

TRAVERSE ELECTRIC COOPERATIVE, INC.

FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2020 AND 2019

**TRAVERSE ELECTRIC COOPERATIVE, INC.
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**TRAVERSE ELECTRIC COOPERATIVE, INC.
DIRECTORS, OFFICERS, AND GENERAL MANAGER
MARCH 31, 2020**

Alan Veflin	President
Pat Homan	Vice President
Mark Pearson	Secretary
Karen Kath	Treasurer
Russell Armstrong	Director
Tom Frisch	Director
Michael Marks	Director
Douglas Diekmann	Director
Terry Monson	Director
* * * * *	
Joel Janorschke	General Manager



INDEPENDENT AUDITORS' REPORT

Board of Directors
Traverse Electric Cooperative, Inc.
Wheaton, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Traverse Electric Cooperative, Inc. (the Cooperative) which comprise the balance sheets as of March 31, 2020 and 2019, and the related statements of operations and patronage capital, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Traverse Electric Cooperative, Inc. as of March 31, 2020 and 2019, and the changes in its financial position and its 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 June 18, 2020, on our consideration of Traverse Electric Cooperative, Inc.'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 results of that testing, and not to provide an opinion on the effectiveness of Traverse Electric Cooperative, Inc.'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 Traverse Electric Cooperative, Inc.'s internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Alexandria, Minnesota
June 18, 2020

TRAVERSE ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
MARCH 31, 2020 AND 2019

ASSETS	<u>2020</u>	<u>2019</u>
UTILITY PLANT		
Electric Plant in Service, at Cost	\$ 25,882,179	\$ 25,257,136
Construction Work In Progress	531,793	964,225
Total	<u>26,413,972</u>	<u>26,221,361</u>
Less: Accumulated Depreciation	<u>(10,469,021)</u>	<u>(10,936,646)</u>
Net Utility Plant	15,944,951	15,284,715
OTHER PROPERTY AND INVESTMENTS, AT COST		
Investments in Associated Organizations	6,216,274	5,922,978
Other Investments	59,705	69,552
Total Other Property and Investments	<u>6,275,979</u>	<u>5,992,530</u>
CURRENT ASSETS		
Cash and Cash Equivalents	3,794,616	4,769,948
Accounts Receivable, Net	1,026,569	1,049,844
Materials and Supplies Inventory	307,658	301,906
Prepayments	160,003	136,851
Total Current Assets	<u>5,288,846</u>	<u>6,258,549</u>
DEFERRED DEBITS	<u>172,804</u>	<u>236,517</u>
Total Assets	<u><u>\$ 27,682,580</u></u>	<u><u>\$ 27,772,311</u></u>

See accompanying Notes to Financial Statements.

TRAVERSE ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS (CONTINUED)
MARCH 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
EQUITIES AND LIABILITIES		
EQUITIES AND MARGINS		
Patronage Capital	\$ 13,351,080	\$ 12,620,996
Other Equities	477,253	437,181
Total Equities and Margins	<u>13,828,333</u>	<u>13,058,177</u>
LONG-TERM DEBT, LESS CURRENT MATURITIES	12,324,727	12,650,380
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	479,132	780,138
Accounts Payable	677,009	652,813
Accrued Liabilities:		
Vacation and Sick Pay	117,575	142,778
Property Taxes	89,322	87,062
Payroll and Sales Tax	54,515	55,542
Interest	10,745	103,145
Consumer Deposits	12,250	11,750
Total Current Liabilities	<u>1,440,548</u>	<u>1,833,228</u>
DEFERRED CREDITS	<u>88,972</u>	<u>230,526</u>
 Total Equities and Liabilities	 <u><u>\$ 27,682,580</u></u>	 <u><u>\$ 27,772,311</u></u>

See accompanying Notes to Financial Statements.

