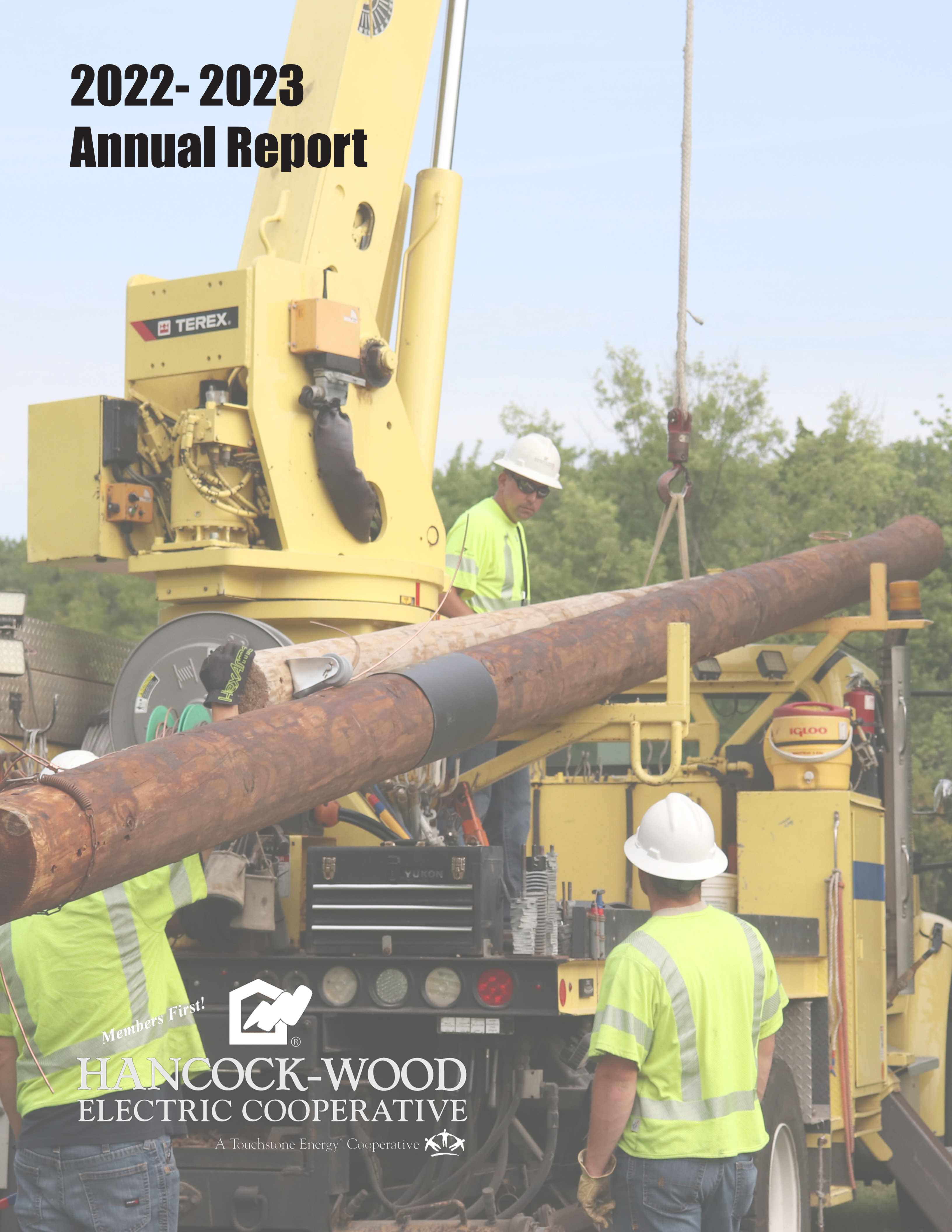
2022- 2023 Annual Report



Members First!

HANCOCK-WOOD ELECTRIC COOPERATIVE

A Touchstone Energy® Cooperative

Hancock-Wood Electric Cooperative

news and recap of 2022 and 2023

along with
The auditors report
consolidated financial
statements and
supplementary information

2022-23 Hancock-Wood Electric Cooperative Board of Trustees

A POWERFUL VALUE FOR 85 YEARS

HISTORY

The countryside was left in the dark in the early 1930s, even though electricity was common in cities across the nation. Most rural residents were farmers who had to pump water by hand, see at night by oil lamps, and heat food and homes with wood or coal stoves. It was a labor-intensive life. Despite farmers' pleas, privately owned power companies would not extend electric service to rural areas because they claimed houses were too far apart and farmers would not use enough electricity to make it profitable.

The Rural Electrification Administration was formed in 1935 to administer a program that would encourage companies to extend power to rural areas by offering low-interest loans. Even with such attractive financing, private companies did not get involved.

Instead, farmers formed cooperatives to do the job themselves. In northwest Ohio, organizers started a drive to get electricity in 1937. Hancock-Wood was founded April 20,1938, and the first lines were electrified in 1939.

Since then, the co-op has grown and membership has become plentiful and diverse. Hancock-Wood Electric Cooperative now spans 1,700 miles of line, serving more than 13,000 members and residential, business and non-profit accounts in 10 counties, including portions of Hancock, Wood, Allen, Erie, Hardin, Henry, Putnam, Sandusky, Seneca and Wyandot counties. Throughout its history, the cooperative has offered reliable, affordable services, supported economic development through infrastructural and community investment, and contributed to local causes within the communities it serves to make a positive impact within the communities it serves.

Hancock-Wood Electric Cooperative, 1399 Business Park Dr. S., P.O. Box 190, North Baltimore, Ohio 45872
Call us at 800-445-4840 • Visit us at hwe.coop • Find us on Facebook and Twitter on our hwe.coop website

EXECUTIVE MESSAGES- watch virtual annual meeting here

Gene Barker
Board Chairman

I am happy to announce Hancock-Wood Electric Cooperative had another successful year and the co-op has made several key accomplishments including:

Reducing the Board Districts and Redistricting

• In 2022, the board began the process of reviewing the upcoming election. In October, the membership voted and approved reducing the board from 10 districts to nine.

Petition Process

• During the annual meeting last June, Hancock-Wood members voted to change how members can participate in running for our board of trustees. The old nomination process was changed to a petition process by the approval of the membership.

• By voting to change this process, the co-op is not required to send out a large mailing each year to ask for nominations and this saves the cooperative thousands of dollars each year.

Strategic Planning Update

• The board of trustees worked to implement key strategic goals for the staff at Hancock-Wood Electric. In March of 2019, the board developed key strategic goals for the cooperative and the final goal was completed in 2023. HWE is scheduled to conduct a new strategic plan summer of 2023.

ACSI

• ACSI is the American Customer Satisfaction Index. We partner with the National Rural Electric Cooperatives to conduct this annual survey and we are happy to share, in 2022 we received a score of 86 from our members.

Patronage Capital

• One of the Cooperative Principles is Members' Economic Participation. Members contribute equitably to, and democratically control, the capital of this cooperative. With that in mind, the Board approved to return over $2.5M in patronage to members in 2022.

