CONNEXUS® ENERGY

Financial statements as of and for the
years ended December 31, 2013 and 2012,
and Independent Auditors' Report.

Deloitte & Touche LLP
50 South Sixth Street
Suite 2800
Minneapolis, MN 55402-1538
USA

Tel: +1 612 397 4000
Fax: +1 612 397 4450
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Connexus Energy
Ramsey, Minnesota

We have audited the accompanying financial statements of Connexus Energy (the "Cooperative") which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of margins, changes in patrons' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cooperative as of December 31, 2013 and 2012, 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.

Deloitte & Touche LLP

March 20, 2014

CONNEXUS ENERGY

BALANCE SHEETS
AS OF DECEMBER 31, 2013 AND 2012

ASSETS	2013	2012
UTILITY PLANT (Note 1):		
Distribution system	$ 267,110,059	$ 260,837,792
General plant	42,561,696	39,624,163
Construction work in progress	4,394,749	4,588,095
Utility plant	314,066,504	305,050,050
Less accumulated depreciation	(118,509,533)	(110,843,313)
Total utility plant	195,556,971	194,206,737
OTHER ASSETS:		
Investment in associated organizations (Notes 3 and 8)	108,800,959	99,086,037
Subordinated debt investments (Notes 2 and 8)	8,481,758	8,580,382
Other investments (Note 3)	916,211	1,022,468
Other assets (Note 1)	9,435,232	15,090,988
Total other assets	127,634,160	123,779,875
CURRENT ASSETS:		
Cash and cash equivalents	4,596	23,900
Accounts receivable — less allowance for doubtful accounts of $995,452 and $976,460, respectively	31,040,373	30,325,529
Materials and supplies inventory	2,700,230	2,991,831
Prepaid expenses	498,710	852,180
Interest receivable	122,289	122,289
Total current assets	34,366,198	34,315,729
TOTAL	$ 357,557,329	$ 352,302,341

PATRONS' EQUITY AND LIABILITIES	2013	2012
PATRONS' EQUITY:		
Patronage capital	$ 154,677,285	$ 150,341,820
Appropriated margins	2,398,809	2,103,532
Total patrons' equity	157,076,094	152,445,352
LONG-TERM DEBT — Less current portion (Notes 4 and 8)	129,783,645	131,739,720
OTHER LONG-TERM LIABILITIES (Primarily pension obligation and deferred credits)	7,523,467	15,180,010
COMMITMENTS AND CONTINGENCIES (Note 6)		
CURRENT LIABILITIES:		
Accounts payable	2,649,958	3,302,894
Payable to associated organization (Note 3)	29,373,729	26,173,233
Customer deposits	1,046,880	838,323
Accrued compensation and related taxes	5,023,566	4,785,981
Accrued state and local taxes	5,031,376	5,549,516
Accrued interest	1,040,339	1,118,728
Patronage capital payable	3,035,364	3,206,424
Revolving term loans payable (Note 4)	14,048,000	5,380,000
Current portion of long-term debt (Notes 4 and 8)	1,924,911	2,582,160
Total current liabilities	63,174,123	52,937,259
TOTAL	$ 357,557,329	$ 352,302,341

See notes to financial statements.

CONNEXUS ENERGY

STATEMENTS OF MARGINS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
OPERATING REVENUE:		
Electric revenue	$245,140,988	$241,758,512
Utility services revenue	2,533,498	2,333,119
Total operating revenue	247,674,486	244,091,631
OPERATING EXPENSES:		
Cost of power (Note 3)	189,517,700	184,941,153
Labor and related expenses	26,122,821	24,215,557
Electric operations expenses	3,735,801	3,245,079
Fees and services	2,987,585	2,805,676
Marketing	321,089	321,391
Operating supplies	3,623,045	3,810,508
Depreciation	10,468,072	10,576,323
Property taxes	3,708,885	4,447,979
Other	1,695,823	1,715,417
Total operating expenses	242,180,821	236,079,083
OPERATING INCOME	5,493,665	8,012,548
OTHER INCOME (EXPENSE):		
Interest expense	(6,528,520)	(6,838,228)
Interest income	489,628	490,434
Allocation of Great River Energy income	9,321,735	9,505,506
Gain from equity investments	109,369	132,692
Other income	1,116,718	775,770
Total other income	4,508,930	4,066,174
NET MARGIN	$ 10,002,595	$ 12,078,722

See notes to financial statements.

