

**MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
BRAHAM, MINNESOTA**

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors
Minnesota 1 Kanabec
East Central Energy and Subsidiaries
Braham, Minnesota

Report on the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of East Central Energy and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations and patronage capital, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of East Central Energy and Subsidiaries as of December 31, 2021 and 2020, and the results of its operations and 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of East Central Energy and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about East Central Energy and Subsidiaries' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 generally accepted auditing standards and *Government Auditing Standards* 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 consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 East Central Energy and Subsidiaries' 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about East Central Energy and Subsidiaries' 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2022, on our consideration of East Central Energy and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on effectiveness of East Central Energy and Subsidiaries' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering East Central Energy and Subsidiaries' internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA**

February 1, 2022

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2021 AND 2020

ASSETS	2021	2020
ELECTRIC PLANT		
In Service	\$ 354,766,071	\$ 340,340,211
Construction Work in Progress	6,639,507	8,721,584
	361,405,578	349,061,795
Less: Accumulated Provisions for Depreciation	(123,327,842)	(115,317,274)
	238,077,736	233,744,521
OTHER PROPERTY AND INVESTMENTS		
Notes Receivable, Net of Current Portion	1,200,816	1,267,402
Non-Utility Property	2,396,771	2,396,771
Investments in Associated Companies	70,367,740	68,629,011
Other Investments	1,097,541	1,100,513
	75,062,868	73,393,697
CURRENT ASSETS		
Cash and Cash Equivalents	13,423,683	16,723,764
Current Portion of Notes Receivable	538,000	456,000
Accounts Receivable - Net of Allowance		
2021 - \$487,721; 2020 - \$426,727	16,170,959	12,995,514
Other Receivable	2,971,535	-
Material and Supplies	3,359,688	3,087,515
Prepayments	750,869	471,559
Interest Receivable	25,529	25,620
	37,240,263	33,759,972
DEFERRED DEBITS	3,241	2,950,802
ASSETS OF DISCONTINUED OPERATIONS	24,900	24,900
TOTAL	\$ 350,409,008	\$ 343,873,892

See Notes to the Consolidated Financial Statements

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - CONTINUED
DECEMBER 31, 2021 AND 2020

LIABILITIES AND MEMBERS' EQUITY	2021	2020
EQUITIES		
Patronage Capital	\$ 117,793,846	\$ 117,718,796
Other Equities	17,979,420	17,445,801
	<u>135,773,266</u>	<u>135,164,597</u>
LONG-TERM DEBT		
Long-Term Debt (Net of Current Portion)	<u>163,346,699</u>	<u>170,730,088</u>
OTHER NONCURRENT LIABILITIES		
	<u>119,207</u>	<u>128,878</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	7,393,105	6,880,824
Line of Credit	6,000,000	-
Accounts Payable - General	747,230	826,504
Accounts Payable to Associated Company - Billed Power Costs	14,102,312	13,216,768
Customer Deposits	756,417	735,148
Taxes Accrued	1,946,406	1,558,288
Interest Accrued	192,763	206,136
Accrued Compensation	429,489	218,136
Accrued Compensated Absences	2,549,545	2,729,497
Accrued Self Insurance	311,799	236,686
Miscellaneous Current and Accrued Liabilities	9,473	8,323
	<u>34,438,539</u>	<u>26,616,310</u>
DEFERRED CREDITS		
Customers' Energy Prepayments	1,365,821	1,068,783
Deferred Revenue	11,500,000	6,500,000
Special Equipment Installation Costs	852,258	910,401
Unclaimed Property	2,969,774	2,727,742
Other	43,444	27,093
	<u>16,731,297</u>	<u>11,234,019</u>
TOTAL	<u>\$ 350,409,008</u>	<u>\$ 343,873,892</u>

See Notes to the Consolidated Financial Statements

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Electric	\$ 126,089,239	\$ 123,337,326
Other	921,666	715,637
Non Electric	<u>44,239</u>	<u>42,543</u>
Total Operating Revenues	<u>127,055,144</u>	<u>124,095,506</u>
OPERATING EXPENSES		
Cost of Power	80,569,675	76,867,068
Distribution - Operation	6,051,904	5,947,053
Distribution - Maintenance	7,088,700	8,286,274
Customer Accounts	2,192,246	2,265,805
Customer Service and Information	2,430,053	2,359,793
Administrative and General	10,845,359	8,296,749
Depreciation and Amortization	10,888,649	10,715,660
Income Taxes and Wisconsin Property Taxes	146,921	77,782
Other	255,015	242,491
Non Electric Operating Expenses and Cost of Sales	<u>31,622</u>	<u>33,889</u>
Total Operating Expenses	<u>120,500,144</u>	<u>115,092,564</u>
OPERATING MARGIN BEFORE FIXED CHARGES	6,555,000	9,002,942
Interest	<u>5,782,724</u>	<u>5,838,051</u>
OPERATING MARGIN AFTER FIXED CHARGES	772,276	3,164,891
GENERATION AND TRANSMISSION AND OTHER COOPERATIVE CAPITAL CREDITS	<u>5,339,445</u>	<u>2,530,091</u>
NET OPERATING MARGIN	<u>6,111,721</u>	<u>5,694,982</u>
NON-OPERATING MARGIN		
Jobbing and Contract Work, Less Costs and Expenses	236,187	239,134
Gain From Investment in Local Access Network	175,430	12,670
Gain From Investment in Northland Connect Broadband	46,203	62,464
Gain (Loss) on Sale of Property and Equipment	(162,501)	(17,845)
Interest Income	144,247	119,080
Other	<u>7,632</u>	<u>4,860</u>
Total Non-Operating Margin	<u>447,198</u>	<u>420,363</u>
NET MARGIN FROM CONTINUING OPERATIONS	6,558,919	6,115,345
DISCONTINUED OPERATION (NOTE 2)		
Income (Loss) From Discontinued Operation Diversified Enterprises, LLC (d/b/a Como Oil)	<u>62,685</u>	<u>67,778</u>
NET MARGIN	6,621,604	6,183,123
PATRONAGE CAPITAL - BEGINNING OF YEAR	117,718,796	117,039,537
UNALLOCATED MARGINS	(168,543)	(21,509)
RETIREMENT OF CAPITAL CREDITS	<u>(6,378,011)</u>	<u>(5,482,355)</u>
PATRONAGE CAPITAL - END OF YEAR	<u>\$ 117,793,846</u>	<u>\$ 117,718,796</u>

See Notes to the Consolidated Financial Statements

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margin	\$ 6,621,604	\$ 6,183,123
Adjustments to Reconcile Net Margin to Net Cash From Operating Activities		
Depreciation	12,175,726	11,904,482
(Gain) Loss on Retirement of Plant and Equipment	162,501	17,845
Noncash Patronage Capital Allocations	(5,339,445)	(2,530,091)
Gain From Investments	(46,203)	(67,047)
Provision for Uncollectible Accounts	60,000	60,000
Net Effects on Operating Cash Flows Due to Changes in:		
Accounts Receivable	(6,206,889)	1,646,266
Other Current Assets	2,707,711	734,002
Accounts Payable	806,270	(296,399)
Other Current Liabilities	5,979,686	(155,268)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	16,920,961	17,496,913
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to, and Costs of Retirements of Utility Plant, Net	(16,702,936)	(16,412,284)
(Increase) Decrease in Material and Supplies	(311,633)	214,427
Proceeds From Sale of Property and Equipment	31,495	142,900
Change in Notes Receivable, Other Property and Investments Exclusive of Noncash Patronage Capital Credits	3,634,476	1,981,362
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(13,348,598)	(14,073,595)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Short-Term Borrowings	6,000,000	(6,000,000)
Proceeds on Long-Term Debt	-	24,000,000
Principal Payments on Long-Term Debt	(6,871,108)	(7,977,505)
Post Employment Benefits	(9,671)	(31,365)
Customer Deposits	21,269	(154,477)
Net Retirement of Patronage Capital	(6,012,934)	(5,037,808)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(6,872,444)	4,798,845

See Notes to the Consolidated Financial Statements

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (3,300,081)	\$ 8,222,163
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	16,723,764	8,501,601
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 13,423,683	\$ 16,723,764
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	\$ 5,796,097	\$ 5,856,156
Income Taxes	30,353	41,621
SUPPLEMENTAL DISCLOSURE OF NON CASH INVESTING AND FINANCING ACTIVITIES		
Transfer of Investment from Subsidiary to Parent	\$ -	\$ 460,687

See Notes to the Consolidated Financial Statements

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Business

East Central Energy (the Cooperative) is a member-owned electric cooperative association formed in 1936 and organized under Minnesota laws and statutes. The primary purpose of the Cooperative is to buy and sell electric energy to its members in counties located in east central Minnesota and northwest Wisconsin. The governing body consists of a twelve-member Board of Directors elected by the members of the Cooperative to serve a four-year term. Diversified Enterprises, LLC (formerly Interstate Energy, LLC, d/b/a Como Oil) is a 100% owned subsidiary of the Cooperative and formerly distributed propane, fuel oil and gasoline before discontinuing active operations in 2015. ECE NET, LLC is a 100% owned subsidiary of the Cooperative and assists in providing its members with high-speed internet service.

