Financial Statements

East Kentucky Power Cooperative, Inc.
Years Ended December 31, 2023 and 2022
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

East Kentucky Power Cooperative, Inc.

Financial Statements

Years Ended December 31, 2023 and 2022

Contents

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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, 2023 and 2022, and the related statements of revenue and expenses and comprehensive margin (loss), 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, 2023 and 2022, 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 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 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 28, 2024, 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 28, 2024

East Kentucky Power Cooperative, Inc.

Balance Sheets
(Dollars in Thousands)

	December 31	
	2023	**2022**
Assets		
Electric plant:		
In-service	**$ 4,794,506**	$ 4,680,009
Construction-in-progress	**91,402**	81,198
	4,885,908	4,761,207
Less accumulated depreciation	**1,856,761**	1,762,598
Electric plant – net	**3,029,147**	2,998,609
Restricted investments	**–**	1,117
Investment securities:		
Available-for-sale	**16,596**	18,079
Held-to-maturity	**7,054**	7,181
Current assets:		
Cash and cash equivalents	**296,825**	229,669
Accounts receivable	**110,898**	149,448
Fuel	**136,241**	92,267
Materials and supplies	**137,485**	104,887
Regulatory assets	**14,404**	33,546
Other current assets	**23,183**	13,397
Total current assets	**719,036**	623,214
Regulatory assets	**94,340**	91,306
Deferred charges	**10,456**	4,497
Other noncurrent assets	**8,287**	8,440
Total assets	**$ 3,884,916**	$ 3,752,443
Members' equities and liabilities		
Members' equities:		
Memberships	**$ 2**	$ 2
Patronage and donated capital	**761,008**	743,152
Accumulated other comprehensive margin	**23,010**	43,792
Total members' equities	**784,020**	786,946
Long-term debt	**2,749,655**	2,592,627
Current liabilities:		
Current portion of long-term debt	**101,905**	96,654
Accounts payable	**109,662**	147,690
Accrued expenses	**56,931**	50,393
Regulatory liabilities	**1,428**	5,898
Total current liabilities	**269,926**	300,635
Accrued postretirement benefit cost	**44,506**	27,727
Asset retirement obligations and other liabilities	**36,809**	44,508
Total members' equities and liabilities	**$ 3,884,916**	$ 3,752,443

See notes to financial statements.

East Kentucky Power Cooperative, Inc.

Statements of Revenue and Expenses and Comprehensive Margin (Loss)

(Dollars in Thousands)

	Year Ended December 31 2023	2022
Operating revenue	**$ 1,110,571**	$ 1,263,337
Operating expenses:		
Production:		
Fuel	**344,469**	363,948
Other	**213,174**	199,637
Purchased power	**164,814**	309,443
Transmission and distribution	**74,244**	63,948
Regional market operations	**6,058**	5,631
Depreciation and amortization	**142,447**	147,689
General and administrative	**56,415**	50,804
Total operating expenses	**1,001,621**	1,141,100
Operating margin before fixed charges and other expenses	**108,950**	122,237
Fixed charges and other:		
Interest expense on long-term debt	**107,002**	89,701
Amortization of debt expense	**971**	990
Accretion and other	**1,207**	1,874
Total fixed charges and other expenses	**109,180**	92,565
Operating margin (loss)	**(230)**	29,672
Nonoperating margin:		
Interest income	**9,035**	2,690
Patronage capital allocations from other cooperatives	**913**	582
Other	**8,138**	2,936
Total nonoperating margin	**18,086**	6,208
Net margin	**17,856**	35,880
Other comprehensive margin (loss):		
Unrealized gain (loss) on available-for-sale securities	**184**	(133)
Postretirement benefit obligation gain (loss)	**(20,966)**	3,847
	(20,782)	3,714
Comprehensive margin (loss)	**$ (2,926)**	$ 39,594

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, 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
Net margin	**–**	**17,856**	**–**	**–**	**17,856**
Unrealized gain on available for sale securities	**–**	**–**	**–**	**184**	**184**
Postretirement benefit obligation loss	**–**	–	–	**(20,966)**	**(20,966)**
Balance – December 31, 2023	**$ 2**	**$ 757,973**	**$ 3,035**	**$ 23,010**	**$ 784,020**

See notes to financial statements.

