



**BOARD OF DIRECTORS MEETING**  
**April 29, 2024 – 3pm**  
**OCEC Monthly Board Meeting**  
**Location: Mt Annex – Rendezvous Room**

**AGENDA**

- A. PRELIMINARY
  - 1. Meeting Called to Order
  - 2. Determination of Quorum
  - 3. Approval of Agenda
- B. ELECTION OF BOARD OFFICERS
- C. **OCEI ANNUAL MEETING – EXECUTIVE SESSION**
- D. CONSENT AGENDA
  - 1. Approval of Consent Agenda
    - a. Minutes from March 25, 2024
    - b. April 2024 New Members
    - c. March 2024 - Form 7, Statement of Operations, Power & Service Data, Cash Flow
    - d. Quarterly Revolving Loan Fund Status
- E. GENERAL MANAGERS REPORT
- F. ITEMS OF BUSINESS
  - For Discussion
    - 1. 2023 Final Audit
    - 2. Methow Fiber Update – Adam Glenn
  - For Action
    - 3. Methow Fiber and Methownet Governance – Joel Paisner
    - 4. Rate Design Topics of Focus
- G. OPEN FLOOR FOR MEMBERS
- H. OPEN FLOOR FOR BOARD MEMBERS
- I. EXECUTIVE SESSION
  - 1. Legal, Personnel, Competitive, Other
  - 2. Asset Purchase Agreement Approval
  - 3. GM Goals Update

OCEC Meeting is inviting you to a scheduled Zoom meeting.

Topic: OCEC Board Meeting

Time: Apr 29, 2024 03:00 PM Pacific Time (US and Canada)

Join Zoom Meeting

<https://us06web.zoom.us/j/83588380010?pwd=3EY4NxBsP85GkNvQnImakhM1kamTAU.1>

Meeting ID: 835 8838 0010

Passcode: 155582

---

One tap mobile

+12532050468,,83588380010#,,,,\*155582# US

+12532158782,,83588380010#,,,,\*155582# US (Tacoma)

---

Dial by your location

- +1 253 205 0468 US
- +1 253 215 8782 US (Tacoma)
- +1 719 359 4580 US
- +1 720 707 2699 US (Denver)
- +1 346 248 7799 US (Houston)
- +1 669 444 9171 US
- +1 646 558 8656 US (New York)
- +1 646 931 3860 US
- +1 689 278 1000 US
- +1 301 715 8592 US (Washington DC)
- +1 305 224 1968 US
- +1 309 205 3325 US
- +1 312 626 6799 US (Chicago)
- +1 360 209 5623 US
- +1 386 347 5053 US
- +1 507 473 4847 US
- +1 564 217 2000 US

Meeting ID: 835 8838 0010

Passcode: 155582

Find your local number: <https://us06web.zoom.us/u/kqy3LtBYq>



BOARD MEETING  
March 25, 2024  
Mt Annex Rendezvous Room & Virtual

Present: President Dale Sekijima, Vice President Michael Murray, Secretary/Treasurer Alan Watson, Alaina Burtenshaw, John Rogers, and Rick Johnson.

Absent: Travis Thornton

Attending: Greg Mendonca General Manager, Glenn Huber Manager of Operations, Tracy McCabe Manager of Finance & Administration, Jesse Potvin Propane Operations Manager, Adam Glenn Manager of Broadband, Jesse Davis Sr. Staking Technician, Jamie Stark Engineer

Guests: Brandon Blair, Mike DeCoria, Marc Daudon

**1. MEETING CALLED TO ORDER**

President Dale Sekijima called the meeting of the Board of Directors of Okanogan County Electric Cooperative, Inc. (OCEC) to order at 3:00 pm.

**2. DETERMINATION OF QUORUM**

A quorum was present.

**3. APPROVAL OF AGENDA**

The agenda was approved.

**4. APPROVAL OF CONSENT AGENDA**

The consent agenda was approved noting there are no February 2024 financials in the board packet of materials.

**5. GENERAL MANAGERS REPORT**

Adam Glenn updated the board on Methow Fiber activities including establishing construction standards, RFP development, WA Public Works Board grant update, and cultural resource consulting. Greg Mendonca then updated the board on the completion of the 2023 audit, the completion of the CFC loan package, NISC implementation updates, and finally a grant application for a battery system under the WA Community Decarbonization Grant program.

## ITEMS OF BUSINESS

### 1. For Discussion – 2023 Audit Review

Brandon Blair and Mike DeCoria from DeCoria, Blair & Teague, PS held a review of the final 2023 audit with the board.

### 2. For Discussion – Winthrop Substation Presentation

Greg and Jamie Stark presented an update to the potential option to purchase the Winthrop substation and Tonasket substation transformer. Staff laid out various options and the cost of those options to the board. Staff recommended to “do nothing” and continue searching for alternatives to address Winthrop substation capacity issues. The board held a discussion on the topic and agreed with staff recommendation.

### 3. CFC COSA Presentation Debrief

Greg opened the floor for a debrief on the CFC COSA presentation and potential next steps. The board discussed the various options for rate design alternatives presented by CFC. The board directed staff to hold a poll to establish priorities moving forward and narrow the scope of items to develop and research.

### 4. For Action – Policy 30-410 Update

Greg presented a staff recommended update to the Policy 30-410 – Line Extensions.

Michael Murray made a motion to approve the Policy 30-410, Alaina Burtenshaw seconded. A vote was held and the motion passed unanimously.

## OPEN FLOOR FOR MEMBERS – None

OPEN FLOOR FOR BOARD MEMBERS – Alan Watson discussed the most recent outage and OCEC’s communications to the membership during/after the outage.

Meeting adjourned to Executive Session at 5:30 pm.

## EXECUTIVE SESSION

1. Property Update
2. General Manager 2024 Goals Approval
3. Asset Purchase Update
4. Legal, Personnel, Competitive, Other

---

Alan Watson, Secretary

**New Members OCEC**

April 29, 2024

**REINSTATE**

**NEW MEMBERS**

D'AUTEUIL, TIMOTHY	124038
JOHNSON, AMBER	124039
HARRIS, MARYLOUISE & POPE, CHRISTOPHER	124040
BEGGS, KENDALL & MEGAN	124043
SARAZIN, KORINN	124045
RODRIGUEZ, MONERVA & CEVALLOS, ANTHONY	124047
JOHNSON, AMANDA E	124048
COE, JOCELYN	124049
HSUEH, VICKI & COLLINS MICHAEL G	124050