Basis of Accounting

East Central Energy is subject to the accounting and reporting rules and regulations of the Rural Utilities Service (RUS). The Cooperative follows the Federal Energy Regulatory Commission's Uniform System of Accounting prescribed for Class A and B Electric Utilities as modified by RUS. The accounting policies conform to accounting principles generally accepted in the United States of America (GAAP), as codified by the Financial Accounting Standards Board.

Rates charged to customers are established by the board of directors.

Principles of Consolidation

The consolidated financial statements include the accounts of East Central Energy, and its wholly-owned subsidiaries, ECE NET, LLC and Diversified Enterprises, LLC. Pursuant to RUS requirements, net non-utility plant of the subsidiary is reported as other investments. All other assets and liabilities of the subsidiary are consolidated with the assets and liabilities of East Central Energy. All significant intercompany transactions and accounts have been eliminated in consolidation.

Plant Additions and Retirements

Electric and non-utility plant are stated at cost. The cost of additions to plant includes contracted work, direct labor and materials, and allocable overheads. When units of property are retired, sold or otherwise disposed of in the ordinary course of business, their average book cost plus cost of removal 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.

General plant is depreciated using straight-line methods on an itemized basis. When general plant assets are sold or retired, the original cost and accumulated provision for depreciation are removed from the accounts and any gain or loss is recognized in operations for direct sales or disposals.

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021 AND 2020

Depreciation

Depreciation is computed using the straight-line method based upon the estimated useful lives of the various classes of property at the following rates:

Distribution Plant – Meters	10.8%-33.33%
Distribution Plant - Other	2.63%-4.4%
General Plant Structures	2%-3%
Other General Plant	8.33%-20%

Investments

Investments in cooperatives, which comprise the majority of investments, are carried at cost plus assigned capital credits less any capital paid to the Cooperative. Income from investments in cooperatives is recognized when capital credits are assigned. All other investments are stated at cost, except for an investment in an associated Limited Liability Company, Local Access Network, which is accounted for on the equity method. The fair value of cost-method investments is not estimated as there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Cooperative considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents.

Inventory, Material and Supplies

Line material and supplies are stated at the lower of average cost or net realizable value using the FIFO method. Other inventories are stated at the lower of cost or net realizable value using the FIFO method.

Patronage Capital

The Cooperative operates on a nonprofit basis. Amounts received from the furnishing of electric energy in excess of operating costs and expenses are assigned to patrons on a patronage basis. All other amounts received by the Cooperative from its operations in excess of costs and expenses, to the extent they are not needed to offset current or prior losses, may be credited to a general unallocated reserve, at the discretion and determination of the board of directors.

Revenue Recognition

Revenues are primarily from electric sales to members. Electric revenues are recognized over time as electricity is delivered to customers, and include billed and unbilled components. The billed components are based on the reading of customers' meters, which occurs on a systematic basis throughout each reporting period and represents the fair value of the electricity delivered. The unbilled component is estimated and recorded at the end of each reporting period based on estimated amounts of energy delivered to customers since the end of each customer's last billing period. The unbilled revenue is based on estimates of daily system demand volumes, customer usage by class, temperature impacts, line losses and the most recent customer rates.

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021 AND 2020

Revenues are recognized equivalent to the value of the electricity supplied during each period, including amounts billed during each period and changes in amounts estimated to be billed at the end of each period. The Cooperative has elected to apply the invoice method to measure progress towards completing performance obligations to transfer electricity to their customers.

Postretirement Benefits

The Cooperative provides certain benefits for retired employees that meet eligibility requirements. The Cooperative's share of the estimated costs that will be paid after retirement is generally being accrued by charges to expense over the employee's active service periods to the dates they are fully eligible for benefits.

Sales Taxes and Franchise Fees

The Cooperative and subsidiary has customers in states and municipalities in which those governmental units impose a sales tax or franchise fee on certain sales. The Cooperative and subsidiary collect those sales taxes and/or franchise fees on certain sales and remits the entire amount to the various governmental units. The Cooperative and subsidiary's accounting policy is to exclude the tax collected and remitted from revenue and cost of revenue.

Receivables and Credit Policies

Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within approximately 21 days from the billing date. Unpaid trade receivables not paid by the due date are assessed a late payment charge of 1.5% or \$1, whichever is greater. Notes receivable are stated at principal balance amount and are uncollateralized.

Payments on trade and notes receivable are allocated to the earliest unpaid billings. The carrying amounts of trade and notes receivable are reduced by a valuation allowance that reflects management's best estimate of the amount that will not be collected. Management reviews all trade and notes receivable balances periodically and adjusts the allowance accounts based on the current economic conditions and past experience.

Accounting Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Cooperative is exempt from income taxes but subject to corporate income tax on any unrelated business activities. This would include the activities of the subsidiaries of the Cooperative which are treated as pass-through entities for income tax purposes.

**MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES**
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021 AND 2020

The Cooperative's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions and other evidence.

Advertising

Costs incurred for advertising are expensed as incurred.

NOTE 2 DISCONTINUED OPERATION

On October 22, 2015, the Cooperative entered into a sale agreement with ThompsonGas, LLC for the sale of substantially all of the assets of its 100% owned subsidiary, Interstate Energy, LLC, which conducted business as Como Oil. The decision was based on the Cooperative deciding to no longer have an interest in the oil and gas industry. On November 20th, 2015, the name of Interstate Energy, LLC was legally changed to Diversified Enterprises, LLC. Diversified Enterprises will continue to exist indefinitely as a 100% owned equity investment of the Cooperative due to certain investments held by Diversified Enterprises, LLC. During the year ended December 31, 2021, Diversified Enterprises distributed \$62,715 of cash to the Cooperative. During the year ended December 31, 2020, Diversified Enterprises, LLC distributed \$460,687 of investment balances and \$67,808 of cash to the Cooperative.

Assets of discontinued operations comprise the following on the consolidated balance sheet at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Assets of Discontinued Operations		
Investments	<u>\$ 24,900</u>	<u>\$ 24,900</u>

The following is a reconciliation of the total income (loss) from the discontinued operation as presented in the consolidated statements of operations and patronage capital:

	<u>2021</u>	<u>2020</u>
Administrative and General	\$ (30)	\$ (30)
Other Income	73,206	102,473
Other Expenses	<u>(10,491)</u>	<u>(34,665)</u>
Total Income (Loss) on Discontinued Operation Presented in the Consolidated Statements of Operations and Patronage Capital	<u>\$ 62,685</u>	<u>\$ 67,778</u>

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021 AND 2020

The following is a reconciliation of cash flows of the discontinued operation:

	<u>2021</u>	<u>2020</u>
Net Cash Provided (Used) by Operating Activities	\$ 62,685	\$ 67,778
Net Cash Provided (Used) by Financing Activities	<u>(62,715)</u>	<u>(67,808)</u>
Net Change in Cash and Cash Equivalents	(30)	(30)
Cash and Cash Equivalents, Beginning of Year	<u>272</u>	<u>302</u>
Cash and Cash Equivalents, End of Year	<u>\$ 242</u>	<u>\$ 272</u>

NOTE 3 ELECTRIC PLANT AND DEPRECIATION

	<u>2021</u>	<u>2020</u>
Distribution Plant	\$ 317,900,235	\$ 304,820,778
General Plant	<u>36,865,836</u>	<u>35,519,433</u>
Electric Plant In Service	354,766,071	340,340,211
Accumulated Depreciation	<u>(123,327,842)</u>	<u>(115,317,274)</u>
	231,438,229	225,022,937
Construction Work In Progress	<u>6,639,507</u>	<u>8,721,584</u>
Net Electric Plant	<u>\$ 238,077,736</u>	<u>\$ 233,744,521</u>

Depreciation charges accounting for the change in accumulated depreciation for the year ended December 31, 2021 were \$10,888,649 directly to depreciation expense and \$1,287,077 charged to clearing accounts for a total of \$12,175,726, as reported on the statement of cash flows.

