

Consolidated Financial Statements
Union Electric Membership Corporation
(D/B/A Union Power Cooperative) and Subsidiary
December 31, 2023 and 2022

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Independent Auditor's Report

The Board of Directors
Union Electric Membership Corporation
(D/B/A Union Power Cooperative) and Subsidiary
Monroe, North Carolina

Opinion

We have audited the accompanying consolidated financial statements of Union Electric Membership Corporation and Subsidiary (the "Corporation"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations and comprehensive income, equities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Union Electric Membership Corporation and Subsidiary 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) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Union Electric Membership Corporation and Subsidiary 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.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Union Electric Membership Corporation and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 and *Government Auditing Standards* will always detect a material misstatement 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, including omissions, 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 consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Union Electric Membership Corporation and Subsidiary'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Union Electric Membership Corporation and Subsidiary'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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2024, on our consideration of Union Electric Membership Corporation and Subsidiary's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Adams, Jenkins & Cheatham

Richmond, Virginia
March 23, 2024

Consolidated Balance Sheets

Union Electric Membership Corporation and Subsidiary

	December 31,	
	<u>2023</u>	<u>2022</u>
Assets		
Utility plant		
Electric plant	\$ 523,830,143	\$ 504,674,682
Less accumulated provision for depreciation and amortization	<u>167,926,381</u>	<u>156,503,025</u>
	355,903,762	348,171,657
Investments and other assets		
Investments in associated organizations	46,132,454	42,305,465
Investments in fixed income securities	1,978,102	2,423,649
Notes receivable	54,856	64,241
Nonutility property, net		149,147
Investments in economic development projects	<u>186,783</u>	<u>283,567</u>
	48,352,195	45,226,069
Current assets		
Cash and cash equivalents	46,496,382	11,595,234
Accounts receivable, net	21,910,383	19,659,526
Investments in fixed income securities	13,800,381	12,429,704
Inventories	3,453,231	3,075,076
Current portion of notes receivable	39,733	77,849
Other current assets	<u>1,441,125</u>	<u>951,275</u>
	87,141,235	47,788,664
Deferred charges	<u>1,756,463</u>	<u>583,280</u>
	<u>\$ 493,153,655</u>	<u>\$ 441,769,670</u>

See Independent Auditor's Report and Notes to Consolidated Financial Statements

	December 31,	
	2023	2022
Equities and Liabilities		
Equities		
Patronage capital	\$ 183,159,748	\$ 174,905,744
Other equities	33,152,083	30,541,377
Accumulated other comprehensive income (loss)	(30,362)	16,477
	<u>216,281,469</u>	<u>205,463,598</u>
Noncurrent liabilities		
Long-term debt	235,352,341	195,286,674
Other	4,241,021	4,061,573
	<u>239,593,362</u>	<u>199,348,247</u>
Current liabilities		
Accounts payable	13,710,139	13,022,972
Current portion of long-term debt	9,839,844	8,920,817
Consumer deposits	2,697,900	2,719,732
Other current and accrued liabilities	4,979,446	4,379,331
	<u>31,227,329</u>	<u>29,042,852</u>
Deferred credits	<u>6,051,495</u>	<u>7,914,973</u>
	<u>\$ 493,153,655</u>	<u>\$ 441,769,670</u>

Consolidated Statements of Operations and Comprehensive Income

Union Electric Membership Corporation and Subsidiary

	Year Ended December 31,	
	2023	2022
Operating revenues	\$ 179,708,295	\$ 171,652,159
Operating expenses		
Cost of power	111,922,497	106,525,922
Cost of goods sold	715,783	1,813,143
Transmission	190,113	191,350
Distribution - operation	9,879,295	9,626,283
Distribution - maintenance	10,903,443	12,294,198
Consumer accounts	5,204,129	4,915,651
Customer service and information	2,290,593	2,140,472
Administrative and general	7,986,353	8,177,049
Depreciation and amortization	14,739,970	14,159,789
Taxes	11,854	13,289
Interest on long-term debt	7,272,629	6,348,550
Other deductions	31,197	50,243
	171,147,856	166,255,939
Operating Margins Before Patronage Allocations	8,560,439	5,396,220
Patronage allocations	4,186,634	3,906,928
Net Operating Margins	12,747,073	9,303,148
Nonoperating income (expense)		
Interest income	2,060,103	328,667
Gain on sale of plant	149,259	312,267
Loss on investment	(1,000)	
Income taxes	(66,406)	(16,641)
	2,141,956	624,293
Net Margins	\$ 14,889,029	\$ 9,927,441
Statements of Comprehensive Income		
Net Margins	\$ 14,889,029	\$ 9,927,441
Other Comprehensive Income (Loss)		
Unrecognized actuarial gain (loss)	(46,839)	658,286
Amortization of actuarial gain	27,761	27,761
	(46,839)	686,047
Comprehensive Income	\$ 14,842,190	\$ 10,613,488

See Independent Auditor's Report and Notes to Consolidated Financial Statements

Consolidated Statements of Equities

Union Electric Membership Corporation and Subsidiary

December 31, 2023 and 2022

	Patronage Capital	Other Equities	Accumulated Other Comprehensive Gain (Loss)	Total
Balance, December 31, 2021	\$ 169,958,632	\$ 29,265,794	\$ (669,570)	\$ 198,554,856
Net margins	8,651,858	1,275,583		9,927,441
Other comprehensive income			686,047	686,047
Retirement of capital credits	<u>(3,704,746)</u>	<u></u>	<u></u>	<u>(3,704,746)</u>
Balance, December 31, 2022	174,905,744	30,541,377	16,477	205,463,598
Net margins	12,278,323	2,610,706		14,889,029
Other comprehensive loss			(46,839)	(46,839)
Retirement of capital credits	<u>(4,024,319)</u>	<u></u>	<u></u>	<u>(4,024,319)</u>
Balance, December 31, 2023	<u>\$ 183,159,748</u>	<u>\$ 33,152,083</u>	<u>\$ (30,362)</u>	<u>\$ 216,281,469</u>