CONNEXUS ENERGY

STATEMENTS OF CHANGES IN PATRONS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Patronage Capital	Appropriated Margins	Total
BALANCE — December 31, 2011	$ 143,711,329	$ 1,811,050	$ 145,522,379
Net margin	12,078,722		12,078,722
Appropriated margin		292,482	292,482
Capital credits retired	(5,448,231)		(5,448,231)
BALANCE — December 31, 2012	150,341,820	2,103,532	152,445,352
Net margin	10,002,595		10,002,595
Appropriated margin		295,277	295,277
Capital credits retired	(5,667,130)		(5,667,130)
BALANCE — December 31, 2013	$ 154,677,285	$ 2,398,809	$ 157,076,094

See notes to financial statements.

CONNEXUS ENERGY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin	$ 10,002,595	$ 12,078,722
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation	10,468,072	10,576,323
Amortization of debt refinancing fees	(42,454)	103,104
Patronage allocated to the Cooperative	(753,890)	(626,892)
Great River Energy patronage allocated to the Cooperative	(9,321,735)	(9,505,506)
Gain from equity investments	(109,369)	(132,692)
Net gain on dispositions of property	(359,376)	(144,688)
(Increase) decrease in:		
Accounts receivable	(714,844)	(494,012)
Materials and supplies inventory	291,601	(622,652)
Other assets	269,430	916,428
Increase (decrease) in:		
Accounts payable and customer deposits	(444,379)	(67,019)
Payable to associated organization	3,200,496	1,124,341
Accrued liabilities	(358,944)	864,367
Other long-term liabilities	(1,504,814)	(394,508)
Total adjustments	619,794	1,596,594
Net cash provided by operating activities	10,622,389	13,675,316
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to utility plant (net of contributions in aid of construction)	(11,952,146)	(11,947,862)
Proceeds received from sale of plant	123,737	84,836
Proceeds from capital term certificates, patronage capital, and equity investments	674,953	432,839
Net cash used in investing activities	(11,153,456)	(11,430,187)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on debt	(2,613,324)	(2,720,931)
Patronage capital payments to members	(5,542,913)	(5,199,680)
Loan advances from NRUCFC		11,200,000
Repayments on revolving term loan agreement	(5,380,000)	(10,899,000)
Borrowings on revolving term loan agreement	14,048,000	5,380,000
Net cash provided by (used in) financing activities	511,763	(2,239,611)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(19,304)	5,518
CASH AND CASH EQUIVALENTS — Beginning of year	23,900	18,382
CASH AND CASH EQUIVALENTS — End of year	$ 4,596	$ 23,900
NONCASH INVESTING AND FINANCING ACTIVITIES — Utility plant purchases included in accounts payable	$ 282,227	$ 596,351

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business — Connexus Energy (the "Cooperative") is a customer-owned organization engaged principally in the distribution and sale of electricity to approximately 128,000 customers in seven counties in the north suburban area of Minneapolis and St. Paul, Minnesota.

Use of Estimates — In recording transactions and balances resulting from business operations, the Cooperative uses estimates based on the best information available. Estimates are used for such items as plant depreciable lives, uncollectible accounts, unbilled revenues, and actuarially determined benefit costs. As better information becomes available (or actual amounts are determinable), the recorded estimates are revised. Consequently, operating results can be affected by revisions to prior accounting estimates.