Depreciation charges accounting for the change in accumulated depreciation for the year ended December 31, 2020 were \$10,715,660 directly to depreciation expense and \$1,188,822 charged to clearing accounts for a total of \$11,904,482, as reported on the statement of cash flows.

NOTE 4 NOTES RECEIVABLE

	Interest Rate	Maturity	<u>2021</u>	<u>2020</u>
Load Management Loans	0%	Various	\$ 376,637	\$ 442,879
City of St. Cloud	3.25	None	150,000	150,000
Revolving Loans	0.0-2.0%	2022-2032	<u>1,212,179</u>	<u>1,130,523</u>
			1,738,816	1,723,402
Less Current Portion			<u>538,000</u>	<u>456,000</u>
			<u>\$ 1,200,816</u>	<u>\$ 1,267,402</u>

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021 AND 2020

NOTE 5 CASH AND CASH EQUIVALENTS

	<u>2021</u>	<u>2020</u>
Cash - General	\$ 1,169,817	\$ 2,234,564
Great River Energy Short Term Cash Investment	11,666,363	13,828,032
Other Temporary Cash Investments (Time Deposits)	<u>587,503</u>	<u>661,168</u>
	<u>\$ 13,423,683</u>	<u>\$ 16,723,764</u>

NOTE 6 INVESTMENTS IN ASSOCIATED COMPANIES

	<u>2021</u>	<u>2020</u>
Patronage Capital Credits from Great River Energy	<u>\$ 64,553,487</u>	<u>\$ 62,807,315</u>
National Rural Utilities Cooperative Finance Corporation		
Long Term Certificates -		
Maturing 2025-2030; interest rate, 3.0%	140,850	140,850
Capital Term Certificates -		
Maturing 2070-2080; interest rate, 5.0%	1,952,263	1,952,263
Zero Term Certificates -		
Maturing 2024-2026; interest rate, 0%	14,773	17,697
Patronage Capital Credits	679,531	677,825
Membership	<u>1,000</u>	<u>1,000</u>
	<u>2,788,417</u>	<u>2,789,635</u>
Local Access Network	-	464,652
Less Undistributed Accumulated Losses	<u>-</u>	<u>(250,081)</u>
	<u>-</u>	<u>214,571</u>
Other	<u>3,025,836</u>	<u>2,817,490</u>
	<u>\$ 70,367,740</u>	<u>\$ 68,629,011</u>

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021 AND 2020

NOTE 7 SUBSIDIARY PLANT AND OPERATIONS

ECE NET, LLC owns 44.4444444% of Northland Connect Broadband, LLC of Grand Rapids, Minnesota, which is a provider of high-speed internet services. East Central Energy owns 100% of ECE NET, LLC. Diversified Enterprises, LLC (formerly Interstate Energy, LLC, d/b/a Como Oil) which formerly distributed propane, fuel oil and gasoline, is headquartered in Braham, Minnesota. East Central Energy owns 100% of Diversified Enterprises, LLC. Local Access Network, LLC is a provider of telephone, internet and cable TV services. East Central Energy owns 50% of Local Access Network, LLC. The Cooperative sold its investment of Local Access Network, LLC in 2021.

The income or loss from ECE NET, LLC is reported in the consolidated statements of operations and patronage capital as non-electric activities. The income or loss of Diversified Enterprises, LLC is reported on the consolidated statement of operations and patronage capital as income from discontinued operation. The investment in Local Access Network, LLC is accounted for under the equity method in non-operating margins. Details of ECE NET, LLC, Diversified Enterprises, LLC and Local Access Network, LLC's plant and operations are as follows:

Plant	ECE NET, LLC		Diversified Enterprises, LLC		Local Access Network, LLC	
	2021	2020	2021	2020	2021	2020
Land	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,150
Building and Improvements	-	-	-	-	-	76,758
Equipment	-	-	-	-	-	4,431,284
	-	-	-	-	-	4,521,192
Accumulated Depreciation	-	-	-	-	-	(4,267,036)
Net Plant	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 254,156</u>
<u>Operations</u>						
Operating Revenues	\$ 90,442	\$ 105,007	\$ -	\$ -	\$ -	\$ 652,173
Operating Expenses	31,622	33,889	30	30	-	627,124
Net Operating Income (Loss)	58,820	71,118	(30)	(30)	-	25,049
Other Income	-	-	73,206	102,473	-	290
Other Expense	-	-	10,491	34,665	-	-
Net Income (Loss)	58,820	71,118	62,685	67,778	-	25,339
Minority Interest/ Non-Owned Share	-	-	-	-	-	12,669
Net Income Reported To Parent	<u>\$ 58,820</u>	<u>\$ 71,118</u>	<u>\$ 62,685</u>	<u>\$ 67,778</u>	<u>\$ -</u>	<u>\$ 12,670</u>

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EAST CENTRAL ENERGY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021 AND 2020

NOTE 8 PATRONAGE CAPITAL

	2021	2020
Assignable	\$ 6,621,604	\$ 6,183,123
Assigned to Date	209,041,499	203,026,919
	215,663,103	209,210,042
Less: Retired to Date	(97,869,257)	(91,491,246)
	\$ 117,793,846	\$ 117,718,796

The mortgage provisions restrict the retirement of patronage capital unless, after retirement, the capital of the Cooperative equals at least 30 percent of the total assets of the Cooperative; provided, however, that retirements can be made if such distributions do not exceed 25 percent of the preceding year's margins. No distribution can be made if there is unpaid, when due, any installments of principal or interest on the notes. During 2021 and 2020, the Cooperative's capital exceeded 30 percent of total assets.

NOTE 9 OTHER EQUITIES

	2021	2020
Retired Capital Credits - Gain	\$ 6,750,329	\$ 6,385,253
Appropriated Margins	10,820,811	10,652,268
Donated Capital	408,280	408,280
	\$ 17,979,420	\$ 17,445,801

NOTE 10 DEFERRED REVENUE

During the year ended December 31, 2018, the Cooperative implemented a revenue deferral plan. Under the plan, the Cooperative elected to defer \$4,500,000 of revenue from the year ended December 31, 2018 with all revenue to be recognized by the end of the year 2022. This plan complies with GAAP and has been approved by RUS. The deferred margins of \$4,500,000 are part of the allocated margins for 2018.

During the year ended December 31, 2019, the Cooperative implemented a revenue deferral plan. Under the plan, the Cooperative elected to defer \$2,000,000 of revenue from the year ended December 31, 2019 with all revenue to be recognized by the end of the year 2024. This plan complies with GAAP and has been approved by RUS. The deferred margins of \$2,000,000 are part of the allocated margins for 2019.

During the year ended December 31, 2021, the Cooperative implemented a revenue deferral plan. Under the plan, the Cooperative elected to defer \$5,000,000 of revenue from the year ended December 31, 2021 with all revenue to be recognized by the end of the year 2026. This plan complies with GAAP and has been approved by RUS. The deferred margins of \$5,000,000 are part of the allocated margins for 2021.

As of December 31, 2021, \$11,500,000 of deferred revenue remains to be recognized from all deferrals.

**MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES**
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021 AND 2020

Under the provisions of the revenue deferral plan and pursuant to RUS requirements, the Cooperative must segregate cash and cash equivalents reserves equal to the amount of all margins deferred to date under the plan. As of December 31, 2021, the Cooperative had deposited funds of \$11,500,000 in Great River Energy cash investment to satisfy this requirement.

NOTE 11 LONG-TERM DEBT

	<u>2021</u>	<u>2020</u>
Rural Utilities Service (RUS) Mortgage Notes 0% Economic Development Loans	\$ 1,381,000	\$ 1,381,000
CoBank Fixed Rate Notes 4.05% Due in Monthly Installments Through January 2033	39,882,340	42,668,126
Federal Financing Bank (FFB) Fixed Rate Notes (1.394% to 5.83%), Due in Quarterly Installments Maturing January 2024 Through December 2054	122,778,970	126,266,993
National Rural Utilities Cooperative Finance Corporation (CFC) Mortgage Notes: Fixed Rate Notes (4.6% to 6.15%), Due in Quarterly Installments Maturing February 2022 Through April 2039	6,575,552	7,115,234
Great River Energy, 3.8% Note Due in Semi-Annual Installments Through 2023	<u>121,942</u>	<u>179,559</u>
TOTAL LONG-TERM DEBT	170,739,804	177,610,912
Less Current Portion	<u>(7,393,105)</u>	<u>(6,880,824)</u>
NET LONG-TERM DEBT	<u>\$ 163,346,699</u>	<u>\$ 170,730,088</u>

**MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES**
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021 AND 2020

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

<u>Year Ending December 31,</u>	
2022	\$ 7,393,105
2023	13,265,380
2024	7,974,180
2025	8,162,077
2026	8,443,816
Thereafter	<u>125,501,246</u>
	<u>\$ 170,739,804</u>

Substantially all assets of the Cooperative are pledged as security for the RUS, FFB, CoBank and CFC notes. These notes call for monthly or quarterly payments of principal and interest and are scheduled to be fully repaid at various dates through 2054. The CFC notes have a provision whereby interest rates can be changed at specified future dates.

All loan funds advanced are deposited in a special trust bank account, the disbursements from which are restricted by the provisions of the loan agreement to purposes approved by RUS. Unadvanced loan funds for FFB at December 31, 2021 and 2020 were \$16,000,000.

The security agreement (mortgage) restricts the Cooperative's debt limit to \$300,000,000.

NOTE 12 LINE OF CREDIT

A perpetual line of credit agreement has been executed with CFC, providing the Cooperative with short-term loans in the total amount of \$20,000,000 on a revolving basis. The Cooperative may borrow for a period of twelve months after the initial term, and thereafter automatically renew for subsequent periods of twelve months each. Substantially all assets of the Cooperative are pledged as security for the line of credit. The agreement may be terminated by either party by a 90-day written notice. Interest on unpaid principal is payable quarterly and is tied to the lowest prime rate as published in the "money rates" column of the Wall Street Journal, which at December 31, 2021 was 2.45 percent. As of December 31, 2021 and 2020, \$6,000,000 and \$0 was outstanding on the line of credit, respectively.

The Cooperative also has an unsecured line of credit agreement with CoBank. This agreement allows the Cooperative to borrow amounts not to exceed \$10,000,000 at any one time. The agreement is in effect until September 30, 2022 and may be extended to a later date by CoBank's sole discretion. Interest on the unpaid principal is payable in accordance with one of the following options. (A) Variable Rate Option – Interest on the unpaid principal is payable at a rate equal to the rate of interest established by CoBank, on the first business day of each week; or (B) Fixed Rate Option – Interest on unpaid principal is payable at a fixed rate equal to an annual rate established by CoBank. The Cooperative must choose option (A) or (B) at the time they request the loan, but the Cooperative is allowed to change the interest rate option at any time, which at December 31, 2021 was 2.41 percent. As of December 31, 2021 and 2020, no amounts were outstanding on the line of credit.

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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NOTE 13 REVENUES FROM CONTRACTS WITH CUSTOMERS

The revenues of the Cooperative are primarily derived from providing retail electric service to its members. Revenues from contracts with customers as of December 31, 2021 and 2020 represent over 96 and 98 percent of all Cooperative revenues, respectively.

Below is a disaggregated view of the Cooperative's revenues from contracts with customers as well as other revenues, including their location on the consolidated statement of operations and patronage capital for the year ended December 31, 2021:

<u>Revenue Streams</u>	<u>Electric Revenue</u>	<u>Other Operating Revenue</u>	<u>Non Operating Revenue</u>
Member Electric Sales - Residential	\$ 87,757,196	\$ -	\$ -
Member Electric Sales - Commercial & Industry	37,350,609	-	-
Member Electric Sales - Other	981,434	-	-
Miscellaneous Service Revenue	-	304,630	-
Rent from Electric Property	-	135,811	-
Forfeited Discounts	-	477,462	-
Other Electric Revenue	-	3,763	-
Merchandising - Net	-	-	243,819
Total Revenue from Contracts with Customers	<u>\$ 126,089,239</u>	<u>\$ 921,666</u>	<u>\$ 243,819</u>
<u>Timing of Revenue Recognition</u>			
Services Transferred Over Time	\$ 126,089,239	\$ 135,811	\$ -
Goods Transferred at a Point in Time	-	785,855	243,819
Total Revenue from Contracts with Customers	<u>\$ 126,089,239</u>	<u>\$ 921,666</u>	<u>\$ 243,819</u>

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021 AND 2020

Below is a disaggregated view of the Cooperative's revenues from contracts with customers as well as other revenues, including their location on the consolidated statement of operations and patronage capital for the year ended December 31, 2020:

<u>Revenue Streams</u>	Electric Revenue	Other Operating Revenue	Non Operating Revenue
Member Electric Sales - Residential	\$ 85,603,997	\$ -	\$ -
Member Electric Sales - Commercial & Industry	36,850,417	-	-
Member Electric Sales - Other	882,912	-	-
Miscellaneous Service Revenue	-	237,046	-
Rent from Electric Property	-	135,113	-
Forfeited Discounts	-	341,609	-
Other Electric Revenue	-	1,869	-
Merchandising - Net	-	-	243,994
Total Revenue from Contracts with Customers	<u>\$ 123,337,326</u>	<u>\$ 715,637</u>	<u>\$ 243,994</u>
<u>Timing of Revenue Recognition</u>			
Services Transferred Over Time	\$ 123,337,326	\$ 135,113	\$ -
Goods Transferred at a Point in Time	-	580,524	243,994
Total Revenue from Contracts with Customers	<u>\$ 123,337,326</u>	<u>\$ 715,637</u>	<u>\$ 243,994</u>

Electric revenue

Electric revenues consist of retail electric power sales to members, who are located within the Cooperative's defined service territory, through the membership agreement and Cooperative bylaws. All of the electric revenues meet the criteria to be classified as revenue from contracts with customers and are recognized over time as energy is delivered. Revenue is recognized based on the metered quantity of electricity delivered at the applicable board approved rates.

The Cooperative estimates electric revenue for electricity delivered, but not yet billed (Unbilled Revenue). The Cooperative estimates the electricity delivered as of month end and records applicable revenue at board approved rates. As of December 31, 2021, and 2020, unbilled revenue included in total electric sales was \$4,031,743 and \$3,784,391, respectively.

In 2021 and 2020, the Cooperative deferred the recognition of \$5,000,000 and \$0, respectively, of member electric revenue under regulatory accounting (see Note 10). The Cooperative did not recognize deferred member electric revenue in the consolidated statement of operations and patronage capital in 2021 or 2020, respectively.

Contract liabilities consist of customer deposits and energy prepayments. Customer receivable and contract balances with customers were as follows:

	<u>Customer Receivables</u>	<u>Contract Liabilities</u>
January 1, 2020	\$ 14,701,710	\$ 2,031,440
December 31, 2020	12,995,514	1,803,931
December 31, 2021	16,170,959	2,122,238

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Other Operating Revenue

Other operating revenue primarily includes: revenue received from miscellaneous service revenue provided to members, forfeited penalties, pole rental, building rental, and other electric revenue. All of these revenue streams meet the criteria to be classified as revenue from contracts with customers. Miscellaneous service revenue and forfeited discounts are recognized at a point in time when the service is provided at the contractual rate and rent from electric property is recognized over time.

