

Union Rural Electric
Cooperative, Inc.
Audited Financial Statements

December 31, 2018 and 2017



Rea & associates

www.reacpa.com

UNION RURAL ELECTRIC COOPERATIVE, INC.

DECEMBER 31, 2018 AND 2017

INDEX

	<u>PAGE</u>
Independent Auditor's Report.....	1
Balance Sheets	2
Statements of Revenue.....	3
Statements of Patronage Capital	4
Statements of Cash Flows	5
Notes to the Financial Statements.....	6-15

March 18, 2019

Board of Trustees
Union Rural Electric Cooperative, Inc.
Marysville, Ohio

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Union Rural Electric Cooperative, Inc. (the "Cooperative") which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of revenue, patronage capital and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the cooperative's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the cooperative's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Union Rural Electric Cooperative, Inc. as of December 31, 2018 and 2017, 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.

Other Matter

During the years ended December 31, 2018 and 2017, the Cooperative received \$0 and \$3,500,000 in long-term loan fund advances from CFC on loans controlled by the CFC Loan Agreement and/or Mortgage or Security Agreement.

Rea & Associates, Inc.

Millersburg, OH

UNION RURAL ELECTRIC COOPERATIVE, INC.

BALANCE SHEETS
AS OF DECEMBER 31, 2018 AND 2017

ASSETS

	2018	2017
UTILITY PLANT:		
Utility plant in service	\$ 87,738,387	\$ 85,249,465
Construction work in progress	3,801,330	4,074,238
	91,539,717	89,323,703
Less: provision for accumulated depreciation	28,539,503	26,297,514
Net utility plant	63,000,214	63,026,189
OTHER ASSETS AND INVESTMENTS:		
Retirement security plan prepayment	631,597	789,496
Investments in associated organizations	996,456	1,016,025
Patronage capital from associated organizations	27,800,810	25,322,360
Union Rural Electric scholarship fund	60,997	63,845
Total other assets and investments	29,489,860	27,191,726
CURRENT ASSETS:		
Cash and cash equivalents	166,417	232,130
Accounts receivable, net of allowance	2,430,151	2,678,024
Unbilled revenue	2,827,170	2,922,291
Materials and supplies	2,826,665	2,573,498
Other current assets	152,031	254,306
Total current assets	8,402,434	8,660,249
Total assets	\$ 100,892,508	\$ 98,878,164

EQUITIES AND LIABILITIES

	2018	2017
EQUITY:		
Patronage capital	\$ 52,765,360	\$ 49,157,972
Other equities	558,728	507,896
Accumulated other comprehensive income	224,538	139,700
Total equity	53,548,626	49,805,568
LONG-TERM LIABILITIES:		
Mortgage notes payable	35,113,781	36,867,932
Deferred credits	3,042,009	3,286,127
Postretirement benefit obligation	938,949	1,014,900
Total long-term liabilities	39,094,739	41,168,959
CURRENT LIABILITIES:		
Current maturities of mortgage notes payable	1,775,677	2,498,391
Accounts payable	3,378,767	2,373,028
Postretirement benefit obligation, current portion	47,313	65,600
Accrued taxes	1,824,435	1,785,094
Customers' deposits	192,595	184,096
Other current liabilities	1,030,356	997,428
Total current liabilities	8,249,143	7,903,637
Total equities and liabilities	\$ 100,892,508	\$ 98,878,164

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

UNION RURAL ELECTRIC COOPERATIVE, INC.

