

**THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION  
ONTONAGON, MI  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT  
December 31, 2023 and 2022**

**THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION  
ONTONAGON, MI**

**CONTENTS**

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements:	
Balance Sheets	3
Statements of Revenues and Expenses	4
Statements of Changes in Equities	5
Statements of Cash Flows	6 - 7
Notes to the Financial Statements	8 - 21
Report on Compliance and on Internal Control over Financial Reporting and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22 - 24

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
The Ontonagon County Rural Electrification Association  
Ontonagon, MI

### Opinion

We have audited the accompanying financial statements of The Ontonagon County Rural Electrification Association (the "Cooperative"), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of revenues and expenses, changes in equities, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all materials respects, the financial position of the Cooperative as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Cooperative and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

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

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

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative’s ability to continue as a going concern for a reasonable period of time.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2025, 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. The 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.

*Bauman Associates, Ltd.*

CERTIFIED PUBLIC ACCOUNTANTS

Eau Claire, Wisconsin  
January 22, 2025

**THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION**  
**BALANCE SHEETS**  
**December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
ASSETS		
PLANT		
In service	\$ 36,453,811	\$ 34,661,519
Construction work in progress	<u>1,830,287</u>	<u>1,693,944</u>
	38,284,098	36,355,463
Accumulated depreciation	<u>(13,355,370)</u>	<u>(12,398,398)</u>
Net plant	<u>24,928,728</u>	<u>23,957,065</u>
INVESTMENTS		
Investments in associated and other organizations	<u>1,291,168</u>	<u>1,250,695</u>
CURRENT ASSETS		
Cash and cash equivalents	424,464	464,759
Short-term investments	96,953	1,425,631
Accounts receivable - electric, less allowance for doubtful accounts of \$56,301 in 2023 and \$63,454 in 2022	742,173	611,562
Accounts receivable - other	23,552	89,204
Materials and supplies	516,850	410,102
Prepaid expenses	<u>42,134</u>	<u>2,843</u>
Total current assets	<u>1,846,126</u>	<u>3,004,101</u>
DEFERRED DEBITS	<u>48,470</u>	<u>73,749</u>
TOTAL ASSETS	<u>\$ 28,114,492</u>	<u>\$ 28,285,610</u>

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

LIABILITIES AND NET ASSETS	<u>2023</u>	<u>2022</u>
<b>EQUITIES</b>		
Memberships	\$ 22,740	\$ 22,745
Patronage capital	8,134,896	7,991,956
Donated capital	<u>32,497</u>	<u>32,497</u>
Total equities	<u>8,190,133</u>	<u>8,047,198</u>
<b>LONG-TERM LIABILITIES</b>		
Mortgage notes	17,648,119	18,409,470
Less current portion	<u>(844,597)</u>	<u>(770,818)</u>
	16,803,522	17,638,652
Post-retirement benefit obligation	<u>135,040</u>	<u>139,796</u>
Total long-term liabilities	<u>16,938,562</u>	<u>17,778,448</u>
<b>CURRENT LIABILITIES</b>		
Current maturities on long-term debt	844,597	770,818
Trade accounts payable	226,361	449,835
Notes payable	900,000	-
Accrued property taxes	140,241	172,622
Accrued interest	79,029	67,992
Other current and accrued liabilities	214,010	238,412
Customer energy prepayments	<u>14,800</u>	<u>14,700</u>
Total current liabilities	<u>2,419,038</u>	<u>1,714,379</u>
<b>DEFERRED CREDITS</b>	<u>566,759</u>	<u>745,585</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 28,114,492</u>	<u>\$ 28,285,610</u>

**THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION**  
**STATEMENTS OF REVENUES AND EXPENSES**  
**For Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES	\$ <u>6,852,534</u>	\$ <u>6,667,379</u>
OPERATING EXPENSES:		
Cost of power	2,160,327	2,170,246
Distribution, operation	61,055	271,286
Distribution, maintenance	1,357,224	1,210,822
Consumer accounts	216,494	305,695
Sales and customer service	46,953	81,733
Depreciation	1,010,650	892,746
Taxes	277,413	343,000
General and administrative	1,045,591	809,254
Other deductions	<u>24,590</u>	<u>36,187</u>
TOTAL OPERATING EXPENSES	<u>6,200,297</u>	<u>6,120,969</u>
OPERATING MARGINS BEFORE INTEREST	<u>652,237</u>	<u>546,410</u>
INTEREST EXPENSE	<u>690,012</u>	<u>670,232</u>
OPERATING MARGINS AFTER INTEREST	<u>(37,775)</u>	<u>(123,822)</u>
NONOPERATING MARGINS		
Interest and dividend income	84,669	65,217
Other capital credits and patronage dividends	78,970	94,984
Other income (expense)	<u>17,076</u>	<u>55,775</u>
TOTAL NONOPERATING MARGINS	<u>180,715</u>	<u>215,976</u>
NET MARGINS	\$ <u><u>142,940</u></u>	\$ <u><u>92,154</u></u>

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

**THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION**  
**STATEMENTS OF CHANGES IN EQUITIES**  
**For Years Ended December 31, 2023 and 2022**

	<u>Memberships</u>	<u>Patronage Capital</u>		<u>Donated Capital</u>	<u>Total</u>
		<u>Assigned</u>	<u>Assignable</u>		
Balance at January 1, 2022	\$ 22,745	\$ 6,351,892	\$ 1,547,910	\$ 32,497	\$ 7,955,044
Memberships:					
Refunded	-	-	-	-	-
Patronage Capital Assigned	-	1,354,679	(1,354,679)	-	-
Net Margins	-	-	92,154	-	92,154
Balance at December 31, 2022	\$ 22,745	\$ 7,706,571	\$ 285,385	\$ 32,497	\$ 8,047,198
Memberships:					
Refunded	(5)	-	-	-	(5)
Patronage Capital Assigned	-	-	-	-	-
Net Margins	-	-	142,940	-	142,940
Balance at December 31, 2023	\$ 22,740	\$ 7,706,571	\$ 428,325	\$ 32,497	\$ 8,190,133

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



**THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2023 and 2022**

	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net margins	\$ 142,940	\$ 92,154
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Expense	1,010,650	892,746
Clearing	262,992	199,430
Equity increase in investments	(165,776)	(149,621)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(64,959)	(90,475)
(Increase) decrease in materials and supplies	(106,748)	(107,323)
(Increase) decrease in prepaid expenses	(39,291)	35,126
(Increase) decrease in deferred debits	25,279	21,794
Increase (decrease) in post-retirement benefit obligation	(4,756)	12,000
Increase (decrease) in trade accounts payable	(223,474)	182,594
Increase (decrease) in other current liabilities	(45,646)	7,092
Increase (decrease) in deferred credits	(34,475)	6,971
Total adjustments	613,796	1,010,334
Net cash provided by (used in) operating activities	756,736	1,102,488
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net (Purchase) sale of short-term investments	1,327,744	1,577,060
Proceeds from investments in associated organizations	126,237	100,431
Construction costs paid (net contributions in aid of construction)	(1,297,729)	(1,741,995)
Purchase of general plant assets	(1,092,233)	(282,186)
Proceeds from sale of salvaged property	306	2,647
Net cash provided by (used in) investing activities	(935,675)	(344,043)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long-term debt	(761,351)	(754,340)
Borrowings on line of credit	900,000	-
Memberships refunded	(5)	-
Net cash provided by (used in) financing activities	138,644	(754,340)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(40,295)	4,105
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	464,759	460,654
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 424,464	\$ 464,759

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

**THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**Years Ended December 31, 2023 and 2022**

	2023	2022
Supplemental disclosure of cash flow information:		
Cash payments for:		
Interest paid	\$ <u>678,975</u>	\$ <u>671,369</u>
Supplemental disclosure of noncash investing and financing activities:		
Equity and patronage capital allocations by associated organizations are recorded as revenue and an increase in investments in associated organizations.		
The amounts recorded were as follows:		
Patronage capital allocations	\$ 78,970	\$ 94,984
Equity increase in investments	<u>86,806</u>	<u>54,637</u>
	\$ <u>165,776</u>	\$ <u>149,621</u>

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

**THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**Note 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Ontonagon County Rural Electrification Association (the “Cooperative”) is a rural electric distribution cooperative which provides electricity to customers located in outlying areas. The Cooperative’s service area covers a five-county region in the Upper Peninsula of Michigan. The Cooperative is member regulated and therefore is not under the jurisdiction of the Michigan Public Service Commission for the rate structure, fees, charges, accounting standards and billing and service rules.

