

BOONE REMC AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|---|----------------|----------------|
| <u>ASSETS</u> | | |
| UTILITY PLANT IN SERVICE, NET | \$ 120,620,961 | \$ 114,105,294 |
| RIGHT-OF-USE ASSETS | 624,144 | 862,627 |
| INVESTMENTS | 16,873,307 | 27,746,149 |
| DEFERRED CHARGES, less current portion | 38,203 | 73,981 |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 9,594,772 | 3,943,868 |
| Accounts receivable, consumer, less reserve of \$74,000 for 2023 and \$67,000 for 2022 | 10,693,770 | 9,381,126 |
| Materials, supplies and inventories | 5,902,143 | 3,449,015 |
| Recoverable power costs | 493,592 | - |
| Current portion of deferred charges | 28,203 | 50,926 |
| Prepaid expenses | 53,123 | 63,354 |
| TOTAL CURRENT ASSETS | 26,765,603 | 16,888,289 |
| TOTAL ASSETS | \$ 164,922,218 | \$ 159,676,340 |

EQUITIES AND LIABILITIES

| | | |
|---|----------------|----------------|
| LONG-TERM DEBT, less current portion | \$ 71,990,332 | \$ 75,018,873 |
| FINANCE LEASE, less current portion | 439,993 | 631,320 |
| ACCUMULATED POST RETIREMENT BENEFIT | 6,327,513 | 9,307,424 |
| CUSTOMER DEPOSITS | 954,799 | 1,511,549 |
| PATRONAGE CAPITAL AND RETAINED EARNINGS | 75,167,128 | 61,451,293 |
| CURRENT LIABILITIES | | |
| Accounts payable | 5,000,678 | 5,736,336 |
| Accrued expenses | 1,838,602 | 1,726,394 |
| Refundable power costs | - | 877,951 |
| Current portion of long-term debt | 3,005,757 | 3,174,617 |
| Current portion of finance lease | 197,416 | 240,583 |
| TOTAL CURRENT LIABILITIES | 10,042,453 | 11,755,881 |
| TOTAL EQUITIES AND LIABILITIES | \$ 164,922,218 | \$ 159,676,340 |

The accompanying notes are an integral part of these statements.

BOONE REMC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF REVENUE

Years Ended December 31, 2023 and 2022

| | Amount | | Percent | |
|---|---------------|---------------|---------|-------|
| | 2023 | 2022 | 2023 | 2022 |
| REVENUES | \$ 67,356,032 | \$ 62,007,017 | 100.0 | 100.0 |
| OPERATING EXPENSES | | | | |
| Purchased power | 39,090,643 | 39,596,852 | 58.0 | 63.9 |
| Operations | 3,590,059 | 3,133,309 | 5.3 | 5.1 |
| Maintenance | 1,819,057 | 1,689,615 | 2.7 | 2.7 |
| Consumer accounting expense | 808,543 | 717,240 | 1.2 | 1.2 |
| Consumer service and sales expense | 366,003 | 293,690 | 0.5 | 0.5 |
| Administrative expense | 5,218,193 | 4,598,010 | 7.7 | 7.4 |
| Depreciation | 5,105,763 | 4,756,932 | 7.6 | 7.7 |
| Taxes | 273,332 | 952,199 | 0.4 | 1.5 |
| TOTAL OPERATING EXPENSES | 56,271,593 | 55,737,847 | 83.4 | 90.0 |
| OPERATING MARGINS BEFORE OTHER ITEMS | 11,084,439 | 6,269,170 | 16.6 | 10.0 |
| OTHER OPERATING ITEMS, NET | | | | |
| Patronage revenue | 1,143,655 | 1,131,940 | 1.7 | 1.9 |
| Interest expense | (2,711,976) | (2,820,265) | (4.0) | (4.5) |
| TOTAL OTHER OPERATING ITEMS, NET | (1,568,321) | (1,688,325) | (2.3) | (2.6) |
| OPERATING MARGINS | 9,516,118 | 4,580,845 | 14.3 | 7.4 |
| NON-OPERATING ITEMS, NET | | | | |
| Interest and dividend revenue | 426,417 | 70,641 | 0.5 | 0.1 |
| All other, net | 148,910 | (74,203) | 0.2 | (0.1) |
| TOTAL NON-OPERATING ITEMS, NET | 575,327 | (3,562) | 0.7 | 0.0 |
| NET MARGINS | \$ 10,091,445 | \$ 4,577,283 | 15.0 | 7.4 |

The accompanying notes are an integral part of these statements.

