

Union Rural Electric
Cooperative, Inc.
Audited Financial Statements

December 31, 2022 and 2021



Rea & associates

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TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1
Balance Sheets.....	2
Statements of Revenue and Expense.....	3
Statements of Patronage Capital.....	4
Statements of Cash Flows	5
Notes to the Financial Statements	6-16

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Union Rural Electric Cooperative, Inc.
Marysville, Ohio 43040

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Union Rural Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheets as of December 31, 2022 and 2021, the related statements of revenue and expense, patronage capital and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Cooperative as of December 31, 2022 and 2021, 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). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Cooperative and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

During the years ended December 31, 2022 and 2021, the Cooperative received \$1,251,851 and \$2,000,000, respectively, in long-term loan fund advances from CFC on loans controlled by the CFC Loan Agreement and/or Mortgage or Security Agreement.

Responsibilities of Management for the Financial Statements

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

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

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 misstatements 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 the Cooperative's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern for a reasonable period of time.

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

Rea & Associates, Inc.

Millersburg, OH
March 15, 2023

UNION RURAL ELECTRIC COOPERATIVE, INC.

BALANCE SHEETS
AS OF DECEMBER 31, 2022 AND 2021

ASSETS

	2022	2021
UTILITY PLANT:		
Utility plant in service	\$ 99,286,539	\$ 95,335,423
Construction work in progress	7,306,204	5,265,594
	106,592,743	100,601,017
Less: provision for accumulated depreciation	34,195,096	31,824,286
Net utility plant	72,397,647	68,776,731
OTHER ASSETS AND INVESTMENTS:		
Retirement security plan prepayment	-	157,899
Investments in associated organizations	969,793	974,886
Patronage capital from associated organizations	28,225,023	28,200,215
Homestead receivable	641,199	765,160
Union Rural Electric scholarship fund	57,266	71,421
Total other assets and investments	29,893,281	30,169,581
CURRENT ASSETS:		
Cash and cash equivalents	288,696	225,791
Accounts receivable, net of allowance	2,295,208	2,446,107
Unbilled revenue	3,295,070	2,960,296
Materials and supplies	3,281,872	2,822,359
Other current assets	370,052	263,020
Total current assets	9,530,898	8,717,573
Total assets	\$ 111,821,826	\$ 107,663,885

EQUITIES AND LIABILITIES

	2022	2021
EQUITY:		
Patronage capital	\$ 54,345,037	\$ 53,634,851
Other equities	775,075	722,312
Accumulated other comprehensive income (loss)	149,145	(17,736)
Total equity	55,269,257	54,339,427
LONG-TERM LIABILITIES:		
Mortgage notes payable	38,836,119	39,112,477
Deferred credits	2,490,875	2,647,462
Postretirement benefit obligation	913,767	1,101,182
Homestead retirement payable	630,001	750,766
Total long-term liabilities	42,870,762	43,611,887
CURRENT LIABILITIES:		
Current maturities of mortgage notes payable	1,577,289	1,680,163
Line of credit	3,800,000	-
Accounts payable	4,717,231	4,656,856
Postretirement benefit obligation, current portion	70,636	53,162
Accrued taxes	2,061,183	1,952,766
Customers' deposits	176,052	187,263
Current portion of Homestead retirement payable	11,198	14,394
Other current liabilities	1,268,218	1,167,967
Total current liabilities	13,681,807	9,712,571
Total equities and liabilities	\$ 111,821,826	\$ 107,663,885

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

UNION RURAL ELECTRIC COOPERATIVE, INC.

