



# FINANCIAL STATEMENTS

December 31, 2015 and 2014

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CPAs & BUSINESS ADVISORS

## Independent Auditor's Report

To the Board of Directors of  
Connexus Energy  
Ramsey, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of Connexus Energy (the "Cooperative"), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations, 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 entity'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 reasonable 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 Connexus Energy as of December 31, 2015 and 2014, and the results of its operations, changes in patrons' equity, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Sioux Falls, South Dakota  
March 8, 2016

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	<u>2015</u>	<u>2014</u>
Assets		
Utility Plant		
Distribution system	\$ 281,106,610	\$ 272,227,194
General plant	44,255,225	44,216,558
Construction work in progress	2,952,361	6,914,567
Total utility plant	<u>328,314,196</u>	<u>323,358,319</u>
Less accumulated depreciation	<u>(132,945,570)</u>	<u>(128,258,734)</u>
Total utility plant, net	<u>195,368,626</u>	<u>195,099,585</u>
Other Property and Investments		
Investments in associated organizations	124,352,674	120,836,703
Subordinated debt investments	8,447,072	8,464,952
Other investments	1,194,808	1,269,545
Other assets	<u>12,293,040</u>	<u>11,745,436</u>
Total other assets	<u>146,287,594</u>	<u>142,316,636</u>
Current Assets		
Cash and cash equivalents	17,514	10,190
Accounts receivable, net	25,688,436	28,211,523
Material and supplies	3,489,104	3,797,476
Prepaid expenses	703,026	753,404
Interest receivable	<u>91,039</u>	<u>42,922</u>
Total current assets	<u>29,989,119</u>	<u>32,815,515</u>
Total assets	<u>\$ 371,645,339</u>	<u>\$ 370,231,736</u>

See Notes to Financial Statements

Connexus Energy  
Balance Sheets  
December 31, 2015 and 2014

	2015	2014
Patrons' Equity and Liabilities		
Patrons' Equity		
Patronage capital	\$ 168,131,442	\$ 166,416,754
Other capital	3,060,189	2,664,248
Total patrons' equity	171,191,631	169,081,002
Long-Term Debt, Less Current Maturities	140,789,503	128,311,604
Other Long-Term Liabilities	6,841,634	8,573,097
Commitments and Contingencies		
Current Liabilities		
Current maturities of long-term debt	1,383,574	1,472,447
Revolving term loans payable	5,769,000	14,574,000
Accounts payable	3,635,929	4,084,274
Payable to associated organization	27,936,693	29,135,531
Customer deposits	1,150,446	1,153,754
Accrued compensation and related taxes	4,347,416	4,318,243
Accrued state and local taxes	4,688,370	4,613,557
Accrued interest	981,733	1,980,829
Patronage capital payable	2,929,410	2,933,398
Total current liabilities	52,822,571	64,266,033
Total equities and liabilities	\$ 371,645,339	\$ 370,231,736

**Connexus Energy**  
**Statements of Operations**  
**Years Ended December 31, 2015 and 2014**

	2015	2014
Operating Revenue		
Electric revenue	\$ 251,138,938	\$ 253,900,513
Utility services revenue	2,025,855	2,809,125
	253,164,793	256,709,638
Operating Expense		
Cost of power	189,901,838	190,695,325
Labor and related expenses	24,424,281	25,355,788
Electric operations expenses	5,263,674	5,479,139
Fees and services	2,466,362	3,293,874
Marketing	322,222	292,948
Operating supplies and maintenance	4,025,287	3,161,578
Depreciation	11,869,531	11,358,595
Property taxes	3,533,996	3,357,502
Other	1,557,591	2,254,116
	243,364,782	245,248,865
Operating Margin	9,800,011	11,460,773
Other margins (expenses)		
Interest expense	(5,772,907)	(7,172,113)
Interest income	367,845	562,486
Allocation of Great River Energy margins	3,135,503	11,665,040
Gain from equity investments	24,281	154,807
Other income	901,285	989,266
	(1,343,993)	6,199,486
Net Margin	\$ 8,456,018	\$ 17,660,259

