ILLINOIS ELECTRIC COOPERATIVE
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2019 AND 2018

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ILLINOIS ELECTRIC COOPERATIVE AND SUBSIDIARY
OFFICERS AND DIRECTORS
DECEMBER 31, 2019

Name	Office	Address
Illinois Electric Cooperative:		
Thomas Meehan III	President	Roodhouse, Illinois
Julia Eberlin	Vice-President	Brussels, Illinois
Jim Freeman	Treasurer	Bluffs, Illinois
Kevin Brannan	Secretary	Eldred, Illinois
Luke Fraley	Assistant Treasurer	Hardin, Illinois
Julie Rhoads	Assistant Secretary	Carrollton, Illinois
Jenna Morrow	Director	Pittsfield, Illinois
Kristine Bingham	Director	Griggsville, Illinois
Bryan Hubbert	Director	Winchester, Illinois
Pat Stendback	Director	Pleasant Hill, Illinois
Kevin Klein	Director	Murrayville, Illinois
Bruce Giffin	Expert Director	Winchester, Illinois
Illinois Rural Telecommunication Company:		
Julia Eberlin	Chairman	Brussels, Illinois
Julie Rhoads	Vice Chairman	Carrollton, Illinois
Kevin Brannan	Secretary	Eldred, Illinois
Jim Freeman	Treasurer	Bluffs, Illinois
Luke Fraley	Director	Hardin, Illinois
Thomas Meehan III	Ex-Officio	Roodhouse, Illinois
Bruce Giffin	President	Winchester, Illinois

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Illinois Electric Cooperative and Subsidiary
Winchester, Illinois

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Illinois Electric Cooperative and Subsidiary (the Cooperative), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, patronage capital and other equities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Cooperative's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Illinois Electric Cooperative and Subsidiary

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Cooperative as of December 31, 2019 and 2018, and the changes in their patronage capital and other equities and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2020, on our consideration of the Cooperative's 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 result of that testing, and not to provide an opinion on the effectiveness of the Cooperative's 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 the Cooperative's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Rochester, Minnesota
March 13, 2020

ILLINOIS ELECTRIC COOPERATIVE AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
UTILITY PLANT		
Electric Plant in Service	$ 112,497,749	$ 107,708,788
Construction Work in Progress	4,581,176	2,983,258
Total	117,078,925	110,692,046
Less: Accumulated Provision for Depreciation	(21,192,678)	(20,920,976)
Net Utility Plant	95,886,247	89,771,070
OTHER ASSETS AND INVESTMENTS		
Investments in Associated Organizations	9,952,750	9,012,402
Notes Receivable	1,682,721	2,046,307
Other Investments	2,658,244	3,631,629
Other Special Funds	74,203	73,793
Nonutility Property, Net	5,066,682	4,177,035
Total Other Assets and Investments	19,434,600	18,941,166
CURRENT ASSETS		
Cash and Cash Equivalents	3,847,396	3,486,800
Accounts Receivable, Net	4,487,789	4,372,555
Current Portion of Notes Receivable	350,755	349,200
Materials and Supplies Inventory	803,435	836,397
Other Current and Accrued Assets	281,241	197,894
Total Current Assets	9,770,616	9,242,846
DEFERRED DEBITS	618,952	755,707
Total Assets	$ 125,710,415	$ 118,710,789
EQUITIES AND LIABILITIES		
EQUITIES		
Patronage Capital	$ 24,426,169	$ 23,113,610
Other Equities	19,146,396	17,786,151
Accumulated Other Comprehensive Loss	(798,085)	(779,640)
Total Equities	42,774,480	40,120,121
LONG-TERM DEBT, NET OF CURRENT MATURITIES	69,470,714	64,873,574
ACCUMULATED PROVISION FOR PENSION AND POSTRETIREMENT BENEFIT OBLIGATIONS	2,891,291	2,762,513
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	3,864,000	3,520,000
Notes Payable	3,392,682	4,391,884
Accounts Payable	1,997,492	1,870,437
Other Current and Accrued Liabilities	1,169,743	1,034,521
Total Current Liabilities	10,423,917	10,816,842
DEFERRED CREDITS	150,013	137,739
Total Equities and Liabilities	$ 125,710,415	$ 118,710,789

See accompanying Notes to Consolidated Financial Statements.