TRAVERSE ELECTRIC COOPERATIVE, INC.
STATEMENTS OF OPERATIONS AND PATRONAGE CAPITAL
YEARS ENDED MARCH 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES	\$ 11,494,613	\$ 11,173,723
OPERATING EXPENSES		
Cost of Power	7,063,801	6,940,629
Distribution Expense - Operations	489,294	522,440
Distribution Expense - Maintenance	686,347	502,010
General Plant Maintenance	73,817	69,988
Consumer Accounts	264,516	235,041
Sales	9,496	8,363
Administrative and General	814,793	760,798
Depreciation	917,261	951,104
Total Operating Expenses Before Interest	<u>10,319,325</u>	<u>9,990,373</u>
OPERATING MARGINS BEFORE FIXED CHARGES	1,175,288	1,183,350
INTEREST ON LONG-TERM DEBT	<u>573,469</u>	<u>650,482</u>
OPERATING MARGINS AFTER FIXED CHARGES	601,819	532,868
GENERATION AND TRANSMISSION AND OTHER CAPITAL CREDITS	<u>482,335</u>	<u>1,080,646</u>
NET OPERATING MARGINS	1,084,154	1,613,514
NONOPERATING MARGINS		
Interest Income	181,882	255,943
Gain (Loss) on Sale of Assets	209	9,079
Other Nonoperating Income	144,993	76,283
Other Nonoperating Expense	(177,940)	(64,398)
Total Nonoperating Margins	<u>149,144</u>	<u>276,907</u>
NET MARGINS	1,233,298	1,890,421
Patronage Capital - Beginning of Year	12,620,996	11,175,053
Capital Credits Retired	(463,142)	(399,993)
Transfers to Other Equities	<u>(40,072)</u>	<u>(44,485)</u>
PATRONAGE CAPITAL - END OF YEAR	<u><u>\$ 13,351,080</u></u>	<u><u>\$ 12,620,996</u></u>

See accompanying Notes to Financial Statements.

TRAVERSE ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 1,233,298	\$ 1,890,421
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities:		
Depreciation	917,261	951,104
G & T and Other Capital Credits	(482,335)	(1,080,646)
Interest Income Credited to Cushion of Credit	(81,497)	(138,965)
Interest Expense Paid by Cushion of Credit	146,385	227,008
(Increase) Decrease in:		
Accounts Receivable	23,275	(74,407)
Prepayments	(23,152)	(28,217)
NRECA Pension Prepayment	63,713	(5,911)
Materials and Supply Inventory	(5,752)	48,026
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities	726	(23,324)
Interest Payable	(92,400)	91,825
Deferred Credits	(141,554)	162,550
Net Cash Provided by Operating Activities	<u>1,557,968</u>	<u>2,019,464</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(1,577,497)	(1,713,045)
Decrease in Other Property and Investments	198,886	202,306
Net Cash Used by Investing Activities	<u>(1,378,611)</u>	<u>(1,510,739)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Issuance of Long-Term Debt	-	2,364,000
Principal Payments on Long-Term Debt	(691,547)	(475,206)
Payments of Patronage Capital Credits	(463,142)	(403,259)
Net Cash Provided (Used) by Financing Activities	<u>(1,154,689)</u>	<u>1,485,535</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(975,332)	1,994,260
Cash and Cash Equivalents - Beginning of Year	<u>4,769,948</u>	<u>2,775,688</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 3,794,616</u></u>	<u><u>\$ 4,769,948</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Payments for Interest	\$ 519,484	\$ 331,649
Noncash Financing Activities:		
Principal Payments on Long-Term Debt Paid by Cushion of Credit	\$ 2,576,357	\$ 185,322

See accompanying Notes to Financial Statements.

**TRAVERSE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Traverse Electric Cooperative, Inc. (the Cooperative) was established to meet the needs and circumstances of providing electric service in Traverse County and the surrounding area.

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 Commissions' 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.

Electric Rates

Rates charged to customers are established by the board of directors and are subject to approval of RUS before becoming effective.

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. Actual results could differ from those estimates.

Utility Plant

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

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

Distribution Plant	3.0%
General Plant Structures	2.0%
Other General Plant	4.0% to 14.0%

When distribution plant assets are sold or retired, the original cost is removed from the accounts and charged, together with any cost of removal, to the accumulated provision for depreciation. Any salvage realized is credited to the same accumulated provision. 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 included in current operations.

TRAVERSE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Property and Investments

Investments in Associated Organizations

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

Other Investments

Other investments include economic development notes and energy resources conservation (ERC) loans, patronage capital credits – other and nonutility property. Notes and loans receivable are recorded at cost. Nonutility property was recorded at cost net of accumulated depreciation.

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 Association 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 notes receivable and energy resource conservation loans with risk characteristics described as follows:

Economic Development: Economic Development Notes 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.

TRAVERSE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Notes Receivable: Notes Receivable consist of Energy Resource Conservation Loans that possess a moderate 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 generally unsecured.