Economic Development – Partners Board update

• Through Partners Inc activities, the cooperative was able to secure service territory and provide electric service to a new commercial member, RL Carriers. RL Carriers has committed to 199 job and capital investment of nearly $44 million.

•Northpoint Development in the North Baltimore area, continues to promote the sites by the CSX intermodal. Construction was recently completed for one the cooperative's newest members; UPS and we look forward to continuing to grow our industrial member base in this area.

I want to thank you for allowing me to serve as board chairman and as a trustee representing District 4.

Gene R Barker

Gene Barker
Board Chairman, Hancock-Wood Electric Cooperative

William Barnhart
President and CEO

Your cooperative has faced a challenging past 12 months, due to employee retirements, supply chain issues, and rising costs.
Even with these challenges, your dedicated cooperative employees continued to put members first and worked to provide safe and reliable electric service.

RESAP

- Every three years, Hancock Wood participates in the Rural Electric Safety Achievement Program, or better known as RESAP.
- I'm excited to report that our team performed historically well, and it's apparent our employees model the way for a culture of safety.

Reliability

- Hancock-Wood's primary goal is to deliver the highest possible quality of electric service, safely, and at a fair price.
- In 2022, the average member experienced 1.9 outages and a total of 200 outage minutes for the year.
- Hancock Wood crews responded quickly and safely to address outage issues. Even though our electrical system totals almost 1,587 miles of line and covers ten counties, the average length of an outage was only 103 minutes. Those numbers place us in the top 25% for outage performance among cooperatives in the nation.

Rate Adjustment

- Hancock-Wood prides itself on being a non-profit, member-owned electric utility, providing electric service at cost, while generating just enough margin to return patronage to our members and replace the electric plant for reliability. Unfortunately, rising material costs have forced the cooperative to make a distribution rate adjustment beginning in June 2023.
- The results of our third-party cost of service study calculated the need for a $6 increase in the monthly service charge for each residential member.
- Your cooperative, under the leadership of your elected trustees, has been able to keep distribution rates flat since 2018, even though rates for electrical generation and transmission increased annually.
- The study also recommended transitioning our standard residential rate to a time-of-day structure, which will more accurately reflect generation and transmission costs during peak periods of the day. Please visit our website for more information on the rate adjustment and the new time-of-day rate schedule.

We strive every day to serve our members by keeping the lights on and rates affordable for our membership.

William Barnhart

William Barnhart
President and CEO, Hancock-Wood Electric Cooperative


TEREX
COMMANDER

Hancock-Wood Member Benefits

Rebates

Our programs provide **money back to members** who install energy-efficient appliances, use resource-saving features and participate in demand-reduction programs. Combined, these programs gave members

$61,641

back in 2022.

Money Back to members

Capital credits are a portion of the revenue after expenses – **money credited back to you** in proportion to your electricity use. Typically, this credit is applied to your December bill. In 2022,

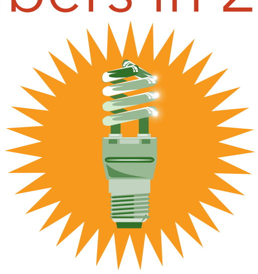
$2.5M
was given back.

Energy Efficiency Programs

Energy audits and blower door tests are free and business rebate programs such as LED lighting were upgraded, resulting in more than

$31,000

in energy savings for members in 2022.



ACSI Score:

In 2022 we received an 86 in customer satisfaction.

HANCOCK-WOOD COMMUNITY TRUST FUND
Operation Round Up - Powering Community Change

Operation Round Up has given back more than

$67,343

in 2022 to local nonprofit organizations.

OURSOLAR

The OurSolar community array has produced over

3,952,754 kWh

of electricity since being installed in October 2016.


2015
10-07
25
47


HANCOCK-WOOD
ENERGY
SERVICE
RELIABILITY

Members First!

HANCOCK-WOOD ELECTRIC COOPERATIVE

A Touchstone Energy® Cooperative

Hancock-Wood Electric Cooperative, 1399 Business Park Dr. S., P.O. Box 190,
North Baltimore, Ohio 45872

Call us at 800-445-4840 • Visit us at www.hwe.coop • Find us on Facebook and Twitter

Hancock-Wood Electric Cooperative is just that - a cooperative organization. Our partners help us to provide services in a more effective and efficient manner. Because of this, we thank the following industry leaders that help shape the words "electric cooperative" into an entity you can trust.

National Rural Electric Cooperative Association
Touchstone Energy Cooperatives
Ohio's Electric Cooperatives
Cooperative Action Network
Youth Tour
CoBank (a cooperative lending institution)

NRECA A Touchstone Energy® Cooperative

Touchstone Energy® The power of human connections

OHIO'S ELECTRIC COOPERATIVES Your Touchstone Energy® Cooperatives

VCP Voices for Cooperative Power United for Stronger Communities

YOUTH TOUR

COBANK™ COOPERATIVE. CONNECTED. COMMITTED.

Hancock-Wood Electric Cooperative, Inc.
and Subsidiary

Consolidated Financial Statements
with
Additional Information

Years Ended March 31, 2023 and 2022

HANCOCK-WOOD ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

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CPAS ▲ ADVISORS

Independent Auditor's Report

To the Board of Directors
of Hancock-Wood Electric Cooperative, Inc. and Subsidiary

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Hancock-Wood Electric Cooperative, Inc. and Subsidiary, which comprise the consolidated balance sheets as of March 31, 2023 and 2022, and the related consolidated statements of revenue, consolidated statements of changes in member's equity, and consolidated statements of cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Hancock-Wood Electric Cooperative, Inc. and Subsidiary as of March 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 Hancock-Wood 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 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 Hancock-Wood Electric Cooperative, Inc. and Subsidiary's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 GAAS, 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 Hancock-Wood 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 financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hancock-Wood 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.

Supplementary Information

We were engaged for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information provided on pages 23-28 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management. The information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated May 23, 2023 on our consideration of Hancock-Wood Electric Cooperative, Inc. and Subsidiary's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

LWG CPAs & Advisors

LWG CPAs & Advisors
Indianapolis, Indiana
May 23, 2023

HANCOCK-WOOD ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
March 31, 2023 and 2022

	2023	2022
ASSETS		
UTILITY PLANT IN SERVICE, NET	$ 105,924,221	$ 104,275,334
INVESTMENTS	22,087,930	22,117,512
DEFERRED ASSETS	224,727	339,712
GOODWILL	731,892	731,892
CURRENT ASSETS		
Cash and cash equivalents	4,880,185	3,085,959
Accounts receivable, consumer, less allowance for doubtful accounts of $191,904 for 2023 and $213,215 for 2022	4,050,419	4,080,951
Materials and supplies	1,468,897	1,671,043
Prepaid expenses	3,075,783	386,295
TOTAL CURRENT ASSETS	13,475,284	9,224,248
TOTAL ASSETS	$ 142,444,054	$ 136,688,698
MEMBERS' EQUITY AND LIABILITIES		
LONG-TERM DEBT, less current portion	$ 51,636,966	$ 48,881,131
FINANCE LEASE OBLIGATIONS, less current portion	285,511	395,020
RETIREMENT BENEFITS OTHER THAN PENSIONS	2,118,813	2,890,716
DEFERRED TAX OBLIGATONS	224,128	179,541
MEMBERS' EQUITY		
Patronage capital/retained earnings	79,551,772	76,360,728
TOTAL MEMBERS' EQUITY	79,551,772	76,360,728
CURRENT LIABILITIES		
Accounts payable	3,189,457	2,791,916
Accrued expenses	722,936	559,573
Customer prepaid liabilities	479,097	324,521
Current portion of long-term debt	2,376,793	2,539,523
Current portion of finance lease obligations	112,596	131,379
Accrued taxes	1,525,140	1,415,474
Customer deposits	220,845	219,176
TOTAL CURRENT LIABILITIES	8,626,864	7,981,562
TOTAL MEMBERS' EQUITY AND LIABILITIES	$ 142,444,054	$ 136,688,698