ILLINOIS ELECTRIC COOPERATIVE AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
OPERATING REVENUES - ELECTRIC		
Electric Revenues	$ 31,362,976	$ 30,861,136
Other Operating Revenue	66,932	208,372
Total Operating Revenues - Electric	31,429,908	31,069,508
OPERATING EXPENSES - ELECTRIC		
Cost of Power	16,492,953	16,612,516
Distribution Expense – Operations	663,046	634,637
Distribution Expense – Maintenance	3,401,561	3,353,245
Consumer Account Expense	513,235	527,677
Sales Expense	784,449	647,042
Administrative and General Expense	2,148,517	2,163,598
Depreciation - Electric	3,074,458	2,973,615
Other Interest Expense	75,543	97,032
Other Deductions	776	-
Total Operating Expenses - Electric	27,154,538	27,009,362
OPERATING REVENUES - TELECOMMUNICATION		
Telecommunication Revenue	2,930,123	2,511,563
Total Operating Revenues - Telecommunication	2,930,123	2,511,563
OPERATING EXPENSES - TELECOMMUNICATION		
Administrative and General Expense	2,409,656	2,278,737
Depreciation	533,026	1,089,736
Total Operating Expenses - Telecommunication	2,942,682	3,368,473
OPERATING MARGINS BEFORE FIXED CHARGES	4,262,811	3,203,236
INTEREST ON LONG-TERM DEBT	2,028,436	1,790,159
OPERATING MARGINS AFTER FIXED CHARGES	2,234,375	1,413,077
G & T AND OTHER CAPITAL CREDITS	1,092,507	1,163,933
NET OPERATING MARGINS	3,326,882	2,577,010
NONOPERATING MARGINS		
Interest Income	193,219	98,892
Gain on Sale of Assets	148,588	76,868
Other Nonoperating Loss	(1,580)	(1,650)
Total Nonoperating Margins	340,227	174,110
NET MARGINS	3,667,109	2,751,120
OTHER COMPREHENSIVE MARGINS		
Postretirement Benefit Plan:		
Net Actuarial Gain (Loss)	(52,159)	(60,747)
Amortization of Actuarial Loss	33,714	38,007
Other Comprehensive Margins	(18,445)	(22,740)
COMPREHENSIVE MARGINS	$ 3,648,664	$ 2,728,380

See accompanying Notes to Consolidated Financial Statements.

ILLINOIS ELECTRIC COOPERATIVE AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF PATRONAGE CAPITAL AND OTHER EQUITIES
YEARS ENDED DECEMBER 31, 2019 AND 2018

	Patronage Capital	Other Equities	Accumulated Other Comprehensive Margins (Loss)	Total
BALANCE - DECEMBER 31, 2017	$ 21,738,024	$ 17,348,398	$ (756,900)	$ 38,329,522
Comprehensive Margins	2,313,367	437,753	(22,740)	2,728,380
Retirement of Capital Credits	(937,781)	-	-	(937,781)
BALANCE - DECEMBER 31, 2018	23,113,610	17,786,151	(779,640)	40,120,121
Comprehensive Margins	2,306,864	1,360,245	(18,445)	3,648,664
Retirement of Capital Credits	(994,305)	-	-	(994,305)
BALANCE - DECEMBER 31, 2019	$ 24,426,169	$ 19,146,396	$ (798,085)	$ 42,774,480

See accompanying Notes to Consolidated Financial Statements.

ILLINOIS ELECTRIC COOPERATIVE AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	$ 3,667,109	$ 2,751,120
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities:		
Depreciation	3,143,128	3,042,202
Gain on Sale of Assets	(148,588)	(76,868)
G & T and Other Capital Credits	(1,092,507)	(1,163,933)
Accrued Pension and Postretirement Benefit Obligations	110,333	109,456
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	(115,234)	(2,458,965)
Materials and Supply Inventory	32,962	(52,408)
Other Current and Accrued Assets	(83,347)	2,641,204
Deferred Debits	136,755	207,185
Increase (Decrease) in:		
Accounts Payable	127,055	(61,133)
Other Current and Accrued Liabilities	135,222	22,045
Deferred Credits	12,274	(56,214)
Net Cash Provided by Operating Activities	5,925,162	4,903,691
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction and Acquisition of Plant	(8,602,370)	(6,639,183)
(Increase) Decrease in Other Assets and Investments	146,998	1,252,729
Cash Received from Retirement of Patronage	24,961	205,720
Issuance of Notes Receivable	(10,638)	(521,410)
Payments on Notes Receivable	367,527	298,585
Proceeds from Sale of Assets	163,450	135,957
Net Cash Used by Investing Activities	(7,910,072)	(5,267,602)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	8,040,862	3,446,846
Principal Payments on Long-Term Debt	(3,701,849)	(3,824,599)
Change in Notes Payable	(999,202)	2,375,255
Capital Credits Retired	(994,305)	(937,781)
Net Cash Provided by Financing Activities	2,345,506	1,059,721
NET INCREASE IN CASH AND CASH EQUIVALENTS	360,596	695,810
Cash and Cash Equivalents - Beginning of Year	3,486,800	2,790,990
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,847,396	$ 3,486,800
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 2,121,500	$ 1,882,300
NONCASH FINANCING ACTIVITY		
Property and Equipment Acquired Under Capital Leases	$ 602,127	$ 829,562

