



**Warren Rural Electric Cooperative  
Corporation**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

June 30, 2023 and 2022



	<b>Page</b>
<b>REPORT</b>	
Independent Auditors' Report .....	1
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	
Balance Sheets .....	4
Statements of Income .....	6
Statements of Equities .....	8
Statements of Cash Flows .....	9
Notes to Financial Statements .....	11
Supplementary Information:	
Consolidating Balance Sheets .....	27
Consolidating Statements of Income .....	30
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 <i>Government Auditing Standards</i> .....	32
Schedule of Findings and Responses .....	34
<b>THOUGHT LEADERSHIP</b>	
Join Our Conversation	



# REPORT





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**

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, 2023 and 2022, 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, 2023 and 2022, 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 consolidated 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 24, 2023, 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 24, 2023



# FINANCIAL STATEMENTS



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

<i>June 30,</i>	<b>2023</b>	<b>2022</b>
<b>Assets</b>		
Utility plant		
Plant in service	\$ 422,401,696	\$ 385,075,098
Construction in progress	28,665,615	41,169,320
Less accumulated depreciation	(179,799,978)	(173,670,524)
Net utility plant	<b>271,267,333</b>	252,573,894
Other property and investments		
Non-utility plant, net of accumulated depreciation	822,306	940,875
Investments in associated organizations	5,946,458	5,775,783
Other investments	703,917	294,284
Goodwill	218,080	318,731
Total other property and investments	<b>7,690,761</b>	7,329,673
Current assets		
Cash and cash equivalents	24,161,637	18,806,934
Accounts receivable, net of allowance	19,838,963	25,269,968
Other accounts receivable	4,212,117	2,113,301
Materials and supplies	19,150,859	14,556,188
Prepaid expenses	582,584	608,644
Total current assets	<b>67,946,160</b>	61,355,035
Other assets		
TVA Energy Services loans receivable	681,400	556,949
Deferred debits	517,653	697,999
Total other assets	<b>1,199,053</b>	1,254,948
Total assets	<b>\$ 348,103,307</b>	<b>\$ 322,513,550</b>

(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>2023</b>	<b>2022</b>
<b>Equities and Liabilities</b>		
Equities		
Membership fees	\$ 602,765	\$ 607,625
Patronage capital	166,744,476	156,010,147
Other equities	107,634	107,634
<b>Total equities</b>	<b>167,454,875</b>	<b>156,725,406</b>
Long-term liabilities		
Long-term debt - net of current portion	123,772,192	101,627,654
Postretirement benefits liabilities, net of current portion	3,518,950	4,609,115
<b>Total other liabilities</b>	<b>127,291,142</b>	<b>106,236,769</b>
Current liabilities		
Accounts payable - purchased power	27,210,594	29,522,139
Accounts payable - other	4,694,775	4,770,233
Self-insured fund	402,639	306,527
Customer deposits	5,112,024	4,786,133
Accrued interest	175,203	179,195
Accrued vacation and sick leave	1,784,945	1,730,975
Postretirement benefits liabilities	636,000	726,000
Accrued taxes and other current liabilities	3,460,511	2,044,062
Short-term notes payable	-	6,000,000
Current portion of long-term debt	7,262,115	6,837,429
<b>Total current liabilities</b>	<b>50,738,806</b>	<b>56,902,693</b>
Other liabilities		
Advances for TVA Energy Services loans	690,157	563,701
Deferred income taxes	154,288	178,699
Deferred credits	1,774,039	1,906,282
<b>Total other liabilities</b>	<b>2,618,484</b>	<b>2,648,682</b>
<b>Total equities and liabilities</b>	<b>\$ 348,103,307</b>	<b>\$ 322,513,550</b>