Allowance for Doubtful Accounts — The allowance for doubtful accounts represents the Cooperative's estimate of probable amounts that will not be collectable in our existing receivables. The estimate is determined based on historical patterns of collections and losses from previous receivables.

Utility Plant — Utility plant is recorded at cost, which includes labor, materials, contracted services, and allocable overhead, reduced by cash contributions in aid of construction received from customers. Upon the sale or retirement of a utility plant asset, the cost (average cost for distribution system) of an item is removed from the utility plant account and the net of; cost plus disposal costs, less proceeds, is charged or credited to accumulated depreciation.

Depreciation expense is computed by applying composite rates to the monthly balance for all classes of utility plant, except for transportation equipment and other general plant assets, which are depreciated on a unit basis. The depreciation rate as a percentage of the average balance of depreciable property was 3.5% and 3.6% in 2013 and 2012, respectively.

Recoverability of Long-Lived Assets — The Cooperative accounts for the impairment or disposal of long-lived assets in accordance with Financial Accounting Standards Board (FASB) accounting guidance, which requires long-lived assets, such as property and equipment, to be evaluated for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. The Cooperative determines potential impairment by comparing the carrying value of its assets with the sum of the undiscounted cash flows expected to be provided by operating and eventually disposing of the asset. Should the sum of the expected future net cash flows be less than the carrying values, the Cooperative would determine whether an impairment loss should be recognized. An impairment loss would be quantified by comparing the amount by which the carrying value exceeds the fair value of the asset based on quoted market prices or the present value of the expected future cash flows to be generated by the asset. To date, management has determined that no impairment of these assets exists.

The Cooperative accounts for the impairment of equity method investments in accordance with FASB guidance, which requires equity investments to be evaluated for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. Evidence of a loss in value might include, but would not necessarily be limited to, absence of an ability to recover the carrying amount of the investment or inability of the investee to sustain an earnings capacity, which would justify the carrying amount of the investment. As of December 31, 2013, and during the year then ended, the Cooperative determined that there were no impaired equity method investments.

Cash and Cash Equivalents — Cash and cash equivalents include cash on hand, amounts due from banks, and money market funds with original maturities of three months or less.

Materials and Supplies — Materials and supplies inventories are stated at the lower of average cost or market.

Revenue Recognition — The Cooperative records electric revenue based on a calendar month, but reads meters and bills customers on a cycle basis throughout each calendar month. Accordingly, at the end of each month, there is energy consumed for which customers have not been billed. The recorded estimate of the revenue and related accounts receivable associated with energy consumed and not billed at December 31, 2013 and 2012, was $11,678,402 and $10,894,420, respectively.

Rates charged to consumers by the Cooperative are established solely by the Board of Directors. The Cooperative is not regulated for rates by the Minnesota Public Utilities Commission.

Comprehensive Income — The Cooperative has no elements of comprehensive income.

Income Taxes — The Internal Revenue Service has determined that the Cooperative is exempt from federal and state income taxes under Section 501(c)12 of the Internal Revenue Code. Management is not aware of any events that would alter that determination.

Patronage Capital — Margins realized from operations are assigned to customers on a patronage basis. Patronage capital is retired on a percentage basis at the discretion of the Board of Directors.

Nonelectric Operations — The Cooperative performs fleet repair services and until September of 2013 provided utility billing services to cities and refuse companies. All nonelectric operating revenues have been classified as utility services revenue in the statements of margins.

Other Investments — The Cooperative has various investments that are accounted for using the equity method or cost method depending on the Cooperative's ownership percentage in the investee.

Derivative Instruments and Hedging Activities — The Cooperative's policy is to not use freestanding derivatives and to not enter into contracts with terms that cannot be designated as normal purchases or sales. Management has determined that the Cooperative has no freestanding or embedded derivatives.

Other Assets — Other assets consist principally of regulatory assets related to the pension plan.