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Illinois Electric Cooperative is organized to provide electric energy to consumers located in 10 counties in west central Illinois. The Cooperative's wholly owned subsidiary, Illinois Rural Telecommunication Co., provided Internet access to the general public within the same general geographic area as served by the Cooperative. As of January 1, 2011, all Internet services are provided by Illinois Electric Cooperative. Illinois Rural Telecommunication Co. itself has two wholly owned subsidiaries, Prather Oil Company and MidState Propane, LLC, which provided retail sales of propane to the general public, in the same geographical areas served by the Cooperative. On June 1, 2009, the Cooperative and its subsidiaries sold substantially all of the assets of the propane operations.

Principles of Consolidation

The consolidated financial statements include the accounts of Illinois Electric Cooperative (the Cooperative) and its wholly owned subsidiary Illinois Rural Telecommunication Co. (IRTC). All significant intercompany transactions and accounts have been eliminated from the consolidated financial statements.

Basis of Accounting

The Cooperative 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 Accounts 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 as applied in the case of regulated electric utilities.

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

Use of Estimates

The preparation of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Electric Plant and Depreciation Procedures

Electric plant is stated at cost. Cost of labor, materials, supervision, and other costs incurred in making improvements, replacements, and additions to the system, are charged to the plant accounts while such costs incurred in making normal repairs, minor replacements, and maintaining assets in efficient operating condition are charged to expense.

Provisions for depreciation of production (wind turbine and solar) and distribution plant and structures are computed on a straight-line basis employing a group method. The original costs of assets retired together with the costs of removal less salvage are charged to the related accumulated depreciation accounts.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Electric Plant and Depreciation Procedures (Continued)

Provisions for depreciation of general plant items are computed on a straight-line basis employing a group method, except for transportation equipment, power operated equipment, certain office equipment, and communication equipment, which are computed on a unit method. When assets are sold or retired, proceeds received upon disposition are compared with original cost less depreciation charged to date, and gains or losses are recognized in the income statement, as appropriate.

Other Assets and Investments

Investments in Associated Organizations

Investments in associated organizations include patronage capital, term certificates, and other investments. Patronage capital investments are stated at cost plus undistributed allocated equities from other cooperatives. Term certificates and other investments are carried at cost, which approximates market.

Notes Receivable and the Allowance for Loan Losses

The allowance for loan losses (allowance) is an estimate of loan losses inherent in the Cooperative’s loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after loan losses and loan growth. Loan losses are charged off against the allowance when the Cooperative determines the loan balance to be uncollectible. Cash received on previously charged off amounts is recorded as a recovery to the allowance.

A loan is considered impaired when, based on current information and events, it is probable that the Cooperative will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans determined to be impaired are individually evaluated for impairment. When a loan is impaired, the Cooperative measures impairment based on the present value of the expected future cash flows discounted at the original contractual interest rate, except that as a practical expedient, it may measure impairment based on an observable market price, or the fair value of the collateral if collateral dependent. A loan is collateral dependent if the repayment is expected to be provided solely by the underlying collateral.

The Cooperative considers an allowance for each portfolio segment. These portfolio segments included economic development, energy resource conservation, and other notes receivable with risk characteristics described as follows:

Economic Development: Economic Development Loans Receivable generally possess a low amount of inherent risk as the loans are generally underwritten for construction and expansion of businesses within the Cooperative’s geographical footprint. Borrowers are evaluated for credit quality and loans are generally collateralized with a first or second mortgage on real property.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Assets and Investments (Continued)

Notes Receivable and the Allowance for Loan Losses (Continued)

Energy Resource Conservation: Energy Resource Conservation loans possess a low amount of inherent risk as these are amounts loaned to consumers for energy saving devices installed on their premises. Borrowers are evaluated for credit quality and loans are collateralized with a first or second mortgage on real property.