**Connexus Energy**  
 Statements of Changes in Patrons' Equity  
 Years Ended December 31, 2015 and 2014

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	<u>Patronage Capital</u>	<u>Other Capital</u>	<u>Total</u>
Balance - December 31, 2013	\$ 154,677,285	\$ 2,398,809	\$ 157,076,094
Net margin	17,660,259	-	17,660,259
Capital credits retired	<u>(5,920,790)</u>	<u>265,439</u>	<u>(5,655,351)</u>
Balance - December 31, 2014	166,416,754	2,664,248	169,081,002
Net margin	8,456,018	-	8,456,018
Capital credits retired	<u>(6,741,330)</u>	<u>395,941</u>	<u>(6,345,389)</u>
Balance - December 31, 2015	<u>\$ 168,131,442</u>	<u>\$ 3,060,189</u>	<u>\$ 171,191,631</u>

Connexus Energy  
Statements of Cash Flows  
Years Ended December 31, 2015 and 2014

	2015	2014
Operating Activities		
Net margin	\$ 8,456,018	\$ 17,660,259
Adjustments to reconcile net margin to net cash from operating activities		
Depreciation	11,869,531	11,358,595
Amortization of debt refinancing fees	(53,118)	(53,118)
Patronage allocated to the Cooperative	(850,999)	(837,178)
Great River Energy patronage allocated to the Cooperative	(3,135,503)	(11,665,040)
Gain from equity investments	(24,281)	(154,807)
Net gain on dispositions of property	(50,286)	(55,778)
Change in assets and liabilities		
Accounts receivable	2,523,087	2,828,850
Materials and supplies inventory	308,372	(1,191,450)
Other assets	(73,138)	(358,390)
Accounts payable and customer deposits	(502,262)	1,687,407
Payable to associated organization	(1,198,838)	(238,198)
Accrued liabilities	(895,110)	(182,652)
Other long-term liabilities	(2,163,237)	(855,566)
Net Cash from Operating Activities	14,210,236	17,942,934
Investing Activities		
Electric plant additions and replacements - net	(13,090,477)	(11,204,536)
Proceeds received from sale of plant	1,065,487	142,199
Purchase of other assets and investments	-	(311,836)
Proceeds from patronage capital and other investments	587,429	592,655
Net Cash used for Investing Activities	(11,437,561)	(10,781,518)
Financing Activities		
Advances on long-term debt	13,800,000	-
Principal payments on long-term debt	(1,410,974)	(1,924,505)
Repayments on revolving term loan agreement	(14,574,000)	(14,048,000)
Borrowings on revolving term loan agreement	5,769,000	14,574,000
Patronage capital payments to members	(6,349,377)	(5,757,317)
Net Cash used for Financing Activities	(2,765,351)	(7,155,822)
Net Change in Cash and Cash Equivalents	7,324	5,594
Cash and Cash Equivalents, Beginning of Period	10,190	4,596
Cash and Cash Equivalents, End of Period	\$ 17,514	\$ 10,190

Connexus Energy  
Statements of Cash Flows  
Years Ended December 31, 2015 and 2014

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	<u>2015</u>	<u>2014</u>
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest on long-term debt	<u>\$ 6,812,535</u>	<u>\$ 6,284,741</u>
Supplemental Disclosure of Noncash Operating and Investing Activities		
Plant purchases included in accounts payable	<u>\$ 186,619</u>	<u>\$ 136,010</u>

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

### **Organization**

Connexus Energy (the “Cooperative”) is a member-owned organization engaged principally in the distribution and sale of electricity to approximately 129,000 members in seven counties in the north suburban area of Minneapolis and St. Paul, Minnesota.

The Cooperative follows the Federal Energy Regulatory Commission's Uniform System of Accounts prescribed for Class A and B Electric Utilities.

The Cooperative's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, based on standards issued by the Financial Accounting Standards Board (FASB).

### **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.

### **Utility Plant and Retirements**

Utility plant is stated at cost. The cost of additions to utility plant includes contracted work, direct labor and materials and allocable overheads, reduced by cash contributions in aid of construction received from members. When units of property are retired, sold or otherwise disposed of in the ordinary course of business, their average book cost less net salvage is charged to accumulated depreciation. Repairs and the replacement and renewal of items determined to be less than units of property are charged to maintenance expense.

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 3.7% at December 31, 2015 and 2014.

### **Recoverability of Long-Lived Assets**

The Cooperative accounts for the impairment or disposal of long-lived assets in accordance with 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, 2015 and 2014, and during the years 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 and highly liquid investments with an original maturity of three months or less.

### **Accounts Receivable**

Accounts receivable are uncollateralized customer obligations due under terms established by the Board of Directors. Past due balances on active accounts are subject to disconnection of service. The Cooperative has the ability to charge deposits on customers based on an analysis of their prior utility payment history.