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF REVENUE
Years Ended March 31, 2023 and 2022

	Amount		Percent	
	2023	2022	2023	2022
OPERATING REVENUES	$ 55,190,559	$ 54,459,932	100.0	100.0
OPERATING EXPENSES				
Purchased power/cost of sales	33,682,349	32,945,885	61.0	60.5
Operations	2,615,400	2,461,105	4.7	4.5
Maintenance	1,765,043	1,414,404	3.2	2.6
Customer account expense	504,141	484,498	0.9	0.9
Administrative and general expense	5,728,834	5,802,708	10.4	10.7
Depreciation	4,238,946	4,366,270	7.7	8.0
Taxes other than income taxes	1,489,422	1,475,267	2.7	2.8
Income taxes				
Deferred	67,195	(63,810)	0.1	(0.1)
Currently payable	-	-	-	-
TOTAL OPERATING EXPENSES	50,091,330	48,886,327	90.7	89.9
OPERATING MARGINS BEFORE OTHER ITEMS	5,099,229	5,573,605	9.3	10.1
OTHER OPERATING ITEMS, NET				
Patronage revenue	1,629,953	1,335,323	2.9	2.5
Interest expense	(1,984,803)	(1,964,086)	(3.6)	(3.6)
TOTAL OTHER OPERATING ITEMS, NET	(354,850)	(628,763)	(0.7)	(1.1)
OPERATING MARGINS	4,744,379	4,944,842	8.6	9.0
NON-OPERATING ITEMS, NET				
Gain (loss) on disposition and exchange of property and equipment	21,407	96,158	-	0.2
Interest and dividend revenue	100,853	43,073	0.2	0.1
All other, net	(42,905)	138,007	(0.1)	0.3
TOTAL NON-OPERATING ITEMS, NET	79,355	277,238	0.1	0.6
NET MARGINS	$ 4,823,734	$ 5,222,080	8.7	9.6

The accompanying notes are an integral part of these statements.

HANCOCK-WOOD ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended March 31, 2023 and 2022

	Amount		Percent	
	2023	2022	2023	2022
NET MARGINS	$ 4,823,734	$ 5,222,080	8.7	9.6
OTHER COMPREHENSIVE INCOME				
Unrealized gain (loss) on postretirement benefit obligation	711,610	143,854	1.3	0.3
COMPREHENSIVE INCOME	$ 5,535,344	$ 5,365,934	10.0	9.9

The accompanying notes are an integral part of these statements.

HANCOCK-WOOD ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Years Ended March 31, 2023 and 2022

	Total	Patronage Capital Assigned	Patronage Capital Assignable	Donated Capital	Unallocated Margins	Accumulated Other Comprehensive Income	Retained Earnings
BALANCE, March 31, 2021	$ 73,354,426	$ 74,341,931	$ (7,416,588)	$ 1,741,302	$ 2,066,622	$ (833,081)	$ 3,454,240
Net margins	5,222,080	-	5,353,840	-	-	-	(131,760)
Transfers at 12/31/2021	-	3,184,777	(2,586,399)	-	(598,378)	-	-
General retirement of capital credits	(2,332,448)	(2,317,446)	-	-	-	-	(15,002)
Estates	(230,674)	(340,312)	-	109,638	-	-	-
Voided capital credit	203,490	-	192,990	10,500	-	-	-
Unrecognized postretirement benefit cost	143,854	-	-	-	-	143,854	-
BALANCE, March 31, 2022	$ 76,360,728	$ 74,868,950	$ (4,456,157)	$ 1,861,440	$ 1,468,244	$ (689,227)	$ 3,307,478
Net margins	4,823,734	-	4,672,507	-	-	-	151,227
Transfers at 12/31/2022	-	3,786,405	(3,265,180)	-	(521,225)	-	-
Retirement of capital credits/dividends	(2,371,991)	(2,360,459)	-	-	-	-	(11,532)
Estates	(213,158)	(328,282)	-	115,124	-	-	-
Voided capital credits	240,849	-	240,849	-	-	-	-
Unrecognized postretirement benefit cost	711,610	-	-	-	-	711,610	-
BALANCE, March 31, 2023	$ 79,551,772	$ 75,966,614	$ (2,807,981)	$ 1,976,564	$ 947,019	$ 22,383	$ 3,447,173

The accompanying notes are an integral part of these statements.

HANCOCK-WOOD ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended March 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from consumers	$ 55,198,483	$ 54,122,910
Cash paid to suppliers and vendors	(47,362,180)	(45,208,607)
Interest and dividends received	100,853	42,201
Interest paid	(1,984,803)	(1,964,086)
All other, net	(42,905)	(18,855)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	5,909,448	6,973,563
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of utility plant in service, net	(6,042,585)	(5,613,659)
Proceeds from sale of utility plant in service	176,159	-
Purchase of deferred assets	(28,844)	(56,409)
Proceeds from sale/redemption of investments	1,659,535	1,700,513
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(4,235,735)	(3,969,555)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on borrowings	(2,006,895)	(2,216,774)
Borrowings of long-term funds	4,600,000	5,000,000
Borrowings on line of credit	-	(2,300,000)
Borrowings on capital lease obligations	-	315,875
Repayments on capital lease obligations	(128,292)	(197,728)
Retirement of capital credits/dividends	(2,344,300)	(2,359,632)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	120,513	(1,758,259)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,794,226	1,245,749
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,085,959	1,840,210
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,880,185	$ 3,085,959

The accompanying notes are an integral part of these statements.

HANCOCK-WOOD ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended March 31, 2023 and 2022

	2023	2022
RECONCILIATION OF NET MARGINS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Net margins	$ 4,823,734	$ 5,222,080
Non-cash items		
Depreciation	4,238,946	4,366,270
Amortization	143,829	153,788
Patronage revenue / non-cash revenue	(1,629,953)	(1,335,323)
(Gain) loss on sale or exchange of property and equipment	(21,407)	(96,158)
K-1 investment income	-	(21,034)
PPP loan forgiveness	-	(136,700)
Deferred tax benefit	67,195	(63,810)
Decrease (increase) in assets		
Accounts receivable, consumer	7,924	(337,022)
Materials and supplies	202,146	(798,043)
Prepaid expenses	(2,689,488)	(37,774)
Increase (decrease) in liabilities		
Accounts payable	397,541	126,434
Deferred credits	-	-
Customer deposits	1,669	(1,643)
Customer prepaid liabilities	154,576	78,963
Post retirement expense	(60,293)	33,331
Accrued expenses	273,029	(179,796)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 5,909,448	$ 6,973,563

The accompanying notes are an integral part of these statements.