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

## Warren Rural Electric Cooperative Corporation Consolidated Statements of Income

<i>For the years ended June 30,</i>	<b>2023</b>	2022
<b>Operating revenues</b>		
Electric sales	\$ 235,996,736	\$ 219,948,075
Forfeited discounts	1,224,949	1,095,840
Rent from electric property	5,156,267	3,926,289
Other electric revenues	1,119,441	773,503
Natural gas sales	1,080,099	1,008,801
Propane and related sales	3,926,715	3,848,168
<b>Total operating revenues</b>	<b>248,504,207</b>	230,600,676
<b>Operating Expenses</b>		
Purchased power	181,631,852	162,116,201
Operation	8,480,100	7,804,377
Maintenance	10,637,349	10,607,673
Facilities rental	82,287	95,377
Customer accounts	3,537,181	3,311,214
Customer service and information	633,910	779,440
Administrative and general	5,098,141	4,258,953
Depreciation and amortization	14,449,882	13,363,828
Taxes and tax equivalents	6,678,122	6,088,762
Natural gas purchases	714,336	769,307
Propane gas and related cost of goods sold	1,831,934	2,082,691
<b>Total operating expenses</b>	<b>233,775,094</b>	211,277,823
Total operating income before interest expense	14,729,113	19,322,853
Interest on long-term debt	4,596,525	3,938,178
Operating income after interest expense	10,132,588	15,384,675
<b>Non-operating income</b>		
Interest income	174,021	166,924
Loss of unconsolidated entities	(236)	(535)
Miscellaneous	269,475	162,131
<b>Total non-operating income</b>	<b>443,260</b>	328,520
Generation & transmission and other cooperative capital credits	363,636	387,045

(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>2023</b>	2022
Income before income taxes	<b>10,939,484</b>	16,100,240
Income tax expense	<b>205,155</b>	157,467
Net Income	<b>\$ 10,734,329</b>	\$ 15,942,773

*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, 2021	\$ 599,065	\$ 140,067,374	\$ 107,634	\$ 140,774,073
Net income for the year	-	15,942,773	-	15,942,773
Net change in memberships	8,560	-	-	8,560
Balance - June 30, 2022	607,625	156,010,147	107,634	156,725,406
Net income for the year	-	10,734,329	-	10,734,329
Net change in memberships	(4,860)	-	-	(4,860)
Balance - June 30, 2023	<b>\$ 602,765</b>	<b>\$ 166,744,476</b>	<b>\$ 107,634</b>	<b>\$ 167,454,875</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>2023</b>	<b>2022</b>
<b>Operating Activities</b>		
Net income	\$ 10,734,329	\$ 15,942,773
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,449,882	13,363,828
(Increase) decrease in assets:		
Receivables	3,332,189	(6,084,612)
Materials and supplies	(4,594,671)	(6,934,704)
Prepaid expenses	26,060	1,278
Other assets	156,546	(361,192)
Increase (decrease) in liabilities:		
Accounts payable	(2,387,003)	5,692,591
Customer deposits	325,891	253,310
Accrued expenses and other liabilities	1,556,752	(336,409)
Postretirement benefits liabilities	(1,180,165)	(411,216)
Deferred income taxes	(24,411)	(23,238)
Net cash provided by operating activities	<b>22,395,399</b>	21,102,409
<b>Investing Activities</b>		
Additions to utility plant	(29,479,849)	(37,441,801)
Removals of utility plant	(3,544,903)	(1,247,772)
Purchase of other investments	(409,633)	187,889
Change in investment in associated organizations	(170,675)	(137,115)
Net cash used in investing activities	<b>(33,605,060)</b>	(38,638,799)
<b>Financing Activities</b>		
Proceeds from long-term debt	29,600,000	19,639,471
Payments on principal of long-term debt	(7,030,776)	(6,985,464)
Proceeds from short-term notes payable	-	6,000,000
Payments on short-term notes payable	(6,000,000)	-
Investment from members	(4,860)	8,560
Net cash provided by financing activities	<b>16,564,364</b>	18,662,567

(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>2023</b>	2022
Increase in cash and cash equivalents	<b>5,354,703</b>	1,126,177
Cash and cash equivalents – beginning of year	<b>18,806,934</b>	17,680,757
Cash and cash equivalents – end of year	<b>\$ 24,161,637</b>	\$ 18,806,934

**Supplemental disclosures of cash flow information:**

Cash paid during the year for interest	<b>\$ 4,600,517</b>	\$ 3,940,695
Cash paid for income taxes, net	<b>\$ 116,344</b>	\$ 121,686

*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 residential, business, and commercial 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 the United States Department of Agriculture, Rural Utilities Service (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 Financial Standards Accounting Board Accounting Standards Codification (ASC) Topic 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 (GAAP). 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.

#### ***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 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, postretirement benefits liability, and self-insurance liability.

