

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

AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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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, 2023 and 2022, 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, 2023 and 2022, 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 audits 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 17, 2024, 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 17, 2024

**MINNESOTA 1 KANABEC**  
**EAST CENTRAL ENERGY AND SUBSIDIARIES**  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2023 AND 2022

ASSETS	<u>2023</u>	<u>2022</u>
<b>ELECTRIC PLANT</b>		
In Service	\$ 390,163,396	\$ 368,666,539
Construction Work in Progress	<u>37,208,915</u>	<u>5,574,150</u>
	427,372,311	374,240,689
Less: Accumulated Provisions for Depreciation	<u>(142,575,500)</u>	<u>(130,951,075)</u>
	<u>284,796,811</u>	<u>243,289,614</u>
<b>OTHER PROPERTY AND INVESTMENTS</b>		
Notes Receivable, Net of Current Portion	1,127,519	1,073,928
Non-Utility Property	16,003,192	2,396,771
Investments in Associated Companies	70,945,179	69,351,747
Other Investments	<u>1,162,187</u>	<u>1,126,806</u>
	<u>89,238,077</u>	<u>73,949,252</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	13,568,809	15,988,170
Current Portion of Notes Receivable	405,000	437,900
Accounts Receivable - Net of Allowance		
2023 - \$469,380; 2022 - \$496,259	16,909,661	17,151,325
Other Receivable	-	2,133,295
Other Receivable - Storm	295,761	250,048
Material and Supplies	15,744,460	4,616,666
Prepayments	681,210	619,675
Interest Receivable	<u>25,529</u>	<u>25,529</u>
	<u>47,630,430</u>	<u>41,222,608</u>
DEFERRED DEBITS	<u>19,435</u>	<u>-</u>
ASSETS OF DISCONTINUED OPERATIONS	<u>-</u>	<u>24,900</u>
<b>TOTAL</b>	<u>\$ 421,684,753</u>	<u>\$ 358,486,374</u>

See Notes to the Consolidated Financial Statements

**MINNESOTA 1 KANABEC**  
**EAST CENTRAL ENERGY AND SUBSIDIARIES**  
CONSOLIDATED BALANCE SHEETS - CONTINUED  
DECEMBER 31, 2023 AND 2022

LIABILITIES AND MEMBERS' EQUITY	<u>2023</u>	<u>2022</u>
<b>EQUITIES</b>		
Patronage Capital	\$ 131,294,094	\$ 123,669,972
Other Equities	19,145,304	18,725,190
	<u>150,439,398</u>	<u>142,395,162</u>
<b>LONG-TERM DEBT</b>		
Long-Term Debt (Net of Current Portion)	<u>207,494,610</u>	<u>165,611,554</u>
<b>OTHER NONCURRENT LIABILITIES</b>		
	<u>99,060</u>	<u>112,432</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	9,275,626	13,528,957
Line of Credit	11,000,000	-
Accounts Payable - General	5,387,416	1,516,342
Accounts Payable to Associated Company - Billed Power Costs	13,057,701	12,704,186
Customer Deposits	803,634	731,939
Taxes Accrued	1,595,931	2,047,074
Interest Accrued	373,219	177,626
Accrued Compensation	356,291	299,046
Accrued Compensated Absences	2,504,745	2,490,417
Accrued Self Insurance	200,000	298,064
Miscellaneous Current and Accrued Liabilities	15,072	10,929
	<u>44,569,635</u>	<u>33,804,580</u>
<b>DEFERRED CREDITS</b>		
Customers' Energy Prepayments	883,130	869,220
Deferred Revenue	11,500,000	11,500,000
Special Equipment Installation Costs	1,035,269	1,041,266
Unclaimed Property	3,405,951	3,125,775
Employee Retention Credit (ERC)	2,231,464	-
Other	26,236	26,385
	<u>19,082,050</u>	<u>16,562,646</u>
<b>TOTAL</b>	<u>\$ 421,684,753</u>	<u>\$ 358,486,374</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, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Electric	\$ 136,023,173	\$ 132,401,699
Other	1,039,956	955,507
Subsidiary	<u>-</u>	<u>37,603</u>
Total Operating Revenues	<u>137,063,129</u>	<u>133,394,809</u>
OPERATING EXPENSES		
Cost of Power	82,843,323	80,146,380
Distribution - Operation	6,039,093	6,055,975
Distribution - Maintenance	9,057,119	9,483,750
Customer Accounts	2,333,484	2,115,617
Customer Service and Information	2,611,253	2,675,266
Administrative and General	8,783,145	8,840,463
Depreciation and Amortization	12,165,065	11,340,406
Income Taxes and Wisconsin Property Taxes	22,025	109,906
Other	204,380	152,670
Subsidiary Operating Expenses and Cost of Sales	<u>-</u>	<u>35,822</u>
Total Operating Expenses	<u>124,058,887</u>	<u>120,956,255</u>
OPERATING MARGIN BEFORE FIXED CHARGES	13,004,242	12,438,554
Interest	<u>6,548,851</u>	<u>5,816,876</u>
OPERATING MARGIN AFTER FIXED CHARGES	6,455,391	6,621,678
GENERATION AND TRANSMISSION AND OTHER COOPERATIVE CAPITAL CREDITS	<u>5,491,231</u>	<u>2,244,329</u>
NET OPERATING MARGIN	<u>11,946,622</u>	<u>8,866,007</u>
NON-OPERATING MARGIN		
Jobbing and Contract Work, Less Costs and Expenses	254,419	144,746
Loss From Broadband Division	(1,865,100)	-
Gain From Investment in Northland Connect Broadband	-	17,087
Gain on Sale of Property and Equipment	34,682	68,418
Interest Income	463,678	346,813
Other	<u>14,303</u>	<u>14,393</u>
Total Non-Operating Margin	<u>(1,098,018)</u>	<u>591,457</u>
NET MARGIN FROM CONTINUING OPERATIONS	10,848,604	9,457,464
DISCONTINUED OPERATION (NOTE 2)		
Income (Loss) From Discontinued Operation Diversified Enterprises, LLC (d/b/a Como Oil)	<u>16,419</u>	<u>-</u>
NET MARGIN	10,865,023	9,457,464
PATRONAGE CAPITAL - BEGINNING OF YEAR	123,669,972	117,793,846
UNALLOCATED MARGINS	(36,163)	(303,139)
RETIREMENT OF CAPITAL CREDITS	<u>(3,204,738)</u>	<u>(3,278,199)</u>
PATRONAGE CAPITAL - END OF YEAR	<u>\$ 131,294,094</u>	<u>\$ 123,669,972</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, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margin	\$ 10,865,023	\$ 9,457,464
Adjustments to Reconcile Net Margin to Net Cash From Operating Activities		
Depreciation	13,506,359	12,631,777
(Gain) Loss on Retirement of Plant and Equipment	(34,682)	(68,418)
Noncash Patronage Capital Allocations	(5,491,231)	(2,244,329)
Gain From Investments	-	(17,087)
Credit Loss Expense	60,000	60,000
Net Effects on Operating Cash Flows Due to Changes in:		
Accounts Receivable	2,269,246	(452,175)
Other Current Assets	(124,378)	79,497
Accounts Payable	4,224,592	(629,017)
Other Current Liabilities	<u>2,241,505</u>	<u>(284,967)</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>27,516,434</u>	<u>18,532,745</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to, and Costs of Retirements of Utility Plant, Net	(55,023,128)	(17,843,654)
Additions to, and Costs of Retirements of Non-Utility Plant, Net	(13,606,422)	-
(Increase) Decrease in Material and Supplies	(11,084,386)	(1,202,040)
Proceeds From Sale of Property and Equipment	44,253	68,418
Change in Notes Receivable, Other Property and Investments Exclusive of Noncash Patronage Capital Credits	<u>3,866,628</u>	<u>3,475,134</u>
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>(75,803,055)</u>	<u>(15,502,142)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net Short-Term Borrowings (Repayments)	11,000,000	(6,000,000)
Proceeds on Long-Term Debt	46,000,000	16,000,000
Principal Payments on Long-Term Debt	(8,370,275)	(7,599,294)
Post Employment Benefits	(13,372)	(6,775)
Customer Deposits	71,694	(24,478)
Net Retirement of Patronage Capital	<u>(2,820,787)</u>	<u>(2,835,569)</u>
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<u>45,867,260</u>	<u>(466,116)</u>

