Jo-Carroll Energy, Inc.

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2018 and 2017

Jo-Carroll Energy, Inc.
December 31, 2018 and 2017

Contents

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Independent Auditor's Report

Board of Directors
Jo-Carroll Energy, Inc.
Elizabeth, Illinois

We have audited the accompanying consolidated financial statements of Jo-Carroll Energy, Inc. ("Cooperative"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of margin, members' equities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jo-Carroll Energy, Inc. as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

St. Louis, Missouri
March 4, 2019

Jo-Carroll Energy, Inc.
Consolidated Balance Sheets
December 31, 2018 and 2017

Assets

	2018	2017	Increase (Decrease)
Utility Plant, at Cost			
Electric, gas and broadband plant in service	$ 159,756,420	$ 154,359,074	$ 5,397,346
Construction work in progress	2,674,455	2,608,674	65,781
	162,430,875	156,967,748	5,463,127
Accumulated depreciation and amortization	(52,858,614)	(49,185,422)	3,673,192
Net utility plant	109,572,261	107,782,326	1,789,935
Investments and Other Assets			
Investments in associated organizations, at cost	9,998,981	9,391,769	607,212
Long-term notes receivable	789,079	910,794	(121,715)
Non-utility property, net of accumulated depreciation: 2018 - $30,170, 2017 - $33,952	86,302	81,057	5,245
Other investments, at cost	1,731,690	1,800,983	(69,293)
Total investments and other assets	12,606,052	12,184,603	421,449
Current Assets			
Cash	4,942,538	881,894	4,060,644
Accounts receivable:			
Customers, net of allowance: 2018 - $ 58,000, 2017 - $60,888	3,997,331	3,401,924	595,407
Unbilled revenues	2,836,433	4,104,863	(1,268,430)
Other	364,909	250,622	114,287
Notes receivable	121,715	121,715	-
Inventories:			
Materials and supplies	2,599,814	2,290,888	308,926
Natural gas	485,010	492,007	(6,997)
Prepaid expenses and other	385,552	414,647	(29,095)
Total current assets	15,733,302	11,958,560	3,774,742
Deferred Charges	16,995,617	3,415,093	13,580,524
Total assets	$ 154,907,232	$ 135,340,582	$ 19,566,650

See Notes to Consolidated Financial Statements.

Members’ Equities and Liabilities

	2018	2017	Increase (Decrease)
Equities			
Membership fees	$ 5,875	$ 6,910	$ (1,035)
Patronage capital	25,689,079	24,692,040	997,039
Retained earnings	10,073,438	9,255,986	817,452
Members’ equities	35,768,392	33,954,936	1,813,456
Accumulated other comprehensive deficit	(687,953)	(904,700)	216,747
Total equities	35,080,439	33,050,236	2,030,203
Long-Term Debt	101,721,976	87,870,654	13,851,322
Postretirement Benefits	1,573,203	1,707,700	(134,497)
Current Liabilities			
Current maturities of long-term debt	4,683,310	2,839,232	1,844,078
Lines of credit	-	2,200,000	(2,200,000)
Accounts payable	4,551,168	5,001,430	(450,262)
Postretirement benefits	105,350	99,300	6,050
Customer deposits	375,856	381,514	(5,658)
Other current liabilities	1,307,955	1,238,661	69,294
Total current liabilities	11,023,639	11,760,137	(736,498)
Deferred Credits	5,507,975	951,855	4,556,120
Total equities and liabilities	$ 154,907,232	$ 135,340,582	$ 19,566,650

Jo-Carroll Energy, Inc.
Consolidated Statements of Margin
Years Ended December 31, 2018 and 2017

