



Financial Statements
December 31, 2024 and 2023
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 (the Cooperative), which comprise the balance sheets as of December 31, 2024 and 2023, 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, 2024 and 2023, 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 the Cooperative 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 the Cooperative'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 the Cooperative'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 the Cooperative'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, 2025

Connexus Energy
Balance Sheets
December 31, 2024 and 2023

	2024	2023
Assets		
Utility Plant		
Distribution system	\$ 417,009,593	\$ 386,037,630
General plant	58,125,898	53,839,770
Construction work in progress	3,003,426	13,736,151
Total utility plant	478,138,917	453,613,551
Less accumulated depreciation	(197,894,312)	(188,041,135)
Utility plant, net	280,244,605	265,572,416
Other Property and Investments		
Investments in associated organizations	110,744,795	126,933,257
Subordinated debt investments	8,056,983	8,165,792
Other investments	2,104,647	2,112,936
Other assets	12,515,749	13,830,642
Prepaid expenses	306,674	488,720
Operating lease right of use assets	30,197	59,151
Finance lease right of use assets	17,503,460	18,053,417
Total other property and investments	151,262,505	169,643,915
Current Assets		
Cash and cash equivalents	20,602,832	20,478,179
Accounts receivable, net	31,759,172	29,165,502
Other receivables	1,151,447	3,807,886
Material and supplies	6,735,650	7,198,789
Prepaid expenses	1,931,205	1,142,968
Interest receivable	90,139	90,139
Total current assets	62,270,445	61,883,463
Total Assets	\$ 493,777,555	\$ 497,099,794

Connexus Energy
Balance Sheets
December 31, 2024 and 2023

	2024	2023
Patrons' Equity and Liabilities		
Patrons' Equity		
Patronage capital	\$ 190,230,494	\$ 190,634,025
Other capital	35,651,297	32,227,005
Total patrons' equity	225,881,791	222,861,030
Noncurrent Liabilities		
Long-term debt, less current maturities	147,400,764	147,716,423
Operating lease liabilities, less current maturities	-	30,196
Finance lease liabilities, less current maturities	16,802,438	17,410,982
Other noncurrent liabilities	29,487,438	31,619,523
Total noncurrent liabilities	193,690,640	196,777,124
Current Liabilities		
Checks issued in excess of bank balance	178,806	1,052,839
Current maturities of long-term debt	315,659	2,984,168
Current maturities of operating lease liabilities	30,197	28,955
Current maturities of finance lease liabilities	665,523	613,590
Revolving term loans payable	26,007,008	26,277,539
Accounts payable	6,922,996	7,824,565
Accounts payable - purchased power	19,777,974	17,949,844
Member deposits	2,002,548	1,880,273
Accrued compensation and related taxes	5,727,617	6,221,837
Accrued state and local taxes	5,609,266	5,554,395
Accrued interest	1,021,111	1,064,913
Patronage capital payable	5,808,861	5,872,106
Other current liabilities	137,558	136,616
Total current liabilities	74,205,124	77,461,640
Total Patrons' Equity and Liabilities	\$ 493,777,555	\$ 497,099,794

Connexus Energy
 Statements of Operations
 Years Ended December 31, 2024 and 2023

	2024	2023
Operating Revenue		
Electric revenue	\$ 252,506,931	\$ 255,687,397
Utility services revenue	1,525,013	1,531,919
Total operating revenue	254,031,944	257,219,316
Operating Expense		
Cost of power	171,356,597	176,823,765
Labor and related expenses	31,262,414	30,401,420
Electric operations expenses	7,058,129	6,929,640
Fees and services	3,472,238	3,239,035
Marketing	1,849,286	1,414,720
Operating supplies and maintenance	6,323,475	6,088,499
Depreciation	15,052,960	14,203,339
Property taxes	3,527,745	3,403,294
Other	983,047	901,278
Total operating expense	240,885,891	243,404,990
Operating Margin	13,146,053	13,814,326
Other Income (Expenses)		
Interest expense	(7,495,018)	(7,165,707)
Interest income	1,882,378	1,710,311
Patronage allocated	2,514,572	864,163
Gain from equity investments	108,326	607,331
Other income	415,872	508,223
Total other income (expenses)	(2,573,870)	(3,475,679)
Net Margin	\$ 10,572,183	\$ 10,338,647