Other Nonoperating Revenue

Other nonoperating revenue represents revenue from service, sales, and installation of water heaters, furnaces, and meters and other miscellaneous revenues. All of these revenue streams meet the criteria to be classified as revenue from contracts with customers. These other non-operating revenues are recognized at a point in time as the equipment and installation is delivered at agreed upon contractual prices.

NOTE 14 POST RETIREMENT BENEFITS

The following is the RS Plan Disclosure Information for East Central Energy's participation in the NRECA Retirement Security Plan for 2021.

Narrative Description

The Retirement Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Association (NRECA), is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multi-employer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Plan Information

The Cooperative employees hired prior to April 20, 2012 are participants in the RS Plan. The Cooperative's contributions to the RS Plan in 2021 and 2020 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of \$2,141,736 and \$2,317,843 in 2021 and 2020, respectively. There have been no significant changes that affect the comparability of 2021 and 2020 contributions.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employers. In total, the Retirement Security Plan was 80 percent funded at January 1, 2021 and 80 percent funded January 1, 2020 based on the PPA funding target and PPA actuarial value of assets on those dates.

MINNESOTA 1 KANABEC
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Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

In addition to the above retirement plan, employees of the Cooperative hired prior to April 20, 2012 are eligible for a 401(k) savings plan. This plan is offered through the NRECA. The Cooperative makes a matching contribution of up to 3.0% of each employee's base wage in this plan. For employees hired after April 20, 2012, the Cooperative contributes a base contribution of 5% of the base pay of the employee and a matching contribution of up to 5%. For the years ended December 31, 2021 and 2020, the Cooperative made contributions of approximately \$724,683 and \$678,130, respectively.

NOTE 15 R&S PLAN PREPAYMENT

At the December 2012 meeting of the Insurance & Financial Services Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The prepayment amount was approximately 2.5 times the cooperative's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, the billing rate was reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years from January 1, 2013. However, changes in interest rates, asset returns and other plan experience different from expected, plan assumption changes and other factors may have an impact on the differential in billing rates and the 15 year period.

On July 24, 2013, the Cooperative made a prepayment of \$7,672,086 to the NRECA RS Plan. In accordance with RUS accounting requirements, the prepayment was recorded as a long-term deferred debit. The Cooperative amortized this amount over thirteen years until the year ending December 31, 2021. The amount amortized for the years ended December 31, 2021 and 2020 was \$2,950,802 and \$590,160, respectively as the Cooperative elected to fully amortize the remaining balance of the prepayment during the year ended December 31, 2021. Interest expense associated with the prepayment loan is being accounted for in accordance with the RUS USOA.

As of December 31, 2021 and 2020, the remaining deferred debit to amortize related to the NRECA RS Plan prepayment was \$0 and \$2,950,802, respectively.

NOTE 16 RELATED PARTY TRANSACTIONS

The Cooperative is a member of and purchases its energy requirements from Great River Energy. All related costs of power, accounts payable for power costs and related capital credits arise out of transactions with Great River Energy.

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021 AND 2020

NOTE 17 COMMITMENTS

Wholesale Firm Power

Under its wholesale power agreement, the Cooperative is committed to purchase 95% of its electric power and energy requirements from Great River Energy until December 31, 2045. The remaining 5% may be obtained from renewable energy resources. The rates paid are subject to review annually.

Concentration of Sources of Labor

At December 31, 2021, the Cooperative has approximately 28% of its employees covered by a collective bargaining agreement. The collective bargaining agreement is in force until October 31, 2025.

NOTE 18 NON-CURRENT LIABILITIES

The Cooperative sponsors a defined postretirement plan covering eligible employees of a predecessor cooperative. The plan is a shared dollar amount as set by policy over the life of the eligible employees. The plan is unfunded and contributory.

	<u>2021</u>	<u>2020</u>
Change in Postretirement Benefit Obligation		
Accumulated Post Retirement Benefit		
Obligation, Beginning of Year	\$ 128,878	\$ 160,243
Actuarial Gain (Loss)	6,499	(9,837)
Benefits Paid	<u>(16,170)</u>	<u>(21,528)</u>
Accumulated Postretirement Benefit		
Obligation, End of Year	119,207	128,878
Change in Plan Assets		
Plan Assets, Beginning of Year	-	-
Employer Contributions	16,170	21,528
Benefits Paid During the Year	<u>(16,170)</u>	<u>(21,528)</u>
(Accrued) Prepaid Pension Expense	<u>-</u>	<u>-</u>
Net Post Retirement Benefit Obligation Recognized	<u>\$ 119,207</u>	<u>\$ 128,878</u>
Weighted Average Assumptions as of December 31:		
Discount Rate	4.49%	4.49%
Rate of Increase in Annual Benefit Cost	8.40%	8.40%
Expected Benefits Payments		
2022	\$ 16,146	
2023	16,650	
2024	17,169	
2025	17,705	
2026	18,257	

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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Changing the rate of assumed health care costs by a 1% increase or decrease would change the benefit obligation as of December 31, 2021 and 2020 by approximately \$4,875 and \$5,890, respectively.

NOTE 19 CONTINGENCIES

The Cooperative is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of business. Management believes that any liability that may ultimately result from the resolution of these matters would be covered by insurance and will not have a material adverse effect on the financial condition or results of operations of the Cooperative.

NOTE 20 UNCERTAIN TAX POSITIONS

It is the opinion of management that the Cooperative has no significant uncertain tax positions that would be subject to change upon examination. The federal income tax returns of the Cooperative are subject to examination by the IRS, generally for three years after they were filed. All tax filings are current.

NOTE 21 ADVERTISING EXPENSE

The Cooperative and consolidated entities incurred advertising expense of \$167,320 and \$175,524 for the years ended December 31, 2021 and 2020, respectively.

NOTE 22 BUSINESS CREDIT RISK

The Cooperative provides electrical service on account to its members whom are primarily located in East Central Minnesota and Northwest Wisconsin. The subsidiaries provide local and long distance telephone, and internet services.

The Cooperative maintains its cash in bank deposit accounts which, at times, may exceed federal insurance limits as guaranteed by the Federal Deposit Insurance Corporation (FDIC). The Cooperative maintains its cash deposits in well-capitalized institutions. The Cooperative has not experienced any losses in such accounts nor does the Cooperative believe it is exposed to any significant credit risk on cash accounts.

NOTE 23 NEW PRONOUNCEMENTS

ASU 2016-02, Leases (Topic 842)

During 2016, the FASB issued guidance to change the accounting for leases. The main provision of this ASU is that lessees will be required to recognize lease assets and lease liabilities for most long-term leases, including those classified as operating leases under GAAP. The ASU is effective for the Cooperative for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

Management has not yet determined what effect this pronouncement will have on the Cooperative's consolidated financial statements.

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021 AND 2020

With the exception of the new standard discussed above, management has not identified any other new accounting pronouncements that have potential significance to the Cooperative's consolidated financial statements.

NOTE 24 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Cooperative's year end. Subsequent events have been evaluated through February 1, 2022, which is the date these consolidated financial statements were available to be issued.