BOONE REMC AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2023 and 2022

| | <u>Amount</u> | | <u>Percent</u> | |
|--|----------------------|---------------------|----------------|-------------|
| | <u>2023</u> | <u>2022</u> | <u>2023</u> | <u>2022</u> |
| NET MARGINS | \$ 10,091,445 | \$ 4,577,283 | 15.0 | 7.4 |
| OTHER COMPREHENSIVE INCOME | | | | |
| Unrealized gain (loss) on postretirement benefit obligation | <u>3,724,276</u> | <u>-</u> | <u>5.5</u> | <u>0.0</u> |
| COMPREHENSIVE INCOME | <u>\$ 13,815,721</u> | <u>\$ 4,577,283</u> | <u>20.5</u> | <u>7.4</u> |

The accompanying notes are an integral part of these statements.

BOONE REMC AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

Years Ended December 31, 2023 and 2022

| | Total | Patronage Capital Assigned | Patronage Capital Assignable | Donated Capital | Boone Cooperative Advantage, LLC | Other Comprehensive Income |
|---|---------------|----------------------------------|------------------------------------|--------------------|--|----------------------------------|
| BALANCE, December 31, 2021 | \$ 57,074,786 | \$ 52,658,517 | \$ 5,990,678 | \$ 1,737,343 | \$ (2,447) | \$ (3,309,305) |
| Net margins | 4,577,283 | - | 4,577,283 | - | - | - |
| Patronage refunds | (200,776) | (235,873) | - | 35,097 | - | - |
| Assign 2021 margins | - | 5,719,157 | (5,719,157) | - | - | - |
| BALANCE, December 31, 2022 | \$ 61,451,293 | \$ 58,141,801 | \$ 4,848,804 | \$ 1,772,440 | \$ (2,447) | \$ (3,309,305) |
| Net margins | 10,091,445 | - | 10,095,358 | - | (3,913) | - |
| Patronage refunds | (99,886) | (294,080) | - | 194,194 | - | - |
| Unrecognized post-retirement benefit cost | 3,724,276 | - | - | - | - | 3,724,276 |
| Assign 2022 margins | - | 4,848,804 | (4,848,804) | - | - | - |
| BALANCE, December 31, 2023 | \$ 75,167,128 | \$ 62,696,525 | \$ 10,095,358 | \$ 1,966,634 | \$ (6,360) | \$ 414,971 |

The accompanying notes are an integral part of these statements.

BOONE REMC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2023 and 2022

| | 2023 | 2022 |
|--|---------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from consumers | \$ 65,954,631 | \$ 59,866,201 |
| Cash paid to suppliers, vendors and employees | (54,696,125) | (49,171,621) |
| Interest and dividends received | 426,417 | 70,641 |
| Interest paid | (2,727,948) | (2,787,634) |
| Patronage revenue received | 198,479 | 254,120 |
| All other, net | 75,257 | (34,577) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | 9,230,711 | 8,197,130 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of utility plant in service, net of retirements | (11,482,772) | (14,875,270) |
| Proceeds from sale of utility plant in service | 180,282 | 160,093 |
| Purchase of investments | (151,908) | (14,500,000) |
| Proceeds from sale/redemption of investments | 11,969,926 | 4,130,394 |
| Acquisition of deferred charges | - | (99,609) |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | 515,528 | (25,184,392) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Borrowings of long-term debt | - | 30,000,000 |
| Repayments on borrowings | (3,197,401) | (3,277,250) |
| Borrowing (repayment) of line of credit, net | - | (6,650,000) |
| Patronage refunds paid | (99,886) | (200,776) |
| Repayment of capital lease obligations | (241,298) | (219,032) |
| Repayments of customer advances and deposits | (1,151,606) | (1,032,519) |
| Collection of customer advances and deposits | 594,856 | 1,279,490 |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | (4,095,335) | 19,899,913 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 5,650,904 | 2,912,651 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 3,943,868 | 1,031,217 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 9,594,772 | \$ 3,943,868 |

The accompanying notes are an integral part of these statements.

