

DAKOTA ELECTRIC ASSOCIATION
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

**DAKOTA ELECTRIC ASSOCIATION
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

INDEPENDENT AUDITOR'S REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED BALANCE SHEETS	3
CONSOLIDATED STATEMENTS OF OPERATIONS	5
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY	6
CONSOLIDATED STATEMENTS OF CASH FLOWS	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	8



Independent Auditor's Report

The Board of Directors
Dakota Electric Association
Farmington, Minnesota

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Dakota Electric Association which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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.

Auditor's 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. 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 auditor's 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 entity'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 entity'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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dakota Electric Association as of December 31, 2020 and 2019, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Sioux Falls, South Dakota
March 2, 2021

**DAKOTA ELECTRIC ASSOCIATION
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2020 AND 2019
(DOLLARS IN THOUSANDS)**

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 141	\$ 424
Accounts Receivable, Less Allowance for Uncollectible Accounts (2020 - \$1,182; 2019 - \$696)	31,278	27,822
Conservation Cost and Property Tax Recovery	396	268
Inventories, Materials and Supplies	9,750	4,771
Prepayments and Interest Receivable	1,018	769
Total Current Assets	42,583	34,054
INVESTMENTS IN ASSOCIATED COMPANIES AND OTHER INVESTMENTS	127,032	124,354
UTILITY PLANT		
Distribution System	285,450	273,219
General Plant	35,601	34,280
Construction Work in Process	6,128	3,966
Less Accumulated Depreciation	(135,216)	(130,272)
Net Utility Plant and Work in Progress	191,963	181,193
DEFERRED CHARGES AND OTHER ASSETS	80	84
Total Assets	\$ 361,658	\$ 339,685

	<u>2020</u>	<u>2019</u>
LIABILITIES, PATRONAGE CAPITAL & OTHER EQUITY		
CURRENT LIABILITIES		
Accounts Payable	\$ 29,235	\$ 27,389
Notes Payable	15,300	15,200
Current Portion of Long-Term Debt	7,352	6,569
Current Portion of Capital Lease Obligation	293	377
Customer Security Deposits	479	522
Accrued Property and Other Taxes	4,742	4,766
Other Current Liabilities	8,317	8,104
Total Current Liabilities	<u>65,718</u>	<u>62,927</u>
LONG-TERM DEBT	110,939	96,823
LONG-TERM CAPITAL LEASE OBLIGATION	1,006	1,103
POST-RETIREMENT BENEFIT OBLIGATION	4,891	4,417
DEFERRED CREDITS AND OTHER LIABILITIES	141	183
Total Liabilities	<u>182,695</u>	<u>165,453</u>
PATRONAGE CAPITAL & OTHER EQUITY	<u>178,963</u>	<u>174,232</u>
Total Liabilities, Patronage Capital and Other Equity	<u>\$ 361,658</u>	<u>\$ 339,685</u>

DAKOTA ELECTRIC ASSOCIATION
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(DOLLARS IN THOUSANDS)

	2020	2019
NET SALES	\$ 209,661	\$ 201,659
COST OF SALES	148,626	148,271
GROSS MARGIN	61,035	53,388
OPERATING EXPENSES		
Labor and Related Benefits	26,604	24,751
Professional Fees and Services	5,871	5,323
Rebates and Marketing	1,311	1,409
Office Expense	2,469	2,469
Operations and Maintenance	834	741
Depreciation and Amortization	11,232	10,734
Property and Real Estate Taxes	3,090	3,446
Net Interest Expense	4,287	4,404
Other Expenses (Reimbursements)	785	214
Total Operating Expenses	56,483	53,491
NET OPERATING MARGIN (LOSS)	4,552	(103)
OTHER INCOME (EXPENSE)		
Interest Income	146	153
Capital Credits from GRE, CFC, CoBank, & Others	4,262	4,986
Other Income (Expense)	(14)	(18)
Total Other Income	4,394	5,121
NET OPERATING MARGIN AND OTHER INCOME	8,946	5,018
Income Tax Credit on Nonregulated Operations	10	25
NET INCOME	\$ 8,936	\$ 4,993

