Financial Statements
December 31, 2019 and 2018

Connexus Energy

EideBailly®

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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Cooperative changed its policy for accounting for leases in accordance with Accounting Standards Codification (ASC), *Leases (Topic 842)* as of January 1, 2019. The implementation of this standard did not result in a cumulative-effect adjustment to the beginning balance of patrons' equity in the balance sheet. Our opinion is not modified with respect to this matter.

Eide Bailly LLP

Phoenix, Arizona
March 10, 2020

	2019	2018
Assets		
Utility Plant		
Distribution system	$ 323,360,205	$ 312,813,243
General plant	45,757,479	46,619,794
Construction work in progress	4,292,651	2,693,489
Total utility plant	373,410,335	362,126,526
Less accumulated depreciation	(148,627,247)	(141,221,783)
Total utility plant, net	224,783,088	220,904,743
Other Property and Investments		
Investments in associated organizations	148,834,542	146,366,125
Subordinated debt investments	8,386,597	8,401,813
Other investments	1,216,563	1,180,259
Other assets	13,911,938	12,310,590
Prepaid expenses	153,633	442,655
Energy storage assets	19,992,270	20,461,917
Total other property and investments	192,495,543	189,163,359
Current Assets		
Cash and cash equivalents	2,370	4,374
Accounts receivable, net	30,057,719	28,961,784
Material and supplies	4,087,516	3,576,446
Prepaid expenses	2,111,389	1,160,904
Interest receivable	91,042	91,037
Total current assets	36,350,036	33,794,545
Total assets	$ 453,628,667	$ 443,862,647

	2019	2018
Patrons' Equity and Liabilities		
Patrons' Equity		
Patronage capital	$ 188,465,613	$ 189,697,825
Other capital	15,541,778	10,364,941
Total patrons' equity	204,007,391	200,062,766
Long-Term Debt, Less Current Maturities	161,524,033	163,795,561
Other Long-Term Liabilities, Less Current Maturities	24,345,432	25,183,238
Commitments and Contingencies		
Current Liabilities		
Current maturities of long-term debt	2,271,530	752,894
Current maturities of finance lease liability	490,000	818,477
Revolving term loans payable	12,006,753	8,685,197
Accounts payable	5,322,055	4,837,803
Payable to associated organization	25,401,037	22,503,927
Member deposits	1,646,530	1,618,624
Accrued compensation and related taxes	5,994,263	5,340,943
Accrued state and local taxes	5,218,962	5,078,101
Accrued interest	1,064,321	1,132,077
Patronage capital payable	4,214,922	3,932,915
Other current liabilities	121,438	120,124
Total current liabilities	63,751,811	54,821,082
Total patrons' equity and liabilities	$ 453,628,667	$ 443,862,647

	2019	2018
Operating Revenue		
Electric revenue	$ 238,090,038	$ 272,683,583
Utility services revenue	1,423,090	1,260,591
Total operating revenue	239,513,128	273,944,174
Operating Expense		
Cost of power	168,776,446	197,268,907
Labor and related expenses	27,079,322	26,308,786
Electric operations expenses	6,082,070	5,407,879
Fees and services	2,663,932	2,317,428
Marketing	999,727	680,690
Operating supplies and maintenance	4,290,490	4,206,602
Depreciation	12,405,270	11,917,345
Property taxes	3,952,133	3,797,057
Other	683,872	917,074
Total operating expense	226,933,262	252,821,768
Operating Margin	12,579,866	21,122,406
Other margins (expenses)		
Interest expense	(6,911,706)	(6,590,303)
Interest income	373,135	368,768
Allocation of Great River Energy margins	5,110,513	5,103,745
Gain from equity investments	152,029	156,412
Other income	1,547,869	970,456
Net periodic pension income (costs)	89,299	530,782
Total other margins	361,139	539,860
Net Margin	$ 12,941,005	$ 21,662,266