Other assets at December 31, 2013 and 2012, are as follows:

	2013	2012
Regulatory asset pension obligation	$ 7,580,262	$ 13,678,873
Other assets	1,854,970	1,412,115
Total other assets	$ 9,435,232	$ 15,090,988

Concentration of Risk — As of December 31, 2013 and 2012, approximately 29% of the Cooperative's labor force was covered by a collective bargaining agreement. During 2012, the Cooperative signed a contract that extended the collective bargaining agreement through December 31, 2014.

Fair Value Measurements — Assets and liabilities recorded at fair value are categorized into one of three levels within a hierarchy established by accounting principles generally accepted in the United States of America. Categorization is based on the assumptions and inputs used in valuing the assets. A description of the inputs used in the valuation of assets and liabilities are as follows:

Level 1 — Inputs represent unadjusted quoted prices for identical assets or liabilities exchanged in active markets.

Level 2 — Inputs include directly or indirectly observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities exchanged in active or inactive markets; quoted prices for identical assets or liabilities exchanged in inactive markets; and other inputs that are considered in fair value determinations of the assets or liabilities.

Level 3 — Inputs include unobservable inputs used in the measurement of assets and liabilities based on management's own assumptions because there is little, if any, market activity in the assets or liabilities or related observable inputs that can be corroborated at the measurement date.

The Cooperative's policy is to recognize significant transfers between levels on the date of the transfer.

2. CAPITAL TERM CERTIFICATES AND MEMBER CAPITAL SECURITIES

Investments in capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC) totaled $3,481,758 and $3,580,382 at December 31, 2013 and 2012, respectively. The capital term certificates consist of 5% capital term certificates that mature, based upon the year of acquisition, beginning October 1, 2070, through October 1, 2080; 3% loan capital term certificates that mature, based upon the year of acquisition, beginning October 1, 2020, through October 1, 2030; and no-interest loan capital term certificates, which are refunded to the Cooperative based on the outstanding principal loan balance over the term of the corresponding loans from May 1, 2020, through February 1, 2039. Investments in member capital securities with NRUCFC totaled $5,000,000 at December 31, 2013 and 2012. These securities have a 7.5% interest rate and a maturity date of December 11, 2044, with a first call date of December 11, 2014. Based on the accounting guidance for debt and equity securities, the capital term certificates and member capital securities are classified as held-to-maturity securities, as the Cooperative has a positive intent and ability to hold the certificates to maturity and are accordingly carried at amortized cost.

3. ASSOCIATED ORGANIZATIONS

The Cooperative is a member of Great River Energy (GRE), which is a generation and transmission cooperative. In 2006, the Cooperative entered into an amended and restated power purchase contract with GRE effective through December 31, 2045. Additionally, effective January 1, 2010, the Cooperative entered into an amended and restated transmission service contract with GRE, which expires on December 31, 2050. Under the terms of the agreements, the Cooperative has agreed to purchase all power from GRE at rates determined by GRE, which are subject to periodic change.

Currently, the Cooperative purchases approximately 21% of GRE's total power output sold to members.

The Cooperative's investment in GRE consists of capital credits for the Cooperative's share of GRE's operating margins that have been allocated but not received. Operating margins and losses are recognized based on the Cooperative's percentage of GRE's total power output each year, which approximates the Cooperative's ownership in GRE. The Cooperative's investment in GRE, which is recorded on the equity method, was $104,217,508 and $94,895,773 at December 31, 2013 and 2012, respectively. During 2013 and 2012, the Cooperative recognized income of $9,321,735 and $9,505,506, respectively, related to its portion of GRE's margin.

