# ILLINOIS ELECTRIC COOPERATIVE
# AND SUBSIDIARY

## CONSOLIDATED FINANCIAL STATEMENTS AND
## SUPPLEMENTARY INFORMATION

## YEARS ENDED DECEMBER 31, 2015 AND 2014

**ILLINOIS ELECTRIC COOPERATIVE**
**AND SUBSIDIARY**
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**YEARS ENDED DECEMBER 31, 2015 AND 2014**

**ILLINOIS ELECTRIC COOPERATIVE**
**AND SUBSIDIARY**
**OFFICERS AND DIRECTORS**
**DECEMBER 31, 2015**

**Illinois Electric Cooperative:**

| Name | Office | Address |
|---|---|---|
| Robert A. Brown | President | Winchester, Illinois |
| Thomas D. Meehan III | Vice-President | Roodhouse, Illinois |
| Kevin Brannan | Secretary | Eldred, Illinois |
| Ronald K. Myers | Treasurer | Griggsville, Illinois |
| Julia Eberlin | Assistant Treasurer | Brussels, Illinois |
| Julie Rhoads | Assistant Secretary | Carrollton, Illinois |
| Gary K. Clark | Director | New Canton, Illinois |
| Jim Freeman | Director | Bluffs, Illinois |
| James C. Gay | Director | Rockport, Illinois |
| Eric Lakin | Director | Murrayville, Illinois |

**Illinois Rural Telecommunication Company:**

| | | |
|---|---|---|
| Thomas D. Meehan III | Chairman | Roodhouse, Illinois |
| Kevin Brannan | Vice-Chairman | Eldred, Illinois |
| Gary K. Clark | Secretary | New Canton, Illinois |
| Ronald K. Myers | Treasurer | Griggsville, Illinois |
| Julia Eberlin | Director | Brussels, Illinois |
| Robert A. Brown | Ex-Officio | Winchester, Illinois |
| Bruce N. Giffin | President | Winchester, Illinois |

# INDEPENDENT AUDITORS' REPORT

Board of Directors
Illinois Electric Cooperative and Subsidiary
Winchester, Illinois

## Report on Financial Statements

We have audited the accompanying consolidated financial statements of Illinois Electric Cooperative and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations, changes in patronage capital and other equities, 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 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 Illinois Electric Cooperative and Subsidiary as of December 31, 2015 and 2014, and 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 8, 2016, on our consideration of Illinois Electric Cooperative and Subsidiary'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 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 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 Illinois Electric Cooperative and Subsidiary's internal control over financial reporting and compliance.

**CliftonLarsonAllen LLP**

Austin, Minnesota
March 8, 2016

# ILLINOIS ELECTRIC COOPERATIVE
# AND SUBSIDIARY
# CONSOLIDATED BALANCE SHEETS
# DECEMBER 31, 2015 AND 2014

| ASSETS | 2015 | 2014 |
|---|---|---|
| **UTILITY PLANT** | | |
| Electric Plant in Service | $ 94,056,504 | $ 86,351,723 |
| Construction Work in Progress | 7,540,385 | 2,648,625 |
| Total | 101,596,889 | 89,000,348 |
| Less Accumulated Provision for Depreciation | (17,165,320) | (15,707,149) |
| Net Utility Plant | 84,431,569 | 73,293,199 |
| **OTHER ASSETS AND INVESTMENTS** | | |
| Investments in Associated Organizations | 6,213,449 | 5,350,510 |
| Notes Receivable | 345,634 | 404,108 |
| Other Investments | 6,425,556 | 6,806,864 |
| Other Special Funds | 59,778 | 39,656 |
| Total Other Assets and Investments | 13,044,417 | 12,601,138 |
| **CURRENT ASSETS** | | |
| Cash and Cash Equivalents | 4,675,724 | 1,824,293 |
| Accounts Receivable, Net | 1,661,255 | 1,831,796 |
| Current Portion of Notes Receivable | 82,886 | 90,091 |
| Materials and Supplies Inventory | 1,096,996 | 866,169 |
| Other Current and Accrued Assets | 2,324,884 | 2,307,682 |
| Total Current Assets | 9,841,745 | 6,920,031 |
| **DEFERRED DEBITS** | 1,452,471 | 2,246,585 |
| **ASSETS FROM DISCONTINUED OPERATIONS** | 17,851 | - |
| Total Assets | $ 108,788,053 | $ 95,060,953 |
| **EQUITIES AND LIABILITIES** | | |
| **EQUITIES** | | |
| Patronage Capital | $ 19,624,073 | $ 20,090,145 |
| Other Equities | 16,775,353 | 15,849,443 |
| Accumulated Other Comprehensive Loss | (939,000) | (970,800) |
| Total Equities | 35,460,426 | 34,968,788 |
| **LONG-TERM DEBT, NET OF CURRENT MATURITIES** | 57,803,895 | 51,502,491 |
| **ACCUMULATED PROVISION FOR PENSION AND POSTRETIREMENT BENEFIT OBLIGATIONS** | 2,588,578 | 2,486,856 |
| **CURRENT LIABILITIES** | | |
| Current Maturities of Long-Term Debt | 2,516,000 | 2,320,000 |
| Notes Payable | 6,671,802 | 1,222,164 |
| Accounts Payable | 2,539,665 | 1,441,212 |
| Other Current and Accrued Liabilities | 983,163 | 945,899 |
| Total Current Liabilities | 12,710,630 | 5,929,275 |
| **DEFERRED CREDITS** | 224,524 | 173,543 |
| Total Equities and Liabilities | $ 108,788,053 | $ 95,060,953 |

