



# **Warren Rural Electric Cooperative Corporation**

## **FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

**June 30, 2022 and 2021**



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# REPORT



## **Independent Auditors' Report**

Board of Directors  
Warren Rural Electric Cooperative Corporation  
Bowling Green, Kentucky

### **Opinion**

We have audited the accompanying consolidated financial statements of the Warren Rural Electric Cooperative Corporation and Subsidiaries (the "Cooperative"), which comprise the consolidated balance sheets as of June 30, 2022 and 2021, and the related consolidated statements of income, equities, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Cooperative as of June 30, 2022 and 2021, and the results of their operations and their 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 Auditors' 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.

### **Responsibility of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 within one year after the date that the consolidated financial statements are available to be issued.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated 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 consolidated 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 consolidated 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 audit.

### **Report on Consolidating Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information in the consolidating statements is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects in relation to the consolidated financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2022, 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 the Cooperative'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 Cooperative's internal control over financial reporting and compliance.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC  
Bowling Green, Kentucky  
October 25, 2022



# FINANCIAL STATEMENTS



# Warren Rural Electric Cooperative Corporation

## Consolidated Balance Sheets

<i>June 30,</i>	<b>2022</b>	(Restated) 2021
<b>Assets</b>		
Utility plant		
Plant in service	\$ 385,075,098	\$ 365,463,448
Construction in progress	41,169,320	24,509,836
Less accumulated depreciation	(173,670,524)	(162,942,830)
Net utility plant	252,573,894	227,030,454
Other property and investments		
Non-utility plant, net of accumulated depreciation	940,875	1,057,918
Investments in associated organizations	5,775,783	5,638,668
Other investments	294,284	482,173
Goodwill	318,731	419,383
Total other property and investments	7,329,673	7,598,142
Current assets		
Cash and cash equivalents	18,806,934	17,680,757
Accounts receivable, net of allowance	25,269,968	20,507,506
Other accounts receivable	2,113,301	791,151
Materials and supplies	14,556,188	7,621,484
Prepaid expenses	608,644	609,922
Total current assets	61,355,035	47,210,820
Other assets		
TVA Energy Services loans receivable	556,949	276,633
Deferred debits	697,999	617,123
Total other assets	1,254,948	893,756
Total assets	\$ 322,513,550	\$ 282,733,172

(Continued)

*The accompanying notes are an integral part of these consolidated financial statements.*



**Warren Rural Electric Cooperative Corporation**  
**Consolidated Balance Sheets (Continued)**

<i>June 30,</i>	<b>2022</b>	(Restated) 2021
<b>Equities and Liabilities</b>		
Equities		
Membership fees	\$ 607,625	\$ 599,065
Patronage capital	156,010,147	140,067,374
Other equities	107,634	107,634
Total equities	156,725,406	140,774,073
Long-term liabilities		
Long-term debt - net of current portion	101,627,654	88,863,453
Accrued post-retirement benefits	4,609,115	5,231,331
Total other liabilities	106,236,769	94,094,784
Current liabilities		
Accounts payable - purchased power	29,522,139	24,621,907
Accounts payable - other	4,770,233	3,977,874
Self-insured fund	306,527	1,069,188
Customer deposits	4,786,133	4,532,823
Accrued interest	179,195	181,712
Accrued vacation and sick leave	1,730,975	1,635,872
Current portion of post-retirement liability	726,000	515,000
Accrued taxes and other current liabilities	2,044,062	2,406,972
Short-term notes payable	6,000,000	-
Current portion of long-term debt	6,837,429	6,947,623
Total current liabilities	56,902,693	45,888,971
Other liabilities		
Advances for TVA Energy Services loans	563,701	286,720
Deferred income taxes	178,699	201,937
Deferred credits	1,906,282	1,486,687
Total other liabilities	2,648,682	1,975,344
Total equities and liabilities	\$ 322,513,550	\$ 282,733,172

*The accompanying notes are an integral part of these consolidated financial statements.*

# Warren Rural Electric Cooperative Corporation

## Consolidated Statements of Income

		(Restated)
<i>For the years ended June 30,</i>	<b>2022</b>	2021
<b>Operating revenues</b>		
Electric sales	\$ 219,948,075	\$ 197,714,554
Forfeited discounts	1,095,840	497,424
Rent from electric property	3,926,289	3,742,841
Other electric revenues	773,503	679,789
Natural gas sales	1,008,801	600,487
Propane and related sales	3,848,168	3,114,590
Total operating revenues	<b>230,600,676</b>	206,349,685
<b>Operating Expenses</b>		
Purchased power	162,116,201	143,166,165
Operation	7,804,377	7,407,004
Maintenance	10,607,673	9,273,778
Facilities rental	95,377	116,676
Customer accounts	3,311,214	3,296,549
Customer service and information	779,440	836,875
Administrative and general	4,258,953	5,270,153
Depreciation and amortization	13,363,828	12,246,651
Taxes and tax equivalents	6,088,762	5,533,989
Natural gas purchases	769,307	354,330
Propane gas and related cost of goods sold	2,082,691	1,529,745
Total operating expenses	<b>211,277,823</b>	189,031,915
Total operating income before interest expense	<b>19,322,853</b>	17,317,770
Interest on long-term debt	<b>3,938,178</b>	3,972,486
Operating income after interest expense	<b>15,384,675</b>	13,345,284
<b>Non-operating income</b>		
Interest income	166,924	140,358
Income (loss) of unconsolidated entities	(535)	15
Miscellaneous	162,131	331,817
Total non-operating income	<b>328,520</b>	472,190
Generation & Transmission and Other Cooperative Capital Credits	<b>387,045</b>	162,171

(Continued)

*The accompanying notes are an integral part of these consolidated financial statements.*

**Warren Rural Electric Cooperative Corporation**  
**Consolidated Statements of Income (Continued)**

<i>For the years ended June 30,</i>	<b>2022</b>	(Restated) 2021
Income before income taxes	<b>16,100,240</b>	13,979,645
Income tax expense	<b>157,467</b>	150,979
Net Income	<b>\$ 15,942,773</b>	\$ 13,828,666

*The accompanying notes are an integral part of these consolidated financial statements.*