STATEMENTS OF REVENUE AND EXPENSE
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
OPERATING REVENUES	\$ 60,854,003	\$ 59,142,996
OPERATING EXPENSES:		
Cost of purchased power	43,470,635	42,451,421
Operations	3,240,907	3,133,229
Maintenance	1,670,145	1,432,844
Consumer accounts	755,287	688,702
Customer service and informational expense	820,456	829,186
Administrative and general	3,592,166	3,295,886
Depreciation	3,105,311	2,997,113
Tax expense	1,361,761	1,303,106
Interest - other	5,466	5,722
Other deductions	87,130	3,119
Total cost of electric service	58,109,264	56,140,328
Operating margins before fixed charges	2,744,739	3,002,668
FIXED CHARGES, interest on long-term debt	1,620,593	1,520,902
Operating margins after fixed charges	1,124,146	1,481,766
PATRONAGE CAPITAL CREDITS:		
Generation and transmission credits	2,143,064	1,668,643
Other credits	158,023	162,544
Net operating margins	2,301,087	1,831,187
Net operating margins	3,425,233	3,312,953
NON-OPERATING MARGINS:		
Interest income	21,881	20,671
Other items - (loss)/gain	(2,996)	2,318
Gain on disposition of property	2,565	35,625
Net margins	21,450	58,614
Net margins	3,446,683	3,371,567
OTHER COMPREHENSIVE INCOME:		
Actuarial gain	166,881	22,495
Comprehensive income	\$ 3,613,564	\$ 3,394,062

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, 2022 AND 2021

	2022	2021
PATRONAGE CAPITAL, beginning of year	\$ 53,634,851	\$ 53,347,556
Net margins	3,446,683	3,371,567
Retirement of capital credits	(2,736,497)	(3,084,272)
PATRONAGE CAPITAL, end of year	<u>\$ 54,345,037</u>	<u>\$ 53,634,851</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, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margins	\$ 3,446,683	\$ 3,371,567
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	3,105,311	2,997,113
Amortization of retirement security plan prepayment	157,899	157,899
Gain on disposition of property	(2,565)	(35,625)
Non-cash capital credits received	(4,530,784)	(1,831,188)
(Increase) decrease in assets:		
Accounts receivable, net of allowance	150,899	62,308
Unbilled revenue	(334,774)	(35,688)
Other current assets	(107,032)	(16,454)
Homestead receivable	123,961	(765,160)
Increase (decrease) in liabilities:		
Accounts payable	60,375	121,815
Postretirement benefit obligation	(169,941)	(38,592)
Accrued taxes	108,417	61,487
Customers' deposits	(11,211)	(14,141)
Other current liabilities	100,251	(2,452)
Deferred credits	(156,587)	(164,331)
Homestead payable	(123,961)	765,160
Total adjustments	(1,629,742)	1,262,151
Net cash provided by operating activities	1,816,941	4,633,718
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and acquisition of utility plant	(6,723,662)	(4,481,386)
(Increase) in materials and supplies	(459,513)	(369,594)
Investments in associated organizations	5,093	4,853
Withdrawals of scholarship fund	19,952	7,256
Contributions to scholarship fund	(5,797)	(9,881)
Proceeds from redemption of capital credits	4,505,976	2,600,305
Net cash used in investing activities	(2,657,951)	(2,248,447)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds on line of credit	3,800,000	-
Proceeds from mortgage notes payable	1,251,851	2,000,000
Principal payments on mortgage notes payable	(1,631,083)	(1,584,834)
Patronage capital credits retired	(2,736,497)	(3,084,272)
Retired capital credits unclaimed	66,919	54,506
Appropriated margin (losses) gains	(14,156)	2,625
Actuarial gains	166,881	22,495
Net cash provided (used) by financing activities	903,915	(2,589,480)
Net increase (decrease) in cash and cash equivalents	62,905	(204,209)
CASH AND CASH EQUIVALENTS, beginning of year	225,791	430,000
CASH AND CASH EQUIVALENTS, end of year	\$ 288,696	\$ 225,791

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

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

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) 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).

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.

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%

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Leases

The Cooperative applies Accounting Standards Codification (ASC) 842 in the accounting for leases. The Cooperative determines if a contract contains a lease when the contract conveys the right to control the use of identified assets for a period in exchange for consideration. Upon identification and commencement of a lease, the Cooperative establishes a right-of-use (ROU) asset and a lease liability. The total lease term is determined by considering the initial term per the lease agreement, which is adjusted to include any renewal or termination options that the Cooperative is reasonably certain to exercise. The Cooperative does not recognize ROU assets and lease liabilities for leases with a term of 12 months or less. As a result of evaluating any contracts that may contain a lease, management of the Cooperative determined that ASC 842 does not have material impact on the Cooperative and therefore no ROU assets or lease liabilities are included in the financial statements.