**OKANOGAN COUNTY ELECTRIC COOPERATIVE INC**  
**REVOLVING LOAN FUND #1**  
**MONTHLY REPORT**

**For the Month Ending**  
**March 31, 2024**

<b>Beginning RLF Balance</b>		<b>\$27,558.96</b>
<b>LOUP LOUP SKI ED FOUNDATION LOAN #3</b>		\$0.39
<b>PAYOFF OCTOBER 01, 2024</b>	<b>MONTH</b>	<b>TO DATE</b>
PAYMENTS RECEIVED	420.83	\$49,787.73
ADMINISTRATIVE FEE (1%)	4.16	\$2,704.05
PRINCIPAL PAYMENT TO LOAN	416.67	\$47,083.71
ORIGINAL AMOUNT OF LOAN		\$50,000.00
BALANCE REMAINING ON LOAN		\$2,916.29
<b>TOWN OF WINTHROP</b>		
<b>PAYOFF NOVEMBER 01, 2027</b>	<b>MONTH</b>	<b>TO DATE</b>
PAYMENTS RECEIVED	\$823.34	\$64,600.18
ADMINISTRATIVE FEE (1%)	\$31.67	\$4,433.26
PRINCIPAL PAYMENT TO LOAN	\$791.67	\$60,166.92
ORIGINAL AMOUNT OF LOAN		\$95,000.00
BALANCE REMAINING ON LOAN		\$34,833.08
<b>SMILING WOODS YURTS</b>		
<b>PAYOFF NOVEMBER 01, 2028</b>	<b>MONTH</b>	<b>TO DATE</b>
PAYMENTS RECEIVED	\$350.00	\$23,016.41
ADMINISTRATIVE FEE (1%)	\$16.64	\$1,676.63
PRINCIPAL PAYMENT TO LOAN	\$333.33	\$21,336.45
ORIGINAL AMOUNT OF LOAN		\$40,000.00
BALANCE REMAINING ON LOAN		\$18,663.55
<b>TWISPPWORKS FOUNDATION</b>		
<b>PAYOFF DECEMBER 01, 2028</b>	<b>MONTH</b>	<b>TO DATE</b>
PAYMENTS RECEIVED	\$350.00	\$22,699.71
ADMINISTRATIVE FEE (1%)	\$16.67	\$1,653.30
PRINCIPAL PAYMENT TO LOAN	\$333.33	\$21,046.41
ORIGINAL AMOUNT OF LOAN		\$40,000.00
BALANCE REMAINING ON LOAN		\$18,953.59
<b>MVSTA #5</b>		
<b>PAYOFF NOVEMBER 1, 2033</b>	<b>MONTH</b>	<b>TO DATE</b>
PAYMENTS RECEIVED	\$916.67	\$9,166.70
ADMINISTRATIVE FEE (1%)	\$83.33	\$833.30
PRINCIPAL PAYMENT TO LOAN	\$833.34	\$8,333.40
ORIGINAL AMOUNT OF LOAN		\$100,000.00
BALANCE REMAINING ON LOAN		\$91,666.60
<b>KRISTIN &amp; STEVE DEVIN</b>		
<b>PAYOFF AUGUST 1, 2033</b>	<b>MONTH</b>	<b>TO DATE</b>
PAYMENTS RECEIVED	\$458.34	\$3,208.38
ADMINISTRATIVE FEE (1%)	\$41.67	\$291.69
PRINCIPAL PAYMENT TO LOAN	\$416.67	\$2,916.69
ORIGINAL AMOUNT OF LOAN		\$50,000.00
BALANCE REMAINING ON LOAN		\$47,083.31
<b>TOTAL BALANCE REMAINING ON LOANS</b>		<b>\$167,033.11</b>
<b>ENDING RLF BALANCE</b>		<b>\$30,683.97</b>

**OKANOGAN COUNTY ELECTRIC COOPERATIVE INC**

**For the Month Ending  
March 31, 2024**

**REVOLVING LOAN FUND #2  
MONTHLY REPORT**

<b>Beginning RLF Balance</b>		<b>\$64,071.95</b>
<b>MVSTA LOAN #3</b>		
<b>PAYOFF OCTOBER 01, 2024</b>	<b>MONTH</b>	<b>TO DATE</b>
PAYMENTS RECEIVED	\$589.17	\$70,979.97
ADMINISTRATIVE FEE (1%)	\$5.83	\$3,896.98
PRINCIPAL PAYMENT TO LOAN	\$583.34	\$67,082.98
ORIGINAL AMOUNT OF LOAN		\$70,000.00
BALANCE REMAINING ON LOAN		\$2,917.02
<b>PINETOOTH CREATIVE</b>		
<b>PAYOFF July 01, 2026</b>	<b>MONTH</b>	<b>TO DATE</b>
PAYMENTS RECEIVED	\$79.61	\$7,586.62
ADMINISTRATIVE FEE (1%)	\$2.32	\$474.96
PRINCIPAL PAYMENT TO LOAN	\$77.29	\$7,111.66
ORIGINAL AMOUNT OF LOAN		\$9,275.00
BALANCE REMAINING ON LOAN		\$2,163.34
<b>EQPD</b>		
<b>PAYOFF February 01, 2027</b>	<b>MONTH</b>	<b>TO DATE</b>
PAYMENTS RECEIVED	287.08	\$25,062.75
ADMINISTRATIVE FEE (1%)	13.54	\$1,641.18
PRINCIPAL PAYMENT TO LOAN	273.54	\$23,107.70
ORIGINAL AMOUNT OF LOAN		\$32,500.00
BALANCE REMAINING ON LOAN		\$9,392.30
<b>LITTLE STAR MONTESSORI SCHOOL</b>		
<b>PAYOFF February 01, 2027</b>	<b>MONTH</b>	<b>TO DATE</b>
PAYMENTS RECEIVED	\$303.96	\$25,207.92
ADMINISTRATIVE FEE (1%)	\$8.13	\$1,568.39
PRINCIPAL PAYMENT TO LOAN	\$295.83	\$23,636.53
ORIGINAL AMOUNT OF LOAN		\$32,500.00
BALANCE REMAINING ON LOAN		\$8,863.47
<b>MVSTA LOAN #4</b>		
<b>PAYOFF November 01, 2030</b>	<b>MONTH</b>	<b>TO DATE</b>
PAYMENTS RECEIVED	\$891.67	\$36,275.13
ADMINISTRATIVE FEE (1%)	\$58.33	\$2,941.91
PRINCIPAL PAYMENT TO LOAN	\$833.34	\$33,333.23
ORIGINAL AMOUNT OF LOAN		\$100,000.00
BALANCE REMAINING ON LOAN		\$66,666.77
<b>OLD SCHOOLHOUSE BREWERY</b>		
<b>PAYOFF August 01, 2031</b>	<b>MONTH</b>	<b>TO DATE</b>
PAYMENTS RECEIVED	729.00	\$22,882.50
ADMINISTRATIVE FEE (1%)	54.00	\$1,917.00
PRINCIPAL PAYMENT TO LOAN	675.00	\$20,965.50
ORIGINAL AMOUNT OF LOAN		\$81,000.00
BALANCE REMAINING ON LOAN		\$60,034.50
<b>KRISTEN &amp; STEVE DEVIN</b>		
<b>PAYOFF August 01, 2033</b>	<b>MONTH</b>	<b>TO DATE</b>
PAYMENTS RECEIVED	229.16	\$1,604.12
ADMINISTRATIVE FEE (1%)	20.83	\$145.81
PRINCIPAL PAYMENT TO LOAN	208.33	\$1,458.31
ORIGINAL AMOUNT OF LOAN		\$25,000.00
BALANCE REMAINING ON LOAN		\$23,541.69
<b>TOTAL BALANCE REMAINING ON LOANS</b>		<b>\$150,037.40</b>
<b>ENDING RLF BALANCE</b>		<b>\$66,420.91</b>



## **General Manager's Report to the Board –April 2024**

### **Methow Fiber Updates**

Will be covered in the discussion portion of board meeting.

### **Operations Updates**

#### *BPA Substation Planned Outages*

BPA has a pair of overnight planned outages for the Winthrop Substation coming up in May:

- Outage #1 – 11:55pm Wednesday May 1<sup>st</sup> until 6:00am Thursday May 2<sup>nd</sup>
- Outage #2 – 10:55pm Wednesday May 15<sup>th</sup> until 6:00am Thursday May 16<sup>th</sup>

These outages are for planned maintenance on the substation and associated equipment. OCEC staff will be taking advantage of the planned outage by performing work on our equipment during the same timeframes. We have sent a mass email through our new NISC platform, posted the information and a map on our website, posted a message on the Methownet bulletin board, and have sent the information to the Methow Valley News as well.

#### *Mazama Circuit Re-Route*

We received a call in April reporting a pole above the gravel pit off of Hwy 20 across from BCS livestock was leaning. After staff reviewed the pole the staff identified a need to perform emergency work to fortify the existing pole, and then build a temporary structure to get the line off of that pole. The pole is a 3-phase mainline for the Mazama Circuit, feeding the entirety of the members along the highway, Edelweiss, Mazama, and Lost River.

We have discussed this particular pole with the property owners previously and they have decided to pay for a complete re-route of the line along the north-northeast edge of their property to avoid future issues. In order to install the temporary structure, we are targeting the 2<sup>nd</sup> week in May for a potential 6-hour outage on the Mazama Circuit during the day to complete the work. We will communicate with the effected members as soon as possible after a date has been decided upon. The timing and impacts of the full re-route is still being worked on and we will report out when more information is available, including any large potential planned outages.