1. Summary of significant accounting policies

The significant accounting policies followed by Hancock-Wood Electric Cooperative, Inc. and Subsidiary are summarized below.

Principles of consolidation – The accompanying consolidated financial statements reflect the consolidated accounts of the Hancock-Wood Electric Cooperative, Inc. and Subsidiary (the "Cooperative" or "HWE") and its wholly-owned subsidiary, Prism Solutions, Inc. ("Solutions"), collectively the "Company". Solutions wholly owns Prism Propane Services of Ohio, LLC ("Propane"). All significant intercompany transactions have been eliminated.

Nature of operations – HWE is a not-for-profit rural electric membership cooperative, engaged principally in the distribution and sale of electricity in Hancock, Wood and nine surrounding counties in Northwest Ohio. The Subsidiary is a for-profit corporation engaged in the distribution of propane gas and related products.

Accounting records – HWE maintains its books and records in accordance with policies prescribed or permitted by the United States Department of Agriculture Rural Utilities Services (RUS). The applicable uniform system of accounts prescribed by these regulatory bodies conform in all material respects with accounting principles generally accepted in the United States of America (GAAP) as applied to rate regulated utilities.

Use of estimates – The preparation of these consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. These estimates include, but are not limited to, allowance for doubtful accounts, long-lived asset impairment, unbilled revenue, the effects of regulation, and long-lived asset recovery. The estimates and assumptions used are based on management's evaluation of the relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could ultimately differ from those estimates.

Utility plant – Distribution plant is stated at original cost. Such cost includes materials and supplies, direct and indirect labor, allocable overhead, and asset retirement costs. Upon the partial sale or retirement of distribution plant assets, the original asset cost and current disposal costs less sales proceeds, if any, are charged or credited to accumulated depreciation. In accordance with industry practice, no profit or loss is recognized in connection with normal sales and retirements of property units. General plant is stated at fair market value at acquisition plus the original cost of property acquired or constructed since the acquisition, less disposals. Additions, major replacements and betterments are added to the plant accounts. Maintenance and repair costs are charged to expense as incurred. Both distribution and general plant do not include capitalized interest during construction. Although the capitalization of interest during construction is GAAP, the effect on the consolidated financial statements is immaterial.

1. Summary of significant accounting policies (continued)

Depreciation – Depreciation is recorded on the composite basis for distribution plant and the unit basis for general plant, and is charged to capital and operating accounts at rates adopted by the Board of Directors. HWE's straight-line depreciation rates are as follows: distribution plant, 2.7 - 3.2%; transmission plant, 2.75%; structures and improvements, 2.0 - 20.0%; transportation equipment, 12.5 - 14.28%; office furniture and fixtures, 6.66 - 33.33%; and other general plant, 3.6 – 6.0%.

Goodwill – In 1998, the acquisition of a 50% interest in Propane resulted in the recognition of goodwill in the amount of $731,892. An annual assessment for impairments is performed as of the balance sheet dates. Based on this analysis, management determined that goodwill was not impaired as March 31, 2023 and 2022.

Cash and cash equivalents – HWE considers all short-term deposits and highly liquid investments with an original maturity date of three months or less to be cash and cash equivalents. Cash and cash equivalents consist of demand deposits and money market funds. At times such investments may be in excess of the FDIC insurance limits.

Accounts receivable customer – Customer accounts receivable include receivables from the sales to its electric and propane customers. Credit is extended based on evaluation of a customer's financial condition; sometimes a deposit is required based on these evaluations. Accounts receivable are due within 30 days and are stated net of an allowance for doubtful accounts. Accounts that are outstanding longer than the contractual payment terms are considered past due. Interest is not charged on delinquent account balances. Management determines its allowance by considering a number of factors, including previous loss history, the customer's current ability to pay its obligation and the condition of the general economy and industry as a whole. The Company writes-off accounts receivable when they become uncollectible, and payments are subsequently received on such receivables are credited to the allowance of doubtful accounts.

Investments in associated organizations – Investments in associated organizations are carried at cost plus the share of patronage capital credits allocated, reduced by distributions received.

Materials and supplies – Materials and supplies include items used in the distribution of energy to consumers and propane gas inventories. They are carried at average cost.

Deferred charges – Deferred charges represent costs incurred, which are chargeable to future periods. These costs are amortized to operations by the straight-line method over the period of benefit. See Note 7 for further information.

Patronage capital – HWE is operated on a cooperative not-for-profit basis for the mutual benefit of its members. Accordingly, annual operating revenues, in excess of the cost of providing service, are allocated in the form of capital credits to the member's capital accounts on the basis on patronage.

1. Summary of significant accounting policies (continued)

Revenue recognition – HWE has adopted Accounting Standards Codification Topic 606, Revenue from Contracts with Customers ("Contract Revenue"). Under Contract Revenue, a performance obligation is a promise within a contract to transfer a distinct good or service, or a series of distinct goods and services, to a customer. Revenue is recognized when performance obligations are satisfied and the customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which the HWE and subsidiary expects to be entitled to receive in exchange for goods or services. The adoption of the Contract Revenue standard did not result in any prior period adjustments. See Note 12 for further information on Contract Revenue

Taxes on revenue producing transactions – It is the Company's policy to show revenues as net income on the Consolidated Statements of Revenue after sales tax payments to government entities.

Income taxes – HWE operates as a not-for-profit organization as provided for in Section 501(c)(12) of the Internal Revenue Code, and therefore, is exempt from income taxes. Solutions is a for profit corporation and as such, files a Form 1120 corporate income tax return annually. As such, a provision has been made for deferred income taxes for Solutions. See Note 11 for further information on income taxes.

Accounting for uncertain tax positions – The Company follows "Accounting for Uncertainty in Income Taxes." The generally accepted accounting principal provides detailed guidance for the consolidated financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements. The accounting principal requires an entity to recognize the consolidated financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The adoption of this accounting principal does not have a material effect on its financial position, results of operations or cash flows as the Company does not believe they are taking any uncertain tax positions.

Advertising – Advertising costs are expensed when incurred and were $14,589 and $29,849 for 2023 and 2022, respectively

Subsequent events – Subsequent events have been evaluated through the date of the Independent Auditor's Report, the date of which the consolidated financial statements were available for distribution.

2. Utility plant in service, net

Utility plant in service consists of the following:

	2023	2022
Cost		
General plant	$ 22,752,707	$ 22,116,547
Transmission plant	414,062	414,062
Distribution plant	108,294,954	104,606,730
Propane property and equipment	9,386,807	9,299,677
Construction in progress	2,104,128	1,715,996
Total cost	142,952,658	138,153,012
Accumulated depreciation	37,028,437	33,877,678
UTILITY PLANT IN SERVICE, NET	$ 105,924,221	$ 104,275,334

The aggregate depreciation charged to operations was $4,238,946 for 2023 and $4,366,270 for 2022. The depreciation policies followed by the Company are described in Note 1.

