

Certified Public Accountants  
& Consultants



**Arab Electric Cooperative, Inc.**  
**June 30, 2025**  
Financial Statements

**Arab Electric Cooperative, Inc.**

**Index**

	<b><u>Page</u></b>
Independent auditor's report	1 - 2
Balance sheets	3 - 4
Statements of revenue	5
Statements of comprehensive income	6
Statements of changes in equity	7
Statements of cash flows	8
Notes to financial statements	9 - 15

## Independent Auditor's Report

The Board of Trustees  
Arab Electric Cooperative, Inc.  
Arab, Alabama

### Opinion

We have audited the accompanying financial statements of Arab Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheets as of June 30, 2025 and 2024, and the related statements of revenue, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Cooperative as of June 30, 2025 and 2024, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Cooperative and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

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

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material 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 are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Jackson Thornton & Co. PC*

Auburn, Alabama  
September 11, 2025

**Arab Electric Cooperative, Inc.**  
**Balance Sheets**  
**At June 30, 2025 and 2024**

**Assets**

	<b>2025</b>	<b>2024</b>
<b>Utility Plant</b>		
Electric plant in service	\$ 70,495,978	\$ 68,276,343
Construction work-in-progress	6,907,648	3,783,555
	77,403,626	72,059,898
Less accumulated provision for depreciation	31,094,305	29,660,467
Net utility plant	46,309,321	42,399,431
 <b>Other Assets and Investments</b>		
Investments in associated organizations	1,351,622	1,253,340
Conservation loans receivable	1,143,727	1,470,321
Total other assets and investments	2,495,349	2,723,661
 <b>Current Assets</b>		
Cash and cash equivalents	8,305,635	8,182,747
Accounts receivable		
Customers, less allowance for credit losses		
of \$21,271 in 2025 and \$14,815 in 2024	2,883,259	2,866,028
Other	327,657	338,105
Unbilled revenue	1,617,081	2,002,470
Investment in NRUCFC note	2,000,000	2,000,000
Materials and supplies	1,353,809	1,418,307
Other current and accrued assets	362,402	331,433
Total current assets	16,849,843	17,139,090
Total assets	\$ 65,654,513	\$ 62,262,182

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

## Equities and Liabilities

	2025	2024
<b>Equities</b>		
Memberships	\$ 101,133	\$ 100,198
Patronage capital	50,245,260	48,476,926
Accumulated other comprehensive loss	(153,892)	(164,968)
Total equities	50,192,501	48,412,156
<b>Noncurrent Liabilities</b>		
Notes payable, net of current maturities	5,497,170	2,991,766
Tennessee Valley Authority advances	1,139,732	1,466,326
Postemployment benefit obligation	343,466	304,919
Total noncurrent liabilities	6,980,368	4,763,011
<b>Current Liabilities</b>		
Current maturities on notes payable	494,596	440,855
Accounts payable		
Purchased power, net of prepayment	2,891,354	1,209,323
General	427,607	3,074,287
Consumer deposits	3,355,554	3,267,378
Accrued liabilities		
Taxes	411,167	430,010
Other	526,780	325,537
Total current liabilities	8,107,058	8,747,390
<b>Deferred Credits</b>		
Consumer energy prepayments and deferred revenue	374,586	339,625
Total equities and liabilities	\$ 65,654,513	\$ 62,262,182