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, 2023 AND 2022

	2023	2022
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (2,419,361)	\$ 2,564,487
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	15,988,170	13,423,683
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 13,568,809	\$ 15,988,170
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for:		
Interest	\$ 6,353,258	\$ 5,832,013
Income Taxes	22,025	28,525

See Notes to the Consolidated Financial Statements

**MINNESOTA 1 KANABEC**  
**EAST CENTRAL ENERGY AND SUBSIDIARIES**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022

**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 and distributing all assets to the Cooperative in 2023.

ECE NET, LLC is a 100% owned subsidiary of the Cooperative and assists in providing its members with high-speed internet service.

The Cooperative began construction and operations of a fiber division and broadband internet network beginning in 2023 to provide service in various local areas. Service to fiber customers is set to begin in January 2024. The assets of the fiber division are presented in the consolidated financial statements as non-utility property and expenses related to the fiber division are presented in the consolidated financial statements as non-operating margins.

**Adoption of New Accounting Standards**

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses* (Topic 326). The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU.

The CECL methodology utilizes a lifetime “expected credit loss” measurement objective for the recognition of credit losses for receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the existing incurred loss model in prior GAAP, which generally required that a loss be probable before it is recognized. Financial assets held by the Cooperative that are subject to the guidance in FASB ASC 326 are trade accounts receivable and notes receivable.

The Cooperative adopted FASB ASC 326 effective January 1, 2023. The impact of the adoption was not considered material to the financial statements and primarily resulted in new/enhanced disclosures only. As such, the Cooperative did not record an impact to equity upon adoption and expects current and future credit losses to be immaterial. The Cooperative will continue to monitor the credit risk from third-party companies to determine if expected credit losses may become material.

**MINNESOTA 1 KANABEC**  
**EAST CENTRAL ENERGY AND SUBSIDIARIES**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2023 AND 2022

**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.

**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. 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.

**MINNESOTA 1 KANABEC**  
**EAST CENTRAL ENERGY AND SUBSIDIARIES**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2023 AND 2022

**Cash and Cash Equivalents**

For the purpose 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.

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.

**MINNESOTA 1 KANABEC**  
**EAST CENTRAL ENERGY AND SUBSIDIARIES**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2023 AND 2022

**Trade Receivables and Allowance for Credit Losses**

Trade receivables are derived from sales to customers and are recorded at the invoice amount, less an allowance for credit losses. The net amount represents the amount expected to be collected as of the consolidated balance sheet date. Trade credit is generally extended on a short-term basis 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. Payments on trade and notes receivable are allocated to the earliest unpaid billings.

The allowance for credit losses is based on the credit losses expected to arise over the life of the asset (contractual term) which includes consideration of prepayments and is based on management's expectation as of the consolidated balance sheet date. This estimate is updated as of each subsequent reporting date to reflect any changes in credit risk since the receivable was initially recorded. The Cooperative estimates its allowance for credit losses based on an evaluation of historical credit loss write-offs, current economic conditions, analysis of outstanding aged receivables, and reasonable and supportable forecasts of future conditions. The Cooperative believes historical loss information is a reasonable starting point from which to calculate the expected allowance for credit losses as the Cooperative's portfolio segments have remained relatively constant since the Cooperative's inception. Since the Cooperative's trade receivables are largely similar, the Cooperative currently evaluates its allowance for credit losses as one portfolio segment.

The Cooperative has determined that current and forecasted economic conditions are not expected to have a significant impact on expected credit losses and no adjustments to allowance calculations were made during the current year.

The Cooperative pools its receivables based on similar risk characteristics in estimating the expected credit losses. In situations where a receivable does not share the same risk characteristics with other receivables, the Cooperative measures those receivables individually. The Cooperative also continuously evaluates such pooling decisions and adjusts as needed from period to period as risk characteristics change.

Receivables are written off when deemed uncollectible. Write-offs are recognized as a reduction in the allowance for credit losses. If any recoveries are made from any accounts previously written off, they will be recognized in income or an offset to credit loss expense in the year of recovery, in accordance with the entity's accounting policy election. The total amount of write-offs was immaterial to the consolidated financial statements as a whole for the year ending December 31, 2023.

**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.

**MINNESOTA 1 KANABEC  
EAST CENTRAL ENERGY AND SUBSIDIARIES**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2023 AND 2022

**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.

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 20<sup>th</sup>, 2015, the name of Interstate Energy, LLC was legally changed to Diversified Enterprises, LLC. Diversified Enterprises continued to exist as a 100% owned equity investment of the Cooperative until certain investments held by Diversified Enterprises, LLC were fully liquidated during 2023. During the years ended December 31, 2023 and 2022, Diversified Enterprises distributed cash to the Cooperative of \$41,561 and \$0, respectively.

