OWEN ELECTRIC COOPERATIVE, INC.

FINANCIAL STATEMENTS
AND OTHER REQUIRED REPORTS

As of and for the Years Ended December 31, 2023 and 2022

And Report of Independent Auditor

Cherry Bekaert LLP
Your Guide Forward

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Cherry Bekaert LLP
Your Guide Forward

Report of Independent Auditor

To the Board of Directors
Owen Electric Cooperative, Inc.
Owenton, Kentucky

Report on the Audit of the Accompanying Financial Statements

Opinion

We have audited the accompanying financial statements of Owen Electric Cooperative, Inc. (the "Cooperative") which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of income and comprehensive income, changes in members' and patrons' 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 the Cooperative 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 Cooperative, 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.

Prior Period Financial Statements

The financial statements as of December 31, 2022, were audited by MCM CPAs & Advisors LLP, which was acquired by Cherry Bekaert LLP as of October 31, 2023, and whose report dated April 20, 2023, expressed an unmodified opinion on those statements.

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 Cooperative'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 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 Cooperative'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 Cooperative'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 audits.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2024, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 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 Cooperative's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Louisville, Kentucky
April 22, 2024

OWEN ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS

DECEMBER 31, 2023 AND 2022

	2023	2022
ASSETS		
Electric plant in service, net	$ 167,818,023	$ 165,234,113
Investments:		
Investment in East Kentucky Power Cooperative	95,917,346	93,362,447
Investments in associated organizations	6,325,125	6,072,222
Other	1,000	1,000
Total Investments	102,243,471	99,435,669
Current Assets:		
Cash and equivalents	18,749,870	12,519,374
Accounts receivable - customers (net of allowance for credit losses of $208,267 in 2023 and $254,914 in 2022)	14,678,359	14,331,983
Unbilled revenue	5,790,323	7,794,726
Materials and supplies	2,436,123	2,297,059
Current portion of pension prepayment	-	246,608
Prepayments and other	759,209	499,264
Total Current Assets	42,413,884	37,689,014
Right-of-use asset, net	117,554	163,451
Deferred debits	4,139,927	6,184,932
Total Assets	$ 316,732,859	$ 308,707,179
MEMBERS' AND PATRONS' EQUITIES AND LIABILITIES		
Members' and Patrons' Equities:		
Memberships	$ 1,332,005	$ 1,313,185
Patronage capital	159,388,963	155,628,480
Accumulated other comprehensive margin	1,662,564	2,231,923
Other equities	6,049,964	5,359,610
Total Members' and Patrons' Equities	168,433,496	164,533,198
Long-term Debt and Other Liabilities:		
Long-term debt, less current maturities	103,284,746	90,559,494
Accrued compensated absences	2,201,427	2,188,811
Long-term operating lease liability, less current	71,657	116,700
Postretirement benefits obligation	12,685,681	11,954,745
Total Long-term Debt and Other Liabilities	118,243,511	104,819,750
Current Liabilities:		
Current portion of long-term debt	4,714,524	3,643,559
Current portion of operating lease liability	45,897	46,751
Lines-of-credit	-	4,448,868
Accounts payable	18,783,082	22,451,718
Accrued interest	818,822	661,388
Customer guaranty deposits	2,303,787	2,270,812
Other current liabilities	701,488	732,663
Total Current Liabilities	27,367,600	34,255,759
Deferred credits	2,688,252	5,098,472
Total Members' and Patrons' Equities and Liabilities	$ 316,732,859	$ 308,707,179

The accompanying notes to the financial statements are an integral part of these statements.

OWEN ELECTRIC COOPERATIVE, INC.
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	%	2022	%
Operating Revenue:				
Sale of Electric Energy:				
Residential	$ 97,795,696	42	$ 106,270,061	47
Commercial	130,336,423	56	115,939,998	51
Public authorities and outdoor lighting	2,891,893	1	2,969,314	1
Total Sale of Electric Energy	231,024,012	99	225,179,373	99
Other revenue	2,830,061	1	2,684,111	1
Total Operating Revenue	233,854,073	100	227,863,484	100
Operating Expenses:				
Cost of power	192,234,745	82	186,217,312	82
Distribution expense	12,427,022	5	11,710,010	5
Power production expense	429,768	-	211,310	-
Customer accounts expense	4,119,517	2	3,980,843	2
Customer services and information expense	788,838	-	788,771	-
Administrative and general expense	5,230,083	2	4,986,430	2
Depreciation	12,471,398	5	11,766,994	5
Interest expense	3,647,968	2	3,152,037	1
Total Operating Expenses	231,349,339	98	222,813,707	97
Net operating margin	2,504,734	2	5,049,777	3
Non-operating Margin:				
Other margins	815,137	-	410,854	-
Patronage capital	3,045,777	1	4,201,335	2
Total non-operating (expense) margin	3,860,914	1	4,612,189	2
Net Margins	6,365,648	3	9,661,966	5
Other Comprehensive Margin:				
Change in postretirement benefit obligation	(569,359)	-	4,618,019	2
Comprehensive Margin	5,796,289	3	14,279,985	7

