

Union Rural Electric
Cooperative, Inc.

Audited Financial Statements

December 31, 2021 and 2020



Rea & associates

www.reacpa.com

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, 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 2020, the Cooperative received \$2,000,000 and \$4,500,000, 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.

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, 2022

UNION RURAL ELECTRIC COOPERATIVE, INC.

BALANCE SHEETS
AS OF DECEMBER 31, 2021 AND 2020

ASSETS

	2021	2020
	<hr/>	<hr/>
UTILITY PLANT:		
Utility plant in service	\$ 95,335,423	\$ 92,602,808
Construction work in progress	5,265,594	3,977,973
	<hr/>	<hr/>
	100,601,017	96,580,781
Less: provision for accumulated depreciation	31,824,286	29,323,948
	<hr/>	<hr/>
Net utility plant	68,776,731	67,256,833
OTHER ASSETS AND INVESTMENTS:		
Retirement security plan prepayment	157,899	315,798
Investments in associated organizations	974,886	979,739
Patronage capital from associated organizations	28,200,215	28,969,332
Homestead receivable	765,160	-
Union Rural Electric scholarship fund	71,421	68,796
	<hr/>	<hr/>
Total other assets and investments	30,169,581	30,333,665
CURRENT ASSETS:		
Cash and cash equivalents	225,791	430,000
Accounts receivable, net of allowance	2,446,107	2,508,415
Unbilled revenue	2,960,296	2,924,608
Materials and supplies	2,822,359	2,452,765
Other current assets	263,020	246,566
	<hr/>	<hr/>
Total current assets	8,717,573	8,562,354
	<hr/>	<hr/>
Total assets	\$ 107,663,885	\$ 106,152,852
	<hr/> <hr/>	<hr/> <hr/>

EQUITIES AND LIABILITIES

	2021	2020
EQUITY:		
Patronage capital	\$ 53,634,851	\$ 53,347,556
Other equities	722,312	665,181
Accumulated other comprehensive loss	(17,736)	(40,231)
Total equity	54,339,427	53,972,506
LONG-TERM LIABILITIES:		
Mortgage notes payable	39,112,477	38,753,759
Deferred credits	2,647,462	2,811,793
Postretirement benefit obligation	1,101,182	1,128,002
Homestead retirement payable	750,766	-
Total long-term liabilities	43,611,887	42,693,554
CURRENT LIABILITIES:		
Current maturities of mortgage notes payable	1,680,163	1,623,715
Accounts payable	4,656,856	4,535,041
Postretirement benefit obligation, current portion	53,162	64,934
Accrued taxes	1,952,766	1,891,279
Customers' deposits	187,263	201,404
Current portion of Homestead retirement payable	14,394	-
Other current liabilities	1,167,967	1,170,419
Total current liabilities	9,712,571	9,486,792
Total equities and liabilities	\$ 107,663,885	\$ 106,152,852

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, 2021 AND 2020

	2021	2020
OPERATING REVENUES	\$ 59,142,996	\$ 55,147,004
OPERATING EXPENSES:		
Cost of purchased power	42,451,421	39,130,222
Operations	3,133,229	2,975,243
Maintenance	1,432,844	1,434,334
Consumer accounts	688,702	690,642
Customer service and informational expense	829,186	746,316
Administrative and general	3,295,886	3,048,074
Depreciation	2,997,113	2,947,400
Tax expense	1,303,106	1,268,118
Interest - other	5,722	5,721
Other deductions	3,119	2,812
Total cost of electric service	56,140,328	52,248,882
Operating margins before fixed charges	3,002,668	2,898,122
FIXED CHARGES, interest on long-term debt	1,520,902	1,502,708
Operating margins after fixed charges	1,481,766	1,395,414
PATRONAGE CAPITAL CREDITS:		
Generation and transmission credits	1,668,643	2,015,827
Other credits	162,544	118,802
Net operating margins	1,831,187	2,134,629
Net operating margins	3,312,953	3,530,043
NON-OPERATING MARGINS:		
Interest income	20,671	31,016
Other loss	2,318	(60,835)
Gain on disposition of property	35,625	17,253
Net margins	58,614	(12,566)
Net margins	3,371,567	3,517,477
OTHER COMPREHENSIVE INCOME:		
Actuarial gain	22,495	42,720
Comprehensive income	\$ 3,394,062	\$ 3,560,197