#### ***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

## Warren Rural Electric Cooperative Corporation Notes to Consolidated Statements

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

#### *Cooperative Plant and Retirements (continued)*

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.

#### *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, 2023 and 2022, cash equivalents consisted primarily of commercial paper and repurchase agreements.

#### *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, 2023 and 2022, the Cooperative had deposits of \$611,137 and \$1,751,707 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.

#### *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 \$5,475,557 and \$5,349,892 at June 30, 2023 and 2022, 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.



## Warren Rural Electric Cooperative Corporation Notes to Consolidated Statements

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

#### ***Materials and Supplies***

All materials and supplies inventories are used to maintain the Cooperative's plant and are valued at the lower of average cost or net realizable value.

#### ***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 from Penwar for the years ended June 30, 2023 and 2022 was \$(236) and \$(535), 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.

#### ***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***

The Cooperative is engaged in the distribution and sale of electricity and gas to residential and commercial customers primarily in 7 counties in South Central Kentucky. 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 Directors of the Cooperative. The Cooperative's rate structure for electric energy usage has two components; a facilities charge for

## Warren Rural Electric Cooperative Corporation Notes to Consolidated Statements

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

#### *Revenue Recognition (continued)*

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 service charges are also obligated according to the 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 amount 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. The Cooperative bills electric energy service consumers on monthly cycles based on meter readings taken at approximately the same day each month. Large power consumers are billed on a monthly calendar basis and there are eighteen other billing cycles throughout each month consisting of an approximate thirty-day period. The Cooperative calculates unbilled revenue based on actual usage readings from the last meter reading date through the end of the month using advanced metering infrastructure. Unbilled revenues are reversed in the following month when the customer bills are generated based on usage readings for the full billing cycle. This method of revenue recognition presents fairly, the Cooperatives transfer of electricity to customers as the amount recognized is based on actual volumes delivered.

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended June 30, 2023 and 2022:

<i>For the year ended June 30,</i>	<b>2023</b>	2022
Revenue- residential	<b>\$ 112,640,218</b>	\$104,819,591
Small commercial	<b>17,022,402</b>	15,504,836
Industrial	<b>105,005,948</b>	93,506,346
Street and athletic lighting	<b>1,709,857</b>	1,622,300
Outdoor lighting	<b>2,275,566</b>	2,162,964
Change in unbilled revenue	<b>(2,657,255)</b>	2,332,038
	<b><u>\$ 235,996,736</u></b>	<u>\$219,948,075</u>

## Warren Rural Electric Cooperative Corporation Notes to Consolidated Statements

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

#### ***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, 2023 and 2022.

#### ***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.

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 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, 2023 and 2022, 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 24, 2023 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.

## Warren Rural Electric Cooperative Corporation Notes to Consolidated Statements

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

#### ***Recently Implemented Accounting Pronouncements***

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification [ASC] 842, *Leases*) to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Cooperative adopted the standard effective July 1, 2022 and recognized and measured leases existing at, or entered into after, July 1, 2021 (the beginning of the earliest comparative period presented) using a modified retrospective approach, with certain practical expedients available. The adoption of this standard did not have a material impact on these financial statements.

#### ***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 is essentially the final rule on use of the so-called CECL model, or current expected credit losses. Among other things, the amendments in this ASU require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For non-public entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2022. The Cooperative is currently evaluating the impact of the guidance on its financial statements.

## Warren Rural Electric Cooperative Corporation Notes to Consolidated Statements

### Note 3: INVESTMENTS

#### *Investments in Associated Organizations*

The Cooperative had the following investments in associated organizations at June 30, 2023 and 2022:

<i>June 30,</i>	<b>2023</b>	<b>2022</b>
National Rural Utilities Cooperative Finance Corporation ("CFC")		
Capital term certificates	\$ 2,009,581	\$ 2,018,064
Patronage capital allocation	1,287,254	1,224,093
<b>Total</b>	<b>3,296,835</b>	<b>3,242,157</b>
Penwar, Inc	47,538	47,538
Patronage capital		
United Utility Supply	886,596	796,287
Federated Rural Electric Insurance	830,457	781,437
Meridian Cooperative	321,172	328,623
Kentucky Association of Electric Cooperatives	293,577	269,356
CoBank	96,188	142,627
National Information Systems Cooperative	144,600	138,729
GRESKO	19,855	19,855
National Rural Telecommunications Cooperative	5,528	5,528
LTC Connect	4,112	3,646
<b>Totals</b>	<b>\$ 5,946,458</b>	<b>\$ 5,775,783</b>

#### *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, 2023 and 2022, PES reported a net income after tax of \$496,754 and \$432,644, respectively. For the years ended June 30, 2023 and 2022, Millennium reported a net income after tax of \$90,066 and \$35,424, respectively.