See accompanying Notes to Consolidated Financial Statements

DAKOTA ELECTRIC ASSOCIATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2020 AND 2019
(DOLLARS IN THOUSANDS)

	<u>Patronage Capital</u>	<u>Other Equity</u>	<u>Patronage Capital and Other Equity</u>
BALANCE, DECEMBER 31, 2018	\$ 148,978	\$ 24,173	\$ 173,151
Net Income 2019	4,993	-	4,993
Transfer to Other Equity	(729)	729	-
Capital Credits Retired	<u>(4,401)</u>	<u>489</u>	<u>(3,912)</u>
BALANCE, DECEMBER 31, 2019	148,841	25,391	174,232
Net Income 2020	8,936	-	8,936
Transfer to Other Equity	(637)	637	-
Capital Credits Retired	<u>(4,635)</u>	<u>430</u>	<u>(4,205)</u>
BALANCE, DECEMBER 31, 2020	<u>\$ 152,505</u>	<u>\$ 26,458</u>	<u>\$ 178,963</u>

See accompanying Notes to Consolidated Financial Statements

DAKOTA ELECTRIC ASSOCIATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(DOLLARS IN THOUSANDS)

	2020	2019
OPERATING ACTIVITIES		
Net Income	\$ 8,936	\$ 4,993
Adjustments:		
Depreciation and Amortization	11,232	10,734
GRE, CFC, CoBank, and Other Capital Credit Allocations	(4,262)	(4,986)
GRE, CFC, CoBank, and Other Capital Credits Refunded	1,305	1,601
(Increase) decrease in Current Assets	(8,812)	2,042
Decrease in Other Assets	4	4
Increase in Current Liabilities	1,992	1,043
Increase (decrease) in Other Liabilities	432	(239)
Net Cash from Operating Activities	10,827	15,192
INVESTING ACTIVITIES		
Plant Additions, Net	(21,784)	(13,385)
Funds Received from Maturity of CFC Investment Certificates	279	87
Net Cash Used for Investing Activities	(21,505)	(13,298)
FINANCING ACTIVITIES		
Loan Advances Received	22,000	10,000
Principal Payments on Long-Term Debt	(7,101)	(6,455)
Principal Payments Capital Lease Obligations	(399)	(513)
Increase (decrease) in Notes Payable	100	(1,134)
Patronage Capital Retirements Paid	(4,205)	(3,912)
Net Cash from (used for) Financing Activities	10,395	(2,014)
Net Change in Cash and Cash Equivalents	(283)	(120)
Cash and Cash Equivalents, Beginning of Year	424	544
Cash and Cash Equivalents, End of Year	\$ 141	\$ 424
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for		
Interest	\$ 4,268	\$ 4,455
Income Taxes	17	30
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES		
Equipment Acquired Through Capital Leases	\$ 218	\$ 100

See accompanying Notes to Consolidated Financial Statements

DAKOTA ELECTRIC ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(DOLLARS IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Dakota Electric Association (Dakota Electric) is a 110,000 member not-for-profit, member-owned electric distribution cooperative serving homes and businesses primarily in Dakota County, Minnesota. Dakota Electric wholly-owned Midwest Energy Services (MES) until November 2020 when MES was dissolved and all remaining assets were paid as a dividend to the parent.

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

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on net income or equity.

Consolidation Policy and Preparation of Financial Statements

The accompanying consolidated financial statements include the accounts of Dakota Electric and its wholly-owned subsidiary. All significant intercompany transactions and balances have been eliminated.

Regulation

Dakota Electric is subject to regulation by the Minnesota Public Utilities Commission (MPUC). Dakota Electric's accounting policies and the accompanying consolidated financial statements conform to generally accepted accounting principles applicable to rate-regulated enterprises and reflect the effects of the ratemaking process.