BOONE REMC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|--|-------------------------|-------------------------|
| RECONCILIATION OF NET MARGINS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| Net margins | \$ 10,091,445 | \$ 4,577,283 |
| Non-cash items | | |
| Depreciation | 5,105,763 | 4,756,932 |
| Amortization of deferred charges | 58,501 | 37,888 |
| (Gain) loss on disposal of assets | (73,653) | 39,626 |
| Patronage revenue | (945,176) | (877,820) |
| Decrease (increase) in assets | | |
| Accounts receivable, consumer | (1,312,644) | (2,115,499) |
| Materials and supplies | (2,453,128) | (900,730) |
| Prepaid expenses | 10,231 | 678 |
| Increase (decrease) in liabilities | | |
| Accounts payable | (735,658) | 994,913 |
| Accrued expenses | 112,208 | 239,776 |
| Postretirement benefit expense | 744,365 | 729,540 |
| Refundable / recoverable power costs | <u>(1,371,543)</u> | <u>714,543</u> |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | \$ <u>9,230,711</u> | \$ <u>8,197,130</u> |

The accompanying notes are an integral part of these statements.

BOONE REMC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2023 and 2022

(1) Summary of significant accounting policies

The significant accounting policies followed by Boone REMC and Subsidiary are summarized below.

Nature of operations – Boone REMC (the REMC) is a non-profit organization engaged principally in the distribution and sale of electricity in Boone and parts of Clinton, Montgomery, Hendricks, and Hamilton counties in central Indiana. Boone Cooperative Advantage, LLC (the Subsidiary) is a for profit entity that operates the REMC's non-exempt activities.

Principles of consolidation – The consolidated financial statements include the accounts of the REMC and its wholly owned subsidiary. All significant intercompany transactions have been eliminated.

Accounting records – The REMC maintains its records in accordance with policies prescribed or permitted by the Indiana Utility Regulatory Commission (IURC) and United States Department of Agriculture Rural Utilities Service (RUS), although the REMC is not regulated by these two agencies. The applicable uniform system of accounts prescribed by these regulatory bodies conform in all material respects with generally accepted accounting principles as applied to rate regulated utilities.

Regulation – Effective April 20, 1998, the membership of the REMC voted to remove itself from the regulation of the IURC.

Financial statement estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Additions to utility plant – Additions to utility plant are capitalized at cost, which includes material, direct and indirect labor and related operating overhead but does not include capitalized interest during construction. Although the capitalization of interest during construction is a generally accepted accounting principle, the effect on the financial statements is immaterial. The cost of maintenance and repairs of utility property, including renewals of minor items of property, are charged to operations and maintenance.

Retirements of transmission and distribution property – Transmission and distribution property retired or otherwise disposed, including the cost of removal, are charged to accumulated depreciation. Accordingly, no gain or loss is recognized upon retirement or disposition of transmission and distribution property.

Depreciation – Depreciation of utility plant is computed by the straight-line method of depreciation using the following rates: distribution plant, 3.6%; transmission plant, 2.4%; structures and improvements, 2%; transportation equipment, 10%-15%; power operated equipment, communication equipment, stores, tools and work, and laboratory equipment, 10%; office furniture and equipment, 7-33%.

BOONE REMC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended December 31, 2023 and 2022

(1) Summary of significant accounting policies (continued)

Deferred charges – Deferred charges represent costs incurred for future periods and include rate case expenditures and work plan costs. The work plan charges are being amortized over a period of 36 months. Rate case expenditures was being amortized over 48 months and was fully amortized during 2023. Amortization of deferred charges was \$58,501 and \$37,888 for the years ended December 31, 2023 and 2022.

Cash and cash equivalents – Cash and cash equivalents represent cash on hand and in bank accounts, certificates of deposits and commercial paper. At times, such cash and cash equivalents may be in excess of the FDIC insurance limits.

Accounts receivable – The REMC carries its accounts receivable at cost, less an allowance for doubtful accounts. Management reviews all receivables on a regular basis. Any amounts written off for nonpayment must be approved by the Board. Amounts written off are first applied to customer deposits on hand, then patronage refunds, prior to being recorded in the statement of revenues and expenses. Interest does not accrue on accounts receivable. The collection policy is to turn over accounts to a collection agency for services provided if no payment has been received within 90 days.