**Warren Rural Electric Cooperative Corporation**  
**Consolidated Statements of Equities**

	<b>Memberships</b>	<b>Patronage Capital</b>	<b>Other Equities</b>	<b>Total Equities</b>
Balance - July 1, 2020	\$ 582,415	\$ 122,603,122	\$ 107,634	\$ 123,293,171
Prior period adjustment	-	3,635,586	-	3,635,586
Restated balance - July 1, 2020	\$ 582,415	\$ 126,238,708	\$ 107,634	\$ 126,928,757
Restated net income for the year	-	13,828,666	-	13,828,666
Investment from members	16,650	-	-	16,650
Restated balance - June 30, 2021	599,065	140,067,374	107,634	140,774,073
Net income for the year	-	15,942,773	-	15,942,773
Investment from members	8,560	-	-	8,560
Balance - June 30, 2022	<b>\$ 607,625</b>	<b>\$ 156,010,147</b>	<b>\$ 107,634</b>	<b>\$ 156,725,406</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

# Warren Rural Electric Cooperative Corporation

## Consolidated Statements of Cash Flows

<i>For the years ended June 30,</i>	<b>2022</b>	(Restated) <b>2021</b>
<b>Operating Activities</b>		
Net income	\$ 15,942,773	\$ 13,828,666
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,363,828	12,246,651
(Increase) decrease in assets:		
Receivables	(6,084,612)	(1,696,373)
Materials and supplies	(6,934,704)	(2,643,231)
Prepaid expenses	1,278	160,117
Other assets	(361,192)	(143,841)
Increase (decrease) in liabilities:		
Accounts payable	5,692,591	5,904,312
Customer deposits	253,310	154,279
Accrued expenses and other liabilities	(336,409)	1,733,776
Accretion in post-retirement benefit obligation	(411,216)	(242,497)
Provision for deferred income taxes	(23,238)	47,241
Net cash provided by operating activities	21,102,409	29,349,100
<b>Investing Activities</b>		
Additions to utility plant, net of disposals	(38,689,573)	(28,930,695)
Purchase of other investments	187,889	(31,888)
Change in investment in associated organizations	(137,115)	112,420
Net cash used in investing activities	(38,638,799)	(28,850,163)
<b>Financing Activities</b>		
Proceeds from long-term debt	19,639,471	-
Proceeds from short-term notes payable	6,000,000	-
Payments on principal of long-term debt	(6,985,464)	(6,080,479)
Investment from members	8,560	16,650
Net cash provided by (used in) financing activities	18,662,567	(6,063,829)

(Continued)

*The accompanying notes are an integral part of these consolidated financial statements.*

**Warren Rural Electric Cooperative Corporation**  
**Consolidated Statements of Cash Flows (Continued)**

<i>For the years ended June 30,</i>	<b>2022</b>	(Restated) 2021
Increase (decrease) in cash and cash equivalents	<b>1,126,177</b>	(5,564,892)
Cash and cash equivalents – beginning of year	<b>17,680,757</b>	23,245,649
Cash and cash equivalents – end of year	<b>\$ 18,806,934</b>	<b>\$ 17,680,757</b>

**Supplemental disclosures of cash flow information:**

Cash paid during the year for interest	<b>\$ 3,940,695</b>	\$ 3,987,012
Cash paid for income taxes, net	<b>\$ 121,686</b>	\$ 156,592

*The accompanying notes are an integral part of these consolidated financial statements.*

## Warren Rural Electric Cooperative Corporation

### Notes to Consolidated Statements

#### **Note 1: DESCRIPTION OF THE ORGANIZATION**

The Warren Rural Electric Cooperative Corporation ("WRECC") and its Subsidiaries (hereinafter referred to collectively as "the Cooperative") were organized under Kentucky laws and exist for the purpose of distributing various utility services to its members, primarily in South Central Kentucky. Rates charges to customers are established by the Board of Directors and are subject to review by the Tennessee Valley Authority ("TVA") before becoming effective. Counties included in its service area include Warren, Simpson, Butler, Ohio, Grayson, Logan, Edmonson, and Barren.

#### **Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### ***Principles of Consolidation***

The consolidated financial statements include the accounts of WRECC and its wholly-owned for-profit subsidiaries, Propane Energy Service, Inc. ("PES") and Millennium Energy, Inc. ("Millennium"). PES is involved with propane distribution and Millennium is a natural gas distributor. All significant intercompany activity has been eliminated in consolidation.

##### ***Basis of Accounting***

The Cooperative is subject to the accounting and reporting rules and regulations of RUS. The Cooperative follows the Federal Energy Regulatory Commission's Uniform System of Accounts prescribed for Class A and B Electric Utilities as modified by RUS and the TVA. The Cooperative, in its rate-making capacity, accounts for certain revenue and expense deferrals in accordance with *Accounting Standards Codification (ASC) 980 – Regulated Operations*.

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Financial Accounting Standards Board ("FASB") is the sole source of authoritative accounting technical literature for nongovernmental entities. The significant accounting policies are described below to enhance the usefulness of the consolidated financial statements to the reader.

##### ***Cooperative Plant and Retirements***

The Cooperative plant is stated at original cost. The cost of additions to the Cooperative plant includes contracted work, direct labor and materials and allocable overheads. When units of property are retired, sold or otherwise disposed of in the ordinary course of business, their average book cost less net salvage is charged to accumulated depreciation. Repairs and the replacement and renewal of items determined to be less than units of property are charged to maintenance expense.

##### ***Depreciation***

Depreciation expense is computed on the composite-rate method at rates recommended by TVA and RUS. Retirements of property from service have been charged to the accumulated provision for depreciation accounts at the original cost of the units plus cost of removal. Salvage value of the units retired is returned to inventory.

##### ***Use of Estimates***

The preparation of consolidated financial statements in conformity 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 disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are reviewed

## Warren Rural Electric Cooperative Corporation

### Notes to Consolidated Statements

#### Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### *Use of Estimates (continued)*

periodically and the effects of revisions are reflected in the consolidated financial statements in the period that are determined to be necessary. Actual results could differ from the estimates.

Estimates that are particularly susceptible to significant change in the near term are related to allowance for uncollectable accounts, post-retirement benefits liability, and self-insurance liability.