## Financial Updates

### *Monthly Financial Reporting Delay*

We are working through the final initial configuration items within NISC Financials and anticipate sending the board monthly financial reports in the coming week. We appreciate the patience, both board and membership reviewing the monthly board packets, as we make the final transition from our legacy software provider to NISC.

## General Updates

### *Annual Meeting Director Election Results*

- Alan Watson – 428 votes
- Michael Murray – 426 votes
- Write-in Candidates – 2 votes
- Voided – 83 (as of 4/22)

Congratulations to the elected board members and OCEC staff looks forward to working with you!

## *NISC Updates*

As of 4/22 we are live on all components of the NISC enterprise software we have been working on for the past year: Service, Financials, Mapping and Staking. We will still be working on various details over the remainder of the year but the heavy lifting is completed on time and on budget. As with most enterprise software systems there are more features and workflows than we are using in this initial stage but we see great potential to learn and get more proficient with the system at all levels of staff.

While we are just crossing the finish line some of the items we are looking ahead to implement with NISC are:

- Outage Management System
- Service integration for Methow Fiber / Methownet
- Mapping and Staking integration for Methow Fiber / Methownet

Each of those products would be a separate budget item we would scope and approve prior to implementing.

## *OCEC-Owned Housing Update*

While the cooperative-owned house is vacant between tenants, we are making investments into the house located at 95 W Chewuch just north of the cooperative. This is an unbudgeted capital item and we anticipate we may invest up to \$40k in the property for new flooring, appliances, paint and stain, and a new propane fireplace. OCEC has not made any investments into the property and it is in need of these items to maintain the asset and be an attractive benefit to offer potential future employees who are transitioning into the valley.

We will offset this budget item with a reduction in transformer purchases in 2024.

**Okanogan County Electric Cooperative, Inc.  
and Subsidiary**

*Financial Report*  
**December 31, 2023 and 2022**

**Okanogan County Electric Cooperative, Inc. and Subsidiary**  
**Table of Contents**  
**December 31, 2023 and 2022**

	<u>Page</u>
<b>Independent Auditor’s Report</b> .....	1 – 2
 <b>Consolidated Financial Statements:</b>	
Consolidated Balance Sheets.....	3
Consolidated Statements of Operations.....	4
Consolidated Statements of Changes in Members’ Equity.....	5
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements .....	7 – 17
 <b>Compliance Reports:</b>	
Independent Auditor’s Report on Internal Control.....	18 – 19
Independent Auditor’s Report on Loan Fund Expenditures .....	20

## **Independent Auditor's Report**

Boards of Directors  
Okanogan County Electric Cooperative, Inc. and Subsidiary  
Winthrop, Washington

### **Opinion**

We have audited the accompanying consolidated financial statements of Okanogan County Electric Cooperative, Inc. and Subsidiary, which are comprised of the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Okanogan County Electric Cooperative, Inc. and Subsidiary as of December 31, 2023 and 2022, and the consolidated 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Okanogan County Electric Cooperative, Inc. and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Consolidated 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 Okanogan County Electric Cooperative, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Consolidated 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 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 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, including omissions, 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, 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 Okanogan County Electric Cooperative, Inc. and Subsidiary'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 Okanogan County Electric Cooperative, Inc. and Subsidiary'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.

*DeCoria, Blair & Teague, PS*

DeCoria, Blair & Teague, P.S.  
Spokane, Washington

March 25, 2024

## **Consolidated Financial Statements**



**Okanogan County Electric Cooperative, Inc. and Subsidiary**  
**Consolidated Balance Sheets**  
**December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
<b>Noncurrent assets:</b>		
Utility plant, net (Note 3)	\$ 14,277,351	\$ 13,995,208
Investments in associated organizations (Note 4)	666,709	632,360
Notes receivable, due after one year (Note 7)	336,312	240,734
Total noncurrent assets	<u>15,280,372</u>	<u>14,868,302</u>
<b>Current assets:</b>		
Cash and cash equivalents (Note 5)	519,626	689,824
Restricted cash and cash equivalents (Notes 5 and 7)	78,878	190,104
Accounts receivable, net (Note 6)	1,086,631	1,384,081
Notes receivable, due within one year (Note 7)	69,611	55,028
Materials and supplies inventory	669,808	612,526
Prepaid expenses	78,492	-
Total current assets	<u>2,503,046</u>	<u>2,931,563</u>
Deferred charges (Note 15)	<u>177,505</u>	<u>-</u>
Total assets	<u>\$ 17,960,923</u>	<u>\$ 17,799,865</u>
<b>MEMBERS' EQUITY AND LIABILITIES</b>		
<b>Members' equity:</b>		
Memberships	\$ 17,530	\$ 17,320
Patronage capital	6,682,446	6,678,419
Other equities	3,964,842	3,758,716
Total members' equity	<u>10,664,818</u>	<u>10,454,455</u>
Commitments and contingencies (Notes 12 and 13)		
<b>Noncurrent liabilities:</b>		
Long-term debt, due after one year (Note 8)	<u>5,347,181</u>	<u>4,947,045</u>
Total noncurrent liabilities	<u>5,347,181</u>	<u>4,947,045</u>
<b>Current liabilities:</b>		
Long-term debt, due within one year (Note 8)	348,051	315,714
Line of credit (Note 9)	-	300,000
Accounts payable and accrued expenses (Note 10)	1,032,086	1,134,636
Consumer deposits	257,985	261,108
Deferred revenue	75,150	62,035
Total current liabilities	<u>1,713,272</u>	<u>2,073,493</u>
Deferred credits (Note 11)	<u>235,652</u>	<u>324,872</u>
Total members' equity and liabilities	<u>\$ 17,960,923</u>	<u>\$ 17,799,865</u>

**Okanogan County Electric Cooperative, Inc. and Subsidiary**  
**Consolidated Statements of Operations**  
**Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>Operating revenue:</b>		
Sales	\$ 9,884,682	\$ 10,004,615
Total operating revenue	<u>9,884,682</u>	<u>10,004,615</u>
<b>Operating expenses:</b>		
Cost of sales	4,816,829	5,368,057
Distribution - operations	787,966	700,695
Distribution - maintenance	755,777	779,668
Administration and general	1,452,827	1,239,466
Depreciation and amortization	672,797	649,780
Consumer accounts	378,995	336,249
Interest	305,739	263,681
Taxes	318,383	323,012
Other	2,056	3,473
Total operating expenses	<u>9,491,369</u>	<u>9,664,081</u>
Net operating margins	<u>393,313</u>	<u>340,534</u>
<b>Nonoperating margins:</b>		
Interest income	26,535	31,183
Patronage capital from other cooperatives	50,096	43,760
Rental income	40,800	40,800
Gain on disposition of plant	1,000	44,314
Total nonoperating margins	<u>118,431</u>	<u>160,057</u>
Net margins	<u>\$ 511,744</u>	<u>\$ 500,591</u>

**Okanogan County Electric Cooperative, Inc. and Subsidiary**  
**Consolidated Statements of Changes in Members' Equity**  
**Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>Memberships:</b>		
Memberships, beginning of year	\$ 17,320	\$ 17,145
Net change in memberships	210	175
Memberships, end of year	<u>17,530</u>	<u>17,320</u>
<b>Patronage capital:</b>		
Patronage capital, beginning of year	6,678,419	6,724,637
Net margins to be allocated	325,665	263,321
Retirement of capital credits	(321,638)	(309,539)
Patronage capital, end of year	<u>6,682,446</u>	<u>6,678,419</u>
<b>Other equities:</b>		
Other equities, beginning of year	3,758,716	3,496,217
Unallocated margins	186,079	237,270
Other changes, net	20,047	25,229
Other equities, end of year	<u>3,964,842</u>	<u>3,758,716</u>
Total members' equity, end of year	<u>\$ 10,664,818</u>	<u>\$ 10,454,455</u>