*See accompanying Notes to Consolidated Financial Statements.*

**ILLINOIS ELECTRIC COOPERATIVE**
**AND SUBSIDIARY**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

| | 2015 | 2014 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Electric Revenues | $ 27,395,907 | $ 27,106,983 |
| Telecommunication Revenue | 1,063 | 1,470 |
| Other Operating Revenue | 227,306 | 182,553 |
| Total Operating Revenues | 27,624,276 | 27,291,006 |
| **OPERATING EXPENSES** | | |
| Cost of Power | 15,274,093 | 15,702,182 |
| Distribution Expense - Operations | 432,088 | 526,271 |
| Distribution Expense - Maintenance | 3,258,891 | 2,825,294 |
| Consumer Account Expense | 708,138 | 512,503 |
| Sales Expense | 595,761 | 526,535 |
| Administrative and General Expense | 2,165,783 | 2,014,897 |
| Depreciation | 2,898,293 | 2,579,696 |
| Other Interest Expense | 104,888 | 33,221 |
| Other Deductions | 21 | 6,805 |
| Total Operating Expenses | 25,437,956 | 24,727,404 |
| **OPERATING MARGINS BEFORE FIXED CHARGES** | 2,186,320 | 2,563,602 |
| **INTEREST ON LONG-TERM DEBT** | 1,336,148 | 1,362,530 |
| **OPERATING MARGINS AFTER FIXED CHARGES** | 850,172 | 1,201,072 |
| **G & T AND OTHER CAPITAL CREDITS** | 983,969 | 722,226 |
| **NET OPERATING MARGINS** | 1,834,141 | 1,923,298 |
| **NON-OPERATING MARGINS** | | |
| Interest Income | 92,195 | 81,808 |
| Gain on Sale of Assets | 131,485 | 169,697 |
| Other Non-Operating Income | (308,409) | 205,372 |
| Total Non-Operating Margins | (84,729) | 456,877 |
| **NET MARGINS FROM CONTINUING OPERATIONS** | 1,749,412 | 2,380,175 |
| **DISCONTINUED OPERATIONS** | | |
| Income from Operations of Discontinued Component | 26,338 | - |
| **NET MARGINS FROM DISCONTINUED OPERATIONS** | 26,338 | - |
| **NET MARGINS** | 1,775,750 | 2,380,175 |
| **OTHER COMPREHENSIVE MARGINS** | | |
| Postretirement Benefit Plan: | | |
| Net Actuarial Gain (Loss) | (20,100) | 367,000 |
| Amortization of Loss | 51,900 | 46,800 |
| Other Comprehensive Margins | 31,800 | 413,800 |
| **COMPREHENSIVE MARGINS** | $ 1,807,550 | $ 2,793,975 |