Other Notes Receivable: Other Notes Receivable possess a low amount of inherent risk as these amounts are secured with a first mortgage on real property. These notes are related to sales of property executed in prior years.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least annually, management reviews the adequacy of the allowance, including consideration of the relevant risks of the portfolio, current economic conditions, and other factors. If management determines that changes are warranted based on those reviews, the allowance is adjusted.

Other Investments:

Marketable debt securities are classified as held-to-maturity investments and reported at amortized cost. The fair values of the marketable debt securities are estimated based on quoted market prices for those securities.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Cooperative considers short-term investments with maturities of three months or less to be cash equivalents. The following is a summary of these items at December 31:

	2019	2018
Cash - General	$ 680,733	$ 1,162,539
Short-Term Investments	3,166,663	2,324,261
Total Cash and Cash Equivalents	$ 3,847,396	$ 3,486,800

Deposits are maintained in financial institutions insured by Federal Deposit Insurance Corporation insurance and approved by the board of directors. These deposits may, at times, exceed federally insured amounts.

Accounts Receivable, Net

The Cooperative provides an allowance for bad debts using the allowance method based on management's judgment. Sales are made on an unsecured basis. Payment is generally required within 30 days of the date of bill. Accounts more than 90 days past due are individually analyzed for collectibility. In addition, an allowance is provided for other accounts when a significant pattern of uncollectibility has occurred. As of December 31, 2019 and 2018, the Cooperative has an allowance for uncollectible accounts totaling approximately $368,965 and $317,388, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are valued at the lower of cost or net realizable value using the average unit cost 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.

Power Cost Recognition

Cost of power purchased is recognized on the basis of meter readings made by the power supplier on the last day of each month. There are no power costs incurred but not accrued as of December 31, 2019 and 2018.

Postretirement Benefits

The Cooperative provides certain health care benefits for all 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 employees’ active service period to dates they are fully eligible for benefits.

Accumulated Other Comprehensive Loss

Comprehensive margins (loss) and its components are required to be presented for each year a statement of operations is presented. The only components included in other comprehensive margins (loss) for the Cooperative are the net actuarial loss for its Postretirement Health Insurance Benefit Plan and the amortization of that net actuarial loss.

Income Taxes

The Cooperative has been granted tax-exempt status under Section 501(c)(12) of the Internal Revenue Code (IRC).

IRTC utilizes an asset and liability approach to financial accounting and reporting for income taxes. Deferred income taxes are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Such differences relate primarily to the use of accelerated depreciation methods for income tax purposes as compared to the straight-line method for financial reporting and amortization of goodwill for income tax purposes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

IRTC files a consolidated tax return, which includes its subsidiaries. The consolidated income tax provision (benefit) is recorded by IRTC and is not allocated to its subsidiaries.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

The Cooperative evaluated its tax positions and determined that it has no uncertain tax positions as of December 31, 2019 and 2018.

Presentation of Sales Taxes

The State of Illinois imposes a sales tax of 6.25% on the Cooperative's sales to nonexempt customers. The Cooperative collects that sales tax from consumers and remits the entire amount to the state. The Cooperative's accounting policy is to exclude the tax collected and remitted to the State from revenues and costs of sales.

Fair Value Measurements

The Cooperative categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Cooperative has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Subsequent to initial recognition, the Cooperative may re-measure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Cooperative adopted the policy to value certain financial instruments at fair value. The Cooperative has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

The following table presents the fair value hierarchy for the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2019:

	Level 1	Level 2	Level 3	Total
Assets:				
Special Funds - Deferred Compensation	$ 74,203	$ -	$ -	$ 74,203

The following table presents the fair value hierarchy for the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
Assets:				
Special Funds - Deferred Compensation	$ 73,793	$ -	$ -	$ 73,793

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606).

The objective of the standard is to enhance comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets.