### **Allowance for Doubtful Accounts**

The allowance for doubtful accounts represents the Cooperative's estimate of probable amounts that will not be collectible in our existing receivables. The estimate is determined based on historical patterns of collections and losses from previous receivables. The carrying amount of accounts receivable is reduced by the allowance for doubtful accounts in the balance sheets. The allowance for doubtful accounts at December 31, 2015 and 2014 was \$90,834 and \$125,611.

### **Material and Supplies**

Material and supplies 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, 2015 and 2014 was \$9,952,439 and \$10,666,436.

### **Income Taxes**

The Cooperative is exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code. The Cooperative is subject to income tax on its unrelated business income.

The Cooperative evaluates its income tax positions on an annual basis. Management has determined that there are no uncertain tax positions at December 31, 2015 and 2014 that meet the criteria for recognition in the financial statements.

The Cooperative would recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred. Generally, the Cooperative is no longer subject to Federal or state tax examinations by tax authorities for years before 2012.

### **Sales Taxes**

The Cooperative collects sales taxes on behalf of governmental units from its customers and remits the entire amount to the various governmental units. The Cooperative's accounting policy is to exclude the tax collected and remitted from revenue and operating expenses.

### **Patronage Capital**

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

### **Power Costs**

Monthly billings from the wholesale supplier for power costs included all power delivered to the Cooperative. Power costs are recorded through the balance sheet date.

### **Nonelectric Operations**

The Cooperative performs fleet repair services. Nonelectric operating revenues have been classified as utility services revenue in the statements of operations.

### **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.

### **Regulatory Accounting**

As a result of the ratemaking process, the Cooperative applies Accounting Standards Codification (ASC) 980, *Regulated Operations*. The application of generally accepted accounting principles by the Cooperative differs in certain respects from the application by non-regulated businesses as a result of applying ASC 980. Such differences generally relate to the time at which certain items enter into the determination of net margins in order to follow the principle of matching costs and revenues.

**Other Assets**

Other assets consist primarily of regulatory assets related to the pension plan. Other assets at December 31, 2015 and 2014, are as follows:

	2015	2014
Regulatory asset - pension obligation (Note 6)	\$ 10,027,402	\$ 9,542,510
Other assets	2,265,638	2,202,926
Total other assets	\$ 12,293,040	\$ 11,745,436

**Concentration of Risk**

As of December 31, 2015 and 2014, approximately 33% and 28% of the Cooperative's labor force was covered by a collective bargaining agreement. The current agreement is set to expire on February 15, 2018.

**Fair Value Measurements**

The Cooperative has determined the fair value of certain assets and liabilities in accordance with the provisions of Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, which provides a framework for measuring fair value under generally accepted accounting principles

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability. The Cooperative's policy is to recognize significant transfers between levels on the date of the transfer.

## **Note 2 - Subordinated Debt Investments**

Investments in capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC) totaled \$3,447,072 and \$3,464,952 at December 31, 2015 and 2014. 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, 2015 and 2014. These securities have a 5.0% interest rate and a maturity date of December 11, 2044, with a first call date of December 11, 2024. 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.

## **Note 3 - Investments in Associated Companies**

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. The Cooperative's investment in GRE was \$119,018,051 and \$115,882,547 at December 31, 2015 and 2014. During 2015 and 2014, the Cooperative recognized income of \$3,135,503 and \$11,665,040 related to allocations of capital credits from GRE.

The Cooperative's power purchases from GRE were \$189,094,229 and \$192,120,738 during 2015 and 2014. Accounts payable to GRE was \$27,936,693 and \$29,135,531 at December 31, 2015 and 2014.

A summary of the total assets, liabilities, equity, and operations of GRE at December 31, 2015 and 2014, are as follows (unaudited) (in thousands):

	2015	2014
Assets	\$ 4,033,275	\$ 3,885,463
Liabilities	3,360,676	3,246,019
Equity	672,599	639,444
Revenue	\$ 983,049	\$ 1,020,176
Expenses	(862,430)	(871,732)
Other Income (Loss)	(121,405)	(104,119)
Noncontrolling Interest	15,999	7,647
Net Margin	\$ 15,213	\$ 51,972

The Cooperative has investments in other associated organizations, primarily NRUCFC capital credits, which are recorded on the cost method. Such investments totaled \$5,334,623 and \$4,954,155 at December 31, 2015 and 2014.