Property and Depreciation

Plant is recorded at original cost. The cost of additions to utility plant and replacement of retirement units of property are capitalized. Maintenance costs and replacements of minor items of property are charged to expense as incurred. Costs of depreciable units of utility plant retired are eliminated from the plant accounts. Such costs plus removal expenses less salvage are charged to accumulated depreciation.

Depreciation of Dakota Electric utility plant is computed using rates approved by the MPUC based on estimated useful lives of the various classes of property. In 2020 and 2019, provisions for depreciation approximated 3.57% and 3.53%, respectively, of the average original cost of depreciable property.

Cash and Cash Equivalents

Dakota Electric considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

DAKOTA ELECTRIC ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(DOLLARS IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Materials and Supplies

Materials and supplies are stated at the lower of average cost or net realizable value.

Investments in Associated Companies

Investments principally represent undistributed allocated margins of other cooperatives and investment certificates in the Cooperative Finance Corporation (CFC). Investments in associated companies, other than subordinate certificates, and other investments are accounted for as equity securities. Dakota Electric has determined that these investments do not have a readily determinable fair value. Investments in associated companies are recorded at the Dakota Electric's share of allocated patronage capital and the other investments are recorded at cost. These investments are assessed for impairment, if any, and adjusted for changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Dakota Electric has not identified any impairments and there has not been observable price changes during the years ended December 31, 2020 and 2019. Subordinate certificates are debt securities and are accounted for at amortized cost, net of any impairment.

Effective January 1, 2019, Dakota Electric adopted FASB Accounting Standards Update No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which affects current U.S. GAAP primarily as it relates to the accounting for equity investments and the presentation and disclosure requirements for financial instruments. The standard had no material impact on the amounts recorded in the Dakota Electric's financial statements and eliminated certain fair value disclosures for financial instruments.

Patronage Capital

Dakota Electric operates on a nonprofit basis. Amounts received from the furnishing of electric energy in excess of operating costs and expenses are assigned to members on a patronage basis. Other amounts received by Dakota Electric from its operations in excess of costs and expenses are either allocated to members on a patronage basis or included in other equities in accordance with the bylaws.

Sales Taxes

Dakota Electric has members in municipalities in which those governmental units impose a sales tax on certain sales. Dakota Electric collects those sales taxes from its members and remits the entire amount to the various governmental units. Dakota Electric's accounting policy is to exclude the tax collected and remitted from revenue and cost of sales.

Income Taxes

Dakota Electric is exempt from income taxes under Section 501 (c) (12) of the Internal Revenue Code and the State of Minnesota. MES provides for deferred taxes on temporary differences arising from assets and liabilities whose basis is different for financial reporting and income tax purposes.

DAKOTA ELECTRIC ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(DOLLARS IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

Dakota Electric will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if such penalties and interest are incurred. Under normal circumstances, Dakota Electric and its subsidiary, MES, are no longer subject to federal or state tax examinations by tax authorities for years before 2018.

Dakota Electric and its subsidiary undergo an annual analysis of various tax positions, assessing the likelihood of those positions being upheld upon examination with relevant tax authorities, as defined by ASC 740-10. The unrecognized tax benefit accrual was zero as of December 31, 2020 and December 31, 2019.

Deferred Gain on RUS Buyout

In 1994 and 1995, Dakota Electric refinanced long-term debt payable to the Rural Utilities Service (RUS) with CFC. The early extinguishments resulted in gains of \$11.3 million, which are being amortized over the lives of the related CFC debt (24 and 32 years, respectively) using the sum of the year's digits method. Interest expense is net of amortization of \$42,000 and \$48,000 in 2020 and 2019, respectively.