See Independent Auditor's Report and Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

Union Electric Membership Corporation and Subsidiary

	Year Ended December 31,	
	2023	2022
Cash Flows From Operating Activities		
Cash received from consumers	\$ 175,258,413	\$ 168,984,595
Cash paid to suppliers and employees	(150,126,258)	(146,564,029)
Interest received	1,168,731	207,393
Interest paid	(7,279,906)	(6,355,661)
Net Cash Provided by Operating Activities	19,020,980	16,272,298
Cash Flows From Investing Activities		
Investment in electric plant	(22,382,691)	(29,035,046)
Plant removal costs	(1,576,260)	(820,993)
Contributions in aid of construction	1,085,985	7,423,149
Proceeds from sale of assets	1,474,438	176,255
Proceeds from sale and maturities of investments	13,013,884	6,263,801
Purchases of investments	(13,564,448)	(21,109,327)
Investment income received	387,787	
Investment in economic development projects	96,783	96,783
Net activity in notes receivable	47,501	41,829
Proceeds from retirement of ZCTC's	7,395	12,694
Net Cash Used by Investing Activities	(21,409,626)	(36,950,855)
Cash Flows From Financing Activities		
Capital credits received from suppliers	351,251	454,435
Net activity in consumer deposits	(21,832)	203,019
Capital credits distributed to consumers	(4,024,319)	(3,704,746)
Principal payments on long-term debt	(9,015,306)	(9,125,857)
Proceeds from long-term debt	50,000,000	
Net Cash Provided (Used) by Financing Activities	37,289,794	(12,173,149)
Net Increase (Decrease) in Cash and Cash Equivalents	34,901,148	(32,851,706)
Cash and cash equivalents - beginning of year	11,595,234	44,446,940
Cash and Cash Equivalents - End of Year	\$ 46,496,382	\$ 11,595,234

See Independent Auditor's Report and Notes to Consolidated Financial Statements

	<u>Year Ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
Net Margins	\$ 14,889,029	\$ 9,927,441
Adjustments to reconcile net margins to net cash provided by operating activities:		
Capital credit allocations	(4,186,634)	(3,906,928)
Depreciation and amortization, net of capitalized portion	14,739,970	14,159,789
Special equipment labor costs capitalized	(994,066)	(737,840)
Interest paid from cushion of credit, net		742,638
Gain on sale of plant	(149,259)	(312,267)
Loss on investment	1,000	
Noncash post retirement expense charged to operations	(159,230)	(158,641)
Net actuarial gain	(46,839)	658,286
Amortization of actuarial gain		27,761
Net change in fair value of investments	(762,353)	(7,827)
Increase in:		
Accounts receivable	(2,250,857)	(75,817)
Other current assets	(489,850)	(197,384)
Deferred charges	(1,173,183)	(140,655)
Increase (decrease) in:		
Accounts payable	687,167	(370,711)
Other current and accrued liabilities	600,115	(5,299,997)
Deferred credits	(1,863,478)	2,533,151
Other noncurrent liabilities	179,448	(568,701)
Net Cash Provided by Operating Activities	<u>\$ 19,020,980</u>	<u>\$ 16,272,298</u>

Notes to Consolidated Financial Statements

Union Electric Membership Corporation and Subsidiary

December 31, 2023 and 2022

Note A - Significant Accounting Policies

Nature of Operations

Union Electric Membership Corporation (D/B/A Union Power Cooperative) (the “Corporation”) is primarily an electric distribution cooperative engaged in the retail of electricity to its members. The Corporation’s main office is located in Monroe, North Carolina and the service area extends through portions of the counties of Union, Stanly, Mecklenburg, Cabarrus, and Rowan in the state of North Carolina.

Union Services of Union County, LLC (Union Services), a wholly-owned subsidiary of the Corporation, provides electrical repairs and heating and air conditioning sales and services in the same general service areas of the Corporation. The Corporation has committed to dissolve Union Services permanently and discontinued operations in July 2023.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Union Services. Significant intercompany transactions have been eliminated in consolidation.

Basis of Presentation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), including GAAP for regulated operations.

The accounting records of the Corporation are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission (FERC) for Class A and B electric utilities modified for electric borrowers of the Rural Utilities Service (RUS).

Accounting Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through March 23, 2024, which is the date the consolidated financial statements were available to be issued.

Advertising Costs

The Corporation and Union Services expensed advertising costs as incurred. There were no material advertising costs for the years ended December 31, 2023 and 2022.

Notes to Consolidated Financial Statements

Union Electric Membership Corporation and Subsidiary

December 31, 2023 and 2022

Note A - Significant Accounting Policies - Continued

Income Taxes

The Corporation has been granted exemption from income taxes under Internal Revenue Service Code Section 501(c)(12). The Corporation evaluates the components of the annual test for compliance to maintain its filing status as a tax-exempt entity. In accordance with Accounting Standards Codification (ASC) Topic 740 for “uncertain tax positions”, the Corporation had determined that it is more likely than not that their tax positions will be sustained upon examination by the Internal Revenue Service. Accordingly, no provision for income taxes has been made in the consolidated financial statements. Union Services is a single-member LLC with its income or losses reported with the Corporation’s filings.

Electric Plant

Electric plant is stated at the original cost of construction, which includes the cost of contracted services, direct labor, materials and overhead items. Contributions from others toward the construction of electric plant are credited to the applicable plant accounts. When property, which represents a retirement unit, is replaced or removed, the average cost of such property as determined from the continuing property records is credited to electric plant and such cost, together with cost of removal less salvage, is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expenses and other accounts.