*See accompanying Notes to Consolidated Financial Statements.*

**ILLINOIS ELECTRIC COOPERATIVE**
**AND SUBSIDIARY**
**CONSOLIDATED STATEMENTS OF CHANGES IN PATRONAGE CAPITAL**
**AND OTHER EQUITIES**
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

| | Patronage Capital | Other Equities | Accumulated Other Comprehensive Margins (Loss) | Total |
|---|---|---|---|---|
| **BALANCE - DECEMBER 31, 2013** | $ 19,523,779 | $ 14,674,869 | $ (1,384,600) | $ 32,814,048 |
| Comprehensive Margins | 1,205,601 | 1,174,574 | 413,800 | 2,793,975 |
| Retirement of Capital Credits | (639,235) | - | - | (639,235) |
| **BALANCE - DECEMBER 31, 2014** | 20,090,145 | 15,849,443 | (970,800) | 34,968,788 |
| Comprehensive Margins | 849,840 | 925,910 | 31,800 | 1,807,550 |
| Retirement of Capital Credits | (1,315,912) | - | - | (1,315,912) |
| **BALANCE - DECEMBER 31, 2015** | $ 19,624,073 | $ 16,775,353 | $ (939,000) | $ 35,460,426 |

*See accompanying Notes to Consolidated Financial Statements.*

## ILLINOIS ELECTRIC COOPERATIVE
## AND SUBSIDIARY
## CONSOLIDATED STATEMENTS OF CASH FLOWS
## YEARS ENDED DECEMBER 31, 2015 AND 2014

| | 2015 | 2014 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net Margins | $ 1,749,412 | $ 2,380,175 |
| Net Margins from Discontinued Operations | 26,338 | - |
| Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities: | | |
| Depreciation | 2,898,293 | 2,579,696 |
| Gain on Sale of Assets | (131,485) | (169,697) |
| G & T and Other Capital Credits | (983,969) | (722,226) |
| Accrued Pension and Postretirement Benefit Obligations | 133,522 | 117,520 |
| Changes in Assets and Liabilities: | | |
| Decrease (Increase) in- | | |
| Accounts Receivable | 170,541 | 12,984 |
| Materials and Supply Inventory | (230,827) | (276,011) |
| Other Current and Accrued Assets | (17,202) | 186,927 |
| Deferred Debits | 794,114 | 606,546 |
| Increase (Decrease) in- | | |
| Accounts Payable | 1,098,453 | (719,451) |
| Other Current and Accrued Liabilities | 37,264 | (140,656) |
| Deferred Credits | 50,981 | (7,849) |
| Net Cash Provided by Operating Activities | 5,595,435 | 3,847,958 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Construction and Acquisition of Plant | (13,709,474) | (6,498,617) |
| Decrease (Increase) in Other Assets and Investments | 333,847 | (115,165) |
| Cash Received from Retirement of Patronage | 130,518 | 63,502 |
| Issuance of Notes Receivable | (44,715) | (200,902) |
| Payments on Notes Receivable | 110,394 | 173,602 |
| Proceeds from Sale of Assets | 201,901 | 153,000 |
| Net Cash Used by Investing Activities | (12,977,529) | (6,424,580) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from Long-Term Debt | 8,630,986 | 3,615,902 |
| Principal Payments on Long-Term Debt | (2,531,187) | (2,319,494) |
| Change in Notes Payable | 5,449,638 | 1,222,164 |
| Capital Credits Retired | (1,315,912) | (639,235) |
| Net Cash Provided by Financing Activities | 10,233,525 | 1,879,337 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 2,851,431 | (697,285) |
| Cash and Cash Equivalents - Beginning of Year | 1,824,293 | 2,521,578 |
| **CASH AND CASH EQUIVALENTS - END OF YEAR** | $ 4,675,724 | $ 1,824,293 |
| **SUPPLEMENTAL INFORMATION TO STATEMENT OF CASH FLOWS** | | |
| Cash Paid for Interest | $ 1,427,000 | $ 1,404,800 |
| **NON-CASH FINANCING ACTIVITY** | | |
| Property and Equipment Acquired Under Capital Leases | $ 397,605 | $ 797,330 |

*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 ten 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 generally accepted accounting principles 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 U.S. generally accepted accounting principles 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, and certain office 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, capital term certificates, and other investments. Patronage capital investments are stated at cost plus undistributed allocated equities from other cooperatives. Capital 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)

**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 generally 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, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Cash - General | $ 3,505,144 | $ 459,577 |
| Short-Term Investments | 1,170,580 | 1,364,716 |
| Total Cash and Cash Equivalents | $ 4,675,724 | $ 1,824,293 |

Deposits are maintained in financial institutions insured by FDIC 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, 2015 and 2014, the Cooperative has an allowance for uncollectible accounts totaling approximately $182,017 and $165,411, respectively.