Assets of discontinued operations comprise the following on the consolidated balance sheet at December 31, 2023 and 2022:

	2023	2022
Assets of Discontinued Operations		
Investments	\$ -	\$ 24,900

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:

	2023	2022
Administrative and General	\$ (10)	\$ -
Other Income	16,429	-
Total Income (Loss) on Discontinued Operation Presented in the Consolidated Statements of Operations and Patronage Capital	\$ 16,419	\$ -

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

	<u>2023</u>	<u>2022</u>
Net Cash Provided (Used) by Operating Activities	\$ 16,419	\$ -
Net Cash Provided (Used) by Investing Activities	24,900	-
Net Cash Provided (Used) by Financing Activities	(41,561)	-
Net Change in Cash and Cash Equivalents	(242)	-
Cash and Cash Equivalents, Beginning of Year	<u>242</u>	<u>242</u>
Cash and Cash Equivalents, End of Year	<u>\$ -</u>	<u>\$ 242</u>

**NOTE 3 ELECTRIC PLANT AND DEPRECIATION**

	<u>2023</u>	<u>2022</u>
Distribution Plant	\$ 351,936,370	\$ 331,526,887
General Plant	<u>38,227,026</u>	<u>37,139,652</u>
Electric Plant In Service	390,163,396	368,666,539
Accumulated Depreciation	<u>(142,575,500)</u>	<u>(130,951,075)</u>
	247,587,896	237,715,464
Construction Work In Progress	<u>37,208,915</u>	<u>5,574,150</u>
Net Electric Plant	<u>\$ 284,796,811</u>	<u>\$ 243,289,614</u>

Depreciation charges recorded to accumulated depreciation for the year ended December 31, 2023, were \$12,165,065 directly to depreciation expense and \$1,341,294 charged to clearing accounts for a total of \$13,506,359, as reported on the consolidated statement of cash flows.

Depreciation charges recorded to accumulated depreciation for the year ended December 31, 2022, were \$11,340,406 directly to depreciation expense and \$1,291,371 charged to clearing accounts for a total of \$12,631,777, as reported on the consolidated statement of cash flows.

**NOTE 4 NOTES RECEIVABLE**

	Interest Rate	Maturity	<u>2023</u>	<u>2022</u>
Load Management Loans	0%	Various	\$ 315,081	\$ 379,357
City of St. Cloud	3.25%	None	150,000	150,000
Revolving Loans	0.0-1.0%	2024-2033	1,050,152	971,082
Other Loans	0%	Various	<u>17,286</u>	<u>11,389</u>
			1,532,519	1,511,828
Less Current Portion			<u>405,000</u>	<u>437,900</u>
			<u>\$ 1,127,519</u>	<u>\$ 1,073,928</u>



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As of December 31, 2023 and 2022, the Cooperative had not reserved an allowance for loan losses on their notes receivable.

The following table shows an aging analysis of the loan portfolio by time past due:

	Accruing Interest			Total Nonaccrual	Total
	Current	30-89 Days Past Due	More Than 90 Days Past Due		
December 31, 2023 Notes Receivable	\$ 1,532,519	\$ -	\$ -	\$ -	\$ 1,532,519
December 31, 2022 Notes Receivable	\$ 1,511,828	\$ -	\$ -	\$ -	\$ 1,511,828

**NOTE 5 NON-UTILITY PROPERTY**

Non-Utility Property consists of investment in the St. Cloud industrial Park and of investment in broadband lines and wireless internet equipment. During the year ended December 31, 2023, the Cooperative began constructing a broadband to the home and business project.

Through grants and long-term debt and matching grants, the Cooperative is funding numerous projects bringing broadband to homes and businesses. The Cooperative began installing fiber in the ground in 2023, will begin serving customers in 2024, will continue to apply for and receive grant funds, and continue to install fiber cable for new services. The Cooperative will retain ownership of all fiber and equipment. As of December 31, 2023 and 2022, non-utility property consists of the following:

	2023	2022
Construction Work in Progress - Broadband	\$ 13,451,363	\$ -
Broadband Transportation Equipment, net of accumulated depreciation of: 2023 - \$4,642; 2022 - \$0	155,058	-
St. Cloud Industrial Park	2,396,771	2,396,771
	<u>\$ 16,003,192</u>	<u>\$ 2,396,771</u>

**NOTE 6 CASH AND CASH EQUIVALENTS**

	2023	2022
Cash - General	\$ 4,050,765	\$ 1,401,618
Great River Energy Short Term Cash Investment	8,751,182	13,748,445
Other Temporary Cash Investments (Time Deposits)	766,862	838,107
	<u>\$ 13,568,809</u>	<u>\$ 15,988,170</u>

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**NOTE 7 INVESTMENTS IN ASSOCIATED COMPANIES**

	<u>2023</u>	<u>2022</u>
Patronage Capital Credits from Great River Energy National Rural Utilities Cooperative Finance Corporation	<u>\$ 64,686,906</u>	<u>\$ 63,359,406</u>
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%	8,409	11,680
Patronage Capital Credits	661,934	673,882
Membership	1,000	1,000
	<u>2,764,456</u>	<u>2,779,675</u>
Other	<u>3,493,817</u>	<u>3,212,666</u>
	<u>\$ 70,945,179</u>	<u>\$ 69,351,747</u>

**NOTE 8 SUBSIDIARY OPERATIONS**

East Central Energy owns 100% of ECE NET, LLC. ECE NET, LLC. owns 44.44444444% of Northland Connect Broadband, LLC of Grand Rapids, Minnesota, which was a provider of high-speed internet services but discontinued service operations as of December 31, 2022. 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.

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. Details of ECE NET, LLC and Diversified Enterprises, LLC operations are as follows:

Operations	<u>ECE NET, LLC</u>		<u>Diversified Enterprises, LLC</u>	
	2023	2022	2023	2022
Operating Revenues	\$ -	\$ 54,690	\$ -	\$ -
Operating Expenses	-	35,822	10	-
Net Operating Income (Loss)	-	18,868	(10)	-
Other Income	-	-	16,429	-
Net Income Reported To Parent	<u>\$ -</u>	<u>\$ 18,868</u>	<u>\$ 16,419</u>	<u>\$ -</u>

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**NOTE 9 PATRONAGE CAPITAL**

	2023	2022
Assignable	\$ 10,865,023	\$ 9,457,464
Assigned to Date	224,781,265	215,359,964
	235,646,288	224,817,428
Less: Retired to Date	(104,352,194)	(101,147,456)
	\$ 131,294,094	\$ 123,669,972

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 2023 and 2022, the Cooperative's capital exceeded 30 percent of total assets.

**NOTE 10 OTHER EQUITIES**

	2023	2022
Retired Capital Credits - Gain	\$ 7,576,911	\$ 7,192,960
Appropriated Margins	11,160,113	11,123,950
Donated Capital	408,280	408,280
	\$ 19,145,304	\$ 18,725,190

**NOTE 11 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. 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. 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. 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.

During the year ended December 31, 2022, the Cooperative implemented a revenue deferral plan. Under the plan, the Cooperative deferred recognition of previously deferred revenue to the years 2024 through 2026. This plan complies with GAAP and has been approved by RUS.

As of December 31, 2023, \$11,500,000 of deferred revenue remains to be recognized from all deferrals.

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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, 2023, the Cooperative had deposited funds of \$8,751,182 in Great River Energy cash investment and \$2,748,818 of segregated bank deposits to satisfy this requirement.