	Patronage Capital	Other Capital	Total
Balance - December 31, 2017	$ 179,727,777	$ 6,655,778	$ 186,383,555
Net margin	21,662,266	-	21,662,266
Capital credits retired	(11,692,218)	3,709,163	(7,983,055)
Balance - December 31, 2018	189,697,825	10,364,941	200,062,766
Net margin	12,941,005	-	12,941,005
Capital credits retired	(14,173,217)	5,176,837	(8,996,380)
Balance - December 31, 2019	$ 188,465,613	$ 15,541,778	$ 204,007,391

	2019	2018
Operating Activities		
Net margin	$ 12,941,005	$ 21,662,266
Adjustments to reconcile net margin to net cash from operating activities		
Depreciation	12,405,270	11,917,345
Great River Energy patronage allocated to the Cooperative	(5,110,513)	(5,103,745)
Other patronage allocated to the Cooperative	(914,227)	(925,535)
Gain from equity investments	(152,029)	(156,412)
Net gain on dispositions of property	(601,870)	(25,678)
Amortization of energy storage assets	296,786	-
Change in assets and liabilities		
Accounts receivable	(1,095,935)	(1,833,566)
Materials and supplies	(511,070)	(758,785)
Other assets	(801,152)	(806,626)
Accounts payable and member deposits	749,114	693,090
Payable to associated organization	2,897,110	(6,670,996)
Accrued liabilities	727,739	728,536
Other long-term liabilities	(1,655,071)	189,979
Net Cash from Operating Activities	19,175,157	18,909,873
Investing Activities		
Electric plant additions and replacements - net	(17,002,039)	(22,367,460)
Proceeds received from sale of plant	580,109	522,915
Proceeds from patronage capital and other investments	3,687,264	604,378
Net Cash used for Investing Activities	(12,734,666)	(21,240,167)
Financing Activities		
Advances on long-term debt	-	15,000,000
Principal payments on long-term debt	(752,892)	(715,900)
Repayments on revolving term loan agreement	(8,685,197)	(13,184,244)
Borrowings on revolving term loan agreement	12,006,753	8,685,197
Principal payments on finance lease	(296,786)	-
Patronage capital payments to members	(8,714,373)	(7,628,182)
Net Cash (used for) from Financing Activities	(6,442,495)	2,156,871
Net Change in Cash and Cash Equivalents	(2,004)	(173,423)
Cash and Cash Equivalents, Beginning of Period	4,374	177,797
Cash and Cash Equivalents, End of Period	$ 2,370	$ 4,374

	2019	2018
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest on long-term debt	$ 6,849,184	$ 6,514,006
Supplemental Disclosure of Noncash Operating and Investing Activities		
Plant purchases included in accounts payable	$ 741,202	$ 978,158
Plant acquired under lease	$ -	$ 20,461,917
Lease liability remeasurement	$ 172,861	$ -
Supplemental Disclosure of Noncash Financing Activities		
Long-term liabilities incurred for interest modification	$ 958,435	$ -

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 136,000 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.

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.

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, 2019 and 2018 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.

Concentration of Risk

As of December 31, 2019 and 2018, approximately 34% and 35% of the Cooperative's labor force was covered by a collective bargaining agreement. The current agreement is set to expire on January 31, 2022.

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 3.4% at December 31, 2019 and 2018.

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, 2019 and 2018, 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 and Credit Policy

The Cooperative's revenue contracts provide it with the unconditional right to consideration upon delivery of electricity to its members; therefore, a receivable is recognized in the period the Cooperative provides energy to its members, so no contract assets or liabilities exist. The unconditional right to consideration is represented by contract receivables which are presented on the balance sheet as accounts receivable, net.

Accounts receivable are uncollateralized member 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 members based on an analysis of their prior utility payment history.

The beginning and ending balances for accounts receivable, net of allowances for doubtful accounts, and contract liabilities were as follows for the year ended December 31, 2019:

	December 31, 2019	January 1, 2019
Billed	$ 15,349,419	$ 15,704,497
Unbilled	14,708,300	13,257,287
Total accounts receivable, net	$ 30,057,719	$ 28,961,784
Member deposits - contract liability	$ 1,646,530	$ 1,618,624

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, 2019 and 2018 was $38,841 and $97,235.