##### *Concentrations of Credit Risk*

Financial instruments that potentially subject the Cooperative to concentrations of credit risk consist principally of cash deposits and accounts receivable. The Cooperative maintains its cash balances in institutions whose deposits are covered by the FDIC. Deposits are insured up to \$250,000 per financial institution. At June 30, 2022 and 2021, the Cooperative had deposits of \$1,751,707 and \$676,729 in excess of the FDIC insured amount, respectively. The Cooperative has a geographical concentration in accounts receivable because most of the balances are due from individuals and businesses located in the same geographical region.

##### *Cash and Cash Equivalents*

For the purposes of the statements of cash flows, the Cooperative considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2022 and 2021, cash equivalents consisted primarily of commercial paper and repurchase agreements.

##### *Accounts Receivable*

Through the business of providing services to customers, nearly all of whom are regional residents, the Cooperative grants credit to those customers, which is basically unsecured. This results in the Cooperative incurring monthly losses associated with uncollectible accounts and is reflected in the Cooperative's operating expenses.

Accounts receivable result from unpaid billings and accrued unbilled amounts for service to customers and from unpaid billings related to work performed or materials sold to certain entities. Accounts receivable are stated at amounts expected to be collected from customers, less an allowance for uncollectible accounts that includes unpaid balances in excess of 90 days plus an additional amount based on management's estimation of future doubtful accounts. The allowance for doubtful accounts was \$5,349,892 and \$5,214,892 at June 30, 2022 and 2021, respectively.

Utility bills are due 15 days after the billing date, with a 5% penalty assessed for late payments. A cut-off notice is sent, allowing the customer seven days to pay before their service is disconnected. The customer then has five days to pay before the meter is read and entered to create a final bill. A collection letter is sent if the account remains unpaid after the due date of the final bill. A second collection letter is sent after ten days. The account is turned over to a collection agency ten days after the issuance of the second collection letter.

##### *Materials and Supplies*

All materials and supplies inventories are used to maintain the Cooperative's plant and are valued at average cost.



## Warren Rural Electric Cooperative Corporation

### Notes to Consolidated Statements

#### Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### ***Investments in Associated Enterprises***

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 income on 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. Investments that are a condition of loans from National Rural Utilities Cooperative Finance Corporation are recorded at cost.

The Cooperative has a 50% investment in Penwar, Inc., which is accounted for under the equity method. Penwar provides billing and collection services for the Cooperative and one other electric utility. The Cooperative's share of (loss) income from Penwar for the years ended June 30, 2022 and 2021 was \$(535) and \$15, respectively.

##### ***Prepaid Expenses***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the consolidated financial statements.

##### ***Goodwill***

The Cooperative's goodwill represents the excess of the purchase price over the fair value of assets acquired in business combinations. Goodwill is evaluated annually for impairment, or whenever impairment indicators arise.

##### ***Compensated Absences***

The Cooperative's policy permits employees to accumulate earned but unused personal benefits. Personal leave earned by employees is accrued based on years of continuous service. All personal leave pay has been accrued and is reflected as a liability in the consolidated financial statements. When an employee ceases to be employed, all benefits shall cease to accrue.

##### ***Unearned Revenue***

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

##### ***Revenue Recognition***

Effective January 1, 2019, the Cooperative adopted FASB ASC 606, Revenue from Contracts with Customers, using the modified retrospective approach. Prior to the adoption of FASB ASC 606, the Cooperative recognized revenue when persuasive evidence of an arrangement existed, delivery of services had occurred, the rate charged was fixed or determinable and collectability was reasonably assured. There was no material impact to the recognition of revenue from the sale of power and gas to the Cooperative's member-customers, and there has been no cumulative-effect adjustment recognized. This update requires entities to recognize revenue when the transfer of promised goods or services to customers occurs in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

## Warren Rural Electric Cooperative Corporation

### Notes to Consolidated Statements

#### Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### ***Revenue Recognition (continued)***

Each member-customer service agreement obligates the Cooperative to sell and deliver to the member-customer and obligates the member-customer to purchase and receive from the Cooperative; all electric energy and gas available and used by the member-customer in accordance with the various rate schedules, policies, rules, and regulations established by the board of Trustees of the Cooperative. The Cooperative's rate structure for electric energy usage has two components; a facilities charge for either single-phase or three-phase services and an energy/demand charge based on the kilowatt hours used. The agreement also obligates the member-customer and the Cooperative for various service charges primarily associated with services provided in the establishment of the agreement, preparation of the member-customer premises to receive service, and collection of payments. The various service charges are also obligated according to the various rate schedules, policies, rules and regulations established by the Board of Directors of the Cooperative. The billings for electric energy, gas services, and the various service charges are recognized as billed to customers on a monthly basis.

The Cooperative transfers control of the electric energy and gas services to member-customers over time and member-customers simultaneously receive and consume the benefits of the electric energy and gas services. The progress toward the completion of performance obligations is measured using the output method which is based on monthly meter readings on the member-customer premises. Member-customer energy bills are calculated monthly based on meter readings and the rates agreed to. Payments from member-customers are received in accordance with the requirements of the agreement terms, generally within fifteen to thirty days after billing. Member-customer electric energy and gas sales and revenues from the various service charges are recorded as Operating Revenues in the Statements of Income. Also included in Operating Revenues is an estimate of unbilled revenue for electric energy service provided to the member-customers through year end but not billed to them by the Cooperative as of June 30th.

##### ***Power Costs***

Power costs are recorded in the period incurred. Power costs are recognized based on billings from the Cooperative's power suppliers. The billing date coincides with the Cooperative's year-end. Accordingly, there are no unbilled power costs at June 30, 2022 and 2021.

##### ***Pension Costs***

The policy is to fund normal pension costs as accrued. See Note 10 for further details.

##### ***Income Taxes and Uncertain Tax Positions***

WRECC is exempt from income taxes under section 501(c)(12) of the Internal Revenue Code and applicable state laws and regulations. For the Cooperative's wholly-owned, for-profit enterprises, income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the bases of certain assets and liabilities for financial statement and income tax reporting.

