

Union Rural Electric  
Cooperative, Inc.  
*Audited Financial Statements*

December 31, 2023 and 2022

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## 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, 2023 and 2022, 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, 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). 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, 2023 and 2022, the Cooperative received \$1,000,000 and \$1,251,851, 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 8, 2024

UNION RURAL ELECTRIC COOPERATIVE, INC.

BALANCE SHEETS  
AS OF DECEMBER 31, 2023 AND 2022

ASSETS

	<u>2023</u>	<u>2022</u>
<b>UTILITY PLANT:</b>		
Utility plant in service	\$ 106,211,668	\$ 99,286,539
Construction work in progress	5,020,528	7,306,204
	111,232,196	106,592,743
Less: provision for accumulated depreciation	36,678,628	34,195,096
Net utility plant	74,553,568	72,397,647
<b>OTHER ASSETS AND INVESTMENTS:</b>		
Investments in associated organizations	962,738	969,793
Patronage capital from associated organizations	28,893,119	28,225,023
Homestead receivable	712,365	641,199
Union Rural Electric scholarship fund	85,464	57,266
Total other assets and investments	30,653,686	29,893,281
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	293,578	288,696
Accounts receivable, net of allowance	2,497,592	2,295,208
of \$25,806 and \$36,342 for 2023 and 2022, respectively		
Unbilled revenue	3,173,884	3,295,070
Materials and supplies	3,699,219	3,281,872
Other current assets	277,911	370,052
Total current assets	9,942,184	9,530,898
Total assets	\$ 115,149,438	\$ 111,821,826

EQUITIES AND LIABILITIES

	<u>2023</u>	<u>2022</u>
EQUITY:		
Patronage capital	\$ 54,838,347	\$ 54,345,037
Other equities	4,359,771	775,075
Accumulated other comprehensive income	116,518	149,145
	<hr/>	<hr/>
Total equity	59,314,636	55,269,257
LONG-TERM LIABILITIES:		
Mortgage notes payable	38,293,502	38,836,119
Deferred credits	1,661,980	1,878,788
Postretirement benefit obligation	913,039	913,767
Homestead retirement payable	700,927	630,001
	<hr/>	<hr/>
Total long-term liabilities	41,569,448	42,258,675
CURRENT LIABILITIES:		
Current maturities of mortgage notes payable	1,571,924	1,577,289
Line of credit	3,300,000	3,800,000
Accounts payable	4,945,808	4,717,231
Postretirement benefit obligation, current portion	87,525	70,636
Accrued taxes	2,133,903	2,061,183
Customers' deposits	165,858	176,052
Deferred credits, current portion	668,478	612,087
Current portion of Homestead retirement payable	11,438	11,198
Other current liabilities	1,380,420	1,268,218
	<hr/>	<hr/>
Total current liabilities	14,265,354	14,293,894
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Total equities and liabilities	\$ 115,149,438	\$ 111,821,826
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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, 2023 AND 2022

	2023	2022
OPERATING REVENUES	\$ 60,893,578	\$ 60,854,003
OPERATING EXPENSES:		
Cost of purchased power	42,851,745	43,470,635
Operations	3,359,795	3,240,907
Maintenance	1,890,953	1,670,145
Consumer accounts	737,346	755,287
Customer service and informational expense	907,514	820,456
Administrative and general	3,991,304	3,592,166
Depreciation	3,257,401	3,105,311
Tax expense	1,317,194	1,361,761
Interest - other	4,832	5,466
Other deductions	62,113	87,130
	58,380,197	58,109,264
Total cost of electric service		
Operating margins before fixed charges	2,513,381	2,744,739
FIXED CHARGES, interest on long-term debt	1,820,499	1,620,593
	692,882	1,124,146
Operating margins after fixed charges		
PATRONAGE CAPITAL CREDITS:		
Generation and transmission credits	2,287,616	2,143,064
Other credits	227,526	158,023
	2,515,142	2,301,087
Net operating margins	3,208,024	3,425,233
NON-OPERATING MARGINS:		
Interest income	26,442	21,881
Other items - loss	(4,897)	(2,996)
Gain on disposition of property	3,000	2,565
	24,545	21,450
Net margins	3,232,569	3,446,683
UNUSUAL AND INFREQUENT INCOME	3,500,000	-
OTHER COMPREHENSIVE INCOME:		
Actuarial (loss) gain	(32,627)	166,881
Comprehensive income	\$ 6,699,942	\$ 3,613,564

