

May 8, 2019

Board of Directors  
Capital Electric Cooperative, Inc.  
Bismarck, North Dakota

We have audited the financial statements of Capital Electric Cooperative, Inc. for the year ended December 31, 2018, and have issued our report thereon dated May 8, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 27, 2018. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Capital Electric Cooperative, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by the Cooperative during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Cooperative's financial statements were:

Management's estimate of the allowance for uncollectible accounts is based on historical revenues and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated May 8, 2019.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Cooperative's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Cooperative's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

With respect to the schedule of long-term debt, detailed schedule of deferred debits and deferred credits and the detailed schedule of investments accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles. The method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the listing of directors, officers, and manager, or the statistical information, which accompanies the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### Restriction on Use

This information is intended solely for the use of management and the Board of Directors and of Capital Electric Cooperative, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



**BRADY, MARTZ & ASSOCIATES, P.C.  
BISMARCK, NORTH DAKOTA**

May 8, 2019

**NORTH DAKOTA 35 BURLEIGH  
CAPITAL ELECTRIC COOPERATIVE, INC.  
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
North Dakota 35 Burleigh  
Capital Electric Cooperative, Inc.  
Bismarck, North Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of Capital Electric Cooperative, Inc. (a North Dakota nonprofit cooperative), which are comprised of the balance sheet as of December 31, 2018, and the related statements of operations, equities, and cash flows for the year 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.

### Auditor's 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 auditor's 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 respective financial position of Capital Electric Cooperative, Inc., as of December 31, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Prior Period Financial Statements**

The financial statements of Capital Electric Cooperative, Inc. as of December 31, 2017, were audited by other auditors whose report dated April 26, 2018, expressed an unmodified opinion on those statements.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of long-term debt, detailed schedule of deferred debits and deferred credits, and the detailed schedule of investments are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The listing of directors, officers, and manager, and the statistical information have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on this information.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2019 on our consideration of Capital 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 Capital 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 Capital Electric Cooperative, Inc.'s internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.  
BISMARCK, NORTH DAKOTA**

May 8, 2019

**NORTH DAKOTA 35 BURLEIGH  
CAPITAL ELECTRIC COOPERATIVE, INC.  
BALANCE SHEETS  
AS OF DECEMBER 31, 2018 AND 2017**

|  | 2018           | 2017           |
|--|----------------|----------------|
| <b>ASSETS</b>  |                |                |
| <b>ELECTRIC PLANT</b>  |                |                |
| In service   | \$ 108,761,113 | \$ 104,474,653 |
| Construction work in progress  | 4,437,411      | 2,925,529      |
| Total electric plant   | 113,198,524    | 107,400,182    |
| Less accumulated depreciation  | (38,999,598)   | (37,465,835)   |
| Electric plant - net   | 74,198,926     | 69,934,347     |
| <b>OTHER PROPERTY AND INVESTMENTS</b>  |                |                |
| Investment in associated companies   | 20,693,693     | 16,996,287     |
| Other investments  | 179,155        | 209,712        |
| Special funds - deferred compensation  | 179,826        | 214,826        |
| Total other property and investments   | 21,052,674     | 17,420,825     |
| <b>CURRENT ASSETS</b>  |                |                |
| Cash and cash equivalents  | 2,023,674      | 1,020,201      |
| Accounts receivable, less allowance for uncollectible accounts<br>of \$41,992 and \$19,780 for 2018 and 2017, respectively | 3,872,245      | 3,827,945      |
| Materials and supplies   | 2,736,468      | 1,995,874      |
| Prepayments  | 137,616        | 74,864         |
| Interest receivable  | 4,602          | 4,657          |
| Total current assets   | 8,774,605      | 6,923,541      |
| <b>DEFERRED DEBITS</b>   |                |                |
|  | 688,723        | 857,194        |
| Total assets   | \$ 104,714,928 | \$ 95,135,907  |