Depreciation

Provision for depreciation of transmission and distribution plant has been made by application of the straight-line composite method to the original cost, by groups of depreciable properties in service. General plant depreciation is calculated on the straight-line basis by individual asset. Current depreciation rates, which are estimated to amortize the cost of plant over the service lives, are as follows as of December 31, 2023 and 2022:

Transmission Plant	2.75%
Distribution Plant	3.04%
General Plant	3.03% - 33.33%

Nonutility Property

Nonutility property is stated at cost. Depreciation is computed using the straight-line method over the estimated five-year useful lives of the assets. The cost of maintenance and repairs is charged to operations when incurred and renewals and betterments are capitalized. When properties are retired or otherwise disposed of, the related costs and allowance for depreciation are removed from the respective accounts and any gain or loss on disposition is reflected in income. All nonutility property was sold during the year ended December 31, 2023.

Notes to Consolidated Financial Statements

Union Electric Membership Corporation and Subsidiary

December 31, 2023 and 2022

Note A - Significant Accounting Policies - Continued

Cash and Cash Equivalents

The Corporation and Union Services consider all highly liquid investments with a maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable from customers are recorded at the billed amount and do not bear interest. The Corporation and Union Services maintain an allowance for expected credit losses based on the expected collectability of accounts receivable. The allowance for expected credit losses is determined based on future expected collectability, historical experience and other circumstances which may affect the ability of customers to meet their obligations. The Corporation and Union Services reviews the allowance for expected credit losses on a monthly basis. Account balances are charged off against the allowance for expected credit losses after all means of collection have been exhausted and the potential for recovery is considered remote.

Investments

Investments in associated organizations are primarily composed of patronage capital assigned from associated organizations. These investments are recorded at costs plus allocated equities. Other investments are recorded at cost.

Investments in fixed income securities are stated at fair value, which is based on quoted market prices. The cost used in the determination of gains and losses on sales of investments is based on the specific cost of the investment sold.

Inventories

Inventories of the Corporation consisted of materials and supplies and are generally used for construction, operation and maintenance work and are not for resale. They are valued using the lower of moving average unit cost or market. The inventory of Union Services consisted primarily of merchandise and maintenance parts and supplies. Inventory is valued at the lower of cost, determined primarily using the first in, first out (FIFO) method, or market.

Revenue Recognition

The Corporation's primary source of revenue and accounts receivable is derived from implied contractual agreements with its customers for the provision of electric service. Electric revenue and the related cost of power are recognized when electricity is consumed, which complies with the requirements of Financial Accounting Standards Board (FASB) ASC Topic 606, *Revenue from Contracts with Customers* (ASC 606). The Corporation recognizes revenue from consumed electricity in the appropriate reporting period through its estimation of unbilled revenue, on a monthly basis.

Notes to Consolidated Financial Statements

Union Electric Membership Corporation and Subsidiary

December 31, 2023 and 2022

Note A - Significant Accounting Policies - Continued

Revenue Recognition - Continued

Union Services records revenues from time-and-material contracts, which is recognized in the period the work is completed, in compliance with the requirements of ASC 606. All of Union Service contracts with customers are considered performance obligations satisfied at a point in time. Revenue related to these performance obligations amounted to approximately \$943,000 and \$2,780,000 for the years ended December 31, 2023 and 2022, respectively.

Regulatory Assets and Liabilities

The Corporation currently complies with accounting guidance set forth by the ASC Topic 980 regarding the effect of certain types of regulation. This guidance allows a regulated cooperative to record certain costs or credits that have been or are expected to be allowed in the rate-making process in a period different from the period in which the costs would be charged to expense or income by a non-regulated enterprise. Accordingly, the Corporation records certain assets and liabilities that result from the regulated rate-making process that would not be recorded under GAAP for non-regulated entities.

Fair Value Measurements

The Corporation determines the fair value of its financial instruments based on the fair value hierarchy established in accounting standards which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Accounting standards define fair value as the exchange price that would be received for an asset or liability in the most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Accounting standards define 3 levels of inputs that may be used to measure fair value:

Level 1 - Inputs are based on quoted market prices within active markets. Level 1 assets include debt and equity investments that are traded in an active exchange market.

Level 2 - Inputs are based primarily on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity that are significant to the fair value of the assets or liabilities.

From time to time, changes in market conditions may result in reclassification of an investment's assigned level within the hierarchy. There were none in 2023 or 2022.

Notes to Consolidated Financial Statements

Union Electric Membership Corporation and Subsidiary

December 31, 2023 and 2022

Note A - Significant Accounting Policies - Continued

Recently Adopted Accounting Standards

During the year ended December 31, 2023, the Corporation adopted FASB ASC Topic 326 Financial Instruments - Credit Losses, which became effective for fiscal years beginning after December 15, 2022. The new standard requires the Corporation to estimate expected credit losses over the life of its financial assets and current conditions, and reasonable and supportable forecasts. The Corporation records the estimate of expected credit losses as an allowance for credit losses.

Note B - Electric Plant

Electric plant consisted of the following:

	December 31,	
	2023	2022
Distribution plant	\$ 411,903,420	\$ 399,589,733
General plant	53,990,560	52,864,777
Transmission plant	42,721,235	39,126,654
Electric plant in service	508,615,215	491,581,164
Construction work in progress	15,214,928	13,093,518
	<u>\$ 523,830,143</u>	<u>\$ 504,674,682</u>

The Corporation followed the guidance as set forth in ASC Topic 410, Asset Retirement and Environmental Obligation, and FERC Order 631 as adopted by RUS, in determining that it had no legal asset retirement obligations for the years ended December 31, 2023 and 2022. Regarding non-legal retirement obligations, the Corporation follows the regulatory principle of inter-generational cost allocation by including net salvage (gross salvage less cost of removal) as a component of depreciation rates.