The accompanying notes to the financial statements are an integral part of these statements.

OWEN ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CHANGES IN MEMBERS' AND PATRONS' EQUITIES

YEARS ENDED DECEMBER 31, 2023 AND 2022

		Patronage Capital				Accumulated Other Comprehensive Income (Loss)	Other Equities			Total Members' and Patrons' Equities
	Memberships	Assignable	Assigned	Retired	Total		Donated Capital	Retired Capital Credits Gains	Total	
Balance, January 1, 2022	$ 1,292,175	$ 6,983,182	$ 182,905,540	$ (41,315,387)	$ 148,573,335	$ (2,386,096)	$ 73,401	$ 4,834,114	$ 4,907,515	$ 152,386,929
Unrealized gain on accumulated										
pension benefit obligations	-	-	-	-	-	4,618,019	-	-	-	4,618,019
Memberships issued, net of										
terminations	21,010	-	-	-	-	-	-	-	-	21,010
Retirements of patronage capital to										
estates of deceased members:										
Paid in cash	-	-	-	(345,783)	(345,783)	-	-	-	-	(345,783)
Applied to unpaid bills	-	-	-	(33,755)	(33,755)	-	-	-	-	(33,755)
General capital credit refund:										
Paid in cash	-	-	-	(1,022,350)	(1,022,350)	-	-	-	-	(1,022,350)
Applied to unpaid bills	-	-	-	(856,192)	(856,192)	-	-	-	-	(856,192)
Transferred to capital gains	-	-	-	(348,741)	(348,741)	-	-	452,078	452,078	103,337
Net margins	-	9,661,966	-	-	9,661,966	-	-	-	-	9,661,966
Assignment of patronage capital	-	(8,484,972)	8,484,972	-	-	-	-	-	-	-
Forfeiture of memberships	-	-	-	-	-	-	17	-	17	17
Balance, December 31, 2022	1,313,185	8,160,176	191,390,512	(43,922,208)	155,628,480	2,231,923	73,418	5,286,192	5,359,610	164,533,198
Unrealized gain on accumulated										
pension benefit obligations	-	-	-	-	-	(569,359)	-	-	-	(569,359)
Memberships issued, net of										
terminations	18,820	-	-	-	-	-	-	-	-	18,820
Retirements of patronage capital to										
estates of deceased members:										
Paid in cash	-	-	-	(311,664)	(311,664)	-	-	-	-	(311,664)
Applied to unpaid bills	-	-	-	(21,336)	(21,336)	-	-	-	-	(21,336)
General capital credit refund:										
Paid in cash	-	-	-	(1,214,140)	(1,214,140)	-	-	-	-	(1,214,140)
Applied to unpaid bills	-	-	-	(523,281)	(523,281)	-	-	-	-	(523,281)
Transferred to capital gains	-	-	-	(534,744)	(534,744)	-	-	690,345	690,345	155,601
Net margins	-	6,365,648	-	-	6,365,648	-	-	-	-	6,365,648
Assignment of patronage capital	-	(9,661,962)	9,661,962	-	-	-	-	-	-	-
Forfeiture of memberships	-	-	-	-	-	-	9	-	9	9
Balance, December 31, 2023	$ 1,332,005	$ 4,863,862	$ 201,052,474	$ (46,527,373)	$ 159,388,963	$ 1,662,564	$ 73,427	$ 5,976,537	$ 6,049,964	$ 168,433,496

The accompanying notes to the financial statements are an integral part of these statements.