**NOTE 12 LONG-TERM DEBT**

	<u>2023</u>	<u>2022</u>
Rural Utilities Service (RUS) Mortgage Notes 0% Economic Development Loans	\$ 1,381,000	\$ 1,381,000
CoBank Fixed Rate Notes Fixed Rate Notes (4.05% to 5.54%), Due in Monthly Installments Maturing July 2028 Through January 2033	79,795,111	36,979,986
Federal Financing Bank (FFB) Fixed Rate Notes (1.39% to 5.83%), Due in Quarterly Installments Maturing January 2024 Through December 2054	130,010,659	134,699,706
National Rural Utilities Cooperative Finance Corporation (CFC) Mortgage Notes: Fixed Rate Notes (4.6% to 6.15%), Due in Quarterly Installments Maturing July 2024 Through April 2039	<u>5,583,466</u>	<u>6,079,819</u>
TOTAL LONG-TERM DEBT	216,770,236	179,140,511
Less Current Portion	<u>(9,275,626)</u>	<u>(13,528,957)</u>
NET LONG-TERM DEBT	<u>\$ 207,494,610</u>	<u>\$ 165,611,554</u>

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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>	
2024	\$ 9,275,626
2025	9,526,339
2026	9,870,250
2027	10,160,929
2028	10,451,898
Thereafter	<u>167,485,194</u>
	<u>\$ 216,770,236</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, 2023 and 2022 were \$0.

The security agreement (mortgage) restricts the Cooperative's debt limit to \$750,000,000.

**NOTE 13 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, 2023 was 5.99 and 7.25 percent for separate portions of the line of credit. As of December 31, 2023 and 2022, \$11,000,000 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, 2024 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, 2023 was 6.95 percent. As of December 31, 2023 and 2022, no amounts were outstanding on the line of credit.

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**NOTE 14 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, 2023 and 2022 represent over 97 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, 2023:

<u>Revenue Streams</u>	<u>Electric Revenue</u>	<u>Other Operating Revenue</u>	<u>Non Operating Revenue</u>
Member Electric Sales - Residential	\$ 94,719,669	\$ -	\$ -
Member Electric Sales - Commercial & Industry	40,181,773	-	-
Member Electric Sales - Other	1,121,731	-	-
Miscellaneous Service Revenue	-	380,284	-
Rent from Electric Property	-	131,464	-
Forfeited Discounts	-	527,590	-
Other Electric Revenue	-	618	-
Merchandising - Net	-	-	268,721
Total Revenue from Contracts with Customers	<u>\$ 136,023,173</u>	<u>\$ 1,039,956</u>	<u>\$ 268,721</u>
<b><u>Timing of Revenue Recognition</u></b>			
Services Transferred Over Time	\$ 136,023,173	\$ 131,464	\$ -
Goods Transferred at a Point in Time	-	908,492	268,721
Total Revenue from Contracts with Customers	<u>\$ 136,023,173</u>	<u>\$ 1,039,956</u>	<u>\$ 268,721</u>

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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, 2022:

<u>Revenue Streams</u>	Electric Revenue	Other Operating Revenue	Non Operating Revenue
Member Electric Sales - Residential	\$ 92,922,385	\$ -	\$ -
Member Electric Sales - Commercial & Industry	38,578,976	-	-
Member Electric Sales - Other	900,338	-	-
Miscellaneous Service Revenue	-	319,271	-
Rent from Electric Property	-	140,669	-
Forfeited Discounts	-	490,764	-
Other Electric Revenue	-	4,803	-
Merchandising - Net	-	-	159,139
Total Revenue from Contracts with Customers	<u>\$ 132,401,699</u>	<u>\$ 955,507</u>	<u>\$ 159,139</u>
 <b>Timing of Revenue Recognition</b>			
Services Transferred Over Time	\$ 132,401,699	\$ 140,669	\$ -
Goods Transferred at a Point in Time	-	814,838	159,139
Total Revenue from Contracts with Customers	<u>\$ 132,401,699</u>	<u>\$ 955,507</u>	<u>\$ 159,139</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, 2023, and 2022, unbilled revenue included in total electric sales was \$4,011,127 and \$4,031,952, respectively.

In 2023 and 2022, the Cooperative did not defer the recognition of any member electric revenue under regulatory accounting (see Note 11). The Cooperative did not recognize deferred member electric revenue in the consolidated statement of operations and patronage capital in 2023 or 2022.

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, 2022	\$ 16,170,959	\$ 2,122,238
December 31, 2022	17,151,325	1,601,159
December 31, 2023	16,909,661	1,686,764

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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 15 POST RETIREMENT BENEFITS**

The following is the RS Plan Disclosure Information for East Central Energy's participation in the NRECA Retirement Security Plan for 2023.

*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 2023 and 2022 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 \$2,152,518 and \$2,079,045 in 2023 and 2022, respectively. There have been no significant changes that affect the comparability of 2023 and 2022 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, 2023 and 80 percent funded January 1, 2022 based on the PPA funding target and PPA actuarial value of assets on those dates.



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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, 2023 and 2022, the Cooperative made contributions of approximately \$934,455 and \$796,420, 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.

**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, 2023, the Cooperative has approximately 26% of its employees covered by a collective bargaining agreement. The collective bargaining agreement is in force until October 31, 2025.

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**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>2023</u>	<u>2022</u>
Change in Postretirement Benefit Obligation		
Accumulated Post Retirement Benefit		
Obligation, Beginning of Year	\$ 112,432	\$ 119,207
Actuarial Gain (Loss)	3,044	10,841
Benefits Paid	<u>(16,416)</u>	<u>(17,616)</u>
Accumulated Postretirement Benefit		
Obligation, End of Year	99,060	112,432
Change in Plan Assets		
Plan Assets, Beginning of Year	-	-
Employer Contributions	16,416	17,616
Benefits Paid During the Year	<u>(16,416)</u>	<u>(17,616)</u>
(Accrued) Prepaid Pension Expense	<u>-</u>	<u>-</u>
Net Post Retirement Benefit Obligation Recognized	<u>\$ 99,060</u>	<u>\$ 112,432</u>
Weighted Average Assumptions as of December 31:		
Discount Rate	5.00%	3.00%
Rate of Increase in Annual Benefit Cost	8.40%	8.40%
Expected Benefits Payments		
2024	\$ 17,766	
2025	18,320	
2026	18,892	
2027	19,481	
2028	14,732	

Changing the rate of assumed health care costs by a 1% increase or decrease would change the benefit obligation as of December 31, 2023 and 2022 by approximately \$3,215 and \$4,295, 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 the operations of the Cooperative.

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**NOTE 20 CONTINGENT LIABILITY**

The Cooperative filed amended 941Xs during 2023 to claim Employee Retention Credits (ERC). A portion of amounts claimed on the amended tax returns were remitted to the Cooperative during 2023. Due to the subjective nature of the qualification criteria, upon receipt of the refund the amounts were recorded as a contingent liability and included with deferred credits on the consolidated balance sheet as the Cooperative may be obligated to repay the credits if audited by the IRS. This liability will remain on the Cooperative's consolidated balance sheet until either the IRS audits and upholds the filing, denies the claim and amounts are returned, or the statute of limitations expires. The Cooperative could be responsible for fines, penalties, and interest if the credits are denied upon IRS audit.