See Notes to the Financial Statements



**NORTH DAKOTA 35 BURLEIGH  
CAPITAL ELECTRIC COOPERATIVE, INC.**  
BALANCE SHEETS - CONTINUED  
AS OF DECEMBER 31, 2018 AND 2017

|   | 2018           | 2017          |
|---|----------------|---------------|
| <b>EQUITIES AND LIABILITIES</b>             |                |               |
| <b>EQUITIES</b>                             |                |               |
| Patronage capital                           | \$ 40,874,221  | \$ 38,151,936 |
| Other equities                              | 8,540,762      | 8,110,009     |
| Total equities                              | 49,414,983     | 46,261,945    |
| <b>LONG-TERM DEBT, LESS CURRENT PORTION</b> | 45,567,402     | 41,313,532    |
| <b>OTHER NONCURRENT LIABILITIES</b>         |                |               |
| Power cost reserve, long term               | -              | 71,097        |
| Deferred compensation, long term            | 131,666        | 166,666       |
| Total other noncurrent liabilities          | 131,666        | 237,763       |
| <b>CURRENT LIABILITIES</b>                  |                |               |
| Current maturities of long-term debt        | 2,056,736      | 1,709,031     |
| Line of credit                              | 2,000,000      | -             |
| Accounts payable                            | 2,710,669      | 2,653,137     |
| Customer deposits                           | 188,844        | 211,865       |
| Taxes accrued                               | 598,106        | 619,776       |
| Power cost reserve, current portion         | 71,097         | 150,976       |
| Deferred compensation, current portion      | 48,160         | 48,160        |
| Other current liabilities                   | 242,326        | 250,371       |
| Total current liabilities                   | 7,915,938      | 5,643,316     |
| <b>DEFERRED CREDITS</b>                     | 1,684,939      | 1,679,351     |
| Total equities and liabilities              | \$ 104,714,928 | \$ 95,135,907 |

See Notes to the Financial Statements

**NORTH DAKOTA 35 BURLEIGH  
CAPITAL ELECTRIC COOPERATIVE, INC.**  
STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

|  | 2018          | 2017          |
|--|---------------|---------------|
| OPERATING REVENUE  |               |               |
| Electric   | \$ 38,336,122 | \$ 36,678,212 |
| Other  | 172,183       | 166,048       |
|  | 38,508,305    | 36,844,260    |
| OPERATING EXPENSES   |               |               |
| Cost of power  | 27,307,886    | 25,787,140    |
| Distribution - operation   | 1,296,158     | 887,706       |
| Distribution - maintenance   | 1,481,204     | 1,873,439     |
| Customer accounts  | 683,335       | 610,186       |
| Customer service and informational                                   | 407,399       | 426,432       |
| Sales  | 207,003       | 182,958       |
| Administrative and general   | 1,807,957     | 1,712,519     |
| Depreciation   | 3,087,879     | 2,965,589     |
| Taxes  | 318,658       | 298,150       |
| Other  | 13,267        | 5,897         |
|  | 36,610,746    | 34,750,016    |
| OPERATING MARGIN BEFORE FIXED CHARGES                                | 1,897,559     | 2,094,244     |
| FIXED CHARGES  |               |               |
| Interest expense   | 1,514,807     | 1,354,648     |
| OPERATING MARGIN AFTER FIXED CHARGES                                 | 382,752       | 739,596       |
| GENERATION AND TRANSMISSION AND<br>OTHER COOPERATIVE CAPITAL CREDITS |               |               |
| Generation and transmission  | 4,210,378     | 1,419,913     |
| Other cooperative capital credits                                    | 236,345       | 228,585       |
|  | 4,446,723     | 1,648,498     |
| NET OPERATING MARGIN   | 4,829,475     | 2,388,094     |
| NON-OPERATING MARGINS  |               |               |
| Merchandising - net  | 19,419        | 37,360        |
| Miscellaneous income   | 1,015         | 1,052         |
| Interest income  | 183,300       | 166,438       |
| Gain on disposal of assets   | 57,758        | 16,246        |
|  | 261,492       | 221,096       |
| NET MARGINS  | \$ 5,090,967  | \$ 2,609,190  |

See Notes to the Financial Statements

**NORTH DAKOTA 35 BURLEIGH  
CAPITAL ELECTRIC COOPERATIVE, INC.  
STATEMENTS OF EQUITIES  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