Notes to Consolidated Financial Statements

Union Electric Membership Corporation and Subsidiary

December 31, 2023 and 2022

Note C - Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	December 31,	
	2023	2022
Patronage capital certificates:		
North Carolina Electric Membership Corporation (NCEMC)	\$ 39,313,812	\$ 35,981,880
Tarheel Electric Membership Association (TEMA)	3,165,955	2,769,856
National Rural Utilities Cooperative Finance Corporation (CFC)	1,071,627	1,013,668
Federated Rural Electric Insurance Exchange	639,504	614,980
Southeastern Data Cooperative, Inc. (SEDC)	461,571	436,682
CoBank	302,196	302,196
Other	2,257	2,276
	<u>44,956,922</u>	<u>41,121,538</u>
CFC Capital Term Certificates:		
SCTC's	985,322	985,322
LCTC's	161,700	161,700
ZCTC's	26,510	33,905
	<u>1,173,532</u>	<u>1,180,927</u>
Other:		
Memberships	<u>2,000</u>	<u>3,000</u>
	<u>\$ 46,132,454</u>	<u>\$ 42,305,465</u>

The capital term certificates (CTC's) invested in CFC were required as a condition of obtaining debt financing from CFC and are unsecured and subordinated. The subscription CTC's (SCTC's) bear interest at an annual rate of 5% payable semiannually and the loan CTC's (LCTC's) bear interest at an annual rate of 3% payable semiannually. The zero CTC's (ZCTC's) are non-interest bearing.

Notes to Consolidated Financial Statements

Union Electric Membership Corporation and Subsidiary

December 31, 2023 and 2022

Note D - Investments in Fixed Income Securities

As of December 31, 2023 and 2022, the Corporation's investments in fixed income securities consisted of the following:

Investments	December 31, 2023			Fair Market Value
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	
Corporate bonds	\$ 15,773,383	\$ 20,241	\$ (15,141)	\$ 15,778,483
Current portion				(13,800,381)
				\$ 1,978,102
Investments	December 31, 2022			Fair Market Value
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	
Corporate bonds	\$ 14,905,878	\$ 2,380	\$ (54,905)	\$ 14,853,353
Current portion				(12,429,704)
				\$ 2,423,649

The calculations of the fair value of investments are reported as follows:

	December 31,	
	2023	2022
Fair value at beginning of year	\$ 14,853,353	\$
Add: cost of investments purchased	13,564,448	21,109,327
Less: proceeds of sales and maturities	(13,009,281)	(6,270,187)
Add: realized gains on sales and maturities	2,403	6,430
Less: realized losses from sales and maturities	(7,006)	(44)
Add: amortization of discount/premiums	316,940	60,352
Add: net increase (decrease) in fair value of investments	57,626	(52,525)
Fair value at end of year	\$ 15,778,483	\$ 14,853,353

Net unrealized holding gain (losses) on available-for-sale securities in the amount of \$5,100 and (\$52,525) are included in nonoperating income on the consolidated statements of operations and comprehensive income for the years ended December 31, 2023 and 2022, respectively.

Notes to Consolidated Financial Statements

Union Electric Membership Corporation and Subsidiary

December 31, 2023 and 2022

Note D - Investments in Fixed Income Securities - Continued

The following is a summary of maturities of debt securities available-for-sale as follows:

Investment Type	Fair Value	Contractual Maturities (In Years) at December, 2023			
		Less than 1	1 - 5	6 - 10	More than 10
Corporate Bonds	\$ 15,778,483	\$ 13,800,381	\$ 1,978,102	\$	\$

Investment Type	Fair Value	Contractual Maturities (In Years) at December, 2022			
		Less than 1	1 - 5	6 - 10	More than 10
Corporate Bonds	\$ 14,853,353	\$ 12,429,704	\$ 2,423,649	\$	\$

The Corporation's investments in fixed income securities are exposed to market fluctuations. At December 31, 2023, the Corporation held multiple investments in debt securities that had an unrealized loss for more than 12 months. The Corporation has no intentions of selling the securities at a loss and has the ability to hold the debt securities until maturity. In addition, the maturity values of the investments exceed their fair value at December 31, 2023. Due to these reasons, the losses are not considered to be other than temporary and as such no allowance for credit losses was deemed necessary. The investments in debt securities that were in a loss position were as follows:

	December 31, 2023			
	Less Than 12 Months		More Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate and other debt securities	\$ 6,576,648	\$ 12,171	\$ 2,466,009	\$ 2,970

	December 31, 2022			
	Less Than 12 Months		More Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate and other debt securities	\$ 14,356,563	\$ 54,905	\$	\$

At December 31, 2023, the Corporation held 14 fixed income securities in an unrealized loss position for less than twelve months and 6 fixed income securities in an unrealized loss position for twelve months or greater. At December 31, 2022, the Corporation held 33 fixed income securities in an unrealized loss for less than twelve months.

Notes to Consolidated Financial Statements

Union Electric Membership Corporation and Subsidiary

December 31, 2023 and 2022

Note D - Investments in Fixed Income Securities - Continued

The following schedule summarizes the fair value hierarchy of investments:

As of December 31, 2023:

<u>Investment Type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate Bonds	<u>\$</u>	<u>\$15,778,483</u>	<u>\$</u>	<u>\$15,778,483</u>

As of December 31, 2022:

<u>Investment Type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate Bonds	<u>\$</u>	<u>\$14,853,353</u>	<u>\$</u>	<u>\$14,853,353</u>

During the years ended December 31, 2023 and 2022, the Corporation did not have any significant transfers between Level 1, 2, or 3. The Corporation's policy is to recognize transfers in and transfers out of all levels as of the end of the period.

Note E - Concentrations of Credit Risk

The Corporation and Union Services places its cash on deposit with financial institutions located in the United States of America which are insured by the Federal Deposit Insurance Corporation (FDIC). The FDIC provides insurance coverage for up to \$250,000 of cash held by the Corporation and Union Services in each separate FDIC insured bank and savings institution. From time to time, the Corporation and Union Services may have amounts on deposit in excess of the insured limits. As of December 31, 2023, the Corporation and Union Services had approximately \$12,037,000 of deposits that exceed the \$250,000 limit.