Materials, supplies, and inventory – Material, supplies, and inventory are carried at average cost.

Refundable or recoverable power costs – Changes in the cost of power not recovered through rates are deferred and are being refunded or recovered in future periods.

Patronage capital – The REMC is operated on a cooperative not-for-profit basis for the mutual benefit of its members. The REMC is obligated to account on a patronage basis to all its members for annual revenue, in excess of the cost of providing service. Such amount is allocated in the form of capital credits to the members' capital accounts on the basis of patronage. The REMC maintains a separate allocation and retirement of the capital credited to the account of the REMC by the organization furnishing electric service to the REMC. The REMC allocates said generation and transmission patronage capital to the members when such capital is allocated to the REMC. Patronage revenue is recognized in the year in which the cooperative allocates its earnings to their respective members.

Advertising – Advertising costs are charged to administrative expense when incurred. Total advertising expense was \$29,420 and \$19,445 for the year ended December 31, 2023 and 2022, respectively.

Revenue recognition – The REMC follows Accounting Standards Codification Topic 606, Revenue from Contracts with Customers ("Contract Revenue"). Under Contract Revenue, a performance obligation is a promise within a contract to transfer a distinct good or service, or a series of distinct goods and services, to a customer. Revenue is recognized when performance obligations are satisfied and the customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which the REMC expects to be entitled to receive in exchange for goods or services. See Note 12 for further information on Contract Revenue.

BOONE REMC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2023 and 2022

(1) Summary of significant accounting policies (continued)

Accounting for Uncertain Tax Positions – The REMC follows “Accounting for Uncertainty in Income Taxes.” The generally accepted accounting principal provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise’s financial statements. The accounting principal requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The adoption of this accounting principal does not have a material effect on its financial position, results of operations or cash flows as the REMC does not believe they are taking any uncertain tax positions.

Taxes on revenue producing transactions – It is the REMC’s policy to show revenues associated with the collection of sales tax net of any remittance to the taxing authority on the Statement of Revenue. Utility Receipts Tax is assessed on gross income and is included in the tax expense when incurred. The State of Indiana repealed the Utility Receipts Tax as of July 1, 2022 thus there are only six (6) months of taxes included in the Statement of Revenue for 2022.

Subsequent events – Subsequent events have been evaluated through March 27, 2024, the date of the independent auditor’s report, which is the date the financial statements were available to be issued.

(2) Utility plant in service, net

Utility plant in service consists of the following:

| | <u>2023</u> | <u>2022</u> |
|-------------------------------|-----------------------|-----------------------|
| Cost | | |
| Distribution system | \$ 134,739,456 | \$ 127,118,046 |
| General plant | 10,476,940 | 9,640,833 |
| Construction in progress | <u>9,576,422</u> | <u>7,514,324</u> |
| Total cost | 154,792,818 | 144,273,203 |
| Less Accumulated depreciation | <u>34,171,857</u> | <u>30,167,909</u> |
| UTILITY PLANT IN SERVICE, NET | <u>\$ 120,620,961</u> | <u>\$ 114,105,294</u> |

The aggregate depreciation charged to operations was \$5,105,763 and \$4,756,932 for the year ended December 31, 2023 and 2022, respectively. The depreciation policies followed by the REMC are described in Note 1. Utility plant in service is pledged to secure long-term debt as described in Note 6.

BOONE REMC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2023 and 2022

(3) Investments

Investments in associated organizations consist of the following:

| | <u>2023</u> | <u>2022</u> |
|---|----------------------|----------------------|
| Capital term certificates, at cost, issued by National Rural Utilities Cooperative Finance Corp. (CFC) | \$ 382,327 | \$ 382,327 |
| Patronage capital | | |
| Wabash Valley Power Association (WVPA) | 14,217,452 | 13,466,216 |
| CFC | 415,169 | 366,378 |
| National Information Solutions Cooperative | 141,540 | 140,213 |
| United Utility Supply Cooperative Corporation | 193,617 | 147,894 |
| CoBank | 1,054,503 | 1,079,386 |
| Federated Rural Electric Insurance Exchange | 142,331 | 136,672 |
| IEC | 78,243 | 87,495 |
| ERMCO | 154,999 | 115,257 |
| NRTC | 75,178 | 75,992 |
| Certificate of deposits | - | 11,730,385 |
| All other | 17,948 | 17,934 |
| TOTAL INVESTMENTS | \$ 16,873,307 | \$ 27,746,149 |

The accounting policies for recognition of patronage revenue are described in Note 1. Investments are pledged to secure long-term debt as described in Note 6.