### Inventories

Inventories are valued at the lower of cost or market using the average unit cost method.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Patronage Capital

The Cooperative operates on a non-profit basis. Amounts received from the furnishing of electric energy in excess of operating costs and expenses are assigned to patrons on a patronage basis. To the extent they are not needed to offset current or prior deficits, non-operating margins are recorded as appropriated margins.

### Revenue and Power Cost Recognition

The Cooperative recognizes revenue based on estimates of revenues earned but not billed as of the end of each reporting period. Included in other current and accrued assets at December 31, 2015 and 2014 is $2,200,300 and $2,264,800, respectively, of accrued utility revenue.

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, 2015 and 2014.

### Post Retirement 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 Post Retirement 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.

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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Income Taxes (Continued)

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.

The Cooperative evaluated its tax positions and determined that it has no uncertain tax positions as of December 31, 2015 and 2014.

### 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 customers 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, 2015:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Special Funds - Deferred Compensation | $ 59,778 | $ - | $ - | $ 59,778 |

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, 2014:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Special Funds - Deferred Compensation | $ 39,656 | $ - | $ - | $ 39,656 |

### Subsequent Events

In preparing these financial statements, the Cooperative has evaluated events and transactions for potential recognition of disclosure through March 8, 2016, the date the financial statements were available to be issued.

### New Accounting Pronouncements

During the year ended December 31, 2015, the Cooperative early adopted a provision of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-01, Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. This provision eliminates the requirement for entities, other than public business entities, to disclose the fair values of financial instruments carried at amortized cost, as previously required by Accounting Standards Codification (ASC) 825 10-50. As such, the Cooperative has omitted this disclosure for the years ended December 31, 2015 and 2014. The early adoption of this provision did not have an impact on the entity's financial position or results of operations.

## 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, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Intangible Plant | $ 9,169 | $ 9,169 |
| Production Plant | 2,517,559 | 2,517,559 |
| Equipment Under Capital Leases | 1,826,348 | 1,768,968 |
| Distribution Plant | 69,589,831 | 64,698,543 |
| General Plant | 20,113,597 | 17,357,484 |
| Electric Plant in Service | 94,056,504 | 86,351,723 |
| Construction Work in Progress | 7,540,385 | 2,648,625 |
| Total | $ 101,596,889 | $ 89,000,348 |

Provisions for depreciation of production and distribution plant are made on a straight-line basis with composite rates as follows at December 31, 2015:

| | |
|---|---|
| Production Plant | 5% |
| Distribution Plant | 2.36% |

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

Provision for depreciation of general plant has been computed on the unit basis using the straight-line method with a range of useful lives from four to forty years.

## NOTE 4 OTHER ASSETS AND INVESTMENTS

**Investments in Associated Organizations**

A summary of investments at December 31, 2015 and 2014 is as follows:

| | 2015 | 2014 |
|---|---|---|
| Patronage Capital Credits: | | |
| Prairie Power, Inc. | $ 4,258,420 | $ 3,384,679 |
| National Rural Utilities Cooperative Finance Corporation (NRUCFC) | 134,438 | 133,992 |
| CoBank | 292,673 | 273,482 |
| National Rural Telecommunications Cooperative | 469,116 | 519,684 |
| Other | 269,655 | 248,829 |
| | 5,424,302 | 4,560,666 |
| Capital Term Certificates of the National Rural Utilities Cooperative Finance Corporation | 789,147 | 789,844 |
| Total Investment in Associated Organizations | $ 6,213,449 | $ 5,350,510 |

## 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 is being returned annually as approved by the Board of Directors.

Investments in associated organizations include capital term certificates, loan term certificates, and zero term certificates of the National Rural Utilities Cooperative Finance Corporation (CFC). The capital term certificates bear interest at 5% and begin maturing in the year 2080; loan term certificates bear interest at 3% and begin maturing in the year 2020; and zero term certificates bear interest at 0% and began maturing in the year 2010.