Utility plant in service is pledged to secure long-term debt as described in Note 5.

3. Investments in associated organizations

Investments in associated organizations consist of the following:

	2023	2022
Patronage capital		
Buckeye Power, Inc.	$ 19,938,809	$ 20,008,940
National Rural Utilities Cooperative Finance Corporation (CFC)	242,668	248,947
Rural Electric Supply Cooperative	132,623	125,720
CoBank	617,741	583,040
Federated Rural Electric Insurance Exchange	260,967	251,684
Capital term certificates issued by CFC	629,977	630,548
All other	265,145	268,633
TOTAL INVESTMENTS	$ 22,087,930	$ 22,117,512

The accounting policies for recognition of patronage revenue are described in Note 1.

Investments are pledged to secure long-term debt as described in Note 5.

4. Fair value measurement

The Company follows generally accepting accounting principles relating to accounting for fair value measurements and disclosures. These principles define fair value, establish a framework for measuring fair value and expand disclosures on fair value measurements. Disclosure is required surrounding the various inputs that are used in determining the fair value of the Company's investments. These inputs are summarized into three broad levels listed below.

Level 1 - quoted prices in active markets for identical securities

Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risks, etc.)

Level 3 - significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments.)

Investments in other entities are unsecured and measured using level 3 inputs. Factors such as historical and project financial results economic conditions, financial conditions of investee, and other factors and events subject to change are considered in the determination of fair value. Because of the inherent uncertainty in level 3 inputs, the values of assets required to be valued in this manner are subject to a higher degree of uncertainty and variability.

Investments held at March 31, 2023 and 2022, valued at $22,087,930 and $22,117,512, respectively, are valued with level 3 inputs, due to the nature of the investment (investments in other cooperatives/associations). No gains or losses have been recognized for the period on the level 3 investments. Increases resulting from patronage totaled $1,629,953 and $1,335,323 for the years ended March 31, 2023 and 2022, respectively. Increases resulting from additional purchases totaled $0 and $21,034 for the years ended March 31, 2023 and 2022, respectively. Redemptions of level 3 investments totaled $1,659,535 and $1,700,513 for the years ended March 31, 2023 and 2022, respectively.

5. Long-term debt

Long-term debt consists of the following:

	2023	2022
1.753% - 5.22% notes, payable to RUS in quarterly installments of approximately $600,000, including interest, with final maturities ranging from 2036 to 2052. Secured by all assets.	$ 36,690,182	$ 32,648,621
2.99% - 6.30% notes, payable to CoBank in quarterly and monthly installments of approximately $46,000 and $150,000, including interest, with final maturities ranging from 2023 to 2039. Secured by all assets.	16,975,003	18,372,494
6.60% note, payable to CFC in quarterly installments of approximately $19,000, including interest, with final maturity in 2029. Secured by all assets.	348,574	399,539
Total long-term debt	54,013,759	51,420,654
Less current portion	2,376,793	2,539,523
LONG-TERM DEBT, less current portion	$ 51,636,966	$ 48,881,131

The future maturities of long-term debt are as follows:

2022	$ 2,376,793
2023	2,168,353
2024	2,251,088
2025	1,947,700
2026	1,738,586
Thereafter	43,531,239

Unadvanced long-term loan fund are available to HWE from RUS in the amount of $20,460,000.

In May 2020, Propane received loan proceeds in the amount of $136,700 under the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The loan was subject to a note dated May 4, 2020. Propane applied for and was notified on April 7, 2021 that $136,700 in eligible expenditures for payroll and other expenses described in the CARES Act has been forgiven.

HWE maintains a perpetual line of credit with CFC in the amount of $3,850,000 bearing an interest rate of 6.50% and 2.45% at March 31, 2023 and 2022, respectively. There was no outstanding balance at March 31, 2023 and 2022. HWE also has a line of credit with CoBank with a maximum borrowing capacity of $8,000,000.

5. Long-term debt (continued)

HWE also has a line of credit with CoBank with a maximum borrowing capacity of $8,000,000. The outstanding balance was $0 and $0 at March 31, 2023 and 2022, respectively. The interest rate was 6.814% and 2.78% at March 31, 2023 and 2022, respectively. The CoBank line of credit matures on January 31, 2024.

Propane has a line of credit with CoBank up to $1,700,000. The interest rate as of March 31, 2023 and 2022 was 6.814% and 2.78%, respectively. The line of credit expires on January 31, 2024. The balance was $0 at both March 31, 2023 and 2022.

6. Finance lease obligations

HWE and Propane has leased certain equipment with CoBank. During the year ended March 31, 2022, these leases were accounted for as capital leases. During the year ended March 31, 2023, HWE and Propane adopted Accounting Standards Update No. 2016-02, Leases (Topic 842) to account for these transactions as finance leases using the cumulative effect which did not result in a prior period adjustment. These leases have an original term ranging from 60 months to 84 months.

Total cost of the equipment financed was approximately $838,312 and $1,029,532 as of March 31, 2023 and 2022, respectively. Accumulated depreciation was $514,473 and $434,245 as of March 31, 2023 and 2022, respectively. Finance leases are included in utility plant in service, net, on the balance sheet. The components of lease expense are as follows:

		2023
Finance lease cost		
Amortization of right-of-use assets	$	145,474
Interest on lease liabilities		11,826
Total finance lease cost	$	157,300

Supplemental cash flow information related to leases is as follows:

		2023
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	$	11,826
Financing cash flows from finance leases		128,292

The weighted average remaining lease term is 3 years. The weighted average discount rate is 2.6%.

6. Finance lease obligations (continued)

The future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of March 31, 2023 are as follows:

Year Ended March 31,		
2024	$	112,164
2025		107,045
2026		79,134
2027		74,687
2028		46,001
Thereafter		3,662
Total future minimum lease payments		422,693
Less amounts representing interest		24,586
Present value of net minimum lease payments		398,107
Less current portion of capital lease obligations		112,596
Long-term capital lease obligations	$	285,511

7. Deferred charges and credits

The following is a summary of deferred charges and credits as of March 31:

		2023		2022
Prepaid pension	$	2,616	$	125,100
Work plan and system studies		222,111		214,612
TOTAL DEFERRED CHARGES	$	224,727	$	339,712

The prepaid pension is being amortized over ten years on the straight-line method. Work plan and system studies are being amortized over the life of the plan, from four years to ten years. Deferred charges are amortized to operations.

8. Retirement plans

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.

8. Retirement plans (continued)

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.

HWE and Propane 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. HWE and Propane made contributions to the plan of approximately $805,100 in 2023 and $737,000 in 2022.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the Retirement Security Plan was 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.

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participants in the RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a company's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a company's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, for most companies the billing rate is reduced approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. However changes in interest rates, asset returns and other plan experience different from expected, plan assumption changes and other factors may have an impact on the differential in billing rates and the 15 year period.

