are invested primarily in U.S. Government securities and CFC promissory notes. These funds are included in restricted investments on the accompanying balance sheets and have a fair value of approximately \$1.1 million at December 31, 2022 and 2021.

In January 2008, EKPC was approved to receive up to \$8.6 million to finance certain qualified renewable energy projects with Clean Renewable Energy Bonds. The loan was fully advanced in July 2009. The amount outstanding at December 31, 2022, is \$0.4 million.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

5. Long-Term Debt (continued)

In September 2016, EKPC was authorized by the IRS to issue \$19.8 million in New Clean Renewable Energy Bonds to finance a planned community solar facility. In February 2017, EKPC issued an \$18 million note to CFC. The amount outstanding as of December 31, 2022, is \$16.4 million.

Promissory Notes

On July 29, 2022, the Cooperative executed a \$500 million unsecured Amended and Restated Credit Agreement with CFC as the lead arranger, to be used for general corporate purposes including capital construction projects. This new revolving facility, with an initial maturity date of July 29, 2027, replaced the previous unsecured credit facility, which consisted of a \$500 million revolving commitment and a \$100 million term loan. As of December 31, 2022, the Cooperative had outstanding borrowings of \$350 million. As of December 31, 2022, the approximate availability under the credit facility was \$150 million.

In December 2010, the Cooperative entered into an unsecured loan agreement with the National Cooperative Services Corporation for \$23.8 million to refinance indebtedness to RUS. As of December 31, 2022, the amount outstanding under these notes is \$1.3 million.

Estimated annual maturities of long-term debt adjusted for debt issuance costs for the five years subsequent to December 31, 2022, are as follows (dollars in thousands):

Years ending December 31:	
2023	\$ 96,654
2024	96,588
2025	108,560
2026	106,229
2027	103,083
Thereafter	<u>2,178,167</u>
	<u>\$ 2,689,281</u>

The Indenture and certain other debt agreements contain provisions which, among other restrictions, require the Cooperative to maintain certain financial ratios. The Cooperative was in compliance with these financial ratios at December 31, 2022 and 2021.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

5. Long-Term Debt (continued)

As of December 31, 2022, the Cooperative has \$6.1 million outstanding in a letter of credit with the Commonwealth of Kentucky for Workers' Compensation and Self-Insured Automotive Policy Requirements.

As of December 31, 2022, the Cooperative has pledged securities of \$0.2 million to the United States Department of Labor related to Workers' Compensation.

In April 2022, the Cooperative filed a corporate guarantee and financial test with the Commonwealth of Kentucky in lieu of pledging securities for landfill closure and post-closure care costs estimated at approximately \$21.6 million. The corporate guarantee is renewed annually.

6. Retirement Benefits

Pension Plan

Pension benefits for employees hired prior to January 1, 2007, are provided through participation in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Plan (RS Plan). The plan is a defined benefit pension plan qualified under Section 401 and tax exempt under Section 501(a) of the Internal Revenue Code. It is considered a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

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.

For the RS 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 RS Plan was over 80% funded on January 1, 2022 and 2021, 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 RS 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.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

6. Retirement Benefits (continued)

EKPC also participates in a Deferred Compensation Pension Restoration Plan, which is intended to provide a supplemental benefit to highly compensated employees who would experience a reduction in their pension benefit from the RS Plan due to Internal Revenue Code limitations. The President and CEO is the only named participant. The plan was closed to new participants, effective January 1, 2015.

The Cooperative's contributions to the RS Plan in 2022 and 2021 represented less than 5% of the total contributions made to the plan by all participating employers. The Cooperative made annual contributions to the RS Plan and Deferred Compensation Pension Restoration Plan of \$7.4 million and \$7.8 million in 2022 and 2021, respectively.

Retirement Savings Plan

The Cooperative offers a Retirement Savings Plan for all employees who are eligible to participate in the Cooperative's benefit programs. The plan allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. For employees hired prior to January 1, 2007, the Cooperative makes matching contributions to the account of each participant up to 2.0% of the participant's compensation. For employees hired on or after January 1, 2007, the Cooperative will automatically contribute 6.0% of base wages and match the employee contribution up to 4.0%. The Cooperative contributed approximately \$5.0 million and \$4.7 million to the plan for the years ended December 31, 2022 and 2021, respectively. Employees vest immediately in their contributions and the contributions of the Cooperative.