	2018	2017	Increase (Decrease)	% to Total Operating Revenue 2018	% to Total Operating Revenue 2017
Operating Revenues					
Electric	$ 52,249,402	$ 54,282,154	$ (2,032,752)	86.9%	85.7%
Natural gas	6,571,594	6,132,708	438,886	10.9%	9.7%
Broadband	1,063,098	964,812	98,286	1.8%	1.5%
Other operating revenue	238,217	1,969,008	(1,730,791)	0.4%	3.1%
Total operating revenue	60,122,311	63,348,682	(3,226,371)	100.0%	100.0%
Operating Expenses					
Purchased power	34,900,662	39,768,390	(4,867,728)	58.1%	62.7%
Distribution - Operations	3,693,114	3,751,662	(58,548)	6.1%	5.9%
Distribution - Maintenance	3,910,571	3,165,078	745,493	6.5%	5.0%
Consumer accounts	1,518,820	1,411,400	107,420	2.5%	2.2%
Customer services and information	852,325	899,259	(46,934)	1.4%	1.4%
Sales	186,026	174,521	11,505	0.3%	0.3%
General and administrative	4,101,614	4,026,861	74,753	6.8%	6.5%
Depreciation and amortization	4,814,190	4,687,766	126,424	8.1%	7.4%
Taxes, other than income	146,514	144,877	1,637	0.2%	0.2%
Other deductions	7,271	8,985	(1,714)	0.0%	0.0%
Total operating expenses	54,131,107	58,038,799	(3,907,692)	90.2%	91.6%
Operating Margin Before Interest Expense	5,991,204	5,309,883	681,321	10.0%	8.4%
Interest Expense	4,210,107	4,160,914	49,193	7.0%	6.6%
Operating Margin After Interest Expense	1,781,097	1,148,969	632,128	3.0%	1.8%
Generation and Transmission and Other Capital Credits	854,135	826,801	27,334	1.4%	1.3%
Operating Margin	2,635,232	1,975,770	659,462	4.4%	3.1%
Non-Operating Margin					
Interest income	31,495	24,018	7,477	0.1%	0.1%
Gain on disposal of equipment	9,649	21,765	(12,116)	0.0%	0.0%
Other non-operating margin	8,454	(1,453)	9,907	0.0%	0.0%
	49,598	44,330	5,268	0.1%	0.2%
Net Margin	2,684,830	2,020,100	664,730	4.5%	3.2%
Other Comprehensive Margin					
Change in postretirement benefit plan	216,747	(172,300)	389,047	0.4%	-0.3%
Comprehensive Margin	$ 2,901,577	$ 1,847,800	$ 1,053,777	4.9%	2.9%

Jo-Carroll Energy, Inc.

Consolidated Statements of Members' Equities

Years Ended December 31, 2018 and 2017

	Membership Fees	Patronage Capital	Retained Earnings	Accumulated Other Comprehensive Deficit	Total
Balance, January 1, 2017	$ 6,910	$ 24,335,396	$ 8,349,212	$ (732,400)	$ 31,959,118
Net margin	-	1,975,770	44,330	-	2,020,100
Other comprehensive margin	-	-	-	(172,300)	(172,300)
Patronage capital retirement	-	(1,619,126)	862,444	-	(756,682)
Balance, December 31, 2017	6,910	24,692,040	9,255,986	(904,700)	33,050,236
Net margin	-	2,635,232	49,598	-	2,684,830
Other comprehensive margin	-	-	-	216,747	216,747
Patronage capital retirement	(1,035)	(1,638,193)	767,854	-	(871,374)
Balance, December 31, 2018	$ 5,875	$ 25,689,079	$ 10,073,438	$ (687,953)	$ 35,080,439

Jo-Carroll Energy, Inc.