In addition, HWE also participates in the NRECA 401(k) plan, a multi-employer defined contribution plan. All employees who have been employed in excess of one full month are eligible to participate in the contributory plan. HWE makes matching contributions up to 5% for all eligible employees hired prior to June 1, 2007 after six full months of employment. HWE also makes matching contributions up to 6% for all eligible employees hired on or after June 1, 2007. HWE's contribution expense was $205,415 and $173,079 for 2023 and 2022, respectively.

9. Postretirement benefits other than pensions

HWE sponsors an unfunded defined benefit postretirement medical insurance plan, which covers substantially all employees retiring from HWE who were hired prior to January 1, 2004. The accounting for the health care plan anticipates future cost-sharing equal to 30% of the premium cost paid by the employee. A study was last prepared as of March 31, 2023.

The accumulated postretirement benefit obligation was $2,118,813 and $2,890,716 at March 31, 2023 and 2022. The accumulated other comprehensive income was $22,383 and ($689,227) at March 31, 2023 and 2022. The accrued benefit cost of $2,141,196 and $2,201,489 as of March 31, 2023 and 2022. The plan assets were $0 for 2023 and 2022. The following table details the net periodic benefit cost for 2023 and 2022.

	2023	2022
Service cost	$ 48,791	$ 81,497
Interest cost	94,277	100,124
Net prior service cost amortization	(121,100)	(121,100)
Net loss / (gain) amortization	42,628	113,353
Net periodic benefit cost	$ 64,596	$ 173,874

Amounts recognized in the current period as comprehensive income include the following:

	2023	2022
Net actuarial gain / (loss)	$ 790,082	$ 151,601
Amortization of gain / (loss)	42,628	113,353
Prior service amortization	(121,100)	(121,100)
Net periodic benefit cost	$ 711,610	$ 143,854

Amounts recognized in accumulated other comprehensive income include the following:

	2023	2022
Net actuarial loss / (gain)	$ 313,317	$ 1,146,027
Net prior service cost / (credit	(335,700)	(456,800)
Net periodic benefit cost	$ (22,383)	$ 689,227

9. Postretirement benefits other than pensions (continued)

The estimated net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost of the next year is $9,418. The estimated prior service cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next year is ($121,100).

The study used a weighted average discount rate of 5.30% at March 31, 2023 and 4.00% at March 31, 2022. For measurement purposes, a 6.63% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2023. The rate was assumed to gradually decrease to 5.00% in the year 2029 and remain at that level thereafter.

The following benefit payments, which reflect expected future service, are expected to be paid to the plan participants: 2024 - $125,976; 2025 - $135,312; 2026 - $113,837; 2027 - $130,187; 2028 - $125,025; 2029-2033 - $607,067.

Mortality rates used in the study were: Healthy - Pri-2012 (headcount-weighted) tables, projected generationally with Scale MP-2021 and Disabled – Pri-2012 disabled annuitant tables, projected generationally with Scale MP-2021.

10. Commitments

At times, Propane may enter into various propane supply agreements requiring purchase of specified quantities of propane. At March 31, 2023, Propane had three contracts to purchase propane, which require the purchase of 750,000 gallons of propane at prices ranging from $0.8625 per gallon to $0.79 per gallon. These contracts also required a deposit of $0.05 to $0.10 per gallon to be purchased, which Propane recorded as a prepaid asset in the balance sheet.

HWE is committed to purchase its electric power and energy requirements from Buckeye Power, Inc. under a wholesale power supply contract expiring in year 2057. The rates paid for such purchases are subject to review annually.

11. Income taxes

Solutions operates as a for profit corporation. The net deferred tax liabilities recorded at March 31, 2023 and 2022 are comprised of temporary timing differences resulting from differences between book and tax depreciation and the allowance for doubtful accounts.

The deferred tax assets (liabilities) are as follows at March 31:

		2023	2022
Property and equipment	$	(249,804) $	(321,601)
Net operating loss carryforward		8,996	133,321
Allowance for doubtful accounts		16,680	8,739
DEFERRED TAX LIABILITY	$	(224,128) $	(179,541)

HWE and Solutions have open tax years for 2022, 2021, and 2020 for income tax filings. No interest or penalties related to income tax are included in these financial statements.

12. Concentrations of credit risks

HWE provides electric service in portions of 10 northwest Ohio counties with its customers representing residents and local businesses. A deposit is required before services are rendered for potential members with inadequate credit ratings, and for existing customers if disconnection occurs. Such deposits are applied to any amounts owed to the Cooperative in the event of non-payment.

Developers and certain potential customers are required to deposit the estimated construction cost to serve locations when there is no guarantee of immediate electric revenue from the areas served. All or part of the amount deposited is returned when there is new electric revenue from the area served.

13. Specialized labor concentration

HWE employes 43 people full time, of which 27 are represented under union contract. The current contract expires on February 28, 2026.

14. Revenue recognition

Customer payments for contracts are generally due within 30 days of billing and none of the contracts with customers have payment terms that exceed one year; therefore, the Company has elected to apply the significant financing component practical expedient and no amount of consideration has been allocated as a financing component.

Nature of products and services

Revenue for HWE is generated primarily from electric services delivered to customers. These contracts contain a single performance obligation, the delivery of electricity, as the

14. Revenue recognition (continued)

promise to transfer the individual good or service is not separately identifiable from other promises within the contracts and, therefore, is not distinct. Revenues are recognized over time, as services are provided. There are generally no significant financing components or variable consideration.

Propane earns revenues primarily through the sale of propane to residential and commercial customers and propane cylinders used in industrial applications. Additionally, Propane earns revenue through ancillary activities including line locating, maintenance charges, part sales, and similar services. Revenues are recognized at a point-in-time based on management's best depiction of when title, ownership and risk of loss pass to the customer. For propane and propane cylinder sales this generally occurs upon delivery of the product to the customer's on-site storage location. Revenues from any miscellaneous activities are recognized upon completion of the job or delivery of the product.

Contract Balances

Timing of revenue recognition may differ from the timing of invoicing to customers. HWE records unbilled receivables when revenue is recognized prior to invoicing and are included in accounts receivable. As of March 31, 2023 and 2022, HWE had unbilled revenues of $2,142,803 and $2,028,059, included in accounts receivable, respectively.

Propane customers may participate in the Company's "pre-buy" program which provides for the prepayment, at a fixed price, for future deliveries of propane. The Company does not consider this to take the form of a significant financing component given that the timing for future deliveries of propane are generally not in excess of one year form the time of the prepayment. Upon receipt of the prepayment from customers participating in the "pre-buy" program, the Company recognizes a corresponding liability for future deliveries. As of March 31, 2023 and 2022, the contract liability associated with the "pre-buy" program and prepaid propane are $479,097 and $324,521, respectively. The following table provides operating revenues disaggregated for the years ended March 31, 2023 and 2022.