The largely principles-based guidance in this ASU provides a framework for addressing revenue recognition issues comprehensively for entities that apply U.S. GAAP. It can be applied to all contracts with customers regardless of industry-specific or transaction-specific fact patterns.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The adoption of this guidance did not have a material impact on the Cooperative's consolidated financial statements as of the adoption date or for the year ended December 31, 2019.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from Contracts with Customers (Continued)

The Cooperative primarily generates revenue from the distribution and sale of electricity to members. The Cooperative satisfies the performance obligation when the energy is delivered to the member. The Cooperative recognizes revenue from energy sales based on meter readings of the member's usage. Meters are read the second business day of the month with payment due the 15th or 20th of the month, depending on billing cycle. The meters for Cycle 1 are read at midnight on the last day of the month, billed on the third business day of the month and payment is due the 20th of the month. The meters for Cycle 2 are read at midnight on the last day of the month, billed at the end of the month, and payment is due the 15th of the following month. Rates charged to members are based on rates approved by the Cooperative's Board of Directors. The Cooperative has elected to use the Invoice Practical Expedient allowing the Cooperative to recognize revenue in the amount that directly corresponds to the value transferred to the customer.

The following table presents the Cooperative's revenues disaggregated by type of customer at December 31:

	2019	2018
Residential	$ 23,159,667	$ 22,960,484
Irrigation	428,655	520,090
Small Commercial	6,635,968	6,407,869
Large Commercial	1,138,686	972,693
Electric Revenues	$ 31,362,976	$ 30,861,136
Wi-Fi	$ 2,158,632	$ 1,952,150
Fiber-Video	159,491	141,333
Fiber-Internet	507,528	322,675
Fiber-Voice	76,775	69,775
Other	27,697	25,630
Telecommunications Revenue	$ 2,930,123	$ 2,511,563

Subsequent Events

In preparing these financial statements, the Cooperative has evaluated events and transactions for potential recognition of disclosure through March 13, 2020, the date the financial statements were available to be issued.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

NOTE 2 ASSETS PLEDGED

Substantially all assets are pledged as security for the long-term debt to RUS, the Federal Financing Bank (FFB), CoBank, and concurrent mortgage notes to the National Rural Utilities Cooperative Finance Corporation (CFC).

NOTE 3 ELECTRIC PLANT IN SERVICE

Listed below are the major classes of the electric plant as of December 31:

	2019	2018
Intangible Plant	$ 9,169	$ 9,169
Production Plant	2,518,109	2,518,109
Equipment Under Capital Leases	2,100,035	1,894,208
Distribution Plant	85,011,306	81,417,139
General Plant	22,859,130	21,870,163
Electric Plant in Service	112,497,749	107,708,788
Construction Work in Progress	4,581,176	2,983,258
Total	$ 117,078,925	$ 110,692,046

Provisions for depreciation of production and distribution plant are made on a straight-line basis with composite rates as follows at December 31, 2019:

Production Plant	5%
Distribution Plant	2.36%

Provisions for depreciation of equipment under capital leases are computed on the unit basis using the straight-line method over the life of the leases.

Provisions for depreciation of general plant are computed on the group basis using the straight-line method with a range of useful lives from 4 to 40 years.

NOTE 4 OTHER ASSETS AND INVESTMENTS

Investments in Associated Organizations

A summary of investments at December 31 is as follows:

	2019	2018
Patronage Capital Credits:		
Prairie Power, Inc.	$ 8,031,792	$ 7,075,769
National Rural Utilities Cooperative Finance Corporation (NRUCFC)	121,742	137,116
CoBank	439,094	394,295
National Rural Telecommunications Cooperative	226,451	284,621
Federated Rural Electric Insurance Exchange	171,965	159,888
United Utility Supply	129,606	128,832
Other	46,144	45,062
Total Patronage Capital Credits	9,166,794	8,225,583
Term Certificates of NRUCFC	785,956	786,819
Total Investment in Associated Organizations	$ 9,952,750	$ 9,012,402

NOTE 4 OTHER ASSETS AND INVESTMENTS (CONTINUED)

Investments in Associated Organizations (Continued)

The Cooperative is a voting member of Prairie Power, Inc. (PPI), a generation and transmission facility headquartered in Springfield, Illinois. These voting members or owners share margins realized by PPI, on the cooperative principle, based on power purchased. The investment or patronage capital earned by voting members may be returned annually as approved by the board of directors.

Term certificates include capital term certificates, loan term certificates, and zero term certificates of NRUCFC. The capital term certificates bear interest at 5% and begin maturing in the year 2070; loan term certificates bear interest at 3% and begin maturing in the year 2025; and zero term certificates bear interest at 0% and begin maturing in the year 2022.