Accounting Estimates

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

Concentrations of Credit Risk

Financial instruments, which potentially subject Dakota Electric to concentrations of credit risk, consist primarily of temporary cash investments and trade receivables. Dakota Electric invests excess cash with various high-quality financial institutions and, by policy, generally limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to trade receivables are limited due to Dakota Electric's large number of members and their dispersion across many industries. Dakota Electric does not obtain collateral to support trade receivables. Dakota Electric has not incurred and does not expect to incur significant credit losses.

Dakota Electric maintains its cash accounts in area financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At various times during the year, Dakota Electric's cash balances exceed insurance.

Concentration of Sources of Labor

At December 31, 2020, Dakota Electric had collective bargaining agreements covering 103 employees which represented 54% of total full-time employees. The collective bargaining agreements expired on December 31, 2020. A new agreement through December 31, 2024 was approved on November 17, 2020.

DAKOTA ELECTRIC ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(DOLLARS IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principle

In May 2014, the FASB issued guidance (Accounting Standards Codification [ASC] 606, Revenue from Contracts with Customers) which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. Additionally, the guidance provides additional disclosures related to revenue.

Dakota Electric applied ASC 606 to all customer contracts effective on January 1, 2019 using the modified retrospective basis. Dakota Electric did not identify any significant differences in the timing or amount of revenues recorded. As such, implementation did not have a significant impact on the financial position, results of operations, or cash flows of Dakota Electric and there was no cumulative adoption adjustment needed for the effect of the change in accounting principle.

Subsequent Events

Dakota Electric has evaluated subsequent events through March 2, 2021, the date which the financial statements were available to be issued.

NOTE 2 SUBSIDIARY OPERATING RESULTS

MES operating results for the years ended December 31, 2020 and 2019 are summarized below.

	<u>2020</u>	<u>2019</u>
	(in thousands)	
Revenues	\$ -	\$ -
Operating Expenses, Other Income and Expense	<u>(47)</u>	<u>(101)</u>
Income Before Taxes	47	101
Income Tax Expense (Credit)	<u>11</u>	<u>25</u>
Net Income	<u>\$ 36</u>	<u>\$ 76</u>

At December 31, 2019, MES had no deferred tax assets or liabilities and the entity was dissolved in November of 2020.

DAKOTA ELECTRIC ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(DOLLARS IN THOUSANDS)

NOTE 3 INVESTMENTS IN ASSOCIATED COMPANIES AND OTHER INVESTMENTS

	2020	2019
	(in thousands)	
Great River Energy Patronage Capital	\$ 116,896	\$ 114,018
Cooperative Finance Corporation		
Capital Term Certificates -		
Maturities 2070 - 2080, Interest Rate 5.0%	1,419	1,419
Loan Term Certificates -		
Maturities 2020 - 2030, Interest Rate 3.0%	440	532
Loan Term Certificates -		
Maturities 2020 - 2044, Interest Rate 0.0%	744	930
Member Capital Securities -		
Maturity 2044, Interest Rate 5.0%	1,000	1,000
Patronage Capital	4,245	4,267
	7,848	8,148
Other Investments	2,288	2,188
 Total Investments in Associated Companies and Other Investments	 \$ 127,032	 \$ 124,354

Investment in Great River Energy (GRE) represents undistributed allocated margins. Dakota Electric's share of annual GRE margins is generally based on the percentage of GRE's total power generation purchased by Dakota Electric. Under its wholesale power purchase agreement, Dakota Electric is committed to purchase at least 95% of its electric power requirements from GRE until December 31, 2045. The rates paid are subject to change annually.

Investments in CFC represent undistributed patronage capital allocated to Dakota Electric as well as loan and capital term certificates, and member capital securities. The certificates represent investments made pursuant to CFC borrowing requirements.

NOTE 4 PATRONAGE CAPITAL AND OTHER EQUITY

Dakota Electric has covenants with its lenders that restrict the retirement of patronage capital. After retirement, the capital of Dakota Electric must equal at least 30% of its total assets. No distributions can be made if there is unpaid, when due, any installments of principal or interest on the notes.