### Notes Receivable

Notes receivable at December 31, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|---|---|---|
| Notes Receivable | $ 66,452 | $ 72,781 |
| Rural Economic Development Loans Receivable | 277,110 | 309,656 |
| Energy Resource Conservation Loans Receivable | 114,958 | 141,762 |
| Less: Current Portion of Notes Receivable | (82,886) | (90,091) |
| Total Other Investments | 375,634 | 434,108 |
| Less: Allowance for Loan Losses | (30,000) | (30,000) |
| Long Term Notes Receivable | $ 345,634 | $ 404,108 |

The Cooperative has notes receivable from third parties for sales of non-utility property. The portion to be received in the near term is shown as a current asset in the consolidated balance sheets. The notes are carried at cost and management considers them to be collectible.

Rural economic development loans receivable consists of a promissory note from businesses and governments in the Cooperative’s service territory. These notes 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 2020 and bear interest at a rate of 2.00%.

## NOTE 4 OTHER ASSETS AND INVESTMENTS (CONTINUED)

### Notes Receivable (Continued)

Changes in the allowance for loan losses and recorded investment in loans for the year ended December 31, 2015 are as follows:

| | Economic Development | Energy Resource Conservation | Other Notes Receivable | Total |
|---|---|---|---|---|
| **Allowance for Loan Losses:** | | | | |
| Balance at Beginning of Year | $ - | $ 30,000 | $ - | $ 30,000 |
| Provision for Loan Losses | - | - | - | - |
| Loans Charged-Off | - | - | - | - |
| Recoveries of Loans Previously Charged-Off | - | - | - | - |
| Balance at End of Year | $ - | $ 30,000 | $ - | $ 30,000 |
| Ending Balance: Individually Evaluated for Impairment | $ - | $ - | $ - | $ - |
| Ending Balance: Collectively Evaluated for Impairment | $ - | $ 30,000 | $ - | $ 30,000 |
| **Loans:** | | | | |
| Ending Balance: Individually Evaluated for Impairment | $ 277,110 | $ - | $ 66,452 | $ 343,562 |
| Ending Balance: Collectively Evaluated for Impairment | $ - | $ 114,958 | $ - | $ 114,958 |

The following table shows an aging analysis of the loan portfolio by time past due as of December 31, 2015:

| | Accruing Interest | | | | |
|---|---|---|---|---|---|
| | Current | 30-89 Days Past Due | More Than 90 Days Past Due | Total Nonaccrual | Total |
| Economic Development | $ 277,110 | $ - | $ - | $ - | $ 277,110 |
| Energy Resource Conservation | 114,958 | - | - | - | 114,958 |
| Other Notes Receivable | 66,452 | - | - | - | 66,452 |
| Total | $ 458,520 | $ - | $ - | $ - | $ 458,520 |

## NOTE 4 OTHER ASSETS AND INVESTMENTS (CONTINUED)

**Notes Receivable (Continued)**

Changes in the allowance for loan losses and recorded investment in loans for the year ended December 31, 2014 are as follows:

| | Economic Development | Energy Resource Conservation | Other Notes Receivable | Total |
|---|---|---|---|---|
| **Allowance for Loan Losses:** | | | | |
| Balance at Beginning of Year | $ - | $ 30,000 | $ - | $ 30,000 |
| Provision for Loan Losses | - | - | - | - |
| Loans Charged-Off | - | - | - | - |
| Recoveries of Loans Previously Charged-Off | - | - | - | - |
| Balance at End of Year | $ - | $ 30,000 | $ - | $ 30,000 |
| Ending Balance: Individually Evaluated for Impairment | $ - | $ - | $ - | $ - |
| Ending Balance: Collectively Evaluated for Impairment | $ - | $ 30,000 | $ - | $ 30,000 |
| **Loans:** | | | | |
| Ending Balance: Individually Evaluated for Impairment | $ 309,656 | $ - | $ 72,781 | $ 382,437 |
| Ending Balance: Collectively Evaluated for Impairment | $ - | $ 141,762 | $ - | $ 141,762 |