Consolidated Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Operating Activities		
Net margin	$ 2,684,830	$ 2,020,100
Items not requiring (providing) cash		
Depreciation and amortization	4,889,685	4,763,261
Capital credits	(733,796)	(709,428)
Postretirement benefits	88,300	109,900
Accounts receivable allowance	(2,888)	(46,648)
Gain on disposal of equipment	(9,649)	(21,765)
Changes in		
Accounts receivable	(706,806)	1,201,351
Unbilled revenues	1,268,430	969,685
Inventories	(301,929)	(385,853)
Prepaid expenses and other	29,095	(266,668)
Deferred charges	2,563,788	88,790
Accounts payable	(450,262)	709,442
Customer deposits and other current liabilities	63,636	67,546
Deferred credits	4,556,120	(1,829,049)
Net cash provided by operating activities	13,938,554	6,670,664
Investing Activities		
Proceeds from disposal of utility plant	19,500	268,027
Additions to utility plant, net and non-utility property	(6,339,028)	(5,528,059)
Proceeds from capital credit retirements	113,721	104,903
Collections on notes receivable	121,715	121,716
Increase in investments and other assets	82,156	83,481
Net cash used in investing activities	(6,001,936)	(4,949,932)
Financing Activities		
Patronage capital retirement	(871,374)	(756,682)
Gross proceeds from line of credit agreements	1,250,000	2,200,000
Principal payments on long-term debt	(4,132,885)	(3,177,567)
Payments under USDA REDL program	(121,715)	(121,716)
Net cash used in financing activities	(3,875,974)	(1,855,965)
Net Increase (Decrease) in Cash	4,060,644	(135,233)
Cash, Beginning of Year	881,894	1,017,127
Cash, End of Year	$ 4,942,538	$ 881,894
Supplemental Cash Flows Information		
Interest paid	$ 4,107,985	$ 4,124,019
Deferred charges capitalized as utility plant	$ 355,688	$ 355,688
Line of credit converted to long-term debt	$ 3,450,000	$ 6,100,000
Deferred charges financed with long-term debt	$ 16,500,000	$ -

See Notes to Consolidated Financial Statements.

Jo-Carroll Energy, Inc.
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Jo-Carroll Energy, Inc. ("Cooperative" or "Jo-Carroll") is a not-for-profit organization engaged in the distribution of electric, natural gas and wireless broadband service to its members located throughout northwest Illinois. The primary purpose of the Cooperative is to provide electricity, natural gas and broadband services to its members through the purchase of electricity, natural gas and broadband services from wholesale providers and the subsequent distribution of these services to its members. The Cooperative extends unsecured credit to its members, with credit extended to one member exceeding 22 percent and 19 percent of accounts receivable at 2018 and 2017, respectively.

The Cooperative's rates charged to members are established by the board of directors. The board of directors consists of 10 members elected by the members of the Cooperative to serve three-year terms. Such rates charged to members are determined on a cost of service basis. The Cooperative is not subject to the jurisdiction of the Federal Energy Regulatory Commission (FERC) or the regulatory authority of the Illinois Commerce Commission.

Principles of Consolidation

The consolidated financial statements include the accounts of the Cooperative and its wholly-owned subsidiary, Cooperative Community Solar, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Accounting

The accounting records of the Cooperative are substantially maintained in accordance with the Uniform System of Accounts prescribed by FERC. In accordance with FERC guidelines, the Cooperative also maintains its accounts in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, *Regulated Operations*.

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 as of the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

At December 31, 2018, the Cooperative's cash accounts exceeded federally insured limits by approximately $4,479,000.

Accounts Receivable

Accounts receivable, consisting primarily of amounts due from members, are stated at the amount billed to members. Accounts receivable are generally due within 21 days after the date of billing. The Cooperative provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the member.

Inventory Pricing

Materials and supplies inventory is valued at the lower of cost or net realizable value using the average unit cost method. Natural gas is valued at the average cost of the gas constituting the common supply of the system.

Utility Plant

Utility plant is stated at cost less accumulated depreciation and amortization. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset group. Maintenance, repairs and major renewals are expensed as incurred.

Intangible plant includes acquisition adjustments from purchase of electric and gas distribution assets. Acquisition adjustments are amortized on a straight-line basis over the estimated life of the assets acquired, ranging from 26 - 27 years.

Electric transmission and distribution plants is depreciated on the group basis using the straight-line method at an average composite rate of 2.88 and 2.86 percent per annum in 2018 and 2017, respectively, except for certain underground conductor, which is being depreciated at rates up to 6.66 percent.

Gas distribution plant is depreciated on the group basis using the straight-line method at an average composite rates of 2.58 and 2.66 percent per annum in 2018 and 2017, respectively.

The annual depreciation rates for each major depreciable classification of the general plant and non-utility property are as follows:

Structures and improvements	3 - 10%
Office furniture and equipment	6 - 20%
Certain computer equipment	20 - 33%
Transportation equipment	10 - 15%
Power operated equipment	6 - 20%
Communications equipment	3 - 15%
Broadband/SCADA equipment	5 - 20%
Other general plant	6 - 20%

Long-Lived Asset Impairment

The Cooperative evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair market value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2018 and 2017.