**General**

The Cooperative maintains its books in conformance with the Uniform System of Accounts prescribed by the Rural Development Utilities Programs (RDUP).

**Use of Estimates**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

For financial reporting purposes and for purposes of the Statement of Cash Flows, the Cooperative considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

**Short-term Investments**

These include funds held by National Rural Utilities Cooperative Finance Corporation (NRUCFC) with no specific maturity dates and are stated at market value.

**Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of current expected credit losses described below. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance are not material to the financial statements.

**THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**Note 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounts Receivable (Continued)**

Probable uncollectible amounts are estimated based on current expected credit losses. The estimation of the allowance is based on an analysis of historical loss experience, current receivables aging, and management's assessment of current conditions and reasonable and supportable expectation of future conditions, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. The Cooperative assesses collectability by pooling receivables where similar characteristics exist and evaluates receivables individually when specific customer balances no longer share those risk characteristics and are considered at risk or uncollectible. The expense associated with the allowance is recognized in customer accounts expense.

**Inventories**

Inventories are stated at average cost.

**Investments**

Investments in debt securities are classified as held-to-maturity securities. Held-to-maturity securities are carried at cost. Investments in associated organizations (generally other cooperatives) and non-marketable equity securities not constituting a 20 percent or more ownership interest are carried at cost including undistributed patronage capital allocations. Investments in limited liability companies are recorded on the equity method. Because of the lack of quoted market prices and the inability to estimate fair market value without incurring excessive cost, management has determined it is not practical to estimate the fair value of these investments. However, management believes that the carrying amounts of these investments at December 31, 2023 and 2022 included in investments are not impaired.

**Electric Plant**

Electric plant is stated at original cost of construction, which includes the cost of contracted services, direct labor, materials, and overhead items. Contributions from others toward the construction of electric plant are credited to the applicable plant accounts.

Upon disposition of general plant assets, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss is credited or charged to current margins.

Upon disposition of distribution plant assets, the original cost is removed from the plant account. The accumulated depreciation account is charged for the cost of the assets, increased by retirement costs and reduced by salvage value. No gains or losses on the disposition of distribution plant assets are charged or credited to current margins.

**THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**Note 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Long-Lived Assets**

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or their fair value less cost to sell.

**Asset Retirement Obligation**

The Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) requires entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. When the liability is initially recorded, the entity capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accrued to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. The Cooperative has determined it does not have a material legal obligation to remove the long-lived assets as described by the FASB ASC, and accordingly has not recognized any asset retirement obligation costs in its financial statements for the years ended December 31, 2023 and 2022.

**Management Review**

In preparing these financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through January 22, 2025, the date the financial statements were available for issue.

**Revenue from Contracts with Customers**

Performance obligations related to the sale of energy are satisfied as energy is delivered to members. The Cooperative recognizes revenue that corresponds to the price of the energy delivered to the member. The measurement of energy sales to members is generally based on a month end reading of all member's meters. Payments for energy delivered are due from members in the following month.

The Cooperative does not recognize a separate financing component of its collections from customers as contract terms are short-term in nature. The Cooperative presents its revenue net of any excise or sales taxes or fees.

**THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**Note 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenue from Contracts with Customers (Continued)**

Below is a table which presents receivables arising from activities related to contracts with customers. There are no other contract assets that typically arise during the year or at year end. At times some customers carry a credit balance, but these are generally not significant, and balances are netted within the total customer accounts receivable balance.

Electric customer accounts receivable

<u>2023</u>	<u>2022</u>	<u>2021</u>
\$ <u>719,047</u>	\$ <u>720,823</u>	\$ <u>693,601</u>

**Income Taxes**

The Cooperative is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code, as long as more than 85 percent of revenue is received from Cooperative members.