|                                      | Patronage<br>Capital | Other Equities      | Total                |
|--------------------------------------|----------------------|---------------------|----------------------|
| BALANCE, JANUARY 1, 2017             | \$ 37,419,380        | \$ 7,553,075        | \$ 44,972,455        |
| Net margins                          | 2,609,190            | -                   | 2,609,190            |
| Transfer of nonoperating margins     | (465,362)            | 465,362             | -                    |
| Capital credits retired              | (1,411,272)          | -                   | (1,411,272)          |
| Capital credits gains (net)          | -                    | 84,442              | 84,442               |
| Unclaimed capital credits - reissued | -                    | 7,130               | 7,130                |
| BALANCE, DECEMBER 31, 2017           | 38,151,936           | 8,110,009           | 46,261,945           |
| Net margins                          | 5,090,967            | -                   | 5,090,967            |
| Transfer of nonoperating margins     | (284,638)            | 284,638             | -                    |
| Capital credits retired              | (2,084,044)          | -                   | (2,084,044)          |
| Capital credits gains (net)          | -                    | 229,286             | 229,286              |
| Unclaimed capital credits - reissued | -                    | (83,171)            | (83,171)             |
| BALANCE, DECEMBER 31, 2018           | <u>\$ 40,874,221</u> | <u>\$ 8,540,762</u> | <u>\$ 49,414,983</u> |

See Notes to the Financial Statements

**NORTH DAKOTA 35 BURLEIGH  
CAPITAL ELECTRIC COOPERATIVE, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

|   | 2018                | 2017                |
|---|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                  |                     |                     |
| Net margins   | \$ 5,090,967        | \$ 2,609,190        |
| Adjustments to reconcile net margins to                       |                     |                     |
| Net cash provided (used) by operating activities:             |                     |                     |
| Depreciation and amortization                                 | 3,087,879           | 2,965,589           |
| Allocation of G&T and other capital credits                   | (4,446,723)         | (1,648,498)         |
| Bad debt expense  | 11,406              | 1,965               |
| Power cost reserve  | (150,976)           | (408,285)           |
| (Gain) loss on disposal of plant                              | (57,758)            | (16,246)            |
| Interest income credited to RUS cushion of credit             | (151,672)           | (115,028)           |
| Interest expense paid by RUS cushion of credit                | 1,144,573           | 902,944             |
| Net effects on operating cash flows due to changes in:        |                     |                     |
| Accounts receivable   | (55,706)            | 193,523             |
| Prepayments   | (62,752)            | 16,427              |
| Interest receivable   | 55                  | 2,788               |
| Deferred debits   | 168,471             | (57,947)            |
| Accounts payable  | 57,532              | (432,623)           |
| Taxes accrued   | (21,670)            | 75,172              |
| Other current liabilities                                     | (43,045)            | 30,480              |
| Deferred credits  | 5,588               | 16,765              |
| <b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>       | <b>4,576,169</b>    | <b>4,136,216</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                   |                     |                     |
| Extension and replacement of plant, net                       | (7,352,458)         | (5,205,912)         |
| Proceeds from sale of plant                                   | 57,758              | 16,246              |
| (Increase) decrease in materials and supplies                 | (740,594)           | (727,308)           |
| Decrease in other and temporary investments, net              | -                   | 647,811             |
| Collections on notes receivable                               | 55,971              | 72,500              |
| Change in deferred compensation, net                          | 35,000              | -                   |
| Cash received from other associated companies and investments | 723,903             | 635,746             |
| <b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>       | <b>(7,220,420)</b>  | <b>(4,560,917)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                   |                     |                     |
| Proceeds from long-term debt                                  | 11,369,166          | 6,000,000           |
| Advances (borrowings) on line of credit, net                  | 2,000,000           | (1,000,000)         |
| (Increase) decrease in RUS cushion of credit, net             | (6,200,000)         | (4,430,568)         |
| Principal payments on long-term debt                          | (1,560,492)         | (1,174,995)         |
| Retirement of capital credits, net                            | (1,937,929)         | (1,319,700)         |
| Change in power cost reserve                                  | -                   | 307,117             |
| (Decrease) increase in customer deposits                      | (23,021)            | (31,856)            |
| <b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>       | <b>3,647,724</b>    | <b>(1,650,002)</b>  |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                | <b>1,003,473</b>    | <b>(2,074,703)</b>  |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>         | <b>1,020,201</b>    | <b>3,094,904</b>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>               | <b>\$ 2,023,674</b> | <b>\$ 1,020,201</b> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>       |                     |                     |
| Cash paid for interest  | \$ 375,347          | \$ 451,811          |
| <b>NONCASH INVESTING AND FINANCING ACTIVITIES:</b>            |                     |                     |
| Principal payments made from RUS cushion of credit            | \$ 1,255,983        | \$ 987,089          |

See Notes to the Financial Statements