



Financial Statements
December 31, 2023 and 2022
Connexus Energy

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Independent Auditor's Report

To the Board of Directors of
Connexus Energy
Ramsey, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Connexus Energy, which comprise the balance sheets as of December 31, 2023 and 2022, 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.

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, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Eide Bailly LLP

Sioux Falls, South Dakota
March 6, 2024

Connexus Energy
Balance Sheets
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Utility Plant		
Distribution system	\$ 386,037,630	\$ 365,857,573
General plant	53,839,770	50,931,422
Construction work in progress	12,699,721	5,863,486
Total utility plant	<u>452,577,121</u>	<u>422,652,481</u>
Less accumulated depreciation	<u>(188,041,135)</u>	<u>(177,285,659)</u>
Utility plant, net	<u>264,535,986</u>	<u>245,366,822</u>
Other Property and Investments		
Investments in associated organizations	126,933,257	155,414,839
Subordinated debt investments	8,165,792	8,187,295
Other investments	2,112,936	1,637,219
Other assets	13,830,642	15,211,848
Prepaid expenses	488,720	163,347
Operating lease right of use assets	59,151	-
Finance lease right of use assets	18,053,417	18,502,355
Total other property and investments	<u>169,643,915</u>	<u>199,116,903</u>
Current Assets		
Cash and cash equivalents	20,478,179	1,534
Accounts receivable, net	29,165,502	31,419,706
Other receivables	3,807,886	6,253,470
Material and supplies	7,198,789	8,119,371
Prepaid expenses	1,142,968	1,609,713
Interest receivable	90,139	90,139
Total current assets	<u>61,883,463</u>	<u>47,493,933</u>
Total Assets	<u>\$ 496,063,364</u>	<u>\$ 491,977,658</u>

Connexus Energy
Balance Sheets
December 31, 2023 and 2022

	2023	2022
Patrons' Equity and Liabilities		
Patrons' Equity		
Patronage capital	\$ 190,634,025	\$ 192,331,397
Other capital	32,227,005	28,401,438
Total patrons' equity	222,861,030	220,732,835
Noncurrent Liabilities		
Long-term debt, less current maturities	147,716,423	155,700,591
Operating lease liabilities, less current maturities	30,196	-
Finance lease liabilities, less current maturities	17,410,982	17,942,094
Other noncurrent liabilities	31,619,523	22,591,969
Total noncurrent liabilities	196,777,124	196,234,654
Current Liabilities		
Checks issued in excess of bank balance	1,052,839	580,585
Current maturities of long-term debt	2,984,168	291,129
Current maturities of operating lease liabilities	28,955	-
Current maturities of finance lease liabilities	613,590	556,507
Revolving term loans payable	26,277,539	21,643,035
Accounts payable	6,788,135	6,881,586
Accounts payable - purchased power	17,949,844	24,494,238
Member deposits	1,880,273	1,834,490
Accrued compensation and related taxes	6,221,837	6,012,446
Accrued state and local taxes	5,554,395	5,894,796
Accrued interest	1,064,913	1,051,401
Patronage capital payable	5,872,106	5,642,174
Other current liabilities	136,616	127,782
Total current liabilities	76,425,210	75,010,169
Total Patrons' Equity and Liabilities	\$ 496,063,364	\$ 491,977,658

Connexus Energy
 Statements of Operations
 Years Ended December 31, 2023 and 2022

	2023	2022
Operating Revenue		
Electric revenue	\$ 255,687,397	\$ 259,323,074
Utility services revenue	1,531,919	1,557,580
Total operating revenue	257,219,316	260,880,654
Operating Expense		
Cost of power	176,823,765	188,509,505
Labor and related expenses	30,401,420	29,439,981
Electric operations expenses	6,929,640	6,667,660
Fees and services	3,239,035	2,576,608
Marketing	1,414,720	456,901
Operating supplies and maintenance	6,088,499	5,835,791
Depreciation	14,203,339	13,504,629
Property taxes	3,403,294	3,419,860
Other	901,278	603,132
Total operating expense	243,404,990	251,014,067
Operating Margin	13,814,326	9,866,587
Other margins (expenses)		
Interest expense	(7,165,707)	(6,597,346)
Interest income	1,710,311	366,211
Allocation of Great River Energy margins	-	3,789,762
Gain from equity investments	607,331	52,566
Other income	1,372,386	647,269
Net periodic pension income	-	1,114,783
Total other margins (expenses)	(3,475,679)	(626,755)
Net Margin	\$ 10,338,647	\$ 9,239,832