The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

**Warren Rural Electric Cooperative Corporation**  
**Notes to Consolidated Statements**

**Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Income Taxes and Uncertain Tax Positions (Continued)***

The Cooperative utilizes the accounting guidance for uncertainty in income taxes using the provision of FASB ASC 740, Income Taxes. Using that guidance, tax positions initially need to be recognized in the consolidated financial statements when it is more likely than not the position will be sustained upon examination by the taxing authorities. Such tax positions initially and subsequently need to be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the taxing authority assuming full knowledge of the position and relevant facts. The Cooperative believes that it has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities, if any, are adequate for all open tax years (after 2017 for federal and state) based on an assessment of many factors including experience and interpretations of tax laws applied to the facts of each matter.

The Cooperative evaluated its income tax positions on an annual basis. Management has determined there are no uncertain tax positions at June 30, 2022 and 2021, that meet the criteria for recognition in the consolidated financial statements.

It is the Cooperative's policy to recognize interest and penalties related to income taxes in income tax expense, when applicable.

***Subsequent Events***

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued, October 25, 2022 and determined that there were no events that occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these consolidated financial statements.

**Note 3: PRIOR PERIOD ENTRY**

The beginning equity, investments in associated organizations, and cooperative capital credits for the year ended June 30, 2021 have been restated to reflect the correction of an error of the Cooperative's investments in associated organizations.

The following adjustment was made to beginning equity:

<i>June 30,</i>	<b>2020</b>
Ending equity - as previously reported	<b>\$ 123,293,171</b>
Effect of prior period adjustment to beginning equity:	
Correction in investments in associated organizations	<b>3,635,586</b>
Ending equity - as restated	<b>\$ 126,928,757</b>

## Warren Rural Electric Cooperative Corporation

### Notes to Consolidated Statements

#### Note 3: PRIOR PERIOD ENTRY (CONTINUED)

The following adjustment was made to investments in associated organizations:

<i>June 30,</i>	<b>2020</b>
Investments in associated organizations - as previously reported	\$ 2,115,502
Restatement due to correction of investments in associated organizations	<b>3,635,586</b>
Investments in associated organizations - as restated	<b>\$ 5,751,088</b>

The following adjustment was made to net income:

<i>For the year ended June 30,</i>	<b>2021</b>
Net income - as previously reported	\$ 13,899,166
Impact of correction from cooperative capital credits	<b>(70,500)</b>
Net income - as restated	<b>\$ 13,828,666</b>

#### Note 4: INVESTMENTS

##### *Investments in Associated Organizations*

The Cooperative had the following investments in associated organizations at June 30, 2022 and 2021:

<i>June 30,</i>	<b>2022</b>	(Restated) 2021
National Rural Utilities Cooperative Finance Corporation ("CFC")		
Capital term certificates	\$ 2,018,064	\$ 2,026,044
Patronage capital allocation	<b>1,224,093</b>	1,146,227
Total	<b>3,242,157</b>	3,172,271
Penwar, Inc	<b>47,538</b>	47,538
Patronage capital		
United Utility Supply	<b>796,287</b>	749,503
Federated Rural Electric Insurance	<b>781,437</b>	735,955
Meridian Cooperative	<b>328,623</b>	328,623
Kentucky Association of Electric Cooperatives	<b>269,356</b>	245,932
CoBank	<b>142,627</b>	179,506
National Information Systems Cooperative	<b>138,729</b>	153,957
GRESO	<b>19,855</b>	19,855
National Rural Telecommunications Cooperative	<b>5,528</b>	5,528
LTC Connect	<b>3,646</b>	-
Totals	<b>\$ 5,775,783</b>	\$ 5,638,668

# Warren Rural Electric Cooperative Corporation

## Notes to Consolidated Statements

### Note 4: INVESTMENTS (Continued)

#### *Investments in Subsidiaries*

WRECC holds investments in two wholly-owned for-profit entities, PES and Millennium. PES is involved with propane gas distribution and Millennium is a natural gas distributor. For the years ended June 30, 2022 and 2021, PES reported a net income after tax of \$432,644 and \$403,847, respectively. For the years ended June 30, 2022 and 2021, Millennium reported a net income after tax of \$35,424 and \$30,347, respectively.

### Note 5: UTILITY PLANT

Utility plant at June 30, 2022 and 2021 is summarized as follows:

<u>June 30,</u>	<u>2022</u>	<u>2021</u>
Electric plant in service:		
Transmission plant	\$ 30,418,796	\$ 29,117,358
Distribution plant	305,271,739	292,429,363
General plant	49,384,563	43,916,727
Total electric plant in service	385,075,098	365,463,448
Construction work in progress	41,169,320	24,509,836
Total utility plant	426,244,418	389,973,284
Accumulated depreciation	(173,670,524)	(162,942,830)
 Net utility plant	 \$ 252,573,894	 \$ 227,030,454

Depreciation rates have been applied to the general plant, distribution plant, and transmission plant on a straight-line basis ranging as follows:

General Plant	3.00% to 20.00%
Distribution Plant	2.50% to 6.70%
Transmission Plant	2.75% to 3.34%

### Note 6: LINES OF CREDIT

The Cooperative has a line of credit for \$8,000,000 with CFC that renews annually each year unless terminated by either party. The note has a variable interest rate and is unsecured. The Cooperative also has a revolving line of credit with CoBank for \$1,000,000 that also has a variable interest rate and is unsecured.

As of June 30, 2022 the Cooperative had an outstanding balance of \$6,000,000 on the CFC line of credit. The terms of the line require the amounts to be repaid within twelve months of the draw. There were no outstanding balances on the CoBank line.

There were no outstanding balances against either of these lines of credit at June 30, 2021.

**Warren Rural Electric Cooperative Corporation**  
**Notes to Consolidated Statements**

**Note 7: LONG-TERM DEBT**

At June 30, 2022 and 2021, long-term debt consisted of the following:

<i>June 30,</i>	<b>2022</b>	<b>2021</b>
<hr/>		
Mortgage notes payable to CFC due in quarterly installments ranging from approximately \$16,000 to \$700,000 including interest at fixed rates ranging from 3.51% to 6.15%, maturing August 2020 through February 2050; secured by all assets.	\$ 46,337,899	\$ 50,788,260
Mortgage notes payable to Federal Financing Bank, RUS, due in quarterly installments of approximately \$372,000 including interest at fixed rates ranging from 2.65% to 6.14%, maturing March 2028 through December 2056; secured by all assets.	51,575,467	33,739,715
Mortgage notes payable to CoBank due in monthly installments of approximately \$83,500 including interest at rates ranging from 3.26% to 3.76%, maturing December 2021 through 2034; secured by all assets not otherwise securing pre-existing loans.	10,551,717	11,283,101
<hr/>		
Total long-term debt	108,465,083	95,811,076
Less current maturities	6,837,429	6,947,623
<hr/>		
Net long-term debt	\$ 101,627,654	\$ 88,863,453
<hr/>		

The provisions of the mortgage notes payable place certain restrictions and limitations upon the Cooperative. These include maintenance of certain financial ratios, as well as restrictions or limitations on the payment of distributions, rentals of property, and additional borrowings. The Cooperative was in compliance with these covenants at June 30, 2022 and 2021.