The following table shows an aging analysis of the loan portfolio by time past due as of December 31, 2014:

| | Accruing Interest | | | | |
|---|---|---|---|---|---|
| | Current | 30-89 Days Past Due | More Than 90 Days Past Due | Total Nonaccrual | Total |
| Economic Development | $ 309,656 | $ - | $ - | $ - | $ 309,656 |
| Energy Resource Conservation | 141,762 | - | - | - | 141,762 |
| Other Notes Receivable | 72,781 | - | - | - | 72,781 |
| Total | $ 524,199 | $ - | $ - | $ - | $ 524,199 |

## NOTE 4 OTHER ASSETS AND INVESTMENTS (CONTINUED)

**Other Investments**

Other Investments at December 31, 2015 and 2014 consist of the following:

| | 2015 | 2014 |
|---|---|---|
| Marketable Debt Securities - Held to Maturity | $ 1,907,956 | $ 1,724,564 |
| Investment in Prairie State Project | 4,517,600 | 5,082,300 |
| Total Other Investments | $ 6,425,556 | $ 6,806,864 |

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, 2015 and 2014:

| | Carrying Value | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| December 31, 2015 | | | | |
| U.S. Treasury Obligations | $ 342,647 | $ 93,237 | $ - | $ 435,884 |
| U.S. Government Securities | 139,714 | 72,069 | - | 211,783 |
| Corporate Bonds | 131,066 | 19,426 | (8,010) | 142,482 |
| Brokered Certs. of Deposit | 1,244,776 | 12,978 | (748) | 1,257,006 |
| Trusts | 49,753 | 19,843 | - | 69,596 |
| | $ 1,907,956 | $ 217,553 | $ (8,758) | $ 2,116,751 |
| December 31, 2014 | | | | |
| U.S. Treasury Obligations | $ 436,954 | $ 106,161 | $ - | $ 543,115 |
| U.S. Government Securities | 139,713 | 68,696 | - | 208,409 |
| Corporate Bonds | 131,065 | 23,917 | (5,872) | 149,110 |
| Brokered Certs. of Deposit | 967,079 | 19,175 | (6,299) | 979,955 |
| Trusts | 49,753 | 21,400 | - | 71,153 |
| | $ 1,724,564 | $ 239,349 | $ (12,171) | $ 1,951,742 |

The carrying values and estimated fair values of debt securities at December 31, 2015, by contractual maturity are shown below:

| | Carrying Value | Fair Value |
|---|---|---|
| Due Within One Year | $ 655,827 | $ 658,296 |
| Due Within One Year Through Five Years | 852,684 | 933,000 |
| Due Within Five Years Through Ten Years | 63,610 | 70,017 |
| Due in More Than Ten Years | 335,835 | 455,438 |
| | $ 1,907,956 | $ 2,116,751 |

## NOTE 4 OTHER ASSETS AND INVESTMENTS (CONTINUED)

**Other Investments (Continued)**

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.

At December 31, 2015, the unrealized losses on securities relate principally to current interest rates for securities of similar type. As management has the ability to hold the securities until maturity, no declines are deemed other-than-temporary.

## NOTE 5 OTHER CURRENT AND ACCRUED ASSETS

The following is a summary of other current and accrued assets at December 31, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Accrued Utility Revenue | $ 2,200,291 | $ 2,264,833 |
| Prepaid Expenses | 108,673 | 22,671 |
| Interest Receivable | 10,620 | 11,516 |
| Other | 5,300 | 8,662 |
| Total Other Current and Accrued Assets | $ 2,324,884 | $ 2,307,682 |

## NOTE 6 DEFERRED DEBITS

Following is a summary of amounts recorded as deferred debits as of December 31, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Past Service Pension Cost | $ 193,215 | $ 233,397 |
| Prepayment of Stranded Costs on Wholesale Power Contract | 209,662 | 711,262 |
| NRECA RS Pension Plan Prepayment | 996,006 | 1,131,825 |
| Wind Turbine Project | 42,743 | 46,486 |
| Association Dues | 90 | 55,605 |
| Other Deferred Debits | 10,755 | 68,010 |
| Total Deferred Debits | $ 1,452,471 | $ 2,246,585 |

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

## NOTE 6 DEFERRED DEBITS (CONTINUED)

The Cooperative is amortizing the prepayment of the stranded costs from Soyland Power Cooperative, Inc. (Soyland), now PPI, over the life of the all requirements power contract with PPI, on a straight-line basis. Amortization expense of $501,600 is reflected in the “Cost of Power” line item in the Consolidated Statements of Operations for the years ended December 31, 2015 and 2014.