OWEN ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Cash flows from operating activities:		
Net margins	$ 6,365,648	$ 9,661,966
Noncash expenses included in net margins:		
Patronage capital assigned but not paid by associated organizations	(3,045,777)	(4,201,335)
Depreciation	12,471,398	11,766,994
Bad debt expense	35,424	41,561
Gain (Loss) on disposition of general plant	4,937	(124,876)
Change in operating lease right-of-use asset	45,897	45,897
Amortization of pension prepayment	-	246,608
Changes in current and non-current assets and liabilities:		
Accounts receivable	1,622,603	(9,588,409)
Materials and supplies	(139,064)	(555,928)
Prepayments and other	(13,337)	243,420
Accounts payable	(3,668,636)	9,408,009
Customer guaranty deposits	32,975	104,789
Deferred credits	(2,410,220)	2,059,835
Accrued interest and other current and long-term liabilities	80,362	113,891
Accrued compensated absences	12,616	(124,050)
Postretirement benefit obligation	161,577	435,315
Net cash flows from operating activities	11,556,403	19,533,687
Cash flows from investing activities:		
Decrease in deferred debits	2,045,005	(1,599,002)
Additions to electric plant in service	(10,166,816)	(18,718,998)
Removal cost	(4,934,447)	(5,037,565)
Patronage capital received from associated organizations	278,992	1,612,980
Net cash flows from investing activities	(12,777,266)	(23,742,585)
Cash flows from financing activities:		
Proceeds from long-term notes payable	17,500,000	8,000,000
Payment of principal on long-term notes payable, net	(3,703,782)	(3,270,103)
Membership fees	18,820	21,010
Patronage capital paid out	(1,914,811)	(2,154,726)
Net activity on lines-of-credit	(4,448,868)	3,580,620
Net cash flows from financing activities	7,451,359	6,176,801
Increase in cash and equivalents during the year	6,230,496	1,967,903
Cash and equivalents, beginning of year	12,519,374	10,551,471
Cash and equivalents, end of year	$ 18,749,870	$ 12,519,374
Supplemental disclosures of cash flow information:		
Interest paid	$ 3,490,534	$ 3,122,538
Operating lease right-of-use assets and liabilities resulting from the implementation of Leases, Topic 842	$ -	$ 209,648

The accompanying notes to the financial statements are an integral part of these statements.

Note 1—Nature of operations

Owen Electric Cooperative, Inc. (the "Cooperative") is engaged in distributing power to its member consumers throughout nine northern Kentucky counties. The audited financial statements are prepared in accordance with policies prescribed or permitted by the Kentucky Public Service Commission ("KPSC") and the United States Department of Agriculture Rural Utilities Services ("RUS"), which conform with generally accepted accounting principles as applied to regulated enterprises. The more significant of these policies are as follows.

Note 2—Summary of significant accounting policies

Basis of Accounting – The financial statements in accordance with policies prescribed or permitted by the Kentucky Public Service 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 ("U.S. 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.* The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Cash and Equivalents – For purposes of the statement of cash flows, the Cooperative considers short-term investments having maturities of three months or less at time of purchase to be cash equivalents.

Accounts Receivable – Accounts receivable consists of amounts due for sales of electric energy, which were not received by the Cooperative at year-end. The allowance for credit losses is based on the Cooperative's assessment of the collectability of customer accounts receivable. In accordance with ASC Topic 326: Financial Instruments - Credit Losses, the Cooperative makes ongoing estimates relating to the collectability of accounts receivable and records an allowance for estimated losses expected from the inability of its customers to make required payments. The Cooperative establishes expected credit losses by evaluating historical levels of credit losses, current and future economic conditions that may affect a customer's ability to pay, and creditworthiness of significant customers. These inputs are used to determine a range of expected credit losses and an allowance is recorded within the range. Accounts receivable are written off when there is no reasonable expectation of recovery. As of December 31, 2023 and 2022, the allowance for credit losses was $208,267 and $254,914 respectively.

Materials and Supplies – The Cooperative values materials and supplies at average cost.

Deferred Debits/Credits – Regulatory requirements authorized by the KPSC allow the electric supplier to impose a fuel adjustment surcharge upon the Cooperative. In turn, the Cooperative is required to pass on the fuel surcharge to the consumer. Due to the regulatory requirements in calculating the surcharge the Cooperative may experience an over or under recovery of the fuel adjustment surcharge.

