

Union Rural Electric
Cooperative, Inc.
Audited Financial Statements

December 31, 2019 and 2018



Rea & associates

www.reacpa.com

UNION RURAL ELECTRIC COOPERATIVE, INC.

DECEMBER 31, 2019 AND 2018

INDEX

	<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

March 6, 2020

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Union Rural Electric Cooperative, Inc. (the "Cooperative") which comprise the balance sheets as of December 31, 2019 and 2018, and 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Union Rural Electric Cooperative, Inc. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

During the years ended December 31, 2019 and 2018, the Cooperative received \$2,500,000 and \$0, respectively, in long-term loan fund advances from CFC on loans controlled by the CFC Loan Agreement and/or Mortgage or Security Agreement.

Rea & Associates, Inc.

Millersburg, OH

UNION RURAL ELECTRIC COOPERATIVE, INC.

BALANCE SHEETS
AS OF DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
	<hr/>	<hr/>
UTILITY PLANT:		
Utility plant in service	\$ 89,844,954	\$ 87,738,387
Construction work in progress	2,139,684	3,801,330
	<hr/>	<hr/>
	91,984,638	91,539,717
Less: provision for accumulated depreciation	27,788,718	28,539,503
	<hr/>	<hr/>
Net utility plant	64,195,920	63,000,214
 OTHER ASSETS AND INVESTMENTS:		
Retirement security plan prepayment	473,697	631,597
Investments in associated organizations	992,113	996,456
Patronage capital from associated organizations	28,551,683	27,800,810
Union Rural Electric scholarship fund	68,375	60,997
	<hr/>	<hr/>
Total other assets and investments	30,085,868	29,489,860
 CURRENT ASSETS:		
Cash and cash equivalents	297,121	166,417
Accounts receivable, net of allowance	2,602,246	2,430,151
Unbilled revenue	2,604,501	2,827,170
Materials and supplies	2,765,846	2,826,665
Other current assets	214,760	152,031
	<hr/>	<hr/>
Total current assets	8,484,474	8,402,434
	<hr/>	<hr/>
Total assets	\$ 102,766,262	\$ 100,892,508
	<hr/> <hr/>	<hr/> <hr/>

EQUITIES AND LIABILITIES

	2019	2018
EQUITY:		
Patronage capital	\$ 53,427,201	\$ 52,765,360
Other equities	629,278	558,728
Accumulated other comprehensive (loss) income	(82,951)	224,538
Total equity	53,973,528	53,548,626
LONG-TERM LIABILITIES:		
Mortgage notes payable	35,894,001	35,113,781
Deferred credits	2,973,899	3,042,009
Postretirement benefit obligation	1,171,224	938,949
Total long-term liabilities	40,039,124	39,094,739
CURRENT LIABILITIES:		
Current maturities of mortgage notes payable	1,730,971	1,775,677
Accounts payable	3,782,387	3,378,767
Postretirement benefit obligation, current portion	99,404	47,313
Accrued taxes	1,864,679	1,824,435
Customers' deposits	193,511	192,595
Other current liabilities	1,082,658	1,030,356
Total current liabilities	8,753,610	8,249,143
Total equities and liabilities	\$ 102,766,262	\$ 100,892,508

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, 2019 AND 2018

	2019	2018
OPERATING REVENUES	\$ 54,904,094	\$ 58,001,108
OPERATING EXPENSES:		
Cost of purchased power	38,856,492	41,095,206
Operations	2,899,321	2,736,568
Maintenance	1,545,983	1,440,501
Consumer accounts	654,031	708,912
Customer service and informational expense	762,561	794,853
Administrative and general	3,044,714	2,902,584
Depreciation	2,911,088	2,865,143
Tax expense	1,265,915	1,298,077
Interest - other	5,790	5,583
Other deductions	19,189	14,633
Total cost of electric service	51,965,084	53,862,060
Operating margins before fixed charges	2,939,010	4,139,048
FIXED CHARGES, interest on long-term debt	1,452,691	1,534,498
Operating margins after fixed charges	1,486,319	2,604,550
PATRONAGE CAPITAL CREDITS:		
Generation and transmission credits	1,834,702	3,311,512
Other credits	120,713	146,844
Net operating margins	1,955,415	3,458,356
Net operating margins	3,441,734	6,062,906
NON-OPERATING MARGINS:		
Interest income	64,397	90,944
Other loss	(3,831)	(4,590)
Gain on disposition of property	8,820	2,642
Net margins	69,386	88,996
Net margins	3,511,120	6,151,902
OTHER COMPREHENSIVE INCOME:		
Prior service credit	0	(3,400)
Actuarial (loss) gain	(307,489)	88,238
Comprehensive income	(307,489)	84,838
Comprehensive income	\$ 3,203,631	\$ 6,236,740