#### Note 4 - Other Investments

The Cooperative maintains an investment in a tree trimming business totaling \$898,924 and \$961,643 at December 31, 2015 and 2014. 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 \$24,281 and \$154,807 in 2015 and 2014.

The Cooperative's investment in solar projects was \$295,884 and \$307,901 as of December 31, 2015 and 2014.

#### Note 5 - Long-Term Debt and Line of Credit Agreements

Long-term debt as of December 31, 2015 and 2014, consists of the following:

	2015	2014
National Rural Utilities Cooperative Finance Corporation (NRUCFC)		
Mortgage notes bearing interest at 2.28% to 7.15% (4.74% weighted average), due 2016 to 2048, in quarterly installments, including interest	\$ 142,173,077	\$ 129,784,051
Less current portion of long-term debt	1,383,574	1,472,447
	\$ 140,789,503	\$ 128,311,604

Substantially all assets are pledged as collateral on the mortgage notes. NRUCFC has an additional \$25 million in secured mortgage notes that have not been advanced as of December 31, 2015.

The mortgage provisions with NRUCFC require, among other provisions, that the Cooperative maintain certain annual debt service coverage (DSC) levels, including, but not limited to, the average DSC ratio. At December 31, 2015, management believes the Cooperative is in compliance with all loan covenants.

It is estimated that principal repayments on the above debt for the next five years will be as follows:

2016		\$ 1,383,574
2017		945,957
2018		1,048,837
2019		1,037,338
2020		1,008,741
Thereafter		136,748,630
		\$ 142,173,077

The Cooperative has established an unsecured line-of-credit agreement with NRUCFC providing the Cooperative with short-term financing in the total amount of \$20,000,000 on a revolving basis. The line-of-credit agreement matures on December 31, 2049. Interest on unpaid principal is payable quarterly at rates established by NRUCFC, which are not to exceed the lowest prime rate as published in the “Money Rates” column of “The Wall Street Journal” plus 1% per annum as may be fixed by CFC. The interest rate was 2.9% as of December 31, 2015. There were no outstanding balances on this line-of-credit at December 31, 2015 and 2014. The Cooperative has executed an additional unsecured line-of-credit agreement with the NRUCFC providing the Cooperative with short-term financing in the total amount of \$35,000,000. The line-of-credit agreement matures on May 5, 2018. Interest on unpaid principal is payable quarterly at rates established by NRUCFC, which are not to exceed the seven-day London Interbank Offered Rate (LIBOR), plus 1.45%. The interest rate was 1.84% as of December 31, 2015. There were no outstanding balances on this line-of-credit at December 31, 2015 and 2014.

The Cooperative has also established an unsecured revolving term line-of-credit with CoBank ACB. The line-of-credit agreement matures on October 31, 2017 and provides for short-term loans in an amount not to exceed \$25,000,000. Interest on unpaid principal is payable monthly at rates established by CoBank ACB, which are not to exceed the seven-day LIBOR, plus 1.25%. The interest rate was 1.64% as of December 31, 2015. There were outstanding balances of \$5,769,000 and \$14,574,000 on this line-of-credit at December 31, 2015 and 2014.

## **Note 6 - Pension Plans**

### **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.

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.

Information for the Pension Plan as of and for the years ended December 31, 2015 and 2014, is as follows:

	2015	2014
Accumulated benefit obligation - December 31	\$ 35,188,807	\$ 36,702,592
Change in benefit obligation		
Projected benefit obligation - beginning of year	\$ 39,520,908	\$ 34,513,392
Service cost	1,062,137	1,027,795
Interest cost	1,336,112	1,446,577
Actuarial (gains) losses	(2,116,901)	5,155,757
Benefits paid	(2,487,920)	(2,622,613)
Projected benefit obligation - end of year	\$ 37,314,336	\$ 39,520,908
Change in plan assets		
Fair value of plan assets - beginning of year	\$ 36,228,093	\$ 32,061,465
Actual return on assets	(887,825)	4,699,241
Employer contribution	2,108,000	2,090,000
Benefits paid	(2,487,920)	(2,622,613)
Fair value of plan assets - end of year	\$ 34,960,348	\$ 36,228,093
Funded status of plan - funded status of plan as of December 31	\$ (2,353,988)	\$ (3,292,815)
Weighted-average assumptions used to determine benefit obligations as of December 31		
Discount rate	3.85%	3.55%
Weighted-average rate of increase in future compensation levels	3.50%	3.50%
Amounts recognized in balance sheets consist of		
Noncurrent assets	\$ 10,027,402	\$ 9,542,510
Noncurrent liabilities	(2,353,988)	(3,292,815)
Net amount recognized as of December 31	\$ 7,673,414	\$ 6,249,695

The amount of the actuarial net loss and prior service costs expected to be amortized in 2016 is \$506,810 and \$128,977, respectively.