The Cooperative will recognize any accrued interest and penalties related to unrecognized benefits in income tax, if incurred.

**Margins**

As a cooperative, net margins are allocated to members in the form of capital credits based on patronage.

**Patronage Capital**

Patronage capital represents the accumulation of net margins of the Cooperative.

**Public Utility Regulation**

The Cooperative is subject to regulation for rates and other matters by the Board of Directors and follows accounting policies prescribed by the Board. The Cooperative prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), which includes the provisions of Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 980 Regulated Operations (FASB ASC 980). FASB ASC 980 requires cost-based, rate regulated enterprises, such as the Cooperative, to reflect the impact of regulatory decisions in their financial statements. The balance sheets include regulatory assets and liabilities as appropriate. The Cooperative believes, based on current regulatory circumstances, that its use of regulatory accounting is appropriate and in accordance with the provisions of FASB ASC 980.

**THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**Note 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Adoption of New Accounting Standard**

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13" or "ASC 326"). ASU 2016-13 revises the accounting requirements related to the measurement of credit losses and requires organizations to measure all expected credit losses for financial assets based on historical experience, current conditions, and reasonable and supportable forecasts about collectability. Assets must be presented in the financial statements at the net amount expected to be collected. During 2019, the FASB issued additional ASUs amending certain aspects of ASU 2016-13.

On January 1, 2023, the Cooperative adopted the new accounting standard and all of the related amendments using the modified retrospective method. The adoption did not result in an adjustment to retained earnings and the impact is deemed to be insignificant.

**Note 2      ASSETS PLEDGED**

All assets are pledged as security for the long-term liabilities to the Rural Utilities Services (RUS), to National Rural Utilities Cooperative Finance Corporation (NRUCFC), Federal Financing Bank and to CoBank, ACB.

**Note 3      CONCENTRATION OF CREDIT RISK**

The Cooperative maintains its cash and cash equivalents in local financial institutions, which at times, exceed the total amount insured under Federal Deposit Insurance Corporation regulations and National Credit Union Administration insurance regulations. No amounts exceeded insurance limits as of December 31, 2023 and 2022, respectively.

The Cooperative grants unsecured credit to its customers who are located in upper Michigan. The collectability of accounts receivable is dependent upon the economy of the region.

**THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**Note 4 ELECTRIC PLANT AND DEPRECIATION**

Listed below are the major classes of the electric plant, stated at cost:

	2023	2022
Intangible Plant		
Organization	\$ 1,349	\$ 1,349
Miscellaneous	551,566	571,994
Distribution Plant	31,104,701	30,352,914
General Plant	4,796,195	3,735,262
Construction Work in Progress	1,830,287	1,693,944
	\$ 38,284,098	\$ 36,355,463

Provision for depreciation of the distribution plant is made using a straight-line composite rate of 2.9% per annum with the exception of AMR devices, which use a 7% rate effective April 2007. General plant depreciation rates have been applied to specific assets on a straight-line basis and are as follows:

Structures and improvements	2.5 to 3%
Office furniture and equipment	7 to 15%
Transportation Equipment	7.9 to 17%
Power Operated Equipment	8%
Communications Equipment	8%
Other General Plant	5 to 6%

Total depreciation recorded on the electric plant for the years ended December 31, 2023 and 2022, was \$1,273,643 and \$1,092,176, respectively. Depreciation expensed directly to operating margins for these years was \$1,010,650 and \$892,746, respectively. Depreciation not expensed directly is capitalized in the cost of construction or expensed through operations, maintenance, and administrative expenses.

**Note 5 INVESTMENTS**

The Cooperative is associated with the National Rural Utilities Cooperative Finance Corporation (NRUCFC). The subordinate capital term certificate subscriptions (SCTC's) bear interest at 3 to 5% and mature beginning in 2085. The zero-term certificate (ZTC) bears interest at 0% and matures in 2026. The CTC's and ZTC's are classified as held-to-maturity securities. The investment in American Transmission Company, LLC is carried on the equity method and the Cooperative has a .031% interest.



**THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**Note 5 INVESTMENTS (Continued)**

	2023	2022
American Transmission Company, LLC	\$ 730,392	\$ 709,511
NRUCFC - Patronage, SCTC's and ZTC's	147,113	141,155
Investments in associated organizations:		
CoBank, ACB	292,046	269,582
National Information Solutions Cooperative	45,896	49,898
Federated Rural Electric Insurance Exchange	63,790	61,407
Other	11,931	19,142
	1,291,168	1,250,695
Short-term investments - CFC Daily Liquidity Fund 4.6%	96,953	1,425,631
	\$ 1,388,121	\$ 2,676,326

The Cooperative has a .031% ownership in American Transmission Company (ATC), LLC. The investment is accounted for using the equity method.

Balance, 12/31/21	\$ 691,967
Additional investment	-
Earnings recognized	54,637
Distributions	(37,093)
Balance, 12/31/22	709,511
Additional investment	-
Earnings recognized	78,737
Distributions	(57,856)
Balance, 12/31/23	\$ 730,392

**Note 6 ELECTRIC ACCOUNTS RECEIVABLE**

The following summarizes the classifications of electric accounts receivable:

	2023	2022
Billed accounts receivable, net of		
allowance for doubtful accounts	\$ 662,746	\$ 657,369
Power cost adjustment	79,427	(45,807)
	\$ 742,173	\$ 611,562

**THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**Note 7 DEFERRED DEBITS AND CREDITS**

The following summarizes the deferred debits and credits:

	<u>Deferred Debits</u>		<u>Deferred Credits</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Long-range load forecast	\$ 19,045	\$ 47,614	\$ -	\$ -
Four-year system study	2,376	11,876	-	-
Deferred small tool costs	15,878	9,988	-	-
Deferred costs of transportation	574	4,271	-	-
Energy conservation receipts	-	-	-	34,475
Deferred installation costs of special equipment	-	-	566,759	711,110
Other deferred debits and credits	<u>10,597</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 48,470</u>	<u>\$ 73,749</u>	<u>\$ 566,759</u>	<u>\$ 745,585</u>

The deferred debits and deferred credits do not constitute a margin stabilization plan, a revenue deferral plan or an expense deferral program, and as such RDUP approval is not required.

**THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**Note 8 LONG-TERM LIABILITIES**

Long-term liabilities are primarily represented by RUS mortgage notes, NRUCFC mortgage notes, Federal Financing Bank mortgage notes and CoBank, ACB mortgage notes. Total notes consisted of the following:

	2023	2022
NRUCFC Mortgage Notes:		
Fixed interest rate notes at 2.45% payable quarterly until maturity in 2026	\$ 50,689	\$ 72,182
Fixed interest rate notes at 3.95% to 4.55% payable monthly until maturity in 2042	3,879,779	4,029,185
	3,930,468	4,101,367
Fixed interest rate note at 2.678% payable quarterly until maturity in 2051	1,330,239	1,362,796
Fixed interest rate note at 2.934% payable quarterly until maturity in 2051	1,383,363	1,415,856
Fixed interest rate note at 3.211% payable quarterly until maturity in 2050	454,033	464,229
Fixed interest rate note at 1.147% payable quarterly until maturity in 2051	909,359	937,571
Fixed interest rate note at 1.164% payable quarterly until maturity in 2051	2,121,030	2,186,666
Fixed interest rate note at 2.031% payable quarterly until maturity in 2051	1,082,706	1,112,052
	7,280,730	7,479,170
CoBank, ACB Mortgage Notes:		
Fixed interest rate note at 4.82% payable monthly until maturity in 2026	108,746	153,603
Fixed interest rate note at 4.51% payable monthly until maturity in 2040	6,328,175	6,675,330
	6,436,921	6,828,933
	17,648,119	18,409,470
Less current maturities	(844,597)	(770,818)
	\$ 16,803,522	\$ 17,638,652

**THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**Note 8      LONG-TERM LIABILITIES (Continued)**

Aggregate maturities on long-term liabilities for the next five years following December 31, 2023, are as follows:

2024	844,597
2025	845,657
2026	822,497
2027	777,813
2028	868,260

Loan and Debt Covenants

The Cooperative has financial covenants with its lenders for certain financial ratios. Management is not aware of any violations of these covenants at December 31, 2023.