Connexus Energy
Statements of Changes in Patrons' Equity
Years Ended December 31, 2024 and 2023

	<u>Patronage Capital</u>	<u>Other Capital</u>	<u>Total</u>
Balance - January 1, 2023	\$ 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	190,634,025	32,227,005	222,861,030
Net margin	10,572,183	-	10,572,183
Capital credits retired	<u>(10,975,714)</u>	<u>3,424,292</u>	<u>(7,551,422)</u>
Balance - December 31, 2024	<u><u>\$ 190,230,494</u></u>	<u><u>\$ 35,651,297</u></u>	<u><u>\$ 225,881,791</u></u>

Connexus Energy
 Statements of Cash Flows
 Years Ended December 31, 2024 and 2023

	2024	2023
Operating Activities		
Net margin	\$ 10,572,183	\$ 10,338,647
Adjustments to reconcile net margin to net cash from operating activities		
Depreciation	15,758,864	14,900,650
Net gain on dispositions of property	(68,507)	(135,612)
Patronage allocated to the Cooperative	(2,514,572)	(864,163)
Gain from equity investments	(108,326)	(607,331)
Amortization of finance lease right of use assets	625,004	586,779
Change in assets and liabilities		
Accounts receivable and other receivables	62,769	4,699,788
Materials and supplies	463,139	920,582
Other assets	708,702	1,522,578
Checks issued in excess of bank balance	(874,033)	472,254
Accounts payable and member deposits	70,012	(589,777)
Accounts payable - purchased power	1,828,130	(6,544,394)
Accrued liabilities	(482,209)	(108,664)
Other noncurrent liabilities	(775,835)	5,093,245
Net Cash from Operating Activities	25,265,321	29,684,582
Investing Activities		
Electric plant additions and replacements - net	(31,330,343)	(33,570,667)
Proceeds received from sale of plant	118,491	178,574
Proceeds from patronage capital and other investments	17,572,208	33,433,171
Net Cash (used for) from Investing Activities	(13,639,644)	41,078
Financing Activities		
Borrowings on revolving term loan loans	175,964,038	174,681,215
Repayments on revolving term loan loans	(176,234,569)	(170,046,711)
Principal payments on long-term debt	(2,984,168)	(5,291,129)
Payment of finance lease right of use asset initial direct costs	(11,316)	(27,465)
Principal payments on finance lease	(620,342)	(584,405)
Patronage capital payments to members	(7,614,667)	(7,980,520)
Net Cash used for Financing Activities	(11,501,024)	(9,249,015)
Net Change in Cash and Cash Equivalents	124,653	20,476,645
Cash and Cash Equivalents, Beginning of Period	20,478,179	1,534
Cash and Cash Equivalents, End of Period	\$ 20,602,832	\$ 20,478,179

Connexus Energy
 Statements of Cash Flows
 Years Ended December 31, 2024 and 2023

	2024	2023
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	\$ 7,553,305	\$ 7,189,945
Supplemental Disclosures of Noncash Operating and Investing Activities		
Plant purchases included in accounts payable	\$ 557,714	\$ 1,407,020
Right of use assets obtained in exchange for lease liabilities		
Operating leases	-	86,915
Finance leases	63,731	110,376
Regulatory liability for deferred patronage allocation [(decrease) increase in investments in associated organizations and (decrease) increase in other noncurrent liabilities]	(1,356,250)	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 148,000 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).

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.

Concentrations of Business and Credit Risk

As of December 31, 2024 and 2023, approximately 33% 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, 2024 and 2023, the Cooperative had approximately \$435,000 and \$20,187,000 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% at December 31, 2024 and 2023.

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, 2024 and 2023.

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, 2024 and 2023, 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.

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, 2024 and 2023, and during the years then ended, the Cooperative determined that there were no impaired equity method investments.

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, 2024 and 2023 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.