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.

Cash and Cash Equivalents

For purposes of reporting 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 March 31:

	2020	2019
General Cash	\$ 431,470	\$ 616,340
Temporary Investments	3,363,146	4,153,608
Total	<u>\$ 3,794,616</u>	<u>\$ 4,769,948</u>

The Cooperative invests in commercial paper with the National Rural Utilities Cooperative Finance Corporation which is approved by the Rural Utilities Service.

The Cooperative maintains cash and investments in deposit accounts at financial institutions approved by the board of directors. Accumulated deposits at these financial institutions, at times, may exceed federally insured limits.

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 15 days of the date of the invoice. Accounts past due are individually analyzed for collectability. In addition, an allowance is provided for other accounts when a significant pattern of uncollectability has occurred. The Cooperative writes off accounts on an annual basis. The allowance for uncollectible accounts at March 31, 2020 and 2019 was \$972 and \$992, respectively.

Materials and Supplies Inventory

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

TRAVERSE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recognition of Revenue and Power Costs

Revenues are billed, as determined through meter readings, through the end of each accounting period and recognized in the period they are earned. Power costs are recognized on the basis of meter readings made by the power supplier on the last day of the month.

Income Taxes

The Cooperative is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code on income derived from their exempt purpose. The Cooperative is required to pay federal and state income taxes on all business income unrelated to its exempt purpose.

The Cooperative adopted the income tax standard for uncertain tax positions on April 1, 2009. As a result of implementation, the Cooperative evaluated its tax positions and determined that it has no uncertain tax positions as of March 31, 2020 and 2019.

Presentation of Sales Taxes

The state of Minnesota imposes a sales tax of 6.875% and the state of South Dakota imposes a sales tax of 4.5% (an excise tax of 2.0%) on the Cooperative's sales to nonexempt customers. The state of North Dakota does not impose a sales tax on the Cooperative's sales. The Cooperative collects that sales tax from customers and remits the entire amount to the states. The Cooperative's accounting policy is to exclude the tax collected and remitted to the states from revenues and costs of sales.

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 March 31, 2020.

TRAVERSE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 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 recognized revenue from energy sales based on meter readings of the member's usage. Meters are read daily and billed with monthly payment due 15 days after the billing date. 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 the type of customer at March 31:

	2020	2019
Residential	\$ 6,476,899	\$ 6,336,393
Seasonal	389,911	389,610
Irrigation	18,150	18,287
Small Commercial and Industrial	1,556,731	1,372,562
Large Commercial and Industrial	3,030,253	3,031,686
Other Operating Revenue	22,669	25,185
Total	<u>\$ 11,494,613</u>	<u>\$ 11,173,723</u>

Subsequent Event

Subsequent to year-end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Management believes the Cooperative is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing.

NOTE 2 ASSETS PLEDGED

Substantially, all assets are pledged as security for the long-term debt to the Rural Utilities Service, the National Rural Utilities Cooperative Finance Corporation, the Federal Financing Bank, and CoBank, ACB.

TRAVERSE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

NOTE 3 UTILITY PLANT

The following are the major classes of utility plant as of March 31:

	2020	2019
Organization	\$ 259	\$ 259
Distribution Plant	23,704,127	23,121,821
General Plant	2,177,793	2,135,056
Electric Plant in Service	25,882,179	25,257,136
Construction Work in Progress	531,793	964,225
Total Utility Plant	<u>\$ 26,413,972</u>	<u>\$ 26,221,361</u>

NOTE 4 OTHER ASSETS AND INVESTMENTS

Investments in Associated Organizations

Capital credits in East River Electric Power Cooperative, Inc, (East River) represent accumulated credits based on power purchases from East River. East River is an electric transmission cooperative which purchases its power from Basin Electric Power Cooperative, an electric generating cooperative. The capital credits represent Traverse Electric Cooperative, Inc.'s share of net margins which East River has retained.

A summary of investments in associated organizations at March 31 is as follows:

	2020	2019
East River Electric Power Cooperative, Inc.	\$ 2,152,919	\$ 1,922,940
Basin Electric Power Cooperative	3,638,179	3,578,459
NRUCFC - Patronage Capital Credits	40,672	39,717
NRUCFC - Capital Term Certificates	237,756	238,061
Federated Rural Electric Insurance Exchange	69,938	65,767
CoBank, ACB	34,915	34,067
Other Associated Organizations	41,895	43,967
Total	<u>\$ 6,216,274</u>	<u>\$ 5,922,978</u>

Capital term certificates are investments in National Rural Utilities Cooperative Finance Corporation (NRUCFC). The Cooperative had an agreement with NRUCFC to annually purchase certificates equal to 2% of the previous year's operating revenue, after deducting power costs. This agreement expired in 1984.

