JACKSON PURCHASE
ENERGY CORPORATION
KENTUCKY 20

FINANCIAL REPORT

December 31, 2023

C O N T E N T S

JNM

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Jackson Purchase Energy Corporation
Paducah, Kentucky

Opinion

We have audited the accompanying financial statements of Jackson Purchase Energy Corporation, which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of revenue and comprehensive income, changes in members' equities, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jackson Purchase Energy Corporation as of 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Jackson Purchase Energy Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Jackson Purchase Energy Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Certified Public Accountants and Advisors

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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Jackson Purchase Energy Corporation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Jackson Purchase Energy Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we have identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2024, on our consideration of the Jackson Purchase Energy Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the Jackson Purchase Energy Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Jackson Purchase Energy Corporation's internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
April 15, 2024

JACKSON PURCHASE ENERGY CORPORATION

BALANCE SHEETS
December 31, 2023 and 2022

ASSETS	2023	2022
Electric Plant, at original cost:		
In service	$ 213,697,595	$ 203,980,054
Under construction	2,749,838	3,214,620
	216,447,433	207,194,674
Less accumulated depreciation	82,292,796	79,301,071
	134,154,637	127,893,603
Investments in Associated Organizations	4,352,511	4,025,870
Current Assets:		
Cash and cash equivalents	3,352,953	6,044,605
Accounts receivable, less allowance for credit losses in 2023 and 2022 of $225,000	5,754,577	7,153,658
Other receivables	64,754	631,319
Accrued unbilled revenue	5,907,870	7,086,618
Material and supplies, at average cost	4,141,953	3,289,347
Other current assets	441,427	462,079
Total current assets	19,663,534	24,667,626
Deferred Debits	97,947	158,978
Total assets	$ 158,268,629	$ 156,746,077
MEMBERS' EQUITIES AND LIABILITIES		
Members' Equities:		
Memberships	$ 96,500	$ 100,925
Patronage capital	50,954,191	50,105,393
Accumulated other comprehensive income	835,750	80,204
Total members' equities	51,886,441	50,286,522
Long-Term Liabilities:		
Long-term debt, less current portion	89,171,010	83,871,739
Finance lease obligation, less current portion	- -	70,332
Accumulated postretirement benefits	2,443,612	3,083,622
Total long-term liabilities	91,614,622	87,025,693
Current Liabilities:		
Current portion of long-term debt	3,594,700	3,575,900
Current portion of finance lease obligation	- -	42,212
Accounts payable	6,801,079	9,611,439
Consumer deposits	3,309,619	5,179,965
Accrued expenses	1,019,894	982,072
Total current liabilities	14,725,292	19,391,588
Consumer Advances for Construction	42,274	42,274
Total members' equities and liabilities	$ 158,268,629	$ 156,746,077

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

JACKSON PURCHASE ENERGY CORPORATION

STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Years Ended December 31, 2023 and 2022

	2023	2022
Operating Revenues		
Sale of electric energy	$ 90,043,104	$ 97,461,353
Other electric revenues	1,343,158	1,333,563
	91,386,262	98,794,916
Operating Expenses		
Cost of power	65,791,745	74,764,452
Distribution - operations	4,053,641	3,731,606
Distribution - maintenance	6,212,318	6,756,709
Consumer accounts	1,113,330	1,069,296
Consumer service and information	4,437	5,343
Administrative and general	3,951,217	3,827,107
Depreciation, excluding $501,633 in 2023 and $492,037 in 2022 charged to clearing accounts	7,459,544	7,066,167
Taxes, other than income	72,697	74,645
Interest expense on long-term debt	2,444,535	2,211,497
Interest expense - other	216,358	6,583
Other deductions	1,438	2,147
Total cost of electric service	91,321,260	99,515,552
Operating Margins (Deficit)	65,002	(720,636)
Nonoperating Margins and Patronage Capital		
Interest income	311,520	168,074
Other nonoperating income (loss)	(30)	2,985
Gain (loss) on sale of equipment	(2,023)	121,184
Patronage capital from associated organizations	474,329	340,237
Total nonoperating margins	783,796	632,480
Net Margins (Deficit)	848,798	(88,156)
Other Comprehensive Income (Loss)		
Postretirement benefits actuarial gain	760,294	- -
Postretirement benefits amortization of net gain	(4,748)	(4,748)
Net Margins (Deficit) and Comprehensive Income (Loss)	$ 1,604,344	$ (92,904)