East Kentucky Power Cooperative, Inc.

Statements of Cash Flows
(Dollars in Thousands)

	Year Ended December 31	
	2023	**2022**
Operating activities		
Net margin	**$ 17,856**	$ 35,880
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation and amortization	**142,447**	147,689
Amortization of debt issuance costs	**1,176**	1,218
Changes in operating assets and liabilities:		
Accounts receivable	**38,550**	(37,666)
Fuel	**(43,974)**	(50,700)
Materials and supplies	**(32,598)**	(21,604)
Regulatory assets/liabilities	**15,796**	(31,626)
Accounts payable	**(33,652)**	32,250
Accrued expenses	**6,529**	(388)
Accrued postretirement benefit cost	**(4,187)**	(4,013)
Other	**(21,177)**	(13,742)
Net cash provided by operating activities	**86,766**	57,298
Investing activities		
Additions to electric plant	**(185,261)**	(136,122)
Maturities of debt service reserve securities	**3,341**	5,516
Purchases of debt service reserve securities	**(2,224)**	(5,530)
Maturities of available-for-sale securities	**18,730**	19,138
Purchases of available-for-securities	**(17,063)**	(18,452)
Maturities of held-to-maturity securities	**127**	106
Other	**1,124**	77
Net cash used in investing activities	**(181,226)**	(135,267)
Financing activities		
Proceeds from long-term debt	**457,662**	310,905
Principal payments on long-term debt	**(295,704)**	(151,609)
Retirement of patronage capital	**–**	(20,106)
Debt issuance costs	**(253)**	(1,123)
Payment of obligation under long-term lease	**(89)**	(48)
Net cash provided by financing activities	**161,616**	138,019
Net change in cash and cash equivalents	**67,156**	60,050
Cash and cash equivalents – beginning of year	**229,669**	169,619
Cash and cash equivalents – end of year	**$ 296,825**	$ 229,669
Supplemental disclosure of cash flows		
Cash paid for interest	**$ 107,682**	$ 88,551
Noncash investing transactions:		
Additions to electric plant included in accounts payable	**$ 29,553**	$ 33,929
Unrealized gain (loss) on available-for-sale securities	**$ 184**	$ (133)

See notes to financial statements.

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 89 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, five 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.

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, 2023 and 2022 are as follows:

	2023	2022
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 $142.4 million and $147.7 million for 2023 and 2022, respectively. Depreciation and amortization expense includes amortization expense of $10.9 million in 2023 and $11.1 million in 2022 related to plant abandonments granted regulatory asset treatment, offset by regulatory credits of $18.3 million in 2023 and $9.2 million in 2022 related to the annual establishment of the generation maintenance tracker regulatory asset (Note 4).

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 then charged to depreciation expense as recovery occurs. Depreciation charged to regulatory assets was $3.3 million in 2023 and 2022.

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, 2023 or 2022.

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 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. The debt service reserve funds were refunded to the Cooperative in 2023 when the 1993B bonds were paid in full upon maturity. At December 31, 2022 the balance was $1.1 million (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, 2023 and 2022, consisted primarily of money market mutual funds and investments in commercial paper.

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 (loss).

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.

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 $3.9 million and $3.3 million at December 31, 2023 and 2022, 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, 2023 and 2022, were as follows (dollars in thousands):

	Fair Value at Reporting Date Using			
	Fair Value December 31, 2023	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash equivalents	**$ 215,000**	**$ 215,000**	**$ –**	**$ –**
Available-for-sale securities	**20,501**	**20,501**	**–**	**–**

	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	–	–

1. Summary of Significant Accounting Policies (continued)

The estimated fair values of the Cooperative's financial instruments carried at cost at December 31, 2023 and 2022, were as follows (dollars in thousands):

	2023		2022	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Held-to-maturity investments	**$ 7,054**	**$ 7,432**	$ 7,181	$ 7,168
Long-term debt	**2,851,560**	**2,748,114**	2,689,281	2,556,154

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 $1,052.0 million and $1,157.0 million for 2023 and 2022, respectively. Accounts receivable at December 31, 2023 and 2022, were primarily from billings to member cooperatives.