Similarly, the KPSC has an environmental cost recovery mechanism that allows the electric supplier to recover certain costs incurred in complying with the Federal Clean Air Act as amended and those federal, state, and local environmental requirements which apply to coal combustion wastes and byproducts from facilities utilized for the production of energy from coal. In turn, the Cooperative is required to pass on this environmental cost recovery mechanism to the consumer.

The amount recorded on the financial statements for the under/(over) recovery of the fuel adjustment surcharge at December 31, 2023 and 2022 was $1,512,619 and $3,487,611, respectively. The amount of the under/(over) recovery of the environmental cost recovery mechanism at December 31, 2023 and 2022 was $2,287,272 and $2,282,230, respectively. Both the fuel adjustment and environmental cost recovery surcharges are included in deferred debits on the balance sheet.

Note 2—Summary of significant accounting policies (Continued)

Electric Plant in Service – Utility plant is stated at original cost. Maintenance and repairs, including the cost of renewals of minor items of property, are charged to maintenance expense accounts. Replacements of property (exclusive of minor items) are charged to the utility plant accounts.

The Cooperative's policy is to periodically review the estimated useful lives and depreciation rates of its distribution assets. The Cooperative had a depreciation study performed by a third party during 2020. As a result, the Cooperative revised the depreciation rates on the distribution plant assets effective January 1, 2021. The rate changes were approved by RUS and remain in effect for the years ended December 31, 2023 and 2022.

The depreciation is provided using the straight-line method at rates which are designed to amortize the cost of depreciable plant, net of estimated salvage value, over its estimated useful life. The composite depreciation rate for distribution plant was approximately 3.6% for 2023 and 2022, respectively. General plant is being depreciated using specific identification straight-line method over the following estimated useful lives:

Structures and improvements	20 - 50
Miscellaneous equipment	3 - 10
Office, stores and lab equipment	5 - 12.5
Communication equipment	3 - 12.5
Transportation equipment	5 - 12.5
Power-operated equipment	6 - 10

When distribution plant is retired or otherwise disposed of in the normal course of business, an estimate of its cost, together with the cost of removal less salvage, is charged to the accumulated provision for depreciation. Gains and losses resulting from the sale or disposal of general plant are recognized in income currently.

The Cooperative constructed a two-megawatt natural gas distributed generation ("DG") unit, which was declared commercially operational in June 2016. The DG unit was constructed to displace a portion of the Cooperative's purchased power costs. The cost of the DG unit is reflected in production plant.

The major classifications of electric plant in service were as follows:

	December 31, 2023	December 31, 2022
Distribution plant	$ 314,786,125	$ 304,791,933
General plant	35,710,154	34,391,562
Production plant	2,548,888	2,500,348
Construction in progress	1,429,696	2,624,202
	354,474,863	344,308,045
Accumulated depreciation	186,656,840	179,073,932
Electric plant in service, net	$ 167,818,023	$ 165,234,113

Revenue and Cost of Purchased Power – Revenue is recognized in the period used and the power costs are recognized in the period incurred.

Note 2—Summary of significant accounting policies (Continued)

Advertising Costs – The Cooperative records advertising expenses as they are incurred. Advertising expense amounted to $313,556 and $287,616 for the years ended December 31, 2023 and 2022, respectively.

Investments in Associated Organizations – The Cooperative follows the method of accounting as prescribed by the RUS Uniform System of Accounts in accounting for its investment in associated organizations. This accounting method results in the Cooperative recognizing in income its pro rata share of the associated organization's net margins in the year such margins are assigned. This accounting method does not provide for similar treatment for any losses of the associated organizations. Rather, such losses would not be assigned to member organizations and no additional margins are assigned until subsequent cumulative margins exceed prior cumulative losses.

Accrued Compensated Absences – The Cooperative has a policy to pay available but untaken compensated absences to employees who leave service. The compensated absences are composed of sick and vacation leave.

Sick leave allows 100% of accrued sick leave for retiring employees, 100% of accrued sick leave for deceased employees (payment is made to deceased employees' beneficiary), 45% of annual base salary or sick leave balance, whichever is lower, for employees taking early retirement, and 20% of annual base salary or the sick leave balance, whichever is lower, for employees who voluntarily leave service prior to reaching retirement age.

Vacation leave allows for the terminating employee, or their estate/beneficiary (in the case of death), to be paid for all earned and unused vacation days at the current rate of pay at termination.