**Okanogan County Electric Cooperative, Inc. and Subsidiary**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>Cash flows from operating activities:</b>		
Net margins	\$ 511,744	\$ 500,591
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization	818,039	766,409
Gain on disposition of plant	(1,000)	(44,314)
Additions to investments in associated organizations	(50,096)	(43,760)
Changes in:		
Accounts receivable, net	297,450	(228,065)
Materials and supplies inventory	(57,282)	(97,676)
Prepaid expenses	(78,492)	-
Deferred charges	(177,505)	-
Accounts payable and accrued expenses	(102,550)	125,550
Consumer deposits	(3,123)	14,914
Deferred revenue	13,115	404
Deferred credits	(89,220)	(4,296)
Net cash provided by operating activities	<u>1,081,080</u>	<u>989,757</u>
<b>Cash flows from investing activities:</b>		
Additions to utility plant, net	(1,100,182)	(1,510,174)
Proceeds from sale of plant	1,000	48,840
Advances on notes receivable	(175,000)	-
Principal payments received on notes receivable	64,839	111,381
Redemptions of investments in associated organizations	15,747	21,407
Net cash used by investing activities	<u>(1,193,596)</u>	<u>(1,328,546)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings under long-term debt	750,000	820,000
Principal payments on long-term debt	(317,527)	(278,001)
Net borrowings (repayments) on line of credit	(300,000)	300,000
Additions to memberships, net	210	175
Retirement of capital credits	(321,638)	(309,539)
Other changes in members' equity, net	20,047	25,229
Net cash provided (used) by financing activities	<u>(168,908)</u>	<u>557,864</u>
Net increase (decrease) in cash and cash equivalents	(281,424)	219,075
Cash and cash equivalents, beginning of year	<u>879,928</u>	<u>660,853</u>
Cash and cash equivalents, end of year	<u>\$ 598,504</u>	<u>\$ 879,928</u>
<b>Reconciliation of cash and cash equivalents to the Consolidated Balance Sheets:</b>		
Cash and cash equivalents	\$ 519,626	\$ 689,824
Restricted cash and cash equivalents	78,878	190,104
	<u>\$ 598,504</u>	<u>\$ 879,928</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the year for interest	<u>\$ 305,739</u>	<u>\$ 263,681</u>

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

**Okanogan County Electric Cooperative, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2023 and 2022**

**1. Organization**

The consolidated financial statements include the accounts of Okanogan County Electric Cooperative, Inc. (OCEC or the Cooperative), a Washington tax-exempt cooperative corporation, and its wholly-owned, for-profit subsidiary, Okanogan County Energy, Inc. (OCEI, or Propane); collectively, referred to as the Cooperative.

Okanogan County Electric Cooperative, Inc. was incorporated in 1939 under the laws of the State of Washington for the purpose of supplying electric energy to its members. In 2000, the Cooperative began providing propane to its members. Effective January 1, 2003, the Board of Directors approved the transfer of the propane division to a wholly-owned taxable subsidiary, Okanogan County Energy, Inc. Assets and corresponding debt totaling approximately \$1,000,000 were transferred to the new subsidiary.

**2. Summary of Significant Accounting Policies**

Basis of Accounting

The Cooperative follows the Federal Energy Regulatory Commission's *Uniform System of Accounts* prescribed for Class A and Class B Electric Utilities. As a result, the Cooperative's application of accounting principles generally accepted in the United States of America differs in certain respects from such application by non-regulated enterprises. The differences relate primarily to the time at which various items enter into the determination of net margins in order to follow the principle of matching revenues and costs. The Cooperative uses the accrual method of accounting.

Principles of Consolidation

The consolidated financial statements include the accounts of the Cooperative and Propane. All significant intercompany balances and transactions are eliminated in consolidation.

Utility Plant

Utility plant is recorded at cost, which includes contracted work, direct labor and materials, and indirect charges for engineering, supervision and other similar overhead items. Member advances for construction and system access charge payments reduce the amounts capitalized to utility plant. System access charge payments are based on panel size and distance from the substation. Major additions and betterments with a cost of \$1,500 or more for all asset groups are capitalized.

Costs of routine repairs and maintenance that do not improve or extend the useful lives of the related assets, and the replacement and renewal of items determined to be less than units of plant are charged to maintenance as incurred. When units of distribution plant are retired, sold or otherwise disposed of in the ordinary course of business, their average book cost is removed from utility plant and the cost, plus the cost of removal, less net salvage, is removed from accumulated depreciation. When general plant assets are retired, sold or otherwise disposed of in the ordinary course of business, their net book value is removed and the gain or loss, if any, is recognized in the Consolidated Statement of Operations.

Depreciation is recorded on the straight-line composite basis and is charged to capital and operating accounts at rates adopted by the Boards of Directors. Depreciation is computed on additions beginning in the month they are placed in service. Provision has been made for depreciation of distribution plant at a composite rate of 2.86% per annum.

**Okanogan County Electric Cooperative, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements, Continued**  
**December 31, 2023 and 2022**

**2. Summary of Significant Accounting Policies, Continued**

Utility Plant, Continued

The rates used to compute depreciation for general plant, based on an estimation of useful lives for each asset group, are as follows:

Structures and improvements	2.50% to 3.33%
Office furniture and equipment	14.28% to 20.00%
Computer equipment	20.00%
Transportation equipment	14.28% to 20.00%
Tools, shop and garage equipment	14.28% to 20.00%
Miscellaneous equipment	14.28% to 20.00%
Intangibles	20.00%

Overhead costs, including indirect labor, payroll burden, insurance, transportation charges and stores expense, are charged to construction and retirement work orders monthly on a prorated basis. Depreciation on transportation equipment is initially allocated to clearing accounts, and subsequently charged to construction work orders or maintenance expense.

Valuation of Long-Lived Assets

Management of the Cooperative periodically reviews the net carrying value of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. These reviews consider the net realizable value of each asset to determine whether an impairment in value has occurred, and whether there is a need for any asset impairment write-down. Impaired assets are reported at the lower of cost or net realizable value. At December 31, 2023 and 2022, no assets were considered to be impaired.

Investments in Associated Organizations

Capital term certificates are carried at cost. Patronage capital from associated organizations is recorded at the face value of capital credits allocated and not retired. Other investments in associated organizations are carried at cost, which approximates fair value.

Cash and Cash Equivalents

The Cooperative considers all short-term deposits and highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount that management of the Cooperative expects to collect from outstanding balances. Management provides for probable uncollectible amounts through an allowance for doubtful accounts. Additions to the allowance for doubtful accounts are based on management's judgment, considering historical write-offs, review of specific past-due accounts, collections and current credit conditions. Generally, the Cooperative considers accounts receivable past due after 30 days.

**Okanogan County Electric Cooperative, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements, Continued**  
**December 31, 2023 and 2022**

**2. Summary of Significant Accounting Policies, Continued**

Accounts Receivable, Continued

Interest is charged on accounts receivable that are outstanding for more than 30 days and is recognized as it is charged. Interest is charged until the account is paid in full or written off. Balances which remain outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to the applicable accounts receivable. Payments received on receivables subsequent to being written off are considered a bad debt recovery. Changes in the allowance for doubtful accounts have not been material to the financial statements.

Materials and Supplies Inventory

Materials and supplies inventory, which consists primarily of items needed for construction and maintenance of electric plant, and propane and propane tanks, is stated at the lower of average cost or net realizable value. Useable materials salvaged from plant retirements are returned to inventory at current weighted average cost.

Deferred Charges and Deferred Credits

In accordance with ASC Topic 980, *Regulated Operations*, certain costs and income may be capitalized as a regulatory asset or liability that would otherwise be charged to expense or revenues when certain conditions are met. Regulatory assets and liabilities are recorded when it is probable that future rate increases or rate reductions will permit recovery.

Patronage Capital

The Cooperative operates on a nonprofit basis. In accordance with the Cooperative's bylaws, amounts received from furnishing electric energy in excess of operating costs and expenses (operating margins) are assigned to patrons on a patronage basis. Patronage basis is defined as allocating to members on the basis of total power billings to members for furnishing energy and utility services. At the Board's discretion, non-operating margins and margins from its wholly-owned subsidiary are currently retained by the Cooperative.