**NOTE 21 UNCERTAIN TAX POSITIONS**

It is the opinion of management that the Cooperative has no significant uncertain income 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 22 ADVERTISING EXPENSE**

The Cooperative and consolidated entities incurred advertising expense of \$109,538 and \$147,100 for the years ended December 31, 2023 and 2022, respectively.

**NOTE 23 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 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 has not experienced any losses in such accounts nor does the Cooperative believe it is exposed to any significant credit risk in its cash accounts.

**NOTE 24 GOVERNMENTAL GRANTS AND CONTRIBUTIONS**

During the year ended December 31, 2023, the Cooperative had the following governmental grants and contributions activity:

- \$253,961 was received from the United States Department of Homeland Security (FEMA) that was passed through the State of Minnesota Department of Public Safety Homeland Security and Emergency Management division for storm-related reimbursements.
- \$8,335 was received from the State of Minnesota Department of Public Safety Homeland Security and Emergency Management Division. A receivable of \$295,761 is present at December 31, 2023, from the Division for a submitted storm-related reimbursement request that has yet to be received.

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- \$200,473 was received from the State of Wisconsin Disaster Fund for storm-related reimbursements.
- The Cooperative began construction of a broadband fiber network in 2023. The Cooperative was approved in 2023 for four Border to Border Broadband Development grant contracts under the State of Minnesota Department of Employment and Economic Development Office of Broadband Development. As of December 31, 2023, no submissions have occurred for reimbursement. The Cooperative has accumulated approximately \$3.1 million of construction work in progress in 2023 that it will submit for reimbursement.

Costs related to the above items are initially recorded in construction work in progress as incurred and then are offset as construction aid by the obligated grant awards.

The Cooperative participates in federal programs, which are governed by various rules and regulations of the grantor agency. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agency; therefore, to the extent that the Cooperative has not complied with rules and regulations governing the grants, refunds of any money received may be required. In the opinion of the Cooperative, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying consolidated financial statements for such contingencies.

**NOTE 25 SUBSEQUENT EVENTS**

No significant events occurred subsequent to the Cooperative's year end. Subsequent events have been evaluated through February 17, 2024, 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, 2023 and 2022, and our report thereon dated February 17, 2024, 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 29-42, 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 consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated 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 17, 2024

**MINNESOTA 1 KANABEC  
EAST CENTRAL ENERGY AND SUBSIDIARIES  
DIRECTORS, OFFICERS AND MANAGEMENT (UNAUDITED)  
DECEMBER 31, 2023**

**DIRECTORS**

Mike Gainor	Shelly Nault
Thomas Schoenecker	Linda Laitala
Jim Jesok	Ron Volker
Lonnie Johnson	Wayne Eller

**OFFICERS**

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

**MINNESOTA 1 KANABEC  
EAST CENTRAL ENERGY AND SUBSIDIARIES  
CONSOLIDATING BALANCE SHEET  
DECEMBER 31, 2023**

	East Central Energy	ECE NET, LLC	Eliminations	Consolidated
<b>ELECTRIC PLANT</b>				
In Service	\$ 390,163,396	\$ -	\$ -	\$ 390,163,396
Construction Work in Progress	<u>37,208,915</u>	-	-	<u>37,208,915</u>
<b>Total Electric Plant</b>	<b>427,372,311</b>	<b>-</b>	<b>-</b>	<b>427,372,311</b>
Less Accumulated Depreciation	<u>(142,575,500)</u>	-	-	<u>(142,575,500)</u>
	<u>284,796,811</u>	-	-	<u>284,796,811</u>
<b>OTHER PROPERTY AND INVESTMENTS</b>				
Notes Receivable, Net of Current Portion	1,127,519	-	-	1,127,519
Due from Related Party, East Central Energy	-	621,583	(621,583)	-
Non-Utility Property, Net	16,003,192	-	-	16,003,192
Investments in Associated Companies	72,323,929	-	(1,378,750)	70,945,179
Other Investments	<u>405,020</u>	<u>757,167</u>	-	<u>1,162,187</u>
<b>Total Other Property and Investments</b>	<b>89,859,660</b>	<b>1,378,750</b>	<b>(2,000,333)</b>	<b>89,238,077</b>
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents	13,568,809	-	-	13,568,809
Current Portion of Notes Receivable	405,000	-	-	405,000
Accounts Receivable, Net	16,909,661	-	-	16,909,661
Other Receivable - Storm	295,761	-	-	295,761
Material and Supplies	15,744,460	-	-	15,744,460
Prepayments	681,210	-	-	681,210
Interest Receivable	<u>25,529</u>	-	-	<u>25,529</u>
<b>Total Current Assets</b>	<b>47,630,430</b>	<b>-</b>	<b>-</b>	<b>47,630,430</b>
<b>DEFERRED DEBITS</b>				
	<u>19,435</u>	-	-	<u>19,435</u>
	<u>\$ 422,306,336</u>	<u>\$ 1,378,750</u>	<u>\$ (2,000,333)</u>	<u>\$ 421,684,753</u>



**MINNESOTA 1 KANABEC**  
**EAST CENTRAL ENERGY AND SUBSIDIARIES**  
**CONSOLIDATING BALANCE SHEET - CONTINUED**  
**DECEMBER 31, 2023**

	East Central Energy	ECE NET, LLC	Eliminations	Consolidated
<b>EQUITIES</b>				
Patronage Capital	\$ 131,294,094	\$ -	\$ -	\$ 131,294,094
Other Equities	<u>19,145,304</u>	<u>1,378,750</u>	<u>(1,378,750)</u>	<u>19,145,304</u>
Total Equities	<u>150,439,398</u>	<u>1,378,750</u>	<u>(1,378,750)</u>	<u>150,439,398</u>
<b>LONG-TERM DEBT, LESS CURRENT MATURITIES</b>				
	<u>207,494,610</u>	<u>-</u>	<u>-</u>	<u>207,494,610</u>
<b>NONCURRENT LIABILITIES</b>				
Due to Related Party, ECE NET, LLC	621,583	-	(621,583)	-
Other	<u>99,060</u>	<u>-</u>	<u>-</u>	<u>99,060</u>
Total Other Liabilities	<u>720,643</u>	<u>-</u>	<u>(621,583)</u>	<u>99,060</u>
<b>CURRENT LIABILITIES</b>				
Current Maturities of Long-Term Debt	9,275,626	-	-	9,275,626
Line of Credit	11,000,000	-	-	11,000,000
Accounts Payable - General	5,387,416	-	-	5,387,416
Accounts Payable to Associated Company - Billed Power Costs	13,057,701	-	-	13,057,701
Customer Deposits	803,634	-	-	803,634
Taxes Accrued	1,595,931	-	-	1,595,931
Interest Accrued	373,219	-	-	373,219
Accrued Compensation	356,291	-	-	356,291
Accrued Compensated Absences	2,504,745	-	-	2,504,745
Accrued Self Insurance	200,000	-	-	200,000
Miscellaneous Current and Accrued Liabilities	<u>15,072</u>	<u>-</u>	<u>-</u>	<u>15,072</u>
Total Current Liabilities	<u>44,569,635</u>	<u>-</u>	<u>-</u>	<u>44,569,635</u>
<b>DEFERRED CREDITS</b>				
Customers' Energy Prepayments	883,130	-	-	883,130
RUS Deferred Revenue	11,500,000	-	-	11,500,000
Special Equipment Installation Costs	1,035,269	-	-	1,035,269
Unclaimed Property	3,405,951	-	-	3,405,951
Employee Retention Credit (ERC)	2,231,464	-	-	2,231,464
Other	<u>26,236</u>	<u>-</u>	<u>-</u>	<u>26,236</u>
Total Deferred Credits	<u>19,082,050</u>	<u>-</u>	<u>-</u>	<u>19,082,050</u>
	<u>\$ 422,306,336</u>	<u>\$ 1,378,750</u>	<u>\$ (2,000,333)</u>	<u>\$ 421,684,753</u>