(4) Retirement plan

The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

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 REMC contributions to the RS Plan in 2023 and in 2022 represented less than 5 percent of the total contributions made to the plan by all participating employers. The REMC made contributions to the plan of \$818,312 and \$771,986 for the year ended December 31, 2023 and 2022, respectively.

BOONE REMC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2023 and 2022

(4) Retirement plan (continued)

In 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 percent funded on January 1, 2023 and over 80 percent funded on 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.

The REMC sponsors a 401(k) savings plan, under which eligible employees may choose to save up to the maximum allowed by IRS limits. The Cooperative contributes 1% of all base salary and matches employee contributions up to a maximum of 4% of base salary. The expense for the 401(k) match was approximately \$299,000 and \$265,000 for the year ended December 31, 2023 and 2022, respectively.

(5) Fair value measurement

The REMC has adopted generally accepting accounting principles relating to accounting for fair value measurements and disclosures. These principles define fair value, establish a framework for measuring fair value and expand disclosures on fair value measurements. Disclosure is required surrounding the various inputs that are used in determining the fair value of the REMC's investments. These inputs are summarized into three broad levels listed below.

Level 1 - quoted prices in active markets for identical securities

Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risks, etc.)

Level 3 - significant unobservable inputs (including the REMC's own assumptions in determining the fair value of investments)

Investments in other entities are unsecured and measured using level 3 inputs. Factors such as historical and project financial results economic conditions, financial conditions of investee, and other factors and events subject to change are considered in the determination of fair value. Because of the inherent uncertainty in level 3 inputs, the values of assets required to be valued in this manner are subject to a higher degree of uncertainty and variability.

BOONE REMC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2023 and 2022

(5) Fair value measurement (continued)

Investments held at December 31, 2023 and 2022, valued at \$0 and \$11,730,385, respectively, are valued with level 1 inputs, due to the nature of the investment (certificates of deposit). Realized gains/(losses) from changes in market value of Level 1 investments were \$46,069 and (\$45,917) for the period ended December 31, 2023 and December 31, 2022. Redemptions of level 1 investments totaled \$11,882,277 and \$4,025,806 for the year ended December 31, 2023 and 2022, respectively. Increases resulting from purchases, reinvested interest and dividends of level 1 investments totaled \$105,823 and \$14,551,999 for the years ended December 31, 2023 and 2022.

Investments held at December 31, 2023 and 2022, valued at \$16,873,307 and \$16,015,764, respectively, are valued with level 3 inputs, due to the nature of the investment (investments in other cooperative's or associations). No gains or losses were recognized for the period ended December 31, 2023 and December 31, 2022 on the level 3 investments. Increases resulting from patronage totaled \$945,176 and \$877,820 for the year ended December 31, 2023 and 2022, respectively. Redemptions of level 3 investments totaled \$87,633 and \$110,968 for the year ended December 31, 2023 and 2022, respectively. Purchases of level 3 investments totaled \$0 for both years ended December 31, 2023 and 2022.

(6) Long-term debt

Long-term debt consists of the following:

| | <u>2023</u> | <u>2022</u> |
|--|----------------------|----------------------|
| 3.95% to 7.0% fixed rate notes, payable to CFC in quarterly installments approximating \$527,000, including interest, with maturities ranging from 2024 to 2050. Secured by all REMC assets. | \$ 24,016,435 | \$ 25,007,335 |
| 1.78% to 6.30% fixed rate notes, payable to CoBank in quarterly and monthly installments approximating \$195,000 and \$250,000, including interest, with final maturities ranging from 2024 to 2052. Secured by all REMC assets. | <u>50,979,654</u> | <u>53,186,155</u> |
| Total long-term debt | 74,996,089 | 78,193,490 |
| Less current portion | <u>3,005,757</u> | <u>3,174,617</u> |
| LONG-TERM DEBT, less current portion | <u>\$ 71,990,332</u> | <u>\$ 75,018,873</u> |

As of December 31, 2023, future maturities of long-term debt principal are as follows: 2024 - \$3,005,757; 2025 - \$2,700,557; 2026 - \$2,778,244; 2027 - \$2,771,272; 2028 - \$2,526,326; thereafter - \$61,213,933. In addition, the loan agreements require the REMC to meet certain financial ratios, which have been met at December 31, 2023.