Supplemental Executive Retirement Plan

The Cooperative provides a 457(f) Supplemental Executive Retirement Plan to the executives of the organization. The plan is considered a defined contribution plan whereby annual contributions are made based upon a percentage of base salary. Participants become 100% vested and the account balance paid out upon attaining age 62 or if separation occurs due to involuntary termination without cause, disability, or death. Separation for any other reason before age 62 will result in participants forfeiting their benefits.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

6. Retirement Benefits (continued)

Supplemental Death Benefit Plan

The Cooperative provides a Supplemental Death Benefit Plan to all employees eligible to participate in the pension plan. The supplemental death benefit is payable to a deceased employee's beneficiary if the lump sum value of a 100% survivor benefit under the pension plan exceeds the pension plan benefits plus the Cooperative's group life insurance proceeds. Management believes that any liability related to this plan will not have a material effect on the financial statements.

Postretirement Medical Benefits

The Cooperative sponsors a defined benefit plan that provides medical and life insurance coverage to retirees and their dependents. Participating retirees and dependents contribute 50% of the projected cost of coverage. For purposes of the liability estimates, the substantive plan is assumed to be the same as the written plan. The plan is not funded.

In accordance with ASU 2017-07, *Compensation – Retirement Benefits (Topic 715) – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, the Cooperative includes the service cost component of net periodic benefit cost in operating expenses in the statements of revenue and expenses and comprehensive margin. All other components of net periodic benefit cost are included in other non-operating margin (expense).

The following page sets forth the accumulated postretirement benefit obligation, the change in plan assets, and the components of accrued postretirement benefit cost and net periodic benefit cost as of December 31, 2022 and 2021 (dollars in thousands):

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

6. Retirement Benefits (continued)

	2022	2021
Change in benefit obligation:		
Accumulated postretirement benefit obligation – beginning of year	\$ 37,435	\$ 51,151
Service cost	834	1,279
Interest cost	1,052	1,283
Participants’ contributions	1,478	1,275
Benefits paid	(4,085)	(2,894)
Actuarial gain	(6,740)	(14,659)
Accumulated postretirement benefit obligation – end of year	29,974	37,435
Change in plan assets:		
Fair value of plan assets – beginning of year	–	–
Employer contributions	2,607	1,619
Participant contributions	1,478	1,275
Benefits paid	(4,085)	(2,894)
Fair value of plan assets – end of year	–	–
Funded status – end of year	\$ (29,974)	\$ (37,435)
Amounts recognized in balance sheet consists of:		
Current liabilities	\$ 2,247	\$ 1,848
Noncurrent liabilities	27,727	35,587
Total amount recognized in balance sheet	\$ 29,974	\$ 37,435
Amounts included in accumulated other comprehensive margin:		
Prior service credit	\$ 20,608	\$ 22,629
Unrecognized actuarial gain	23,329	17,461
Total amount in accumulated other comprehensive margin	\$ 43,937	\$ 40,090
Net periodic benefit cost:		
Service cost	\$ 834	\$ 1,279
Interest cost	1,052	1,283
Amortization of prior service credit	(2,021)	(2,021)
Amortization of net actuarial gain	(872)	–
Net periodic benefit cost	\$ (1,007)	\$ 541
Amounts included in other comprehensive margin:		
Net gain arising during the year	6,740	14,659
Amortization of prior service credit	(2,021)	(2,021)
Amortization of net actuarial gain	(872)	–
Net gain recognized in other comprehensive margin	\$ 3,847	\$ 12,638

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

6. Retirement Benefits (continued)

The change in benefit obligation included a net actuarial gain of \$6.7 million. This net actuarial gain was comprised of a \$10.6 million gain resulting from an increase in the discount rate, partially offset by losses of \$2.6 million due to census related data assumptions, \$0.8 million from higher per capita claims, and \$0.5 million from healthcare trend and other updates.