Comprehensive Income – The Cooperative accounts for comprehensive income in accordance with the relative provisions of the ASC.

Comprehensive income is the change in equity of an enterprise during the year from transactions and other events and circumstances arising from non-operating sources. The Cooperative's total comprehensive income includes amounts associated with the change in the postretirement benefits obligation (see Note 9).

Use of Estimates – Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, 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.

Other – The Cooperative has a collective bargaining agreement with approximately 48 of its employees. This represents approximately 38% of the Cooperative’s 125 full-time employees. The current contract was negotiated in early 2020 and established a five (5) year agreement. The agreement went into effect August 1, 2020 and is effective through July 31, 2025.

Revenue Recognition – Operating revenues consist of income from the sale of electricity which constitutes approximately 99% of the Cooperative’s operating revenues. The Cooperative provides services to customers prior to billing and those are recognized as accounts receivable unbilled on the balance sheets. The unbilled revenue constitutes a contract asset, which is defined as an entity’s right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time. Electricity revenues are recognized over time as energy is delivered based upon month-end meter readings and rates approved by the PSC.

Note 2—Summary of significant accounting policies (continued)

Recent Accounting Pronouncements - In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses ("Topic 326")*: *Measurement of Credit Losses on Financial Instruments*, which introduces the current expected credit loss ("CECL") model and replaces the incurred loss model. Credit losses on financial instruments measured at amortized cost will be determined using a current expected credit loss model which requires the Cooperative to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments - Credit Losses ("Topic 326"): Troubled Debt Restructurings and Vintage Disclosures*, to eliminate the accounting guidance for troubled debt restructurings by creditors, while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. These amendments are intended to improve the decision usefulness of information provided to investors about certain loan refinancings, restructurings, and write -offs.

On January 1, 2023, the Cooperative adopted ASU 2016-13 and ASU 2022-02 effective January 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for the reporting periods beginning after January 1, 2023 are presented under Topic 326 while prior period amounts continue to be reported in accordance with previously applicable U.S. GAAP. No cumulative adjustment to net assets was deemed necessary.

Note 3—Investments

East Kentucky Power Cooperative ("EKPC") – The Cooperative's investment of $95,917,346 and $93,362,447 at December 31, 2023 and 2022, respectively, in EKPC, the sole supplier of power to the Cooperative, represents the Cooperative's equity ownership interest (approximately 13%) in EKPC. The Cooperative owed EKPC $16,134,912 and $19,577,011 for its power bill at December 31, 2023 and 2022, respectively. These amounts are included in accounts payable on the balance sheets.

Associated Organizations – Investments in associated organizations consisted of:

	December 31,	
	2023	**2022**
United Utility Supply Cooperative	$ 1,267,797	$ 1,083,571
Kentucky Association of Electric Cooperatives, Inc.	350,177	239,490
National Rural Utilities Cooperative Finance Corporation	913,850	938,686
Capital Term Certificates of National Rural Utilities Cooperative Finance Corporation	1,300,998	1,347,245
Southeastern Data Cooperative, Inc.	418,759	398,707
National Rural Telecommunications Cooperative	1,366,826	1,413,669
Federated Rural Electric Insurance Exchange	503,832	485,331
Other	202,886	165,523
	$ 6,325,125	$ 6,072,222

Substantially all of such investments, which consist mainly of patronage capital in the associated organization and capital term certificates are restricted by the respective organization and are not currently available for distribution. The patronage capital will be available to the Cooperative if the Cooperative should terminate its investment in the associated organization. The capital term certificates are not available until the related debt is paid off, currently expected to be between the years 2023 and 2080.

Note 3—Investments (continued)

United Utility Supply Cooperative ("United") is a primary supplier of transformers and overhead line materials and supplies. The Cooperative's purchases from United amounted to $4,656,333 and $3,597,961 for the years ended December 31, 2023 and 2022, respectively. The Cooperative owed United $477,648 and $186,057 at December 31, 2023 and 2022, respectively. These amounts are included in accounts payable on the balance sheets.

The capital term certificates bear interest at varying rates between 0% and 5% per annum. These certificates are required to be maintained under the note agreement with the National Rural Utilities Cooperative Finance Corporation ("NRUCFC") in an amount at least equal to 5% of the original debt issued or guaranteed by NRUCFC until maturity. These investments in associated organizations are similar to compensating bank balances and are necessary in order to maintain current financing arrangements. Accordingly, there is no market for these investments.