Patronage Capital

Current and future margins will be assigned as patronage capital.

Income Taxes

The Cooperative is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Cooperative is subject to federal and certain state income tax on any unrelated business taxable income. The Cooperative files income tax returns in the U.S. federal and state of Illinois jurisdictions.

Revenue Recognition

Revenue from the sale of electricity, natural gas and broadband services to members is recorded as it is delivered. Unbilled revenues of $2,836,433 and $4,104,863 at December 31, 2018 and 2017, respectively, represent amounts delivered through December 31 and not billed to the members until the following month.

Taxes Collected from Members and Remitted to Governmental Authorities

Taxes collected from customers and remitted to governmental authorities are presented in the accompanying consolidated statements of margin on a net basis.

Comprehensive Margin

Comprehensive margin consists of net margin and other comprehensive margin. Other comprehensive margin includes changes in the funded status of the postretirement benefit plan.

Reclassifications

Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 consolidated financial statement presentation. These reclassifications had no effect on net margin.

Note 2: Utility Plant

Utility plant consists of the following at December 31, 2018 and 2017:

	2018	2017
Intangible plant	$ 7,532,686	$ 7,532,685
Electric transmission plant	1,448,138	1,448,155
Electric distribution plant	120,531,761	117,419,579
Gas distribution plant	14,462,394	13,259,650
General plant	15,781,441	14,699,005
	159,756,420	154,359,074
Construction work in progress	2,674,455	2,608,674
	162,430,875	156,967,748
Accumulated depreciation and amortization	(52,858,614)	(49,185,422)
	$109,572,261	$107,782,326

Note 3: Investments

Associated Organizations

The Cooperative is a voting member in both Dairyland Power Cooperative and Prairie Power, Inc., generation and transmission facilities supplying power to distribution cooperatives. As voting members or owners, the Cooperative share margins, on the cooperative principle, based on power purchased. These investments or patronage capital earned by voting members are being returned annually as approved by their Board of Directors. These investments are recorded at cost plus undistributed patronage capital allocations.

National Rural Utilities Cooperative Finance Cooperation ("NRUCFC") investments and capital term certificates are required pursuant to certain loan and guarantee agreements held by the Cooperative. NRUCFC capital term certificates include investments in NRUCFC capital term certificates, loan term certificates and zero term certificates. Capital term certificates bear interest at 5 percent and begin maturing in the year 2070; loan term certificates bear interest at 3 percent and begin maturing in the year 2020; and zero term certificates bear interest of 0 percent and begin maturing in the year 2020. Such investments and investments in other associated organizations are carried at cost.

Investments in associated organizations consist of the following at December 31, 2018 and 2017:

	2018	2017
Dairyland Power Cooperative - patronage capital	$ 4,840,450	$ 4,594,117
NRUCFC - patronage capital	2,107,968	1,909,344
NRUCFC capital term certificates	1,289,171	1,299,296
Prairie Power, Inc. - patronage capital	899,351	788,896
Four County Renewable Energy, LLC	161,519	161,700
Other associated organizations	700,523	638,416
	$ 9,998,981	$ 9,391,769

Other Investments

Other investments include investments in organizations that are related to the operations of the Cooperative or are expected to enhance the performance of the Cooperative. These investments are carried at cost.

Note 4: Notes Receivable

The Cooperative participates in the U.S. Department of Agriculture (USDA) Rural Economic Development Loans (REDL) Program. In the REDL Program, the USDA provides zero interest loans to local utility companies, who then provide loans to local business recipients. The local business recipients repay the utility companies in accordance with promissory notes.

During 2016, the Cooperative entered into two 10-year loans through the REDL Program. In February 2016, the Cooperative received the first loan for $447,155 which went to a large family owned potato and vegetable farm who received the loan to expand business and add equipment. In August 2016, the Cooperative received the second loan for $770,000 which went to a local agricultural cooperative who received the loan to build a Fast Stop station. Each note is payable is monthly installments of $3,716 and $6,417, respectively, and is secured by an irrevocable letter of credit. The Company receives monthly payments then, in turn, repays the USDA. At December 31, 2018 and 2017, the total notes receivable balance was $910,794 and $1,032,509, respectively.