STATEMENTS OF REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
OPERATING REVENUES	\$ 58,001,108	\$ 55,046,127
OPERATING EXPENSES:		
Cost of purchased power	41,095,206	38,699,881
Operations	2,736,568	2,688,909
Maintenance	1,440,501	1,379,451
Consumer accounts	708,912	653,595
Customer service and informational expense	794,853	712,705
Administrative and general	2,902,584	2,795,647
Depreciation	2,865,143	2,840,224
Tax expense	1,298,077	1,180,883
Interest - other	5,583	5,181
Other deductions	14,633	8,099
	53,862,060	50,964,575
Operating margins before fixed charges	4,139,048	4,081,552
FIXED CHARGES, interest on long-term debt	1,534,498	1,558,212
	2,604,550	2,523,340
PATRONAGE CAPITAL CREDITS:		
Generation and transmission credits	3,311,512	2,588,655
Other credits	146,844	125,912
	3,458,356	2,714,567
Net operating margins	6,062,906	5,237,907
NON-OPERATING MARGINS:		
Interest income	90,944	54,900
Other loss	(4,590)	(5,221)
Gain on disposition of property	2,642	3,584
	88,996	53,263
Net margins	6,151,902	5,291,170
OTHER COMPREHENSIVE INCOME:		
Prior service credit	(3,400)	(25,000)
Actuarial gain	88,238	234,400
	84,838	209,400
Comprehensive income	\$ 6,236,740	\$ 5,500,570

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

UNION RURAL ELECTRIC COOPERATIVE, INC.

STATEMENTS OF PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
PATRONAGE CAPITAL, beginning of year	\$ 49,157,972	\$ 46,231,138
Net margins	6,151,902	5,291,170
Retirement of capital credits	(2,544,514)	(2,364,336)
PATRONAGE CAPITAL, end of year	<u>\$ 52,765,360</u>	<u>\$ 49,157,972</u>

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

UNION RURAL ELECTRIC COOPERATIVE, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margins	\$ 6,151,902	\$ 5,291,170
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	2,865,143	2,840,224
Amortization of retirement security plan prepayment	157,899	157,899
Gain on disposition of property	(2,642)	(3,584)
Non-cash capital credits received	(3,458,366)	(2,714,567)
(Increase) decrease in assets:		
Accounts receivable, net of allowance	247,873	1,950,117
Unbilled revenue	95,121	(982,830)
Other current assets	102,275	(14,879)
Increase (decrease) in liabilities:		
Accounts payable	1,005,739	(3,517,448)
Postretirement benefit obligation	(94,238)	(218,700)
Accrued taxes	39,341	93,234
Customers' deposits	8,499	12,506
Other current liabilities	32,928	(35,702)
Deferred credits	(244,118)	(893,015)
Total adjustments	755,454	(3,326,745)
Net cash provided by operating activities	6,907,356	1,964,425
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and acquisition of utility plant	(2,836,526)	(1,926,025)
(Increase) decrease in materials and supplies	(253,167)	21,972
Investments in associated organizations	19,569	17,874
Withdrawals of scholarship fund	15,681	5,363
Contributions to scholarship fund	(12,833)	(10,074)
Proceeds from redemption of capital credits	979,916	718,699
Net cash used in investing activities	(2,087,360)	(1,172,191)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from mortgage notes payable	0	3,500,000
Principal payments on mortgage notes payable	(2,476,865)	(2,321,820)
Patronage capital credits retired	(2,544,514)	(2,364,336)
Retired capital credits unclaimed	53,880	35,994
Appropriated margin gains	(3,048)	4,910
Actuarial gains	88,238	234,400
Prior service credit	(3,400)	(25,000)
Net cash used by financing activities	(4,885,709)	(935,852)
Net decrease in cash and cash equivalents	(65,713)	(143,618)
CASH AND CASH EQUIVALENTS, beginning of year	232,130	375,748
CASH AND CASH EQUIVALENTS, end of year	\$ 166,417	\$ 232,130

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

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1: ORGANIZATION

Union Rural Electric Cooperative, Inc. (the "Cooperative") is incorporated under the laws of the State of Ohio, operates as a cooperative and is exempt from federal taxation under Section 501(c)(12)(A) of the Internal Revenue Code. The cooperative's primary business is that of providing electric and natural gas services to its membership. This membership consists of individuals, businesses and public authorities in Union, Delaware, Logan, Marion, Hardin and Champaign counties in Ohio. Providing electric and natural gas services includes construction of plant as well as purchasing electricity and natural gas to sell to its members.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Cooperative's accounting policies conform to generally accepted accounting principles of the United States of America following the accounting procedures common to rural electrical cooperatives and as recommended by the Rural Utilities Service (RUS).