**Arab Electric Cooperative, Inc.**  
**Statements of Revenue**  
**For the Years Ended June 30, 2025 and 2024**

	<u>2025</u>		<u>2024</u>	
<b>Operating Revenue</b>				
Electric revenue	\$ 41,786,657	96.44%	\$ 39,565,930	96.47%
Other	1,543,221	3.56%	1,448,266	3.53%
Total operating revenue	<u>43,329,878</u>	<u>100.00%</u>	<u>41,014,196</u>	<u>100.00%</u>
<b>Operating Expenses</b>				
Cost of power	31,028,540	71.61%	28,338,376	69.09%
Distribution - operations	1,324,434	3.06%	1,387,111	3.38%
Distribution - maintenance	2,081,553	4.80%	1,761,835	4.30%
Accounting and collections	900,733	2.08%	855,623	2.09%
Administrative and general	2,645,818	6.11%	2,726,199	6.65%
Depreciation	2,384,211	5.50%	2,461,515	6.00%
Taxes	1,978,042	4.57%	1,935,158	4.72%
Total operating expenses	<u>42,343,331</u>	<u>97.72%</u>	<u>39,465,817</u>	<u>96.22%</u>
<b>Operating Margins Before Fixed Charges</b>	986,547	2.28%	1,548,379	3.78%
<b>Fixed Charges</b>				
Interest expense	<u>79,688</u>	<u>0.18%</u>	<u>88,424</u>	<u>0.22%</u>
<b>Operating Margins After Fixed Charges</b>	906,859	2.09%	1,459,955	3.56%
<b>Capital Credit Allocations</b>	<u>76,148</u>	<u>0.18%</u>	<u>74,020</u>	<u>0.18%</u>
<b>Net Operating Margins</b>	983,007	2.27%	1,533,975	3.74%
<b>Nonoperating Margins</b>				
Interest income	381,963	0.88%	372,465	0.91%
Allowance for funds used during construction	263,338	0.61%	184,477	0.45%
Miscellaneous income (expense)	<u>8,902</u>	<u>0.02%</u>	<u>(41,915)</u>	<u>(0.10%)</u>
Total nonoperating margins	<u>654,203</u>	<u>1.52%</u>	<u>515,027</u>	<u>1.26%</u>
<b>Net Margins for the Year</b>	<u>\$ 1,637,210</u>	<u>3.79%</u>	<u>\$ 2,049,002</u>	<u>5.00%</u>

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

**Arab Electric Cooperative, Inc.**  
**Statements of Comprehensive Income**  
**For the Years Ended June 30, 2025 and 2024**

	<b>2025</b>	<b>2024</b>
<b>Net Margins</b>	\$ 1,637,210	\$ 2,049,002
<b>Other Comprehensive Income</b>		
Postemployment benefit obligation		
Initial transition obligation amortization	15,297	15,297
Net gain (loss) on change in actuarial assumptions	(4,221)	30,011
Total other comprehensive income	11,076	45,308
<b>Comprehensive Income</b>	\$ 1,648,286	\$ 2,094,310

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

**Arab Electric Cooperative, Inc.**  
**Statements of Changes in Equity**  
**For the Years Ended June 30, 2025 and 2024**

	<b>Memberships</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Patronage Capital</b>	<b>Total</b>
<b>Balance at June 30, 2023</b>	\$ 99,323	\$ (210,276)	\$ 46,254,817	\$ 46,143,864
Net margins			2,049,002	2,049,002
Other comprehensive income		45,308		45,308
Memberships, net	875			875
Utility tax refund			173,107	173,107
<b>Balance at June 30, 2024</b>	100,198	(164,968)	48,476,926	48,412,156
Net margins			1,637,210	1,637,210
Other comprehensive income		11,076		11,076
Memberships, net	935			935
Utility tax refund			131,124	131,124
<b>Balance at June 30, 2025</b>	<u>\$ 101,133</u>	<u>\$ (153,892)</u>	<u>\$ 50,245,260</u>	<u>\$ 50,192,501</u>

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

**Arab Electric Cooperative, Inc.**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2025 and 2024**  
**Increase (Decrease) in Cash and Cash Equivalents**