Connexus Energy
Statements of Changes in Patrons' Equity
Years Ended December 31, 2023 and 2022

	<u>Patronage Capital</u>	<u>Other Capital</u>	<u>Total</u>
Balance - January 1, 2022	\$ 195,301,091	\$ 24,431,828	\$ 219,732,919
Net margin	9,239,832	-	9,239,832
Capital credits retired	<u>(12,209,526)</u>	<u>3,969,610</u>	<u>(8,239,916)</u>
Balance - December 31, 2022	192,331,397	28,401,438	220,732,835
Net margin	10,338,647	-	10,338,647
Capital credits retired	<u>(12,036,019)</u>	<u>3,825,567</u>	<u>(8,210,452)</u>
Balance - December 31, 2023	<u><u>\$ 190,634,025</u></u>	<u><u>\$ 32,227,005</u></u>	<u><u>\$ 222,861,030</u></u>

Connexus Energy
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Operating Activities		
Net margin	\$ 10,338,647	\$ 9,239,832
Adjustments to reconcile net margin to net cash from operating activities		
Depreciation	14,900,650	14,151,921
Net gain on dispositions of property	(135,612)	(141,049)
Great River Energy patronage allocated to the Cooperative	-	(3,789,762)
Other patronage allocated to the Cooperative	(864,163)	(861,167)
Gain from equity investments	(607,331)	(52,566)
Amortization of finance lease right of use assets	586,779	534,933
Change in assets and liabilities		
Accounts receivable and other receivables	4,699,788	(7,045,198)
Materials and supplies	920,582	(3,353,683)
Other assets	1,522,578	(843,865)
Checks issued in excess of bank balance	472,254	7,549
Accounts payable and member deposits	(589,777)	6,172,862
Accounts payable - purchased power	(6,544,394)	(1,621,354)
Accrued liabilities	(108,664)	(561,403)
Other noncurrent liabilities	5,093,245	7,532,630
Net Cash from Operating Activities	29,684,582	19,369,680
Investing Activities		
Electric plant additions and replacements - net	(33,570,667)	(24,495,635)
Proceeds received from sale of plant	178,574	160,653
Proceeds from patronage capital and other investments	33,433,171	6,447,529
Net Cash from (used for) Investing Activities	41,078	(17,887,453)
Financing Activities		
Borrowings on revolving term loan loans	174,681,215	260,988,351
Repayments on revolving term loan loans	(170,046,711)	(249,192,448)
Principal payments on long-term debt	(5,291,129)	(4,864,506)
Payment of finance lease right of use asset initial direct costs	(27,465)	(3,683)
Principal payments on finance lease	(584,405)	(531,482)
Patronage capital payments to members	(7,980,520)	(7,878,525)
Net Cash used for Financing Activities	(9,249,015)	(1,482,293)
Net Change in Cash and Cash Equivalents	20,476,645	(66)
Cash and Cash Equivalents, Beginning of Period	1,534	1,600
Cash and Cash Equivalents, End of Period	\$ 20,478,179	\$ 1,534

Connexus Energy
 Statements of Cash Flows
 Years Ended December 31, 2023 and 2022

	2023	2022
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	\$ 7,189,945	\$ 6,552,210
Supplemental Disclosures of Noncash Operating and Investing Activities		
Plant purchases included in accounts payable	\$ 1,407,020	\$ 864,911
Right of use assets obtained in exchange for lease liabilities		
Operating leases	86,915	-
Finance leases	110,376	42,571
Regulatory liability for deferred patronage allocation (increase in investments in associated organizations and increase in other noncurrent liabilities)	3,934,309	-

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 146,000 members in eight 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).

Adoption of New Accounting Standard

As of January 1, 2023, the Cooperative adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including trade and loan receivables, and held to maturity debt securities. CECL requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The update also requires that credit losses on available-for-sale debt securities be presented as an allowance rather than a write-down of the security. This standard provides financial statement users with more decision-useful information about the expected losses on financial instruments.

The Cooperative adopted ASU 2016-13 using the modified retrospective review method for all financial assets measured at amortized cost. Results for reporting periods beginning after January 1, 2023, are presented under Topic 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The adoption of the new standard did not materially impact the Cooperative’s financial statements.