The Cooperative's power purchases from GRE were $189,000,414 and $183,601,843 during 2013 and 2012, respectively. Accounts payable to GRE were $29,373,729 and $26,173,233 at December 31, 2013 and 2012, respectively. A summary of the total assets, liabilities, equity, and operations of GRE at December 31, 2013 and 2012, are as follows (unaudited) (in thousands):

	2013	2012
Assets	$ 3,704,401	$ 3,689,767
Liabilities	(3,156,692)	(3,203,054)
Equity	$ 547,709	$ 486,713
Revenues	$ 980,442	$ 921,197
Operating expenses	817,619	736,576
Net margin	42,836	45,371

The Cooperative has investments in other associated organizations, primarily NRUCFC capital credits, which are recorded on the cost method. Such investments totaled $4,583,451 and $4,190,264 at December 31, 2013 and 2012, respectively.

The Cooperative also maintains an investment in a tree trimming business totaling $916,211 and $1,022,468 at December 31, 2013 and 2012, respectively. This investment is recorded under the equity method and is included in other investments in the balance sheets. The Cooperative recognized a net operating gain from this equity investment totaling $109,369 and $132,692 in 2013 and 2012, respectively.

4. LONG-TERM DEBT AND LINE OF CREDIT AGREEMENTS

Long-term debt at December 31, 2013 and 2012, is as follows:

	2013	2012
NRUCFC — bearing interest at 2.15% to 7.15% (5.1% weighted average), due 2014 to 2047, in quarterly installments, including interest	$ 131,708,556	$ 134,321,880
Less current portion	1,924,911	2,582,160
	$ 129,783,645	$ 131,739,720

Substantially all assets of the Cooperative are pledged as collateral for the Cooperative's long-term debt.

The mortgage note agreement with NRUCFC requires, among other provisions, that the Cooperative maintain certain annual debt service coverage (DSC) levels, including, but not limited to, the average DSC ratio. The Cooperative's average DSC ratio, the average of the two highest DSC ratios in the most recent three years, was 1.95 for the year ended December 31, 2013. The Cooperative is required to achieve a minimum of 1.35 average DSC for 2013.

Cash payments for interest during 2013 and 2012 totaled $6,649,362 and $6,893,993, respectively.

Annual principal maturities of existing long-term debt at December 31, 2013, are as follows:

Years Ending December 31	
2014	$ 1,924,911
2015	1,762,723
2016	1,854,242
2017	1,460,127
2018	1,540,819
Thereafter	123,165,734
	$ 131,708,556

The Cooperative has a line of credit agreement for short-term financing with NRUCFC at an interest rate determined by NRUCFC not to exceed the prime rate, plus 1%, whereby the Cooperative may borrow up to $20,000,000. As of December 31, 2013, the rate was 2.9%. There were no outstanding borrowings on the line of credit at December 31, 2013 or 2012. The Cooperative has an additional line of credit agreement for short-term financing with NRUCFC at an interest rate determined by NRUCFC not to exceed the seven-day London InterBank Offered Rate (LIBOR), plus 1.45%, whereby the Cooperative may borrow up to $35,000,000. As of December 31, 2013, the rate was 1.58%. There were no outstanding borrowings on the line of credit at December 31, 2013 and 2012.

During 2012, the Cooperative executed a revolving term loan agreement for short-term financing with CoBank at an interest rate determined by CoBank not to exceed the seven-day LIBOR rate, plus 1.25%, whereby the Cooperative may borrow up to $25,000,000. As of December 31, 2013, the rate was 1.38%. Outstanding borrowings were $14,048,000 and $5,380,000 at December 31, 2013 and 2012, respectively. The line of credit agreements include various financial and nonfinancial restrictive covenants. The Cooperative was in compliance with all covenants as of December 31, 2013 and 2012.

5. PENSION PLANS

The Cooperative contributes to two benefit plans: a defined benefit pension plan and a defined contribution plan.

In accordance with guidance for accounting for pension plans, the Cooperative fully recognizes the funded status of each pension and other postretirement benefit plan as a liability or asset in its balance sheets with all unrecognized amounts to be recorded in other comprehensive income. The Cooperative applies regulatory accounting treatment, which allows recognition of this item as a regulatory asset rather than as a charge to accumulated other comprehensive income, as future costs are to be included in rates.