	<u>2025</u>	<u>2024</u>
<b>Cash Flows From (Used For) Operating Activities</b>		
Net margins	\$ 1,637,210	\$ 2,049,002
Adjustments to reconcile net margins to net cash provided by operating activities		
Depreciation	2,384,211	2,461,515
Bad debt expense	18,000	18,000
Patronage assigned from associated organizations	(90,166)	(77,935)
Decrease (increase) in operating assets and increase (decrease) in operating liabilities		
Accounts receivable	(24,783)	(839,383)
Unbilled revenue	385,389	(274,763)
Materials and supplies	64,498	56,484
Other current and accrued assets	100,155	175,600
Accounts payable	1,273,043	603,631
Consumer deposits	88,176	114,298
Postemployment benefit obligation	49,623	46,859
Accrued liabilities	182,400	259,209
Consumer energy prepayments	34,961	(10,492)
Net cash from operating activities	<u>6,102,717</u>	<u>4,582,025</u>
<b>Cash Flows From (Used For) Investing Activities</b>		
Purchases of property and equipment	(8,531,793)	(4,403,410)
Purchase of investments	(8,116)	(23,851)
Conservation loans receivable, net	326,594	8,862
Net cash used for investing activities	<u>(8,213,315)</u>	<u>(4,418,399)</u>
<b>Cash Flows From (Used For) Financing Activities</b>		
Proceeds from notes payable	3,000,000	
Principal payments on notes payable	(440,855)	(427,778)
Tennessee Valley Authority advances, net	(326,594)	(4,858)
Membership fees, net	935	875
Net cash from (used for) financing activities	<u>2,233,486</u>	<u>(431,761)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	122,888	(268,135)
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>8,182,747</u>	<u>8,450,882</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 8,305,635</u>	<u>\$ 8,182,747</u>
<b>Supplemental Cash Flows Information</b>		
Cash paid for interest	\$ 88,531	\$ 95,845
<b>Noncash Financing Transactions</b>		
Utility tax refund	\$ 131,124	\$ 173,107
Accounts payable for construction work-in-progress		2,237,692

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

**Arab Electric Cooperative, Inc.**  
**Notes to Financial Statements**  
**As of June 30, 2025 and 2024**

**Note 1 - Summary of Significant Accounting Policies**

Organization and reporting entity - Arab Electric Cooperative, Inc. (the Cooperative) was incorporated as a public corporation in April 1947, under the provisions of Sections 31 to 59, inclusive, of *Title 18, Chapter 3 of the Code of Alabama of 1940* and is exempt from federal income taxes as a Section 501(c)(12) organization under the provisions of the Internal Revenue Code. The Cooperative owns and operates the electric distribution system in accordance with a contract between the Cooperative and the Tennessee Valley Authority (TVA) and purchases electric energy from the TVA for distribution to its customers. The Cooperative's customer base consists of residential, commercial, and industrial customers located in the Arab, Alabama area. The primary source of revenue is fees collected from customers for utility services. The Cooperative does not retire patronage capital to the members of the Cooperative. The Cooperative elects nine trustees from its membership to serve as the Board of Trustees.

Basis of accounting - The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). As a result, the application of accounting principles generally accepted in the United States of America by the Cooperative differs in certain respects from the application of those principles by nonregulated enterprises. Such differences primarily concern the recognition of gains and losses on the retirement of assets. The more significant policies of the Cooperative are described below.

Regulation - As a regulated enterprise with a member-elected Board of Trustees, the Cooperative accounts for such regulation under professional accounting standards ASC 980, *Regulated Operations*. The accounting policies followed by the Cooperative are in conformity with generally accepted accounting principles as they apply to a regulated electric utility. The rates are regulated by the TVA and are designed to recover the cost of providing electric distribution to members of the Cooperative.

Utility plant - Utility plant is recorded at cost. Additions and improvements that extend the life of an asset are capitalized. Expenditures for repairs and maintenance are charged against income. Depreciation is computed on the composite rate method at rates recommended by the TVA. Retirements of utility plant have been charged to the accumulated depreciation accounts at the original cost of the assets plus cost of removal. Salvage value of the retired utility plant is credited to the accumulated depreciation accounts.

The Cooperative capitalizes the cost of capital as part of the cost of constructing electric plant using the allowance for funds used during construction (AFUDC) method. The construction period cost of capital is recorded as part of the asset to which it relates and is depreciated over the asset's estimated useful life. The amount of AFUDC capitalized as a construction cost is credited to nonoperating margins for equity capital and interest charges for debt capital and totaled \$272,181 and \$191,898 in 2025 and 2024, respectively.

Investments - Investments in associated organizations represent cooperative capital credits from the Cooperative's suppliers and debt capital. Investments in associated organizations are recorded at cost.