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, 2023 and 2022 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.

Concentrations of Business and Credit Risk

As of December 31, 2023 and 2022, approximately 32% of the Cooperative's labor force was covered by a collective bargaining agreement that expires on January 31, 2026.

The Cooperative maintains its cash in bank deposit accounts which exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank, for each account ownership category. At December 31, 2023 and 2022, the Cooperative had approximately \$20,187,000 and \$0 in excess of FDIC-insured limits.

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% and 3.3% at December 31, 2023 and 2022.

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, 2023 and 2022, and during the years then ended, the Cooperative determined that there were no impaired equity method investments.

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, 2023 and 2022.

Some subordinated debt investments are a condition of loans from the National Rural Utilities Cooperative Finance Corporation (NRUCFC), which is believed by management to have strong credit quality. Capital term certificates are debt securities and are accounted for at amortized cost, net of any impairment or allowances for credit losses. The allowance for credit losses is influenced by a variety of factors, including credit quality and general economic conditions. At December 31, 2023 and 2022, the allowance for credit losses was \$0.

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

The Cooperative has entered into agreements to purchase power under physically delivered forward contracts. While these contracts meet the accounting definition of a derivative, they qualify for the normal purchases/normal sales accounting exception under ASC 815, *Derivatives and Hedging*. As a result, these contracts are not recorded at fair value. The Cooperative records a liability and purchased power expense when the power under the physically delivered forward contract is delivered.

Fair Value Measurements

The Cooperative has determined the fair value of certain assets and liabilities in accordance with the provisions of 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.

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, except for any cash and cash equivalents held in the defined contribution plan fund.

Accounts Receivable and Allowance for Credit Losses

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. 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 Cooperative has tracked historical loss information for its trade receivables and compiled historical credit loss percentages for different aging categories (current, 1–30 days past due, 31–60 days past due, 61–90 days past due, and more than 90 days past due). Management believes that the historical loss information it has compiled is a reasonable basis on which to determine expected credit losses for trade receivables held at December 31, 2023 and 2022 because the composition of the accounts receivable at those dates are consistent with that used in developing the historical credit-loss percentages (i.e., the similar risk characteristics of its customers and its lending practices have not changed significantly over time). Additionally, management has determined that the current forecasted economic conditions are reasonable, supportable, and consistent with the economic conditions included in the historical information. As a result, the historical loss rates have not been adjusted for differences in current conditions or forecasted changes. Accordingly, the allowance for credit losses at December 31, 2023 and 2022 was \$197,499 and \$280,614.

Changes in the allowance for credit losses for accounts receivable are as follows for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Allowance for credit losses - beginning of year	\$ 280,614	\$ 274,344
Provision for credit losses	74,986	(21,068)
Charge-offs	(288,968)	(243,415)
Recoveries	130,867	270,753
	<u>\$ 197,499</u>	<u>\$ 280,614</u>

The beginning and ending balances for customer accounts receivable, net of allowances for credit losses, and contract liabilities were as follows for the years ended December 31, 2023 and 2022:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>	<u>January 1, 2022</u>
Customer accounts receivable			
Billed	\$ 16,638,507	\$ 16,593,191	\$ 16,074,847
Unbilled (contract asset)	12,526,995	14,826,515	14,072,078
	<u>\$ 29,165,502</u>	<u>\$ 31,419,706</u>	<u>\$ 30,146,925</u>
Contract liabilities			
Member prepayments	\$ 1,915,733	\$ 1,831,702	\$ 1,756,509
Member deposits	1,880,273	1,834,490	1,837,492
	<u>\$ 3,796,006</u>	<u>\$ 3,666,192</u>	<u>\$ 3,594,001</u>

Material and Supplies

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

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'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 years ended December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Electric revenue (transferred over time)	\$ 255,148,671	\$ 258,793,852
Utility service revenues (transferred at a point in time)	<u>1,531,919</u>	<u>1,557,580</u>
Revenue from contracts with members	256,680,590	260,351,432
Other electric revenue - late fees (outside the scope of ASC 606)	<u>538,726</u>	<u>529,222</u>
Total operating revenue	<u>\$ 257,219,316</u>	<u>\$ 260,880,654</u>

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.

Nonelectric Operations

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

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.

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 margin or patrons' equity.

