Financial Statements
December 31, 2018 and 2017

Connexus Energy

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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, 2018 and 2017, 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, 2018 and 2017, 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.

Eide Bailly LLP

Sioux Falls, South Dakota
March 12, 2019

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	2018	2017
Assets		
Utility Plant		
Distribution system	$ 333,275,160	$ 302,454,829
General plant	46,619,794	44,426,936
Construction work in progress	2,693,489	2,695,332
Total utility plant	382,588,443	349,577,097
Less accumulated depreciation	(141,221,783)	(137,983,472)
Total utility plant, net	241,366,660	211,593,625
Other Property and Investments		
Investments in associated organizations	146,366,125	140,836,484
Subordinated debt investments	8,401,813	8,416,221
Other investments	1,180,259	1,114,178
Other assets	12,310,590	11,797,322
Prepaid expenses	442,655	592,856
Total other property and investments	168,701,442	162,757,061
Current Assets		
Cash and cash equivalents	4,374	177,797
Accounts receivable, net	28,961,784	27,128,218
Material and supplies	3,576,446	2,817,661
Prepaid expenses	1,160,904	787,990
Interest receivable	91,037	91,038
Total current assets	33,794,545	31,002,704
Total assets	$ 443,862,647	$ 405,353,390

See Notes to Financial Statements

	2018	2017
Patrons' Equity and Liabilities		
Patrons' Equity		
Patronage capital	$ 189,697,825	$ 179,727,777
Other capital	10,364,941	6,655,778
Total patrons' equity	200,062,766	186,383,555
Long-Term Debt, Less Current Maturities	163,795,561	149,548,694
Other Long-Term Liabilities, Less Current Maturities	25,183,238	5,349,819
Commitments and Contingencies		
Current Liabilities		
Current maturities of long-term debt	752,894	715,661
Current maturities of capital lease obligation	818,477	-
Revolving term loans payable	8,685,197	13,184,244
Accounts payable	4,837,803	5,172,206
Payable to associated organization	22,503,927	29,174,923
Customer deposits	1,618,624	1,303,537
Accrued compensation and related taxes	5,340,943	5,003,434
Accrued state and local taxes	5,078,101	4,914,603
Accrued interest	1,132,077	1,024,672
Patronage capital payable	3,932,915	3,578,042
Other current liabilities	120,124	-
Total current liabilities	54,821,082	64,071,322
Total patrons' equity and liabilities	$ 443,862,647	$ 405,353,390

	2018	2017
Operating Revenue		
Electric revenue	$ 272,683,583	$ 262,706,388
Utility services revenue	1,260,591	1,083,201
Total operating revenue	273,944,174	263,789,589
Operating Expense		
Cost of power	197,268,907	198,769,783
Labor and related expenses	25,778,004	24,971,704
Electric operations expenses	5,407,879	5,567,260
Fees and services	2,317,428	2,691,709
Marketing	680,690	919,742
Operating supplies and maintenance	4,206,602	3,824,865
Depreciation	11,917,345	11,378,216
Property taxes	3,797,057	3,682,534
Other	917,074	1,333,526
Total operating expense	252,290,986	253,139,339
Operating Margin	21,653,188	10,650,250
Other margins (expenses)		
Interest expense	(6,590,303)	(6,194,584)
Interest income	368,768	413,752
Allocation of Great River Energy margins	5,103,745	7,508,169
Gain from equity investments	156,412	174,964
Other income	970,456	1,251,444
Total other margins	9,078	3,153,745
Net Margin	$ 21,662,266	$ 13,803,995

	Patronage Capital	Other Capital	Total
Balance - December 31, 2016	$ 176,776,290	$ 3,453,142	$ 180,229,432
Net margin	13,803,995	-	13,803,995
Capital credits retired	(10,852,508)	3,202,636	(7,649,872)
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

	2018	2017
Operating Activities		
Net margin	$ 21,662,266	$ 13,803,995
Adjustments to reconcile net margin to net cash from operating activities		
Depreciation	11,917,345	11,378,216
Great River Energy patronage allocated to the Cooperative	(5,103,745)	(7,508,169)
Other patronage allocated to the Cooperative	(925,535)	(887,222)
Gain from equity investments	(156,412)	(174,964)
Net gain on dispositions of property	(25,678)	(364,221)
Change in assets and liabilities		
Accounts receivable	(1,833,566)	756,011
Materials and supplies	(758,785)	250,492
Other assets	(806,626)	(221,357)
Accounts payable and customer deposits	693,090	503,117
Payable to associated organization	(6,670,996)	(216,018)
Accrued liabilities	728,536	(7,512)
Other long-term liabilities	189,979	1,656,210
Net Cash from Operating Activities	18,909,873	18,968,578
Investing Activities		
Electric plant additions and replacements - net	(22,367,460)	(25,097,406)
Proceeds received from sale of plant	522,915	458,375
Proceeds from patronage capital and other investments	604,378	764,838
Payment received on note receivable	-	10,000,000
Net Cash used for Investing Activities	(21,240,167)	(13,874,193)
Financing Activities		
Advances on long-term debt	15,000,000	-
Principal payments on long-term debt	(715,900)	(669,242)
Repayments on revolving term loan agreement	(13,184,244)	(10,260,000)
Borrowings on revolving term loan agreement	8,685,197	13,184,244
Patronage capital payments to members	(7,628,182)	(7,175,216)
Net Cash from (used for) Financing Activities	2,156,871	(4,920,214)
Net Change in Cash and Cash Equivalents	(173,423)	174,171
Cash and Cash Equivalents, Beginning of Period	177,797	3,626
Cash and Cash Equivalents, End of Period	$ 4,374	$ 177,797