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, 2023 AND 2022

	2023	2022
PATRONAGE CAPITAL, beginning of year	\$ 54,345,037	\$ 53,634,851
Net margins	3,232,569	3,446,683
Retirement of capital credits	(2,739,259)	(2,736,497)
PATRONAGE CAPITAL, end of year	\$ 54,838,347	\$ 54,345,037

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, 2023 AND 2022

	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net margins	\$ 3,232,569	\$ 3,446,683
Adjustments to reconcile net margins to net cash provided by operating activities:		
Unusual and infrequent income	3,500,000	-
Depreciation	3,257,401	3,105,311
Amortization of retirement security plan prepayment	-	157,899
Gain on disposition of property	(3,000)	(2,565)
Non-cash capital credits received	(2,514,440)	(4,530,784)
(Increase) decrease in assets:		
Accounts receivable, net of allowance	(202,384)	150,899
Unbilled revenue	121,186	(334,774)
Other current assets	92,141	(107,032)
Homestead receivable	(71,166)	123,961
Increase (decrease) in liabilities:		
Accounts payable	228,577	60,375
Postretirement benefit obligation	16,161	(169,941)
Accrued taxes	72,720	108,417
Customers' deposits	(10,194)	(11,211)
Other current liabilities	112,202	100,251
Deferred credits	(160,417)	(156,587)
Homestead payable	71,166	(123,961)
Total adjustments	1,009,953	(1,629,742)
Net cash provided by operating activities	4,242,522	1,816,941
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Construction and acquisition of utility plant	(5,413,322)	(6,726,227)
Proceeds from disposition of property	3,000	2,565
Increase in materials and supplies	(417,347)	(459,513)
Investments in associated organizations	7,055	5,093
Withdrawals of scholarship fund	9,882	19,952
Contributions to scholarship fund	(38,080)	(5,797)
Proceeds from redemption of capital credits	1,846,344	4,505,976
Net cash used in investing activities	(4,002,468)	(2,657,951)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net (payment) proceeds on line of credit	(500,000)	3,800,000
Proceeds from mortgage notes payable	1,000,000	1,251,851
Principal payments on mortgage notes payable	(1,547,982)	(1,631,083)
Patronage capital credits retired	(2,739,259)	(2,736,497)
Retired capital credits unclaimed	56,498	66,919
Appropriated margin gains (losses)	28,198	(14,156)
Actuarial (losses) gains	(32,627)	166,881
Net cash (used) provided by financing activities	(235,172)	903,915
Net increase in cash and cash equivalents	4,882	62,905
CASH AND CASH EQUIVALENTS, beginning of year	288,696	225,791
CASH AND CASH EQUIVALENTS, end of year	\$ 293,578	\$ 288,696

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 June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which (1) significantly changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model and (2) provides for recording credit losses on available for sale debt securities through an allowance account. The update requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model. The guidance is effective for the Cooperative beginning January 1, 2023, with earlier adoption permitted.

The Cooperative adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the financial statements and primarily resulted in new/enhanced disclosures only.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 \$1,803,238 and \$1,608,331 for the years ended December 31, 2023 and 2022, respectively. There were no payments for federal income taxes for 2023 or 2022.

NOTE 3: 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 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.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3: REVENUE (Continued)

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.

NOTE 4: ACCOUNTS RECEIVABLE

The Cooperative operates in the electric cooperative industry and its accounts receivable are primarily derived from consumer electricity consumption. Effective January 1, 2023, at each balance sheet date, the Cooperative recognizes an expected allowance for credit losses. In addition, also at each reporting date, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded. This estimate is calculated on a pooled basis where similar risk characteristics exist.

The allowance estimate is derived from a review of the Cooperative's historical losses based on the aging of receivables. This estimate is adjusted for management's assessment of current conditions and reasonable and supportable forecasts regarding future events. The Cooperative believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses as the Cooperative's customers have remained constant since the Cooperative's inception.

The Cooperative writes off receivables when there is information that indicates the debtor is facing significant financial difficulty and there is no possibility of recovery. If any recoveries are made from any accounts previously written off, they will be recognized in income or an offset to credit loss expense in the year of recovery, in accordance with the Cooperative's accounting policy election. The total amount of write-offs was not material to the financial statements as a whole for the year ended December 31, 2023.