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

JACKSON PURCHASE ENERGY CORPORATION

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

		Patronage Capital					Accumulated Other Comprehensive Income (Loss)	Total Members' Equities
	Memberships	Assignable	Assigned	Prior Deficits	Retirements	Total		
Balance - December 31, 2021	$ 106,210	$ (1,244,938)	$ 53,027,622	$ - -	$ (1,589,135)	$ 50,193,549	$ 84,952	$ 50,384,711
Comprehensive income:								
Net (deficit)		(88,156)				(88,156)		(88,156)
Postretirement benefit obligation								
Amortization of actuarial gain							(4,748)	(4,748)
Total comprehensive (loss)								(92,904)
Assignment of margins		1,244,938		(1,244,938)		- -		- -
Net change in memberships	(5,285)							(5,285)
Balance - December 31, 2022	100,925	(88,156)	53,027,622	(1,244,938)	(1,589,135)	50,105,393	80,204	50,286,522
Comprehensive (loss):								
Net margins		848,798				848,798		848,798
Postretirement benefit obligation								
Amortization of actuarial gain							(4,748)	
Actuarial gain							760,294	755,546
Total comprehensive income								1,604,344
Assignment of margins		88,156		(88,156)		- -		- -
Net change in memberships	(4,425)							(4,425)
Balance - December 31, 2023	$ 96,500	$ 848,798	$ 53,027,622	$ (1,333,094)	$ (1,589,135)	$ 50,954,191	$ 835,750	$ 51,886,441

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

JACKSON PURCHASE ENERGY CORPORATION

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

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins (deficit)	$ 848,798	$ (88,156)
Adjustments to reconcile net margins (deficit) to net cash provided by operating activities:		
Depreciation		
Charged to expense	7,459,544	7,066,167
Charged to clearing accounts	501,633	492,037
Amortization of finance lease ROU asset	3,567	24,966
Patronage capital credits assigned	(474,329)	(340,237)
(Gain) loss on disposition of equipment	2,023	(121,184)
Amortization of postretirement actuarial adjustment	(4,748)	(4,748)
Postretirement actuarial adjustment	760,294	- -
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts and other receivables, net	1,965,646	(2,270,786)
Unbilled revenue	1,178,748	(3,443,450)
Material and supplies	(852,606)	(1,086,943)
Other current assets	20,652	(32,472)
Deferred debits	61,031	(51,439)
Accounts payable	(2,810,360)	4,154,989
Consumer deposits	(1,870,346)	2,135,078
Accrued expenses	37,822	9,629
Accumulated postretirement benefits	(640,010)	138,605
Net cash provided by operating activities	6,187,359	6,582,056
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(12,986,412)	(11,409,765)
Plant removal costs	(1,319,461)	(1,147,761)
Salvage recovered from retired plant	78,072	489,448
Receipts from investments, net	147,688	169,333
Net cash (used in) investing activities	(14,080,113)	(11,898,745)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in memberships	(4,425)	(5,285)
Principal payments on finance lease obligation	(112,544)	(37,252)
Additional long-term borrowings	8,960,162	9,749,266
Payments on long-term debt	(3,642,091)	(2,905,805)
Net cash provided by financing activities	5,201,102	6,800,924
Net increase (decrease) in cash and cash equivalents	(2,691,652)	1,484,235
Cash and cash equivalents, beginning of year	6,044,605	4,560,370
Cash and cash equivalents, end of year	$ 3,352,953	$ 6,044,605
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 2,600,677	$ 2,223,282

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

JACKSON PURCHASE ENERGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Business activity

Jackson Purchase Energy Corporation (the Corporation) provides distribution electric services to residential and commercial consumers concentrated in a six-county area in western Kentucky. The Corporation maintains its records in accordance with the policies prescribed or permitted by the Kentucky Public Service Commission (PSC) and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform in all material respects with accounting principles generally accepted in the United States of America. The significant accounting policies are as follows:

Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the preparation of the financial statements.

