Financial Statements
December 31, 2021 and 2020

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, 2021 and 2020, 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, 2021 and 2020, 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

Phoenix, Arizona
March 9, 2022

	2021	2020
Assets		
Utility Plant		
Distribution system	$ 349,464,480	$ 337,523,440
General plant	49,091,985	47,318,699
Construction work in progress	3,901,080	2,380,369
Total utility plant	402,457,545	387,222,508
Less accumulated depreciation	(166,714,878)	(157,008,581)
Utility plant, net	235,742,667	230,213,927
Other Property and Investments		
Investments in associated organizations	157,061,153	151,516,426
Subordinated debt investments	8,220,966	8,231,788
Other investments	1,701,268	1,387,442
Other assets	14,783,479	16,232,453
Prepaid expenses	57,763	81,226
Energy storage assets	18,991,034	19,502,270
Total other property and investments	200,815,663	196,951,605
Current Assets		
Cash and cash equivalents	1,600	2,340
Accounts receivable, net	30,627,978	29,981,247
Material and supplies	4,765,688	3,952,242
Prepaid expenses	1,299,801	1,462,943
Interest receivable	90,139	90,439
Total current assets	36,785,206	35,489,211
Total Assets	$ 473,343,536	$ 462,654,743

	2021	2020
Patrons' Equity and Liabilities		
Patrons' Equity		
Patronage capital	$ 195,301,091	$ 192,604,225
Other capital	24,431,828	20,057,791
Total patrons' equity	219,732,919	212,662,016
Long-Term Debt, Less Current Maturities	158,991,720	160,856,226
Other Long-Term Liabilities, Less Current Maturities	33,558,172	23,190,225
Commitments and Contingencies		
Current Liabilities		
Checks issued in excess of bank balance	573,036	920,064
Current maturities of long-term debt	1,864,506	667,804
Current maturities of finance lease liability	533,391	511,200
Revolving term loans payable	9,847,132	14,366,525
Accounts payable	1,360,965	3,397,263
Payable to associated organization	26,115,592	26,681,649
Member deposits	1,837,492	1,819,284
Accrued compensation and related taxes	5,841,216	6,097,721
Accrued state and local taxes	6,668,974	5,353,208
Accrued interest	1,008,081	1,017,350
Patronage capital payable	5,280,783	4,984,545
Other current liabilities	129,557	129,663
Total current liabilities	61,060,725	65,946,276
Total Patrons' Equity and Liabilities	$ 473,343,536	$ 462,654,743

	2021	2020
Operating Revenue		
Electric revenue	$ 263,274,567	$ 246,950,192
Utility services revenue	1,567,614	1,434,504
Total operating revenue	264,842,181	248,384,696
Operating Expense		
Cost of power	190,902,739	173,231,683
Labor and related expenses	27,410,311	26,719,716
Electric operations expenses	6,610,192	6,299,384
Fees and services	2,979,616	2,638,734
Marketing	329,196	542,628
Operating supplies and maintenance	5,113,877	5,112,862
Depreciation	13,074,850	12,885,905
Property taxes	5,124,875	3,722,533
Other	568,985	704,988
Total operating expense	252,114,641	231,858,433
Operating Margin	12,727,540	16,526,263
Other margins (expenses)		
Interest expense	(6,364,560)	(6,871,471)
Interest income	367,922	375,497
Allocation of Great River Energy margins	4,715,000	4,443,066
Gain from equity investments	414,123	286,687
Other income	2,791,696	1,179,083
Net periodic pension income	847,688	494,080
Total other margins (expenses)	2,771,869	(93,058)
Net Margin	$ 15,499,409	$ 16,433,205

	Patronage Capital	Other Capital	Total
Balance - January 1, 2020	$ 188,465,613	$ 15,541,778	$ 204,007,391
Net margin	16,433,205	-	16,433,205
Capital credits retired	(12,294,593)	4,516,013	(7,778,580)
Balance - December 31, 2020	192,604,225	20,057,791	212,662,016
Net margin	15,499,409	-	15,499,409
Capital credits retired	(12,802,543)	4,374,037	(8,428,506)
Balance - December 31, 2021	$ 195,301,091	$ 24,431,828	$ 219,732,919