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, 2021 AND 2020

	2021	2020
PATRONAGE CAPITAL, beginning of year	\$ 53,347,556	\$ 53,427,201
Net margins	3,371,567	3,517,477
Retirement of capital credits	(3,084,272)	(3,597,122)
PATRONAGE CAPITAL, end of year	<u>\$ 53,634,851</u>	<u>\$ 53,347,556</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, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margins	\$ 3,371,567	\$ 3,517,477
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	2,997,113	2,947,400
Amortization of retirement security plan prepayment	157,899	157,899
Gain on disposition of property	(35,625)	(17,253)
Non-cash capital credits received	(1,831,188)	(2,137,380)
(Increase) decrease in assets:		
Accounts receivable, net of allowance	62,308	93,831
Unbilled revenue	(35,688)	(320,107)
Other current assets	(16,454)	(31,806)
Homestead receivable	(765,160)	-
Increase (decrease) in liabilities:		
Accounts payable	121,815	752,654
Postretirement benefit obligation	(38,592)	(77,692)
Accrued taxes	61,487	26,600
Customers' deposits	(14,141)	7,893
Other current liabilities	(2,452)	87,761
Deferred credits	(164,331)	(162,106)
Homestead payable	765,160	-
Total adjustments	1,262,151	1,327,694
Net cash provided by operating activities	4,633,718	4,845,171
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and acquisition of utility plant	(4,481,386)	(5,991,060)
(Increase) decrease in materials and supplies	(369,594)	313,081
Investments in associated organizations	4,853	12,374
Withdrawals of scholarship fund	7,256	15,207
Contributions to scholarship fund	(9,881)	(15,628)
Proceeds from redemption of capital credits	2,600,305	1,719,731
Net cash used in investing activities	(2,248,447)	(3,946,295)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from mortgage notes payable	2,000,000	4,500,000
Principal payments on mortgage notes payable	(1,584,834)	(1,747,498)
Patronage capital credits retired	(3,084,272)	(3,597,122)
Retired capital credits unclaimed	54,506	35,482
Appropriated margin gains	2,625	421
Actuarial gains	22,495	42,720
Net cash used by financing activities	(2,589,480)	(765,997)
Net (decrease) increase in cash and cash equivalents	(204,209)	132,879
CASH AND CASH EQUIVALENTS, beginning of year	430,000	297,121
CASH AND CASH EQUIVALENTS, end of year	\$ 225,791	\$ 430,000

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)(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).

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.

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 \$1,533,865 and \$1,530,731 for the years ended December 31, 2021 and 2020, respectively. There were no payments for federal income taxes for 2021 or 2020.

Workers' Compensation

During 2020, the Ohio Bureau of Workers' Compensation approved three dividends. The dividend in late April represented a rebate for the 2018 policy year. The dividend in October represented a rebate for the 2019 policy year. The November dividend was not a rebate of premium for any given year. The Cooperative has elected to record these dividends totaling \$129,389 against labor costs and spread them to the appropriate accounts through the work order system.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

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, 2021 and 2020 was \$9,597 and \$13,877, respectively. Bad debt expense for 2021 and 2020 was \$1,920 and \$17,238, 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. Differences between actual and estimated unbilled revenue are immaterial.

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.

NOTE 4: UTILITY PLANT

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

	2021	2020
Distribution Plant	\$ 79,931,332	\$ 77,412,877
General Plant	15,404,091	15,189,931
Utility Plant in Service	95,335,423	92,602,808
Construction Work in Progress	5,265,594	3,977,973
Total Utility Plant at Cost	\$100,601,017	\$ 96,580,781

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

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

	2021	2020
Investments in Associated Organizations:		
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC)	\$ 554,917	\$ 559,770
Buckeye Power, Inc. membership	416,969	416,969
Other investments in associated organizations	3,000	3,000
Total investments in associated organizations	\$ 974,886	\$ 979,739

NOTE 6: PATRONAGE CAPITAL FROM ASSOCIATED ORGANIZATIONS

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

	2021	2020
Patronage Capital from Associated Organizations:		
United Utility Supply Cooperative Corporation	\$ 139,415	\$ 117,197
Buckeye Power, Inc.	26,572,534	27,414,989
NRUCFC	1,122,659	1,083,317
Federated Rural Electric Insurance Exchange	197,238	187,764
National Rural Telecommunications Co-op	63,916	69,200
National Information Solutions Cooperative	89,724	81,100
Cooperative Response Center, Inc.	5,629	7,941
CoBank Communications and Energy Group	9,100	7,824
Total patronage capital from associated organizations	\$ 28,200,215	\$ 28,969,332

NOTE 7: PATRONAGE CAPITAL

At December 31, 2021 and 2020, patronage capital consisted of:

	2021	2020
Patronage capital – assignable	\$ 3,371,567	\$ 3,517,477
Patronage capital – assigned to date	90,959,444	87,441,967
Total	94,331,011	90,959,444
Less: retirements to date	(40,696,160)	(37,611,888)
Total patronage capital	\$ 53,634,851	\$ 53,347,556

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7: PATRONAGE CAPITAL (Continued)

The Cooperative's equity balance represent 50.5 percent and 50.8 percent of the total assets at December 31, 2021 and 2020, respectively. Capital credit retirements in the amount of \$3,084,272 and \$3,597,122 were paid in 2021 and 2020, respectively.