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

**Note 4: UTILITY PLANT**

Utility plant at June 30, 2023 and 2022 is summarized as follows:

<i>June 30,</i>	<b>2023</b>	2022
Electric plant in service:		
Transmission plant	\$ 37,266,468	\$ 30,418,796
Distribution plant	331,610,917	305,271,739
General plant	53,524,311	49,384,563
Total electric plant in service	422,401,696	385,075,098
Construction work in progress	28,665,615	41,169,320
Total utility plant	451,067,311	426,244,418
Accumulated depreciation	(179,799,978)	(173,670,524)
<b>Net utility plant</b>	<b>\$ 271,267,333</b>	<b>\$ 252,573,894</b>

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 5: ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES**

Accounts receivable consists of the following:

<i>June 30,</i>	<b>2023</b>	2022
Customer accounts receivable	\$ 8,538,150	\$ 11,401,502
Unbilled accounts receivable	10,189,322	12,846,577
Other receivables	4,212,117	2,113,301
Total accounts receivable	22,939,589	26,361,380
Less allowance for doubtful accounts	1,111,491	1,021,889
<b>Accounts receivable, net</b>	<b>\$ 24,051,080</b>	<b>\$ 27,383,269</b>

Other receivables totaling \$4,212,117 and \$2,113,301 at June 30, 2023 and 2022 include miscellaneous billings outstanding that are not part of the normal customer cycle billings for electric revenue. At June 30, 2023, the balance also includes \$2,547,606 due from the Federal Emergency Management Agency ("FEMA") for reimbursement of costs incurred because of a tornado effecting the cooperative's service area. See Note 15 for further details of the amount due from FEMA.

## Warren Rural Electric Cooperative Corporation Notes to Consolidated Statements

### 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 has an additional line of credit with CFC for \$6,000,000 that matures 4/26/2024. 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.

There were no outstanding balances against either of these lines of credit at June 30, 2023.

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.

### Note 7: LONG-TERM DEBT

At June 30, 2023 and 2022, long-term debt consisted of the following:

<i>June 30,</i>	<b>2023</b>	2022
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 December 2023 through February 2050; secured by all assets.	<b>\$ 41,683,387</b>	\$ 46,337,899
Mortgage notes payable to Federal Financing Bank, RUS, due in quarterly installments of approximately \$511,000 including interest at fixed rates ranging from 1.84% to 6.14%, maturing March 2028 through December 2056; secured by all assets.	<b>79,560,358</b>	51,575,467
Mortgage notes payable to CoBank due in monthly installments of approximately \$65,000 including interest at rates ranging from 3.26% to 3.76%, maturing December 2024 through 2034; secured by all assets not otherwise securing pre-existing loans.	<b>9,790,562</b>	10,551,717
Total long-term debt	<b>131,034,307</b>	108,465,083
Less current maturities	<b>7,262,115</b>	6,837,429
Net long-term debt	<b>\$ 123,772,192</b>	\$ 101,627,654

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, 2023 and 2022.

## Warren Rural Electric Cooperative Corporation Notes to Consolidated Statements

### Note 7: LONG-TERM DEBT (Continued)

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, 2023 and 2022, the Cooperative has drawn down \$48,600,000 and \$19,000,000 of the guaranteed loan amounts, respectively.