Notes Receivable

Notes receivable at December 31 are as follows:

	2019	2018
Notes Receivable	$ 42,213	$ 47,465
Rural Economic Development Loans Receivable	1,967,327	2,320,058
Energy Resource Conservation Loans Receivable	53,936	57,984
Less: Current Portion of Notes Receivable	(350,755)	(349,200)
Total Other Investments	1,712,721	2,076,307
Less: Allowance for Loan Losses	(30,000)	(30,000)
Long-Term Notes Receivable	$ 1,682,721	$ 2,046,307

The Cooperative has a note receivable from a third party from the sale of nonutility property. The portion to be received in the near term is shown as a current asset in the consolidated balance sheets. The note bears interest at a rate of 0%.

Rural economic development loans receivable consists of promissory notes from businesses and governments in the Cooperative's service territory. These notes are structured as a pass through to the USDA and bear interest at a rate of 0%.

Energy resource conservation loans receivable consist of promissory notes from members for energy saving devices installed on their premises. The loans are due in varying amounts through 2023 and bear interest at a rate of 2%.

The Cooperative provides an allowance for uncollectible loans based on management's estimate of loan losses. As of December 31, 2019, all notes receivable were current on their payments.

Other Investments

Other Investments at December 31 consist of the following:

	2019	2018
Marketable Debt Securities - Held to Maturity	$ 399,444	$ 808,129
Investment in Prairie State Project	2,258,800	2,823,500
Total Other Investments	$ 2,658,244	$ 3,631,629

NOTE 4 OTHER ASSETS AND INVESTMENTS (CONTINUED)

Other Investments (Continued)

The Cooperative has invested funds in a power plant project along with nine other Prairie Power, Inc. electric distribution cooperatives. Construction was completed in 2012. In connection with this investment, the Cooperative has guaranteed an additional $4,404,660 of loans to fund the project.

The following is a summary of the amortized cost and fair value of investments classified as Held-to-Maturity as of December 31:

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2019				
U.S. Treasury Obligations	$ 246,566	$ 101,355	$ -	$ 347,921
U.S. Government Securities	31,805	4,422	-	36,227
Corporate Bonds	71,320	28,197	-	99,517
Trusts	49,753	64,287	-	114,040
Total	$ 399,444	$ 198,261	$ -	$ 597,705
December 31, 2018				
U.S. Treasury Obligations	$ 246,566	$ 76,632	$ -	$ 323,198
U.S. Government Securities	139,714	80,321	-	220,035
Corporate Bonds	71,320	10,763	-	82,083
Brokered Certificates of Deposit	300,776	-	(1,765)	299,011
Trusts	49,753	43,527	-	93,280
Total	$ 808,129	$ 211,243	$ (1,765)	$ 1,017,607

The carrying values and estimated fair values of debt securities at December 31, 2019, by contractual maturity, are shown below:

	Carrying Value	Fair Value
Due Within Five Years Through Ten Years	$ 180,762	$ 193,254
Due in More Than Ten Years	218,682	404,451
Total	$ 399,444	$ 597,705

Management evaluates securities for other-than-temporary impairment when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Cooperative to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

NOTE 4 OTHER ASSETS AND INVESTMENTS (CONTINUED)

Nonutility Property

Nonutility property consists of equipment of the Cooperative and the Subsidiary as follows:

	2019	2018
Fiber Communications Equipment	$ 8,022,111	$ 6,854,382
Less: Accumulated Depreciation	(2,955,429)	(2,677,347)
Net Nonutility Property	$ 5,066,682	$ 4,177,035

NOTE 5 OTHER CURRENT AND ACCRUED ASSETS

The following is a summary of other current and accrued assets at December 31:

	2019	2018
Prepaid Expenses	$ 241,071	$ 177,463
Interest Receivable	5,310	6,416
Other	34,860	14,015
Total Other Current and Accrued Assets	$ 281,241	$ 197,894

NOTE 6 DEFERRED DEBITS

Following is a summary of amounts recorded as deferred debits as of December 31:

	2019	2018
Past Service Pension Cost	$ 32,488	$ 72,670
Prepayment of Stranded Costs on Wholesale		
NRECA RS Pension Plan Prepayment	452,730	588,549
Headquarters Building Repair Project	33,560	-
Wind Turbine Maintenance	20,194	19,825
Other Deferred Debits	79,980	74,663
Total Deferred Debits	$ 618,952	$ 755,707

The past service pension costs are amortized on the straight-line basis, over future periods.