Material and Supplies

Material and supplies are stated at the lower of average cost or market.

Investments

The Cooperative has investments in associated companies. The Cooperative has determined that these investments do not have a readily determinable fair value. Investments in associated companies are recorded at the Cooperative's share of allocated patronage capital. These investments are assessed for impairment, if any, and adjusted for changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Cooperative has not identified any impairments and there has not been observable price changes during the years ended December 31, 2019 and 2018.

Some subordinate debt investments are a condition of loans from the National Rural Utilities Cooperative Finance Corporation and are accounted for at amortized cost, net of any impairment.

The Cooperative also has various investments that are accounted for using the equity method based on the Cooperative's ownership percentage in the investee. Under the equity method, the Cooperative records its proportionate share of earnings and losses of the investee. Distributions from these investments reduce the carrying value.

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.

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.

Other Assets

Other assets consist primarily of regulatory assets related to the pension plan. Other assets at December 31, 2019 and 2018, are as follows:

	2019	2018
Regulatory asset - pension obligation (Note 7)	$ 5,858,133	$ 7,881,336
Benefit plan asset (Note 7)	4,253,116	1,800,477
Other assets	3,800,689	2,628,777
Total other assets	$ 13,911,938	$ 12,310,590

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.

The Cooperative's capital credit retirement policy allows a special, discounted, lump sum payout for members who move or the estate of deceased members. The member's remaining allocation is retained by the Cooperative and is classified as other capital in the statements of changes in patrons' equity.

Revenue Recognition

The Cooperative accounts for member revenues under Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*.

The Cooperative's performance obligation related to the sale of energy is satisfied as energy is delivered to members; therefore, revenue from the delivery of energy is recognized over time as energy is delivered to the members. The Cooperative reads member meters and bills members each month based on a cycle basis. Accordingly, at the end of each month, there is energy delivered to members for which members have not been billed. The Cooperative records an estimate of the unbilled revenues each month.

The Cooperative does not have any significant financing components related to contracts with members as payment is received shortly after being billed to members.

The following table depicts revenues by timing of revenue recognition and type of revenue for the year ended December 31, 2019:

	2019
Electric revenue (transferred over time)	$ 237,487,338
Utility service revenues (transferred at a point in time)	1,423,090
Revenue from contracts with members	238,910,428
Other electric revenue - late fees (outside the scope of ASC 606)	602,700
Total operating revenue	$ 239,513,128

Sales Taxes

The Cooperative collects sales taxes on behalf of governmental units from its members 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.

Power Costs

Substantially all power costs are monthly billings from the wholesale supplier for power delivered to the Cooperative during the month. Power costs are recorded through the balance sheet date.

Nonelectric Operations

Nonelectric operating revenues have been classified as utility services revenue in the statements of operations.

Change in Accounting Principle – Revenue from Contracts with Customers, ASU 2014-09

In May 2014, the FASB issued guidance (Accounting Standards Codification [ASC] 606, *Revenue from Contracts with Customers*) which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. Additionally, the guidance provides additional disclosures related to revenue.

The Cooperative applied ASC 606 to all member contracts effective on January 1, 2019 using the modified retrospective basis. The Cooperative did not identify any significant differences in the timing or amount of revenues recorded. As such, implementation did not have a significant impact on the financial position, results of operations, or cash flows of the Cooperative and there was no cumulative adoption adjustment needed for the effect of the change in accounting principle.

Change in Accounting Principle – Financial Instruments – Overall, ASU 2016-01

Effective January 1, 2019, the Cooperative adopted FASB Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which affects current U.S. GAAP primarily as it relates to the accounting for equity investments and the presentation and disclosure requirements for financial instruments. The standard had no material impact on the amounts recorded in the Cooperative's financial statements and eliminated certain fair value disclosures for financial instruments.