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

<i>For the years ending June 30,</i>	
	Principal
2024	\$ 7,262,115
2025	7,250,597
2026	7,413,906
2027	7,727,241
2028	5,802,148
Thereafter	95,578,300
<div style="display: flex; justify-content: space-between;"> <span style="width: 60%; text-align: center;">Total</span> <span style="text-align: right;">\$ 131,034,307</span> </div>	

### 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>2023</b>	2022
Deferred debits:		
Computer software, amortized over 1 to 5 years	\$ 496,189	\$ 614,452
WRECC rebate program	21,464	83,547
<div style="display: flex; justify-content: space-between;"> <span style="width: 60%;"></span> <span style="text-align: right;">\$ 517,653</span> <span style="text-align: right;">\$ 697,999</span> </div>		
Deferred credits:		
Refundable contributions	\$ 933,061	\$ 834,108
Unearned revenue	290,505	524,900
Advance receipts of subdivision street light assessments	550,473	547,274
<div style="display: flex; justify-content: space-between;"> <span style="width: 60%;"></span> <span style="text-align: right;">\$ 1,774,039</span> <span style="text-align: right;">\$ 1,906,282</span> </div>		



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

**Note 9: INCOME TAXES**

The provision for income taxes for the years ended June 30, 2023 and 2022 consisted of the following:

<i>For the years ended June 30,</i>	<b>2023</b>	2022
Current tax expense	\$ 229,566	\$ 180,705
Deferred taxes	<b>(24,411)</b>	(23,238)
Total	<b>\$ 205,155</b>	\$ 157,467

The Cooperative has net deferred tax liabilities of \$154,288 and \$178,699 at June 30, 2023 and 2022, 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 \$2,416,630 for the year ended June 30, 2023, and \$2,315,340 for the year ended June 30, 2022.

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 90 percent funded on January 1, 2023, and approximately 89 percent funded on 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. The Cooperative's normal retirement age is 62.

## Warren Rural Electric Cooperative Corporation Notes to Consolidated Statements

### Note 10: RETIREMENT PLANS (Continued)

#### *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 \$255,503 for 2023 and \$228,196 for 2022.

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, 2023 and 2022 were \$201,571 and \$291,930, 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.

The annual measurement date is July 1 for the postretirement benefits. The following summarizes the postretirement benefit plan for the years ended June 30, 2023 and 2022.

<i>As of and for the years ended June 30,</i>	<b>2023</b>	2022
Retirees	\$ 1,844,540	\$ 2,590,774
Active	<b>2,108,839</b>	2,452,403
<i>Benefit obligation at June 30</i>	<b>\$ 3,953,379</b>	\$ 5,043,177
Fair value of plan assets at June 30	-	-
Unfunded benefit obligation	<b>\$ 3,953,379</b>	\$ 5,043,177
Benefits paid	\$ 83,378	\$ 299,035
Employer contributions	\$ 83,378	\$ 299,035
Reconciliation of net periodic benefit cost		
Net loss	\$ 13,346	\$ 132,724
Prior service cost	<b>88,819</b>	143,358
Interest cost	<b>196,364</b>	172,294
Net periodic benefit cost	<b>\$ 298,529</b>	\$ 448,376

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

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

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>2023</b>	2022
Discount rate	<b>4.92%</b>	4.48%

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

<i>For the years ending June 30,</i>	
2024	\$ 636,000
2025	628,000
2026	403,000
2027	311,000
2028	309,000
Thereafter	1,140,000
Total	\$ 3,427,000

At June 30, 2023 and 2022, the Cooperative reported the following activity for the years:

<i>As of and for the years ended June 30,</i>	<b>2023</b>	2022
Liability (gain) loss	\$ (631,541)	\$ (1,018,826)
Total unrecognized loss at beginning of year	<b>605,933</b>	2,417,545
Amortization of net loss from earlier periods	<b>13,346</b>	132,724
Total unrecognized (gain) loss at end of year	<b>\$ (38,954)</b>	\$ 1,265,995

For the years ended June 30, 2023 and 2022 the change in the Cooperative's benefit obligation are as follows:

<i>As of and for the years ended June 30,</i>	<b>2023</b>	2022
<i>Benefit obligation beginning of year</i>	<b>\$ 5,043,177</b>	\$ 5,266,504
Service cost	<b>88,819</b>	143,358
Interest cost	<b>196,364</b>	172,294
Actuarial (gain) loss	<b>(1,291,603)</b>	(239,944)
Benefits paid	<b>(83,378)</b>	(299,035)
<i>Benefit obligation end of year</i>	<b>\$ 3,953,379</b>	\$ 5,043,177

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

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

Amounts recognized in the consolidated balance sheets for the years ended June 30, 2023 and 2022 are as follows:

<i>As of June 30,</i>	<b>2023</b>	<b>2022</b>
Current liabilities	\$ 636,000	\$ 726,000
Non current liabilities	<b>3,317,379</b>	4,317,177
Funded Status	<b>\$ 3,953,379</b>	<b>\$ 5,043,177</b>
Net Actuarial Loss	<b>\$ (38,954)</b>	\$ 1,265,995
End of prior period	<b>\$ 1,265,995</b>	\$ 1,638,663
Amount added during period	<b>1,291,603</b>	(239,944)
Amount recognized during period	<b>13,346</b>	132,724
End of current period	<b>\$ (38,954)</b>	<b>\$ 1,265,995</b>
Estimated amounts to be amortized:		
Actuarial Loss (Gain)	\$ -	\$ 55,760

**2023 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	\$ 3,638,045	\$ 3,953,379	\$ 4,311,899

**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

## Warren Rural Electric Cooperative Corporation Notes to Consolidated Statements

### **Note 12: SELF-INSURANCE**

The Cooperative is self-insured for a significant portion of its employee healthcare claims. During 2023 and 2022, the Cooperative paid claims of \$3,200,515 and \$2,524,360, 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, 2023 and 2022, the Cooperative had accrued \$402,639 and \$306,527, 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 July 1, 2023, the Cooperative signed a two-year contract with a Company for right-of-way clearing services. The contract is for approximately \$6,860,000.

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.

### **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, 2023 and 2022, 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: FEDERAL EMERGENCY MANAGEMENT ASSISTANCE**

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 \$2,762,104 to reimburse the Cooperative for costs associated with the tornado.

At June 30, 2023, \$2,547,606 is reflected in other receivables in the accompanying financial statements as amounts due from FEMA.

On April 10, 2023, FEMA announced that federal disaster assistance has been made available to the Commonwealth of Kentucky to supplement recovery efforts in the areas affected by severe storms, straight-line winds, tornadoes, flooding, landslides, and mudslides on March 3-4. Each county in the service area of the Cooperative was declared a federal disaster area and thus, working with and through the Kentucky Division of Emergency Management, the Cooperative has applied for assistance

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

**Note 15: FEDERAL EMERGENCY MANAGEMENT ASSISTANCE (Continued)**

from the Federal Emergency Management Agency (FEMA) and will request approximately \$5,500,000 to reimburse the Cooperative for costs associated with the storm.

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

<i>June 30, 2023</i>	<b>WRECC</b>	<b>PES</b>	<b>Millennium</b>	<b>Eliminations</b>	<b>Total</b>
<b>Assets</b>					
Utility plant					
Plant in service	\$ 422,401,696	\$ -	\$ -	\$ -	\$ 422,401,696
Construction in progress	28,602,871	-	62,744	-	28,665,615
Less accumulated depreciation	(179,799,978)	-	-	-	(179,799,978)
Net utility plant	271,204,589	-	62,744	-	271,267,333
Other property and investments					
Non-utility plant, net of accumulated depreciation	-	469,446	352,860	-	822,306
Investments in associated companies	10,534,646	19,379	-	(4,607,567)	5,946,458
Other investments	203,917	500,000	-	-	703,917
Goodwill	218,080	-	-	-	218,080
Total other property and investments	10,956,643	988,825	352,860	(4,607,567)	7,690,761
Current assets					
Cash and cash equivalents	20,644,941	2,481,429	1,035,267	-	24,161,637
Accounts receivable, net of allowance	19,635,114	119,427	84,422	-	19,838,963
Other accounts receivable	4,212,117	-	-	-	4,212,117
Materials and supplies	19,075,851	69,960	5,048	-	19,150,859
Prepaid expenses	567,397	15,187	-	-	582,584
Total current assets	64,135,420	2,686,003	1,124,737	-	67,946,160
Other assets					
TVA Energy Services loans receivable	681,400	-	-	-	681,400
Deferred debits	517,653	-	-	-	517,653
Total other assets	1,199,053	-	-	-	1,199,053
Total assets	\$ 347,495,705	\$ 3,674,828	\$ 1,540,341	\$ (4,607,567)	\$ 348,103,307

(Continued)