Investments in NRUCFC notes are recorded in three ways based on maturity. Cash and cash equivalents are investments with maturities of three months or less when issued. Current notes are investments with maturities greater than three months but not more than 12 months. Noncurrent notes are investments with maturities greater than one year.

Cash equivalents - The Cooperative considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Arab Electric Cooperative, Inc.**  
**Notes to Financial Statements**  
**As of June 30, 2025 and 2024**

Accounts receivable and related allowance for credit losses - The Cooperative extends unsecured credit to its customers in the ordinary course of business. Accounts receivable represent amounts due from local businesses and individuals predominantly located in the Arab, Alabama area.

The Cooperative's trade accounts receivable and unbilled revenue are due from customers for revenue recognized but not yet paid. An allowance for credit losses is an estimate based upon historical account write-off trends, facts about the current financial condition of the debtor, forecasts of future operating results based upon current trends and economic factors. Account balances are charged off against the allowance when recovery efforts cease. Recoveries of trade receivables previously written-off are recorded when received.

Inventories - Inventories of materials and supplies are priced at the average unit cost. Cost is determined by the cumulative average of all costs.

Recognition of revenue from contracts with customers - Operating revenue represents revenue from contracts with customers. The Cooperative has contractual agreements with its customers for the provision of electric utility service. Electric revenue and the related cost of power purchased are recognized when electricity is used by the ultimate consumer. All such revenue is recognized as earned by the Cooperative. Customers are billed on a cycle basis throughout the month. Payment is due from the customers within 30 days of the bill date.

The Cooperative has contractual agreements with customers for the attachment of other utility services to existing utility poles. Revenue is recognized monthly over the term of the agreements. Customers are billed annually. Payment is due within 30 days of the bill date.

Income taxes - The Cooperative is exempt from income taxes under Internal Revenue Code Section 501(c)(12). Management evaluated the Cooperative's tax positions and concluded that the Cooperative had taken no uncertain tax positions that require adjustment to the financial statements.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note 2 - Cash and Cash Equivalents**

The Cooperative maintains cash and cash equivalents at a bank located in Alabama, which at times may exceed federally insured limits. The Cooperative has entered into a master repurchase agreement with this bank to invest in obligations of the United States Treasury to provide security for deposits with the bank. Securities were pledged to insure deposits over \$250,000. The Cooperative has not experienced any losses in such accounts. The Cooperative believes it is not exposed to any significant credit risk on cash and cash equivalents.

**Arab Electric Cooperative, Inc.  
Notes to Financial Statements  
As of June 30, 2025 and 2024**

**Note 3 - Receivables and Liabilities from Contracts with Customers**

Receivables and contract assets and liabilities from contracts with customers for the years ended June 30, 2025 and 2024 were as follows:

	<u>2025</u>	<u>2024</u>
<b>Receivables</b>		
Customers beginning of year	\$ 2,866,028	\$ 2,143,527
Customers end of year	2,883,259	2,866,028
<b>Contract Assets</b>		
Unbilled revenue beginning of year	2,002,470	1,727,707
Unbilled revenue end of year	1,617,081	2,002,470
<b>Contract Liabilities</b>		
Customer deposits beginning of year	\$ 3,267,378	\$ 3,153,080
Customer deposits end of year	3,355,554	3,267,378
Consumer energy prepayments and deferred revenue beginning of year	339,625	350,117
Consumer energy prepayments and deferred revenue end of year	374,586	339,625

Customer deposits represent deposits from the Cooperative's customers upon connection of service. These deposits are refundable to customers upon disconnection of service.

**Note 4 - Investments in Associated Organizations**

Investments in associated organizations consist of the following at June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Investment in NRUCFC capital term certificates	\$ 378,400	\$ 377,131
GRESKO patronage capital allocation	610,947	564,969
Other	362,275	311,240
Totals	<u>\$ 1,351,622</u>	<u>\$ 1,253,340</u>

**Note 5 - Investment in NRUCFC Note**

The Cooperative invested \$2,000,000 in a medium term note of the National Rural Utilities Cooperative Finance Corporation (NRUCFC). The interest rate is 4.56% and the note matures in December 2025.