Electric plant

Electric plant is stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead cost including any construction period interest and taxes. There was no interest required to be capitalized during the years ended December 31, 2023 and 2022.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to electric plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation. Electric plant consists of the following as of December 31:

	2023	2022
Distribution plant	$ 182,238,108	$ 173,676,979
General plant	31,459,487	30,303,075
Total	$ 213,697,595	$ 203,980,054

Depreciation

Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Depreciation rates range from 1.48% to 12.09%, for a composite rate of 3.76% for distribution plant. General plant rates are as follows:

Structures and improvements	2.5%
Transportation equipment	12.5 - 20%
Other general plant	5 - 14%

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Cash and cash equivalents

The Corporation considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. The Corporation maintains cash deposits in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2023 and 2022, the financial institutions reported deposits in excess of the $250,000 FDIC insured limit on several of the accounts. Deposits and repurchase agreements in excess of the FDIC limits are 100% secured with collateral from each respective financial institution.

Accounts receivable and allowance for credit losses

The Corporation operates in the electric services distribution industry, and its accounts receivable are primarily derived from the sales of electric energy. Accounts receivable are stated at net realizable value and are usually collected within thirty days. The balance in accounts receivable as of December 31, 2023, 2022, and 2021 was $5,754,577, $7,153,658, and $3,916,945, respectively.

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

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

Materials and supplies

The Corporation values materials and supplies at the lower of average cost or net realizable value.

Deferred debits

Deferred debits consist of accumulated costs related to the PSC rate cases.

Leases

The Corporation leases equipment and determines if an arrangement is a lease at inception. Finance leases are included in electric plant, current liabilities, and long-term liabilities on the balance sheets.

ROU assets represent the Corporation's right to use an underlying asset for the lease term and lease liabilities represent the Corporation's obligation to make lease payments arising from the lease. When a lease does not provide an implicit rate, the Corporation uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The lease terms may include options to extend or terminate the lease when it is reasonably certain the option will be exercised.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Leases (Continued)

The Corporation's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Taxes

The Corporation is required to collect, on behalf of the Commonwealth of Kentucky, sales taxes based on six percent of gross sales from non-residential consumers, a three percent school tax from certain counties on most gross sales, and franchise fees in certain cities. The Corporation's policy is to exclude taxes from revenue when collected and expenses when paid and instead, record collection and payment of taxes through a liability account.

Cost of power

The Corporation is one of three members of Big Rivers Electric Corporation (Big Rivers), a generation and transmission cooperative association. Under a wholesale power agreement, the Corporation is committed to purchase its electric power and energy requirements from Big Rivers until 2043. The rates charged by Big Rivers are subject to approval of the PSC. The cost of purchased power is recorded monthly during the period in which the energy is consumed, based upon billings from Big Rivers. There are certain surcharges, clauses, and credits that Big Rivers includes to the Corporation that are passed on to consumers using a methodology prescribed by the PSC.

Advertising

The Corporation expenses advertising costs as incurred. Advertising expense totaled $12,305 and $13,967 for the years ended December 31, 2023 and 2022, respectively.

Other comprehensive income (loss)

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

Credit risk

The Corporation grants credit to residents within its service territory. Concentrations of credit risk with respect to accounts receivables are limited due to its large number of customers.

Risk management

The Corporation is exposed to various forms of losses of assets associated with, but not limited to, fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, workers compensation, etc. Each of these areas is covered through the purchase of commercial insurance.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Environmental contingency

The Corporation from time to time is required to work with and handle PCBs, herbicides, automotive fluids, lubricants, and other hazardous materials in the normal course of business. As a result, there is the possibility that environmental conditions may arise which would require the Corporation to incur cleanup costs. The likelihood of such an event, or the amount of such costs, if any, cannot be determined at this time. However, management does not believe such costs, if any, would materially affect the Corporation's financial position or its future cash flows.

Commitments

The Corporation has various agreements outstanding with local contractors. Under these agreements, the contractors will perform certain construction and maintenance work at specified hourly rates or unit cost, or on an as needed basis. The duration of these contracts are generally one to three years.

Generation and transmission corporation

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

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

Income tax status

The Corporation qualifies as a tax-exempt organization under Section 501(c)(12) of the Internal Revenue Code. When applying the 85 percent test of IRC 501(c)(12), the Corporation excludes the Big Rivers non-cash allocations from gross income. However, income from certain activities not directly related to the Corporation's tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income tax for the years ended December 31, 2023 and 2022. Accordingly, the financial statements of the Corporation include no provision for income taxes.