At December 31, 2023 and 2022, individual accounts receivable balances that exceeded 10% of total accounts receivable are as follows (dollars in thousands):

	2023	2022
Owen Electric Cooperative	**$ 16,135**	$ 19,578

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.

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 2023 are primarily related to the change in the expected timing of an ash disposal site's settlement activities to comply with the closure and post-closure requirements of the Coal Combustion Residuals (CCR) Rule. Settlement activities in 2023 and 2022 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):

	2023	**2022**
Balance – beginning of year	**$ 40,368**	$ 45,902
Liabilities incurred	**958**	–
Liabilities settled	**(5,795)**	(7,070)
Estimated cash flow revisions	**(4,722)**	–
Accretion	**1,607**	1,536
Balance – end of year	**$ 32,416**	$ 40,368

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.

1. Summary of Significant Accounting Policies (continued)

Accretion charged to regulatory assets in 2023 and 2022 was $1.6 million and $1.5 million, respectively. Accretion expense recognized in 2023 and 2022 was $1.6 million and $1.9 million, respectively, which represented the recovery of settlement costs associated with ash disposal sites and asbestos abatement at Dale Station.

Revenue Recognition

Operating revenues are primarily derived from sales of electricity to members. These sales, which comprise approximately 95% 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 (Note 9).

1. Summary of Significant Accounting Policies (continued)

The following represents operating revenues by revenue stream for the years ended December 31, 2023 and 2022 (dollars in thousands):

	Year Ended December 31	
	2023	**2022**
Member electric sales	**$ 1,051,960**	$ 1,156,966
Non-member sales:		
Electric	**19,027**	90,887
Capacity	**30,023**	8,122
Other	**9,561**	7,362
Total operating revenues	**$ 1,110,571**	$ 1,263,337

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.

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 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.

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. There was no retirement of patronage capital in 2023.

1. Summary of Significant Accounting Policies (continued)

Comprehensive Margin (Loss)

Comprehensive margin (loss) includes both net margin and other comprehensive margin (loss). Other comprehensive margin (loss) 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 (loss) on a net basis in the statements of revenue and expenses and comprehensive margin (loss). 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 (loss) 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) for each period presented.

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.

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 (loss).

New Accounting Guidance

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 Cooperative adopted this standard, effective January 1, 2023. The financial assets primarily subject to this standard are receivables, the majority of which are due from the Cooperative's members. Based upon historical experience, the short-term nature of these receivables, and current economic conditions, credit losses are not expected. Adoption of this standard was not material to the Cooperative's financial statements.

2. Electric Plant in Service

Electric plant in service at December 31, 2023 and 2022, consisted of the following (dollars in thousands):

	2023	**2022**
Production plant	**$ 3,400,275**	$ 3,191,277
Transmission plant	**1,013,308**	970,558
General plant	**133,741**	120,168
Completed construction, not classified, and other	**247,182**	398,006
Electric plant in service	**$ 4,794,506**	$ 4,680,009

Acquisition adjustments of $4 million were included in electric plant in service at December 31, 2023 and 2022. 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, 2023 and 2022, were as follows (dollars in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2023				
U.S. Treasury bill/note	**$ 16,557**	**$ 39**	**$ –**	**$ 16,596**
	$ 16,557	**$ 39**	**$ –**	**$ 16,596**
2022				
U.S. Treasury bill/note	$ 18,224	$ –	$ (145)	$ 18,079
	$ 18,224	$ –	$ (145)	$ 18,079

Proceeds from maturities of securities were $18.7 million and $19.1 million in 2023 and 2022, respectively.

Amortized cost and estimated fair value of held-to-maturity investment securities with National Rural Utilities Cooperative Finance Corporation (CFC) at December 31, 2023 and 2022, are as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2023				
5% capital term certificates	**$ 6,998**	**$ 378**	**$ –**	**$ 7,376**
0% subordinated term certificate	**56**	**–**	**–**	**56**
	$ 7,054	**$ 378**	**$ –**	**$ 7,432**
2022				
5% capital term certificates	$ 6,998	$ –	$ (10)	$ 6,988
6.59% subordinated term certificate	70	1	–	71
0% subordinated term certificate	113	–	(4)	109
	$ 7,181	$ 1	$ (14)	$ 7,168