	2021	2020
Operating Activities		
Net margin	$ 15,499,409	$ 16,433,205
Adjustments to reconcile net margin to net cash from operating activities		
Depreciation	13,074,850	12,885,905
Great River Energy patronage allocated to the Cooperative	(4,715,000)	(4,443,066)
Other patronage allocated to the Cooperative	(1,035,007)	(859,235)
Gain from equity investments	(414,123)	(286,687)
Net gain on dispositions of property	(1,723,003)	(287,856)
Amortization of energy storage assets	366,989	443,053
Change in assets and liabilities		
Accounts receivable	(646,731)	76,472
Materials and supplies	(813,446)	135,274
Other assets	1,878,903	(1,391,083)
Checks issued in excess of bank balance	(347,028)	84,026
Accounts payable and member deposits	(3,191,449)	(521,593)
Payable to associated organization	(566,057)	1,280,612
Accrued liabilities	1,049,886	198,958
Other long-term liabilities	4,844,922	(644,007)
Net Cash from Operating Activities	23,263,115	23,103,978
Investing Activities		
Electric plant additions and replacements - net	(17,872,980)	(19,130,910)
Proceeds received from sale of plant	1,922,728	499,639
Proceeds from patronage capital and other investments	6,372,851	2,891,034
Net Cash used for Investing Activities	(9,577,401)	(15,740,237)
Financing Activities		
Borrowings on revolving term loan loans	9,847,132	14,366,525
Repayments on revolving term loan loans	(14,366,525)	(12,006,753)
Principal payments on long-term debt	(667,804)	(2,271,533)
Principal payments on finance lease	(366,989)	(443,053)
Patronage capital payments to members	(8,132,268)	(7,008,957)
Net Cash used for Financing Activities	(13,686,454)	(7,363,771)
Net Change in Cash and Cash Equivalents	(740)	(30)
Cash and Cash Equivalents, Beginning of Period	2,340	2,370
Cash and Cash Equivalents, End of Period	$ 1,600	$ 2,340

See Notes to Financial Statements

	2021	2020
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest on long-term debt	$ 6,422,679	$ 6,951,818
Supplemental Disclosure of Noncash Operating and Investing Activities		
Plant purchases included in accounts payable	$ 1,520,154	$ 346,795
Lease liability remeasurement	$ 144,247	$ 46,947
Regulatory liability for deferred patronage allocation (increase in investments in associated organizations and increase in other long-term liabilities)	$ 6,056,452	$ -

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 141,000 members in seven counties in the north suburban area of Minneapolis and St. Paul, Minnesota.

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

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

Use of Estimates

In recording transactions and balances resulting from business operations, the Cooperative uses estimates based on the best information available. Estimates are used for such items as plant depreciable lives, uncollectible accounts, unbilled revenues, and actuarially determined benefit costs. As better information becomes available (or actual amounts are determinable), the recorded estimates are revised. Consequently, operating results can be affected by revisions to prior accounting estimates.

Regulatory Accounting

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

Income Taxes

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

The Cooperative evaluates its income tax positions on an annual basis. Management has determined that there are no uncertain tax positions at December 31, 2021 and 2020 that meet the criteria for recognition in the financial statements.

The Cooperative would recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Concentration of Risk

As of December 31, 2021 and 2020, approximately 33% and 34% of the Cooperative's labor force was covered by a collective bargaining agreement. The current agreement was set to expire on January 31, 2022. A new agreement was reached which extended the agreement to January 31, 2026.

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, 2021 and 2020.

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, 2021 and 2020, and during the years then ended, the Cooperative determined that there were no impaired equity method investments.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and highly liquid investments with an original maturity of three months or less.

Accounts Receivable and Credit Policy

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

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

The beginning and ending balances for customer accounts receivable, net of allowances for doubtful accounts, and contract liabilities were as follows for the years ended December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020	January 1, 2020
Customer accounts receivable			
Billed	$ 16,555,900	$ 16,749,798	$ 15,349,419
Unbilled	14,072,078	13,231,449	14,708,300
	$ 30,627,978	$ 29,981,247	$ 30,057,719
Contract liabilities			
Member prepayments	$ 1,756,509	$ 1,426,403	$ 1,973,573
Member deposits	1,837,492	1,819,284	1,646,530
	$ 3,594,001	$ 3,245,687	$ 3,620,103

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, 2021 and 2020 was $274,344 and $158,835.