NOTE 7 PATRONAGE CAPITAL AND OTHER EQUITIES

The following is a summary of patronage capital assignable and assigned at December 31:

	2019	2018
Assignable	$ 2,306,864	$ 2,313,367
Assigned to Date	22,119,305	20,800,243
Patronage Capital - End of Year	$ 24,426,169	$ 23,113,610

NOTE 7 PATRONAGE CAPITAL AND OTHER EQUITIES (CONTINUED)

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

Distributions to estates are made at the request of the estates. In addition to estates, émigrés and surviving spouses of joint memberships are retired upon request within annual budgets set by the board of directors and in the order in which they are received. Distributions made on a first in first out basis and those made for prior year's patronage are made at the board's discretion.

Other equities consisted of the following as of December 31:

	2019	2018
Memberships	$ 114,840	$ 114,840
Donated Capital	25,928	25,928
Unclaimed Capital Credits	18,292	18,292
Nonoperating Margins - Subsidiary	(650,871)	(677,800)
Appropriated Margins	19,638,207	18,304,891
Total	$ 19,146,396	$ 17,786,151

NOTE 8 LONG-TERM DEBT

The following is a summary of outstanding long-term debt as of December 31:

Description	2019	2018
RUS Mortgage Notes -		
Fixed Rate Notes, 1.37%-5.00% Maturing through 2041	$ 12,232,406	$ 12,864,549
NRUCFC Secured Promissory Notes -		
Variable Rate Notes, 3.75% Due 2022	138,569	184,101
FFB Secured Mortgage Notes -		
Variable Rate Notes, 1.98%, Due 2051	5,695,968	5,823,571
Fixed Rate Notes, 1.62%-5.33% Maturing 2035-2051	40,513,477	35,037,152
CoBank Secured Promissory Notes -		
Variable Rate Notes, 4.76% Due 2023	1,387,914	1,815,036
Fixed Rate Notes, 2.94%-4.62%, Due 2022-2036	10,227,604	9,353,251
Rural Economic Development Grant	169,559	169,559
Rural Economic Development Loan	1,872,877	2,181,424
Capital Lease Obligations	1,096,340	964,931
Total Long-Term Debt	73,334,714	68,393,574
Current Maturities	(3,864,000)	(3,520,000)
Total Long-Term Debt (Net of Current Maturities)	$ 69,470,714	$ 64,873,574

NOTE 8 LONG-TERM DEBT (CONTINUED)

As of December 31, 2019, current maturities of long-term debt outstanding for the next five years are as follows:

Year Ending December 31,	Amount
2020	$ 3,864,000
2021	3,860,000
2022	3,833,000
2023	3,030,000
2024	2,907,000

As of December 31, 2019, the Cooperative and IRTC have approved but unadvanced loan funds of $7,436,672 with FFB, and $4,000,000 with CoBank.

The Cooperative leases various equipment under capital leases expiring in various years through 2024. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over their related lease terms. Depreciation of assets under capital leases is included in depreciation for the years ended December 31, 2019 and 2018.

Equipment under capital leases had a cost and accumulated depreciation of $2,100,035 and $1,003,696 as of December 31, 2019 and $1,894,208 and $929,276 as of December 31, 2018.

Minimum future lease payments under capital leases as of December 31, 2019 are as follows:

Year Ending December 31,	Amount
2020	$ 421,265
2021	318,763
2022	250,586
2023	102,387
2024	3,339
Total Minimum Lease Payments	$ 1,096,340

NOTE 9 NOTES PAYABLE

The Cooperative has a perpetual line of credit with NRUCFC in the amount of $1,500,000. Borrowings on this line of credit are due on demand. Interest rates vary with the prime rate as published in the Wall Street Journal. At December 31, 2019 and 2018, the interest rate on this line of credit was 3.25% and 3.75%, respectively. The Cooperative had outstanding balances of $-0- at December 31, 2019 and 2018.

The Cooperative has a line of credit with CoBank in the amount of $6,000,000. At December 31, 2019 and 2018, the interest rate on this line of credit was 3.99% and 4.61%, respectively. The line of credit matures on February 21, 2021. The Cooperative had outstanding balances of $3,392,682 and $4,391,884 at December 31, 2019 and 2018, respectively.

NOTE 10 DEFERRED CREDITS

A summary of deferred credits at December 31 is as follows:

	2019	2018
Consumers' Energy Prepayments	$ 150,013	$ 137,739

NOTE 11 POSTRETIREMENT BENEFIT OBLIGATIONS OTHER THAN PENSIONS

The Cooperative maintains a policy that provides health care benefits for substantially all retired employees, who have met the plan's years of service, until age 65. The Cooperative's liability for these unfunded benefits was revalued as of December 31, 2019 and reported on the balance sheet as Accumulated Provision for Pension and Benefits, which also includes $74,203 and $73,793 of Deferred Compensation as of December 31, 2019 and 2018, respectively.