**MINNESOTA 1 KANABEC  
EAST CENTRAL ENERGY AND SUBSIDIARIES  
CONSOLIDATING STATEMENT OF OPERATIONS  
AND PATRONAGE CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2023**

	East Central Energy	ECE NET, LLC	Diversified Enterprises, LLC	Eliminations	Consolidated
<b>OPERATING REVENUES</b>					
Electric	\$ 136,023,173	\$ -	\$ -	\$ -	\$ 136,023,173
Other	1,039,956	-	-	-	1,039,956
<b>Total Operating Revenues</b>	<b>137,063,129</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>137,063,129</b>
<b>OPERATING EXPENSES</b>					
Cost of Power	82,843,323	-	-	-	82,843,323
Distribution - Operation	6,039,093	-	-	-	6,039,093
Distribution - Maintenance	9,057,119	-	-	-	9,057,119
Customer Accounts	2,333,484	-	-	-	2,333,484
Customer Service and Information	2,611,253	-	-	-	2,611,253
Administrative and General	8,783,145	-	-	-	8,783,145
Depreciation	12,165,065	-	-	-	12,165,065
Income Taxes and Wisconsin Property Taxes	22,025	-	-	-	22,025
Other	204,380	-	-	-	204,380
<b>Total Operating Expenses</b>	<b>124,058,887</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>124,058,887</b>
<b>OPERATING MARGIN BEFORE FIXED CHARGES</b>	<b>13,004,242</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,004,242</b>
Interest	6,548,851	-	-	-	6,548,851
<b>OPERATING MARGIN AFTER FIXED CHARGES</b>	<b>6,455,391</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,455,391</b>
<b>GENERATION AND TRANSMISSION AND OTHER COOPERATIVE CAPITAL CREDITS</b>	<b>5,491,231</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,491,231</b>
<b>NET OPERATING MARGIN</b>	<b>\$ 11,946,622</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 11,946,622</b>

**MINNESOTA 1 KANABEC**  
**EAST CENTRAL ENERGY AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF OPERATIONS**  
**AND PATRONAGE CAPITAL - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

	East Central Energy	ECE NET, LLC	Diversified Enterprises, LLC	Eliminations	Consolidated
NON-OPERATING MARGIN					
Jobbing and Contract Work, Less Costs and Expenses	\$ 254,419	\$ -	\$ -	\$ -	\$ 254,419
Loss From Broadband Division	(1,865,100)	-	-	-	(1,865,100)
Gain on Sale of Property and Equipment	34,682	-	-	-	34,682
Interest Income	463,678	-	-	-	463,678
Other	14,303	-	-	-	14,303
Total Non-Operating Margin	<u>(1,098,018)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,098,018)</u>
NET MARGIN FROM CONTINUING OPERATIONS	10,848,604	-	-	-	10,848,604
DISCONTINUED OPERATION (NOTE 2)					
Income (Loss) From Discontinued Operation Diversified Enterprises, LLC (d/b/a Como Oil)	<u>16,419</u>	<u>-</u>	<u>16,419</u>	<u>(16,419)</u>	<u>16,419</u>
Income on Discontinued Operation	<u>16,419</u>	<u>-</u>	<u>16,419</u>	<u>(16,419)</u>	<u>16,419</u>
NET MARGIN	10,865,023	-	16,419	(16,419)	10,865,023
PATRONAGE CAPITAL - BEGINNING OF YEAR	123,669,972	-	-	-	123,669,972
UNALLOCATED MARGINS	(36,163)	-	-	-	(36,163)
RETIREMENT OF CAPITAL CREDITS	<u>(3,204,738)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,204,738)</u>
PATRONAGE CAPITAL - END OF YEAR	<u>\$ 131,294,094</u>	<u>\$ -</u>	<u>\$ 16,419</u>	<u>\$ (16,419)</u>	<u>\$ 131,294,094</u>

**MINNESOTA 1 KANABEC  
EAST CENTRAL ENERGY AND SUBSIDIARIES  
CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2023**

	East Central Energy	ECE NET, LLC	Diversified Enterprises, LLC	Eliminations	Consolidated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net Margin	\$ 10,865,023	\$ -	\$ 16,419	\$ (16,419)	\$ 10,865,023
Adjustments to Reconcile Net Margin to Net Cash Provided (Used) by Operating Activities					
Depreciation	13,506,359	-	-	-	13,506,359
(Gain) Loss on Retirement of Plant and Equipment	(34,682)	-	-	-	(34,682)
Noncash Patronage Capital Allocations	(5,491,231)	-	-	-	(5,491,231)
Undistributed (Gain) Loss on Investments	(16,419)	-	-	16,419	-
Credit Loss Expense	60,000	-	-	-	60,000
Net Effects on Operating Cash Flows Due to Changes in:					
Accounts Receivable	2,269,246	-	-	-	2,269,246
Resale Inventory	(43,408)	-	-	-	(43,408)
Prepayments	(61,535)	-	-	-	(61,535)
Deferred Charges	(19,435)	-	-	-	(19,435)
Accounts Payable	4,224,592	-	-	-	4,224,592
Accrued Compensation and Compensated Absences	71,573	-	-	-	71,573
Other Accrued Liabilities	(349,471)	-	-	-	(349,471)
Other Deferred Credits	2,519,403	-	-	-	2,519,403
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>27,500,015</u>	<u>-</u>	<u>16,419</u>	<u>-</u>	<u>27,516,434</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Additions to, and Costs of Retirements of Utility Plant, Net	(55,023,128)	-	-	-	(55,023,128)
Additions to, and Costs of Retirements of Non-Utility Plant, Net	(13,606,422)	-	-	-	(13,606,422)
(Increase) Decrease in Material and Supplies	(11,084,386)	-	-	-	(11,084,386)
Proceeds from Sale of Property and Equipment	44,253	-	-	-	44,253
Distribution from Subsidiary, Diversified Enterprises, LLC	41,561	-	-	(41,561)	-
Change in Notes Receivable, Other Property and Investments Exclusive of Noncash Patronage Capital Credits	3,841,728	-	24,900	-	3,866,628
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>\$ (75,786,394)</u>	<u>\$ -</u>	<u>\$ 24,900</u>	<u>\$ (41,561)</u>	<u>\$ (75,803,055)</u>