	2018	2017
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest on long-term debt	$ 6,514,006	$ 6,224,571
Supplemental Disclosure of Noncash Operating and Investing Activities		
Plant purchases included in accounts payable	$ 978,158	$ 1,690,564
Plant acquired under capital lease	$ 20,461,917	$ -

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 134,000 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 3.4% at December 31, 2018 and 2017.

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, 2018 and 2017, 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, 2018 and 2017 was $97,235 and $87,086.

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, 2018 and 2017 was $13,257,287 and $9,307,916.

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, 2018 and 2017 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.

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.

In 2017, the Cooperative changed its capital credit retirement policy to allow a special, discounted, lump sum payout for members who move. The member's remaining allocation is retained by the Cooperative and is classified as other capital in the statements of changes in patrons' equity.

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.

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, 2018 and 2017, are as follows:

	2018	2017
Regulatory asset - pension obligation (Note 7)	$ 7,881,336	$ 6,373,772
Benefit plan asset (Note 7)	1,800,477	2,490,232
Other assets	2,628,777	2,933,318
Total other assets	$ 12,310,590	$ 11,797,322

Concentration of Risk

As of December 31, 2018 and 2017, approximately 35% and 32% of the Cooperative's labor force was covered by a collective bargaining agreement. The current agreement is set to expire on January 31, 2022.

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 $3,401,813 and $3,416,221 at December 31, 2018 and 2017. 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, 2018 and 2017. 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 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 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.

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 $139,779,923 and $134,676,177 at December 31, 2018 and 2017. During 2018 and 2017, the Cooperative recognized income of $5,103,745 and $7,508,169 related to allocations of capital credits from GRE.

The Cooperative's power purchases from GRE were $196,439,558 and $197,190,247 during 2018 and 2017. Accounts payable to GRE was $22,503,927 and $29,174,923 at December 31, 2018 and 2017.

A summary of the total assets, liabilities, equity, and operations of GRE at December 31, 2018 and 2017, are as follows (unaudited) (in thousands):

	2018	2017
Assets	$ 3,933,789	$ 4,062,201
Liabilities	3,105,670	3,278,234
Equity	828,119	783,967
Revenue	$ 1,039,789	$ 1,016,285
Expenses	(895,492)	(866,819)
Other Loss	(135,846)	(131,256)
Noncontrolling Interest	15,686	15,975
Net Margin	$ 24,137	$ 34,185

The Cooperative has investments in other associated organizations, primarily NRUCFC capital credits, which are recorded on the cost method. Such investments totaled $6,586,202 and $6,160,307 at December 31, 2018 and 2017.

Note 4 - Other Investments

The Cooperative maintains an investment in a tree trimming business totaling $931,936 and $850,024 at December 31, 2018 and 2017. 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 $156,412 and $174,964 in 2018 and 2017.

The Cooperative's investment in solar projects was $248,323 and $264,154 as of December 31, 2018 and 2017.

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

Long-term debt as of December 31, 2018 and 2017, consists of the following:

	2018	2017
National Rural Utilities Cooperative Finance Corporation (NRUCFC)		
Mortgage notes bearing interest at 3.08% to 6.45% (4.46% weighted average), due through 2051, in quarterly installments, including interest	$ 164,548,455	$ 150,264,355
Less current portion of long-term debt	(752,894)	(715,661)
	$ 163,795,561	$ 149,548,694

At December 31, 2018, $156,749,662 of the notes were interest only notes with balloon payments due between 2020 and 2051. 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, 2018.

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, 2018, 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:

2019	$ 752,894
2020	2,271,531
2021	667,804
2022	1,864,506
2023	291,129
Thereafter	158,700,591
	$ 164,548,455

The Cooperative had 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 unsecured line-of-credit was closed during 2018. There was no outstanding balance on this line-of-credit at December 31, 2017.

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, 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 3.75% as of December 31, 2018. There were no outstanding balances on this line-of-credit at December 31, 2018 and 2017.

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 matures on November 5, 2019. All advances on the line-of-credit agreement are at the sole discretion and approval of NRUCFC. Interest on unpaid principal is payable quarterly at rates established by NRUCFC. There was no outstanding balance on this line-of-credit at December 31, 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, 2019 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 3.86% as of December 31, 2018. There were outstanding balances of $8,685,197 and $13,184,244 on this line-of-credit at December 31, 2018 and 2017.