BOONE REMC AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2023 and 2022

(6) Long-term debt (continued)

Unadvanced long-term loan funds of \$23,000,000 are available to the REMC under a loan agreement with CFC.

The REMC has a variable line of credit with CoBank of up to \$20,000,000 which expires October 31, 2024. The outstanding balance with CoBank on the line was \$0 and \$0 for December 31, 2023 and 2022, respectively. The interest rate on the line was 7.41% and 6.25% at December 31, 2023 and 2022.

The REMC has a variable line of credit with CFC of up to \$20,000,000. The outstanding balance with CFC on the line of credit was \$0 for December 31, 2023 and 2022. The interest rate on the line was 7.25% and 5.75% at December 31, 2023 and 2022, respectively.

Both lenders required that the outstanding balance on the combined line of credit is no greater than \$20,000,000.

(7) Postretirement benefits other than pension

The REMC sponsors a defined benefit postretirement plan that covers employees. The plan provides for medical benefits. The postretirement health care plan is contributory, with retiree contributions reviewed for adjustment annually.

The accumulated postretirement benefit obligation was \$6,327,513 and \$9,307,424 at December 31, 2023 and 2022, respectively. The REMC's pay-as-you-go funding policy means that the fair value of plan assets was \$0 for 2023 and 2022, with an accrued postretirement benefit cost liability of \$6,742,484 and \$5,998,119 for 2023 and 2022, respectively. The net periodic benefit cost was \$799,953 and \$799,953 for the year ended December 31, 2023 and 2022, respectively. Amounts included in accumulated other comprehensive income are unrecognized actuarial gains / (losses) of \$3,724,276 and \$0 at December 31, 2023 and 2022, respectively.

For actuarial measurement purposes, the annual rate of increase in the per capita cost of covered health care benefits was assumed; the rate was assumed to decrease gradually from 9% to 5% by the year 2033 and remain at that level thereafter. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 4.83% and 2.85% for December 31, 2023 and 2022, respectively. A postretirement actuarial study was last prepared as of December 31, 2023.

The estimated impact of the increase in the discount rate is a decrease in the accumulated postretirement benefit obligation of \$3,170,000.

The estimated amortization from accumulated other comprehensive income to the net periodic benefit cost over the next fiscal year is \$0. The estimated net periodic benefit cost for 2024 is \$532,017.

BOONE REMC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2023 and 2022

(7) Postretirement benefits other than pension (continued)

Amounts recognized in accumulated other comprehensive income include the following:

| | <u>2023</u> | <u>2022</u> |
|--|-------------------|-----------------------|
| Net actuarial gain/(loss) | \$ 414,971 | \$ (3,309,305) |
| Total amount recognized in accumulated other comprehensive income | \$ <u>414,971</u> | \$ <u>(3,309,305)</u> |

The net periodic postretirement benefit cost is comprised of the following:

| | <u>2023</u> | <u>2022</u> |
|--|-------------------|-------------------|
| Service cost | \$ 384,496 | \$ 384,496 |
| Interest cost | 243,058 | 243,058 |
| Amortization of (gain) or loss | <u>172,399</u> | <u>172,399</u> |
| Total net periodic postretirement benefit cost | \$ <u>799,953</u> | \$ <u>799,953</u> |

The following benefit payments, which reflect future service, are expected to be paid to plan participants: 2024 - \$100,665; 2025 - \$111,410; 2026 - \$160,033; 2027 - \$164,036; 2028 - \$215,614; 2029 through 2033 - \$1,264,906.

(8) Income taxes

No provision for income tax, for the REMC, has been included in these statements since the REMC operates as a not-for-profit organization as provided for in Section 501(c)(12) of the Internal Revenue Code, and therefore is exempt from income taxes. The Subsidiary is a single member LLC which has elected to be disregarded as an entity separate from its owner for income tax purposes. Thus, any income or loss recognized by the Subsidiary is reported by the REMC as unrelated business income, and is subject to tax. No income taxes have been included in these statements for unrelated business income for the year ended December 31, 2023 and 2022. Both the REMC and Subsidiary have open tax years for 2022, 2021 and 2020 for both Federal and State filings. No interest or penalties for income taxes have been included in these financial statements.