Note F - Notes Receivable

Notes receivable consisted of the following:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Consumer notes	\$ 94,589	\$ 142,090
Less current portion of consumer notes	<u>39,733</u>	<u>77,849</u>
	<u>\$ 54,856</u>	<u>\$ 64,241</u>

Consumer notes consist primarily of notes for heat pumps. The notes vary in length of time (up to 60 months) based on the product sold and are payable monthly with interest at 9%. Some of these products are sold through Union Services, a wholly owned subsidiary of the Corporation (Note A).

Notes to Consolidated Financial Statements

Union Electric Membership Corporation and Subsidiary

December 31, 2023 and 2022

Note G - Accounts Receivable

Accounts receivable consisted of the following:

	December 31,	
	2023	2022
Consumers	\$ 9,875,948	\$ 8,848,144
Unbilled revenue	11,026,127	9,800,771
Other	1,178,716	1,176,113
	<u>22,080,791</u>	<u>19,825,028</u>
Less provision for expected credit losses	<u>170,408</u>	<u>165,502</u>
	<u>\$ 21,910,383</u>	<u>\$ 19,659,526</u>

Note H - Deferred Charges

Deferred charges consisted of the following:

	December 31,	
	2023	2022
Regulatory Assets:		
Wholesale power cost adjustment	\$ 1,096,874	\$
Other	622,218	575,909
Preliminary survey and investigation	37,371	7,371
	<u>\$ 1,756,463</u>	<u>\$ 583,280</u>

Note I - Patronage Capital

Patronage capital consisted of the following:

	December 31,	
	2023	2022
Assigned	\$ 170,881,425	\$ 166,253,886
Assignable	12,278,323	8,651,858
	<u>\$ 183,159,748</u>	<u>\$ 174,905,744</u>

Under provisions of the long-term debt agreement and Title 7 of the Code of Federal Regulations (Part 1717.617), the Corporation may refund capital to patrons without limitation if total equity is equal to or greater than 30% of total assets, and there are no instances of default. If equities are between 20% and 30% of total assets, general refunds are limited to 25% (adjusted for returns to estates, which are not limited) of patronage capital or margins received in the next preceding year. Total equities and margins amounted to 44% and 47% of total assets for 2023 and 2022, respectively.

Notes to Consolidated Financial Statements

Union Electric Membership Corporation and Subsidiary

December 31, 2023 and 2022

Note J - Other Equities

Other equities consisted of the following:

	December 31,	
	2023	2022
Nonoperating margins	\$ 25,075,235	\$ 22,464,529
Retired capital credits - gain	8,062,903	8,062,903
Donated capital	13,895	13,895
Capital gains	50	50
	<u>\$ 33,152,083</u>	<u>\$ 30,541,377</u>

Note K - Long-Term Debt

Long-term debt consisted of the following:

	December 31,	
	2023	2022
Federal Financing Bank (FFB)		
Mortgage notes, fixed	\$ 183,843,686	\$ 139,121,605
CFC		
Mortgage notes, fixed	31,444,934	32,905,940
CoBank		
Mortgage notes, fixed	29,386,482	31,662,863
Rural Economic Development		
Grant and Loan Program (REDLG)	517,083	517,083
	<u>245,192,185</u>	<u>204,207,491</u>
Less current portion	<u>9,839,844</u>	<u>8,920,817</u>
	<u>\$ 235,352,341</u>	<u>\$ 195,286,674</u>

Substantially all the Corporation's assets have been pledged as collateral for the long-term debt to CFC, FFB, and CoBank. Under the terms of the loan agreements with FFB and CFC, there are certain restrictions which include requirements to maintain a TIER (times interest earned ratio) of 1.25 and DSC (debt service coverage) of 1.25. As of December 31, 2023 and 2022, the Corporation was in compliance with all covenants and restrictions. There were also restrictions on the return of capital to patrons as discussed in Note I.

Notes to Consolidated Financial Statements

Union Electric Membership Corporation and Subsidiary

December 31, 2023 and 2022

Note K - Long-Term Debt - Continued

The Corporation received a grant from the Rural Economic Development Grant and Loan Program to fund local economic development projects. The grant must be repaid to the federal government (without interest) upon termination of the program by the Corporation.

Long-term debt terms consisted of the following:

<u>Lender</u>	<u>Terms</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Approximate Principal and Interest Payments</u>
<u>At December 31, 2023</u>				
FFB	35 years, quarterly	12/2037 - 12/2056	0.99% - 3.23%	\$ 2,800,000
CFC	35 years, quarterly	02/2026 - 02/2049	4.25% - 7.70%	\$ 800,000
CoBank	Various, monthly	07/2035	3.25%	\$ 274,000
<u>At December 31, 2022</u>				
FFB	35 years, quarterly	12/2037 - 12/2052	0.99% - 3.23%	\$ 2,100,000
CFC	35 years, quarterly	02/2026 - 02/2049	4.25% - 7.70%	\$ 800,000
CoBank	Various, monthly	07/2035	3.25%	\$ 274,000

Approximate future maturities of long-term debt were as follows:

<u>Year Ending December 31,</u>	
2024	\$ 9,839,844
2025	10,223,365
2026	10,373,643
2027	10,664,238
2028	11,077,844
Thereafter	<u>193,013,251</u>
	<u>\$ 245,192,185</u>

The Corporation had \$14,000,000 in unadvanced funds from FFB at December 31, 2023. The Corporation had no unadvanced funds from CFC at December 31, 2023. The Corporation had \$64,000,000 and \$20,000,000 in unadvanced funds from FFB and CFC, respectively, at December 31, 2022.

Notes to Consolidated Financial Statements

Union Electric Membership Corporation and Subsidiary

December 31, 2023 and 2022

Note L - Lines of Credit

The Corporation has available lines of credit with CFC and CoBank in the amount of \$20,000,000 and \$10,000,000, respectively, on which there was no outstanding balance at December 31, 2023 and 2022.