Defined Benefit Plan — The Cooperative sponsors a qualified defined benefit pension plan (the "Pension Plan"). Benefits under the Pension Plan are determined under a traditional percentage-of-final-pay formula or a cash-balance formula based on annual compensation credits and investment credits. Benefits for participating employees hired after January 1, 2000, are determined under the cash-balance formula. Effective January 1, 2011, the Cooperative closed the Pension Plan to new participants. The Pension Plan's assets are invested in common stock mutual funds, bond mutual funds, and money market funds.

Information for the Pension Plan as of and for the years ended December 31, 2013 and 2012, is as follows:

	2013	2012
Accumulated benefit obligation — December 31	$ 32,289,005	$ 37,451,514
Change in benefit obligation:		
Projected benefit obligation — beginning of year	$ 39,669,906	$ 37,255,714
Service cost	1,125,167	1,224,034
Interest cost	1,254,599	1,479,390
Actuarial (gains) losses	(4,850,667)	2,278,673
Benefits paid	(2,685,613)	(2,567,905)
Projected benefit obligation — end of year	$ 34,513,392	$ 39,669,906
Change in plan assets:		
Fair value of plan assets — beginning of year	$ 30,213,870	$ 26,869,664
Actual return on assets	2,753,208	3,347,325
Employer contribution	1,780,000	2,564,786
Benefits paid	(2,685,613)	(2,567,905)
Fair value of plan assets — end of year	$ 32,061,465	$ 30,213,870
Funded status of plan — funded status of plan as of fiscal year end	$ (2,451,927)	$ (9,456,036)
Weighted-average assumptions used to determine benefit obligations as of December 31:		
Discount rate	4.35 %	3.50 %
Weighted-average rate of increase in future compensation levels	3.50	3.50
Amounts recognized in balance sheets consist of — noncurrent liabilities	$ (2,451,927)	$ (9,456,036)
Net amount recognized as of fiscal year end	$ (2,451,927)	$ (9,456,036)
Amounts not yet recognized as components of net periodic benefit cost:		
Amount disclosed at beginning of year	$ 13,678,873	$ 13,577,967
Net actuarial (gain) loss	(5,969,634)	229,883
Prior service credit	(128,977)	(128,977)
Total (Note 1)	$ 7,580,262	$ 13,678,873

The amount of actuarial net loss and prior service costs expected to be amortized in 2014 is $265,913 and $128,977, respectively.

Components of net periodic pension costs for the Pension Plan for 2013 and 2012 are as follows:

	2013	2012
Service cost	$ 1,125,167	$ 1,224,034
Interest cost	1,254,599	1,479,390
Expected return on plan assets	(2,160,445)	(1,931,115)
Amortization of net loss	526,204	632,580
Amortization of prior service cost	128,977	128,977
Total net periodic pension cost	$ 874,502	$ 1,533,866

The long-term rate of return on assets reflected in the 2013 and 2012 pension cost was 7.8%. Effective December 29, 2011, the Cooperative adopted a new liability-driven investment policy, which seeks to match asset returns with expected liabilities. Resulting from this policy change, all investments were transferred into new mutual funds, resulting in a target asset mix of 60% equity mutual funds and 40% bond mutual funds and cash investments. As the plan moves toward full funding, the asset allocation changed to 40% equity mutual funds and 60% bond mutual funds as of December 31, 2013. All pension assets are classified as Level 1 investments within the fair value hierarchy.

The weighted-average assumptions used to determine net periodic pension costs for the years ended December 31, 2013 and 2012, were as follows:

	2013	2012
Discount rate	3.50 %	4.15 %
Expected long-term rate of return on plan assets	7.80	7.80
Rate of increase in future compensation levels	3.50	3.50

Estimated future benefit payments at December 31, 2013, are as follows:

Years Ending December 31	
2014	$ 2,253,976
2015	2,327,581
2016	2,412,619
2017	2,515,103
2018	2,563,443
2019–2023	13,713,415

Expected contributions during fiscal 2014 are $2,100,000.