Material and Supplies

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

Investments

The Cooperative has investments in associated companies. The Cooperative has determined that these investments do not have a readily determinable fair value. Investments in associated companies are recorded at the Cooperative's share of allocated patronage capital. These investments are assessed for impairment, if any, and adjusted for changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Cooperative has not identified any impairments and there has not been observable price changes during the years ended December 31, 2021 and 2020.

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

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

Derivative Instruments and Hedging Activities

The Cooperative's policy is to not use freestanding derivatives and to not enter into contracts with terms that cannot be designated as normal purchases or sales. Management has determined that the Cooperative has no freestanding or embedded derivatives.

Fair Value Measurements

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

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

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

Patronage Capital

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

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

Revenue Recognition

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

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

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

The following table depicts revenues by timing of revenue recognition and type of revenue for the years ended December 31, 2021 and 2020:

	2021	2020
Electric revenue (transferred over time)	$ 262,717,805	$ 246,360,664
Utility service revenues (transferred at a point in time)	1,567,614	1,434,504
Revenue from contracts with members	264,285,419	247,795,168
Other electric revenue - late fees (outside the scope of ASC 606)	556,762	589,528
Total operating revenue	$ 264,842,181	$ 248,384,696

Sales Taxes

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

Power Costs

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

Nonelectric Operations

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

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 is a member of Great River Energy (GRE), which is a generation and transmission cooperative. In 2006, the Cooperative entered into an amended and restated power purchase contract with GRE effective through December 31, 2045. Additionally, effective January 1, 2010, the Cooperative entered into an amended and restated transmission service contract with GRE, which expires on December 31, 2050. Under the terms of the agreements, the Cooperative has agreed to purchase substantially all power from GRE at rates determined by GRE, which are subject to periodic change.

The Cooperative's investment in GRE consists of capital credits for the Cooperative's share of GRE's operating margins that have been allocated but not received. The Cooperative's investment in GRE was $149,258,396 and $144,146,769 at December 31, 2021 and 2020. During 2021 and 2020, the Cooperative recognized income of $4,715,000 and $4,443,066 related to allocations of capital credits from GRE. During 2021 and 2020, the Cooperative received capital credit retirements of $5,659,826 and $2,147,545 from GRE.

Currently, the Cooperative purchases approximately 18% of GRE's total power output sold to members. The Cooperative's power purchases from GRE were $187,361,834 and $171,962,499 during 2021 and 2020. Accounts payable to GRE was $26,115,592 and $26,681,649 at December 31, 2021 and 2020.

The Cooperative has investments in other associated organizations, primarily NRUCFC capital credits, which are accounted for as equity securities. Such investments totaled $7,802,757 and $7,369,657 at December 31, 2021 and 2020.

Note 3 - Subordinated Debt Investments

Investments in capital term certificates of the NRUCFC totaled $3,220,966 and $3,231,788 at December 31, 2021 and 2020. 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 November 1, 2022, through February 1, 2039. Investments in member capital securities with NRUCFC totaled $5,000,000 at December 31, 2021 and 2020. 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 $1,485,275 and $1,170,652 at December 31, 2021 and 2020. 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 $414,123 and $286,687 in 2021 and 2020.

The Cooperative's investment in solar projects was $215,993 and $216,790 at December 31, 2021 and 2020.

Note 5 - Other Assets

	2021	2020
Regulatory asset - pension obligation (Note 8)	$ -	$ 4,736,055
Benefit plan asset (Note 8)	11,388,688	6,097,598
Deferred compensation (Note 8)	2,895,070	2,939,350
Other assets	499,721	2,459,450
Total other assets	$ 14,783,479	$ 16,232,453

As discussed in Note 8, the Cooperative terminated their pension plan during the year ended December 31, 2021. As a result of changes in plan estimates and the termination of plan, the regulatory asset balance was fully amortized due to plan gains and a regulatory liability balance of $645,665 remained at December 31, 2021 and is included in other long-term liabilities on the balance sheet.