In addition, upon the death of any natural person member, the Board may retire all or a portion of the deceased member's capital credits early. Distributions for the early retirement of capital credits are discounted to their net present value.

Compensated Absences

Employees of the Cooperative are entitled to paid time off, the amount of which depends on length of service and other factors. Compensated absences for paid time off have been accrued.

Financial Instruments

ASC Topic 825, *Financial Instruments*, permits entities to choose to measure many financial assets and liabilities at fair value. The fair value of a financial instrument is the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants (i.e., an exit price). At December 31, 2023 and 2022, the carrying value of financial instruments, such as receivables, accounts payable and accrued expenses, approximated fair values based on the short-term maturities of these instruments.

**Okanogan County Electric Cooperative, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements, Continued**  
**December 31, 2023 and 2022**

**2. Summary of Significant Accounting Policies, Continued**

Fair Value Measurements

ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy for those assets and liabilities measured at fair value, that distinguishes between assumptions based on market data (observable inputs) and the organization's own assumptions (unobservable inputs). The hierarchy consists of: Level 1 – quoted market prices in active markets for identical instruments; Level 2 – inputs other than Level 1 inputs that are observable; and Level 3 – unobservable inputs developed using estimates and assumptions determined by the organization. ASC Topic 820 defines fair value as the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants. The inputs and methodology used for valuing the Cooperative's financial assets and liabilities are not indicators of the risks associated with those instruments. At December 31, 2023 and 2022, there are no assets or liabilities that are measured at fair value on a recurring basis.

Certain assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). The Cooperative had no assets measured at fair value on a nonrecurring basis during 2023 or 2022.

Clearing Accounts

Overhead costs, including indirect labor, payroll burden, insurance, depreciation, transportation charges and stores expense, are charged to clearing accounts on a monthly basis. The amounts charged to the clearing accounts are cleared each month of substantially all actual expenses. Transportation and equipment charges are allocated directly to construction work orders to the extent that usage relates to construction in progress. Remaining transportation and equipment expense, along with all other amounts charged to the clearing accounts, are allocated based on equipment usage, labor charges or material issuances, depending on the nature of the charge.

Revenue Recognition

The Cooperative records electric revenue billed to its members based on meter readings made at the end of each month. Substantially all of the Cooperative's members' meters were read as of December 31, 2023. Accordingly, management believes that any unbilled revenue would not be material to the financial statements, and therefore has not provided an accrual for unbilled accounts receivable.

Propane's revenue consists primarily of the sale and distribution of propane and propane supplies. The performance obligation is the delivery of the goods to the customer and revenue is recognized at that time. In addition, Propane offers the option to customers of either purchasing or renting their propane tanks. The rental fee is dependent upon the size of the propane tank and is recognized on a monthly basis.

Grants and Contracts

The Cooperative must perform services or meet specific conditions to receive grant and contract funds. When the conditions are met, or the required services have been provided, the government agency is billed and the support is recognized. Generally, there are no significant remaining restrictions associated with the grants or contracts when the support is recognized. However, if there are restrictions, the amount is recorded as deferred revenue in the current liability section of the Balance Sheet.



**Okanogan County Electric Cooperative, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements, Continued**  
**December 31, 2023 and 2022**

**2. Summary of Significant Accounting Policies, Continued**

Grants and Contracts, Continued

At December 31, 2023 and 2022, the Cooperative had no deferred revenue related to grants, but had recorded \$75,150 and \$62,035, respectively, of deferred revenue related to propane tank rental agreements.

Income Taxes

The Cooperative is a tax-exempt organization under the provisions of Section 501(c)(12) of the Internal Revenue Code. Accordingly, no provision for income taxes is recorded in the Cooperative's financial statements. However, the Cooperative is subject to tax on unrelated business income, if any. The Cooperative had no unrelated business income during 2023 and 2022.

The Cooperative's taxable subsidiary files separate corporate tax returns for federal purposes.

The Cooperative has not identified any uncertain income tax positions that would jeopardize its tax-exempt status. The Cooperative's income tax returns are subject to review and examination by federal authorities. With few exceptions, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

Credit Risk

Financial instruments which potentially subject the Cooperative to concentration of credit risk consist principally of cash and cash equivalents and receivables.

The Cooperative maintains its cash and cash equivalents with high credit quality financial institutions and, by policy, generally limits the amount of exposure to any one financial institution. The Cooperative's cash in bank deposit accounts, at times, may exceed federally insured limits. The Cooperative has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Concentrations of credit risk with respect to trade receivables are somewhat limited due to the Cooperative's number of customers. Credit is extended to customers without collateral requirements; however, advance payments are obtained from certain customers and formal shut-off policies and procedures exist.

Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management of the Cooperative to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates and affect the amounts reported in the financial statements.

Reclassifications

Certain amounts from the 2022 consolidated financial statements have been reclassified to conform with the 2023 consolidated financial statement presentation. These reclassifications had no effect on net margins or members' equity as previously reported.

**Okanogan County Electric Cooperative, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements, Continued**  
**December 31, 2023 and 2022**

**2. Summary of Significant Accounting Policies, Continued**

Subsequent Events

The Cooperative has evaluated subsequent events through March 25, 2024, the date as of which these financial statements were available to be issued. No material subsequent events have occurred since December 31, 2023 that required recognition or disclosure in these financial statements.

**3. Utility Plant**

Utility plant is summarized as follows at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Distribution plant	\$ 14,870,486	\$ 13,932,851
General plant	7,554,212	7,421,360
Intangibles	<u>71,000</u>	<u>71,000</u>
Plant in service	22,495,698	21,425,211
Less: Accumulated depreciation	<u>(8,281,067)</u>	<u>(7,784,012)</u>
	14,214,631	13,641,199
Construction in progress	<u>62,720</u>	<u>354,009</u>
	<u>\$ 14,277,351</u>	<u>\$ 13,995,208</u>

Consumer “contribution in aid of construction” payments are offset against the cost of construction in determining the amount to capitalize into utility plant. Consumer contribution payments offset against construction costs totaled \$762,212 and \$660,254 for 2023 and 2022, respectively.

Total depreciation and amortization of utility plant for 2023 and 2022 was \$818,039 and \$766,409, respectively. Depreciation on transportation equipment that was allocated to clearing accounts and subsequently charged to work orders or maintenance expense totaled \$145,242 and \$116,629 in 2023 and 2022, respectively.

**4. Investments in Associated Organizations**

Investments in associated organizations are summarized as follows at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
National Rural Utilities Cooperative Finance Corporation (CFC) – capital term certificates	\$ 147,275	\$ 147,791
CFC – patronage capital	247,004	235,974
Pacific Northwest Generating Cooperative (PNGC) – patronage capital	177,920	158,565
Federated Rural Electric Insurance – patronage capital	28,802	26,213
Southeastern Data Corporation – patronage capital	47,166	47,166
Cooperative Response Center, Inc. (CRC) – patronage capital	3,151	3,151
Other investments in associated organizations	<u>15,391</u>	<u>13,500</u>
	<u>\$ 666,709</u>	<u>\$ 632,360</u>

**Okanogan County Electric Cooperative, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements, Continued**  
**December 31, 2023 and 2022**

**4. Investments in Associated Organizations, Continued**

The capital term certificates with CFC yield 0% to 5% and mature at various times ranging from 2025 through 2080. Patronage capital is returned in accordance with the associated organization's policies.

**5. Cash and Cash Equivalents**

The Cooperative and its subsidiary maintain their cash accounts in local banks. Custodial credit risk is the risk that in the event of a bank failure, the Cooperative's deposits may not be returned to it. The Cooperative's and subsidiary's deposits were insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution at December 31, 2023.

Included in restricted cash and cash equivalents are amounts that are restricted for the revolving loan fund program (see Note 7). In 1998, the Cooperative received a grant of \$204,000 from the United States Department of Agriculture (USDA) to establish a revolving loan fund (RLF) program. During 2010, the Cooperative received another grant from the USDA in the amount of \$200,000 for the RLF program. Amounts that are not loaned, totaling \$78,878 at December 31, 2023, are considered to be restricted cash and cash equivalents.