Adoption of New Accounting Standard

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2016-02, "Leases (Topic 842)," which specifies the accounting for leases. The objective is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing and uncertainty of cash flows arising from a lease. This ASU introduces the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. The guidance was effective for annual reporting periods beginning after December 15, 2021 and interim periods within those fiscal years. The adoption of the guidance did not have a material impact on the Cooperative.

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

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 \$1,608,331 and \$1,533,865 for the years ended December 31, 2022 and 2021, respectively. There were no payments for federal income taxes for 2022 or 2021.

NOTE 3: ACCOUNTS RECEIVABLE AND REVENUE

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, 2022 and 2021 was \$36,342 and \$9,597, respectively. Bad debt expense for 2022 and 2021 was \$9,805 and \$1,920, respectively.

The Cooperative derives its revenues primarily from sales of electricity and natural gas. For such revenues, the Cooperative recognizes revenues in an amount derived from the electricity and natural gas delivered to customers.

The Cooperative calculates revenue earned but not yet billed based on meter readings completed at month-end.

The performance obligation in all arrangements is satisfied at a point in time because the customer simultaneously receives the benefits when the Cooperative delivers or sells the electricity and natural gas. The Cooperative records revenue for all of those sales based upon the volume delivered, which corresponds to the amount that the Cooperative has a right to invoice.

There are no material initial incremental costs of obtaining a contract in any of the arrangements. The Cooperative does not adjust the promised consideration for the effects of a significant financing component if it expects, at contract inception, that the time between the delivery of promised goods or service and customer payment will be one year or less. The Cooperative does not have any material significant payment terms because it receives payment at or shortly after the point of sale.

The Cooperative also has various other sources of revenue including billing, collection, other administrative charges, rent of utility property, and miscellaneous revenue. It classifies such revenues as other ASC 606 revenues to the extent they are not related to revenue generating activities from leasing.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4: UTILITY PLANT

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

	2022	2021
Distribution Plant	\$ 83,583,342	\$ 79,931,332
General Plant	15,703,197	15,404,091
Utility Plant in Service	99,286,539	95,335,423
Construction Work in Progress	7,306,204	5,265,594
Total Utility Plant at Cost	\$106,592,743	\$100,601,017

NOTE 5: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

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

	2022	2021
Investments in Associated Organizations:		
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC)	\$ 549,824	\$ 554,917
Buckeye Power, Inc. membership	416,969	416,969
Other investments in associated organizations	3,000	3,000
Total investments in associated organizations	\$ 969,793	\$ 974,886

NOTE 6: PATRONAGE CAPITAL FROM ASSOCIATED ORGANIZATIONS

Patronage Capital from associated organizations consisted of the following on December 31:

	2022	2021
Patronage Capital from Associated Organizations:		
United Utility Supply Cooperative Corporation	\$ 160,240	\$ 139,415
Buckeye Power, Inc.	26,528,442	26,572,534
NRUCFC	1,160,748	1,122,659
Federated Rural Electric Insurance Exchange	215,222	197,238
National Rural Telecommunications Co-op	57,146	63,916
National Information Solutions Cooperative	86,860	89,724
Cooperative Response Center, Inc.	5,891	5,629
CoBank Communications and Energy Group	10,474	9,100
Total patronage capital from associated organizations	\$ 28,225,023	\$ 28,200,215

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7: PATRONAGE CAPITAL

At December 31, 2022 and 2021, patronage capital consisted of:

	2022	2021
Patronage capital – assignable	\$ 3,446,683	\$ 3,371,567
Patronage capital – assigned to date	94,331,011	90,959,444
Total	97,777,694	94,331,011
Less: retirements to date	(43,432,657)	(40,696,160)
Total patronage capital	\$ 54,345,037	\$ 53,634,851

The Cooperative's equity balance represent 49.4 percent and 50.5 percent of the total assets at December 31, 2022 and 2021, respectively. Capital credit retirements in the amount of \$2,736,497 and \$3,084,272 were paid in 2022 and 2021, respectively.