Note 5: Deferred Charges

Deferred charges consist of the following at December 31, 2018 and 2017:

	2018	2017
Fiber capacity - DPC N-38 line	$ 349,145	$ 361,919
Preliminary survey and investigation - natural gas	995,167	1,059,718
NRECA RS pension prepayment	1,511,675	1,867,363
Morgan Stanley settlement (See Note 12)	14,025,000	-
Other	114,630	126,093
	$ 16,995,617	$ 3,415,093

The Cooperative is amortizing these charges over various periods ranging from two to 30 years.

Note 6: Patronage Capital and Retained Earnings

The following is a summary of patronage capital assignable and assigned at December 31, 2018 and 2017:

	2018	2017
Assignable	$ 2,635,232	$ 1,975,770
Assigned	23,053,847	22,716,270
	$ 25,689,079	$ 24,692,040

Outstanding loan agreements restrict the retirement of patronage capital unless after retirement, the capital of the Cooperative equals at least 20 percent of total assets of the Cooperative; provided, however, that retirements can be made if such distributions do not exceed 30 percent of the preceding year's margin. No distribution can be made if there are unpaid, when due, any installments of principal and interest on the notes.

The Cooperative's capital credit retirement policy is a hybrid calculation where the margins 25 years ago along with 5 percent of every year from 1993 through 2017 at the Cooperative's weighted average cost of capital is paid out.

Distributions to estates are made at the request of the estates on a discounted basis. Special retirements may also be recorded on a discounted basis to recover from patrons who are indebted to the Cooperative. Discounts are retained by the Cooperative and transferred to gain on retirement of patronage capital. As of December 31, 2018, capital credits through 1993 for the Cooperative's system had been fully retired.

Retained earnings consist of the following at December 31, 2018 and 2017:

	2018	2017
Reserve for storm damage contingency	$ 3,736,939	$ 3,736,939
Non-operating margin	1,372,077	1,322,479
Donated capital	178,624	178,624
Gain on retirement of patronage capital	4,785,798	4,017,944
	$ 10,073,438	$ 9,255,986

The Cooperative segregates electric patronage capital margin in order to provide for contingency and other reserves as determined by the board of directors and Cooperative By-Laws. These contingency and other reserves are based on the results of prior year margin using a formula approved by the board of directors.

The Cooperative, with By-Law authority, allocates interest and dividend non-operating margin to Retained Earnings.

Note 7: Lines of Credit

The Cooperative has a $10,000,000 unsecured, perpetual line of credit with NRUCFC. At December 31, 2018 and 2017, there was $0 and $2,200,000, borrowed against this line, respectively. Interest varies with the CFC's line of credit rate, which was 3.75 percent and 2.75 percent on December 31, 2018 and 2017, respectively. During 2018 and 2017, the Cooperative converted borrowings of $3,450,000 and $6,100,000, respectively, to long-term debt.

The Cooperative also has a $3,000,000 unsecured line of credit with Illinois Bank & Trust expiring in August 2019. At December 31, 2018 and 2017, there were no borrowings against this line. Interest varied with the bank's prime rate, which was 4.25 percent and 3.31 percent on December 31, 2018 and 2017, respectively, and is payable quarterly.

The Cooperative also has a $4,000,000 unsecured line of credit with CoBank expiring in March 31, 2019. At December 31, 2018 and 2017, there were no borrowings against this line. Interest varies with the bank's prime rate, which was 4.61 percent and 3.67 percent on December 31, 2018 and 2017, respectively, and is payable monthly.

Note 8: Long-Term Debt

	2018	2017
NRUCFC secured promissory notes 3.50% - 7.40% notes due 2020 - 2048	$ 90,270,469	$ 89,551,283
USDA Rural Development, maturing in 2026; payable approximately $10,000 monthly, no interest; secured by a letter of credit guarantee	910,794	1,032,509
Morgan Stanley Termination and Transition Agreement, maturing in 2028; payable monthly based on power consumption estimated at $155,000 per month, no interest (See Note 12)	15,109,392	-
Unamortized premium	114,631	126,094
	106,405,286	90,709,886
Less current maturities	4,683,310	2,839,352
	$ 101,721,976	$ 87,870,534

The NRUCFC loan agreements impose certain restrictions upon the Cooperative relating to the purchase, sale, construction and maintenance of distribution plant, as well as future financing and retirement of patronage capital. These notes are secured by substantially all assets of the Cooperative.