3. Investment Securities (continued)

The amortized cost and fair value of securities at December 31, 2023, 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	$ 16,557	$ 16,596
	$ 16,557	$ 16,596
Held-to-maturity:		
Due in one year or less	$ 56	$ 56
Due after ten years	6,998	7,376
	$ 7,054	$ 7,432

4. Regulatory Assets and Liabilities

Regulatory assets (liabilities) were comprised of the following as of December 31, 2023 and 2022 (dollars in thousands):

	2023	2022
Plant abandonment – Smith Unit 1	**$ 31,931**	$ 42,575
Plant abandonment – Dale Station	**–**	281
ARO-related depreciation and accretion expenses	**31,103**	34,255
Major maintenance projects – Spurlock Station	**3,622**	4,528
Rate case expenses	**186**	433
Generation maintenance tracker	**27,498**	9,234
Environmental cost recovery	**52**	–
Fuel adjustment clause	**14,352**	33,546
	$ 108,744	$ 124,852
Environmental cost recovery	**$ –**	$ (4,505)
Earnings mechanism	**(1,428)**	(1,393)
	$ (1,428)	$ (5,898)

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 ended 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 ended 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 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 annual generation maintenance expense, beginning in 2022, that exceeded the historical annual 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.

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 members through a bill credit due to TIER exceeding 1.4, plus interest. In 2023, the PSC authorized the Cooperative to delay refunding the 2022 excess earnings to members for one year due to the administrative burden associated with the members passing the credit back to their members, and to accrue interest on the balance until refunded. 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, 2023 and 2022, consisted of the following (dollars in thousands):

	2023	**2022**
First mortgage notes:		
1.14%–5.18%, payable quarterly to Federal Financing Bank (FFB) in varying amounts through 2050, weighted average 3.62%	**$ 2,141,556**	$ 1,938,773
First Mortgage Bonds, Series 2014A, fixed rate of 4.61%, payable semi-annual, matures February 6, 2044	**159,000**	164,000
First Mortgage Bonds, Series 2019, fixed rate of 4.45%, payable semi-annual, matures April 19, 2049	**130,000**	135,000
First Mortgage Promissory Note, fixed rate of 4.30%, payable semi-annual, matures April 30, 2049	**86,667**	90,000
Tax-exempt bonds:		
Solid Waste Disposal Revenue Bonds, Series 1993B, variable rate bonds, due August 15, 2023, 2.88% at December 31, 2022	**–**	700
Clean Renewable Energy Bonds, fixed rate of 0.40% payable quarterly to CFC to December 1, 2023	**–**	444
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%	**16,018**	16,386

5. Long-Term Debt (continued)

	2023	2022
Promissory notes:		
Variable rate notes payable to CFC 6.35% at December 31, 2023	**$ 325,000**	$ 350,000
5.40%–5.50% fixed rate notes payable to National Cooperative Services Corporation, weighted average 5.43%	**325**	1,306
Total debt	**2,858,566**	2,696,609
Less debt issuance costs	**(7,006)**	(7,328)
Total debt adjusted for debt issuance costs	**2,851,560**	2,689,281
Less current maturities	**(101,905)**	(96,654)
Total long-term debt	**$ 2,749,655**	$ 2,592,627

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, 2023. The amounts outstanding under these notes are $2.1 billion at December 31, 2023.

In September 2019, the Cooperative submitted to RUS a loan application in the amount of $153 million for various transmission projects. The loan documents were subsequently executed in March 2020 with a maturity date of December 31, 2050; $65.5 million was advanced in 2023. As of December 31, 2023, $1.4 million of the loan remained available for advance.

In September 2019, the Cooperative submitted to RUS a loan application in the amount of $347 million for various generation projects. The loan documents were subsequently executed in March 2020 with a maturity date of December 31, 2050; $217.2 million was advanced in 2023. As of December 31, 2023, $34.2 million of the loan remained available for advance.

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 $159.0 million at December 31, 2023.

5. Long-Term Debt (continued)

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 $130.0 million at December 31, 2023.

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 $86.7 million at December 31, 2023.

Tax-Exempt Bonds

The Series 1993B Solid Waste Disposal Revenue Bonds matured on August 15, 2023 and were paid in full. The $1.1 million debt service reserve required to be on deposit with the designated trustee throughout the term of the bonds was refunded to the Cooperative after the bonds were paid.