Patronage capital at December 31, 2022 and 2021 includes \$29,694,172 and \$29,641,760, respectively, of capital credits allocated to the Cooperative from Buckeye Power, Inc. that were subsequently allocated to members of the Cooperative.

NOTE 8: OTHER EQUITIES

At December 31, 2022 and 2021, other equities consisted of:

	2022	2021
Retired capital credit gain	\$ 959,966	\$ 893,048
Appropriated margins	57,266	71,421
Subsidiary deficit	(242,157)	(242,157)
Total other equities	\$ 775,075	\$ 722,312

NOTE 9: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	2022	2021
Accumulated other comprehensive loss, beginning of year	\$ (17,736)	\$ (40,231)
Actuarial gain	166,881	22,495
Accumulated other comprehensive income (loss), end of year	\$ 149,145	\$ (17,736)

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10: EMPLOYEE POSTRETIREMENT BENEFITS

The Cooperative sponsors an unfunded defined benefit postretirement medical insurance plan, which covers all employees retiring from the Cooperative that were hired prior to January 1, 2006. 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:

	2022	2021
APBO, beginning of year	\$ 1,154,344	\$ 1,192,936
Service cost	19,819	20,637
Interest cost	30,283	28,200
Actuarial gain (See Note 9)	(166,881)	(22,495)
Less: expected benefit payments	(53,162)	(64,934)
APBO, end of year	984,403	1,154,344
Less: current portion	(70,636)	(53,162)
APBO, long-term portion	\$ 913,767	\$ 1,101,182

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

2023	\$ 70,636
2024	86,166
2025	101,771
2026	105,479
2027	94,743
2028-2031	367,389

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

	Pre-Age 65 Medical & Drug	Post-Age 65 Medical & Drug
2023	6.63%	4.68%
2024	6.30%	4.53%
2025	5.88%	4.38%
2026	5.53%	4.30%
2027	5.18%	4.30%
2028 and later	5.00%	4.30%

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 5.00 percent.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11: 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 cost for 2022 and 2021 was \$770,715 and \$758,342, 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's cost was \$187,136 and \$186,854 for the years ended December 31, 2022 and 2021, respectively.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12: 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, 2022 and 2021:

Fixed Interest Rate	Maturity Date	2022	2021
4.850%	10/1/2023	\$ 42,781	\$ 97,468
4.400%	9/30/2028	210,595	242,111
4.700%-4.950%	3/31/2038	2,739,027	2,936,175
4.500%-4.750%	6/30/2042	2,038,787	2,104,772
4.750%	12/31/2043	1,895,535	1,947,097
2.800%-5.750%	9/30/2045	5,954,413	6,286,736
3.240%-6.300%	9/30/2052	18,443,193	16,373,443
4.250%	3/31/2032	427,916	461,588
4.350%	12/31/2036	313,999	329,260
4.350%	6/30/2037	319,662	334,503
4.670%	9/30/2040	734,397	758,936
4.430%	12/29/2041	602,355	621,478
4.670%	12/29/2041	1,061,057	1,093,832
3.730%	10/1/2035	1,115,996	1,181,645
5.220%	10/1/2039	270,133	284,167
5.220%	12/1/2040	126,006	132,146
5.220%	1/1/2039	229,305	242,053
5.220%	2/1/2043	99,770	103,963
2.750%	11/1/2041	-	1,249,033
5.220%	3/1/2042	774,706	809,233
3.620%	9/4/2039	1,153,542	1,201,922
3.790%	11/1/2042	339,664	350,850
3.730%	1/2/2043	1,180,536	1,219,683
3.150%	2/1/2026	340,033	430,546
Total mortgage notes		40,413,408	40,792,640
Less: current portion of mortgage notes		1,577,289	1,680,163
Long-term mortgage notes payable		<u>\$ 38,836,119</u>	<u>\$ 39,112,477</u>