Note 6 - Other Long-Term Liabilities

Other long-term liabilities at December 31, 2018 and 2017, are as follows:

	2018	2017
Capital lease obligations	$ 20,461,917	$ -
Deferred compensation (Note 7)	2,350,236	2,711,480
Other	3,189,562	2,638,339
	26,001,715	5,349,819
Less current portion of capital lease obligation	(818,477)	-
	$ 25,183,238	$ 5,349,819

The Cooperative leases equipment under a 25-year lease. Future minimum lease payments are as follows:

	Principal	Interest	Total
2019	$ 818,477	$ 511,723	$ 1,330,200
2020	818,477	511,723	1,330,200
2021	818,477	511,723	1,330,200
2022	818,477	511,723	1,330,200
2023	818,477	511,723	1,330,200
Thereafter	16,369,532	10,234,468	26,604,000
Total	$ 20,461,917	$ 12,793,083	$ 33,255,000

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

Leased property under the capital lease includes:

	2018	2017
Battery equipment	$ 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, 2018 and 2017, is as follows:

	2018	2017
Accumulated benefit obligation - December 31	$ 34,477,217	$ 35,803,099
Change in benefit obligation		
Projected benefit obligation - beginning of year	$ 37,703,423	$ 37,762,094
Service cost	932,973	942,780
Interest cost	1,188,601	1,330,133
Actuarial (gains) losses	(1,998,301)	1,050,631
Benefits paid	(1,705,389)	(3,382,215)
Projected benefit obligation - end of year	$ 36,121,307	$ 37,703,423
Change in plan assets		
Fair value of plan assets - beginning of year	$ 40,193,655	$ 38,121,009
Actual return on assets	(1,786,482)	4,174,861
Employer contribution	1,220,000	1,280,000
Benefits paid	(1,705,389)	(3,382,215)
Fair value of plan assets - end of year	$ 37,921,784	$ 40,193,655
Funded status of plan - funded status of plan as of December 31 (Note 1)	$ 1,800,477	$ 2,490,232
Weighted-average assumptions used to determine benefit obligations as of December 31		
Discount rate	4.00%	3.30%
Weighted-average rate of increase in future compensation levels	3.50%	3.50%

	2018	2017
Amounts recognized in balance sheets consist of		
Noncurrent assets		
Other assets	$ 9,681,813	$ 8,864,004

The amount of the actuarial net loss and prior service costs expected to be amortized in 2019 are $388,648 and $128,977, respectively.

	2018	2017
Amounts not yet recognized as components of net period benefit cost		
Amount disclosed at beginning of year	$ 6,373,772	$ 7,978,604
Net actuarial loss (gain) in current year	1,834,467	(1,175,561)
Amortization of actuarial losses	(197,926)	(300,294)
Prior service credit	(128,977)	(128,977)
Total (Note 1)	$ 7,881,336	$ 6,373,772

Components of net periodic pension costs for the Pension Plan for 2018 and 2017, are as follows:

	2018	2017
Service cost	$ 932,973	$ 942,780
Interest cost	1,188,601	1,330,133
Expected return on plan assets	(2,046,286)	(1,948,669)
Amortization of net loss	197,926	300,294
Amortization of prior service cost	128,977	128,977
Total net periodic pension cost	$ 402,191	$ 753,515

The Cooperative uses a liability-driven investment policy, which seeks to match asset returns with expected liabilities. The asset allocation was 5% real estate investment trust funds, 28% equity mutual funds and 67% bond mutual funds as of December 31, 2018. The asset allocation was 5% real estate investment trust funds 30% equity mutual funds and 65% bond mutual funds as of December 31, 2017. 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, 2018 and 2017, were as follows:

	2018	2017
Discount rate	3.30%	3.70%
Expected long-term rate of return on plan assets	5.55%	5.55%
Rate of increase in future compensation levels	3.50%	3.50%

Estimated future benefit payments at December 31, 2018, are as follows:

2019	$ 2,174,394
2020	2,538,942
2021	2,664,887
2022	2,760,253
2023	3,011,803
2024-2028	14,423,060

Expected contributions during the year ending December 31, 2019 are $1,200,000.

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

	2018	2017
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 $1,325,957 and $1,254,473 for the years ended December 31, 2018 and 2017.

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, 2018 and 2017 was $2,350,236 and $2,711,480 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.

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 $186,053 and $160,327 to the trust for insurance coverage during the years ended December 31, 2018 and 2017. The Cooperative received premium adjustments of $-0- and $55,861 during 2018 and 2017.

Note 10 - 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, 2018 and 2017, 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, 2018, the carrying value and the fair value of the Cooperative's long-term debt were $164,548,455 and approximately $175,986,000, respectively. As of December 31, 2017, the carrying value and the fair value of the Cooperative's long-term debt were $150,264,355 and approximately $175,300,000, respectively.

Note 11 - Subsequent Events

The Cooperative has evaluated subsequent events through March 12, 2019, the date on which the financial statements were available to be issued. There are no events subsequent to December 31, 2018, that require disclosure.