## NOTE 7 PATRONAGE CAPITAL AND OTHER EQUITIES

The following is a summary of patronage capital assignable and assigned at December 31, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Assignable | $ 849,840 | $ 1,205,601 |
| Assigned to Date | 18,774,233 | 18,884,544 |
| Patronage Capital - End of Year | $ 19,624,073 | $ 20,090,145 |

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.

Other equities consisted of the following as of December 31, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Memberships | $ 114,840 | $ 114,840 |
| Donated Capital | 25,928 | 25,928 |
| Unclaimed Capital Credits | 18,292 | 18,292 |
| Non-Operating Margins - Subsidiary | (859,878) | (886,549) |
| Appropriated Margins | 17,476,171 | 16,576,932 |
| Total | $ 16,775,353 | $ 15,849,443 |

## NOTE 8 LONG-TERM DEBT

The following is a summary of outstanding long-term debt as of December 31, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| RUS Mortgage Notes - | | |
| .10%-5.00% Notes Maturing Through 2039 | $ 14,685,363 | $ 15,234,547 |
| NRUCFC Secured Promissory Notes - | | |
| Variable Rate Notes, 2.90% Due 2022 | 306,919 | 343,658 |
| FFB Secured Mortgage Notes - | | |
| Variable Rate Notes, .21%-.47%, Due 2016-2017 | 11,569,263 | 7,637,934 |
| Fixed Rate Notes, 1.35%-5.33% Maturing 2018-2046 | 21,158,285 | 23,328,991 |
| CoBank Secured Promissory Notes - | | |
| Fixed Rate Notes, 2.20%-4.62%, Due 2016-2023 | 9,294,127 | 5,857,949 |
| Rural Economic Development Grant | 94,559 | 94,559 |
| Rural Economic Development Loan | 2,177,452 | 197,552 |
| Capital Lease Obligations | 1,033,927 | 1,127,301 |
| Total Long-Term Debt | 60,319,895 | 53,822,491 |
| Current Maturities | (2,516,000) | (2,320,000) |
| Total Long-Term Debt (Net of Current Maturities) | $ 57,803,895 | $ 51,502,491 |

As of December 31, 2015, current maturities of long-term debt outstanding for the next five years are as follows:

| Year Ending December 31, | |
|---|---|
| 2016 | $ 2,516,000 |
| 2017 | 2,495,000 |
| 2018 | 2,328,000 |
| 2019 | 2,283,000 |
| 2020 | 2,276,000 |

As of December 31, 2015, the Cooperative and IRTC have approved but unadvanced loan funds of $76,014 and $3,500,000 under loan agreements with FFB and CoBank.

The Cooperative leases various equipment under capital leases expiring in various years through 2020. 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, 2015 and 2014.

Equipment under capital leases had a cost and accumulated depreciation of $1,826,348 and $792,421 and $1,768,968 and $641,667 as of December 31, 2015 and 2014, respectively.

## NOTE 8 LONG-TERM DEBT (CONTINUED)

Minimum future lease payments under capital leases as of December 31, 2015 for each of the next five years and in the aggregate are:

| Year Ending December 31, | | |
|---|---|---|
| 2016 | $ | 417,916 |
| 2017 | | 340,284 |
| 2018 | | 161,648 |
| 2019 | | 90,996 |
| 2020 | | 23,083 |
| Total Minimum Lease Payments | | 1,033,927 |
| Less: Amount Representing Interest | | - |
| Present Value of Minimum Lease Payments | $ | 1,033,927 |

## 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, 2015 and 2014, the interest rate on this line of credit was 2.90% and 2.90%, respectively. The Cooperative had outstanding balances of $1,000,000 and $0 at December 31, 2015 and 2014, respectively.

In addition to the above line of credit, the Cooperative has a line of credit with CoBank for $6,000,000. At December 31, 2015 and 2014, the interest rate on this line of credit was 2.53% and 2.92%, respectively. The line of credit matures on September 30, 2016. The Cooperative had outstanding balances of $5,671,802 and $1,222,164 at December 31, 2015 and 2014, respectively.