Change in Accounting Principle – Leases, ASU 2016-02

Effective January 1, 2019, the Cooperative adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. The Cooperative elected to apply the guidance as of January 1, 2019, the beginning of the adoption period. The comparative financial information and disclosures presented are in accordance with the legacy standard, ASC 840. The standard requires the recognition of right-of-use assets and lease liabilities for lease contracts with terms greater than 12 months. Operating lease costs are recognized in the income statement as a single lease cost and finance lease costs are recognized in two components, interest expense and amortization expense. The Cooperative has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Cooperative accounted for its existing leases as either finance or operating leases under the new guidance, without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the operating lease would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in ASC Topic 842 at lease commencement.

The adoption of the standard did not have a significant impact on the financial position, results of operations, or cash flows of the Cooperative and there was no cumulative adoption adjustment needed for the effect of the change in accounting principle.

Change in Accounting Principle – Compensation – Retirement Benefits, ASU 2017-07

In March 2017, the FASB issued Accounting Standards Update No. 2017-07 (ASU 2017-07), *Compensation – Retirement Benefits (Topic 715)*. The guidance was issued to improve the consistency of the presentation of service cost and other components of net periodic benefit costs. The Cooperative has applied the guidance retrospectively to all periods presented. The retrospective adjustment within the 2018 statement of operations resulted in an increase of labor and related expenses and a decrease in operating margin of $530,782. The retrospective adjustment also resulted in a corresponding increase in net periodic pension income (costs) and increase in total other margins of $530,782.

The Cooperative has adopted these standards as management believes the standards improve the usefulness and understandability of financial reporting.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on net margins or patrons' equity.

Note 2 - Subordinated Debt Investments

Investments in capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC) totaled $3,386,597 and $3,401,813 at December 31, 2019 and 2018. 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, 2019 and 2018. These securities have a 5% 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 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 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 substantially all power from GRE at rates determined by GRE, which are subject to periodic change.

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 $141,851,249 and $139,779,923 at December 31, 2019 and 2018. During 2019 and 2018, the Cooperative recognized income of $5,110,513 and $5,103,745 related to allocations of capital credits from GRE. During 2019 and 2018, the Cooperative received capital credit retirements of $3,039,187 and $0 from GRE.

Currently, the Cooperative purchases approximately 18% of GRE's total power output sold to members. The Cooperative's power purchases from GRE were $168,988,611 and $196,439,558 during 2019 and 2018. Accounts payable to GRE was $25,401,037 and $22,503,927 at December 31, 2019 and 2018.

The Cooperative has investments in other associated organizations, primarily NRUCFC capital credits, which are accounted for as equity securities. Such investments totaled $6,983,293 and $6,586,202 at December 31, 2019 and 2018.

Note 4 - Other Investments

The Cooperative maintains an investment in a tree trimming business totaling $983,965 and $931,936 at December 31, 2019 and 2018. 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 $152,029 and $156,412 in 2019 and 2018.

The Cooperative's investment in solar projects was $232,597 and $248,323 at December 31, 2019 and 2018.

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

Long-term debt as of December 31, 2019 and 2018, consists of the following:

	2019	2018
National Rural Utilities Cooperative Finance Corporation (NRUCFC)		
Mortgage notes bearing interest at 3.07% to 6.45% (4.21% weighted average), due in quarterly installments, including interest, through 2054)	$ 163,795,563	$ 164,548,455
Less current maturities of long-term debt	(2,271,530)	(752,894)
	$ 161,524,033	$ 163,795,561

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

2020	$ 2,271,530
2021	667,804
2022	1,864,506
2023	291,129
2024	303,141
Thereafter	158,397,453
	$ 163,795,563

At December 31, 2019, $156,749,664 of the notes were interest only notes with balloon payments due between 2020 and 2054. Substantially all assets are pledged as collateral on the mortgage notes. The Cooperative has an additional $25 million in NRUCFC secured mortgage notes that have not been advanced as of December 31, 2019.

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, 2019, management believes the Cooperative is in compliance with all loan covenants.