Capital credit retirements for estates, members reaching age 65, and members moving off-line after July 1, 1998 are made upon request. Patronage capital credits arising from prior years' margins are retired as determined annually by the board of directors. As of December 31, 2020, capital credits through 1994 have substantially been retired.

DAKOTA ELECTRIC ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(DOLLARS IN THOUSANDS)

NOTE 5 LONG-TERM DEBT

	2020	2019
	(in thousands)	
Cooperative Finance Corporation (CFC) mortgage notes 1.94% to 4.50%, due in quarterly installments through 2048.	\$ 81,919	\$ 63,986
CoBank mortgage notes 2.59% to 4.56%, due in monthly installments through 2044.	36,372	39,406
	118,291	103,392
Less Current Portion	(7,352)	(6,569)
Long-Term Debt	\$ 110,939	\$ 96,823

Substantially all assets are pledged as security on the mortgage notes. There are certain notes that contain provisions for changing interest rates at specified future dates.

Dakota Electric has entered into fixed forward long-term debt contracts totaling \$21 million. These contracts allow Dakota Electric to borrow \$21 million at interest rates ranging from 2.30% to 2.67%. There are penalties and fees that Dakota Electric would be responsible for if the funds are not drawn; however, it is management's intent to fully execute on these contracts.

Dakota Electric's debt agreements contain various restrictive covenants. Management believes Dakota Electric was in compliance with all restrictive covenants as of December 31, 2020 and 2019.

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

Years Ending December 31,	Total
	(in thousands)
2021	\$ 7,352
2022	7,521
2023	7,268
2024	6,234
2025	6,378
Thereafter	83,538
	\$ 118,291

DAKOTA ELECTRIC ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(DOLLARS IN THOUSANDS)

NOTE 6 CAPITAL LEASE PROVISION

Dakota Electric leases computer equipment and heavy vehicles under various long-term lease agreements. The leases expire at various dates through 2025.

Future minimum lease payments are as follows:

<u>Years Ending December 31,</u>	<u>Capital Leases</u> (in thousands)
2021	\$ 346
2022	477
2023	435
2024	81
2025	<u>74</u>
Total Minimum Lease Payments	1,413
Less Portion Representing Interest	<u>(114)</u>
Present Value of Minimum Lease Payments	<u>\$ 1,299</u>

Leased property under capital leases at December 31, 2020 and 2019 includes:

	<u>2020</u>	<u>2019</u>
	(in thousands)	
Computer Equipment	\$ -	\$ 212
Heavy Equipment	2,100	2,329
Total	<u>2,100</u>	<u>2,541</u>
Less Accumulated Amortization	<u>(433)</u>	<u>(607)</u>
Net Book Value	<u>\$ 1,667</u>	<u>\$ 1,934</u>

NOTE 7 NOTES PAYABLE (LINES OF CREDIT)

Dakota Electric has a \$30 million line of credit agreement with CoBank, which expires September 30, 2021 and is reviewed annually for subsequent renewal. This agreement imposes a maximum of \$30 million outstanding unsecured debt at any one time to all lenders. Interest on the unpaid principal is payable monthly at rates established by CoBank on a weekly basis (1.50% at December 31, 2020). This is a committed line of credit with fees charged based on the unused balance. The committed line guarantees Dakota Electric access to funds under any economic conditions. The annual percentage rate equivalent including the commitment fee was 1.71% at December 31, 2020. There were outstanding balances of \$15,300,000 and \$15,200,000 on this line of credit at December 31, 2020 and 2019, respectively.

DAKOTA ELECTRIC ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(DOLLARS IN THOUSANDS)

NOTE 7 NOTES PAYABLE (LINES OF CREDIT) (CONTINUED)

Dakota Electric has executed an as-offered uncommitted perpetual line of credit agreement providing Dakota Electric with short term loans of up to \$30 million on a revolving basis with CFC. Interest on unpaid principal is payable quarterly at rates established by CFC; this rate was 2.25% at December 31, 2020. There was no outstanding balance on this line of credit at December 31, 2020 or December 31, 2019.