As an employer that sponsors a defined benefit postretirement plan, the Cooperative reports the current economic status (the over-funded or under-funded status) of the plan in its statement of financial condition, measures the plan assets and plan obligations as of the statement of financial condition date, and includes disclosures about the plan.

	December 31, 2019	December 31, 2018
Obligations and Funded Status:		
Accumulated Postretirement Benefit Obligation	$ 2,817,088	$ 2,688,720
Unfunded Accumulated Postretirement Benefit Obligation	$ 2,817,088	$ 2,688,720
Employer Contributions	$ 152,622	$ 155,328
Net Benefits Paid	$ 152,622	$ 155,328
Amounts Recognized in the Balance Sheet in Accumulated Provisions for Pension and Benefits	$ 2,817,088	$ 2,688,720
Components of Net Postretirement Benefit Cost and Other Amounts Recognized in Other Comprehensive Margins		
Service and Interest Cost	$ 228,831	$ 228,601
Amortization of Deferred Charge	33,714	38,007
Recognized in Other Comprehensive Margins	18,445	22,740
Net Periodic Benefit Cost	$ 280,990	$ 289,348
Assumptions Used to Determine the Net Postretirement Benefit Cost		
Weighted Average Discount Rate for Obligations	4.35%	4.40%
Health Care Cost Trend Rate Assumed for Next Year	6.80%	7.42%
Rate to Which the Cost Trend Rate is Assumed to Decline	5.00%	5.00%
Year that the Rate Reaches the Ultimate Trend Rate	2026	2025

NOTE 11 POSTRETIREMENT BENEFIT OBLIGATIONS OTHER THAN PENSIONS (CONTINUED)

The following postretirement benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Year	Amount
2020	$ 158,886
2021	105,534
2022	106,687
2023	122,134
2024	154,971
2025 - 2029	804,996

The Cooperative has a net loss in the amount of $798,085, which is included in accumulated other comprehensive margins. The estimated related net loss that will be amortized over the next fiscal year is $36,519.

NOTE 12 PENSION PLANS

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 IRC. It is 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’s contributions to the RS Plan in 2019 and in 2018 represented less than 5% of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan in 2019 and 2018 as follows:

	2019	2018
Past Service Pension Cost	$ 40,182	$ 40,182
Current Payments to Plan	486,498	437,010
Total	$ 526,680	$ 477,192

There have been no significant changes that affect the comparability of 2019 and 2018 contributions.

NOTE 12 PENSION PLANS (CONTINUED)

Plan Information (Continued)

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 employer. In total, the RS Plan was over 80% funded on January 1, 2019, and over 80% funded on January 1, 2018, based on the PPA funding target and PPA actuarial value of assets on those dates.

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.

At the December 2012 meeting of the I&FS 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 will typically equal approximately 2.5 times a cooperative’s annual RS Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. 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.

In addition to the above retirement plan, employees of the Cooperative are eligible for a 401(k) savings plan. The Cooperative makes a contribution of 9.0% of the eligible employees’ salary into this plan. The total contribution made by the Cooperative in 2019 and 2018 was $351,748 and $319,460, respectively.

NOTE 13 INCOME TAXES

No provision for income taxes was recorded for the years ended December 31.

Deferred tax assets are presented in the balance sheet as follows:

	2019	2018
Property and Equipment Depreciation	$ (144,000)	$ (144,000)
Net Operating Loss Carryforwards	144,000	144,000
Deferred Tax Assets, Net	$ -	$ -

NOTE 14 COMMITMENTS AND CONTINGENCIES

Purchase Commitment

Under its wholesale power agreements, the Cooperative is committed to purchase substantially all of its electric power and energy requirements from Prairie Power, Inc. through 2047. The rates are subject to periodic review.

Concentration of Credit

The Cooperative extends credit to its consumers on terms no more favorable than the standard terms of the industry it serves. The Cooperative's consumers are located in west central Illinois, and may be dependent on economic returns from farm crop and livestock production in that area. The Cooperative's credit risks have been anticipated and management believes that adequate provision has been made for doubtful accounts.

Major Consumer

For the years ended December 31, 2019 and 2018, one group of accounts under common ownership comprised approximately 10% of operating revenues.