The combined carrying amount of cash and cash equivalents, including restricted cash and cash equivalents, on the Cooperative's books at December 31, 2023 was \$598,504, and bank balances totaled \$961,029. The differences between the carrying amount of cash and cash equivalents on the Cooperative's books and the bank balances consisted of outstanding checks and deposits not processed by the banks as of December 31, 2023.

A summary of the total insured and uninsured bank balances at December 31, 2023 is as follows:

Total bank balances	\$ 961,029
Portion insured by FDIC	<u>(605,709)</u>
Uninsured bank balances	<u>\$ 355,320</u>

**6. Accounts Receivable**

Accounts receivable are summarized as follows at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Accounts receivable	\$ 1,097,666	\$ 1,394,369
Less allowance for doubtful accounts	<u>(11,035)</u>	<u>(10,288)</u>
	<u>\$ 1,086,631</u>	<u>\$ 1,384,081</u>

**7. Notes Receivable**

Notes receivable are summarized as follows at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Notes receivable, due within one year	\$ 69,611	\$ 55,028
Notes receivable, due after one year	<u>336,312</u>	<u>240,734</u>
	<u>\$ 405,923</u>	<u>\$ 295,762</u>

**Okanogan County Electric Cooperative, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements, Continued**  
**December 31, 2023 and 2022**

**7. Notes Receivable, Continued**

In 1998, the Cooperative received a grant of \$204,000 from the USDA to establish a revolving loan fund (RLF) program. During 2010, the Cooperative received another grant from the USDA in the amount of \$200,000 for the RLF program. In addition to the grants received, the Cooperative has made net contributions totaling \$80,800 to the RLF program since its inception. The purpose of the RLF program is to finance approved rural economic development projects. The repayment terms on the loans vary from four to ten years. Loans made pursuant to the RLF program are noninterest bearing, however a small administration fee is charged.

The USDA grants do not have maturity dates, and the Cooperative is only required to repay the grants if the economic development loan fund program is terminated. Management of the Cooperative does not currently intend to terminate the program within the foreseeable future and therefore has not recorded a liability as of December 31, 2023 and 2022.

All of the economic development loans are in good standing and are current on their payments. As of December 31, 2023 and 2022, the Cooperative has not recorded an allowance for loan losses on their economic development loans.

**8. Long-Term Debt**

Long-term debt of the Cooperative consists of mortgage notes payable to National Rural Utilities Cooperative Finance Corporation (CFC). The CFC notes are secured by substantially all assets of the Cooperative.

Long-term debt is summarized as follows at December 31, 2023:

Mortgage notes payable to CFC, currently due in quarterly installments of approximately \$135,000, including interest at fixed and variable rates, currently ranging from 2.89% to 7.55%, maturing through December 2050	\$ 5,695,232
Less amount due within one year	<u>(348,051)</u>
Amount due after one year	<u>\$ 5,347,181</u>

Scheduled principal payments on long-term debt are as follows:

<u>Year Ending December 31,</u>	
2024	\$ 348,051
2025	366,850
2026	386,760
2027	407,851
2028	386,835
Thereafter	<u>3,798,885</u>
	<u>\$ 5,695,232</u>

**Okanogan County Electric Cooperative, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements, Continued**  
**December 31, 2023 and 2022**

**8. Long-Term Debt, Continued**

Under the provisions of the CFC mortgage agreement, the Cooperative may make patronage distributions only if, after giving effect to the distribution, total members' equity of the Cooperative will be at least 30% of total assets. If, after giving effect to the distribution, total equity of the Cooperative will be less than 30% of its total assets, the Cooperative may only make distributions of up to 25% of the prior year's patronage capital or total margins. During 2023, total refunds of capital to patrons amounted to \$321,638. There were no violations of loan contracts or mortgage restrictions with respect to refunds of capital. The equities and margins of the Cooperative represented approximately 59% and 59% of the total assets of the Cooperative at December 31, 2023 and 2022, respectively. In addition, the CFC mortgage agreement sets forth certain financial requirements that must be met prior to additional borrowings.

The Cooperative has available, through CFC, a credit facility with a borrowing limit of \$8,000,000, which currently extends through May 9, 2024. Cumulative borrowings under this credit facility at December 31, 2023 and 2022 were \$2,705,000 and \$1,955,000, respectively.

**9. Line of Credit**

The Cooperative has an "as-offered" uncommitted line of credit agreement with CFC providing the Cooperative with loans up to \$1,000,000 on a revolving basis. CFC is obligated to consider requests for advances under this agreement but is not required to honor those requests. Interest is payable quarterly at rates established by CFC, which are not to exceed the prime rate as published in the "Money Rates" column of The Wall Street Journal plus 1%, or lesser rates as fixed by CFC. The interest rate as of December 31, 2023 was 7.05%. Outstanding balances on the line were zero and \$300,000 at December 31, 2023 and 2022, respectively.

**10. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses are summarized as follows at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Accounts payable	\$ 801,504	\$ 910,738
Accrued payroll-related liabilities	204,846	182,853
Accrued taxes	<u>25,736</u>	<u>41,045</u>
	<u>\$ 1,032,086</u>	<u>\$ 1,134,636</u>

**11. Deferred Credits**

Deferred credits are summarized as follows at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Customer prepayments on accounts receivable	\$ 62,164	\$ 43,527
Customer advances on aid to construction	<u>173,488</u>	<u>281,345</u>
	<u>\$ 235,652</u>	<u>\$ 324,872</u>

**Okanogan County Electric Cooperative, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements, Continued**  
**December 31, 2023 and 2022**

**12. Retirement and Benefit Plans**

The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) is a defined benefit, multi-employer pension plan qualified under Section 401, and tax-exempt under Section 501(a) of the Internal Revenue Code. 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's contributions to the RS Plan for 2023 and 2022 represented less than 5% of the total contributions made to the plan by all participating employers. Contributions to the Plan for 2023 and 2022 totaled \$12,754, and \$15,762, respectively. There have been no significant changes that affect the comparability of the 2023 and 2022 contributions.

In the RS Plan, a "zone status" determination is not required, and therefore is 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 over 80% funded on both January 1, 2023 and 2022, based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

The Cooperative and Propane also sponsor a 401(k) savings plan for all employees who have met minimum eligibility requirements. The Cooperative's contributions to the 401(k) savings plan totaled \$262,510 and \$219,379 for 2023 and 2022, respectively.

Both plans are administered by the NRECA. A copy of the full annual report can be obtained by writing to the office of the Plan Administrator, National Rural Electric Cooperative Association, 4301 Wilson Boulevard, Arlington, VA 22203.

**13. Commitments and Contingencies**

Power Supply Contracts

During 2008, the Cooperative entered into an agreement with Pacific Northwest Generating Cooperative, Inc. (PNGC) whereby the Cooperative became obligated to purchase all of its power requirements from PNGC through September 2028. PNGC is an electric generation and transmission cooperative owned by 16 northwest electric distribution cooperative utilities, formed to create more buying leverage for its members.

In December 2008, PNGC signed a new 20-year contract with Bonneville Power Administration (BPA). This contract, which became effective October 1, 2011, secured long-term, cost-based power from the Federal Base System. This allowed PNGC to acquire additional resources to meet member cooperatives' future energy needs in the most efficient manner and at the highest level of wholesale rate stability possible.

**Okanogan County Electric Cooperative, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements, Continued**  
**December 31, 2023 and 2022**

**13. Commitments and Contingencies, Continued**

Union Agreement

In July 2011, the Cooperative entered into an agreement with the Local International Brotherhood of Electrical Workers (IBEW) Union #77 covering conditions of employment for outside linemen. During 2023, the agreement was renewed through June 30, 2026, which included wage increases effective July 1, 2023, July 1, 2024 and July 1, 2025.