**MINNESOTA 1 KANABEC**  
**EAST CENTRAL ENERGY AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF CASH FLOWS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

	East Central Energy	ECE NET, LLC	Diversified Enterprises, LLC	Eliminations	Consolidated
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Repayment of Line of Credit	\$ 11,000,000	\$ -	\$ -	\$ -	\$ 11,000,000
Proceeds on Long-Term Debt	46,000,000	-	-	-	46,000,000
Principal Payments on Long-Term Debt	(8,370,275)	-	-	-	(8,370,275)
Distribution to Partner, East Central Energy	-	-	(41,561)	41,561	-
Post Employment Benefits	(13,372)	-	-	-	(13,372)
Customer Deposits	71,694	-	-	-	71,694
Net Retirement of Patronage Capital	(2,820,787)	-	-	-	(2,820,787)
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<u>45,867,260</u>	<u>-</u>	<u>(41,561)</u>	<u>41,561</u>	<u>45,867,260</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(2,419,119)</u>	<u>-</u>	<u>(242)</u>	<u>-</u>	<u>(2,419,361)</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>15,987,928</u>	<u>-</u>	<u>242</u>	<u>-</u>	<u>15,988,170</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 13,568,809</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,568,809</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>					
Cash Paid During the Year for:					
Interest	\$ 6,353,258	\$ -	\$ -	\$ -	\$ 6,353,258
Income Taxes	22,025	-	-	-	22,025

**MINNESOTA 1 KANABEC**  
**EAST CENTRAL ENERGY AND SUBSIDIARIES**  
BALANCE SHEETS – EAST CENTRAL ENERGY  
DECEMBER 31, 2023 AND 2022

ASSETS	<u>2023</u>	<u>2022</u>
<b>ELECTRIC PLANT</b>		
Electric Plant in Service	\$ 390,163,396	\$ 368,666,539
Construction Work in Progress	37,208,915	5,574,150
	<u>427,372,311</u>	<u>374,240,689</u>
Less: Accumulated Provisions for Depreciation	<u>(142,575,500)</u>	<u>(130,951,075)</u>
	<u>284,796,811</u>	<u>243,289,614</u>
<b>OTHER PROPERTY AND INVESTMENTS</b>		
Notes Receivable, Net of Current Portion	1,127,519	1,073,928
Non-Utility Property	16,003,192	2,396,771
Investments in Associated Companies	72,323,929	70,755,639
Other Investments	405,020	369,639
	<u>89,859,660</u>	<u>74,595,977</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	13,568,809	15,987,928
Current Portion of Notes Receivable	405,000	437,900
Accounts Receivable - Net of Allowance for Credit Losses		
2023 - \$469,380; 2022 - \$496,259	16,909,661	17,151,325
Other Receivable	-	2,133,295
Other Receivable - Storm	295,761	250,048
Material and Supplies	15,744,460	4,616,666
Prepayments	681,210	619,675
Interest Receivable	25,529	25,529
	<u>47,630,430</u>	<u>41,222,366</u>
<b>DEFERRED DEBITS</b>	<u>19,435</u>	<u>-</u>
<b>TOTAL</b>	<u>\$ 422,306,336</u>	<u>\$ 359,107,957</u>

**MINNESOTA 1 KANABEC**  
**EAST CENTRAL ENERGY AND SUBSIDIARIES**  
BALANCE SHEETS – EAST CENTRAL ENERGY - CONTINUED  
DECEMBER 31, 2023 AND 2022

LIABILITIES AND MEMBERS' EQUITY	2023	2022
<b>EQUITIES</b>		
Patronage Capital	\$ 131,294,094	\$ 123,669,972
Other Equities	19,145,304	18,725,190
	150,439,398	142,395,162
<b>LONG-TERM DEBT</b>		
Long-Term Debt (Net of Current Portion)	207,494,610	165,611,554
<b>NONCURRENT LIABILITIES</b>		
Due To Related Party, ECE NET, LLC	621,583	621,583
Other	99,060	112,432
	720,643	734,015
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	9,275,626	13,528,957
Line of Credit	11,000,000	-
Accounts Payable - General	5,387,416	1,516,342
Accounts Payable to Associated Company - Billed Power Costs	13,057,701	12,704,186
Customer Deposits	803,634	731,939
Taxes Accrued	1,595,931	2,047,074
Interest Accrued	373,219	177,626
Accrued Compensation	356,291	299,046
Accrued Compensated Absences	2,504,745	2,490,417
Accrued Self Insurance	200,000	298,064
Miscellaneous Current and Accrued Liabilities	15,072	10,929
	44,569,635	33,804,580
<b>DEFERRED CREDITS</b>		
Customers' Energy Prepayments	883,130	869,220
Deferred Revenue	11,500,000	11,500,000
Special Equipment Installation Costs	1,035,269	1,041,266
Unclaimed Property	3,405,951	3,125,775
Employee Retention Credit (ERC)	2,231,464	-
Other	26,236	26,385
	19,082,050	16,562,646
<b>TOTAL</b>	<b>\$ 422,306,336</b>	<b>\$ 359,107,957</b>