The certificates mature variously in 2070, 2075, and 2080 and bear interest at 5%.

In addition, the Cooperative holds one zero-term certificates totaling \$444 and \$749 at March 31, 2020 and 2019, respectively, which have no stated interest rate and is due to mature in November 2022.

TRAVERSE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

NOTE 4 OTHER ASSETS AND INVESTMENTS (CONTINUED)

Other Investments

Other investments at March 31 are as follows:

	2020	2019
Economic Development Notes	\$ 45,230	\$ 45,230
Energy Resource Conservation Loans	14,475	24,322
Total	<u>\$ 59,705</u>	<u>\$ 69,552</u>

The Cooperative has loaned funds to local businesses for the purpose of economic development. These zero interest notes are payable over periods of up to 10 years.

ERC Loans are available to member/consumers of the Cooperative for improvements to structures receiving electric service. Loans are being amortized for a period up to 84 months at 5% per annum.

NOTE 5 MATERIALS AND SUPPLIES INVENTORIES

Inventories at March 31 are as follows:

	2020	2019
Electric	\$ 220,476	\$ 231,684
Resale	87,182	70,222
Total	<u>\$ 307,658</u>	<u>\$ 301,906</u>

Material and supplies are valued at average cost.

NOTE 6 DEFERRED DEBITS

Deferred debits at March 31 are as follows:

	2020	2019
Work Plan	\$ 26,083	\$ 35,375
Cost of Service Study	13,213	19,085
NRECA Pension Prepayment	133,508	182,057
Total	<u>\$ 172,804</u>	<u>\$ 236,517</u>

TRAVERSE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

NOTE 7 PATRONAGE CAPITAL

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

	2020	2019
Assigned	\$ 13,108,461	\$ 12,424,153
Assignable for January 1 through March 31	242,619	196,843
Total	<u>\$ 13,351,080</u>	<u>\$ 12,620,996</u>

The Cooperative has assigned its margins to patronage capital for the period January 1 through December 31 each year. The March 31, 2020 and 2019 assignable patronage capital represents margins for the period January 1 through March 31.

The mortgage provisions restrict the retirement of patronage capital 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 installments of principal or interest on the mortgage notes.

The board of directors determines the method, basis, priority, and order of retirement of capital credits as the financial condition of the Cooperative permits.

NOTE 8 OTHER EQUITIES

Other equities represent donated capital resulting from percentage discount rate forfeiture for each year of allocation of capital credits by estates when they elect to be paid currently.

NOTE 9 LONG-TERM DEBT

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

<u>Description</u>	<u>2020</u>	<u>2019</u>
RUS Mortgage Notes:		
3.00%-5.49% Notes, Maturing Through 2041	\$ 4,444,786	\$ 5,159,329
Advance Payments	-	(2,641,245)
FFB Mortgage Notes:		
2.502%-4.095% Notes, Maturing Through 2047	7,693,658	9,947,214
NRUCFC Secured Promissory Notes:		
3.50%-7.10% Notes, Maturing Through 2039	598,524	638,453
CoBank, ACB Mortgage:		
4.69% Note, Maturing 2020	66,891	326,767
Current Maturities	<u>(479,132)</u>	<u>(780,138)</u>
Total Long-Term Debt	<u>\$ 12,324,727</u>	<u>\$ 12,650,380</u>

TRAVERSE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

NOTE 9 LONG-TERM DEBT (CONTINUED)

The Cooperative has no unapplied payments on RUS debt outstanding at March 31, 2020.

The Cooperative has unadvanced loan funds from FFB as of March 31, 2020, totaling \$5,006,000.

As of March 31, 2020 annual maturities of long-term debt for the next five years are as follows:

<u>Year Ending March 31,</u>	<u>Amount</u>
2021	\$ 479,132
2022	427,858
2023	444,909
2024	440,419
2025	488,462

NOTE 10 LINE OF CREDIT

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 at interest rates that vary with the Prime rate published in the *Wall Street Journal*. The interest rates were 4.00% and 3.00% at March 31, 2020 and 2019, respectively. There were no funds advanced on this line of credit at March 31, 2020 and 2019.