Southeastern Data Cooperative, Inc. ("Southeastern") is a primary supplier of data processing services and computer hardware and software. The Cooperative's purchases from Southeastern were $1,359,296 and $1,298,558 for the years ended December 31, 2023 and 2022, respectively. The Cooperative owed Southeastern $108,374 and $103,965 at December 31, 2023 and 2022, respectively. These amounts are included in accounts payable on the balance sheets.

Note 4—Income tax status

The Cooperative is exempt from federal and state income taxes under §501(c)(12) of the Internal Revenue Code. The Cooperative recognizes uncertain income tax positions using the "more-likely-than-not" approach as defined in the ASC. No liability for uncertain tax positions has been recorded in the accompanying financial statements.

Note 5—Lines-of-credit

At December 31, 2023 and 2022, the Cooperative had an unsecured available line-of-credit of $22,800,000 from the NRUCFC. The interest rate for this line-of-credit was 7.25% and 5.75% at December 31, 2023 and 2022, respectively. The maturity date for the line-of-credit is December 31, 2049. The Cooperative had an outstanding balance under the line-of-credit of $-0- and $4,448,868 at December 31, 2023 and 2022, respectively.

At December 31, 2023 and 2022, the Cooperative had a second unsecured available line-of-credit of $1,000,000 with CoBank. The maturity date for the line of credit is August 31, 2024. There were no borrowings under this line-of-credit at December 31, 2023 and 2022.

Note 6—Long-term debt

Long-term debt consisted of the following:

	December 31, 2023	December 31, 2022
Mortgage notes payable to the Rural Utilities Services due in quarterly installments of varying amounts through 2054		
1.763% first mortgage notes	$ 11,589,570	$ 11,864,205
2.173% first mortgage notes	8,625,222	8,959,785
2.493% first mortgage notes	2,601,670	2,698,927
2.521% first mortgage notes	4,425,782	4,590,694
2.806% first mortgage notes	3,271,972	3,389,909
2.809% first mortgage notes	5,157,604	5,343,443
2.933% first mortgage notes	4,279,628	4,431,606
3.184% first mortgage notes	7,837,342	7,980,358
3.680% first mortgage notes	7,438,834	-
3.894% first mortgage notes	2,858,783	2,949,324
4.704% first mortgage notes	10,000,000	-
4.815% first mortgage notes	2,197,854	2,302,277
4.917% first mortgage notes	633,244	663,071
5.192% first mortgage notes	3,242,177	3,391,346
5.277% first mortgage notes	7,649,899	7,999,309
	81,809,581	66,564,254
Notes payable to CoBank, interest at 3.90%, 3.63% and 4.35% due April 2028, September 2040 and July 2041, respectively	25,574,815	26,944,525
Mortgage notes payable to the NRUCFC, interest at 4.60%, due in quarterly installments through 2030	614,874	694,275
	107,999,270	94,203,054
Less current maturities	4,714,524	3,643,559
	$ 103,284,746	$ 90,559,495

The aggregate principal maturities of long-term debt as of December 31, 2023 are as follows:

2024	$ 4,714,524
2025	4,234,985
2026	4,381,611
2027	3,838,939
2028	4,586,183
Thereafter	86,243,028
	$ 107,999,270

Note 6—Long-term debt (continued)

Substantially all utility plant is pledged as collateral for the above notes. Under the terms of the loan agreements, the Cooperative is required to meet certain financial performance covenants. The Cooperative is in compliance with these covenants at December 31, 2023.

In December 2019, Owen Electric completed its 2020-2021 construction work plan. Using the construction work plan and a RUS financial forecast as support, Owen Electric filed a loan application with RUS on December 19, 2019, for $37,500,000. On October 28, 2020, Owen Electric received clearances from RUS allowing loan funds to be requisitioned. The Cooperative did not request any funds on this loan during 2020. During 2023 and 2022, the Cooperative advanced $17,500,000 and $8,000,000, respectively, on this loan. These advances represent the final requisitions associated with the $37,500,000 loan application. At December 31, 2023, all loan funds have been advanced.