Note 2 - Investments in Associated Organizations

The Cooperative was a member of Great River Energy (GRE), which is a generation and transmission cooperative, until December 31, 2022. On August 8, 2022, the Cooperative and GRE entered into a set of agreements including a Withdrawal Agreement, Portfolio Power Purchase Agreement, and Transmission Agreement replacing the previous agreements between the parties. The parties agreed that the Cooperative would withdraw as a distribution member of GRE and that the parties would terminate the member agreements that had been in place. The Withdrawal Agreement set forth the conditions for the Cooperative to transition from being a member of GRE to a customer. The Portfolio Power Purchase agreement and the Transmission agreement became effective on January 1, 2023 and expire on December 31, 2045. GRE has identified legacy assets that will be used to supply and transmit power over the term of the customer agreements. The Cooperative is committed to purchasing approximately 21.7% of the power generated by the legacy assets at the Cooperative's proportionate share of GRE's cost of the legacy assets less specified non-capacity revenues generated from the assets. Thus, the Cooperative will continue to purchase a substantial portion of its power and transmission services from GRE, but it has the flexibility to enter into additional power purchase agreements as needed to meet its load requirements and business needs.

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 \$118,530,463 and \$147,321,787 at December 31, 2023 and 2022. During 2023, the Cooperative recorded allocations of capital credits from GRE for diversified business holding operations of \$3,934,309. During 2022, the Cooperative recorded allocations of capital credits from GRE for utility operations of \$3,789,762. During 2023, the Cooperative deferred the \$3,934,309 allocation, which is included in other noncurrent liabilities on the balance sheet (Note 8). During 2023 and 2022, the Cooperative received capital credit retirements of \$12,733,032 and \$5,726,371 from GRE related to utility operations. During 2023, the Cooperative received capital credit retirements of \$19,992,601 from GRE related to diversified business holding operations. Per the Withdrawal Agreement, GRE will return to the Cooperative its investment amount over a period of 10 years. The Cooperative's power purchases from GRE were \$158,630,887 and \$175,860,983 during 2023 and 2022. Accounts payable to GRE was \$17,572,264 and \$24,494,238 at December 31, 2023 and 2022. The Cooperative had receivables from GRE of \$2,000,646 and \$5,060,227 at December 31, 2023 and 2022, which are included in other receivables in the balance sheet.

The Cooperative has investments in other associated organizations, primarily NRUCFC capital credits, which are accounted for as equity securities. Such investments totaled \$8,402,794 and \$8,093,052 at December 31, 2023 and 2022.

Note 3 - Subordinated Debt Investments

Investments in capital term certificates of the NRUCFC totaled \$3,165,792 and \$3,187,295 at December 31, 2023 and 2022. 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, 2025, 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 August 1, 2024, through February 1, 2039. Investments in member capital securities with NRUCFC totaled \$5,000,000 at December 31, 2023 and 2022. 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 4 - Other Investments

The Cooperative maintains an investment in a tree trimming business totaling \$1,945,173 and \$1,437,842 at December 31, 2023 and 2022. 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 \$607,331 and \$52,566 in 2023 and 2022. The Cooperative received distributions from this equity investment totaling \$100,000 in both 2023 and 2022.

The Cooperative's investment in solar projects was \$167,763 and \$199,377 at December 31, 2023 and 2022.

Note 5 - Other Assets

	2023	2022
Defined contribution plan fund (Note 9)	\$ 10,830,292	\$ 11,861,693
Deferred compensation (Note 9)	2,367,737	2,404,352
Other assets	632,613	945,803
Total other assets	\$ 13,830,642	\$ 15,211,848

As discussed in Note 9, the Cooperative terminated its pension plan during the year ended December 31, 2021. As a result of the termination of the plan and subsequent to any settlement payments, the Cooperative set aside the remaining plan assets, to be used to fund employer contributions to the defined contribution plan in future years.

Note 6 - Long-Term Debt and Line-of-Credit Agreements

	2023	2022
NRUCFC mortgage notes bearing interest at 3.14% to 5.10% (4.09% weighted average), due in quarterly installments, including interest, through 2054	\$ 150,700,591	\$ 155,991,720
Less current maturities of long-term debt	(2,984,168)	(291,129)
Long-term debt, less current maturities	\$ 147,716,423	\$ 155,700,591

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

2024	\$ 2,984,168
2025	315,659
2026	328,708
2027	342,310
2028	356,488
Thereafter	146,373,258
	\$ 150,700,591

At December 31, 2023, \$146,026,421 of the notes were interest only notes with balloon payments due between 2024 and 2054. Substantially all assets are pledged as collateral on the mortgage notes. The Cooperative has an additional \$25,000,000 in NRUCFC secured mortgage notes that have not been advanced as of December 31, 2023.