	2015	2014
Amounts not yet recognized as components of net period benefit cost		
Amount disclosed at beginning of year	\$ 9,542,510	\$ 7,580,262
Net actuarial loss in current year	957,060	2,376,715
Amortization of actuarial losses	(343,191)	(285,490)
Prior service credit	(128,977)	(128,977)
 Total (Note 1)	 \$ 10,027,402	 \$ 9,542,510

Components of net periodic pension costs for the Pension Plan for 2015 and 2014, are as follows:

Service cost	\$ 1,062,137	\$ 1,027,795
Interest cost	1,336,112	1,446,577
Expected return on plan assets	(2,186,136)	(1,920,199)
Amortization of net loss	343,191	285,490
Amortization of prior service cost	128,977	128,977
 Total net periodic pension cost	 \$ 684,281	 \$ 968,640

The long-term rate of return on assets reflected in the 2015 and 2014 pension cost was 6.4% and 6.5%. The Cooperative uses a liability-driven investment policy, which seeks to match asset returns with expected liabilities. The asset allocation was 30% equity mutual funds and 70% bond mutual funds as of December 31, 2015 and 2014. 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, 2015 and 2014, were as follows:

	2015	2014
Discount rate	3.55%	4.35%
Expected long-term rate of return on plan assets	6.40%	6.50%
Rate of increase in future compensation levels	3.50%	3.50%

Estimated future benefit payments at December 31, 2015, are as follows:

2016	\$ 2,676,605
2017	2,684,911
2018	2,558,905
2019	2,310,027
2020	2,573,006
2021-2025	14,915,503

Expected contributions during the year ending December 31, 2016 are \$1,750,000.

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

	2015	2014
Equity funds	30%	30%
Debt funds	70%	70%
	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. As of December 31, 2015, 3 retired employees or their spouses participate in the group health care plan. Effective January 1, 2016, the Cooperative discontinued offering retiree medical coverage.

### **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 \$1,131,283 and \$1,092,780 for the years ended December 31, 2015 and 2014.

### **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, 2015 and 2014 was \$2,089,762 and \$2,017,491 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. Investment gains and losses are reported in other margin in the statements of operations.

### **Note 7 - 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.

In June 2014, the Minnesota Tax Court issued an opinion that the cooperative was not entitled to refunds received for sales tax remitted on certain amounts billed and collected for electric services and allocated to customers as capital credits. The Cooperative accrued sales tax and interest liabilities of \$2,624,280 and \$1,041,506 as of December 31, 2014. The Cooperative expensed previously deferred legal fees related to this issue of \$765,694 in 2014. During 2015, the Minnesota Supreme Court affirmed the Tax Courts' opinion regarding \$2,006,445 of the contested refunds and agreed with the Cooperative on the remaining refund of \$617,435, which was remanded back to the tax court for final resolution. As a result of the decision, the Cooperative paid \$2,805,073 of taxes and interest to the State of Minnesota in 2015. As of December 31, 2015, the Cooperative has an accrued liability of \$617,435 that will be paid to members during 2016 as part of a settlement agreement with the state. Previously accrued interest expense of \$243,000 related to the refund remanded back to the lower court, was reversed in 2015.

### **Note 8 - 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. The Cooperative contributed \$205,376 and \$213,952 to the trust for insurance coverage during the years ended December 31, 2015 and 2014. During 2015, the Cooperative received a premium adjustment of \$120,471.

### **Note 9 - 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, 2015 and 2014, were as follows:

#### *Cash and Cash Equivalents*

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

#### *Capital Term and Member Capital Securities*

Due to the nature of these investments, the fair value approximates cost.

#### *Associated Organizations*

As these investments are not actively traded and there is no market value available, the fair value approximates 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, 2015, the carrying value and the fair value of the Cooperative's long-term debt were \$142,173,077 and approximately \$175,133,183. As of December 31, 2014, the carrying value and the fair value of the Cooperative's long-term debt were \$129,784,051 and approximately \$118,398,717.

**Note 10 - Subsequent Events**

The Cooperative has evaluated subsequent events through March 8, 2016, the date on which the financial statements were available to be issued. There are no events subsequent to December 31, 2015, that require disclosure.

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