## NOTE 10 DEFERRED CREDITS

A summary of deferred credits at December 31, 2015 and 2014 is as follows:

| | 2015 | 2014 |
|---|---|---|
| Consumers' Energy Prepayments | $ 212,224 | $ 173,543 |
| Other Deferred Credits | 12,300 | - |
| Total | $ 224,524 | $ 173,543 |

## NOTE 11 POST RETIREMENT 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, 2015 and reported on the Balance Sheet as Accumulated Provision for Pension and Benefits, which also includes $59,778 and $39,656 of Deferred Compensation as of December 31, 2015 and 2014, 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.

| **Obligations and Funded Status:** | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Accumulated Postretirement Benefit Obligation | $ 2,528,800 | $ 2,447,200 |
| Fair Value of Plan Assets | - | - |
| Unfunded Accumulated Postretirement Benefit Obligation | $ 2,528,800 | $ 2,447,200 |
| Employer Contributions | $ 117,800 | $ 119,100 |
| Plan Participant Contributions | - | - |
| Net Benefits Paid | $ 117,800 | $ 119,100 |
| Amounts Recognized in the Balance Sheet in Accumulated Provisions for Pension and Benefits | $ 2,528,800 | $ 2,447,200 |

| **Components of Net Postretirement Benefit Cost and Other Amounts Recognized in Other Comprehensive Margins** | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Service and Interest Cost | $ 179,300 | $ 172,400 |
| Amortization of Deferred Charge | 51,900 | 46,800 |
| Change in Net Loss Recognized in Other Comprehensive Margins | (31,800) | (413,800) |
| Net Periodic Benefit Cost | $ 199,400 | $ (194,600) |

| **Assumptions Used to Determine the Net Postretirement Benefit Cost** | | |
|---|---|---|
| Weighted Average Discount Rate for Obligations | 3.95% | 3.95% |
| Health Care Cost Trend Rate Assumed for Next Year | 7.00% | 7.50% |
| Rate to Which the Cost Trend Rate is Assumed to Decline | 5.00% | 5.00% |
| Year that the Rate Reaches the Ultimate Trend Rate | 2020 | 2020 |

## NOTE 11 POST RETIREMENT 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:

| | | |
|---|---|---|
| 2016 | $ | 147,600 |
| 2017 | | 138,300 |
| 2018 | | 147,300 |
| 2019 | | 130,800 |
| 2020 | | 125,600 |
| 2021 - 2025 | | 672,900 |

The Cooperative has a net loss in the amount of $939,000. The estimated related net loss that will be amortized over the next fiscal year is $52,800.

## NOTE 12 PENSION PLANS

**Narrative Description**

The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is 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.

**Plan Information**

The Cooperative's contributions to the RS Plan in 2015 and in 2014 represented less than 5% of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan in 2015 and 2014 as follows:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| Past Service Pension Cost | $ | 40,182 | $ | 40,182 |
| Current Payments to Plan | | 423,888 | | 465,632 |
| | $ | 464,070 | $ | 505,814 |

There have been no significant changes that affect the comparability of 2015 and 2014 contributions.

## NOTE 12 PENSION PLANS (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 between 80% funded on January 1, 2015 and over 80% funded at January 1, 2014 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 6.2% of the eligible employees' salary into this plan. The total contribution made by the Cooperative in 2015 and 2014 was $206,390 and $119,072, respectively.

## NOTE 13 INCOME TAXES

No provision for income taxes was recorded for the years ended December 31, 2015 and 2014.

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

| | 2015 | 2014 |
|---|---|---|
| Net Operating Loss Carryforwards | $ 55,000 | $ 66,000 |
| Valuation Allowance | (55,000) | (66,000) |
| Deferred Tax Assets, Net | $ - | $ - |

## NOTE 14 COMMITMENTS AND CONTINGENCIES

**Purchase Commitment**

Under its wholesale power agreements, the Cooperative is committed to purchase 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 customers 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, 2015 and 2014, one group of accounts under common ownership comprised approximately 8% and 9% of operating revenues.

## NOTE 15 DISCONTINUED OPERATIONS

On June 1, 2009, the Cooperative and its subsidiaries sold the assets of the propane operations, primarily held by Prather Oil Company and MidState Propane, LLC.

Assets of the discontinued operations are comprised of the following at December 31, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Investments in Associated Organizations | $ 17,851 | $ - |