As of December 31, 2018, the Cooperative has an additional available borrowing balance with NRUCFC beyond the operating line of credit of approximately $25,250,000.

Aggregate annual maturities of long-term debt at December 31, 2018, are:

2019	$ 4,683,310
2020	4,810,619
2021	4,877,358
2022	5,003,612
2023	5,115,860
Thereafter	81,914,527
	$ 106,405,286

Note 9: Postretirement Benefits

The Cooperative has a postretirement health care benefit plan whereby the Cooperative pays 80 percent of the cost of health insurance premiums for retired employees and dependents when the retiree's age is between 62 and 65 years old. Outside union employees are eligible for benefits prior to age 62, upon completion of 30 years of service. The Cooperative pays 80 percent of the cost of health insurance premiums between retirement and age 65, for those eligible outside union employees. All other employees are required to pay 100 percent of their premiums between retirement and age 62, in order to participate in the plan between ages 62 and 65. The plan does not provide for the payment of benefits after age 65 and is unfunded as of December 31, 2018 and 2017.

The Cooperative uses a December 31 measurement date for the plan. Information about the plan's funded status follows:

	2018	2017
Benefit obligation	$ (1,678,553)	$ (1,807,000)
Fair value of plan assets	-	-
Funded status	$ (1,678,553)	$ (1,807,000)

Amounts recognized in the consolidated balance sheets:

	2018	2017
Current liability	$ 105,350	$ 99,300
Noncurrent liability	1,573,203	1,707,700
	$ 1,678,553	$ 1,807,000

Amounts recognized in accumulated other comprehensive deficit not yet recognized as components of net periodic benefit cost consist of:

	2018	2017
Net loss	$ 687,953	$ 904,700

The accumulated benefit obligation for the plan was $1,678,553 and $1,807,000 at December 31, 2018 and 2017, respectively.

Employer contributions were $56,626 and $46,026 for 2018 and 2017, respectively.

The discount rate used to determine the benefit obligation was 4.10 percent and 3.55 percent for 2018 and 2017, respectively.

For measurement purposes, a 6.8 percent and 7.0 percent annual rate of increase in the per capita cost of covered medical care benefits was assumed for 2018 and 2017, respectively. The rate for 2018 is assumed to decrease by 0.20 to 0.25 percent annually until reaching 5.0 percent and remain at that level thereafter. Further, the annual rate of increase in the per capita costs of covered dental and vision care benefits was assumed to be 6.5 percent and 5.0 percent for 2018 and 2017, respectively.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31:

2019	$ 105,350
2020	137,000
2021	105,831
2022	93,578
2023	76,761
2024 - 2028	712,679
	$ 1,231,199

Note 10: Employee Benefit Plans

Multiemployer Pension Plan

Substantially all of the employees of the Cooperative participate in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan). The 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.

The Cooperative's contributions to the RS Plan in 2018 and 2017 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan totaling $1,281,788 and $1,213,071 in 2018 and 2017, respectively.

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

Because the provisions of 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.

RS Plan Prepayment

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 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 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 percent, retroactive to January 1, 2013. The 25 percent 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 that expected, plan assumption changes, and other factors may have an impact on the differential in billing rates and the 15 year period.

Two prepayment options were available to participating cooperatives:

1. Use current assets to make the prepayment over a period of not more than four years.
2. Borrow funds sufficient to make the prepayment in a lump sum, with the repayment of the borrowed amount determined by the loan's amortization schedule.

On March 31, 2013, the Cooperative made a prepayment of $3,532,278 to the NRECA RS Plan. This prepayment was funded with the line of credit through NRUCFC. The Cooperative recorded this prepayment on the balance sheets as a deferred charge. The Cooperative is amortizing this amount over 10 years and amortized $355,688 for 2018 and 2017.