On February 2, 2021 the Cooperative entered into a loan guarantee commitment in the amount of \$84,111,000 with Federal Financing Bank, RUS. The proceeds of the guaranteed loan are to be used by the Cooperative to finance only the system extensions and additions. As of June 30, 2022 the Cooperative has drawn down \$19,000,000 of the guaranteed loan amounts.

**Warren Rural Electric Cooperative Corporation**  
**Notes to Consolidated Statements**

**Note 7: LONG-TERM DEBT (CONTINUED)**

The annual debt service requirements of principal to maturity at June 30 are as follows:

<i>For the years ending June 30,</i>	
	Principal
2023	\$ 6,837,429
2024	6,494,682
2025	6,991,132
2026	6,898,270
2027	7,192,375
Thereafter	74,051,195
Total	\$ 108,465,083

**Note 8: DEFERRED DEBITS AND CREDITS**

The Cooperative's deferred debits and credits as presented in the balance sheets consisted of the following items:

<i>June 30,</i>	<b>2022</b>	2021
Deferred debits:		
Computer software, amortized over 1 to 5 years	\$ 614,452	\$ 435,160
WRECC rebate program	83,547	181,963
	\$ 697,999	\$ 617,123
Deferred credits:		
Refundable contributions	\$ 834,108	\$ 781,033
Unearned revenue	524,900	177,102
Advance receipts of subdivision street light assessments	547,274	528,552
	\$ 1,906,282	\$ 1,486,687

## Warren Rural Electric Cooperative Corporation

### Notes to Consolidated Statements

#### Note 9: INCOME TAXES

The provision for income taxes for the years ended June 30, 2022 and 2021 consisted of the following:

<i>For the years ended June 30,</i>	<b>2022</b>	2021
Current tax expense	\$ 180,705	\$ 103,738
Deferred taxes	<b>(23,238)</b>	47,241
Total	<b>\$ 157,467</b>	\$ 150,979

The Cooperative has net deferred tax liabilities of \$178,699 and \$201,937 at June 30, 2022 and 2021, respectively, primarily related to the use of accelerated methods of depreciation of property and equipment for income tax purposes.

#### Note 10: RETIREMENT PLANS

##### *Defined Benefit Pension Plan*

The Cooperative participates in the National Rural Electrification Cooperative Association (NRECA) Retirement Security Plan (RS Plan). The NRECA 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 a multi-employer plan under 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 made contributions to the plan of \$2,315,340 for the year ended June 30, 2022, and \$2,049,879 for the year ended June 30, 2021.

In 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 Retirement Security Plan was approximately 88 percent funded on January 1, 2021, and approximately 88 percent funded on January 1, 2020, based on the PPA funding target and PPA actuarial value of assets on those dates.



## Warren Rural Electric Cooperative Corporation

### Notes to Consolidated Statements

#### **Note 10: RETIREMENT PLANS (CONTINUED)**

##### ***Defined Benefit Pension Plan (Continued)***

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. The Cooperative's normal retirement age is 62.

##### ***Deferred Compensation Retirement Plans***

The Cooperative has a 401(k) plan which is available to all employees who have completed one month of service. The Cooperative contributes 1% of the employees' base pay if the employee contributes 4%.

For employees hired after January 1, 2014, the Cooperative contributes 1% of the employee's base salary. In addition, the Cooperative will provide a matching contribution of 3% if the employee contributes 4% of his/her base pay.

The Cooperative made contributions to the plan of \$228,196 for 2022 and \$195,709 for 2021.

The Cooperative also has a 457(b) Plan which is administered by Homestead Funds. The Plan is for management or highly compensated employees of the Cooperative. The Plan is for participant contributions only; the Cooperative does not contribute. The Plan's assets will remain solely the property of the Cooperative, subject only to the claims of the Cooperative's creditors until made available to the participant or beneficiary of the Plan's assets. Amounts at June 30, 2022 and 2021 were \$291,938 and \$479,827, respectively.

#### **Note 11: POSTRETIREMENT HEALTHCARE BENEFITS**

The Cooperative provides certain healthcare benefits for retired employees hired prior to January 1, 2014. In order to receive retiree medical and dental benefits, an employee must be at least 55 years of age, with a minimum of 5 years of service, and the sum of age plus years of service must be at least 75. The Cooperative will pay up to five years of benefits for the retiree, or until age 65 is attained. Employees hired after January 1, 2014, will not be eligible for postretirement healthcare benefits.

**Warren Rural Electric Cooperative Corporation**  
**Notes to Consolidated Statements**

**Note 11: POSTRETIREMENT HEALTHCARE BENEFITS (CONTINUED)**

The annual measurement date is July 1 for the postretirement benefits. The following summarizes the postretirement benefit plan for the years ended June 30, 2022 and 2021.