(9) Commitments

The REMC is committed to purchase its electric power and energy requirements from WVPA under a wholesale power supply contract expiring in year 2060. The rates paid for such purchases are subject to review annually.

BOONE REMC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2023 and 2022

(10) Concentrations of credit risk

The REMC provides electric service in an approximate five county territory with its customers representing local residents and businesses. Customers with prior credit problems may be required to pay a deposit to continue or reinstate service. Such deposits are applied to any amounts owed to the REMC in the event of nonpayment. Also, customers whose costs for the initial service exceed the normal standard may be required to deposit a portion of such cost, which may be reimbursed after service has been established.

(11) Finance lease obligations

The REMC leases certain vehicles, which have been classified as capital leases, and follows Accounting Standards Update No. 2016-02, Leases (Topic 842) to account for these transactions as capital leases. The leases have an original term of 84 months. The components of the lease were as follows: amortization of the right of use assets was \$238,483 and \$228,308 for the years ended December 31, 2023 and 2022, respectively; interest on these lease liabilities was \$18,186 and \$21,343 for the years ended December 31, 2023 and 2022, respectively.

During the years ended December 31, 2023 and 2022, the amounts paid for capital lease obligations was \$259,484 and \$240,375, respectively. The cost included in right-of-use assets equals \$1,090,935 with accumulated amortization of \$472,964. The leases have remaining lives ranging from 1 month to 67 months with discount rates ranging from 1.43% to 2.56%. The following is a schedule of minimum future rentals on the leases as of December 31, 2023.

| Year ending December 31 | |
|------------------------------|--------------------------|
| 2024 | \$ 197,416 |
| 2025 | 167,168 |
| 2026 | 99,543 |
| 2027 | 94,649 |
| 2028 | 61,984 |
| Thereafter | <u>16,649</u> |
| TOTAL MINIMUM FUTURE RENTALS | \$ <u><u>637,409</u></u> |

(12) Revenue recognition

Customer payments for contracts are generally due within 17 days of billing and none of the contracts with customers have payment terms that exceed one year; therefore, the REMC elected to apply the significant financing component practical expedient and no amount of consideration has been allocated as a financing component.

BOONE REMC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2023 and 2022

(12) Revenue recognition (continued)

Revenue is generated primarily from electric services delivered to customers. These contracts contain a single performance obligation, the delivery of electricity, as the promise to transfer the individual good or service is not separately identifiable from other promises within the contracts and, therefore, is not distinct. Revenues are recognized over time, as services are provided. There are generally no significant financing components or variable consideration.

Revenues include amounts billed to customers on a cycle basis. Revenues include amounts billed to customers on a cycle basis. The REMC reads meters throughout the month therefore has unbilled revenues at December 31, 2023.

The amounts that the REMC has a right to invoice are determined by each customer's actual usage, an indicator that the invoice amount corresponds directly to the value transferred to the customer. The REMC also recognizes revenue when it is probable that future recovery of previously incurred costs or future refunds that are to be credited to customers will occur through the ratemaking process.

Contract assets and contract liabilities are the result of timing differences between revenue recognition billings and cash collection. The REMC has contract assets in the financial statements for unbilled revenue which is reflected within accounts receivable of \$4,890,562, \$4,806,415, and 3,960,278 for the years ended December 31, 2023, 2022, and 2021, respectively. The REMC has contract liabilities on the financial statements for recoverable / (refundable) power costs of \$493,592 and \$(877,951) for the years ended December 31, 2023 and 2022.

The following table provides operating revenues disaggregated for the years ended December 31, 2023 and 2022.

| | <u>2023</u> | <u>2022</u> |
|----------------------------|----------------------|----------------------|
| Residential | \$ 39,492,018 | \$ 36,940,433 |
| Small Commercial | 5,742,010 | 5,521,239 |
| Large Commercial | 18,511,658 | 15,637,353 |
| All other electric revenue | <u>3,610,346</u> | <u>3,907,992</u> |
| Total revenues | <u>\$ 67,356,032</u> | <u>\$ 62,007,017</u> |