Changes in the allowance for credit losses for accounts receivable are as follows for the years ended December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Allowance for credit losses - beginning of year	\$ 197,499	\$ 280,614
Provision for credit losses	43,716	74,986
Charge-offs	(173,451)	(288,968)
Recoveries	82,039	130,867
Allowance for credit losses - end of year	<u>\$ 149,803</u>	<u>\$ 197,499</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, 2024 and 2023:

	<u>December 31, 2024</u>	<u>December 31, 2023</u>	<u>January 1, 2023</u>
Customer accounts receivable			
Billed	\$ 17,261,404	\$ 16,638,507	\$ 16,593,191
Unbilled (contract asset)	14,497,768	12,526,995	14,826,515
	<u>\$ 31,759,172</u>	<u>\$ 29,165,502</u>	<u>\$ 31,419,706</u>
Contract liabilities			
Member prepayments	\$ 1,899,883	\$ 1,915,733	\$ 1,831,702
Member deposits	2,002,548	1,880,273	1,834,490
	<u>\$ 3,902,431</u>	<u>\$ 3,796,006</u>	<u>\$ 3,666,192</u>

Material and Supplies

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

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.

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, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Electric revenue (transferred over time)	\$ 251,982,719	\$ 255,148,671
Utility service revenues (transferred at a point in time)	<u>1,525,013</u>	<u>1,531,919</u>
Revenue from contracts with members	253,507,732	256,680,590
Other electric revenue - late fees (outside the scope of ASC 606)	<u>524,212</u>	<u>538,726</u>
Total operating revenue	<u><u>\$ 254,031,944</u></u>	<u><u>\$ 257,219,316</u></u>

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.

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, 2024 and 2023 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 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.

Advertising Costs

Advertising costs are expensed as incurred. Such costs approximated \$328,000 and \$218,000, respectively, for the years ended December 31, 2024 and 2023.

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.

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 \$101,864,256 and \$118,530,463 at December 31, 2024 and 2023. During 2024 and 2023, the Cooperative recorded allocations of capital credits from GRE for diversified business holding operations of \$0 and \$3,934,309. During 2023, the Cooperative deferred the \$3,934,309 allocation, which is included in other noncurrent liabilities on the balance sheet (Note 8). During both 2024 and 2023, the Cooperative received capital credit retirements of \$12,733,032 from GRE related to utility operations. During 2024 and 2023, the Cooperative received capital credit retirements of \$3,933,175 and \$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 \$160,486,356 and \$158,630,887 during 2024 and 2023. Accounts payable to GRE was \$19,423,458 and \$17,572,264 at December 31, 2024 and 2023. The Cooperative had receivables from GRE of \$0 and \$2,000,646 at December 31, 2024 and 2023, 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 \$8,880,539 and \$8,402,794 at December 31, 2024 and 2023.

Note 3 - Subordinated Debt Investments

Investments in capital term certificates of the NRUCFC totaled \$3,056,983 and \$3,165,792 at December 31, 2024 and 2023. 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, 2024 and 2023. 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 \$1,953,498 and \$1,945,173 at December 31, 2024 and 2023. This investment is recorded under the equity method (11% ownership) and is included in other investments in the balance sheets. The Cooperative recognized a net operating gain from this equity investment totaling \$108,326 and \$607,331 in 2024 and 2023. The Cooperative received distributions from this equity investment totaling \$100,000 in both 2024 and 2023.

The Cooperative's investment in local solar projects was \$151,149 and \$167,763 at December 31, 2024 and 2023.

Note 5 - Other Assets

	2024	2023
Defined contribution plan fund (Note 9)	\$ 9,447,937	\$ 10,830,292
Deferred compensation (Note 9)	2,478,747	2,367,737
Other assets	589,065	632,613
Total other assets	\$ 12,515,749	\$ 13,830,642

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

	2024	2023
NRUCFC mortgage notes bearing interest at 3.14% to 5.10% (4.11% weighted average), due in quarterly installments, including interest, through 2054	\$ 147,716,423	\$ 150,700,591
Less current maturities of long-term debt	(315,659)	(2,984,168)
Long-term debt, less current maturities	\$ 147,400,764	\$ 147,716,423

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

2025	\$ 315,659
2026	328,708
2027	342,310
2028	356,488
2029	6,814,430
Thereafter	139,558,828
	\$ 147,716,423

At December 31, 2024, \$143,345,394 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, 2024.

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, 2024, management believes the Cooperative is in compliance with all loan covenants.