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL AND OTHER INFORMATION

The Board of Directors
Minnesota 1 Kanabec
East Central Energy and Subsidiaries
Braham, Minnesota

Supplemental Information

We have audited the consolidated financial statements of East Central Energy and Subsidiaries as of and for the years ended December 31, 2021 and 2020, and our report thereon dated February 1, 2022, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 30-42, which is the responsibility of management, is presented for purposes of additional analysis of the consolidated financial statements and is not a required part of the consolidated financial statements. Such information, except for the Directors, Officers, and Management section marked "unaudited", was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements and is not intended to present the consolidated financial position, consolidated results of operations, and consolidated cash flows of East Central Energy and Subsidiaries. The information has been subjected to auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Directors, Officers and Management section. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

February 1, 2022

**MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
DIRECTORS, OFFICERS AND MANAGEMENT (UNAUDITED)
DECEMBER 31, 2021**

DIRECTORS

Garry Bye	Diane Zimmerman
David Deutschlander	Rick Olson
Jim Jesok	Wes Siemers
Lonnie Johnson	Wayne Eller

OFFICERS

<u>Name</u>	<u>Position</u>
Linda Laitala	Chair
Jerry Tvedt	Vice Chair
Joseph Morley	Secretary - Treasurer
Greg Kvasnicka	Assistant Secretary - Treasurer
Justin Jahnz	President / CEO

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2021

	East Central Energy	ECE NET, LLC	Diversified Enterprises, LLC	Eliminations	Consolidated
ELECTRIC PLANT					
In Service	\$354,766,071	\$ -	\$ -	\$ -	\$354,766,071
Construction Work in Progress	6,639,507	-	-	-	6,639,507
Total Electric Plant	361,405,578	-	-	-	361,405,578
Less Accumulated Depreciation	(123,327,842)	-	-	-	(123,327,842)
	<u>238,077,736</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>238,077,736</u>
OTHER PROPERTY AND INVESTMENTS					
Notes Receivable, Net of Current Portion	1,200,816	-	-	-	1,200,816
Due from Related Party, East Central Energy	-	619,802	-	(619,802)	-
Non-Utility Property	2,396,771	-	-	-	2,396,771
Investments in Associated Companies	71,752,764	-	-	(1,385,024)	70,367,740
Other Investments	357,461	740,080	-	-	1,097,541
	<u>75,707,812</u>	<u>1,359,882</u>	<u>-</u>	<u>(2,004,826)</u>	<u>75,062,868</u>
Total Other Property and Investments					
CURRENT ASSETS					
Cash and Cash Equivalents	13,423,441	-	242	-	13,423,683
Current Portion of Notes Receivable	538,000	-	-	-	538,000
Accounts Receivable, Net	16,170,959	-	-	-	16,170,959
Other Receivable	2,971,535	-	-	-	2,971,535
Material and Supplies	3,359,688	-	-	-	3,359,688
Prepayments	750,869	-	-	-	750,869
Interest Receivable	25,529	-	-	-	25,529
	<u>37,240,021</u>	<u>-</u>	<u>242</u>	<u>-</u>	<u>37,240,263</u>
Total Current Assets					
DEFERRED DEBITS	<u>3,241</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,241</u>
ASSETS OF DISCONTINUED OPERATIONS	<u>-</u>	<u>-</u>	<u>24,900</u>	<u>-</u>	<u>24,900</u>
	<u>\$351,028,810</u>	<u>\$ 1,359,882</u>	<u>\$ 25,142</u>	<u>\$ (2,004,826)</u>	<u>\$350,409,008</u>

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET - CONTINUED
DECEMBER 31, 2021

	East Central Energy	ECE NET, LLC	Diversified Enterprises, LLC	Eliminations	Consolidated
EQUITIES					
Patronage Capital	\$117,793,846	\$ -	\$ -	\$ -	\$117,793,846
Other Equities	17,979,420	1,359,882	25,142	(1,385,024)	17,979,420
Total Equities	135,773,266	1,359,882	25,142	(1,385,024)	135,773,266
LONG-TERM DEBT, LESS CURRENT MATURITIES	163,346,699	-	-	-	163,346,699
NONCURRENT LIABILITIES					
Due to Related Party, ECE NET, LLC	619,802	-	-	(619,802)	-
Other	119,207	-	-	-	119,207
Total Other Liabilities	739,009	-	-	(619,802)	119,207
CURRENT LIABILITIES					
Current Maturities of Long-Term Debt	7,393,105	-	-	-	7,393,105
Line of Credit	6,000,000	-	-	-	6,000,000
Accounts Payable - General	747,230	-	-	-	747,230
Accounts Payable to Associated Company - Billed Power Costs	14,102,312	-	-	-	14,102,312
Customer Deposits	756,417	-	-	-	756,417
Taxes Accrued	1,946,406	-	-	-	1,946,406
Interest Accrued	192,763	-	-	-	192,763
Accrued Compensation	429,489	-	-	-	429,489
Accrued Compensated Absences	2,549,545	-	-	-	2,549,545
Accrued Self Insurance	311,799	-	-	-	311,799
Miscellaneous Current and Accrued Liabilities	9,473	-	-	-	9,473
Total Current Liabilities	34,438,539	-	-	-	34,438,539
DEFERRED CREDITS					
Customers' Energy Prepayments	1,365,821	-	-	-	1,365,821
RUS Deferred Revenue	11,500,000	-	-	-	11,500,000
Special Equipment Installation Costs	852,258	-	-	-	852,258
Unclaimed Property	2,969,774	-	-	-	2,969,774
Other	43,444	-	-	-	43,444
Total Deferred Credits	16,731,297	-	-	-	16,731,297
	\$351,028,810	\$ 1,359,882	\$ 25,142	\$ (2,004,826)	\$350,409,008

**MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
AND PATRONAGE CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2021**

	East Central Energy	ECE NET, LLC	Diversified Enterprises, LLC	Eliminations	Consolidated
OPERATING REVENUES					
Electric	\$126,089,239	\$ -	\$ -	\$ -	\$126,089,239
Other	921,666	-	-	-	921,666
Non Electric	-	90,442	-	(46,203)	44,239
Total Operating Revenues	127,010,905	90,442	-	(46,203)	127,055,144
OPERATING EXPENSES					
Cost of Power	80,569,675	-	-	-	80,569,675
Distribution - Operation	6,051,904	-	-	-	6,051,904
Distribution - Maintenance	7,088,700	-	-	-	7,088,700
Customer Accounts	2,192,246	-	-	-	2,192,246
Customer Service and Information	2,430,053	-	-	-	2,430,053
Cost of Goods Sold	-	31,622	-	(31,622)	-
Administrative and General	10,845,359	-	-	-	10,845,359
Depreciation	10,888,649	-	-	-	10,888,649
Income Taxes and Wisconsin Property Taxes	146,921	-	-	-	146,921
Other	255,015	-	-	-	255,015
Non Electric Operating Expenses	-	-	-	31,622	31,622
Total Operating Expenses	120,468,522	31,622	-	-	120,500,144
OPERATING MARGIN BEFORE FIXED CHARGES	6,542,383	58,820	-	(46,203)	6,555,000
Interest	5,782,724	-	-	-	5,782,724
OPERATING MARGIN AFTER FIXED CHARGES	759,659	58,820	-	(46,203)	772,276
GENERATION AND TRANSMISSION AND OTHER COOPERATIVE CAPITAL CREDITS	5,339,445	-	-	-	5,339,445
NET OPERATING MARGIN	\$ 6,099,104	\$ 58,820	\$ -	\$ (46,203)	\$ 6,111,721

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
AND PATRONAGE CAPITAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2021

	East Central Energy	ECE NET, LLC	Diversified Enterprises, LLC	Eliminations	Consolidated
NON-OPERATING MARGIN					
Jobbing and Contract Work, Less Costs and Expenses	\$ 236,187	\$ -	\$ -	\$ -	\$ 236,187
Gain From Investment in ECE NET, LLC	58,820	-	-	(58,820)	-
Gain From Investment in Local Access Network	175,430	-	-	-	175,430
Gain From Investment in Northland Connect Broadband	-	-	-	46,203	46,203
Loss on Sale of Property and Equipment	(162,501)	-	-	-	(162,501)
Interest Income	144,247	-	-	-	144,247
Other	7,632	-	-	-	7,632
Total Non-Operating Margin	<u>459,815</u>	<u>-</u>	<u>-</u>	<u>(12,617)</u>	<u>447,198</u>
NET MARGIN FROM CONTINUING OPERATIONS	6,558,919	58,820	-	(58,820)	6,558,919
DISCONTINUED OPERATION (NOTE 2)					
Income (Loss) From Discontinued Operation Diversified Enterprises, LLC (d/b/a Como Oil)	<u>62,685</u>	<u>-</u>	<u>62,685</u>	<u>(62,685)</u>	<u>62,685</u>
Income on Discontinued Operation	<u>62,685</u>	<u>-</u>	<u>62,685</u>	<u>(62,685)</u>	<u>62,685</u>
NET MARGIN	6,621,604	58,820	62,685	(121,505)	6,621,604
PATRONAGE CAPITAL - BEGINNING OF YEAR	117,718,796	-	-	-	117,718,796
UNALLOCATED MARGINS	(168,543)	-	-	-	(168,543)
RETIREMENT OF CAPITAL CREDITS	<u>(6,378,011)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,378,011)</u>
PATRONAGE CAPITAL - END OF YEAR	<u>\$117,793,846</u>	<u>\$ 58,820</u>	<u>\$ 62,685</u>	<u>\$ (121,505)</u>	<u>\$117,793,846</u>

**MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021**

	East Central Energy	ECE NET, LLC	Diversified Enterprises, LLC	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Margin	\$ 6,621,604	\$ 58,820	\$ 62,685	\$ (121,505)	\$ 6,621,604
Adjustments to Reconcile Net Margin to Net Cash Provided (Used) by Operating Activities					
Depreciation	12,175,726	-	-	-	12,175,726
(Gain) Loss on Retirement of Plant and Equipment	162,501	-	-	-	162,501
Noncash Patronage Capital Allocations	(5,339,445)	-	-	-	(5,339,445)
Undistributed (Gain) Loss on Investments	(121,505)	(46,203)	-	121,505	(46,203)
Provision for Uncollectible Accounts	60,000	-	-	-	60,000
Net Effects on Operating Cash Flows Due to Changes in:					
Accounts Receivable	(6,206,889)	-	-	-	(6,206,889)
Due From Related Party - East Central Energy	-	(56,617)	-	56,617	-
Resale Inventory	39,460	-	-	-	39,460
Prepayments	(279,310)	-	-	-	(279,310)
Deferred Charges	2,947,561	-	-	-	2,947,561
Accounts Payable	806,270	-	-	-	806,270
Accrued Compensation and Compensated Absences	31,401	-	-	-	31,401
Due to Related Party - ECE NET, LLC	56,617	-	-	(56,617)	-
Other Accrued Liabilities	451,007	-	-	-	451,007
Other Deferred Credits	5,497,278	-	-	-	5,497,278
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>16,902,276</u>	<u>(44,000)</u>	<u>62,685</u>	<u>-</u>	<u>16,920,961</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Additions to, and Costs of Retirements of Utility Plant, Net	(16,702,936)	-	-	-	(16,702,936)
(Increase) Decrease in Material and Supplies	(311,633)	-	-	-	(311,633)
Proceeds from Sale of Property and Equipment	31,495	-	-	-	31,495
Distribution from Subsidiary, Diversified Enterprises, LLC	62,715	-	-	(62,715)	-
Change in Notes Receivable, Other Property and Investments Exclusive of Noncash Patronage Capital Credits	3,590,476	44,000	-	-	3,634,476
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>\$ (13,329,883)</u>	<u>\$ 44,000</u>	<u>\$ -</u>	<u>\$ (62,715)</u>	<u>\$ (13,348,598)</u>

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2021

	East Central Energy	ECE NET, LLC	Diversified Enterprises, LLC	Eliminations	Consolidated
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from Line of Credit	\$ 6,000,000	\$ -	\$ -	\$ -	\$ 6,000,000
Principal Payments on Long-Term Debt	(6,871,108)	-	-	-	(6,871,108)
Distribution to Partner, East Central Energy	-	-	(62,715)	62,715	-
Post Employment Benefits	(9,671)	-	-	-	(9,671)
Customer Deposits	21,269	-	-	-	21,269
Net Retirement of Patronage Capital	(6,012,934)	-	-	-	(6,012,934)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(6,872,444)</u>	<u>-</u>	<u>(62,715)</u>	<u>62,715</u>	<u>(6,872,444)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,300,051)	-	(30)	-	(3,300,081)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>16,723,492</u>	<u>-</u>	<u>272</u>	<u>-</u>	<u>16,723,764</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 13,423,441</u>	<u>\$ -</u>	<u>\$ 242</u>	<u>\$ -</u>	<u>\$ 13,423,683</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
Cash Paid During the Year for:					
Interest	\$ 5,796,097	\$ -	\$ -	\$ -	\$ 5,796,097
Income Taxes	30,353	-	-	-	30,353

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
BALANCE SHEETS – EAST CENTRAL ENERGY
DECEMBER 31, 2021 AND 2020

ASSETS	<u>2021</u>	<u>2020</u>
ELECTRIC PLANT		
Electric Plant in Service	\$ 354,766,071	\$ 340,340,211
Construction Work in Progress	<u>6,639,507</u>	<u>8,721,584</u>
	361,405,578	349,061,795
Less: Accumulated Provisions for Depreciation	<u>(123,327,842)</u>	<u>(115,317,274)</u>
	<u>238,077,736</u>	<u>233,744,521</u>
OTHER PROPERTY AND INVESTMENTS		
Notes Receivable, Net of Current Portion	1,200,816	1,267,402
Non-Utility Property	2,396,771	2,396,771
Investments in Associated Companies	71,752,764	69,955,245
Other Investments	<u>357,461</u>	<u>362,636</u>
	<u>75,707,812</u>	<u>73,982,054</u>
CURRENT ASSETS		
Cash and Cash Equivalents	13,423,441	16,723,492
Current Portion of Notes Receivable	538,000	456,000
Accounts Receivable - Net of Allowance		
2021 - \$487,721; 2020 - \$426,727	16,170,959	12,995,514
Other Receivable	2,971,535	-
Material and Supplies	3,359,688	3,087,515
Prepayments	750,869	471,559
Interest Receivable	<u>25,529</u>	<u>25,620</u>
	<u>37,240,021</u>	<u>33,759,700</u>
DEFERRED DEBITS	<u>3,241</u>	<u>2,950,802</u>
TOTAL	<u><u>\$ 351,028,810</u></u>	<u><u>\$ 344,437,077</u></u>

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
BALANCE SHEETS – EAST CENTRAL ENERGY - CONTINUED
DECEMBER 31, 2021 AND 2020

LIABILITIES AND MEMBERS' EQUITY	2021	2020
EQUITIES		
Patronage Capital	\$ 117,793,846	\$ 117,718,796
Other Equities	17,979,420	17,445,801
	135,773,266	135,164,597
LONG-TERM DEBT		
Long-Term Debt (Net of Current Portion)	163,346,699	170,730,088
NONCURRENT LIABILITIES		
Due To Related Party, ECE NET, LLC	619,802	563,185
Other	119,207	128,878
	739,009	692,063
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	7,393,105	6,880,824
Line of Credit	6,000,000	-
Accounts Payable - General	747,230	826,504
Accounts Payable to Associated Company - Billed Power Costs	14,102,312	13,216,768
Customer Deposits	756,417	735,148
Taxes Accrued	1,946,406	1,558,288
Interest Accrued	192,763	206,136
Accrued Compensation	429,489	218,136
Accrued Compensated Absences	2,549,545	2,729,497
Accrued Self Insurance	311,799	236,686
Miscellaneous Current and Accrued Liabilities	9,473	8,323
	34,438,539	26,616,310
DEFERRED CREDITS		
Customers' Energy Prepayments	1,365,821	1,068,783
Deferred Revenue	11,500,000	6,500,000
Special Equipment Installation Costs	852,258	910,401
Unclaimed Property	2,969,774	2,727,742
Other	43,444	27,093
	16,731,297	11,234,019
TOTAL	\$ 351,028,810	\$ 344,437,077