Patronage capital at December 31, 2021 and 2020 includes \$29,641,760 and \$29,035,185, 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, 2021 and 2020, other equities consisted of:

	2021	2020
Retired capital credit gain	\$ 893,048	\$ 838,542
Appropriated margins	71,421	68,796
Subsidiary deficit	(242,157)	(242,157)
Total other equities	\$ 722,312	\$ 665,181

NOTE 9: ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	2021	2020
Accumulated other comprehensive loss, beginning of year	\$ (40,231)	\$ (82,951)
Actuarial gain	22,495	42,720
Accumulated other comprehensive loss, end of year	\$ (17,736)	\$ (40,231)

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:

	2021	2020
APBO, beginning of year	\$ 1,192,936	\$ 1,270,628
Service cost	20,637	24,025
Interest cost	28,200	40,407
Actuarial gain (See Note 9)	(22,495)	(42,720)
Less: expected benefit payments	(64,934)	(99,404)
APBO, end of year	1,154,344	1,192,936
Less: current portion	(53,162)	(64,934)
APBO, long-term portion	\$ 1,101,182	\$ 1,128,002

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

2022		\$ 53,162
2023		70,072
2024		85,101
2025		100,194
2026		103,744
2027-2031		357,758

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10: 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>
2022	6.40%	4.60%
2023	6.00%	4.60%
2024	5.80%	4.60%
2025	5.60%	4.60%
2026	5.40%	4.60%
2027	5.20%	4.60%
2028 and later	5.00%	4.60%

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 2.75 percent.

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 2021 and 2020 was \$758,342 and \$692,771, 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 \$186,854 and \$177,714 for the years ended December 31, 2021 and 2020, 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, 2021 and 2020:

Fixed Interest Rate	Maturity Date	2021	2020
4.850%	10/1/2023	\$ 97,468	\$ 149,581
4.400%	9/30/2028	242,111	272,277
4.700%-4.950%	3/31/2038	2,936,175	3,124,064
4.500%-4.750%	6/30/2042	2,104,772	2,167,815
4.750%	12/31/2043	1,947,097	1,996,280
2.450% -5.150%	9/30/2045	6,286,736	6,607,327
3.240% -4.550%	9/30/2051	16,373,443	14,722,820
4.250%	3/31/2032	461,588	493,873
4.350%	12/31/2036	329,260	343,878
4.350%	6/30/2037	334,503	348,718
4.670%	9/30/2040	758,936	782,368
4.430%	12/29/2041	621,478	639,781
4.670%	12/29/2041	1,093,832	1,125,129
3.730%	10/1/2035	1,181,645	1,244,912
3.449%	10/1/2039	284,167	298,013
3.449%	12/1/2040	132,146	138,203
3.449%	1/1/2039	242,053	254,628
4.350%	2/1/2021	-	35,161
1.199%	2/1/2043	103,963	108,100
2.750%	11/1/2041	1,249,033	1,295,338
1.199%	3/1/2042	809,233	843,301
3.620%	9/4/2039	1,201,922	1,248,598
3.790%	11/1/2042	350,850	361,624
3.730%	1/2/2043	1,219,683	1,257,410
3.150%	2/1/2026	430,546	518,275
Total mortgage notes		40,792,640	40,377,474
Less: current portion of mortgage notes		1,680,163	1,623,715
Long-term mortgage notes payable		<u>\$ 39,112,477</u>	<u>\$ 38,753,759</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:

2021	\$	1,680,163
2022		1,587,308
2023		1,555,001
2024		1,613,674
2025		1,622,972
Thereafter		32,733,522
		<u>\$ 40,792,640</u>

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, 2021. The interest rate on the line of credit was 2.25 percent at December 31, 2021 and 2020, with outstanding balances on the line of \$0 for both 2021 and 2020. 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, 2021 and 2020, \$16,373,443 and \$14,722,820 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 2.41% and 2.45% at December 31, 2021 and 2020, respectively, with outstanding balances on the line of \$0 for both 2021 and 2020. The line of credit matures June 2022.

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 \$3,410,388 and \$3,348,261 at December 31, 2021 and 2020, 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, formerly, Rural Electric Supply Cooperative, Inc., of which it is an owner and member. Total purchases were \$809,568 and \$987,400 for the years ended December 31, 2021 and 2020, 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 \$208,146 and \$172,855 for the years ended December 31, 2021 and 2020, respectively.

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

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 \$25,826 and \$25,633 for the years ended December 31, 2021 and 2020, respectively.

The Cooperative maintains insurance coverage through Federated Rural Electric Insurance Exchange of which it is a member and owner. Total premiums paid were \$135,702 and \$118,062 for the years ended December 31, 2021 and 2020, respectively.

The Cooperative had investments in Rural Americas Cooperative Bank (CoBank) of \$1,000 as of December 31, 2021 and 2020 and patronage capital in CoBank of \$9,100 and \$7,824 as of December 31, 2021 and 2020, respectively. In addition the Cooperative has established an unsecured short-term line of credit with CoBank in the amount of \$2,000,000 that accrues interest at a current rate of 2.41% and matures June 2022. There was no outstanding balance at December 31, 2021 or 2020.

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, 2022, the date on which the financial statements were issued.

NOTE 17: DEFERRED CREDITS

Deferred credits are summarized as follows:

	<u>2021</u>	<u>2020</u>
Consumer utility prepayments	<u>\$ 2,647,462</u>	<u>\$ 2,811,793</u>

NOTE 18: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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 Cooperative's balance sheet 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, 2021. Early implementation is permitted. Management has determined this new standard will not have a material effect on its financial statements.