Uninsured Risk

The Cooperative maintains its cash and cash equivalents balances in a single institution located in central Ohio. Deposits in interest-bearing and non-interest-bearing accounts are collectively insured by the Federal Deposit Insurance Corporation ("FDIC") up to a coverage limit of \$250,000 at each FDIC-insured depository institution. As a result, the Cooperative may have balances that exceed the insured limit.

Estimates

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

Electric Plant, Equipment and Depreciation

The Cooperative records improvements and additions to the distribution plant at cost using continuing property records. Retirements are removed from the asset and accumulated depreciation accounts at a standard cost, which approximates original cost, which is updated periodically.

The general plant and equipment is recorded at cost based on the unit method. Any retirements or disposals of general plant and equipment are removed at cost from the asset and accumulated depreciation.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation is provided for by the straight-line method over the estimated useful lives of the property. The provisions are determined by the use of functional composite rates as follows:

Distribution Plant	3.20-6.67%
General Plant:	
Structure and improvements	2.86 %
Office furniture and equipment	20.00%
Computer equipment	33.33%
Transportation equipment	20.00%
Power operating equipment	20.00%
Communications equipment	10.00-20.00%
Other general plant	10.00-20.00%

Investments

Investments in associated organizations are recorded at cost, which is the same as par value. The investments have no ready market and are included in the financial statements as long-term assets. These investments, for the most part, represent equity contributions in other cooperatives and patronage capital received from other cooperatives.

Accounts Receivable and Revenues

Revenue from the sale of electricity and natural gas is recorded monthly based on consumer usage. The Cooperative bills monthly for all consumers. The majority of consumers have automatic meters and are billed based upon automatic meter readings reported monthly. A few commercial consumers have "demand" meters and are billed based upon meter readings made by Cooperative personnel. Substantially all of the cooperative's consumers are located in Union, Delaware, Logan, Marion, Hardin and Champaign counties. The allowance for doubtful accounts at December 31, 2018 and 2017 was \$50,096 and \$23,036, respectively. Bad debt expense for 2018 and 2017 was \$13,040 and \$13,576, respectively.

Materials and Supplies

Inventory of materials and supplies not allocated to construction in progress is valued at average cost.

Patronage Capital

Net margins arising from operations are allocated to the members in the form of capital credits based on each member's billings during the year.

Income Taxes

The Cooperative is a Rural Electric Cooperative exempt from federal income taxes under Internal Revenue Code Section 501(c) (12). Accordingly, no provision for federal income taxes has been made. An informational tax return, Form 990, is prepared and filed each year with the Internal Revenue Service.

The Cooperative presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits. Interest and penalties would be recorded as operating expenses when they are incurred.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statements of Cash Flows

For purposes of the statements of cash flows, the Cooperative considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Net cash flows from operating activities include cash payments for interest of \$1,546,067 and \$1,567,752 for the years ended December 31, 2018 and 2017, respectively. There were no payments for federal income taxes for 2018 or 2017.

NOTE 3: UTILITY PLANT

Listed below are the major classes of the utility plant as of December 31:

	2018	2017
Distribution Plant	\$ 73,560,515	\$ 71,490,575
General Plant	14,177,872	13,758,890
Utility Plant in Service	87,738,387	85,249,465
Construction Work in Progress	3,801,330	4,074,238
Total Utility Plant at Cost	\$ 91,539,717	\$ 89,323,703

NOTE 4: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations consisted of the following on December 31:

	2018	2017
Investments in Associated Organizations:		
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC)	\$ 577,437	\$ 597,006
Buckeye Power, Inc. membership	416,969	416,969
Other investments in associated organizations	2,050	2,050
Total investments in associated organizations	996,456	1,016,025

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 4: INVESTMENTS IN ASSOCIATED ORGANIZATIONS (Continued)

	2018	2017
Patronage Capital from Associated Organizations:		
Rural Electric Supply Cooperative, Inc.	\$ 124,098	\$ 117,464
Buckeye Power, Inc.	26,331,252	23,932,319
NRUCFC	1,011,782	961,951
Federated Rural Electric Insurance Exchange	168,902	152,138
National Rural Telecommunications Co-op	77,833	79,320
National Information Solutions Cooperative	72,788	65,650
Cooperative Response Center, Inc.	6,713	6,245
CoBank Communications and Energy Group	7,442	7,273
Total patronage capital from associated organizations	27,800,810	25,322,360
Total investments in associated organizations	\$ 28,797,266	\$ 26,338,385