Note 7—Members' and patrons' equities

Under terms of its long-term debt agreements, return of capital contributions or patronage capital to the Cooperative's members and patrons is restricted to amounts which would not allow total equity to be less than 30% of total assets, except that distributions may be made to estates of deceased members provided that such distributions do not exceed 25% of total patronage capital and margins received in the previous year. Total equity as a percentage of assets can fall below the 30% requirement if the Cooperative has obtained the appropriate waiver from the RUS. The Cooperative is in compliance with these requirements at December 31, 2023 and 2022.

Note 8—Retirement benefits

Effective January 1, 1988, the Cooperative entered into a multi-employer defined benefit pension plan sponsored by the National Rural Electric Cooperative Association ("NRECA"). The NRECA Retirement Security Plan ("RS 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 multi-employer 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 multi-employer 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 Cooperative contributions to the RS Plan in 2023 and in 2022 represented less than 5% of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of $2,183,012 and $2,083,981 in 2023 and 2022, respectively.

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 at January 1, 2023 and January 1, 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.

Note 8—Retirement benefits (continued)

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. However, changes in interest rates, asset returns and other plan experience different from expected, plan assumption changes and other factors may have an impact on the differential in billing rates and the 15-year period. The Cooperative's pension prepayment, both current and long term, as reflected on the balance sheets was $-0- and $246,608 as of December 31, 2023 and 2022, respectively.

The Owen Electric Cooperative Employee Savings and Protection Plan, established April 1, 1986, is a defined contribution plan available to employees of the Cooperative upon completion of three months of service. The Cooperative makes annual matching contributions equal to 100% of all deferred salary reductions up to a 4% maximum employer contribution. The Cooperative's expense for 2023 and 2022 was $452,299 and $447,296, respectively.

Note 9—Postretirement benefits

The Cooperative provides postretirement medical benefits to its retired employees and their dependents. The Plan requires retiree contributions based on years of service at retirement. "Employers' Accounting for Postretirement Benefits Other Than Pensions," requires the accrual of the cost of providing certain postretirement benefits over the employees' years of service, rather than on a pay-as-you-go (cash) basis.

In accordance with the provision of "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," the Cooperative has recorded an accrued benefit cost for the full benefit obligation as of December 31, 2023 and 2022.

The following table sets forth the plan's benefit obligation and accrued liability:

	December 31,	
	2023	**2022**
Benefit obligation	$ 12,685,681	$ 11,954,745
Funded status	$ (12,685,681)	$ (11,954,745)
Accrued benefit cost recognized in the balance sheets	$ (12,685,681)	$ (11,954,745)
Weighted-average assumptions		
Discounted rate	4.80%	5.00%

For measurement purposes, the health care cost trend rate is assumed to be 6.5% in 2023 and 7.00% in 2022.

Note 9—Postretirement benefits (continued)

Other information, per the actuarial report, as of December 31, 2023, regarding the Cooperative's benefit plans, is as follows:

	December 31,	
	2023	2022
Benefit cost	$ 714,497	$ 876,172
Benefits paid	552,920	440,857

Note 10—Concentrations of revenues, receivables and cash

All of the Cooperative's sales are made in portions of nine counties in north central Kentucky, which is primarily an agricultural region. However, a significant portion of the Cooperative's Northern service territory has become increasingly developed with suburban residential and commercial activity. Accounts receivable and customer deposits at December 31, 2023 and 2022, were derived from the various classes of customers in approximately the same proportion as the revenues shown in the accompanying statements of income and other comprehensive income.

On September 1, 2010, the Cooperative and EKPC entered into a five year electric service extension agreement with Nucor Steel Gallatin. The Cooperative is to provide electric power to Nucor Steel Gallatin's manufacturing facilities in Gallatin County, Kentucky, the first of which began operations June 1, 1995. This agreement remains in effect at December 31, 2023. The agreement will remain in effect after the initial five-year term unless one of the parties gives twelve months advanced written notice to cancel the agreement. Sales to Nucor Steel Gallatin in 2023 and 2022 totaled $82,943,754 and $66,372,584, respectively. Receivables from Nucor Steel Gallatin were $7,003,763 and $6,978,532 at December 31, 2023 and 2022, respectively.

The Cooperative maintains its cash balances with banks throughout Kentucky. The Federal Deposit Insurance Corporation ("FDIC") provides federal deposit insurance coverage up to $250,000 per depositor. As of December 31, 2023 and 2022, there were no uninsured balances in the Cooperative's interest and non-interest bearing accounts.