NOTE 8 OTHER CURRENT LIABILITIES

	2020	2019
	(in thousands)	
Accrued Interest	\$ 634	\$ 576
Accrued Payroll	360	572
Accrued Sick Leave	1,334	1,237
Accrued Vacation	1,707	1,431
Unclaimed Capital Credits	4,262	4,142
Other	20	146
	<u>\$ 8,317</u>	<u>\$ 8,104</u>

NOTE 9 PENSION PLANS

A portion of the employees of Dakota Electric participate in the National Rural Electric Cooperative Association (NRECA) Retirement & Security Plan (RS Plan), 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 multiemployer 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.

DAKOTA ELECTRIC ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(DOLLARS IN THOUSANDS)

NOTE 9 PENSION PLANS (CONTINUED)

Dakota Electric makes contributions to the RS Plan equal to the amounts accrued for pension expense except for the periods when a moratorium on contributions has been in effect due to the plan reaching full funding limitations. Dakota Electric's contributions to the RS Plan in 2020 and in 2019 represented less than 5 percent of the total contributions made to the plan by all participating employers. Contributions to the plan for the years ended December 31, 2020 and 2019, were approximately \$2,834,000 and \$2,775,000, respectively. There have been no significant changes that affect the comparability of 2020 and 2019 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 employer. In total, the RS Plan was over 80% funded on January 1, 2020 and over 80% funded on January 1, 2019, 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.

Dakota Electric has defined contribution savings plans for employees who meet certain age and service requirements. Dakota Electric contributed between 4.0% and 10.0% in 2020 and 2019 of eligible employees' compensation. Savings plan company contributions for the years ended December 31, 2020 and 2019, were approximately \$1,224,000 and \$1,106,000, respectively.

NOTE 10 POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

Dakota Electric provides certain health care benefits for salaried and hourly retired employees. Employees may become eligible for these health care benefits after attaining specified age and service requirements prior to retiring from Dakota Electric.

Dakota Electric is required to disclose the following information according to Accounting Standards Codification (ASC) 715 Compensation-Retirement Benefits in the notes to the financial statements.

DAKOTA ELECTRIC ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(DOLLARS IN THOUSANDS)

NOTE 10 POST-RETIREMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

The following table sets forth the plan's funded status reconciled with the obligation recognized in the accompanying balance sheet at December 31:

	2020	2019
	(in thousands)	
Change in Post-retirement Benefit Obligation		
Accumulated Post-retirement		
Benefit Obligation at Beginning of Year	\$ 4,417	\$ 4,609
Interest and Service Cost	706	51
Benefits Paid-Net of Retiree Contributions	(232)	(243)
Accumulated Post-retirement		
Benefit Obligation at End of Year	4,891	4,417
Change in Plan Assets		
Plan Assets at Beginning of Year	-	-
Employer Contributions	232	243
Benefits Paid-Net of Retiree Contributions	(232)	(243)
Plan Assets at End of Year	-	-
Funded Status	(4,891)	(4,417)
Net Post-retirement Benefit Obligation Recognized	\$ (4,891)	\$ (4,417)
Weighted Average Assumptions at December 31:		
Discount Rate	3.77%	4.87%

For measurement purposes, a 4.36% and 3.93% annual rate of increase in per capita cost of health care benefits was assumed for 2020 and 2019, respectively. Accelerating the rate of assumed health care costs by 1% each year would increase the benefit obligation as of December 31, 2020 and 2019 by \$434,000 and \$339,000, respectively.

Post-retirement benefit payments over the next 10 years are estimated to be as follows:

Years ending December 31,	Estimated Payments (in thousands)
2021	\$ 243
2022	253
2023	264
2024	276
2025	288
2026 - 2030	1,637

DAKOTA ELECTRIC ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(DOLLARS IN THOUSANDS)

NOTE 11 REVENUE RECOGNITION

Dakota Electric accounts for customer revenues under Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers.