**Arab Electric Cooperative, Inc.**  
**Notes to Financial Statements**  
**As of June 30, 2025 and 2024**

**Note 6 - Utility Plant and Depreciation**

Listed below are the major classes of the utility plant and estimated annual rates used to compute depreciation for financial reporting purposes as of June 30, 2025 and 2024:

	<u>Plant Balances</u>		<u>Annual</u>
	<u>2025</u>	<u>2024</u>	<u>Depreciation</u>
			<u>Rate</u>
<b>Distribution Plant</b>	\$ 65,002,197	\$ 62,872,551	2.0 - 6.0%
<b>General Plant</b>			
Structures	1,486,692	1,469,484	2.0%
Office furniture and equipment	281,051	281,051	4.0 - 10.0%
Transportation	2,570,055	2,497,274	15.0%
Communication	121,296	121,296	8.0%
Tools and work equipment	741,742	741,742	5.0%
Other miscellaneous equipment	105,032	105,032	4.0 - 10.0%
Land and rights	187,913	187,913	
Totals	<u>\$ 70,495,978</u>	<u>\$ 68,276,343</u>	

**Note 7 - Notes Payable and Line of Credit**

Notes payable - Notes payable at June 30, 2025 and 2024 consisted of the following:

<u>Description</u>	<u>2025</u>	<u>2024</u>
Notes payable - NRUCFC; fixed interest rates from 2.79% to 5.64%; notes due at various times up to March 2055; secured by all assets.	\$ 5,991,766	\$ 3,432,621
Less current maturities	494,596	440,855
Total notes payable	<u>\$ 5,497,170</u>	<u>\$ 2,991,766</u>

Estimated maturities on notes payable for the next five years are as follows:

<u>For the Years Ending</u>	<u>Amount</u>
June 30, 2026	\$ 494,596
June 30, 2027	510,804
June 30, 2028	527,571
June 30, 2029	544,917
June 30, 2030	562,864

The Cooperative has covenants with its lenders relating to certain financial ratios.

The Cooperative had unadvanced loan funds of \$2,457,000 with NRUCFC as of June 30, 2025.

Line of credit - The Cooperative has a line of credit with NRUCFC on which it may borrow up to \$2,000,000 and it may be used only for electric capital or operating needs. The balance outstanding was \$0 at June 30, 2025 and 2024.

**Arab Electric Cooperative, Inc.**  
**Notes to Financial Statements**  
**As of June 30, 2025 and 2024**

**Note 8 - Purchased Power Payable and Prepaid Power**

The Cooperative has an agreement with the TVA by which the Cooperative maintains an interest-bearing prepaid power account for purchases of electricity. At June 30, 2025, the Cooperative had deposits with the TVA totaling \$2,325,411, and a liability for purchased power of \$5,216,765. At June 30, 2024, the Cooperative had deposits with the TVA totaling \$3,531,568, and a liability for purchased power of \$4,740,891.

**Note 9 - Tennessee Valley Authority Energy Right Program**

Under a contract with the TVA, the Cooperative manages and collects loan advances sponsored by the TVA to Cooperative customers to cover the cost of home insulation and energy conservation improvements. The loans to the consumer are interest-bearing and are generally paid over a 36 to 120 month period. The Cooperative remits the collections from the consumers on a monthly basis as required under the Program. Total advances outstanding under the Program were \$1,139,732 and \$1,466,326 at June 30, 2025 and 2024, respectively. Total conservation loans receivable under the Program were \$1,143,727 and \$1,470,321 at June 30, 2025 and 2024, respectively.

**Note 10 - Accounting for Pensions and Other Postemployment Benefits**

Defined benefit 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 multi-employer plan under the accounting standards. The RS Plan Sponsor's Employer Identification Number is 53-0116145 and the RS Plan Number is 333.

A unique characteristic of a multi-employer 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 Cooperative's contributions to the RS Plan in 2025 and 2024 represented less than 5% of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of \$717,604 and \$638,518 in 2025 and 2024, 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 at January 1, 2025 and January 1, 2024 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 RS Plan and may change as a result of plan experience.