	2023	2022
Residential electric	$ 23,287,327	$ 23,705,229
Commerical electric	25,554,567	25,186,835
Residential propane	4,246,281	3,705,321
Commercial propane	607,541	565,867
Propane cylinder	958,779	766,829
Other revenues	536,064	529,851
TOTAL REVENUES	$ 55,190,559	$ 54,459,932

ADDITIONAL INFORMATION

HANCOCK-WOOD ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

ADDITIONAL INFORMATION – 2023 CONSOLIDATED BALANCE SHEET

	Consolidated Balance	Consolidating Entries	Cooperative	Solutions	Propane
ASSETS					
UTILITY PLANT IN SERVICE, NET	$ 105,924,221	$ -	$ 102,415,890	$ -	$ 3,508,331
INVESTMENTS	22,087,930	(4,271,637)	24,761,252	1,583,411	14,904
DEFERRED ASSETS	224,727	-	222,111	-	2,616
GOODWILL	731,892	-	-	731,892	-
CURRENT ASSETS					
Cash and cash equivalents	4,880,185	-	3,390,807	7,018	1,482,360
Accounts receivable, consumers	4,050,419	-	3,665,261	-	385,158
Materials, supplies and inventories	1,468,897	-	977,537	-	491,360
Prepaid expenses	3,075,783	-	2,959,575	-	116,208
Income tax receivable	-	-	-	-	-
TOTAL CURRENT ASSETS	13,475,284	-	10,993,180	7,018	2,475,086
TOTAL ASSETS	$ 142,444,054	$ (4,271,637)	$ 138,392,433	$ 2,322,321	$ 6,000,937

See independent auditors' report.

ADDITIONAL INFORMATION – 2023 CONSOLIDATED BALANCE SHEET

	Consolidated Balance	Consolidating Entries	Cooperative	Solutions	Propane
EQUITIES AND LIABILITIES					
LONG-TERM DEBT, less current portion	$ 51,636,966	$ -	$ 50,456,726	$ -	$ 1,180,240
FINANCE LEASE OBLIGATIONS, less current portion	285,511	-	40,166	-	245,345
RETIREMENT BENEFITS OTHER THAN PENSIONS	2,118,813	-	2,118,813	-	-
DEFERRED TAX	224,128	-	-	224,128	-
PATRONAGE CAPITAL AND OTHER EQUITIES	79,551,772	(4,271,637)	78,167,294	2,096,824	3,559,291
CURRENT LIABILITIES					
Accounts payable	3,189,457	-	2,926,053	-	263,404
Accrued expenses	722,936	-	645,621	1,369	75,946
Customer prepaid liabilities	479,097	-	-	-	479,097
Current portion of long-term debt	2,376,793	-	2,320,268	-	56,525
Current portion of finance lease obligations	112,596	-	42,585	-	70,011
Accrued taxes	1,525,140	-	1,525,140	-	-
Customer deposits	220,845	-	149,767	-	71,078
TOTAL CURRENT LIABILITIES	8,626,864	-	7,609,434	1,369	1,016,061
TOTAL EQUITIES AND LIABILITIES	$ 142,444,054	$ (4,271,637)	$ 138,392,433	$ 2,322,321	$ 6,000,937

See independent auditors' report.

HANCOCK-WOOD ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

ADDITIONAL INFORMATION – 2023 CONSOLIDATED STATEMENT OF REVENUE

	Consolidated Balance	Consolidating Entries	Cooperative	Solutions	Propane
OPERATING REVENUES	$ 55,190,559	$ -	$ 49,353,032	$ -	$ 5,837,527
OPERATING EXPENSES					
Purchased power/cost of sales	33,682,349	-	29,833,044	-	3,849,305
Operations	2,615,400	-	2,615,400	-	-
Maintenance	1,765,043	-	1,765,043	-	-
Customer account expense	504,141	-	504,141	-	-
Administrative and general	5,728,834	(11,532)	4,491,270	11,532	1,237,564
Depreciation	4,238,946	-	3,755,843	-	483,103
Taxes other than income taxes	1,489,422	-	1,474,194	-	15,228
Income taxes					
Deferred	67,195	-	-	67,195	-
Currently payable	-	-	-	-	-
TOTAL OPERATING EXPENSES	50,091,330	(11,532)	44,438,935	78,727	5,585,200
OPERATING MARGINS BEFORE OTHER ITEMS	5,099,229	11,532	4,914,097	(78,727)	252,327
OTHER OPERATING ITEMS, NET					
Patronage revenue	1,629,953	-	1,629,268	-	685
Interest expense	(1,984,803)	-	(1,945,604)	-	(39,199)
TOTAL OTHER OPERATING ITEMS, NET	(354,850)	-	(316,336)	-	(38,514)
OPERATING MARGINS	4,744,379	11,532	4,597,761	(78,727)	213,813
NON-OPERATING ITEMS, NET					
Gain (loss) on disposition and exchange	-				
of property and equipment	21,407	-	21,407	-	-
Interest and dividend revenue	100,853	-	99,151	8	1,694
All other, net	(42,905)	-	(45,812)	-	2,907
TOTAL NON-OPERATING ITEMS, NET	79,355	-	74,746	8	4,601
NET MARGINS	$ 4,823,734	$ 11,532	$ 4,672,507	$ (78,719)	$ 218,414

See independent auditors' report.

HANCOCK-WOOD ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

ADDITIONAL INFORMATION – 2022 CONSOLIDATED BALANCE SHEET

	Consolidated Balance	Consolidating Entries	Cooperative	Solutions	Propane
ASSETS					
UTILITY PLANT IN SERVICE, NET	$ 104,275,334	$ -	$ 100,372,719	$ -	$ 3,902,615
INVESTMENTS	22,117,512	(4,283,169)	24,785,231	1,594,944	20,506
DEFERRED ASSETS	339,712	-	326,633	-	13,079
GOODWILL	731,892	-	-	731,892	-
CURRENT ASSETS					
Cash and cash equivalents	3,085,959	-	2,285,976	7,010	792,973
Accounts receivable, consumers	4,080,951	-	3,571,941	22,608	486,402
Materials, supplies and inventories	1,671,043	-	1,396,199	-	274,844
Prepaid expenses	386,295	-	292,959	-	93,336
Income tax receivable	-	(44,540)	-	44,540	-
TOTAL CURRENT ASSETS	9,224,248	(44,540)	7,547,075	74,158	1,647,555
TOTAL ASSETS	$ 136,688,698	$ (4,327,709)	$ 133,031,658	$ 2,400,994	$ 5,583,755

See independent auditors' report.

HANCOCK-WOOD ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

ADDITIONAL INFORMATION – 2022 CONSOLIDATED BALANCE SHEET

	Consolidated Balance	Consolidating Entries	Cooperative	Solutions	Propane
EQUITIES AND LIABILITIES					
LONG-TERM DEBT, less current portion	$ 48,881,131	$ -	$ 47,644,366	$ -	$ 1,236,765
CAPITAL LEASE OBLIGATIONS, less current portion	395,020	-	81,631	-	313,389
RETIREMENT BENEFITS OTHER THAN PENSIONS	2,890,716	-	2,890,716	-	-
DEFERRED TAX	179,541	-	-	179,541	-
PATRONAGE CAPITAL AND OTHER EQUITIES	76,360,728	(4,283,169)	75,115,945	2,175,543	3,352,409
CURRENT LIABILITIES					
Accounts payable	2,791,916	(44,540)	2,711,295	44,540	80,621
Accrued expenses	559,573	-	496,506	1,370	61,697
Customer prepaid liabilities	324,521	-	-	-	324,521
Current portion of long-term debt	2,539,523	-	2,484,904	-	54,619
Current portion of capital lease obligations	131,379	-	42,585	-	88,794
Accrued taxes	1,415,474	-	1,415,474	-	-
Customer deposits	219,176	-	148,236	-	70,940
TOTAL CURRENT LIABILITIES	7,981,562	(44,540)	7,299,000	45,910	681,192
TOTAL EQUITIES AND LIABILITIES	$ 136,688,698	$ (4,327,709)	$ 133,031,658	$ 2,400,994	$ 5,583,755

See independent auditors' report.