Defined Contribution Plan

The Cooperative has a 401(k) defined-contribution plan covering substantially all employees, which allows for both employee and Cooperative contributions. The Cooperative contribution consists of matching contributions of employee contributions, up to 4 percent of participating non-union employees' compensation and up to 2 percent of participating union employee's compensation. Contributions to the plan were approximately $183,000 and $172,000 for 2018 and 2017, respectively.

Note 11: Deferred Credits

Deferred credits consist of the following at December 31, 2018 and 2017:

	2018	2017
Customer advances for construction	$ 3,598	$ 3,598
Customer prepayments	366,956	437,102
Unclaimed capital credit checks	109,527	87,282
Special equipment installation charges	56,040	49,370
Deferred revenue	4,500,000	-
Unamortized gain on reacquired debt	13,781	19,499
Over recovered purchased gas	424,699	320,240
Other	33,374	34,764
	$ 5,507,975	$ 951,855

During 2018, the board of directors has established a deferred revenue plan, which seeks to stabilize members' rates to mitigate the effects of expected increases in rates. The plan defers margins resulting from reduced capacity charges.

Note 12: Commitments and Contingencies

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Concentration of Credit

The Cooperative provides electric, natural gas and broadband services to its members located in northwest Illinois. The accounts receivable balance represents amounts due from these consumers. The collectability of the accounts receivable arising from sales is based on the economy of the service area. Credit is issued after payment of a deposit and approval by the board of directors.

Power Supply

Under its wholesale power agreement, the Cooperative is committed to purchase its electric power and energy requirements from Dairyland Power Cooperative (Dairyland Power) through December 31, 2055, for the legacy service area. The rates are subject to review annually.

Under its wholesale power agreement, the Cooperative is committed to purchase its electric power and energy requirements from Prairie Power, Inc. through December 31, 2060, for the Farmers Mutual Electric Company service area. The rates are subject to review annually.

The Cooperative entered into a 10-year agreement on May 2, 2008, with Interstate Power and Light Company (IPL), a subsidiary of Alliant Energy, to purchase electric energy for the acquired service area beginning July 1, 2008 through March 31, 2018. The agreement prices the energy according to IPL's FERC schedule RES-5 and is subject to annual review.

The Cooperative entered into a five year agreement on May 13, 2014, with Morgan Stanley Capital Group (Morgan Stanley), to purchase its electric power and energy requirements currently supplied by IPL beginning April 1, 2018 through March 31, 2023. On October 27, 2017, the Cooperative, Morgan Stanley and Dairyland Power agreed to a Termination and Release Agreement which released the Cooperative from the five year agreement with Morgan Stanley. At that time, a Termination and Transition Agreement was signed with Dairyland Power to transition the former IPL load to Dairyland Class "A" Member load, beginning April 1, 2018, and through the end date of the current Wholesale Power Contract between Jo-Carroll and Dairyland Power, which is December 31, 2055. The Termination and Release Agreement also requires the Cooperative to pay $16,500,000 to Dairyland Power over a period of 10 years from April 1, 2018 through March 31, 2028, as a pass-through cost from Dairyland Power to Jo-Carroll as a result of the assumption by Dairyland Power of release fees owed to Morgan Stanley relating to the original five year agreement between Jo-Carroll and Morgan Stanley. This amount was recorded as a deferred charge as of April 1, 2018, and will be amortized over a period of five years.

The Cooperative entered into a natural gas purchase agreement on September 7, 2007, with the Illinois Public Energy Agency (IPEA). This agreement extends through March 31, 2021.

Major Customer

During the years ended December 31, 2018 and 2017, the Cooperative had approximately 18 percent and 20 percent of its total electric revenues to one customer, respectively.

Labor Agreements

Approximately 57 percent of the Company's employees are covered by collective bargaining agreements, all of which will expire within the next year.

Letter of Credit

The Company had $165,304 at December 31, 2018 and 2017, in an outstanding letter of credit to be used for the purchase of natural gas.

Note 13: Subsequent Events

Subsequent events have been evaluated through March 4, 2019, which is the date the consolidated financial statements were available to be issued.