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

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Income tax status (continued)

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

Pension accounting

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

Adoption of accounting pronouncement

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

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

Subsequent events

Management has evaluated subsequent events through April 15, 2024, the date the financial statements were available to be issued.

Note 2. Revenue Recognition

Revenue from contracts

The Corporation is engaged in the distribution and sale of electricity to residential and commercial customers in six counties in western Kentucky. Revenue from these activities is generated from tariffs approved by the PSC. The Corporation satisfies their performance obligation upon the delivery of electricity to customers. Revenue is recognized over-time as the customer simultaneously receives and consumes the benefits provided by the Corporation. The amount of revenue recognized is the billed volume of electricity multiplied by a tariff rate per-unit of energy, plus any applicable fixed or additional regulatory charges. Customers are billed monthly and outstanding amounts are typically due within 18 days of the date of the bill. Revenue for pole attachments are invoiced at the beginning of the year. The performance obligation is satisfied ratably over the time of the contract and revenue is recognized monthly as earned.

Significant judgements

Unbilled revenues are recognized as a result of customers' bills being generated throughout the month rather than at the end of the month. Unbilled revenues for a month are calculated based on estimated usage and the number of days in the period to accrue for each billing cycle. Any difference between estimated and actual revenues is adjusted the following month when the previous unbilled estimate is reversed and actual billings are generated. This method of revenue recognition presents fairly, the Corporation's transfer of electricity to customers as the amount recognized is based on actual and estimated volumes delivered and the tariff rate per-unit of energy and any applicable fixed charges as set by the PSC.

Performance obligations

The Corporation customers generally have no minimum purchase commitments. The Corporation recognizes revenue as each performance obligation is satisfied. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation to recognize as of December 31, 2023 and 2022.

Disaggregation of revenue

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended December 31:

	2023	2022
Residential	$ 49,070,531	$ 55,981,656
Commercial	24,756,502	23,412,163
Large Industrial	16,030,916	17,887,457
Public Lights	169,030	160,081
Other	1,359,283	1,353,559
	$ 91,386,262	$ 98,794,916

Note 2. Revenue Recognition (Continued)

Contract assets and liabilities

Contract assets include unbilled revenues and contract liabilities include consumer deposits. The balance in contract assets and liabilities were as follows as of December 31:

	2023	2022	2021
Contract assets	$ 5,907,870	$ 7,086,618	$ 3,643,168
Contract liabilities	$ 3,309,619	$ 5,179,965	$ 3,044,887

Note 3. Allowance for Credit Losses

The allowance for credit losses for accounts receivable and the related activity are as follows:

	2023	2022
Beginning balance	$ 225,000	$ 250,000
Provision for credit losses	91,826	15,584
Write-offs	(152,299)	(100,920)
Recoveries	60,473	60,336
Ending balance	$ 225,000	$ 225,000

Note 4. Investments in Associated Organizations

Investments in associated organizations consist of the following as of December 31:

	2023	2022
CFC CTCs	$ 926,929	$ 926,929
CoBank patronage capital	1,111,995	1,080,929
National Rural Telecommunications Coop.	840,113	845,420
Others	1,473,474	1,172,592
Total	$ 4,352,511	$ 4,025,870

The Corporation records patronage capital assigned by associated organizations in the year in which such assignments are received. The Capital Term Certificates (CTCs) of CFC are recorded at cost. The CTCs were purchased from CFC as a condition of obtaining long-term financing. The CTCs bear interest at 5.00% and are scheduled to mature at varying times from 2070 to 2080.

Note 5. Leases

The Corporation had a finance lease for equipment that was purchased in January 2023. As of December 31, 2023 and 2022, the net ROU asset included with electric plant on the balance sheets was zero and $124,829, respectively.