Note M - Other Noncurrent Liabilities

Other noncurrent liabilities consisted of the following:

	December 31,	
	2023	2022
Other postretirement benefits	\$ 3,615,476	\$ 3,579,449
Deferred 457(b) Plan	625,545	482,124
	<u>\$ 4,241,021</u>	<u>\$ 4,061,573</u>

The Corporation sponsors an unfunded defined benefit postretirement healthcare plan that covers substantially all its employees. To qualify for retiree status, all employees must have reached their normal retirement date under the National Rural Electric Cooperative Association's (NRECA) Retirement & Security Plan (RS Plan). Employees hired prior to January 1, 2017, must also have 30 years of benefit service (including 10 years of continuous service with the Corporation) or they must reach age 62 and have 20 years of continuous employment with the Corporation. Employees hired on or after January 1, 2017 must also have reached age 62 and have 20 years of continuous employment with the Corporation to qualify for retiree status. In all cases, eligibility ceases upon reaching age 65. Retirees pay the entire premium for dependents.

The following sets forth the change in the accumulated postretirement benefit obligation (APBO):

	December 31,	
	2023	2022
APBO	\$ 3,615,476	\$ 3,579,449
Plan assets at fair value	-	-
Funded Status	<u>\$ (3,615,476)</u>	<u>\$ (3,579,449)</u>

The net periodic postretirement benefit cost included the following components:

	Year Ended December 31,	
	2023	2022
Service cost	\$ 93,359	\$ 137,389
Interest cost	181,176	136,130
Amortization of gain	-	27,761
	<u>\$ 274,535</u>	<u>\$ 301,280</u>

Notes to Consolidated Financial Statements

Union Electric Membership Corporation and Subsidiary

December 31, 2023 and 2022

Note M - Other Noncurrent Liabilities - Continued

Assumptions and effects:

	December 31,	
	2023	2022
Actuarial assumptions:		
Medical trend rate, pre 65	6.63%	6.88%
Ultimate trend rate, pre 65	5.00%	5.00%
Year ultimate trend rate achieved	2028	2028
Discount rate	5.35%	5.50%
Measurement date	12/31/2023	12/31/2022

Amounts in accumulated other comprehensive income not recognized in net periodic benefit costs consisted of the following:

	December 31,	
	2023	2022
Unrecognized actuarial gain (loss)	<u>\$ (30,362)</u>	<u>\$ 16,477</u>

Increasing the assumed medical cost trend rates by one percentage point in each year would have resulted in an increase in the APBO as of December 31, 2023 and 2022 of approximately \$343,000 and \$337,000, respectively, and an increase in the aggregate service cost and interest cost components of net periodic postretirement benefit cost for 2023 and 2022 of approximately \$26,000.

The actuarial assumptions anticipate no additional change in the Medicare Program. No specific adjustments will be made for the Medicare Prescription Drug Improvement and Modernization Act because the Corporation will not recognize the employee subsidy available under Medicare Part D.

For the years ended December 31, 2023 and 2022, total amounts recognized in accumulated other comprehensive gain (loss) not yet recognized in margins amounted to approximately (\$30,000) and \$16,000, respectively. There is no expected amortization in the subsequent year for 2023 and 2022.

Notes to Consolidated Financial Statements

Union Electric Membership Corporation and Subsidiary

December 31, 2023 and 2022

Note M - Other Noncurrent Liabilities - Continued

Estimated future benefit payments are shown net of employee contributions.

The Corporation does not anticipate any additional employer or employee contribution for the year ending December 31, 2023:

<u>Year Beginning January 1,</u>	
2024	\$ 299,879
2025	\$ 299,674
2026	\$ 278,743
2027	\$ 232,673
2028	\$ 252,993
2029 - 2033	\$ 1,522,940

Note N - Deferred Credits

Deferred credits consisted of the following:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Checks subject to the North Carolina Unclaimed Property Act	\$ 5,589,752	\$ 5,583,924
Other deferred credits	461,743	470,521
Wholesale power cost adjustment		1,860,528
	<u>\$ 6,051,495</u>	<u>\$ 7,914,973</u>

The billing rate schedules of the Corporation contain provisions to either increase or decrease the consumers' billings from the base level billing schedules dependent upon the wholesale power cost from the supplier for electrical energy purchased for resale. The Corporation had a cumulative under recovery of approximately \$1,100,000 and is included in Deferred Charges (Note H). The Corporation had a cumulative over-recovery of approximately \$1,861,000, which was included in deferred credits at December 31, 2022.

Note O - Retirement Plans

Pension Plan

The Retirement Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Association (NRECA), is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multiemployer plan under the accounting standards.

The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

Notes to Consolidated Financial Statements

Union Electric Membership Corporation and Subsidiary

December 31, 2023 and 2022

Note O - Retirement Plans - Continued

Pension Plan - Continued

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Corporation's contributions to the RS Plan in 2023 and 2022 represented less than 5% of the total contributions made to the plan by all participating employers. The Corporation made contributions to the plan of approximately \$2,992,000 and \$2,726,000 in 2023 and 2022, respectively.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded on January 1, 2023 and January 1, 2022 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

Deferred Income Plan

In addition to the NRECA RS Plan, substantially all employees of the Corporation are eligible to participate in the NRECA SelectRE pension plan (the "Plan"), a defined contribution multiemployer deferred income plan qualified under Section 401(k) of the Internal Revenue Code. For the years ended December 31, 2023 and 2022, the Corporation's required contribution to the Plan and its net pension cost was approximately \$17,000 and \$30,500, respectively.

Note P - Financial Instruments Carried at Cost

The Corporation has recorded all financial instruments based on the carrying amount (book value) in the consolidated financial statements in accordance with ASC Topic 825. According to this guidance, the Corporation is required to disclose the fair value of financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using discounted cash flow analysis. This technique involves subjective judgment and is significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. As a result, the derived fair value estimates cannot be substantiated by comparison to independent markets, and in many cases, could not be realized in immediate settlement of the instrument. Accordingly, the following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it was practicable to estimate that value.