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

June 30, 2023

	WRECC	PES	Millennium	Eliminations	Total
<b>Equities and Liabilities</b>					
Equities					
Membership fees	\$ 602,765	\$ -	\$ -	\$ -	\$ 602,765
Patronage capital	166,744,476	-	-	-	166,744,476
Other equities	107,634	3,254,755	1,352,812	(4,607,567)	107,634
<b>Total equities</b>	<b>167,454,875</b>	<b>3,254,755</b>	<b>1,352,812</b>	<b>(4,607,567)</b>	<b>167,454,875</b>
Long-term liabilities					
Long-term debt - net of current portion	123,772,192	-	-	-	123,772,192
Postretirement benefits liabilities - net of current portion	3,518,950	-	-	-	3,518,950
<b>Total other liabilities</b>	<b>127,291,142</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>127,291,142</b>
Current liabilities					
Accounts payable - purchased power	27,210,594	-	-	-	27,210,594
Accounts payable - other	4,643,391	13,780	37,604	-	4,694,775
Self-insured fund	402,639	-	-	-	402,639
Customer deposits	5,093,124	-	18,900	-	5,112,024
Accrued interest	148,388	-	-	26,815	175,203
Accrued vacation and sick leave	1,784,945	-	-	-	1,784,945
Current portion of postretirement benefits liabilities	636,000	-	-	-	636,000
Accrued taxes and other current liabilities	3,394,801	44,320	48,205	(26,815)	3,460,511
Short-term notes payable	0	-	-	-	-
Current portion of long-term debt	7,262,115	-	-	-	7,262,115
<b>Total current liabilities</b>	<b>50,575,997</b>	<b>58,100</b>	<b>104,709</b>	<b>-</b>	<b>50,738,806</b>

(Continued)



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

<i>June 30, 2023</i>	<b>WRECC</b>	<b>PES</b>	<b>Millennium</b>	<b>Eliminations</b>	<b>Total</b>
Other liabilities					
Advances for TVA Energy Services loans	690,157	-	-	-	690,157
Deferred income taxes	-	71,468	82,820	-	154,288
Deferred credits	1,483,534	290,505	-	-	1,774,039
<b>Total other liabilities</b>	<b>2,173,691</b>	<b>361,973</b>	<b>82,820</b>	<b>-</b>	<b>2,618,484</b>
<b>Total equities and liabilities</b>	<b>\$ 347,495,705</b>	<b>\$ 3,674,828</b>	<b>\$ 1,540,341</b>	<b>\$ (4,607,567)</b>	<b>\$ 348,103,307</b>

**Warren Rural Electric Cooperative Corporation**  
**Consolidating Statements of Income**

*For the year ended June 30, 2023*

	WRECC	PES	Millennium	Eliminations	Total
<b>Operating Revenues</b>					
Electric sales	\$ 235,996,736	\$ -	\$ -	\$ -	\$ 235,996,736
Forfeited discounts	1,224,949	-	-	-	1,224,949
Rent from electric property	5,156,267	-	-	-	5,156,267
Other electric revenues	1,119,441	-	-	-	1,119,441
Natural gas sales	-	-	1,080,099	-	1,080,099
Propane and related sales	-	3,926,715	-	-	3,926,715
<b>Total operating revenues</b>	<b>243,497,393</b>	<b>3,926,715</b>	<b>1,080,099</b>	<b>-</b>	<b>248,504,207</b>
<b>Operating expenses</b>					
Purchased power	181,631,852	-	-	-	181,631,852
Operation	7,264,081	1,154,707	61,312	-	8,480,100
Maintenance	10,630,585	-	6,764	-	10,637,349
Facilities rental	82,287	-	-	-	82,287
Customer accounts	3,537,181	-	-	-	3,537,181
Customer service and information	632,814	-	1,096	-	633,910
Administrative and general	4,907,019	136,640	54,482	-	5,098,141
Depreciation and amortization	14,259,245	144,723	45,914	-	14,449,882
Taxes and tax equivalents	6,534,859	70,113	73,150	-	6,678,122
Natural gas purchases	-	-	714,336	-	714,336
Propane gas and related cost of goods sold	-	1,831,934	-	-	1,831,934
<b>Operating expenses</b>	<b>229,479,923</b>	<b>3,338,117</b>	<b>957,054</b>	<b>-</b>	<b>233,775,094</b>
Total operating income before interest expense	14,017,470	588,598	123,045	-	14,729,113
Interest on long-term debt	4,596,525	-	-	-	4,596,525
<b>Operating income after interest expense</b>	<b>9,420,945</b>	<b>588,598</b>	<b>123,045</b>	<b>-</b>	<b>10,132,588</b>