NOTE 5: PATRONAGE CAPITAL

At December 31, 2018 and 2017, patronage capital consisted of:

	2018	2017
Patronage capital – assignable	\$ 6,151,900	\$ 5,291,170
Patronage capital – assigned to date	77,778,947	72,487,775
Total	83,930,850	77,778,945
Less: retirements to date	(31,165,487)	(28,620,973)
Total patronage capital	\$ 52,765,360	\$ 49,157,972

The Cooperative's patronage capital balances represent 52.3 percent and 49.7 percent of the total assets at December 31, 2018 and 2017, respectively. Capital credit retirements in the amount of \$2,544,514 and \$2,364,336 were paid in 2018 and 2017, respectively.

Patronage capital at December 31, 2018 and 2017 includes \$27,444,711 and \$26,072,676, respectively, of capital credits allocated to the Cooperative from Buckeye Power, Inc. that were subsequently allocated to members of the Cooperative.

NOTE 6: OTHER EQUITIES

At December 31, 2018 and 2017, other equities consisted of:

	2018	2017
Retired capital credit gain	\$ 739,888	\$ 686,008
Appropriated margins	60,997	64,045
Subsidiary deficit	(242,157)	(242,157)
Total other equities	\$ 558,728	\$ 507,896

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 7: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table sets forth the accumulated other comprehensive income (loss) at December 31:

	2018	2017
Accumulated other comprehensive income (loss), beginning of year	\$ 139,700	\$ (69,700)
Postretirement benefits- prior service credit	(3,400)	(25,000)
Actuarial gain	88,238	234,700
Accumulated other comprehensive income (loss), end of year	\$ 224,538	\$ 139,700

NOTE 8: EMPLOYEE POSTRETIREMENT BENEFITS

The Cooperative sponsors an unfunded defined benefit postretirement medical insurance plan, which covers substantially all employees retiring from the Cooperative. Such a plan requires the recording of the net periodic postretirement benefit cost as employees render services necessary to earn such benefits, and requires the accrual of the postretirement benefit obligation (including any unfunded portion of the plan).

RUS is not requiring the Cooperative to fund the plan. The Cooperative is paying benefits to retirees on a “pay-as-you-go” basis. There is no trust fund established for the plan to pay plan benefits.

The following table sets forth the plan’s accrued postretirement benefit obligation (“APBO”) at December 31:

	2018	2017
APBO, beginning of year	\$ 1,080,500	\$ 1,299,200
Service cost	17,000	24,700
Interest cost	42,600	46,000
Actuarial gain (See note 7)	(88,238)	(234,400)
Less: expected benefit payments	(65,600)	(55,000)
APBO, end of year	986,262	1,080,500
Less: current portion	(47,313)	(65,600)
APBO, long-term portion	\$ 938,949	\$ 1,014,900

Benefits expected to be paid, representing expected future service, are as follows:

2019	\$ 47,313
2020	57,328
2021	49,764
2022	51,041
2023	62,734
2024-2027	465,449

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 8: EMPLOYEE POSTRETIREMENT BENEFITS (Continued)

The annual health care cost trend rates, which have a significant effect on the amounts reported, are assumed as follows:

	Pre-Age 65 <u>Medical & Drug</u>	Post-Age 65 <u>Medical & Drug</u>
2019	6.60%	4.70%
2020	6.40%	4.70%
2021	6.00%	4.60%
2022	5.75%	4.60%
2023	5.50%	4.60%
2024	5.25%	4.60%
2025	5.00%	4.60%
2026	5.00%	4.60%
2027	5.00%	4.60%
2028 and later	5.00%	4.60%

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 4.40 percent.

NOTE 9: BENEFIT PLANS

All full-time employees of Union Rural Electric Cooperative, Inc. participate in the National Rural Electric Cooperative Association (NRECA) Retirement & Security Program, a multi-employer defined benefit pension plan qualified under Section 410 and tax exempt under Section 501(a) of the Internal Revenue Code.