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, 2019 AND 2018

	2019	2018
PATRONAGE CAPITAL, beginning of year	\$ 52,765,360	\$ 49,157,972
Net margins	3,511,120	6,151,902
Retirement of capital credits	(2,849,279)	(2,544,514)
PATRONAGE CAPITAL, end of year	<u>\$ 53,427,201</u>	<u>\$ 52,765,360</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, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margins	\$ 3,511,120	\$ 6,151,902
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	2,911,088	2,865,143
Amortization of retirement security plan prepayment	157,900	157,899
Gain on disposition of property	(8,820)	(2,642)
Non-cash capital credits received	(1,955,415)	(3,458,366)
(Increase) decrease in assets:		
Accounts receivable, net of allowance	(172,095)	247,873
Unbilled revenue	222,669	95,121
Other current assets	(62,729)	102,275
Increase (decrease) in liabilities:		
Accounts payable	403,620	1,005,739
Postretirement benefit obligation	284,366	(94,238)
Accrued taxes	40,244	39,341
Customers' deposits	916	8,499
Other current liabilities	52,302	32,928
Deferred credits	(68,110)	(244,118)
Total adjustments	1,805,936	755,454
Net cash provided by operating activities	5,317,056	6,907,356
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and acquisition of utility plant	(4,097,974)	(2,836,526)
Decrease (increase) in materials and supplies	60,819	(253,167)
Investments in associated organizations	4,343	19,569
Withdrawals of scholarship fund	5,148	15,681
Contributions to scholarship fund	(12,526)	(12,833)
Proceeds from redemption of capital credits	1,204,542	979,916
Net cash used in investing activities	(2,835,648)	(2,087,360)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from mortgage notes payable	2,500,000	0
Principal payments on mortgage notes payable	(1,764,486)	(2,476,865)
Patronage capital credits retired	(2,849,279)	(2,544,514)
Retired capital credits unclaimed	63,172	53,880
Appropriated margin gains	7,378	(3,048)
Actuarial (losses) gains	(307,489)	88,238
Prior service credit	0	(3,400)
Net cash used by financing activities	(2,350,704)	(4,885,709)
Net increase (decrease) in cash and cash equivalents	130,704	(65,713)
CASH AND CASH EQUIVALENTS, beginning of year	166,417	232,130
CASH AND CASH EQUIVALENTS, end of year	\$ 297,121	\$ 166,417

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

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1: ORGANIZATION

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

Uninsured Risk

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

Estimates

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

Electric Plant, Equipment and Depreciation

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

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

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
DECEMBER 31, 2019 AND 2018

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 \$1,476,785 and \$1,546,067 for the years ended December 31, 2019 and 2018, respectively. There were no payments for federal income taxes for 2019 or 2018.

NOTE 3: ADOPTION OF NEW ACCOUNTING STANDARD

In May 2014, the FASB issued guidance (Accounting Standards Codification [ASC] 606, Revenue from Contracts with Customers) which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive.

The guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. ASC 606 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Cooperative adopted ASC 606 with a date of the initial application of January 1, 2019.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3: ADOPTION OF NEW ACCOUNTING STANDARD (Continued)

The Cooperative applied ASC 606 using the modified retrospective method of adoption, which was applied to all contracts for which the company's performance obligations were not completed as of December 31, 2018. The adoption of the revenue standard had no material impact on the company's financial statements as it did not require a change in revenue recognition and there was no adjustment to the opening balance of patronage capital at January 1, 2019. Therefore, the comparative information has not been adjusted and continues to be reported under extant revenue guidance. The details of the significant changes and quantitative impact of the changes are discussed below.

As part of the adoption of ASC 606, the Cooperative elected to use the following transition practical expedients:

- Immaterial goods or services practical expedient to not assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer.
- Exemption to not disclose the unfulfilled performance obligation balance for contracts with an original length of one year or less.

Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

See Note 4 for further discussion of the effects of the adoption of ASC 606 on our significant accounting policies.