ADDITIONAL INFORMATION – 2022 CONSOLIDATED STATEMENT OF REVENUE

	Consolidated Balance	Consolidating Entries	Cooperative	Solutions	Propane
OPERATING REVENUES	$ 54,459,932	$ -	$ 49,405,419	$ -	$ 5,054,513
OPERATING EXPENSES					
Purchased power/cost of sales	32,945,885	-	29,516,951	-	3,428,934
Operations	2,461,105	-	2,461,105	-	-
Maintenance	1,414,404	-	1,414,404	-	-
Customer account expense	484,498	-	484,498	-	-
Administrative and general	5,802,708	(15,001)	4,361,091	15,001	1,441,617
Depreciation	4,366,270	-	3,869,539	-	496,731
Taxes other than income taxes	1,475,267	-	1,468,970	-	6,297
Income taxes					
Deferred	(63,810)	-	-	(63,810)	-
TOTAL OPERATING EXPENSES	48,886,327	(15,001)	43,576,558	(48,809)	5,373,579
OPERATING MARGINS BEFORE OTHER ITEMS	5,573,605	15,001	5,828,861	48,809	(319,066)
OTHER OPERATING ITEMS, NET					
Patronage revenue	1,335,323	-	1,334,909	-	414
Interest expense	(1,964,086)	-	(1,923,721)	-	(40,365)
TOTAL OTHER OPERATING ITEMS, NET	(628,763)	-	(588,812)	-	(39,951)
OPERATING MARGINS	4,944,842	15,001	5,240,049	48,809	(359,017)
NON-OPERATING ITEMS, NET					
Gain (loss) on disposition and exchange of property and equipment	96,158	-	73,908	-	22,250
Interest and dividend revenue	43,073	-	41,330	3	1,740
All other, net	138,007	-	(1,447)	-	139,454
TOTAL NON-OPERATING ITEMS, NET	277,238	-	113,791	3	163,444
NET MARGINS	$ 5,222,080	$ 15,001	$ 5,353,840	$ 48,812	$ (195,573)

See independent auditors' report.

REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS

Board of Directors
Hancock-Wood Electric Cooperative, Inc. and Subsidiary
1399 Business Park Drive South
North Baltimore, Ohio 45872

Independent Auditor's Report

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 Hancock-Wood Electric Cooperative, Inc. and Subsidiary, which comprise the balance sheet as of March 31, 2023, and the related statements of revenue, comprehensive income, changes in members equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 23, 2023. In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2023, on our consideration of Hancock-Wood Electric Cooperative, Inc. and Subsidiary' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Hancock-Wood Electric Cooperative, Inc. and Subsidiary failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers,* §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Hancock-Wood Electric Cooperative, Inc. and Subsidiary' noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Hancock-Wood Electric Cooperative, Inc. and Subsidiary' accounting and records to indicate that Hancock-Wood Electric Cooperative, Inc. and Subsidiary did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

Comply with the requirements for the detailed schedule of investments, attached.

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

LWG CPAs & Advisors

LWG CPAs & Advisors
Indianapolis, Indiana
May 23, 2023

CPAS ▲ ADVISORS

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

To the Board of Directors of
Hancock-Wood Electric Cooperative, Inc. and Subsidiary

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 Hancock-Wood Electric Cooperative, Inc. and Subsidiary (the "Company") as of and for the years ended March 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements, and have issued our report thereon dated May 23, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the 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 Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations that we consider to be significant deficiencies.

> There is an absence of appropriate segregation of duties in certain accounting areas consistent with control objectives. The Company's response to the findings is the hiring of additional employees in order to segregate the duties may not be economically practical for the benefit to be derived. The Company's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

LWG CPAs & Advisors

LWG CPAs & Advisors
Indianapolis, Indiana
May 23, 2023

CPAS ▲ ADVISORS

May 23, 2023

To the Board of Directors of
Hancock-Wood Electric Cooperative, Inc. and Subsidiary

We have audited the financial statements of Hancock-Wood Electric Cooperative, Inc. and Subsidiary as of and for the year ended March 31, 2023, and have issued our report thereon, dated May 23, 2023. As part of our reporting requirements, the National Rural Utilities Cooperative Finance Corporation (CFC) has requested that we make the following certification regarding loan fund expenditures:

Loan Funds - During the period of our audit, Hancock-Wood Electric Cooperative, Inc. and Subsidiary received no long-term loan fund advances from CFC on loans controlled by the 100% CFC Electric Mortgage and Loan Agreement.

This letter supplements the information included in the financial statements and notes. It is intended solely for the use of management, the National Rural Utilities Cooperative Finance Corporation, and supplemental lenders and should not be used for any other purposes.

LWG CPAs & Advisors

LWG CPAs & Advisors
Indianapolis, Indiana

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May 23, 2023

Board of Directors
Hancock-Wood Electric Cooperative, Inc. and Subsidiary
1399 Business Park Drive South
North Baltimore, Ohio 45872

We have audited the financial statements of Hancock-Wood Electric Cooperative, Inc. and Subsidiary as of and for the year ended March 31, 2023, and have issued our report thereon dated May 23, 2023. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated March 27, 2023, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of Hancock-Wood Electric Cooperative, Inc. and Subsidiary solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding significant control and other matters noted during our audit in a separate letter to you dated May 23, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

We have identified the following significant risks:

Management override of controls – Due to the size of the Company and the limited accounting staff there is a significant risk of management override of controls.

Cash – The company receives cash and other forms of payment from customers and pays invoices to vendors. We consider this a significant risk, specifically related to misappropriation of assets.

Revenue recognition – Under AU-C Section 240, recognizing revenue is a presumed significant risk. We are required to identify if the Company properly recognized revenue based on Accounting Standards Codification Top 606, Revenue from Contracts with Customers.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Hancock-Wood Electric Cooperative, Inc. and Subsidiary is included in Note 1 to the financial statements. During the year, Hancock-Wood Electric Cooperative, Inc. and Subsidiary adopted Accounting Standards Update No. 2016-02, Leases (Topic 842). No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Company's financial statements relate to: Contracts with Customers.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. The attached schedule summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The attached schedule summarizes misstatements detected as a result of audit procedures that were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Hancock-Wood Electric Cooperative, Inc. and Subsidiary's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management that are included in the attached letter dated May 23, 2023.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultation with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Company, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Company's auditors.

This information is intended solely for the use of the board of directors and management of Hancock-Wood Electric Cooperative, Inc. and Subsidiary and is not intended to be and should not be used by anyone other than these specified parties.

LWG CPAs & Advisors

LWG CPAs & Advisors