<i>As of and for the years ended June 30,</i>	<b>2022</b>	2021
Retirees	\$ 2,590,774	\$ 1,879,450
Active	<b>2,452,403</b>	3,387,054
<i>Benefit obligation at June 30</i>	<b>\$ 5,043,177</b>	\$ 5,266,504
Fair value of plan assets at June 30	-	-
Unfunded benefit obligation	<b>\$ 5,043,177</b>	\$ 5,266,504
Benefits paid	\$ 299,035	\$ 207,685
Employer contributions	\$ 299,035	\$ 207,685
Reconciliation of net periodic benefit cost		
Net loss	\$ 132,724	\$ 113,636
Prior service cost	<b>143,358</b>	169,229
Interest cost	<b>172,294</b>	146,635
Net periodic benefit cost	<b>\$ 448,376</b>	\$ 429,500

The weighted average assumptions used in the accounting for the Cooperative's postretirement benefit plan was as follows:

<i>For the years ended June 30,</i>	<b>2022</b>	2021
Discount rate	<b>4.48%</b>	2.85%

The following is a projection of expected future benefit payments under the plan:

<i>For the years ending June 30,</i>	
2023	\$ 726,000
2024	734,000
2025	512,000
2026	429,000
2027	501,000
Thereafter	1,692,000
Total	<b>\$ 4,594,000</b>

**Warren Rural Electric Cooperative Corporation**  
**Notes to Consolidated Statements**

**Note 11: POSTRETIREMENT HEALTHCARE BENEFITS (CONTINUED)**

At June 30, 2022 and 2021, the Cooperative reported the following activity for the years:

<i>As of and for the years ended June 30,</i>	<b>2022</b>	2021
Liability (gain) loss	\$ (1,018,826)	\$ (272,606)
Total unrecognized loss at beginning of year	2,417,545	2,024,905
Amortization of net loss from earlier periods	132,724	113,636
Total unrecognized loss at end of year	<u>\$ 1,265,995</u>	<u>\$ 1,638,663</u>

For the years ended June 30, 2022 and 2021 the change in the Cooperative's benefit obligation are as follows:

<i>As of and for the years ended June 30,</i>	<b>2022</b>	2021
<i>Benefit obligation beginning of year</i>	\$ 5,266,504	\$ 5,540,889
Service cost	143,358	169,229
Interest cost	172,294	146,635
Actuarial (gain) loss	(239,944)	(382,564)
Benefits paid	(299,035)	(207,685)
<i>Benefit obligation end of year</i>	<u>\$ 5,043,177</u>	<u>\$ 5,266,504</u>

Amounts recognized in the consolidated balance sheets for the years ended June 30, 2022 and 2021 are as follows:

<i>As of June 30,</i>	<b>2022</b>	2021
Current liabilities	\$ 726,000	\$ 515,000
Non current liabilities	4,317,177	4,751,504
Funded Status	<u>\$ 5,043,177</u>	<u>\$ 5,266,504</u>
Net Actuarial Loss	<u>\$ 1,265,995</u>	<u>\$ 1,638,663</u>
End of prior period	\$ 1,638,663	\$ 2,134,863
Amount added during period	(239,944)	(382,564)
Amount recognized during period	132,724	113,636
End of current period	<u>\$ 1,265,995</u>	<u>\$ 1,638,663</u>
Estimated amounts to be amortized:		
Actuarial Loss (Gain)	\$ 55,760	\$ 85,277

# Warren Rural Electric Cooperative Corporation

## Notes to Consolidated Statements

### Note 11: POSTRETIREMENT HEALTHCARE BENEFITS (CONTINUED)

#### 2022 Sensitivity of the Cooperative's OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the Cooperative's OPEB liability, as well as what the Cooperative's OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Healthcare Rate</u>	<u>1% Increase</u>
Cooperative's benefit obligation	\$ 4,642,944	\$ 5,043,177	\$ 5,498,492

#### 2021 Sensitivity of the Cooperative's OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the Cooperative's OPEB liability, as well as what the Cooperative's OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Healthcare Rate</u>	<u>1% Increase</u>
Cooperative's benefit obligation	\$ 4,770,383	\$ 5,266,504	\$ 5,839,482

### Note 12: SELF-INSURANCE

The Cooperative is self-insured for a significant portion of its employee healthcare claims. During 2022 and 2021, the Cooperative paid claims of \$2,524,360 and \$2,411,895, respectively. Management has recorded an estimate for an amount it considers reasonable related to its obligation for claims incurred but not reported as of year-end. At June 30, 2022 and 2021, the Cooperative had accrued \$306,527 and \$1,069,188, respectively, for these projected claims.

### Note 13: COMMITMENTS

The Cooperative has a wholesale power contract with Tennessee Valley Authority (TVA) whereby the electric system purchases all of its electric power from TVA. The rates paid for such purchases are subject to review periodically. A five-year notice to TVA is required to terminate the contract.

On November 15, 2017, the Cooperative secured a loan commitment with CoBank for \$20,000,000. The loan commitment expires December 31, 2021. As of June 30, 2021, the Cooperative has borrowed \$12,000,000 of the \$20,000,000 loan commitment.

## Warren Rural Electric Cooperative Corporation

### Notes to Consolidated Statements

#### **Note 13: COMMITMENTS (CONTINUED)**

On July 1, 2020, the Cooperative signed a three-year contract with a Company for right-of-way clearing services. The contract is for approximately \$7,050,000. Total cost incurred as of June 30, 2022, is approximately \$4,800,000.

On July 1, 2020, the Cooperative signed a three-year contract with a Company for right-of-way clearing services. The contract price totaled \$2,670,000 for services provided between July 1, 2020 and June 30, 2023. Total cost incurred as of June 30, 2022, is approximately \$1,900,000.

The Cooperative has entered into lease agreements with two local utilities to lease the fiber optic cable for a period of 10 – 20 years. Under the terms of the lease agreements, the local utilities will be responsible for the operation of the fiber optic cable in order to provide service to the utilities' respective customers.

On July 20, 2021, the Cooperative signed a contract with the Warren County, KY Fiscal Court and a Company related to an internet service construction agreement. In the terms of the contract the Fiscal Court represents and warrants that it has determined to earmark and contribute an initial amount up to Ten Million Dollars (\$10 million) to expand broadband into areas of Warren County, KY. The Cooperative agrees to obtain the necessary materials needed for installation and supply the labor necessary to construct approximately 2.6 million feet of fiber. The Fiscal Court guarantees and shall pay any and all costs and expenses, up to the aforementioned funding incurred amount, by the Cooperative as a result of and/or arising out of this Agreement, through and including the date of receipt of notice from Fiscal Court that it cannot provide the aforementioned funding. Total cost incurred as of June 30, 2022, is approximately \$8,200,000. Total cost reimbursed by the Warren County Fiscal Court as of June 30, 2022 is approximately 6,600,000.

#### **Note 14: RISK MANAGEMENT**

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended June 30, 2022 and 2021, the Cooperative purchased commercial insurance for all of the above risks. The Cooperative is involved in lawsuits from time to time, which are considered to be in the normal course of business. In the opinion of management, based on information furnished by counsel, the ultimate liability, if any, will have no material effect on the financial position of the Cooperative.