Dakota Electric's performance obligation related to the sale of energy is satisfied as energy is delivered to customers; therefore, revenue from the delivery of energy is recognized over time as energy is delivered to the customers. Rates charged to members are established by the board of directors and are subject to approval by the MPUC before becoming effective. Billings are rendered on a cycle basis and revenue is accrued for service provided but not yet billed. Electric rates include adjustment clauses, which bill or credit members for purchased power, conservation, and property tax costs above or below the base levels in rate schedules.

Dakota Electric's performance obligation related to electrical services are satisfied at the point in time when projects have been completed; therefore, revenue is recorded upon the completion of the service.

Dakota Electric does not have any significant financing components related to contracts with customers as payment is received shortly after being billed to customers.

The following table depicts revenues by timing of revenue recognition and type of revenue for the years ended December 31, 2020 and 2019, respectively:

	<u>2020</u>	<u>2019</u>
	(in thousands)	
Electric Revenues (Transferred Over Time)	\$ 208,676	\$ 200,760
Other Revenues (Specific Point in Time)	<u>463</u>	<u>742</u>
Total Revenue from Contracts with Customers	209,139	201,502
Lease Revenue	522	157
Net Sales	<u>\$ 209,661</u>	<u>\$ 201,659</u>

NOTE 12 RECEIVABLES AND CREDIT POLICY

Dakota Electric's revenue contracts provide it with the unconditional right to consideration upon delivery of electricity to its customers; therefore, a receivable is recognized in the period Dakota Electric provides energy to its customers. The unconditional right to consideration is represented by contract receivables which are presented on the balance sheet as accounts receivable which includes unbilled revenues.

DAKOTA ELECTRIC ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(DOLLARS IN THOUSANDS)

NOTE 12 RECEIVABLES AND CREDIT POLICY (CONTINUED)

Trade receivables are uncollateralized member obligations due under normal trade terms requiring payment within 25 days from the billing date. Unpaid trade receivables with dates over 30 days old are assessed a \$1 late fee or interest at 1.5% of the unpaid balance, whichever is greater. Payments on trade and notes receivable are allocated to the earliest unpaid billings. During 2020, the MPUC ordered all regulated utilities in Minnesota, including Dakota Electric, to waive late fees on past due balances to provide members relief during COVID. The carrying amounts of trade and notes receivable are reduced by a valuation allowance that reflects management's best estimate of the amount that will not be collected. Management reviews all trade and notes receivable balances periodically and adjusts the allowance accounts based on current economic conditions and past experience.

The beginning and ending balances for accounts receivable including unbilled revenues, net of allowances for doubtful accounts, and contract liabilities were as follows for the years ended December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019	January 1, 2019
		(in thousands)	
Billed	\$ 26,361	\$ 22,364	\$ 24,651
Unbilled	4,917	5,458	5,241
Total Accounts Receivable	<u>\$ 31,278</u>	<u>\$ 27,822</u>	<u>\$ 29,892</u>
Customer Deposits	<u>\$ 479</u>	<u>\$ 522</u>	<u>\$ 503</u>

NOTE 13 RELATED PARTY TRANSACTIONS

Dakota Electric is a member of and purchases its wholesale power from Great River Energy. The following is a summary of material transactions with Great River Energy for the years ended December 31, 2020 and 2019:

	2020	2019
	(in thousands)	
Purchase of Wholesale Power	<u>\$ 148,225</u>	<u>\$ 147,746</u>
Accounts Receivable	<u>\$ 510</u>	<u>\$ -</u>
Accounts Payable for Purchased Power	<u>\$ 23,455</u>	<u>\$ 21,996</u>
Capital Credit Allocation	<u>\$ 3,794</u>	<u>\$ 4,469</u>
Capital Credits Refunded	<u>\$ 916</u>	<u>\$ 1,204</u>
Accumulated Investment in Patronage Capital	<u>\$ 116,896</u>	<u>\$ 114,018</u>