The Cooperative has a line of credit with CoBank, which provides up to \$1,000,000 in short-term credit at variable rates and matures October 31, 2020. There were no funds advanced on this line of credit as of March 31, 2020 and 2019. The variable rates were 3.09% and 4.59% as of March 31, 2020 and 2019, respectively.

TRAVERSE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

NOTE 11 ALLOWANCE FOR LOAN LOSSES

As of March 31, 2020 and 2019, the Cooperative has not reserved any allowance for loan losses on their economic development loans or energy resource conservation loans. The following table shows an aging analysis of the loan portfolio by time past due:

	Accruing Interest				2020 Total
	Current	30-89 Days Past Due	More Than 90 Days Past Due	Total Nonaccrual	
Economic Development Notes	\$ 45,230	\$ -	\$ -	\$ -	\$ 45,230
Energy Resource Conservation Loans	14,475	-	-	-	14,475
Total	<u>\$ 59,705</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,705</u>

	Accruing Interest				2019 Total
	Current	30-89 Days Past Due	More Than 90 Days Past Due	Total Nonaccrual	
Economic Development Notes	\$ 45,230	\$ -	\$ -	\$ -	\$ 45,230
Energy Resource Conservation Loans	24,322	-	-	-	24,322
Total	<u>\$ 69,552</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,552</u>

NOTE 12 DEFERRED CREDITS

The following is a summary of deferred credits at March 31:

	2020	2019
Consumer Energy Prepayments	\$ 62,582	\$ 37,996
Capital Credits and Memberships Unclaimed	26,390	192,530
Total	<u>\$ 88,972</u>	<u>\$ 230,526</u>

NOTE 13 EMPLOYEE BENEFIT PLANS

Narrative Description

The Retirement Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Association (NRECA), is a defined benefit 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 multiemployer 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.

TRAVERSE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

NOTE 13 EMPLOYEE BENEFIT PLANS (CONTINUED)

Plan Information

Traverse Electric Cooperative, Inc. contributions to the RS Plan in fiscal years 2020 and 2019 represented less than 5% of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of \$212,195 and \$226,909 in fiscal years 2020 and 2019, respectively. The Cooperative made prepayments to the plan of \$485,486 in 2013 when the co-op elected to participate in the prepayment option offered to participating employers in 2013.

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, 2018 and January 1, 2017 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because 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.

401(k) Plan

The Cooperative has also adopted the SelectRE Pension Plan, a savings plan qualified under Section 401(k) of the Internal Revenue Code. The plan allows employees to defer the maximum amount prescribed by law of the income on a pre-tax basis through contributions to the savings plan. Effective January 1, 2017, the Cooperative adopted a 401(k) Roth option in addition, allowing employees to defer the maximum amount prescribed by law of the income on an after-tax basis through contributions to the savings plan. The Cooperative may also make voluntary contributions to this plan. The Cooperative’s contributions to the plan for the years ended March 31, 2020 and 2019 were \$25,618 and \$24,722, respectively.

TRAVERSE ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

NOTE 14 VACATION AND SICK PAY

All full-time Cooperative employees accumulate vacation hours for subsequent use or for payment upon termination or retirement. Vacation pay, which may be accumulated up to a maximum of 40 days, is charged to expense in the year earned. Accrued vacation pay at March 31, 2020 and 2019 was \$78,571 and \$90,798, respectively.

Sick leave is earned at a rate of 10 days per year to a maximum of 120 days. Employees will be paid for unused sick leave based on \$8 per hour up to 960 hours, in the event of retirement or death. Accrued sick leave pay at March 31, 2020 and 2019 was \$39,004 and \$51,980, respectively.

NOTE 15 COMMITMENTS, CONTINGENCIES, AND CONCENTRATIONS

Sources of Power

The Cooperative has entered into an agreement with East River Electric Power Cooperative, Inc. to purchase power from East River until December 2075. The price of energy purchased is variable, based upon East River's requirements to produce revenue necessary for them to meet all operating costs, loan commitments, and to maintain reasonable reserves.

Concentration of Credit

The Cooperative's business consists entirely of supplying electrical services to the rural communities of western Minnesota, and portions of northeastern South Dakota and southeastern North Dakota. Also, the Cooperative purchases substantially all power from one supplier.