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. These bonds matured on December 1, 2023 and were paid in full.

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, 2023, is $16.0 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. Effective July 29, 2023, the Cooperative exercised an option under the agreement to extend the maturity date of $420 million to July 27, 2028, with the remaining $80 million set to expire on the original maturity date of July 29, 2027. As of December 31, 2023, the Cooperative had outstanding borrowings of $325.0 million and $6.1 million of letters of credit with the Commonwealth of Kentucky for worker's compensation and self-insured automotive policy requirements issued under the agreement. As of December 31, 2023, the availability under the credit facility was $168.9 million.

5. Long-Term Debt (continued)

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, 2023, the amount outstanding under these notes is $0.3 million.

Estimated Annual Maturities of Long-Term Debt

Estimated annual maturities of long-term debt adjusted for debt issuance costs for the five years subsequent to December 31, 2023, are as follows (dollars in thousands):

Years ending December 31:	
2024	$ 101,905
2025	114,090
2026	112,026
2027	109,060
2028	110,904
Thereafter	2,303,575
	$ 2,851,560

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, 2023 and 2022.

As of December 31, 2023, the Cooperative has pledged securities of $0.2 million to the United States Department of Labor related to Workers’ Compensation.

In April 2023, 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 $26.1 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, 2023 and 2022, based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the 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.

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 2023 and 2022 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 $7.0 million and $7.4 million in 2023 and 2022, respectively.

6. Retirement Benefits (continued)

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 $5.6 million and $5.0 million to the plan for the years ended December 31, 2023 and 2022, 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.

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.

6. Retirement Benefits (continued)

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 (loss). All other components of net periodic benefit cost are included in other non-operating margin.

The following tables set 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, 2023 and 2022 (dollars in thousands):

	2023	2022
Change in benefit obligation:		
Accumulated postretirement benefit obligation – beginning of year	**$ 29,974**	$ 37,435
Service cost	**590**	834
Interest cost	**1,564**	1,052
Participants' contributions	**1,574**	1,478
Benefits paid	**(4,142)**	(4,085)
Actuarial loss (gain)	**17,684**	(6,740)
Accumulated postretirement benefit obligation – end of year	**47,244**	29,974
Change in plan assets:		
Fair value of plan assets – beginning of year	**–**	–
Employer contributions	**2,568**	2,607
Participant contributions	**1,574**	1,478
Benefits paid	**(4,142)**	(4,085)
Fair value of plan assets – end of year	**–**	–
Funded status – end of year	**$ (47,244)**	$ (29,974)
Amounts recognized in balance sheet consists of:		
Current liabilities	**$ 2,738**	$ 2,247
Noncurrent liabilities	**44,506**	27,727
Total amount recognized in balance sheet	**$ 47,244**	$ 29,974
Amounts included in accumulated other comprehensive margin:		
Prior service credit	**$ 18,587**	$ 20,608
Unrecognized actuarial gain	**4,384**	23,329
Total amount in accumulated other comprehensive margin	**$ 22,971**	$ 43,937

6. Retirement Benefits (continued)

	2023	2022
Net periodic benefit cost:		
Service cost	**$ 590**	$ 834
Interest cost	**1,564**	1,052
Amortization of prior service credit	**(2,021)**	(2,021)
Amortization of net actuarial gain	**(1,261)**	(872)
Net periodic benefit cost	**$ (1,128)**	$ (1,007)
Amounts included in other comprehensive margin:		
Net gain (loss) arising during the year	**$ (17,684)**	$ 6,740
Amortization of prior service credit	**(2,021)**	(2,021)
Amortization of net actuarial gain	**(1,261)**	(872)
Net gain (loss) recognized in other comprehensive margin	**$ (20,966)**	$ 3,847

The change in benefit obligation included a net actuarial loss of $17.7 million. This net actuarial loss was comprised of $8.2 million from higher per capita claims, $8.1 million from healthcare trend and other updates, and $1.4 million from a decrease in the discount rate.

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 over the average years of remaining future service to expected retirement age.

The discount rate used to determine the accumulated postretirement benefit obligation was 5.17% and 5.42% for 2023 and 2022, respectively.