The Cooperative had an accounts receivable balance, net of allowance, of \$2,446,107 as of January 1, 2022.

NOTE 5: UTILITY PLANT

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

	2023	2022
Distribution Plant	\$ 90,249,016	\$ 83,583,342
General Plant	15,962,652	15,703,197
Utility Plant in Service	106,211,668	99,286,539
Construction Work in Progress	5,020,528	7,306,204
Total Utility Plant at Cost	\$111,232,196	\$106,592,743

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

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

	2023	2022
Investments in Associated Organizations:		
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC)	\$ 542,769	\$ 549,824
Buckeye Power, Inc. membership	416,969	416,969
Other investments in associated organizations	3,000	3,000
Total investments in associated organizations	\$ 962,738	\$ 969,793

NOTE 7: PATRONAGE CAPITAL FROM ASSOCIATED ORGANIZATIONS

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

	2023	2022
Patronage Capital from Associated Organizations:		
United Utility Supply Cooperative Corporation	\$ 233,039	\$ 160,240
Buckeye Power, Inc.	27,071,678	26,528,442
NRUCFC	1,203,512	1,160,748
Federated Rural Electric Insurance Exchange	223,346	215,222
National Rural Telecommunications Co-op	52,977	57,146
National Information Solutions Cooperative	88,728	86,860
Cooperative Response Center, Inc.	5,891	5,891
CoBank Communications and Energy Group	13,948	10,474
Total patronage capital from associated organizations	\$ 28,893,119	\$ 28,225,023

NOTE 8: PATRONAGE CAPITAL

At December 31, 2023 and 2022, patronage capital consisted of:

	2023	2022
Patronage capital – assignable	\$ 3,232,569	\$ 3,446,683
Patronage capital – assigned to date	97,777,694	94,331,011
Total	101,010,263	97,777,694
Less: retirements to date	(46,171,916)	(43,432,657)
Total patronage capital	\$ 54,838,347	\$ 54,345,037

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8: PATRONAGE CAPITAL (Continued)

The Cooperative's patronage capital balance represent 47.6 percent and 48.6 percent of the total assets at December 31, 2023 and 2022, respectively. Capital credit retirements in the amount of \$2,739,259 and \$2,736,497 were paid in 2023 and 2022, respectively.

Patronage capital at December 31, 2023 and 2022 includes \$29,885,816 and \$29,694,172, respectively, of capital credits allocated to the Cooperative from Buckeye Power, Inc. that were subsequently allocated to members of the Cooperative.

NOTE 9: OTHER EQUITIES

At December 31, 2023 and 2022, other equities consisted of:

	2023	2022
Retired capital credit gain	\$ 1,016,464	\$ 959,966
Appropriated margins	85,464	57,266
Contribution of permanent capital	3,500,000	-
Subsidiary deficit	(242,157)	(242,157)
Total other equities	\$ 859,771	\$ 775,075

NOTE 10: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	2023	2022
Accumulated other comprehensive income (loss), beginning of year	\$ 149,145	\$ (17,736)
Actuarial (loss) gain	(32,627)	166,881
Accumulated other comprehensive income, end of year	\$ 116,518	\$ 149,145

NOTE 11: 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).

NRECA 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.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11: EMPLOYEE POSTRETIREMENT BENEFITS (Continued)

The following table sets forth the plan's accrued postretirement benefit obligation ("APBO") at December 31:

	2023	2022
APBO, beginning of year	\$ 984,403	\$ 1,154,344
Service cost	15,863	19,819
Interest cost	45,688	30,283
Actuarial loss (gain) (See Note 10)	32,627	(166,881)
Less: expected benefit payments	(78,017)	(53,162)
APBO, end of year	1,000,564	984,403
Less: current portion	(87,525)	(70,636)
APBO, long-term portion	\$ 913,039	\$ 913,767

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

2024	\$ 87,525
2025	103,528
2026	107,339
2027	96,357
2028	82,043
2029-2033	433,849

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
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 4.85 percent.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12: 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 2023 and 2022 was \$948,234 and \$770,715, 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 \$232,898 and \$187,136 for the years ended December 31, 2023 and 2022, respectively.

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 amortized 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 was accounted for in accordance with the RUS USOA.