Actuarial gains and losses are not recognized in net margin, but are instead recorded in accumulated other comprehensive margin. If the total unrecognized actuarial gain or loss is in excess of 10% of the projected benefit obligation, the excess amount is amortized into other non-operating margin (expense) over the average years of remaining future service to expected retirement age.

The discount rate used to determine the accumulated postretirement benefit obligation was 5.42% and 2.88% for 2022 and 2021, respectively.

The expected benefit payments from the plan, which reflect anticipated future service, are (dollars in thousands):

Years ending December 31:	
2023	\$ 2,247
2024	2,246
2025	2,121
2026	1,935
2027	1,900
2028–2031	9,881

For measurement purposes, a 6.3% annual rate of increase in the per capita cost of covered health care benefits was used for the year ended December 31, 2022. The rate is assumed to decline to 4.0% after 25 years.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

7. Changes in Accumulated Other Comprehensive Margin by Component

The following table represents the details of accumulated other comprehensive margin activity by component (dollars in thousands):

	Postretirement Benefit Obligation	Unrealized Gain (Loss) on Investments Available for Sale	Accumulated Other Comprehensive Margin
Balance – December 31, 2020	\$ 27,452	\$ 1	\$ 27,453
Other comprehensive gain (loss) before reclassifications	14,659	(13)	14,646
Amounts reclassified from accumulated other comprehensive margin	(2,021)	–	(2,021)
Net current period other comprehensive gain (loss)	12,638	(13)	12,625
Balance – December 31, 2021	40,090	(12)	40,078
Other comprehensive gain (loss) before reclassifications	6,740	(133)	6,607
Amounts reclassified from accumulated other comprehensive margin	(2,893)	–	(2,893)
Net current period other comprehensive gain (loss)	3,847	(133)	3,714
Balance – December 31, 2022	\$ 43,937	\$ (145)	\$ 43,792

The postretirement benefit obligation reclassification noted above represents the amortization of prior service credits and actuarial gains that are included in the computation of net periodic postretirement benefit cost. See Note 6 – Retirement Benefits for additional details.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

8. Commitments and Contingencies

Contract Commitments

The Cooperative periodically enters into long-term agreements for the purchase of power. Payments made under long-term power contracts in 2022 and 2021 were \$7.3 million and \$6.5 million, respectively. One long-term agreement remained in effect at December 31, 2022, and will continue until either party gives a three year notice of termination. Total minimum payment obligations related to this contract are as follows (dollars in thousands):

Years ending December 31:	
2023	\$ 4,450
2024	3,910
2025	3,747

The Cooperative has commitments to purchase coal for its generating plants under long-term contracts that extend through 2025. Coal payments under contracts for 2022 and 2021 were \$110.6 million and \$77.1 million, respectively. Total minimum purchase obligations for the next three years are as follows (dollars in thousands):

Years ending December 31:	
2023	\$ 299,445
2024	165,311
2025	10,989

The minimum cost of the coal purchases, based on the latest contractual prices, is subject to escalation clauses that are generally based on government-published indices and market price.

The Cooperative also has commitments to purchase limestone and lime for its coal-fired generating plants under all requirements contracts that extend through 2024. These contracts set forth pricing and quantity maximums for each product but do not require minimum purchases. Given that annual quantities purchased will vary according to the generation produced at each plant, minimum purchase obligations for the next year cannot be determined.

The supply agreements are not accounted for as derivatives based upon the Normal Purchases Normal Sales exception as permitted by ASC 815, *Derivatives and Hedging*.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

8. Commitments and Contingencies (continued)

Environmental

As an electric utility, the Cooperative is subject to federal, state, and local laws and regulations to protect both human health and the environment while also regulating the emission, discharge, or release of pollutants into the environment. We believe we are materially in compliance with all current requirements. However, the operation of our generation fleet could be affected by new requirements and future changes in environmental laws and regulations. Capital expenditures and increased operating costs required to comply with new and future regulations cannot be determined at this time, but could be significant.