Note 11—Operating leases

The Cooperative determines if an arrangement is a lease at inception. The Cooperative has two operating leases for buildings, extending through December 2026 which are included as operating lease right-of-use assets and operating lease liabilities as of December 31, 2023. The Cooperative has the option to extend the lease agreements.

The operating lease right-of-use asset represents the Cooperative's right to use an underlying asset for the lease term and the lease liability represents the Cooperative's obligation to make lease payments arising from the leases. The operating lease right-of-use asset and liability are recognized at the commencement date based on the present value of the fixed lease payments over the lease terms. The present value of minimum lease payments was calculated on each lease using a discount rate that approximates the incremental borrowing rate primarily adjusted for the length of the individual lease terms. As of the January 1, 2022 adoption date, the Cooperative utilized a discount rate of 1.87% for operating leases. As the operating leases do not provide an implicit rate, the Cooperative uses a discount rate that approximates the incremental borrowing rate available at lease commencement to determine the present value.

Note 11—Operating leases (continued)

Rent expense under the lease agreements was $48,971 and $50,131 for the years ended December 31, 2023 and 2022, respectively, which is included in administrative and general expense on the accompanying statements of income and comprehensive income.

The following table summarizes the activity of the Cooperative's operating ROU assets during the year ended December 31, 2023:

Beginning balance, January 1	$	163,451
Amortization of operating ROU assets		(45,897)
Ending balance	$	117,554

The table below summarizes other information related to the Cooperative's operating leases:

Cash paid for amounts related to operating leases	$	45,897
Total operating lease costs		45,897
Weighted-average remaining lease term (years)		2.00
Weighted-average discount rate		1.87%

The following table summarizes the maturity of remaining operating lease liabilities as of December 31, 2023:

2024	$	46,751
2025		46,751
2026		46,751
Total lease payments		140,252
Less imputed interest		22,698
Operating lease liabilities		117,554
Less current portion operating lease liabilities		45,897
Non-current portion of operating lease liabilities	$	71,657

The Cooperative considers leases with a maturity of 12 months or less to be short-term leases, and such payments are expensed as paid and are not recorded in the accompanying balance sheets.

Note 12—Detail of Deferred Debits and Deferred Credits

The following is a detail of deferred debits as of December 31.

	December 31,	
Description	**2023**	**2022**
Fuel adjustment	$ 1,512,619	$ 3,487,611
Environmental surcharge	2,287,272	2,282,230
Fixed asset - large projects and other	340,036	415,091
	$ 4,139,927	$ 6,184,932

The following is a detail of deferred credits as of December 31.

	December 31,	
Description	**2023**	**2022**
RF Meters	$ 1,104,578	$ 3,688,871
Customer advances for construction	1,376,811	1,221,530
Consumers' maintenance prepayment	206,863	188,071
	$ 2,688,252	$ 5,098,472

Note 13—Subsequent event

In October 2023, Owen Electric completed its 2024-2025 construction work plan. Using the construction work plan and RUS financial forecast as support, Owen Electric filed a loan application with the RUS on November 10, 2023, for $60,000,000. On February 1, 2024, Owen Electric received notification that a treasury rate loan commitment in the amount of $60,000,000 had been approved by the RUS. As of the date of this report, Owen Electric is awaiting final clearance from the RUS allowing loan funds to be requisitioned. Accordingly, no funds have been requested or advanced.

OTHER REQUIRED REPORTS

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Report of Independent Auditor 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
Owen Electric Cooperative, Inc.
Owenton, 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 Owen Electric Cooperative, Inc. (the "Cooperative") as of and for the years ended December 31, 2023 and 2022 and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements, and have issued our report thereon dated April 22, 2024.

Report on Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free 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 results of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Louisville, Kentucky
April 22, 2024

Cherry Bekaert LLP
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Report of Independent Auditor on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers

To the Board of Directors
Owen Electric Cooperative, Inc.
Owenton, 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 Owen Electric Cooperative, Inc. (the "Cooperative"), which comprise the balance sheet as of December 31, 2023 and 2022, and the related statements of income and comprehensive income, changes in members' and patrons' 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 22, 2024. In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2024, on our consideration of Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above have been furnished to management.

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

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and
- Comply with the requirements for the detailed schedule of investments.

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 telecommunications 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.

Cherry Bekaert LLP

Louisville, Kentucky
April 22, 2024