In 2018 the Cooperative established an as-offered uncommitted line-of-credit agreement with NRUCFC providing the Cooperative with short-term financing in the total amount of $20,000,000. The line-of-credit agreement matured in 2019. All advances on the line-of-credit agreement were at the sole discretion and approval of NRUCFC. Interest on unpaid principal was payable quarterly at rates established by NRUCFC. There was no outstanding balance on this line-of-credit at December 31, 2018. In 2019 the Cooperative established an additional 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 revolving line-of-credit agreement matures on December 31, 2049. Interest on unpaid principal is payable quarterly at rates established by NRUCFC. The interest rate was 2.85% as of December 31, 2019. There was no outstanding balance on this line-of-credit at December 31, 2019.

The Cooperative has an 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, 2023. Interest on unpaid principal is payable quarterly at rates established by NRUCFC, which are not to exceed the one-month London Interbank Offered Rate (LIBOR), plus 1.35%. The interest rate was 3.25% as of December 31, 2019. There were no outstanding balances on this line-of-credit at December 31, 2019 and 2018.

The Cooperative has also established an unsecured revolving term line-of-credit with CoBank ACB. The line-of-credit agreement matures on October 31, 2020 and provides for short-term loans in an amount not to exceed $30,000,000. Interest on unpaid principal is payable monthly at rates established by CoBank ACB, which are not to exceed the one-month LIBOR, plus 1.35%. The interest rate was 3.14% as of December 31, 2019. There were outstanding balances of $12,006,753 and $8,685,197 on this line-of-credit at December 31, 2019 and 2018.

Note 6 - Other Long-Term Liabilities

Other long-term liabilities at December 31, 2019 and 2018, are as follows:

	2019	2018
Finance lease liabilities	$ 19,992,270	$ 20,461,917
Deferred compensation (Note 7)	2,703,212	2,350,236
Other	2,139,950	3,189,562
	24,835,432	26,001,715
Less current maturities of finance lease liabilities	(490,000)	(818,477)
	$ 24,345,432	$ 25,183,238

The Cooperative has a 25-year contract to obtain energy storage services that is characterized as a lease under ASC 842. The weighted-average discount rate is based on the discount rate implicit in the lease, or if the implicit rate is not readily determinable from the lease, then the Cooperative estimates an applicable incremental borrowing rate. The incremental borrowing rate is estimated using the Cooperative's applicable borrowing rates and the contractual lease term.

For rate-making purposes, the Cooperative treats the finance lease as an operating lease with the amount of the lease payment included as allowable costs in the period it covers. The Cooperative combines the interest expense and amortization of right-of-use asset together and includes the costs as a component of purchased power expense.

Finance lease right-of-use assets are included in energy storage assets on the balance sheet.

Total lease costs for the year ended December 31, 2019 were as follows:

Finance lease cost:	
Interest expense	$ 825,285
Amortization of right-of-use assets	296,786

The following summarizes the supplemental cash flow information for the year ended December 31, 2019:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from finance leases	$ 825,285
Financing cash flows from finance leases	296,786

The following summarizes the weighted-average remaining term and weighted-average discount rate at December 31, 2019:

Weighted-average remaining term:	24.0 Years
Weighted-average discount rate:	4.25%

The future minimum payments under noncancelable finance leases with terms greater than one year are summarized below:

2020	$ 1,330,200
2021	1,330,200
2022	1,330,200
2023	1,330,200
2024	1,330,200
Thereafter	25,273,800
Total payments	31,924,800
Less interest	(11,932,530)
Present value of lease liabilities	$ 19,992,270

Future minimum payments determined under the guidance in ASC 840 as of December 31, 2018 are summarized below:

	Total
2019	$ 1,330,200
2020	1,330,200
2021	1,330,200
2022	1,330,200
2023	1,330,200
Thereafter	26,604,000
Total payments	33,255,000
Less interest	(12,793,083)
Total	$ 20,461,917

There was no lease expense for the year ended December 31, 2018.