Winter Storm Elliott

PJM declared Performance Assessment Interval (PAI) events on December 23 and December 24, 2022 as a result of the high demand for electricity and loss of generation caused by the extremely cold temperatures experienced during Winter Storm Elliott. Generation owners with committed capacity resources are subject to significant non-performance assessments if their generating units do not meet PJM's performance standards during such events. Conversely, generating units that exceed performance expectations are eligible to receive bonus payments based upon the amount of non-performance assessments actually collected by PJM. EKPC had units that experienced unplanned outages during these events due to natural gas constraints and mechanical issues. Other EKPC units performed in excess of their required capacity obligations during the events. PJM released preliminary generating unit performance data in February 2023 and plans to finalize data and invoice non-performance assessments and bonus payments in early April 2023. Based upon PJM's preliminary generating unit performance data and other internal information, EKPC recorded a \$19.5 million liability as of December 31, 2022 for capacity non-performance assessments, which was included in operating revenue on the statement of revenue and expenses and comprehensive margin. EKPC did not record a receivable for estimated capacity bonus performance payments at December 31, 2022 as those amounts were not reasonably estimable.

EKPC maintains insurance coverage for certain unit non-performance assessments that occur during PAI events. Based upon the provisions of the policy and preliminary data provided by PJM, EKPC recorded an insurance receivable of \$13.7 million, which was included in operating revenue on the statement of revenue and expenses and comprehensive margin at December 31, 2022.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

9. Power Sales Arrangement

In December 2015, the Cooperative became the lessor under a power sales arrangement that was required to be accounted for as an operating lease due to the specific terms of the agreement. The arrangement is an agreement to sell the capacity and energy from the Glasgow landfill gas plant to a member system for a period of ten years. The revenue associated with this arrangement for 2022 and 2021 was \$0.5 million and \$0.6 million, respectively, and is included in operating revenue on the statements of revenue and expenses and comprehensive margin for the years ended December 31, 2022 and 2021.

The minimum future revenues under the arrangement is as follows (dollars in thousands):

Years ending December 31:		
2023	\$	452
2024		452
2025		452

10. Government Assistance

Government assistance transactions occurring during 2022 that meet the requirements of ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*, are outlined below.

The Cooperative received approval of a cash award from U.S. Department of Homeland Security, passed through Kentucky Emergency Management, for eligible costs incurred during FEMA Disaster 4630 to restore damaged power lines. This award provided for a cost share of 90% Federal, 4.8% State, and 5.2%, applicant. The Federal and State portion, approximately \$0.3 million, was applied against construction and retirement costs incurred for the disaster.

The Cooperative received a Clean Coal Incentive (CCI) Tax Credit of approximately \$0.7 million, for qualifying coal purchased for use at Spurlock Units 3 and 4, which are clean coal certified facilities. Since EKPC is not subject to income tax, the credit was applied to public service corporation property taxes due annually to the Commonwealth of Kentucky. The CCI is included in other non-operating margin in the statement of revenue and expenses and comprehensive margin.

East Kentucky Power Cooperative, Inc.

Notes to Financial Statements (continued)

11. Related Party Transactions

The Cooperative is a member of CFC, which provides a portion of the Cooperative's financing, including a \$100 million fixed rate loan executed in 2019. CFC is also a joint lead arranger and a 36% participant in the Cooperative's \$500 million unsecured credit facility. Held-to-maturity investments included CFC capital term certificates of \$7.2 million and \$7.3 million at December 31, 2022 and 2021, respectively. CFC Patronage capital assigned to EKPC was \$2.1 million and \$1.9 million at December 31, 2022 and 2021, respectively.

The Cooperative is also a member of CoBank. The balance of CoBank's patronage capital assigned to EKPC was \$0.7 million at December 31, 2022 and 2021. CoBank was also a 15% participant in the Cooperative's previous unsecured credit facility that ended on July 29, 2022.

EKPC is a member of ACES LLC (ACES), which provides various energy marketing, settlement and risk management related services to its members and clients. EKPC's Chairman of the Board and EKPC's CEO serve as ACES Board Members. EKPC accounts for its investment in ACES on the cost basis of accounting. At December 31, 2022 and 2021, the balance of EKPC's investment in ACES was approximately \$0.6 million. Payments to ACES were \$2.4 million in 2022 and \$2.3 million in 2021.

12. Subsequent Events

Management has evaluated subsequent events through March 31, 2023, which is the date these financial statements were available to be issued.

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