**MINNESOTA 1 KANABEC**  
**EAST CENTRAL ENERGY AND SUBSIDIARIES**  
**STATEMENTS OF OPERATIONS – EAST CENTRAL ENERGY**  
**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
OPERATING REVENUE		
Electric	\$ 136,023,173	\$ 132,401,699
Other	1,039,956	955,507
Total	<u>137,063,129</u>	<u>133,357,206</u>
OPERATING EXPENSES		
Cost of Power	82,843,323	80,146,380
Distribution - Operations	6,039,093	6,055,975
Distribution - Maintenance	9,057,119	9,483,750
Customer Accounts	2,333,484	2,115,617
Customer Service and Information	2,611,253	2,675,266
Administrative and General	8,783,145	8,840,463
Depreciation	12,165,065	11,340,406
Income Taxes and Wisconsin Property Taxes	22,025	109,906
Other	204,380	152,670
Total	<u>124,058,887</u>	<u>120,920,433</u>
OPERATING MARGINS BEFORE FIXED CHARGES	13,004,242	12,436,773
FIXED CHARGES		
Interest Expense	<u>6,548,851</u>	<u>5,816,876</u>
OPERATING MARGINS AFTER FIXED CHARGES	6,455,391	6,619,897
G&T AND OTHER CAPITAL CREDITS	<u>5,491,231</u>	<u>2,244,329</u>
NET OPERATING MARGINS	<u>11,946,622</u>	<u>8,864,226</u>
NON-OPERATING MARGIN (LOSS)		
Jobbing and Contract Work, Less Costs and Expenses	254,419	144,746
Gain From Investment in ECE NET, LLC	-	18,868
Loss From Broadband Division	(1,865,100)	-
Gain From Investment in Diversified Enterprises, LLC	16,419	-
Gain on Sale of Property and Equipment	34,682	68,418
Interest Income	463,678	346,813
Other Non-Operating	14,303	14,393
Total	<u>(1,081,599)</u>	<u>593,238</u>
NET MARGINS	10,865,023	9,457,464
PATRONAGE CAPITAL - BEGINNING OF YEAR	123,669,972	117,793,846
UNALLOCATED MARGINS	(36,163)	(303,139)
RETIREMENT OF CAPITAL CREDITS	<u>(3,204,738)</u>	<u>(3,278,199)</u>
PATRONAGE CAPITAL - END OF YEAR	<u>\$ 131,294,094</u>	<u>\$ 123,669,972</u>



**MINNESOTA 1 KANABEC**  
**EAST CENTRAL ENERGY AND SUBSIDIARIES**  
**STATEMENTS OF CASH FLOWS – EAST CENTRAL ENERGY**  
**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margins	\$ 10,865,023	\$ 9,457,464
Adjustments to Reconcile Net Margins to		
Net Cash From Operating Activities		
Depreciation	13,506,359	12,631,777
(Gain) Loss on Retirement of Plant and Equipment	(34,682)	(68,418)
Noncash Patronage Capital Allocations	(5,491,231)	(2,244,329)
Undistributed (Gain) Loss on Investments	(16,419)	(18,868)
Provision for Uncollectible Accounts	60,000	60,000
Net Effects on Operating Cash Flows Due to Changes in:		
Accounts Receivable	2,269,246	(452,175)
Resale Inventory	(43,408)	(54,938)
Prepaid Expenses	(61,535)	131,194
Deferred Charges	(19,435)	3,241
Accounts Payable	4,224,592	(629,017)
Accrued Payroll and Compensated Absences	71,573	(189,572)
Due to Related Party, ECE NET, LLC	-	1,781
Other Accrued Liabilities	(349,471)	73,254
Other Deferred Credits	2,519,403	(168,649)
	<u>27,500,015</u>	<u>18,532,745</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to, and Costs of Retirements of Utility Plant	(55,023,128)	(17,843,654)
Additions to, and Costs of Retirements of Non-Utility Plant	(13,606,422)	-
(Increase) Decrease in Material and Supplies	(11,084,386)	(1,202,040)
Proceeds From Sale of Property	44,253	68,418
Distribution From Subsidiary, Diversified Enterprises, LLC	41,561	-
Change in Notes Receivable, Other Property and		
Investments Exclusive of Noncash Patronage Capital Credits	3,841,728	3,475,134
	<u>(75,786,394)</u>	<u>(15,502,142)</u>
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net Short-Term Borrowings	11,000,000	(6,000,000)
Proceeds on Long-Term Debt	46,000,000	16,000,000
Principal Payments on Long-Term Debt	(8,370,275)	(7,599,294)
Post Employment Benefits	(13,372)	(6,775)
Customer Deposits	71,694	(24,478)
Retirement of Patronage Capital	(2,820,787)	(2,835,569)
	<u>45,867,260</u>	<u>(466,116)</u>
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>		

**MINNESOTA 1 KANABEC**  
**EAST CENTRAL ENERGY AND SUBSIDIARIES**  
**STATEMENTS OF CASH FLOWS – EAST CENTRAL ENERGY - CONTINUED**  
**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (2,419,119)	\$ 2,564,487
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>15,987,928</u>	<u>13,423,441</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 13,568,809</u>	<u>\$ 15,987,928</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid During the Year for:		
Interest	\$ 6,353,258	\$ 5,832,013
Income Taxes	22,025	28,525

**MINNESOTA 1 KANABEC**  
**EAST CENTRAL ENERGY AND SUBSIDIARIES**  
RUS SUPPLEMENTAL SCHEDULES OF DEFERRED DEBITS,  
DEFERRED CREDITS AND INVESTMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

DETAILED SCHEDULE OF INVESTMENTS

	100% Equity Ownership in ECE NET, LLC	100% Equity Ownership in Diversified Enterprises, LLC	Total
Original Equity Investment	\$ -	\$ 3,158,946	\$ 3,158,946
Capital Contributions	-	1,050,000	1,050,000
Purchase of Additional Ownership	-	201,855	201,855
Distributions	(1,334,663)	(13,788,565)	(15,123,228)
Sale of Ownership	-	-	-
Increase in Investment Through Debt to Equity Conversion	-	395,254	395,254
Undistributed Earnings (Loss)	<u>2,713,413</u>	<u>8,982,510</u>	<u>11,695,923</u>
Balance, December 31, 2023	<u>\$ 1,378,750</u>	<u>\$ -</u>	<u>\$ 1,378,750</u>
Book Value of Investments As of December 31, 2021	\$ 1,359,882	\$ 25,142	\$ 1,385,024
Undistributed Income for the Year Ended December 31, 2022	<u>18,868</u>	<u>-</u>	<u>18,868</u>
Book Value of Investments As of December 31, 2022	1,378,750	25,142	1,403,892
Distributions	-	(41,561)	(41,561)
Undistributed Income for the Year Ended December 31, 2023	<u>-</u>	<u>16,419</u>	<u>16,419</u>
Book Value of Investments As of December 31, 2023	<u>\$ 1,378,750</u>	<u>\$ -</u>	<u>\$ 1,378,750</u>

The ownership of ECE NET, LLC allowed the Cooperative the ability to provide its members with high-speed internet service. ECE NET, LLC did not provide such services starting in 2023 as the Cooperative transitions to its own division offering fiber broadband services in 2024.

The ownership of 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 and is defunct as of December 31, 2023.

**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, 2023 AND 2022

DETAILED SCHEDULE OF DEFERRED DEBITS AND CREDITS

	<u>2023</u>	<u>2022</u>
Deferred Debits		
Work Plan	<u>\$ 19,435</u>	<u>\$ -</u>
	<u>2023</u>	<u>2022</u>
Deferred Credits		
Special Equipment Installation Costs	\$ 1,035,269	\$ 1,041,266
Unclaimed Property	3,405,951	3,125,775
RUS Deferred Revenue	11,500,000	11,500,000
Employee Retention Credit	2,231,464	-
Customer Prepayments	883,130	869,220
Other	26,236	26,385
Total Deferred Credits	<u>\$ 19,082,050</u>	<u>\$ 16,562,646</u>

Deferred revenue has been approved by RUS.