**14. Related Party Transactions**

Okanogan County Energy, Inc. is a wholly-owned subsidiary of Okanogan County Electric Cooperative, Inc. and was incorporated on January 1, 2003. The Cooperative had an agreement with OCEI to provide office facilities during both 2023 and 2022. OCEI paid total rents, including electricity, of \$24,000 to the Cooperative for both 2023 and 2022. Certain office expenses and labor are also paid by OCEI and are reimbursed back to the Cooperative. At December 31, 2023 and 2022, OCEI owed OCEC zero and \$34,071, respectively, for these reimbursements. These amounts are eliminated in the Consolidated Balance Sheets.

At various times in the past, OCEC has loaned funds to OCEI for the purchase of equipment. In exchange, OCEI has issued notes payable to OCEC. At December 31, 2023 and 2022, OCEI owed OCEC \$433,067 and \$474,165, respectively, under notes payable. These amounts are eliminated in the Consolidated Balance Sheets.

The Board of Directors and its related entities purchase electric power and propane from the Cooperative. None of these related-party transactions is considered material, either individually or in the aggregate.

**15. Broadband Grant**

On May 10, 2023, the Cooperative was notified that it was awarded a grant through the Washington State Broadband Office (WSBO) Broadband Infrastructure Grant program to improve broadband coverage across the state. These grant awards, which are expected to total approximately \$12 million, are a sub-award of the American Rescue Plan Act (ARPA) funding provided to the State of Washington under Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program. Both funding sources come directly from the U.S. Department of the Treasury (US Treasury). The grants must adhere to any and all internal control compliance and reporting requirements for the use and expenditure of federal funding. The grant awards will be reimbursed to the Cooperative as project costs are incurred, in accordance with the terms of the grant. The US Treasury requires all funds be obligated in writing (such as executed contracts with contractor or executed change orders that include increased budgets and subcontractors) by December 31, 2024. All projects must be completed and project costs reimbursed by October 30, 2026.

In addition, the Cooperative is in the process of establishing a wholly-owned subsidiary for the purpose of constructing and operating the broadband infrastructure and related services. Through December 31, 2023, the Cooperative has incurred expenditures of \$177,505 related to this project, and the start-up costs related to establishing the wholly-owned subsidiary. These amounts have been recorded as deferred charges at December 31, 2023 in the Consolidated Balance Sheet.

## **Compliance Reports**



## Independent Auditor's Report on Internal Control

Boards of Directors  
Okanogan County Electric Cooperative, Inc. and Subsidiary  
Winthrop, Washington

In planning and performing our audit of the consolidated financial statements of Okanogan County Electric Cooperative, Inc. and Subsidiary (collectively, the Cooperative) as of and for the year ended December 31, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the Cooperative's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, significant deficiencies or material weaknesses may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider 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 following deficiencies in Okanogan County Electric Cooperative, Inc. and Subsidiary's internal control to be significant deficiencies.

### Closing Procedures

Due in part to the Cooperative's size and limited resources, as well as significant turnover in the finance department, certain closing procedures are not fully formalized and documented, including procedures related to its subsidiary. Management is aware that an effective system of internal control includes periodically reconciling each general ledger account and adjusting the recorded balances as necessary, and is in the process of making the necessary improvements. However, in connection with performing our audit testing, we proposed several audit adjustments to correct account balances, without which the financial statements would not have been fairly presented in all material respects. While improvements have been made, we recommend that closing procedures continue to be further developed, documented and implemented for each general ledger account. The implementation of increased procedures should reduce or eliminate the need for audit adjustments.

## Segregation of Duties

The overall size and experience of the Cooperative's staff is not sufficient to permit a complete segregation of duties for an effective system of internal control over financial reporting. In previous years, we discussed findings related to a lack of segregation of duties for various aspects of the operations. The Cooperative's management and staff continue to implement procedures that have improved their segregation of duties. The implementation of modifications to processes and controls have led to improved segregation of duties, specifically related to their day-to-day operations. However, the Cooperative has a limited number of individuals with sufficient understanding of accounting principles necessary to provide adequate oversight and review of the various financial reporting requirements in accordance with accounting principles generally accepted in the United States of America.

In addition, an effective system of internal control over financial reporting requires that closely related duties be segregated, including duties outside of the day-to-day operations. These additional functions specifically relate to the various reporting requirements in accordance with accounting principles generally accepted in the United States of America; general journal entries; and nonroutine or unusual transactions. In addition, an effective system of internal control over financial reporting requires adequate oversight and review procedures.

Although the Cooperative's staff is not large enough to permit a complete segregation of duties for an effective system of internal control over financial reporting, specifically related to duties outside of the day-to-day operations, we recommend that officials be aware that the condition does exist. In addition, we recommend that month-end, quarter-end and year-end closing procedures, as applicable, continue to be evaluated for potential opportunities to improve segregation of duties, as well as oversight and review procedures. Finally, the Cooperative may consider consulting with external sources who have sufficient knowledge and experience related to the various financial reporting requirements specific to electric cooperatives, for unusual or overly complex accounting issues, as deemed necessary, or to assist in oversight and review procedures of more complex and unusual accounting matters.

This communication is intended solely for the information and use of management, the Boards of Directors, and others within the Cooperative, and lenders, and is not intended to be and should not be used by anyone other than these specified parties.

*DeCoria, Blair & Teague, PS*

DeCoria, Blair & Teague, P.S.  
Spokane, Washington

March 25, 2024

## **Independent Auditor's Report on Loan Fund Expenditures**

Board of Directors  
Okanogan County Electric Cooperative, Inc.  
Winthrop, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Okanogan County Electric Cooperative, Inc. and Subsidiary (collectively, the Cooperative) as of December 31, 2023, and the related consolidated statements of operations, changes in members' equity, and cash flows for the year then ended, and have issued our report thereon dated March 25, 2024.

During the year ended December 31, 2023, the Cooperative received \$750,000 in advances from National Rural Utilities Cooperative Finance Corporation (CFC) pursuant to CFC Loan Number 9015, as controlled by CFC's 100% Restated Mortgage and Security Agreement. In conducting our audit, including testing of construction work orders and other plant accounting records created during the period of audit, nothing came to our attention that caused us to believe that the Cooperative was in noncompliance with the intended purpose of the loan funds, as contemplated in the loan agreement for CFC Loan Number 9015. However, our audit was not primarily directed toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Board of Directors and management of Okanogan County Electric Cooperative, Inc. and National Rural Utilities Cooperative Finance Corporation and should not be used by anyone other than these specified parties.

*DeCoria, Blair & Teague, PS*

DeCoria, Blair & Teague, P.S.  
Spokane, Washington

March 25, 2024

# MEMORANDUM

---



To: OCEC Board of Directors  
From: Greg Mendonca  
Date: April 29, 2024  
Re: Rate Design Education Memo

---

During conversations with the OCEC board after the March board meeting I believe we would benefit from some additional education and background on the possible alternatives for new rate designs we have tried to study. In particular, it would be critical for the entire board to be on the same page when describing what adding a “demand rate” or “demand classification” to the rate classes would do. We’ve pulled together some information below to attempt to get some resources on the page and then add some OCEC-specific context.

Source: [www.pioneerelectric.coop/explaining-pioneer-electrics-proposed-three-part-rate/](http://www.pioneerelectric.coop/explaining-pioneer-electrics-proposed-three-part-rate/)

## **What makes up the three-part rate?**

**Customer Charge:** A fixed charge that covers the operating expense incurred by Pioneer Electric for some of the administrative and infrastructure costs needed to provide energy service to members. It has always been listed on members’ bills and will not change.

**Energy Delivery Charge/Demand Charge:** A charge to appropriately allocate costs to build, maintain or upgrade the infrastructure (power lines, transformers, substation upgrades, etc.) needed to ensure enough energy is delivered to meet members’ needs. The charge is determined by the maximum demand of energy at any point within the billing cycle multiplied by the determined rate for a members’ specific rate class.