Property under the capital lease at December 31, 2018, included:

Energy storage assets	$ 20,461,917
Less accumulated amortization	-
	$ 20,461,917

Note 7 - 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 equity, REIT, 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, 2019 and 2018, is as follows:

	2019	2018
Accumulated benefit obligation - December 31	$ 37,760,716	$ 34,477,217
Change in benefit obligation		
Projected benefit obligation - beginning of year	$ 36,121,307	$ 37,703,423
Service cost	859,863	932,973
Interest cost	1,378,126	1,188,601
Actuarial (gains) losses	3,109,424	(1,998,301)
Benefits paid	(1,908,494)	(1,705,389)
Projected benefit obligation - end of year	$ 39,560,226	$ 36,121,307
Change in plan assets		
Fair value of plan assets - beginning of year	$ 37,921,784	$ 40,193,655
Actual return on assets	6,600,052	(1,786,482)
Employer contribution	1,200,000	1,220,000
Benefits paid	(1,908,494)	(1,705,389)
Fair value of plan assets - end of year	$ 43,813,342	$ 37,921,784
Funded status of plan - funded status of plan as of December 31 (Note 1)	$ 4,253,116	$ 1,800,477
Weighted-average assumptions used to determine benefit obligations as of December 31		
Discount rate	2.90%	4.00%
Weighted-average rate of increase in future compensation levels	3.50%	3.50%

	2019	2018
Amounts recognized in balance sheets consist of		
Noncurrent assets		
Other assets (Note 1)	$ 10,111,249	$ 9,681,813

The amount of the actuarial net loss and prior service costs expected to be amortized in 2020 are $137,638 and $64,514.

	2019	2018
Amounts not yet recognized as components of net period benefit cost		
Amount disclosed at beginning of year	$ 7,881,336	$ 6,373,772
Net actuarial loss (gain) in current year	(1,536,993)	1,834,467
Amortization of actuarial losses	(357,233)	(197,926)
Prior service credit	(128,977)	(128,977)
Total (Note 1)	$ 5,858,133	$ 7,881,336

Components of net periodic pension costs for the Pension Plan for 2019 and 2018, are as follows:

	2019	2018
Service cost	$ 859,863	$ 932,973
Interest cost	1,378,126	1,188,601
Expected return on plan assets	(1,953,635)	(2,046,286)
Amortization of net loss	357,233	197,926
Amortization of prior service cost	128,977	128,977
Total net periodic pension cost	$ 770,564	$ 402,191

The Cooperative uses a liability-driven investment policy, which seeks to match asset returns with expected liabilities. The asset allocation was 3% real estate investment trust funds, 28% equity mutual funds and 69% bond mutual funds as of December 31, 2019. The asset allocation was 5% real estate investment trust funds, 28% equity mutual funds and 67% bond mutual funds as of December 31, 2018. 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, 2019 and 2018, were as follows:

	2019	2018
Discount rate	4.00%	3.30%
Expected long-term rate of return on plan assets	5.60%	5.55%
Rate of increase in future compensation levels	3.50%	3.50%

Estimated future benefit payments at December 31, 2019, are as follows:

2020	$ 2,701,385
2021	2,835,640
2022	2,879,078
2023	3,119,918
2024	3,165,679
2025-2029	14,148,290

Expected contributions during the year ending December 31, 2020 are $1,200,000.

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

	2019	2018
REIT	5%	5%
Equity funds	30%	30%
Debt funds	65%	65%
	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.

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 $1,403,885 and $1,325,957 for the years ended December 31, 2019 and 2018.

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, 2019 and 2018 was $2,703,212 and $2,350,236 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 8 - 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 December 2018, the Cooperative began purchasing solar electricity under long-term power purchase agreements. The agreements call for the Cooperative to purchase the net output of the facilities at a fixed price per MWh of output and have an initial term of 25 years.

Note 9 - 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 $246,759 and $186,053 to the trust for insurance coverage during the years ended December 31, 2019 and 2018.

Note 10 - Subsequent Events

The Cooperative has evaluated subsequent events through March 10, 2020, the date on which the financial statements were available to be issued. There are no events subsequent to December 31, 2019, that require disclosure.