Postemployment benefit obligation - On July 1, 2021, the Cooperative implemented a plan that provides postemployment health insurance to all employees who meet age and service requirements upon retirement. To be eligible, employees must be at least age 62 or have 30 years of service with the Cooperative and must be covered under the Cooperative's health plan for at least 10 years before retirement. Retirees meeting the eligibility requirements will be eligible for coverage until reaching Medicare eligibility.

**Arab Electric Cooperative, Inc.**  
**Notes to Financial Statements**  
**As of June 30, 2025 and 2024**

**Note 10 - Accounting for Pensions and Other Postemployment Benefits (continued)**

The Cooperative's postemployment plan is not funded. In general, retiree benefits are paid as covered expenses are incurred. The following tables sets forth the status of the Cooperative's postemployment benefits:

	<u>2025</u>	<u>2024</u>
<b>Accumulated Postemployment Benefit Obligation</b>	<b>\$ 343,466</b>	<b>\$ 304,919</b>

Components of net periodic benefit cost recognized for the year ended June 30, 2025 and 2024 are as follows:

	<u>2025</u>	<u>2024</u>
Service cost	\$ 24,672	\$ 23,408
Interest cost	14,445	13,705
Net gain amortization	(3,414)	(3,239)
Initial transition obligation amortization	15,297	15,297
Net periodic postemployment benefit cost	<u>\$ 51,000</u>	<u>\$ 49,171</u>

The weighted-average assumptions used as of June 30, 2025 and 2024 are as follows:

	<u>2025</u>	<u>2024</u>
<b>Weighted-Average Assumptions as of June 30</b>		
Discount rate	5.40%	5.40%
Healthcare cost trend rate assumed for next year	6.25%	6.50%
Rate to which the cost trend rate is assumed to decline, ultimate trend rate	4.75%	4.75%
Year that the rate reaches the ultimate trend rate	2031	2031
Benefit cost	\$ 51,000	\$ 49,171
Benefits paid by the Cooperative		2,311

Amounts in accumulated other comprehensive income not yet recognized as a component of net periodic benefit cost for the years ended June 30, 2025 and 2024 are as follows:

	<u>2025</u>	<u>2024</u>
Net loss	<u>\$ 153,892</u>	<u>\$ 164,968</u>

**Arab Electric Cooperative, Inc.**  
**Notes to Financial Statements**  
**As of June 30, 2025 and 2024**

Components of net periodic benefit cost expected to be recognized for the year ending June 30, 2026:

Service cost	\$	26,004
Interest cost		15,225
Net gain amortization		(3,598)
Initial transition obligation amortization		15,297
Net periodic postemployment benefit cost	<u>\$</u>	<u>52,928</u>

Estimated future benefit payments, which reflect expected future service, as appropriate, are expected as follows:

**June 30**

2026	\$	11,071
2027		20,471
2028		30,437
2029		33,158
2030		37,856
2031 - 2034		151,426

Sensitivity of the accumulated postemployment benefit obligation to changes in the healthcare cost trend rates - The following presents the accumulated postemployment benefit obligation of the Cooperative, as well as what the accumulated postemployment benefit obligation would be if it were calculated using a healthcare cost trend rate that is 1-percentage point lower (5.25%) or 1-percentage point higher (7.25%) than the current healthcare cost trend rate:

	<b>1.00% Decrease 5.25%</b>	<b>Current Healthcare Trend Rate 6.25%</b>	<b>1.00% Increase 7.25%</b>
<b>Total Obligation</b>	\$ 308,020	\$ 343,466	\$ 378,912

**Note 11 - Commitments**

TVA contract - The Cooperative has a contract with the TVA for the purchase of its electric power and energy requirements. The rates paid for such purchases are subject to annual review and adjustment. The contract requires a 20 year notice of cancellation to terminate the contract.

The Cooperative has entered into construction contracts related to a substation project. Outstanding contract commitments at June 30, 2025 totaled \$1,800,000. The Cooperative expects this project to be completed in 2026.

**Note 12 - Subsequent Events**

The Cooperative has evaluated subsequent events through September 11, 2025, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2025, have been incorporated into these financial statements.