The components of lease expense were as follows for the years ended December 31:

	2023	2022
Finance lease cost		
Right-of-use asset amortization	$ 3,567	$ 24,966
Interest expense	218	1,385
Total lease cost, net	$ 3,785	$ 26,351

Other information related to the lease was as follows for the years ended December 31:

	2023	2022
Supplemental cash flow information		
Cash paid for amounts included in the measurement of lease liability		
Operating cash flows from finance lease	$ 218	$ 1,385
Financing cash flows from finance lease	$ 112,544	$ 37,252
Right-of-use asset obtained in exchange for lease obligation		
Finance lease	$ - -	$ 149,795
Weighted average discount rate		
Finance lease	1.48%	1.48%

Note 6. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by patrons is limited to amounts which would not allow the total equities and margins to be less than 30.00% of total assets, except that distributions may be made to estates of deceased patrons. The debt agreement provides, however, that should such distributions to estates not exceed 25.00% of the net margins for the next preceding year, the Corporation may distribute the difference between 25.00% and the payments made to such estates. The equity and margins as of December 31, 2023 and 2022 were 32.78% and 32.08%, respectively. The Corporation adopted a policy whereby it would refund capital credits to its members in any annual period that a Times Interest Earned Ratio (TIER) of 2.0 is exceeded. No refunds of capital credits are anticipated for the year ending December 31, 2024.

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Debt

All assets, except vehicles, are pledged as collateral on the long-term debt to RUS, Federal Financing Bank (FFB), CoBank, and CFC under a joint mortgage agreement. The long-term debt is due in quarterly and monthly installments of varying amounts through 2054. RUS assesses 12.5 basis points to administer the FFB loans. The Corporation had unadvanced loan funds available from FFB in the amount of zero and $8,960,162 as of December 31, 2023 and 2022, respectively.

Long-term debt consists of the following as of December 31:

	2023	2022
FFB, 1.412% to 4.803% fixed rate notes	$ 70,184,976	$ 62,962,163
CoBank, 3.51% to 4.90% fixed rate notes	7,835,551	9,081,787
CFC, 3.10% to 3.75% fixed rate notes	14,745,183	15,403,689
	92,765,710	87,447,639
Less current portion	(3,594,700)	(3,575,900)
Long-term portion	$ 89,171,010	$ 83,871,739

As of December 31, 2023, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2024	$ 3,594,700
2025	3,799,787
2026	4,037,207
2027	4,181,235
2028	4,589,897
Thereafter	72,562,884
	$ 92,765,710

Note 8. Short-Term Borrowings

The Corporation has a short-term line of credit of $5,000,000 available from CFC, with variable interest rates of 7.25% and 5.75% as of December 31, 2023 and 2022, respectively. The Corporation also has two $5,000,000 short-term lines of credit available from CoBank. The CoBank lines of credit have variable interest rates that were 7.26% and 7.41% as of December 31, 2023, and 6.35% for each line of credit as of December 31, 2022. As of December 31, 2023 and 2022, there were no advances against any of the lines of credit. The CFC line of credit matures in August 2024 and the CoBank lines of credit mature in September 2024.

Note 9. Pension Plans

Qualified union and non-union employees of the Corporation participate in the NRECA Retirement and Security Plan (RS Plan), a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The Plan sponsor's identification number is 53-0116145 and the Plan Number is 333. 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.

The Corporation's contributions to the RS Plan in 2023 and 2022 represent less than 5.00% of the total contributions made to the plan by all participating employers. The Corporation made contributions to the plan of $940,143 in 2023 and $895,400 in 2022. There have been no significant changes that affect the comparability of 2023 and 2022 contributions.

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 percent funded at January 1, 2023 and 2022 based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the 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.

Qualified union employees participate in the International Brotherhood of Electrical Workers (IBEW) Savings Plan. The Corporation contributed 5.00% of base wages to the plan in 2023 and 2022. Contributions to the plan totaled $117,168 in 2023 and $110,440 in 2022.

Qualified non-union employees participate in the NRECA 401(k) Plan. The Corporation contributes 4.00% of annual wages to the plan for employees hired prior to January 1, 2006, and 14.00% of annual wages for employees hired after January 1, 2006. Contributions for these plans totaled $368,345 for 2023 and $335,359 for 2022.