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
STATEMENTS OF OPERATIONS – EAST CENTRAL ENERGY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUE		
Electric	\$ 126,089,239	\$ 123,337,326
Other	921,666	715,637
Total	<u>127,010,905</u>	<u>124,052,963</u>
OPERATING EXPENSES		
Cost of Power	80,569,675	76,867,068
Distribution - Operations	6,051,904	5,947,053
Distribution - Maintenance	7,088,700	8,286,274
Customer Accounts	2,192,246	2,265,805
Customer Service and Information	2,430,053	2,359,793
Administrative and General	10,845,359	8,296,749
Depreciation	10,888,649	10,715,660
Income Taxes and Wisconsin Property Taxes	146,921	77,782
Other	255,015	242,491
Total	<u>120,468,522</u>	<u>115,058,675</u>
OPERATING MARGINS BEFORE FIXED CHARGES	6,542,383	8,994,288
FIXED CHARGES		
Interest Expense	<u>5,782,724</u>	<u>5,838,051</u>
OPERATING MARGINS AFTER FIXED CHARGES	759,659	3,156,237
G&T AND OTHER CAPITAL CREDITS	<u>5,339,445</u>	<u>2,530,091</u>
NET OPERATING MARGINS	<u>6,099,104</u>	<u>5,686,328</u>
NON-OPERATING MARGIN (LOSS)		
Jobbing and Contract Work, Less Costs and Expenses	236,187	239,134
Gain (Loss) From Investment in ECE NET, LLC	58,820	71,118
Gain (Loss) From Investment in Local Access Network	175,430	12,670
Gain (Loss) From Investment in Diversified Enterprises, LLC	62,685	67,778
Gain (Loss) on Sale of Property and Equipment	(162,501)	(17,845)
Interest Income	144,247	119,080
Other Non-Operating	7,632	4,860
Total	<u>522,500</u>	<u>496,795</u>
NET MARGINS	6,621,604	6,183,123
PATRONAGE CAPITAL - BEGINNING OF YEAR	117,718,796	117,039,537
UNALLOCATED MARGINS	(168,543)	(21,509)
RETIREMENT OF CAPITAL CREDITS	<u>(6,378,011)</u>	<u>(5,482,355)</u>
PATRONAGE CAPITAL - END OF YEAR	<u>\$ 117,793,846</u>	<u>\$ 117,718,796</u>

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS – EAST CENTRAL ENERGY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 6,621,604	\$ 6,183,123
Adjustments to Reconcile Net Margins to Net Cash From Operating Activities		
Depreciation	12,175,726	11,904,482
(Gain) Loss on Retirement of Plant and Equipment	162,501	(17,845)
Noncash Patronage Capital Allocations	(5,339,445)	(2,530,091)
Undistributed (Gain) Loss on Investments	(121,505)	(151,566)
Provision for Uncollectible Accounts	60,000	60,000
Net Effects on Operating Cash Flows Due to Changes in:		
Accounts Receivable	(6,206,889)	1,646,266
Resale Inventory	39,460	(36,348)
Prepaid Expenses	(279,310)	153,183
Deferred Charges	2,947,561	617,167
Accounts Payable	806,270	(296,399)
Accrued Payroll and Compensated Absences	31,401	(396,052)
Due to Related Party, ECE NET, LLC	56,617	52,741
Other Accrued Liabilities	451,007	(98,834)
Other Deferred Credits	<u>5,497,278</u>	<u>339,618</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>16,902,276</u>	<u>17,429,445</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to, and Costs of Retirements of Utility Plant	(16,702,936)	(16,376,594)
(Increase) Decrease in Material and Supplies	(311,633)	214,427
Proceeds From Sale of Property	31,495	142,900
Distribution From Subsidiary, Diversified Enterprises, LLC	62,715	67,808
Change in Notes Receivable, Other Property and Investments Exclusive of Noncash Patronage Capital Credits	<u>3,590,476</u>	<u>1,945,362</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(13,329,883)</u>	<u>(14,006,097)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Short-Term Borrowings	6,000,000	(6,000,000)
Proceeds on Long-Term Debt	-	24,000,000
Principal Payments on Long-Term Debt	(6,871,108)	(7,977,505)
Post Employment Benefits	(9,671)	(31,365)
Customer Deposits	21,269	(154,477)
Retirement of Patronage Capital	<u>(6,012,934)</u>	<u>(5,037,808)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>\$ (6,872,444)</u>	<u>\$ 4,798,845</u>

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS – EAST CENTRAL ENERGY - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (3,300,051)	\$ 8,222,193
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	16,723,492	8,501,299
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 13,423,441	\$ 16,723,492
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid During the Year for:		
Interest	\$ 5,796,097	\$ 5,856,156
Income Taxes	30,353	41,621
NONCASH INVESTING AND FINANCING ACTIVITIES		
Transfer of Investment from Subsidiary to Parent	\$ -	\$ 460,687

MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES
RUS SUPPLEMENTAL SCHEDULES OF DEFERRED DEBITS,
DEFERRED CREDITS AND INVESTMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

DETAILED SCHEDULE OF INVESTMENTS

	100% Equity Ownership in ECE NET, LLC	100% Equity Ownership in Diversified Enterprises, LLC	50% Equity Ownership in Local Access Network LLC	Total
Original Equity Investment	\$ -	\$ 3,158,946	\$ 206,251	\$ 3,365,197
Capital Contributions	-	1,050,000	785,000	1,835,000
Purchase of Additional Ownership	-	201,855	-	201,855
Distributions	(1,334,663)	(13,747,004)	(815,821)	(15,897,488)
Sale of Ownership	-	-	(175,430)	(175,430)
Increase in Investment Through Debt to Equity Conversion	-	395,254	-	395,254
Undistributed Earnings (Loss)	<u>2,694,545</u>	<u>8,966,091</u>	<u>-</u>	<u>11,660,636</u>
Balance, December 31, 2021	<u>\$ 1,359,882</u>	<u>\$ 25,142</u>	<u>\$ -</u>	<u>\$ 1,385,024</u>
Book Value of Investments As of December 31, 2019	\$ 1,229,944	\$ 485,889	\$ 276,901	\$ 1,992,734
Distributions	-	(528,495)	(75,000)	(603,495)
Undistributed Income for the Year Ended December 31, 2020	<u>71,118</u>	<u>67,778</u>	<u>12,670</u>	<u>151,566</u>
Book Value of Investments As of December 31, 2020	1,301,062	25,172	214,571	1,540,805
Distributions	-	(62,715)	-	(62,715)
Sale of Ownership	-	-	(214,571)	(214,571)
Undistributed Income for the Year Ended December 31, 2021	<u>58,820</u>	<u>62,685</u>	<u>-</u>	<u>121,505</u>
Book Value of Investments As of December 31, 2021	<u>\$ 1,359,882</u>	<u>\$ 25,142</u>	<u>\$ -</u>	<u>\$ 1,385,024</u>

The ownership in ECE NET, LLC allows the Cooperative the ability to provide its members with high-speed internet service.

**MINNESOTA 1 KANABEC
EAST CENTRAL ENERGY AND SUBSIDIARIES**
RUS SUPPLEMENTAL SCHEDULES OF DEFERRED DEBITS,
DEFERRED CREDITS AND INVESTMENTS -CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

The ownership in Diversified Enterprises, LLC allowed the Cooperative to provide oil, propane and natural gas to northeastern Minnesota and northwestern Wisconsin. It is now a discontinued operation.

The ownership in Local Access Network, LLC allowed the Cooperative the ability to provide its members with telephone, internet and cable services. The ownership of Local Access Network, LLC was sold during 2021.

DETAILED SCHEDULE OF DEFERRED DEBITS AND CREDITS

	<u>2021</u>	<u>2020</u>
Deferred Debits		
NRECA Pension Costs	\$ -	\$ 2,950,802
Work Plan	3,241	-
	<u>\$ 3,241</u>	<u>\$ 2,950,802</u>
	<u>2021</u>	<u>2020</u>
Deferred Credits		
Special Equipment Installation Costs	\$ 852,258	\$ 910,401
Unclaimed Property	2,969,774	2,727,742
RUS Deferred Revenue	11,500,000	6,500,000
Customer Prepayments	1,365,821	1,068,783
Other	43,444	27,093
Total Deferred Credits	<u>\$ 16,731,297</u>	<u>\$ 11,234,019</u>

Deferred revenue has been approved by RUS.