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12: LONG-TERM DEBT (Continued)

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

2022	\$	1,577,289
2023		1,548,907
2024		1,611,907
2025		1,625,848
2026		1,640,071
Thereafter		32,409,386
		<hr/>
	\$	<u>40,413,408</u>

The Cooperative had a \$20,000,000 loan facility 9027 under the Power Vision loan arrangement with National Rural Utilities Cooperative Finance Corporation. As of December 31, 2022 the funds have been completely drawn down. As of December 31, 2021 \$17,546,702 was drawn on this loan facility.

The Cooperative entered into an additional \$20,000,000 loan facility 9028 under the Power Vision loan arrangement with National Rural Utilities Cooperative Finance Corporation during 2022. As of December 31, 2022 no draws have been made on this loan facility.

NOTE 13: 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, 2022. The interest rate on the line of credit was 5.55 and 2.25 percent at December 31, 2022 and 2021, respectively, with outstanding balances on the line of \$0 for both 2022 and 2021. 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 has established an unsecured short-term line of credit with CoBank in the amount of \$5,000,000. The interest rate was 6.35% and 2.41% at December 31, 2022 and 2021, respectively, with outstanding balances on the line of \$3,800,000 and \$0, respectively for both 2022 and 2021. The line of credit matures June 2023.

NOTE 14: 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 \$3,274,528 and \$3,410,388 at December 31, 2022 and 2021, respectively.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14: COMMITMENTS AND RELATED PARTY TRANSACTIONS (Continued)

Generation and transmission demand costs are billed to the cooperative based on past contributions to peak demands and will continue to be billed for a set period of time after the Balance Sheet date. Since demand can be highly variable depending on the weather and other factors, the billing is spread over future time periods. As a result, the cooperative has trailing obligations to pay generation and transmission demand charges to power providers for up to 17 months beyond the Balance Sheet date. The cooperative has contracted with some major customers to offset a portion of this future commitment. The remaining unbilled obligation for generation and transmission demand is expected to be offset by future billings to current and future customers.

The Cooperative purchases material from the United Utility Supply Cooperative of which it is an owner and member. Total purchases were \$1,350,985 and \$809,568 for the years ended December 31, 2022 and 2021, 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 \$206,229 and \$208,146 for the years ended December 31, 2022 and 2021, respectively.

The Cooperative borrows funds from National Rural Utilities Cooperative Finance Corporation of which it is a member and owner (see also Notes 12 and 13).

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 \$29,406 and \$25,826 for the years ended December 31, 2022 and 2021, respectively.

The Cooperative maintains insurance coverage through Federated Rural Electric Insurance Exchange of which it is a member and owner. Total premiums paid were \$142,415 and \$135,702 for the years ended December 31, 2022 and 2021, respectively.

The Cooperative had investments in Rural Americas Cooperative Bank (CoBank) of \$1,000 as of December 31, 2022 and 2021 and patronage capital in CoBank of \$10,474 and \$9,100 as of December 31, 2022 and 2021, respectively. In addition the Cooperative has established an unsecured short-term line of credit with CoBank in the amount of \$5,000,000 that accrues interest at a current rate of 6.35% and matures June 2023. There was an outstanding balance of \$3,800,000 and \$0 as of December 31, 2022 and 2021, respectively.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15: 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 16: SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 15, 2023, the date on which the financial statements were issued.

The Cooperative has entered into an agreement with a third party related to a load within its electric service territory. The Cooperative will cede the right to provide service to the load in exchange for a lump sum payment of the present value of the projected margins over the next 20 years.

NOTE 17: DEFERRED CREDITS

Deferred credits are summarized as follows:

	<u>2022</u>	<u>2021</u>
Consumer utility prepayments	<u>\$ 2,490,875</u>	<u>\$ 2,647,462</u>