Target percentage of fair value of plan investments by category is as follows:

	2013	2012
Equity funds	40 %	61 %
Debt funds	60	38
Other		1
	100 %	100 %

The Cooperative's policy is to fund the minimum required contribution under applicable laws and regulations and any additional amounts deemed appropriate by management.

Postretirement Health Benefits — The Cooperative allows employees who retire to remain in the group health care plan if they contribute the full actuarially determined cost of the health insurance premium. Currently, 10 retired employees participate in the group health care plan.

Defined Contribution Plan — The Cooperative sponsors a qualified defined contribution plan with elective employee deferral and employer-matching provisions. The Cooperative contributes an amount equal to 7% of employee compensation for employees no longer eligible for the defined benefit pension plan and certain employees who elected in 2011 to receive defined contribution plan benefits in lieu of any future defined benefit plan benefits. The Cooperative contributes an amount equal to 1% of employee compensation for all other eligible employees. For all eligible employees, the Cooperative also contributes an additional matching contribution equal to 50% of the first 6% of the employee's contribution to the plan. The defined contribution plan covers substantially all employees. Contributions to the plan were $1,011,529 and $922,778 for the years ended December 31, 2013 and 2012, respectively.

Deferred Compensation — The Cooperative has deferred compensation arrangements for certain employees, in which assets are invested in a variety of mutual funds at the discretion of the employees. The total fair value of the assets and liabilities at December 31, 2013 and 2012, was $1,757,457 and $1,282,730, respectively, and is included in other assets and other long-term liabilities in the balance sheets. The related assets and liabilities are classified as Level 1 in the fair value hierarchy. Gains and losses are reported in other income in the statements of margins.

6. COMMITMENTS AND CONTINGENCIES

The Cooperative is involved in various legal actions arising in the normal course of business. It is the opinion of management that the resolution of such actions will not have a material adverse effect on the financial position or future results of operations of the Cooperative.

7. WORKERS' COMPENSATION

The Cooperative is a member of the Minnesota Rural Electric Workers' Compensation Trust, a self-insurance trust formed by some Minnesota electric cooperatives. During 2013 and 2012, the Cooperative contributed $344,859 and $357,015, respectively, to the trust for insurance coverage.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value at December 31, 2013 and 2012, were as follows:

Cash and Cash Equivalents — The carrying amount approximates fair value because of the short-term maturity of these investments.

Capital Term Certificates — Due to the nature of these investments, the fair value is equal to cost.

Member Capital Securities — Due to the nature of these investments, the fair value is equal to cost.

Associated Organizations — As the investments are not actively traded and there is no market value available, the fair value is equal to cost.

Long-Term Debt — The fair value of the Cooperative's long-term debt is estimated based on a discounted cash flow model utilizing the current rates available to the Cooperative for the issuance of debt. As of December 31, 2013, the carrying value and the fair value of the Cooperative's long-term debt were $131,708,556 and approximately $99,054,045, respectively. As of December 31, 2012, the carrying value and the fair value of the Cooperative's long-term debt were $134,321,880 and approximately $135,599,633, respectively.

9. SUBSEQUENT EVENTS

The Cooperative has evaluated subsequent events through March 20, 2014, which is the date these financial statements were available for issuance. There are no events subsequent to December 31, 2013, that require disclosure.

* * * * * *

CONTACT US

Connexus Energy
14601 Ramsey Boulevard
Ramsey, Minnesota 55303

Phone
Main: 763.323.2600
Member Services: 763.323.2650
Report an Outage: 763.323.2660

Fax
763.323.2603

Online
connexusenergy.com

Follow us on Facebook

CONNEXUS® ENERGY
Your Community Energy Partner