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

	2021	2020
NRUCFC mortgage notes bearing interest at 1.91% to 6.45% (4.18% weighted average), due in quarterly installments, including interest, through 2054)	$ 160,856,226	$ 161,524,030
Less current maturities of long-term debt	(1,864,506)	(667,804)
Long-term debt, less current maturities	$ 158,991,720	$ 160,856,226

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

2022	$ 1,864,506
2023	291,129
2024	2,984,168
2025	315,660
2026	328,708
Thereafter	155,072,055
	$ 160,856,226

At December 31, 2021, $155,190,141 of the notes were interest only notes with balloon payments due between 2022 and 2054. Substantially all assets are pledged as collateral on the mortgage notes. The Cooperative has an additional $25 million in NRUCFC secured mortgage notes that have not been advanced as of December 31, 2021.

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, 2021, management believes the Cooperative is in compliance with all loan covenants.

In 2019 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 revolving line-of-credit agreement matures on December 31, 2049. Interest on unpaid principal is payable quarterly at rates established by NRUCFC. The interest rate was 2.25% as of December 31, 2021. There was no outstanding balance on this line-of-credit at December 31, 2021.

The Cooperative has an unsecured line-of-credit agreement with the NRUCFC providing the Cooperative with short-term financing in the total amount of $35,000,000. The line-of-credit agreement matures on May 5, 2023. Interest on unpaid principal is payable quarterly at rates established by NRUCFC, which are not to exceed the one-month London Interbank Offered Rate (LIBOR), plus 2.15%. The interest rate was 2.25% as of December 31, 2021. There were no outstanding balances on this line-of-credit at December 31, 2021 and 2020.

The Cooperative has also established an unsecured revolving term line-of-credit with CoBank ACB. The line-of-credit agreement matures on October 31, 2022 and provides for short-term loans in an amount not to exceed $40,000,000. Interest on unpaid principal is payable monthly at rates established by CoBank ACB, which are not to exceed the one-month LIBOR, plus 1.40%. The interest rate was 1.51% as of December 31, 2021. There were outstanding balances of $9,847,132 and $14,366,525 on this line-of-credit at December 31, 2021 and 2020.

Note 7 - Other Long-Term Liabilities

	2021	2020
Finance lease liabilities	$ 18,991,034	$ 19,502,270
Deferred compensation (Note 8)	2,895,070	2,939,350
Other liabilities	709,487	1,259,805
Regulatory liabilities		
Deferred revenue	6,056,452	-
Pension plan obligation	645,665	-
Deferred power cost refunds (net of power cost adjustments)	4,793,855	-
	34,091,563	23,701,425
Less current maturities of finance lease liabilities	(533,391)	(511,200)
Other long-term liabilities, less current maturities	$ 33,558,172	$ 23,190,225

Finance lease liabilities

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

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

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

Total lease costs for the years ended December 31, 2021 and 2020 were as follows:

	2021	2020
Finance lease cost:		
Interest expense	$ 821,798	$ 841,205
Amortization of right-of-use assets	366,989	443,053

The following summarizes the supplemental cash flow information for the years ended December 31, 2021 and 2020:

	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	$ 821,798	$ 841,205
Financing cash flows from finance leases	366,989	443,053

The following summarizes the weighted-average remaining term and weighted-average discount rate at December 31, 2021 and 2020:

	2021	2020
Weighted-average remaining term	22 Years	23 Years
Weighted-average discount rate	4.25%	4.25%

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

2022	$ 1,330,200
2023	1,330,200
2024	1,330,200
2025	1,330,200
2026	1,330,200
Thereafter	22,613,400
Total payments	29,264,400
Less interest	(10,273,366)
Present value of lease liabilities	$ 18,991,034

Regulatory liabilities

The Cooperative established a deferred revenue plan during the 2021 financial year. The deferred revenue 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, 2021 and 2020:

	2021	2020
Deferred revenue, beginning of the year	$ -	$ -
Amortization of deferred revenue	-	-
Additions to deferred revenue	6,056,452	-
Deferred revenue, end of the year	$ 6,056,452	$ -

The Cooperative defers monthly power cost adjustments received from the Cooperatives power supplier. The deferred amounts are amortized into power cost at the time they are collected from or refunded to members. At December 31, 2021, this resulted in a regulatory liability of $4,793,855. At December 31, 2020, a deferred debit of $1,697,732 was included in other assets on the balance sheet.