**Energy (kWh) Charge:** The cost for the total amount of energy, measured in kilowatt hour (kWh), used within the billing period. It is calculated by taking the total kWh used by the member and multiplying it by Pioneer Electric’s kWh charge for the member. This charge will decrease with the implementation of the three-part rate structure.

## **Three-part rate structure and how power is delivered:**

Pioneer Electric’s goal is to provide energy service safely and affordably to its members. Pioneer Electric is a distribution cooperative that purchases generated power on behalf of its members and then distributes it to homes, farms, and businesses in its service territory. Pioneer Electric is a not-for-profit cooperative, operating at cost to provide service while working to fairly allocate those costs.

The proposed three-part rate separates the Customer Charge (a set charge for providing service), Energy Delivery Charge/Demand Charge (the rate at which a member uses electricity) and Energy (kWh) Charges (cost per kWh of the total electricity used) assigned to a member’s energy service.

These charges are not new and are a part of Pioneer’s current rate structure. Transitioning to a three-part rate gives Pioneer Electric a more accurate representation of the individual costs of providing its members’ energy service and keeps members with a lower demand from having to help offset the cost of those with higher demand.

## **What is demand?**

Demand is the rate at which a person utilizes electricity. Demand increases when many large or power-hungry appliances operate simultaneously. In these instances, Pioneer Electric must have the infrastructure to ensure enough power is available to the members’ home or business to satisfy their current need for immediate

electricity. Pioneer Electric’s system must be built to supply energy at maximum demand for each member. It is important to remember that demand is not the total amount of energy used; it is the rate at which it is being used.

**What can members do to manage their demand?**

The energy needs of members are not the same. The three-part rate is a transparent look at members’ costs and allows them to see the direct impact of their energy habits. For some, convenience may outweigh the desire to reduce demand. However, those looking to reduce their demand may do so by evaluating their current energy habits. Take time to review if power-hungry tasks can be spread or done throughout the day rather than all at once. The goal is to balance and reduce the rate you are using energy to lower demand. Stagger the use of large appliances (dishwashers, laundry machines, clothes dryers, ranges, ovens, etc.) or use delay start or appliance timers to have them run throughout the day. This may potentially reduce your energy costs.

---

**OCEC Background and Context**

*What rate design does OCEC currently use?*

As a reminder our rates are shown in the table below:

<b>Rates as of March 1, 2024</b>			
Rate Class	Service Charge (\$/mo)	kWh Rate (\$/kWh)	Demand Charge (\$/kW)
G1	\$36.30	\$0.0919	N/A
G2	\$56.70	1st 5,000 kWh: \$0.0769, 5,001 kWh and over \$0.0860	N/A
G3	\$68.05	\$0.0559	\$3.70
G4	\$164.50	\$0.0541	\$3.70
Second Meter	\$28.35	\$0.0919	N/A
Irrigation Single Phase	\$52.20	\$0.0562	\$3.70
Irrigation Three Phase	\$67.00	\$0.0562	\$3.70
Idle Service	\$19.50	N/A	N/A

I have highlighted the area that shows we have a mix of two part (customer charge + kWh charge) and three part (customer charge + kWh charge + kW charge). Our two largest revenue classes, G1 and G2, are currently on a two part rate. In 2023 G1 and G2 represented 38% and 41% of revenues, respectively. In 2023 G3 and G4 represented 8% and 9%, respectively. Irrigation is our next largest rate class but only represents 3% of our revenues.

*How does OCEC currently classify non-irrigation members?*

The following is the criteria used to place members into the G1-G4 rate classifications, which can change year-to-year based on usage from the previous year:

- G1 – up to 14,400 kWh/yr maximum (1,200 kWh/mo on average)
- G2 – over 14,400 kWh/yr but below 60,000 kWh/yr (5,000 kWh/mo on average)
- G3 – over 60,000 kWh/yr but below 200,000 kWh/yr (16,666 kWh/mo on average)
- G4 – over 200,000 kWh/yr

*How does OCEC currently measure “demand” for G3 and G4?*

We take the highest kW usage in a 15-minute period in the month by meter. This is also called “non-coincident” because we are not measuring demand for each member based on one particular moment in time, such as OCEC’s system peak or BPA system peak, for example. If we were to measure members’ demand during the OCEC system peak (in hourly energy usage of kWh presumably) that would be an example of “coincident” demand, one where we would measure each members’ contribution to that system value.

*What might we expect for rate design if we implement a demand charge for G1 and G2 similar to G3/G4 (non-coincident)?*

Because any rate design changes we are researching are intended to be revenue neutral at the cooperative level (there will be individual member rate impacts from any rate design changes) you may potentially see the following:

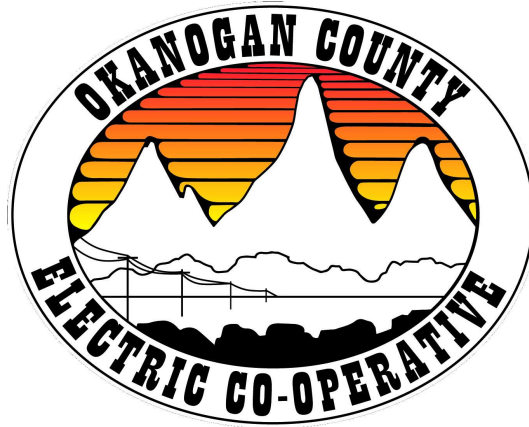
- Reduction in rate of energy usage for G1 and G2
- Members with seasonal/vacation homes potentially seeing higher bills
- Members with net metering solar homes potentially seeing higher bills
- Members in full-time residences without high peak usage potentially seeing lower bills
- Price signals to entire membership showing cost of meeting peak loads

*How would including peak kW usage into rate classification work?*

If we wanted to include some additional thresholds, or replace the energy thresholds, with peak kW values it would look similar to what we have today but we would focus on the measured peak demand as opposed to the annual energy. It would take some work to find the “right” buckets as the cooperative did to establish the current energy thresholds.

*Why would we be interested in this rate design change?*

This could be a rate design change that retains some of the legacy elements of our G1-G4 rate classes but takes the effect of net metered solar into account without an explicit rate class for those members. If a member installs a solar array and the board retains the current net metering program we could still recover the cost of providing peak energy to those members during the winter months where solar provides less value, particularly on cold winter mornings where our price to deliver power to the members is at its highest.



# Rate Design Topics of Focus

---

APRIL 29, 2024





# Ranking of Topics from OCEC Board

---

- 1) Subsidization corrections
- 2) Demand charges to G1 & G2
- 3) Using peak to determinate rate class
- 4) TOU Rate / Net Metered Rate

<b>Topic</b>	<b>AVG</b>
Adding a demand charge to the General Service 1 and/or General Service 2 rate classes	<b>3.50</b>
Using historical peak demand to determine rate class in addition to / instead of using annual energy usage	<b>4.00</b>
Restructuring entire rate design to CFC-based rate classes (i.e. Residential, Commerical, Industrial, etc.)	<b>6.33</b>
Correcting identified subsidization between existing rate classes	<b>3.00</b>
Developing and implementing a new rate class for Net Metered Members (i.e. those with rooftop solar)	<b>4.33</b>
Developing and implementing a new rate class for Level 3 public charging (i.e. Tesla super charging station)	<b>5.67</b>
Developing and imeplementing time of use rates (i.e. one rate for on-peak hours and one rate for off-peak hours)	<b>4.33</b>
Developing and implementing peak day pricing (i.e. rate increases materially during peak usage days)	<b>4.83</b>





# Staff Recommended Next Steps

---

Invite Ray Ellis and Jamie Stark to present on Lincoln Electric's introduction of 3-part rate for residential at May 2024 meeting

Engage CFC to assist with the first 3 prioritized topics (subsidization, demand, peak for classification)

- If we implement a 3-part rate on all classes I think it would solve any issues we'd be trying to address with TOU or Net Meter rate designs

Begin technology assessment for implementing demand rates across G1/G2, bring budget for improvements for 2025

Hold member meetings to provide draft plan, gather feedback, and summarize feedback in final document

Target approved multi-year plan this winter for implementation in 2025