(Continued)

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

<i>For the year ended June 30, 2023</i>	<b>WRECC</b>	<b>PES</b>	<b>Millennium</b>	<b>Eliminations</b>	<b>Total</b>
<b>Non-operating income</b>					
Interest income	150,933	20,360	2,728	-	174,021
Income (loss) of unconsolidated entities	(236)	-	-	-	(236)
Miscellaneous	799,051	53,776	3,468	(586,820)	269,475
<b>Total non-operating income</b>	<b>949,748</b>	<b>74,136</b>	<b>6,196</b>	<b>(586,820)</b>	<b>443,260</b>
Generation & Transmission and Other Cooperative Capital Credits	363,636	-	-	-	363,636
Income before income taxes	10,734,329	662,734	129,241	(586,820)	10,939,484
Income tax expense	-	165,980	39,175	-	205,155
<b>Net Income</b>	<b>\$ 10,734,329</b>	<b>\$ 496,754</b>	<b>\$ 90,066</b>	<b>\$ (586,820)</b>	<b>\$ 10,734,329</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, 2023 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 24, 2023.

**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 certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2023-001 and 2023-002 that we consider to be significant deficiencies.

### **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 24, 2023.

### **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

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

CARR, RIGGS & INGRAM, LLC  
Bowling Green, Kentucky  
October 24, 2023

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

### 2023-001 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:* 2022-001

*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 regard to 2023-001 segregation of duties, Management will begin having the Accounts Payable Specialist create their own check disbursement log separate from the check log that is maintained by the Accounting Manager/Vice President of Administrative Services.

### 2023-002 MATERIALS AND SUPPLIES MANAGEMENT

*Criteria and Condition:* In our procedures over materials and supplies, it was noted that the account balance of materials and supplies did not reconcile to the year-end physical inventory. Upon investigation by management from audit inquiries, the Cooperative discovered that three warehouse locations were not included in the physical inventory adjustment.

As a result, an audit adjustment was made in the amount of approximately \$1,400,000 to the areas of materials and supplies and construction work in progress.

*Cause:* Proper procedures were not in place to reconcile the physical inventory to the general ledger.

*Effect or Potential Effect:* Materials and Supplies account could be misstated and misappropriations could occur and not be detected by the Cooperative's internal controls.

*Recommendation:* We recommend management strengthen internal controls in relation to materials and supplies management by implementing procedures related to physical inventory to ensure proper recording of the materials and supplies account and the construction work in progress account.

*Views of Responsible Officials and Planned Corrective Actions:* In regard to 2023-002 Materials and supplies management, Management will be implementing a new material management software in addition to updating our physical inventory procedures regarding both electric and fiber inventory.



# THOUGHT LEADERSHIP



JOIN OUR CONVERSATION



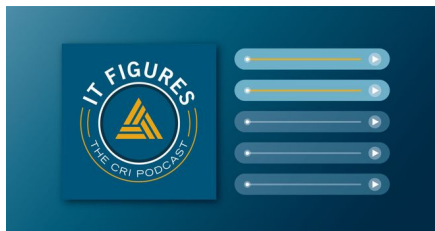
We know that some information that makes perfect sense to a CPA may not be as clear to our clients. Therefore, we produce original content in the form of articles, videos, white papers, webinars, and more to provide timely, down-to-earth translations of complex subjects. We publish this original content on [CRIcpa.com](https://www.cricpa.com) and across all our many social channels.

## FOLLOW CRI ON SOCIAL MEDIA @CRICPA



## SUBSCRIBE TO THE CRI E-NEWSLETTER

[CRICPA.COM/NEWSLETTER-SIGNUP](https://www.cricpa.com/newsletter-signup)



### IT FIGURES: THE CRI PODCAST

Created to provide insight into the latest developments and regulations in the accounting and finance space, It Figures is an accounting and advisory focused podcast for business and organization leaders, entrepreneurs, and anyone who is looking to go beyond the status quo.

Listen on Apple Podcasts, Spotify, iHeart Radio, and more.

[itfigurespodcast.com](https://itfigurespodcast.com)



### 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.](#)