The Cooperative makes annual contributions to the Program equal to the amounts accrued for pension expense except for the period when a moratorium on contributions is in effect. In this Plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. The pension expense for 2018 and 2017 was \$617,341 and \$579,329, respectively.

Union Rural Electric Cooperative, Inc. also maintains a 401(k) plan in which all employees are eligible to participate. The Cooperative matches 50% of full-time participant contributions, with a minimum contribution of 2% and maximum contribution of 12% eligible for employer match. The Cooperative expensed \$163,556 and \$155,750 for the years ended December 31, 2018 and 2017, respectively.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 10: LONG-TERM DEBT

Long-term debt is represented by mortgage notes payable to the National Rural Utilities Cooperative Finance Corporation (CFC) and Federal Agricultural Mortgage Cooperation (Farmer Mac). Following is a summary of outstanding long-term debt as of December 31, 2018 and 2017:

Fixed Interest Rate	Maturity Date	2018	2017
4.850%	10/1/2023	\$ 246,566	\$ 291,123
4.400%	9/30/2028	328,791	355,246
4.700%-4.950%	9/29/2038	3,473,788	3,633,511
6.600%-6.750%	11/25/2033	0	799,229
4.500%-4.750%	8/26/2043	2,285,593	2,340,573
4.750%	11/28/2046	2,087,945	2,130,632
2.750%-5.150%	1/26/2050	7,215,062	7,503,033
3.800%-4.550%	11/17/2055	8,204,924	8,378,715
4.250%	3/31/2032	554,509	582,968
4.350%	12/31/2036	371,293	384,141
4.350%	6/30/2037	375,379	387,873
4.670%	9/30/2040	826,109	846,510
4.430%	12/29/2041	674,066	690,114
4.670%	12/29/2041	1,183,550	1,210,798
4.710%	3/1/2020	497,852	810,955
3.730%	10/1/2035	1,364,642	1,421,269
3.449%	10/1/2039	325,147	338,441
3.449%	12/1/2040	150,072	155,888
3.449%	1/1/2039	279,274	291,348
4.310%	1/1/2021	132,302	194,341
4.350%	2/1/2021	168,476	230,953
3.449%	2/1/2043	116,208	120,180
2.750%	11/1/2041	1,384,237	1,426,900
3.449%	3/1/2042	910,080	942,804
3.620%	9/4/2039	1,337,072	1,378,986
3.790%	11/1/2042	381,995	391,622
3.730%	1/2/2043	1,328,809	1,362,576
3.150%	2/1/2026	685,717	765,594
Total mortgage notes		36,889,458	39,366,323
Less: current portion of mortgage notes		1,775,677	2,498,391
Long-term mortgage notes payable		<u>\$ 35,113,781</u>	<u>\$ 36,867,932</u>

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 10: LONG-TERM DEBT (Continued)

The annual maturities of long-term debt for the next five years are as follows:

2019	\$	1,775,677
2020		1,673,000
2021		1,456,000
2022		1,475,000
2023		1,378,000
Thereafter		29,131,781
		<hr/>
	\$	<u>36,889,458</u>

NOTE 11: SHORT-TERM DEBT

The short-term line of credit of \$10,000,000 maximum is available to the Cooperative on loan commitments from NRUCFC at December 31, 2018. The interest rate on the line of credit was 3.35 and 2.35 percent at December 31, 2018 and 2017, respectively, with outstanding balances on the line of \$0 for both 2018 and 2017. The line of credit matures December 2049. Substantially all of the assets of the Cooperative are pledged for the mortgage notes payable and the line of credit. Principal and interest installments on the above notes are due either quarterly or monthly.

The Cooperative also has a \$20,000,000 loan commitment under the Power Vision loan arrangement with National Rural Utilities Cooperative Finance Corporation. As of December 31, 2018 and 2017, \$8,204,924 and \$8,378,715 was drawn on this commitment, respectively.

The Cooperative has established an unsecured short-term line of credit with CoBank in the amount of \$2,000,000. The interest rate was 4.06% and 3.37 % at December 31, 2018 and 2017, respectively, with outstanding balances on the line of \$0 for both 2018 and 2017. The line of credit matures June 2019.