A summary of plan benefits are as follows:

	Pre 2006	Post 2006
Union Employees		
Union Savings Plan	5.00%	5.00%
R&S Benefit level	1.80%	1.80%
Non-Union Employees		
401(k), Employer contribution	4.00%	14.00%
R&S Benefit level	1.80%	none

Note 10. Postretirement Benefits

The Corporation sponsors a defined benefit plan that provides medical insurance coverage to retirees. The premiums are paid for a maximum of ten years or until age 65, whichever comes first. For measurement purposes, an annual rate of increase of 6.00% in 2023, then decreasing by 0.25% per year until 3.00% per year, in the per capita cost of covered health care benefit was assumed. The discount rate used in determining the accumulated postretirement benefit obligation was 4.50% in 2023 and 2022. There have been no significant changes that affect the comparability of 2023 and 2022. This is a non-contributory plan.

The funded status of the plan was as follows as of December 31:

	2023	2022
Projected benefit obligation	$ (2,443,612)	$ (3,083,622)
Plan assets at fair value	- -	- -
Funded status (deficit)	$ (2,443,612)	$ (3,083,622)

The components of net periodic postretirement benefit cost are as follows as of and for the year ended December 31:

	2023	2022
Benefit obligation at beginning of year	$ 3,083,622	$ 2,945,017
Components of net periodic benefit cost:		
Service cost	59,708	51,391
Interest cost	127,322	135,644
Net periodic benefit cost	187,030	187,035
Actuarial gain	(760,294)	- -
Benefits paid	(66,746)	(48,430)
Benefit obligation at end of year	$ 2,443,612	$ 3,083,622
Amounts recognized in the balance sheets consists of:		
Unrecognized actuarial gain	$ 835,750	$ 80,204
Accumulated postretirement benefits	$ 2,443,612	$ 3,083,622
Amounts included in other comprehensive income:		
Actuarial gain	$ 760,294	$ - -
Amortization of actuarial gain	$ (4,748)	$ (4,748)
Effect of 1.00% increase in the health care trend:		
Postemployment benefit obligation	$ 2,578,000	
Net periodic benefit cost	$ 197,300	

Projected retiree benefit payments for the next five years are expected to be as follows: 2024 - $44,800; 2025 - $47,500; 2026 - $37,700; 2027 - $26,500; 2028 - $14,000.

NOTES TO FINANCIAL STATEMENTS

Note 11. Related Party Transactions

Several of the Directors of the Corporation and its President and CEO serve on the Boards of Directors of various associated organizations.

In previous years, Big Rivers provided billing, IT, and other services to its three distribution cooperative members. In 2013, Big Rivers discontinued providing these services directly to its distribution cooperative members, but instead began reimbursing members for the cost of the services. The amounts reimbursed from Big Rivers were $704,766 and $901,476 for the years ended December 31, 2023 and 2022, respectively. Amounts due from (to) Big Rivers are included in other receivables and were $(223) and $31,229 as of December 31, 2023 and 2022, respectively.

Note 12. Labor Force

Approximately 45.00% of the Corporation's labor force is subject to a collective bargaining agreement. A five (5) year agreement was negotiated and approved for the period from November 2019 through November 2024 between the Corporation and the International Brotherhood of Electric Workers (IBEW).

Note 13. Contingencies

The Corporation, on occasion, is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Jackson Purchase Energy Corporation
Paducah, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Jackson Purchase Energy Corporation (the Corporation), which comprise the balance sheet as of December 31, 2023 and the related statements of revenue and comprehensive income, changes in members' equities and cash flows for the year then ended, and related notes to the financial statements, and have issued our report thereon dated April 15, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Certified Public Accountants and Advisors

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Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
April 15, 2024

JNM

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS

To the Board of Directors
Jackson Purchase Energy Corporation
Paducah, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Jackson Purchase Energy Corporation (the Corporation), which comprise the balance sheet as of December 31, 2023, and the related statements of revenue and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 15, 2024. In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2024, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit, if applicable, have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Corporation failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773*, Policy on Audits of Rural Utilities Service Borrowers and Grantees*, §1773.33, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Corporation's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Corporation's accounting and records to indicate that the Corporation did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over material and supplies;

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- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits, which are listed below; and
- Comply with the requirements for the detailed schedule of investments, of which there were none.

The deferred debits are as follows:

PSC rate case expenses	$ 97,947

The deferred credits are as follows:

Consumer advances for construction	$ 42,274

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

Jones, Nale & Mattingly PLC

Louisville, Kentucky
April 15, 2024