Note 8 - 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. During the year ended December 31, 2021, the Cooperative approved the termination of the plan effective December 31, 2021. This resulted in a curtailment gain of $1,457,136. The Pension Plan's assets are invested in 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 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, 2021 and 2020, is as follows:

	2021	2020
Accumulated benefit obligation - December 31	$ 32,223,253	$ 38,719,492
Change in benefit obligation		
Projected benefit obligation - beginning of year	$ 40,514,702	$ 39,560,226
Service cost	938,318	941,676
Interest cost	778,603	1,091,693
Actuarial (gains) losses	(3,789,874)	2,634,932
Benefits paid	(1,036,912)	(1,032,829)
Settlements	(3,724,448)	(2,680,996)
Curtailment gain	(1,457,136)	-
Projected benefit obligation - end of year	$ 32,223,253	$ 40,514,702
Change in plan assets		
Fair value of plan assets - beginning of year	$ 46,612,300	$ 43,813,342
Actual return on assets	1,761,001	5,342,783
Employer contribution	-	1,170,000
Benefits paid	(1,036,912)	(1,032,829)
Settlements	(3,724,448)	(2,680,996)
Fair value of plan assets - end of year	$ 43,611,941	$ 46,612,300
Funded status of plan - funded status of plan as of December 31 (Note 5)	$ 11,388,688	$ 6,097,598
Weighted-average assumptions used to determine benefit obligations as of December 31		
Discount rate	2.45%	2.00%
Weighted-average rate of increase in future compensation levels	3.50%	3.50%
Amounts recognized in balance sheets consist of		
Noncurrent assets		
Other assets (Note 5)	$ 11,388,688	$ 10,833,653
Current liabilities		
Pension plan regulatory liabilities (Note 7)	(645,665)	-
Net amounts recognized in balance sheets	$ 10,743,023	$ 10,833,653

The remaining prior service costs as of December 31, 2020 were fully amortized in 2021. As such, no amortization is expected in 2022.

	2021	2020
Amounts not yet recognized as components of net period benefit cost		
Amount disclosed at beginning of year	$ 4,736,055	$ 5,858,133
Net actuarial gain in current year	(3,565,872)	(636,809)
Amortization of actuarial losses	(20,723)	(114,648)
Prior service credit	(110,232)	(64,514)
Settlements	(227,757)	(306,107)
Curtailment	(1,457,136)	-
Amount disclosed at end of year (Note 5)	$ (645,665)	$ 4,736,055

Components of net periodic pension costs for the Pension Plan for 2021 and 2020, are as follows:

	2021	2020
Service cost	$ 938,318	$ 941,676
Interest cost	778,603	1,091,693
Expected return on plan assets	(1,985,003)	(2,071,042)
Amortization of actuarial losses	20,723	114,648
Amortization of prior service cost	110,232	64,514
Net periodic pension cost	(137,127)	141,489
Settlement charge	227,757	306,107
Total pension cost	$ 90,630	$ 447,596

The Cooperative uses a liability-driven investment policy, which seeks to match asset returns with expected liabilities. The asset allocation was 71% cash and cash equivalents and 29% bond mutual funds as of December 31, 2021. The asset allocation was 3% real estate investment trust funds, 27% equity mutual funds and 70% bond mutual funds as of December 31, 2020. 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, 2021 and 2020, were as follows:

	2021	2020
Discount rate	2.00%	2.90%
Expected long-term rate of return on plan assets	4.66%	5.12%
Rate of increase in future compensation levels	3.50%	3.50%

The target percentages of fair value of plan investments by category (prior to plan termination) was as follows:

	2021	2020
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 $1,542,299 and $1,536,356 for the years ended December 31, 2021 and 2020.

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, 2021 and 2020 was $2,895,070 and $2,939,350 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 9 - Commitments and Contingencies

The Cooperative is involved in various legal actions arising in the normal course of business. It is the opinion of management that the resolution of such actions will not have a material adverse effect on the financial position or future results of operations of the Cooperative.

In December 2018, the Cooperative began purchasing solar electricity under long-term power purchase agreements. The agreements call for the Cooperative to purchase the net output of the facilities at a fixed price per MWh of output and have an initial term of 25 years.

Note 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 $216,824 and $230,974 to the trust for insurance coverage during the years ended December 31, 2021 and 2020.

Note 11 - Subsequent Events

The Cooperative has evaluated subsequent events through March 9, 2022, the date on which the financial statements were available to be issued. There are no events subsequent to December 31, 2021, that require disclosure.