NOTE 12: COMMITMENTS AND RELATED PARTY TRANSACTIONS

The Cooperative purchases all of its power from Buckeye Power, Inc., a non-profit corporation operating on a cooperative basis whose membership includes Union Rural Electric Cooperative, Inc. Rates for service members of Buckeye Power, Inc. are in accordance with the provisions of the Wholesale Power Agreement. The Cooperative had accounts payable due to Buckeye Power, Inc. of \$2,454,197 and \$1,471,475 at December 31, 2018 and 2017, respectively.

The Cooperative purchases material from the Rural Electric Supply Cooperative, Inc., of which it is an owner and member. Total purchases were \$508,759 and \$372,030 for the years ended December 31, 2018 and 2017, respectively.

The Cooperative has an agreement with National Information Solutions Cooperative (NISC), St. Louis, Missouri to participate in data processing services offered by NISC. This contract will continue until terminated by written notice given by either party. The total expense under this agreement was \$123,921 and \$117,688 for the years ended December 31, 2018 and 2017, respectively.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 12: COMMITMENTS AND RELATED PARTY TRANSACTIONS (Continued)

The Cooperative borrows funds from National Rural Utilities Cooperative Finance Corporation of which it is a member and owner (see also Note 9).

The Cooperative has an investment in Cooperative Response Center (CRC). CRC provides after hours emergency telephone services for the Cooperative. Total fees for services were \$24,789 and \$23,481 for the years ended December 31, 2018 and 2017, respectively.

The Cooperative maintains insurance coverage through Federated Rural Electric Insurance Exchange of which it is a member and owner. Total premiums paid were \$0 and \$110,216 for the years ended December 31, 2018 and 2017, respectively.

The Cooperative had investments in Rural Americas Cooperative Bank (CoBank) of \$1,000 as of December 31, 2018 and 2017 and patronage capital in CoBank of \$7,442 and \$7,273 as of December 31, 2018 and 2017, respectively. In addition the Cooperative has established an unsecured short-term line of credit with CoBank in the amount of \$2,000,000 that accrued interest at a current rate of 4.06% and matures June 2019. There was no outstanding balance at December 31, 2018 or 2017.

NOTE 13: RETIREMENT SECURITY PLAN PREPAYMENT

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the Retirement Security (RS) Plan (a defined benefit multiemployer pension plan) to make a prepayment and reduce future required contributions. The prepayment amount is a cooperative'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 Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 10 years. However, changes in interest rates, asset returns and other plan experience different from that expected, plan assumption changes, and other factors may have an impact on the differential in billing rates and the 10 year period.

On April 30, 2013 the Cooperative made a prepayment of \$1,578,991 to the NRECA RS Plan. The cooperative is amortizing this amount over 10 years. The Cooperative obtained a loan through NRUCFC to finance the RS Plan prepayment. Interest expense associated with the prepayment loan is being accounted for in accordance with the RUS USOA.

NOTE 14: SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 18, 2019, the date on which the financial statements were issued.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 15: DEFERRED CREDITS

Deferred credits are summarized as follows:

	2018	2017
Consumer utility prepayments	\$ 3,042,009	\$ 3,286,127
	\$ 3,042,009	\$ 3,286,127

NOTE 16: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09 entitled “Revenue from Contracts with Customers (Topic 606),” which may change the Company’s method of revenue recognition. In August 2015, the FASB deferred the effective date of the new standard by one year. This new standard is effective for annual reporting periods beginning after December 15, 2017, while allowing nonpublic companies an additional year to implement this new standard. Early implementation is permitted, but not before the original implementation date for periods beginning before December 15, 2016. The provisions of this standard will be applied retrospectively. Management has not yet determined whether this new standard will have a material effect on its financial statements.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02 entitled “Leases (Topic 842),” which will change the Company’s statement of financial position by adding lease-related assets and liabilities. This may affect compliance with any contractual agreements and loan covenants. This new standard is effective for annual reporting periods beginning after December 15, 2018, while allowing nonpublic companies an additional year to implement this new standard. Early implementation is permitted, but not before the original implementation date for periods beginning before February 25, 2017. Management has not yet determined whether this new standard will have a material effect on its financial statements.