NOTE 14: DEFERRED CREDITS

Deferred credits are summarized as follows:

	<u>2023</u>	<u>2022</u>
Consumer utility prepayments	<u>\$ 2,330,458</u>	<u>\$ 2,490,875</u>

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15: 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, 2023 and 2022:

Fixed Interest Rate	Maturity Date	#	2023	2022
4.850%	10/1/2023	\$	-	\$ 42,781
4.400%	9/30/2028		177,670	210,595
4.700%-4.950%	3/31/2038		2,532,166	2,739,027
4.500%-4.750%	6/30/2042		1,969,721	2,038,787
4.750%	12/31/2043		1,841,482	1,895,535
4.450%-7.250%	9/30/2045		5,750,095	5,954,413
3.240%-7.250%	9/30/2052		17,993,910	18,443,193
6.270%-7.060%	3/31/2053		994,356	-
4.250%	3/31/2032		392,798	427,916
4.350%	12/31/2036		298,067	313,999
4.350%	6/30/2037		304,168	319,662
4.670%	9/30/2040		708,698	734,397
4.430%	12/29/2041		582,378	602,355
4.670%	12/29/2041		1,026,733	1,061,057
3.730%	10/1/2035		1,047,876	1,115,996
6.557%	10/1/2039		255,907	270,133
6.557%	12/1/2040		119,783	126,006
6.557%	1/1/2039		216,384	229,305
6.557%	2/1/2043		95,519	99,770
6.557%	3/1/2042		739,712	774,706
3.620%	9/4/2039		1,103,394	1,153,542
3.790%	11/1/2042		328,050	339,664
3.730%	1/2/2043		1,139,913	1,180,536
3.150%	2/1/2026		246,646	340,033
Total mortgage notes			39,865,426	40,413,408
Less: current portion of mortgage notes			1,571,924	1,577,289
Long-term mortgage notes payable			<u>\$ 38,293,502</u>	<u>\$ 38,836,119</u>

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15: LONG-TERM DEBT (Continued)

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

2024	\$	1,571,924
2025		1,638,010
2026		1,577,777
2027		1,645,715
2028		1,706,415
Thereafter		31,725,585
		<hr/>
	\$	<u>39,865,426</u>

The Cooperative entered into \$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, 2023 and 2022, the facility made draws of \$1,000,000 and \$0, respectively.

NOTE 16: 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, 2023. The interest rate on the line of credit was 7.05% and 5.55% at December 31, 2023 and 2022, respectively, with outstanding balances on the line of \$0 for both 2023 and 2022. 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 7.41% and 6.35% at December 31, 2023 and 2022, respectively, with outstanding balances on the line of \$3,300,000 and \$3,800,000, respectively for both 2023 and 2022. The line of credit matures October 2024.

NOTE 17: 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 \$3,552,375 and \$3,274,528 at December 31, 2023 and 2022, respectively.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17: 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 \$1,797,852 and \$1,350,985 for the years ended December 31, 2023 and 2022, 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 \$228,121 and \$206,229 for the years ended December 31, 2023 and 2022, respectively.

The Cooperative borrows funds from National Rural Utilities Cooperative Finance Corporation of which it is a member and owner (see also Notes 15 and 16).

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 \$32,359 and \$29,406 for the years ended December 31, 2023 and 2022, respectively.

The Cooperative maintains insurance coverage through Federated Rural Electric Insurance Exchange of which it is a member and owner. Total premiums paid were \$166,575 and \$142,415 for the years ended December 31, 2023 and 2022, respectively.

The Cooperative had investments in Rural Americas Cooperative Bank (CoBank) of \$1,000 as of December 31, 2023 and 2022 and patronage capital in CoBank of \$13,948 and \$10,474 as of December 31, 2023 and 2022, 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 7.41% and matures October 2024. There was an outstanding balance of \$3,300,000 and \$3,800,000 as of December 31, 2023 and 2022, respectively.

NOTE 18: UNUSUAL AND INFREQUENT INCOME

During 2023, the Cooperative entered into an agreement with a third party related to a load within its electric service territory. The Cooperative ceded the right to provide service to the load in exchange for a lump sum payment of \$3,500,000, which represented the present value of the projected margins over the next 20 years.

NOTE 19: SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 8 2024, the date on which the financial statements were issued.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 20: RECLASSIFICATIONS

Certain reclassifications have been made to the 2022 financial statements to conform to the 2023 financial statement presentation. Such reclassifications had no effect on net income as previously reported.