Notes to Consolidated Financial Statements

Union Electric Membership Corporation and Subsidiary

December 31, 2023 and 2022

Note P - Financial Instruments Carried at Cost - Continued

Cash and Cash Equivalents

The carrying amount of cash and cash equivalents approximates fair value due to the short maturity of these instruments.

Accounts Receivable

The carrying amount of accounts receivable approximates fair value due to the short period of time amounts are outstanding.

Investments in Associated Organizations

Fair value of capital term certificates was determined by computing the present value of estimated future cash flows, discounted at the long-term treasury rate of 4.03% and 3.97% for the years ended December 31, 2023 and 2022, respectively. The fair value of patronage capital is not determinable since no legal obligation exists to retire capital credits. The carrying value of memberships approximates fair value.

Notes Receivable

Fair value of notes receivable was computed at the present value of future cash flows, discounted at market rates for the same or similar issues of notes for the years ended December 31, 2023 and 2022.

Accounts Payable

The carrying amount of accounts payable approximates fair value due to the short period of time amounts are outstanding.

Long-Term Debt

The carrying amount of the Corporation's fixed long-term debt includes certain interest rates that are below quoted market prices for the same or similar issues. Therefore, the fair value of fixed long-term debt is estimated based on current market prices for the same or similar issues offered for debt of the same and remaining maturities which was 6.47% and 6.41% for the years ended December 31, 2023 and 2022, respectively.

Notes to Consolidated Financial Statements

Union Electric Membership Corporation and Subsidiary

December 31, 2023 and 2022

Note P - Financial Instruments Carried at Cost - Continued

Consumer Deposits

The carrying amount approximates fair value due to the relatively short maturity of the deposits.

The estimated fair values of the financial instruments were as follows:

	2023		2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Capital term certificates	\$ 1,173,532	\$ 1,420,000	\$ 1,180,927	\$ 1,440,000
Notes receivable, including current portion	\$ 94,589	\$ 110,000	\$ 142,090	\$ 160,000
Liabilities:				
Long-term debt, including current portion	\$ 245,192,185	\$ 162,900,000	\$ 204,207,491	\$ 163,500,000

Note Q - Commitments and Contingencies

Purchased Power

The Corporation is one of 26 members of NCEMC, a generation and transmission cooperative. Under its wholesale power agreement, the Corporation is required to purchase substantially all its electric power requirements from NCEMC through 2066. The rates paid for purchased power are subject to annual review by the Board of Directors of NCEMC.

Self-Insurance Plan

During the year ended December 31, 2022, the Corporation maintained a self-insurance plan for its employees' group health insurance program. The Corporation's contingent liability was limited to an annual stop-loss provision of \$100,000 per participant at December 31, 2022. Claims actually paid that may have exceeded the stop-loss provision were reimbursed to the Corporation. Claims incurred but not recorded were not material to the consolidated financial statements at December 31, 2022. Effective January 1, 2023, the Corporation transitioned to a fully insured plan with the NRECA group benefits program.

Other

The Corporation is from time to time, involved in various legal actions and claims that arise as a result of events that occur in the normal course of operations. In management's opinion, the ultimate resolution of any actions is not expected to have a material adverse effect on the financial position, results of operations, or cash flows.

Notes to Consolidated Financial Statements

Union Electric Membership Corporation and Subsidiary

December 31, 2023 and 2022

Note R - Related Party Transactions

The Corporation was a member of the following organizations and conducted business transactions during the current and prior years as set forth below:

CFC

The Corporation was a member of CFC, a national financing organization, and, as explained in Notes C, K, and L, had investment assets, mortgage notes payable and an available line of credit at various interest rates and maturities.

NCEMC

The Corporation, as a member of NCEMC, an organization composed of electric cooperatives, has entered into a contract for the acquisition of wholesale power (Note Q). The cost of wholesale power to members is determined by the Board of Directors of NCEMC. Additionally, as explained in Note C, the Corporation had an investment in NCEMC.

TEMA

As a member of TEMA, a statewide organization composed of electric cooperatives and others, the Corporation purchased a substantial amount of materials and supplies for construction and maintenance of the utility plant. Additionally, as explained in Note C, the Corporation had an investment in TEMA.

CoBank

The Corporation is a member of CoBank, a national financing organization and, as explained in Notes C, K and L, had investment assets, mortgage notes payable and an available line of credit.

Union Services

Union Services is a wholly-owned subsidiary of the Corporation. The Corporation leases an office space and performs certain maintenance functions for Union Services. The Corporation also pays certain expenses on behalf of Union Services, which are reimbursed to the Corporation. Union Services owed the Corporation \$119,647 and \$24,205 at December 31, 2023 and 2022, respectively. The Corporation has committed to dissolve Union Services permanently and discontinued operation in July 2023. All significant intercompany transactions have been eliminated in consolidation. See Notes A, F, and S.

Note S - Discontinued Operations

The Corporation began winding down its investment in its wholly-owned subsidiary, Union Services, during the year ended December 31, 2023, with operations ending in July. All fixed assets were sold as well as a portion of inventory. The remaining inventory will be disposed of through scrap or sale in 2024. Total assets and liabilities of the discontinued operations totaled \$948,301 and \$121,169, respectively, at December 31, 2023. A reconciliation of major assets and liabilities of discontinued operations can be found on the Consolidating Balance Sheets. The net loss from discontinued operations was \$304,095. The summary of operations classified as discontinued operations can be found on the Consolidating Statement of Operations.