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

Years ending December 31:	
2024	$ 2,738
2025	2,713
2026	2,640
2027	2,638
2028	2,717
2029–2031	14,899

6. Retirement Benefits (continued)

For measurement purposes, a 6.8% annual rate of increase in the per capita cost of covered health care benefits was used for the year ended December 31, 2023. The rate is assumed to decline to 4.0% after 25 years.

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, 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
Other comprehensive gain (loss) before reclassifications	**(17,684)**	**184**	**(17,500)**
Amounts reclassified from accumulated other comprehensive margin	**(3,282)**	**–**	**(3,282)**
Net current period other comprehensive gain (loss)	**(20,966)**	**184**	**(20,782)**
Balance – December 31, 2023	**$ 22,971**	**$ 39**	**$ 23,010**

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.

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 2023 and 2022 were $7.7 million and $7.3 million, respectively. The agreements have varying terms, with one agreement continuing until either party gives a three year notice of termination. Total minimum payment obligations related to the contracts are as follows (dollars in thousands):

Years ending December 31:	
2024	$ 54,490
2025	24,772
2026	3,814

The Cooperative has commitments to purchase coal for its generating plants under long-term contracts that extend through 2026. Coal payments under contracts for 2023 and 2022 were $169.7 million and $110.6 million, respectively. Total minimum purchase obligations for the next three years are as follows (dollars in thousands):

Years ending December 31:	
2024	$ 178,224
2025	79,464
2026	16,803

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*.

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 were subject to significant non-performance assessments for generating units that did not meet PJM's performance standards during the events. Conversely, generating units that exceeded performance expectations were eligible to receive bonus payments based upon the amount of non-performance assessments actually collected by PJM. EKPC had units that experienced unplanned outages due to natural gas constraints and mechanical issues while other EKPC units performed in excess of their required capacity obligations during the events.

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 (loss). EKPC also recorded an insurance receivable of $13.7 million at December 31, 2022 for certain unit non-performance assessments covered by insurance, which was also included in operating revenue on the statement of revenue and expenses and comprehensive margin (loss). EKPC did not record a receivable for estimated capacity bonus performance payments at December 31, 2022 as those amounts were not reasonably estimable at that time.

On December 19, 2023, FERC issued an order approving a settlement agreement that resolved 15 complaints related to non-performance charges assessed by PJM for Winter Storm Elliott. The settlement agreement included a 31.7 percent reduction in the total non-performance assessments, which also ultimately reduced expected performance bonuses for generators that exceeded capacity requirements during the events.

8. Commitments and Contingencies (continued)

This settlement resulted in EKPC recording a $6.1 million receivable from PJM at December 31, 2023 to reflect the reduction in previously charged non-performance assessments, and a $5.7 million estimated refund payable to the insurance carrier for the reduction in covered non-performance assessments. After application of the settlement provisions, a net performance bonus of $22.3 million was recognized in 2023, which is included in operating revenue on the statement of revenue and expenses and comprehensive margin (loss).

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 2023 and 2022 was $0.6 million and $0.5 million, respectively, and is included in operating revenue on the statements of revenue and expenses and comprehensive margin (loss) for the years ended December 31, 2023 and 2022.

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

Years ending December 31:	
2024	$ 452
2025	452

10. Government Assistance

Government assistance transactions occurring during 2023 and 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 Clean Coal Incentive (CCI) Tax Credits of approximately $1.0 million and $0.7 million in 2023 and 2022, respectively, 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 credits were 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 (loss).

10. Government Assistance (continued)

In 2022, 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.

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 $7.1 million and $7.2 million at December 31, 2023 and 2022, respectively. CFC Patronage capital assigned to EKPC was $2.5 million and $2.1 million at December 31, 2023 and 2022, respectively.

The Cooperative is also a member of CoBank. The balance of CoBank's patronage capital assigned to EKPC was $0.8 million and $0.7 million at December 31, 2023 and 2022, respectively. 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 on the ACES Board of Directors. EKPC accounts for its investment in ACES on the cost basis of accounting. At December 31, 2023 and 2022, the balance of EKPC's investment in ACES was approximately $0.6 million. Payments to ACES were $2.5 million in 2023 and $2.4 million in 2022.

12. Subsequent Events

Management has evaluated subsequent events through March 28, 2024, which is the date these financial statements were available to be issued.

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