#### **Note 15: BOWLING GREEN TORNADO**

On December 11, 2021, a cluster of 3 tornados, including an EF-3 tornado touched down directly in the service area of the Cooperative. The electrical distribution system itself is not insurable and thus, the Cooperative will not be receiving insurance proceeds to cover the losses to the distribution system itself. However, the counties of Logan, Ohio, and Warren in the service area of the Cooperative were declared a federal disaster area and thus, working with and through the Kentucky Division of Emergency Management, the Cooperative has applied for assistance from the Federal Emergency Management Agency (FEMA) and has requested approximately \$5.8 million to reimburse the Cooperative for costs associated with the tornado.

**Warren Rural Electric Cooperative Corporation**  
**Consolidating Balance Sheets**

<i>June 30, 2022</i>	<b>WRECC</b>	<b>PES</b>	<b>Millennium</b>	<b>Eliminations</b>	<b>Total</b>
<b>Assets</b>					
Utility plant					
Plant in service	\$ 385,075,098	\$ -	\$ -	\$ -	\$ 385,075,098
Construction in progress	41,169,320	-	-	-	41,169,320
Less accumulated depreciation	(173,670,524)	-	-	-	(173,670,524)
Net utility plant	252,573,894	-	-	-	252,573,894
Other property and investments					
Non-utility plant, net of accumulated	-	542,103	398,772	-	940,875
Investments in associated companies	9,839,993	-	-	(4,064,210)	5,775,783
Other investments	294,284	-	-	-	294,284
Goodwill	318,731	-	-	-	318,731
Total other property and investments	10,453,008	542,103	398,772	(4,064,210)	7,329,673
Current assets					
Cash and cash equivalents	15,321,841	2,490,235	994,858	-	18,806,934
Accounts receivable, net of allowance	24,905,551	458,597	110,766	(204,946)	25,269,968
Other accounts receivable	2,113,301	-	-	-	2,113,301
Materials and supplies	14,480,017	71,123	5,048	-	14,556,188
Prepaid expenses	577,379	16,725	14,540	-	608,644
Total current assets	57,398,089	3,036,680	1,125,212	(204,946)	61,355,035
Other assets					
TVA Energy Services loans receivable	556,949	-	-	-	556,949
Deferred debits	697,999	-	-	-	697,999
Total other assets	1,254,948	-	-	-	1,254,948
Total assets	\$ 321,679,939	\$ 3,578,783	\$ 1,523,984	\$ (4,269,156)	\$ 322,513,550

(Continued)

**Warren Rural Electric Cooperative Corporation**  
**Consolidating Balance Sheets (Continued)**

<i>June 30, 2022</i>	<b>WRECC</b>	<b>PES</b>	<b>Millennium</b>	<b>Eliminations</b>	<b>Total</b>
<b>Equities and Liabilities</b>					
Equities					
Membership fees	\$ 607,625	\$ -	\$ -	\$ -	\$ 607,625
Patronage capital	156,010,147	-	-	-	156,010,147
Other equities	107,634	2,766,070	1,298,140	(4,064,210)	107,634
<b>Total equities</b>	<b>156,725,406</b>	<b>2,766,070</b>	<b>1,298,140</b>	<b>(4,064,210)</b>	<b>156,725,406</b>
Long-term liabilities					
Long-term debt - net of current portion	101,627,654	-	-	-	101,627,654
Accrued post-retirement benefits	4,609,115	-	-	-	4,609,115
<b>Total other liabilities</b>	<b>106,236,769</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>106,236,769</b>
Current liabilities					
Accounts payable - purchased power	29,522,139	-	-	-	29,522,139
Accounts payable - other	4,756,087	117,435	101,657	(204,946)	4,770,233
Self-insured fund	306,527	-	-	-	306,527
Customer deposits	4,769,383	-	16,750	-	4,786,133
Accrued interest	179,195	-	-	-	179,195
Accrued vacation and sick leave	1,730,975	-	-	-	1,730,975
Current portion of post-retirement liability	726,000	-	-	-	726,000
Accrued taxes and other current liabilities	1,944,946	84,791	14,325	-	2,044,062
Short-term notes payable	6,000,000	-	-	-	6,000,000
Current portion of long-term debt	6,837,429	-	-	-	6,837,429
<b>Total current liabilities</b>	<b>56,772,681</b>	<b>202,226</b>	<b>132,732</b>	<b>(204,946)</b>	<b>56,902,693</b>

(Continued)

**Warren Rural Electric Cooperative Corporation**  
**Consolidating Balance Sheets (Continued)**

<i>June 30, 2022</i>	<b>WRECC</b>	<b>PES</b>	<b>Millennium</b>	<b>Eliminations</b>	<b>Total</b>
Other liabilities					
Advances for TVA Energy Services loans	563,701	-	-	-	563,701
Deferred income taxes	-	85,587	93,112	-	178,699
Deferred credits	1,381,382	524,900	-	-	1,906,282
<b>Total other liabilities</b>	<b>1,945,083</b>	<b>610,487</b>	<b>93,112</b>	<b>-</b>	<b>2,648,682</b>
<b>Total equities and liabilities</b>	<b>\$ 321,679,939</b>	<b>\$ 3,578,783</b>	<b>\$ 1,523,984</b>	<b>\$ (4,269,156)</b>	<b>\$ 322,513,550</b>