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, 2023, management believes the Cooperative is in compliance with all loan covenants.

In 2019 the Cooperative established a perpetual, 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. Interest on unpaid principal is payable quarterly at rates established by NRUCFC. The interest rate was 7.25% and 5.75% as of December 31, 2023 and 2022. There were no outstanding balances on this line-of-credit at December 31, 2023 and 2022.

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 September 5, 2027. During 2023, the interest on unpaid principal is payable quarterly at rates established by NRUCFC, which are not to exceed the one-month Secured Overnight Financing Rate (SOFR), plus 1.7%. During 2022, the 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 2.15%. The interest rate was 7.01% and 6.12% as of December 31, 2023 and 2022. There were no outstanding balances on this line-of-credit at December 31, 2023 and 2022.

The Cooperative has also established an unsecured revolving term line-of-credit with CoBank ACB. The line-of-credit agreement matures on October 31, 2024 and provides for short-term loans in an amount not to exceed \$35,000,000. Interest on unpaid principal is payable monthly at rates established by CoBank ACB, equal to the daily simple SOFR, plus 1.75%. The interest rate was 7.06% and 6.05% as of December 31, 2023 and 2022. There were outstanding balances of \$26,277,539 and \$21,643,035 on this line-of-credit at December 31, 2023 and 2022.

Note 7 - Leases

The Cooperative leases certain energy storage services, vehicles, and office space for various terms under long-term, noncancelable operating and finance lease agreements. The leases expire at various dates through 2043. The Cooperative included in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. The office space agreements generally require the Cooperative to pay real estate taxes, insurance, and repairs.

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.

The Cooperative has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis.

The Cooperative elected the practical expedient to not separate lease and non-lease components for office space leases.

For rate-making purposes, the Cooperative treats the energy storage finance lease as an operating lease with the amount of the energy storage service 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.

Total lease costs for the years ended December 31, 2023 and 2022 were as follows:

	2023	2022
Operating lease cost	\$ 30,200	\$ -
Finance lease cost		
Interest expense	772,261	797,042
Amortization of right of use assets	586,779	534,933

The following summarizes the supplemental cash flow information for the years ended December 31, 2023 and 2022:

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 30,200	\$ -
Operating cash flows from finance leases	772,261	797,042
Financing cash flows from finance leases	584,405	531,482
Right of use assets obtained in exchange for lease liabilities		
Operating leases	\$ 86,915	\$ -
Finance leases	110,376	42,571

The following summarizes the weighted-average remaining term and weighted-average discount rate at December 31, 2023 and 2022:

	2023	2022
Weighted-average remaining term (years)		
Operating leases	2.00	N/A
Finance leases	19.88	20.96
Weighted-average discount rate		
Operating leases	4.20%	N/A
Finance leases	4.21%	4.23%

The future minimum payments under noncancelable operating and finance leases with terms greater than one year are summarized below as of December 31, 2023:

	Operating	Finance
2024	\$ 30,200	\$ 1,362,108
2025	30,200	1,375,628
2026	-	1,374,626
2027	-	1,330,200
2028	-	1,330,200
Thereafter	-	19,953,000
	60,400	26,725,762
Total lease payments		
	(1,249)	(8,701,190)
Less interest		
Present value of lease liabilities	\$ 59,151	\$ 18,024,572

Note 8 - Other Noncurrent Liabilities

	2023	2022
Deferred compensation (Note 9)	\$ 2,367,737	\$ 2,404,352
Other liabilities	888,437	1,201,351
Regulatory liabilities		
Deferred margins	22,920,575	18,986,266
Deferred power cost refunds (net of power cost adjustments)	5,442,774	-
Total other noncurrent liabilities	\$ 31,619,523	\$ 22,591,969

Regulatory Liabilities

The Cooperative established a deferred margin plan during the 2021 financial year. The deferred margin plan allows current period margins to be deferred and considered in determining future rates. Any amounts deferred must be amortized into income within five years of the date of the deferral. Rates charged to members by the Cooperative are established solely by the Board of Directors. The Cooperative is not regulated for rates by the Minnesota Public Utilities Commission.