Collective Bargaining Agreement

The current collective bargaining agreement between Traverse Electric Cooperative, Inc., and the Local 524 IBEW of the International Brotherhood of Electrical Workers, affiliated with the AFL-CIO expires September 30, 2022.

Major Customers

During 2020 and 2019, the Cooperative had sales to one member that totaled 21.37% and 20.76% of operating revenues, respectively.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS

Board of Directors
Traverse Electric Cooperative, Inc.
Wheaton, Minnesota

We have audited, 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, the financial statements of Traverse Electric Cooperative, Inc., which comprise the balance sheet as of March 31, 2020, and the related statements of operations and patronage capital and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated June 18, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2020, on our consideration of Traverse Electric Cooperative, Inc.'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. No reports other than the reports referred to above and our schedule of findings and responses related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Traverse Electric Cooperative, Inc. failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Traverse Electric Cooperative, Inc.'s noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Traverse Electric Cooperative, Inc.'s accounting and records to indicate that Traverse Electric Cooperative, Inc. did not:

Maintain adequate and effective accounting procedures:

- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

- Maintain adequate control over materials and supplies;
- Prepare accurate and timely financial and operating reports;
- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, *Depreciation Rates and Procedures*);
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and
- Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be, and should not be, used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is limited.

Schedule of Deferred Debits

Work Plan	\$ 26,083
Cost of Service Study	13,213
NRECA Pension Prepayment	133,508
Total	<u>\$ 172,804</u>

Schedule of Deferred Credits

Consumer Energy Prepayments	\$ 62,582
Capital Credits and Memberships Unclaimed	26,390
Total	<u>\$ 88,972</u>

The above regulatory asset and liabilities are being recognized in accordance with ASC 980-340-25 and do not require the approval of RUS.

Schedule of Investments in Affiliated and Subsidiary Companies

None

CliftonLarsonAllen LLP

Alexandria, Minnesota
June 18, 2020



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Traverse Electric Cooperative, Inc.
Wheaton, Minnesota

We have audited, in accordance with the 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, the financial statements of Traverse Electric Cooperative, Inc., (the Cooperative) which comprise the balance sheet as of March 31, 2020, and the related statements of operations and patronage capital and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 18, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Traverse Electric Cooperative, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Traverse Electric Cooperative, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Traverse Electric Cooperative, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Cooperative's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2020-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Traverse Electric Cooperative, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Traverse Electric Cooperative, Inc.'s Response to Finding

Traverse Electric Cooperative, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Traverse Electric Cooperative, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

Alexandria, Minnesota
June 18, 2020

**TRAVERSE ELECTRIC COOPERATIVE, INC.
SCHEDULE OF FINDINGS AND RESPONSES
MARCH 31, 2020**

FINDINGS - FINANCIAL STATEMENTS AUDIT

FINDING: 2020-001 ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Condition:	The Cooperative does not have an internal control policy in place over annual financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures are complete and presented in accordance with GAAP.
Criteria:	Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements including the related disclosures, in conformity with accounting principles generally accepted in the United States of America (GAAP).
Effect:	The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the Cooperative's internal controls.
Cause:	The Cooperative engages the audit firm to prepare the annual financial statements and related footnote disclosures. However, the Cooperative reviewed and approved the annual financial statements and the related footnote disclosures.
Recommendation:	Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.
Management's Response:	Management prepares annual financial information for the membership and RUS. Management provides the trial balance, income statement, and balance sheet to the audit firm and verifies financial information and footnotes printed in the audit report. The Cooperative will consider whether an internal control policy over the annual financial reporting would be beneficial.



INDEPENDENT AUDITORS' REPORT ON LOAN FUND EXPENDITURES

Board of Directors
Traverse Electric Cooperative, Inc.
Wheaton, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Traverse Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheet as of March 31, 2020, and the related statements of operations and patronage capital, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 18, 2020.

During the year ended March 31, 2020, Traverse Electric Cooperative, Inc. received no advances from NRUCFC on loans controlled by CFC's Loan Agreements and Mortgage. In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative was not in compliance with the intended purpose of the loan funds as contemplated in the Loan Agreement. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced agreements, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the board of directors, management, and the National Rural Utilities Cooperative Finance Corporation and is not intended to be, and should not be, used for anyone other than these specified parties.

CliftonLarsonAllen LLP

Alexandria, Minnesota
June 18, 2020