Supplementary Information



Independent Auditor's Report on Consolidating Information

The Board of Directors
Union Electric Membership Corporation
(D/B/A Union Power Cooperative) and Subsidiary
Monroe, North Carolina

We have audited the consolidated financial statements of Union Electric Membership Corporation and Union Services of Union County, LLC as of and for the years ended December 31, 2023 and 2022, and our report thereon dated March 23, 2024, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 29-31 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Adams, Jenkins & Cheatham

Richmond, Virginia
March 23, 2024

Consolidating Balance Sheet

Union Electric Membership Corporation and Subsidiary

December 31, 2023

	Union EMC	Union Services	Eliminations	Total
Assets				
Utility plant				
Electric plant	\$ 523,830,143	\$	\$	\$ 523,830,143
Less accumulated provision for depreciation and amortization	167,926,381			167,926,381
	<u>355,903,762</u>			<u>355,903,762</u>
Investments and other assets				
Investments in associated organizations	46,132,454			46,132,454
Investment in subsidiary	827,132		(827,132)	
Investments in fixed income securities	1,978,102			1,978,102
Notes receivable	54,856			54,856
Investment in economic development projects	186,783			186,783
	<u>49,179,327</u>		<u>(827,132)</u>	<u>48,352,195</u>
Current assets				
Cash and cash equivalents	45,716,583	779,799		46,496,382
Accounts receivable, net	22,026,560	3,470	(119,647)	21,910,383
Investments in fixed income securities	13,800,381			13,800,381
Inventories	3,398,325	54,906		3,453,231
Current portion of notes receivable	39,733			39,733
Other current assets	1,330,999	110,126		1,441,125
	<u>86,312,581</u>	<u>948,301</u>	<u>(119,647)</u>	<u>87,141,235</u>
Deferred charges	<u>1,756,463</u>			<u>1,756,463</u>
	<u>\$ 493,152,133</u>	<u>\$ 948,301</u>	<u>\$ (946,779)</u>	<u>\$ 493,153,655</u>

See Independent Auditor's Report on Consolidating Information

	<u>Union EMC</u>	<u>Union Services</u>	<u>Eliminations</u>	<u>Total</u>
Equities and Liabilities				
Equities				
Patronage capital	\$ 183,159,748	\$	\$	\$ 183,159,748
Retained earnings		827,132	(827,132)	
Other equities	33,152,083			33,152,083
Accumulated other comprehensive loss	(30,362)			(30,362)
	<u>216,281,469</u>	<u>827,132</u>	<u>(827,132)</u>	<u>216,281,469</u>
Noncurrent liabilities				
Long-term debt	235,352,341			235,352,341
Other	4,241,021			4,241,021
	<u>239,593,362</u>			<u>239,593,362</u>
Current liabilities				
Accounts payable	13,708,617	121,169	(119,647)	13,710,139
Current portion of long-term debt	9,839,844			9,839,844
Consumer deposits	2,697,900			2,697,900
Other current and accrued liabilities	4,979,446			4,979,446
	<u>31,225,807</u>	<u>121,169</u>	<u>(119,647)</u>	<u>31,227,329</u>
Deferred credits	<u>6,051,495</u>			<u>6,051,495</u>
	<u>\$ 493,152,133</u>	<u>\$ 948,301</u>	<u>\$ (946,779)</u>	<u>\$ 493,153,655</u>

Consolidating Statement of Operations

Union Electric Membership Corporation and Subsidiary

Year Ended December 31, 2023

	Union EMC	Union Services	Eliminations	Total
Operating revenues	\$ 178,764,812	\$ 943,483	\$	\$ 179,708,295
Operating expenses				
Cost of power	111,922,497			111,922,497
Cost of goods sold		715,783		715,783
Transmission	190,113			190,113
Distribution - operation	9,879,295			9,879,295
Distribution - maintenance	10,903,443			10,903,443
Consumer accounts	5,204,129			5,204,129
Customer service and information	2,290,593			2,290,593
Administrative and general	7,442,719	543,634		7,986,353
Depreciation and amortization	14,717,148	22,822		14,739,970
Taxes	11,854			11,854
Interest on long-term debt	7,272,629			7,272,629
Other deductions	31,197			31,197
	<u>169,865,617</u>	<u>1,282,239</u>		<u>171,147,856</u>
Operating Margins Before Patronage Allocations	8,899,195	(338,756)		8,560,439
Patronage allocations	<u>4,186,634</u>			<u>4,186,634</u>
Net Operating Margins	13,085,829	(338,756)		12,747,073
Nonoperating income (expense)				
Interest income	2,060,099	4		2,060,103
Gain on disposal of plant	47,196	102,063		149,259
Loss on disposal of investment		(1,000)		(1,000)
Loss from equity investments	(304,095)		304,095	
Income taxes		(66,406)		(66,406)
	<u>1,803,200</u>	<u>34,661</u>	<u>304,095</u>	<u>2,141,956</u>
Net Margins	<u>\$ 14,889,029</u>	<u>\$ (304,095)</u>	<u>\$ 304,095</u>	<u>\$ 14,889,029</u>

See Independent Auditor's Report on Consolidating Information

**Supplemental Matters Required by the
Rural Utilities Service**



Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Directors
Union Electric Membership Corporation
(D/B/A Union Power Cooperative) and Subsidiary
Monroe, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Union Electric Membership Corporation (the “Corporation”), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations and comprehensive income, equities and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 23, 2024.

Report On Internal Control Over Financial Reporting

In planning and performing our audits of the consolidated financial statements, we considered the Corporation’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s consolidated financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report On Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alamo, Jenkins & Cheatham

Richmond, Virginia
March 23, 2024



**Independent Auditor’s Report on Compliance With
Aspects of Contractual Agreements and Regulatory
Requirements for Electric Borrowers**

The Board of Directors
Union Electric Membership Corporation
(D/B/A Union Power Cooperative) and Subsidiary
Monroe, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Union Electric Membership Corporation (the “Corporation”), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations and comprehensive income, equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 23, 2024. In accordance with *Government Auditing Standards*, we have also issued a report dated March 23, 2024 in our consideration of the Corporation’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Corporation failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Corporation’s noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they related to accounting matters. In connection with our audit, we noted no matters regarding the Corporation’s accounting and records to indicate that the Corporation did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

- Maintain adequate control over materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operations, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the consolidated financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and
- Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the Board of Directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Adams, Jenkins & Cheatham

Richmond, Virginia
March 23, 2024