NOTE 4: 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, 2019 and 2018 was \$23,571 and \$50,096, respectively. Bad debt expense for 2019 and 2018 was \$12,725 and \$13,040, 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.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 4: ACCOUNTS RECEIVABLE AND REVENUE (Continued)

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 5: UTILITY PLANT

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

	2019	2018
Distribution Plant	\$ 75,483,045	\$ 73,560,515
General Plant	<u>14,361,909</u>	<u>14,177,872</u>
Utility Plant in Service	89,844,954	87,738,387
Construction Work in Progress	<u>2,139,684</u>	<u>3,801,330</u>
Total Utility Plant at Cost	<u>\$ 91,984,638</u>	<u>\$ 91,539,717</u>

NOTE 6: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

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

	2019	2018
Investments in Associated Organizations:		
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC)	\$ 573,094	\$ 577,437
Buckeye Power, Inc. membership	416,969	416,969
Other investments in associated organizations	<u>2,050</u>	<u>2,050</u>
Total investments in associated organizations	<u>\$ 992,113</u>	<u>\$ 996,456</u>

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 7: PATRONAGE CAPITAL FROM ASSOCIATED ORGANIZATIONS

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

	2019	2018
Patronage Capital from Associated Organizations:		
Rural Electric Supply Cooperative, Inc.	\$ 125,389	\$ 124,098
Buckeye Power, Inc.	27,033,952	26,331,252
NRUCFC	1,046,068	1,011,782
Federated Rural Electric Insurance Exchange	179,895	168,902
National Rural Telecommunications Co-op	73,482	77,833
National Information Solutions Cooperative	77,921	72,788
Cooperative Response Center, Inc.	7,348	6,713
CoBank Communications and Energy Group	7,628	7,442
Total patronage capital from associated organizations	\$ 28,551,683	\$ 27,800,810

NOTE 8: PATRONAGE CAPITAL

At December 31, 2019 and 2018, patronage capital consisted of:

	2019	2018
Patronage capital – assignable	\$ 3,511,120	\$ 6,151,900
Patronage capital – assigned to date	83,930,847	77,778,947
Total	87,441,967	83,930,847
Less: retirements to date	(34,014,766)	(31,165,487)
Total patronage capital	\$ 53,427,201	\$ 52,765,360

The Cooperative's patronage capital balances represent 52.0 percent and 52.3 percent of the total assets at December 31, 2019 and 2018, respectively. Capital credit retirements in the amount of \$2,849,279 and \$2,544,514 were paid in 2019 and 2018, respectively.

Patronage capital at December 31, 2019 and 2018 includes \$29,065,566 and \$27,444,711, 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, 2019 and 2018, other equities consisted of:

	2019	2018
Retired capital credit gain	\$ 803,060	\$ 739,888
Appropriated margins	68,375	60,997
Subsidiary deficit	(242,157)	(242,157)
Total other equities	\$ 629,278	\$ 558,728

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 10: ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

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

	2019	2018
Accumulated other comprehensive (loss) income, beginning of year	\$ 224,538	\$ 139,700
Postretirement benefits- prior service credit	0	(3,400)
Actuarial (loss) gain	(307,489)	88,238
Accumulated other comprehensive (loss) income, end of year	\$ (82,951)	\$ 224,538

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).

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:

	2019	2018
APBO, beginning of year	\$ 986,262	\$ 1,080,500
Service cost	21,136	17,000
Interest cost	48,439	42,600
Actuarial loss (gain) (See note 10)	307,489	(88,238)
Less: expected benefit payments	(92,698)	(65,600)
APBO, end of year	1,270,628	986,262
Less: current portion	(99,404)	(47,313)
APBO, long-term portion	\$ 1,171,224	\$ 938,949

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

2020	\$ 99,404
2021	66,875
2022	54,809
2023	74,193
2024	93,101
2025-2029	493,674

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 11: 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>
2020	6.60%	4.70%
2021	6.40%	4.70%
2022	6.00%	4.60%
2023	5.75%	4.60%
2024	5.50%	4.60%
2025	5.25%	4.60%
2026	5.00%	4.60%
2027	5.00%	4.60%
2028 and later	5.00%	4.60%

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 3.45 percent.

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 expense for 2019 and 2018 was \$640,250 and \$617,341, respectively.

Union Rural Electric Cooperative, Inc. also maintains a 401(k) plan in which all employees are eligible to participate. The Cooperative matches 50% of full-time participant contributions, with a minimum contribution of 2% and maximum contribution of 12% eligible for employer match. The Cooperative expensed \$167,946 and \$163,556 for the years ended December 31, 2019 and 2018, respectively.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 13: 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, 2019 and 2018:

Fixed Interest Rate	Maturity Date	2019	2018
4.850%	10/1/2023	\$ 199,244	\$ 246,566
4.400%	9/30/2028	301,152	328,791
4.700% -4.950%	9/29/2038	3,303,130	3,473,788
4.500% -4.750%	8/26/2043	2,228,047	2,285,593
4.750%	11/28/2046	2,043,194	2,087,945
2.750% -5.150%	1/26/2050	6,916,628	7,215,062
3.800% -4.550%	11/17/2055	10,509,876	8,204,924
4.250%	3/31/2032	524,828	554,509
4.350%	12/31/2036	357,881	371,293
4.350%	6/30/2037	362,335	375,379
4.670%	9/30/2040	804,743	826,109
4.430%	12/29/2041	657,299	674,066
4.670%	12/29/2041	1,155,013	1,183,550
4.710%	3/1/2020	169,828	497,852
3.730%	10/1/2035	1,305,883	1,364,642
3.449%	10/1/2039	311,672	325,147
3.449%	12/1/2040	144,178	150,072
3.449%	1/1/2039	267,034	279,274
4.310%	1/1/2021	67,561	132,302
4.350%	2/1/2021	103,252	168,476
3.449%	2/1/2043	112,182	116,208
2.750%	11/1/2041	1,340,394	1,384,237
3.449%	3/1/2042	876,915	910,080
3.620%	9/4/2039	1,293,629	1,337,072
3.790%	11/1/2042	372,001	381,995
3.730%	1/2/2043	1,293,769	1,328,809
3.150%	2/1/2026	603,304	685,717
Total mortgage notes		37,624,972	36,889,458
Less: current portion of mortgage notes		1,730,971	1,775,677
Long-term mortgage notes payable		\$ 35,894,001	\$ 35,113,781

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 13: LONG-TERM DEBT (Continued)

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

2020	\$	1,730,971
2021		1,515,000
2022		1,536,000
2023		1,440,000
2024		1,404,000
Thereafter		29,999,001
		<hr/>
	\$	<u>37,624,972</u>

NOTE 14: 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, 2019. The interest rate on the line of credit was 2.85 and 3.35 percent at December 31, 2019 and 2018, respectively, with outstanding balances on the line of \$0 for both 2019 and 2018. 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, 2019 and 2018, \$10,509,876 and \$8,204,924 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 3.34% and 4.06 % at December 31, 2019 and 2018, respectively, with outstanding balances on the line of \$0 for both 2019 and 2018. The line of credit matures June 2020.

NOTE 15: COMMITMENTS AND RELATED PARTY TRANSACTIONS

The Cooperative purchases all of its power from Buckeye Power, Inc., a non-profit corporation operating on a cooperative basis whose membership includes Union Rural Electric Cooperative, Inc. Rates for service members of Buckeye Power, Inc. are in accordance with the provisions of the Wholesale Power Agreement. The Cooperative had accounts payable due to Buckeye Power, Inc. of \$2,789,264 and \$2,454,197 at December 31, 2019 and 2018, respectively.

The Cooperative purchases material from the Rural Electric Supply Cooperative, Inc., of which it is an owner and member. Total purchases were \$854,757 and \$508,759 for the years ended December 31, 2019 and 2018, 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 \$162,174 and \$123,921 for the years ended December 31, 2019 and 2018, respectively.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 15: COMMITMENTS AND RELATED PARTY TRANSACTIONS (Continued)

The Cooperative borrows funds from National Rural Utilities Cooperative Finance Corporation of which it is a member and owner (see also Note 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 \$25,174 and \$24,789 for the years ended December 31, 2019 and 2018, respectively.

The Cooperative maintains insurance coverage through Federated Rural Electric Insurance Exchange of which it is a member and owner. Total premiums paid were \$229,527 and \$0 for the years ended December 31, 2019 and 2018, respectively.

The Cooperative had investments in Rural Americas Cooperative Bank (CoBank) of \$1,000 as of December 31, 2019 and 2018 and patronage capital in CoBank of \$7,628 and \$7,442 as of December 31, 2019 and 2018, respectively. In addition the Cooperative has established an unsecured short-term line of credit with CoBank in the amount of \$2,000,000 that accrued interest at a current rate of 3.34% and matures June 2020. There was no outstanding balance at December 31, 2019 or 2018.

NOTE 16: 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 17: SUBSEQUENT EVENTS

In February 2020, the Cooperative received \$1,500,000 in a long-term loan fund advance from CFC.

Management has evaluated subsequent events through March 6, 2020, the date on which the financial statements were issued.

UNION RURAL ELECTRIC COOPERATIVE, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 18: DEFERRED CREDITS

Deferred credits are summarized as follows:

	<u>2019</u>	<u>2018</u>
Consumer utility prepayments	<u>\$ 2,973,899</u>	<u>\$ 3,042,009</u>

NOTE 19: 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 Company’s statement of financial position by adding lease-related assets and liabilities. This may affect compliance with any contractual agreements and loan covenants. This new standard is effective for annual reporting periods beginning after December 15, 2020. Early implementation is permitted, but not before the original implementation date for periods beginning before February 25, 2017. Management has determined this new standard will not have a material effect on its financial statements.