**Note 9      PENSION PLAN**

Narrative Description

The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Plan Information

The Cooperative contributions to the RS Plan in 2023 and in 2022 represented less than 5 percent of the total contributions made to the Plan by all participating employers. The Cooperative made contributions to the Plan of \$313,159 in 2023 and \$270,475 in 2022. There have been no significant changes that affect the comparability of 2023 and 2022 contributions.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded at January 1, 2023 and 2022 based on the PPA funding target and PPA actuarial value of assets on those dates.

**THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**Note 9 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 also maintains a 401(k) plan for all eligible employees, which is funded entirely by employee contributions. To be eligible, the employee must complete six months of full-time service. There is no cost to the Cooperative with respect to the plan.

**Note 10 POSTRETIREMENT BENEFIT OBLIGATION**

Postretirement Benefit Plan

Effective January 1, 1992, the union contract contains a provision requiring the Cooperative to pay for the premiums on health care benefits for one year after retirement on behalf of the eligible retirees. In addition, the Cooperative will also contribute 50% toward the cost of the health insurance premiums for the second and third-year following retirement. To be eligible for these benefits, the employee must have worked for the Cooperative for ten years at the time of normal retirement and been hired prior to January 1, 2017.

The post-retirement health care plans include a limit on the Company's share of costs for recent and future retirees.

The Cooperative contracted with National Rural Electric Cooperative Association for an actuarial study of the postretirement health care plan. The information obtained from the latest actuarial valuation report as of January 1, 2022, rolled forward to December 31, 2023 follows.

Obligations and Funded Status - Postretirement Benefits

	<u>December 31, 2023</u>
Change in benefit obligation:	
Benefit obligation at beginning of year	\$ 96,244
Actuarial gain	(27,823)
Service cost	2,404
Interest cost	2,535
Benefit payments	-
	61,680
Postretirement Benefit Obligation at End of Year	\$ 135,040

**THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**NOTE 10 POSTRETIREMENT BENEFIT OBLIGATION (Continued)**

	<u>December 31, 2023</u>
Change in plan assets:	
Fair value of plan assets at beginning of year	\$ -
Employer contributions	-
Plan participants' contributions	-
Benefits paid	-
	-
Fair Value of Plan Assets at End of Year	\$ -
Funded Status at End of Year	\$ <u><u>(135,040)</u></u>
Amounts recognized in the December 31, 2023 balance sheet consist of:	
Long-term liabilities - postretirement benefit obligation	\$ <u><u>135,040</u></u>

**Assumptions**

Weighted-average assumptions used to determine benefit obligation at December 31, 2023:

Discount rate	5.0%
---------------	------

Weighted-average assumptions used to determine net periodic benefit cost for year ended December 31, 2023:

Discount rate	5.0%
Expected long-term return on plan assets	N/A

Assumed health care cost trend rates at December 31:

Health care cost trend rate assumed for next year	6.6%
Rate to which the cost trend is assumed to decline (the terminal rate)	5%
Year that the rate reaches the terminal rate	2029

**THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**NOTE 10 POSTRETIREMENT BENEFIT OBLIGATION (Continued)**

Plan Assets

The Cooperative has no assets contributed to the Plan at December 31, 2023 and 2022.

Participant Data

The Cooperative participant data as of December 31, 2023 follows:

Actives fully eligible for benefits	1	
Actives not yet fully eligible for benefits	15	
Total active participants	16	
Retirees	0	
Spouses	0	
Surviving spouses	0	
Total participants in payment status	0	
Disabled employees	0	
Total participants	16	
Average age of active participants (in years)	53.8	
Average service of active participants (in years)	22.36	

Cash Flows

The Cooperative paid \$0 in retiree health benefits during the years ended December 31, 2023 and 2022.

**THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**NOTE 10 POSTRETIREMENT BENEFIT OBLIGATION (Continued)**

Contributions

The Cooperative did not make any contributions to its postretirement plan during the year ending December 31, 2023.

Estimated Future Benefit Payments

The following postretirement benefit payments, which reflect expected future service, are expected to be paid:

2024	\$	-
2025		-
2026		-
2027		-
2028		-
2029-2032		97,840

**Note 11 LINE-OF-CREDIT AGREEMENTS**

As of December 31, 2023 and 2022 the Cooperative had variable interest line-of-credit (LOC) agreements with NRUCFC and CoBank, ACB, in the amounts of \$1,000,000 and \$2,000,000, respectively. There was a draw of \$900,000 on the CFC LOC that is outstanding as of December 31, 2023. There was no amount borrowed under this agreement during 2022. For the CoBank LOC, there were no amounts borrowed under this agreement as of December 31, 2023 and 2022.

**Note 12 COMMITMENTS**

Under its wholesale power agreement, the Cooperative is committed to purchase its electric power and energy requirements from the Wolverine Power Supply Cooperative, Inc. until December 31, 2025 in varying capacities over the contract period. This agreement contains renewal, termination and rate change clauses but does not include any requirements for minimum purchases to be made by the Cooperative.

**Note 13 COLLECTIVE BARGAINING AGREEMENT**

The Cooperative and the Local 510 International Brotherhood of Electrical Workers AFL-CIO have a current collective bargaining agreement that expires December 31, 2026.



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

Board of Directors  
The Ontonagon County Rural Electrification Association  
Ontonagon, MI

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Ontonagon County Rural Electrification Association (the "Cooperative"), which comprise the balance sheet as of December 31, 2023 and the related statements of revenues and expenses, changes in equities, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated January 22, 2025.

**Report on Internal Control over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Cooperative's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described below (2023-001 and 2023-003) to be material weaknesses.

*A significant deficiency* is a deficiency, or 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. We consider the deficiency described below (2023-002) to be a significant deficiency.

**Finding 2023-001:**

**Annual Financial Reporting Under Generally Accepted Accounting Principles (GAAP):**

The Cooperative does not have a policy in place over annual financial reporting under GAAP, therefore, the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the Cooperative's internal controls.

***Recommendations:***

The Cooperative should continue to evaluate their internal staff and expertise to determine if an internal control policy over the annual financial reporting is beneficial.

***Views of Responsible Officials:***

Management will continue to rely upon the audit firm to create the draft financial statements and related footnote disclosures and will review and approve these prior to the issuance of the annual financial statements.

**Finding 2023-002:**

**Segregation of Duties:**

The Cooperative does not have the ability, due to the size of the Cooperative, to have complete segregation of duties in its accounting function.

***Recommendations:***

Members of the Board should remain involved in reviewing financial transactions of the Cooperative.

***Views of Responsible Officials:***

The Board will continue to remain involved in reviewing financial transactions of the Cooperative, especially in areas where lack of segregation of duties is apparent.

**Finding 2023-003:**

**Reconciling Accounts to Supporting Documents and Subsidiary Ledgers**

As of December 31, 2023, certain subsidiary ledgers and supporting documents were not in agreement with the general ledger.

***Recommendations:***

In order to make the financial reports generated by the accounting system as meaningful as possible, the Cooperative should adopt a policy requiring monthly reconciliation of all balance sheet accounts to supporting documentation and subsidiary ledgers on a monthly basis. Balance sheet reconciliations quickly identify errors and needed corrections. If reconciliations are performed infrequently, errors and adjustments can occur, resulting in the need for significant corrections when the reconciliations are performed. Any reconciling differences should be corrected before the books are closed for the month end.

***Views of Responsible Officials:***

Due to staff turnover during the year, the Cooperative was unaware of entries and adjustments that needed to be made. In the future, the Cooperative will have adjustments completed as needed.

**Report on Compliance and Other Matters**

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

**The Cooperative’s Response to Findings**

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

**Purpose of This Report**

This report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the 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.

*Bauman Associates, Ltd.*

CERTIFIED PUBLIC ACCOUNTANTS

Eau Claire, Wisconsin  
January 22, 2025