The Cooperative established an unsecured line-of-credit agreement with NRUCFC providing the Cooperative with short-term financing in the total amount of \$20,000,000 on a revolving basis. The line-of-credit agreement matures on December 31, 2069. Interest on unpaid principal is payable quarterly at rates established by NRUCFC. The interest rate was 6.5% and 7.25% as of December 31, 2024 and 2023. There were no outstanding balances on this line-of-credit at December 31, 2024 and 2023.

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. 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 1.8% and 1.7% as of December 31, 2024 and 2023. The interest rate was 6.17% and 7.01% as of December 31, 2024 and 2023. There were no outstanding balances on this line-of-credit at December 31, 2024 and 2023.

The Cooperative has also established an unsecured revolving term line-of-credit with CoBank ACB. The line-of-credit agreement matures on October 31, 2025 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 6.05% and 7.06% as of December 31, 2024 and 2023. There were outstanding balances of \$26,007,008 and \$26,277,539 on this line-of-credit at December 31, 2024 and 2023.

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, 2024 and 2023 were as follows:

	2024	2023
Operating lease cost	\$ 30,200	\$ 30,200
Finance lease cost		
Interest expense	749,047	772,261
Amortization of right of use assets	625,004	586,779

The following summarizes the supplemental cash flow information for the years ended December 31, 2024 and 2023:

	2024	2023
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 30,200	\$ 30,200
Operating cash flows from finance leases	749,047	772,261
Financing cash flows from finance leases	620,342	584,405
Right of use assets obtained in exchange for lease liabilities		
Operating leases	\$ -	\$ 86,915
Finance leases	63,731	110,376

The following summarizes the weighted-average remaining term and weighted-average discount rate at December 31, 2024 and 2023:

	2024	2023
Weighted-average remaining term (years)		
Operating leases	1.00	2.00
Finance leases	18.85	19.88
Weighted-average discount rate		
Operating leases	4.20%	4.20%
Finance leases	4.21%	4.21%

The future minimum payments under noncancelable operating and finance leases with terms greater than one year are summarized below as of December 31, 2024:

	Operating	Finance
2025	\$ 30,200	\$ 1,390,190
2026	-	1,389,187
2027	-	1,359,788
2028	-	1,330,200
2029	-	1,330,200
Thereafter	-	18,622,800
	30,200	25,422,365
Total lease payments		
	(3)	(7,954,404)
	\$ 30,197	\$ 17,467,961
Present value of lease liabilities		

Note 8 - Other Noncurrent Liabilities

	2024	2023
Deferred compensation (Note 9)	\$ 2,478,747	\$ 2,367,737
Other liabilities	1,138,030	888,437
Regulatory liabilities		
Deferred margins	21,564,325	22,920,575
Deferred power cost refunds (net of power cost adjustments)	4,306,336	5,442,774
Total other noncurrent liabilities	\$ 29,487,438	\$ 31,619,523

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, 2024 and 2023:

	2024	2023
Deferred margins, beginning of the year	\$ 22,920,575	\$ 18,986,266
Amortization of deferred margins	(1,356,250)	-
Additions to deferred margins	-	3,934,309
Deferred margins, end of the year	\$ 21,564,325	\$ 22,920,575

The Cooperative amortized \$1,356,250 of deferred margins into income during the year ended December 31, 2024 and is included in patronage allocated in the statement of operations.

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, 2024 and 2023, this resulted in regulatory liabilities of \$4,306,336 and \$5,442,774.

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. 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.

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 \$2,698,816 and \$2,439,830 for the years ended December 31, 2024 and 2023. The defined contribution plan fund (Note 5) was used to fund \$1,903,274 and \$1,586,106 of the employer contributions to the plan during the years ended December 31, 2024 and 2023.

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, 2024 and 2023 was \$2,478,747 and \$2,367,737 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 - 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 \$252,966 and \$262,577 to the trust for insurance coverage during the years ended December 31, 2024 and 2023.

Note 11 - 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 2024, the Cooperative committed to purchasing \$4,330,434 in power to be delivered in 2025.

Note 12 - Subsequent Events

The Cooperative has evaluated subsequent events through March 6, 2025, the date on which the financial statements were available to be issued. Subsequent to year-end, the Cooperative entered into three solar power purchase agreements (PPA) to purchase power from solar facilities with expected capacity ranging from 2.475 MW to 4.125 MW. The agreements will commence after the facilities have been constructed and reached commercial operations. It is expected the agreements will commence at varying dates between December 2025 and August 2026.