# Warren Rural Electric Cooperative Corporation

## Consolidating Statements of Income

For the year ended June 30, 2022

	WRECC	PES	Millennium	Eliminations	Total
<b>Operating Revenues</b>					
Electric sales	\$ 219,948,075	\$ -	\$ -	\$ -	\$ 219,948,075
Forfeited discounts	1,095,840	-	-	-	1,095,840
Rent from electric property	3,926,289	-	-	-	3,926,289
Other electric revenues	773,503	-	-	-	773,503
Natural gas sales	-	-	1,008,801	-	1,008,801
Propane and related sales	-	3,848,168	-	-	3,848,168
<b>Total operating revenues</b>	<b>225,743,707</b>	<b>3,848,168</b>	<b>1,008,801</b>	<b>-</b>	<b>230,600,676</b>
<b>Operating expenses</b>					
Purchased power	162,116,201	-	-	-	162,116,201
Operation	6,844,898	905,562	53,917	-	7,804,377
Maintenance	10,603,713	-	3,960	-	10,607,673
Facilities rental	95,377	-	-	-	95,377
Customer accounts	3,311,214	-	-	-	3,311,214
Customer service and information	778,396	-	1,044	-	779,440
Administrative and general	4,084,014	130,625	44,314	-	4,258,953
Depreciation and amortization	13,184,080	143,309	36,439	-	13,363,828
Taxes and tax equivalents	5,968,961	55,340	64,461	-	6,088,762
Natural gas purchases	-	-	769,307	-	769,307
Propane gas and related cost of goods sold	-	2,082,691	-	-	2,082,691
<b>Operating expenses</b>	<b>206,986,854</b>	<b>3,317,527</b>	<b>973,442</b>	<b>-</b>	<b>211,277,823</b>
<b>Total operating income before interest expense</b>	<b>18,756,853</b>	<b>530,641</b>	<b>35,359</b>	<b>-</b>	<b>19,322,853</b>
Interest on long-term debt	3,938,178	-	-	-	3,938,178
<b>Operating income after interest expense</b>	<b>14,818,675</b>	<b>530,641</b>	<b>35,359</b>	<b>-</b>	<b>15,384,675</b>

(Continued)

**Warren Rural Electric Cooperative Corporation**  
**Consolidating Statements of Income (Continued)**

<i>For the year ended June 30, 2022</i>	<b>WRECC</b>	<b>PES</b>	<b>Millennium</b>	<b>Eliminations</b>	<b>Total</b>
<b>Non-operating income</b>					
Interest income	149,383	16,794	747	-	166,924
Income (loss) of unconsolidated entities	(535)	-	-	-	(535)
Miscellaneous	588,205	29,001	12,993	(468,068)	162,131
<b>Total non-operating income</b>	<b>737,053</b>	<b>45,795</b>	<b>13,740</b>	<b>(468,068)</b>	<b>328,520</b>
 Generation & Transmission and Other Cooperative Capital Credits	 387,045	 -	 -	 -	 387,045
 Income before income taxes	 15,942,773	 576,436	 49,099	 (468,068)	 16,100,240
 Income tax expense	 -	 143,792	 13,675	 -	 157,467
 <b>Net Income</b>	 <b>\$ 15,942,773</b>	 <b>\$ 432,644</b>	 <b>\$ 35,424</b>	 <b>\$ (468,068)</b>	 <b>\$ 15,942,773</b>



Carr, Riggs & Ingram, LLC  
922 State Street  
Suite 100  
Bowling Green, KY 42101

Mailing Address:  
PO Box 104  
Bowling Green, KY 42102

270.782.0700  
270.782.0932 (fax)  
CRLcpa.com

**INDEPENDENT AUDITORS' 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**

Board of Directors  
Warren Rural Electric Cooperative Corporation  
Bowling Green, 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 consolidated financial statements of the Warren Rural Electric Cooperative Corporation and Subsidiaries (the "Cooperative"), which comprise the consolidated balance sheet as of June 30, 2022 and the related consolidated statements of income, equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 25, 2022.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated 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 consolidated 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 consolidated 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency: 2022-001.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Cooperative's consolidated 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 consolidated 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*.

We noted other matters involving internal control over financial reporting that we have reported to management of the Cooperative in a separate letter dated October 25, 2022.

### **The Cooperative's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures to the Cooperative's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Cooperative's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

### **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.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC  
Bowling Green, Kentucky  
October 25, 2022



Carr, Riggs & Ingram, LLC  
922 State Street  
Suite 100  
Bowling Green, KY 42101

Mailing Address:  
PO Box 104  
Bowling Green, KY 42102

270.782.0700  
270.782.0932 (fax)  
CRLcpa.com

**Independent Auditors' Report on Compliance with Aspects  
of Contractual Agreements and Regulatory Requirements  
for Electric Borrowers**

Board of Directors  
Warren Rural Electric Cooperative Corporation  
Bowling Green, 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 consolidated financial statements of Warren Rural Electric Cooperative Corporation and Subsidiaries (the "Cooperative"), which comprise the consolidated balance sheet as of June 30, 2022, and the related consolidated statements of income, equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 25, 2022. In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2022, 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. No reports other than the reports referred to above and our schedule of findings and responses related to our audit have been furnished to management, however, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Cooperative in a separate letter dated October 25, 2022.

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 the accounting matters 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, except as noted in a separate letter to management dated October 25, 2022, 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 consolidated 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) and other Federal agency (TVA) requirements;
- 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 consolidated 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.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC  
Bowling Green, Kentucky  
October 25, 2022

## Warren Rural Electric Cooperative Corporation Schedule of Findings and Responses

### 2022-001 SEGREGATION OF DUTIES

*Criteria and Condition:* Proper segregation of duties is a significant component to the internal control structure. There is a lack of segregation of duties in relation to the cash disbursements. Compensating controls have been implemented in an attempt to reduce this risk.

*Cause:* Select employees have access to the Cooperative's assets and financial records.

*Effect or Potential Effect:* Misappropriations could occur and not be detected by the Cooperative's internal controls.

*Repeat Finding:* 2021-002

*Recommendation:* We recommend management strengthen internal controls in relation to cash disbursements by segregating access to the Cooperative's assets and financial records.

*Views of Responsible Officials and Planned Corrective Actions:* In our opinion, the Accounting department is not large enough to have full segregation of duties. The Manager of Accounting acts as backup for accounts payable, payroll and all other functions within the Accounting Department. The VP of Administrative Services reviews all checks written to ensure that all checks are accounted for. Bank reconciliations are performed by individuals who do not have access to the bank accounts. There are no planned corrective actions, other than continuous review of procedures for reasonableness.



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### CRI's CEO ACTION FOR DIVERSITY AND INCLUSION

Carr, Riggs & Ingram is committed to fostering an inclusive and diverse place for all employees to work in and engage. When our managing partner and chairman, Bill Carr, signed the CEO Action for Diversity & Inclusion™ pledge, he made a public commitment to building a productive, diverse, and inclusive workplace. [Learn more about CRI's commitment to Diversity and Inclusion.](#)