The following table sets forth the plan's activity for the years ended December 31, 2023 and 2022:

	2023	2022
Deferred margins, beginning of the year	\$ 18,986,266	\$ 6,056,452
Amortization of deferred margins	-	-
Additions to deferred margins	3,934,309	12,929,814
Deferred margins, end of the year	\$ 22,920,575	\$ 18,986,266

The Cooperative defers monthly power cost adjustments. The deferred amounts are amortized into power cost at the time they are collected from or refunded to members. At December 31, 2023, this resulted in a regulatory liability of \$5,442,774. At December 31, 2022, there was no regulatory liability recorded.

Note 9 - Pension Plans

Defined Benefit Plan

The Cooperative sponsored a qualified defined benefit pension plan (the "Pension Plan"). Benefits under the Pension Plan were 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, were determined under the cash-balance formula. Effective January 1, 2011, the Cooperative closed the Pension Plan to new participants. During 2021, the Cooperative approved the termination of the plan effective December 31, 2021. During 2022, the Cooperative settled its obligations under the plan which resulted in a settlement gain of \$197,500. The funded status of the plan subsequent to the settlement payments was transferred to the Cooperative's defined contribution plan fund and will be used to fund employer contributions to the plan in future years.

In accordance with guidance for accounting for pension plans, the Cooperative fully recognizes the funded status of each pension and other post-retirement 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 or liability 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, 2023 and 2022, is as follows:

	2023	2022
Change in benefit obligation		
Projected benefit obligation - beginning of year	\$ -	\$ 32,223,253
Interest cost	-	575,638
Actuarial (gains) losses	-	(2,950,047)
Benefits paid	-	(838,289)
Settlements	-	(29,010,555)
	\$ -	\$ -
Change in plan assets		
Fair value of plan assets - beginning of year	\$ -	\$ 43,611,941
Actual return on assets	-	(1,905,291)
Benefits paid	-	(838,289)
Settlements	-	(29,010,555)
Transfer to the defined contribution plan fund	-	(11,857,806)
	\$ -	\$ -

	2023	2022
Amounts not yet recognized as components of net period benefit cost		
Amount disclosed at beginning of year	\$ -	\$ (645,665)
Net actuarial loss (gain)	-	448,165
Settlements	-	197,500
	\$ -	\$ -
Amount disclosed at end of year	\$ -	\$ -

Components of net periodic pension costs for the Pension Plan for 2023 and 2022, are as follows:

	2023	2022
Interest cost	\$ -	\$ 575,638
Expected return on plan assets	-	(1,492,921)
Net periodic pension cost	-	(917,283)
Settlement charge	-	(197,500)
Total pension cost	\$ -	\$ (1,114,783)

The weighted-average assumptions used to determine net periodic pension costs for the years ended December 31, 2023 and 2022, were as follows:

	2023	2022
Discount rate	N/A	2.45%
Expected long-term rate of return on plan assets	N/A	4.66%
Rate of increase in future compensation levels	N/A	3.50%

Defined Contribution Plan

The Cooperative sponsors a qualified defined contribution plan with elective employee deferral and employer-matching provisions. The defined contribution plan covers substantially all employees. Beginning the date of employment, the Cooperative contributes a matching contribution equal to 50% of the first 6% of the employee's contribution to the plan. After one year of employment, the Cooperative contributes an amount equal to 7% of employee compensation with no match required by the employee. 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 additional 1% of employee compensation. Cooperative contributions to the plan were \$2,439,830 and \$2,445,279 for the years ended December 31, 2023 and 2022. The defined contribution plan fund (Note 5) was used to fund \$1,586,106 and \$0 of the employer contributions to the plan during the years ended December 31, 2023 and 2022.

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, 2023 and 2022 was \$2,367,737 and \$2,404,352 and is included in other assets and other noncurrent 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 margins in the statements of operations.

Note 10 - 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.

The Cooperative has entered into agreements to purchase power under physically delivered forward contracts. During 2023, the Cooperative committed to purchasing \$7,156,956 in power to be delivered in 2024.

Note 11 - 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 \$262,577 and \$215,473 to the trust for insurance coverage during the years ended December 31, 2023 and 2022.

Note 12 - Subsequent Events

The Cooperative has evaluated subsequent events through March 6, 2024, the date on which the financial statements were available to be issued. There are no events subsequent to December 31, 2023, that require further disclosure.