PRESQUE ISLE ELECTRIC & GAS CO-OP

REPORT ON FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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PRESQUE ISLE ELECTRIC & GAS CO-OP
BOARD OF DIRECTORS
DECEMBER 31, 2014

John Brown	Chairperson
Allen Berg	Vice Chairperson
David Smith	Secretary
Daryl Peterson	Treasurer
Robert Wegmeyer	Director
Kurt Krajniak	Director
Raymond Wozniak	Director
Sally Knopf	Director
Sandy Borowicz	Director

President & Chief Executive Officer

Brian J. Burns

HARRIS GROUP
Certified Public Accountants

Independent Auditor's Report

The Board of Directors
Presque Isle Electric & Gas Co-op
Onaway, Michigan

Report on the Financial Statements
We have audited the accompanying balance sheets of Presque Isle Electric & Gas Co-op as of December 31, 2014 and 2013, and the related statements of revenue, equities, and cash flows for the years then ended.

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. 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 risk 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 financial position of Presque Isle Electric & Gas Co-op as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Harris Group

Certified Public Accountants
March 17, 2015

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PRESQUE ISLE ELECTRIC & GAS CO-OP
BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
UTILITY PLANT:		
In-Service – at cost	$ 130,543,972	$ 126,568,486
Construction work in progress	445,687	1,526,265
SUBTOTAL	130,989,659	128,094,751
Less accumulated depreciation and amortization	54,738,554	51,744,886
NET UTILITY PLANT	76,251,105	76,349,865
OTHER ASSETS AND INVESTMENTS		
Investments on associated organizations	23,960,796	23,651,084
CURRENT ASSETS:		
Cash and temporary cash investments	2,311,764	1,647,495
Accounts Receivable, less allowance for possible losses of $118,000 in 2014 and 2013.	5,016,658	4,542,215
Materials and supplies (at average cost)	1,455,279	1,277,856
Other current assets	397,577	360,230
TOTAL CURRENT ASSETS	9,181,278	7,827,796
DEFERRED DEBITS	284,987	317,964
TOTAL ASSETS	$ 109,678,166	$ 108,146,709

The accompanying notes are an integral part of these statements.

	2014	2013
EQUITIES AND LIABILITIES		
EQUITIES:		
Memberships	$ 253,450	$ 246,835
Patronage capital	46,408,676	42,547,162
Other equities	604,095	(1,123,264)
TOTAL EQUITIES	47,266,221	41,670,733
LONG-TERM DEBT, NET OF CURRENT MATURITIES:		
Mortgage notes to National Rural Utilities Cooperative Finance Corporation (CFC)	48,131,300	50,387,301
Accrued post – retirement benefits	2,289,627	3,799,472
TOTAL LONG-TERM DEBT	50,420,927	54,186,773
CURRENT LIABILITIES:		
Current maturities of long-term debt	2,269,000	2,153,000
CFC line of credit	4,750,000	5,200,000
Accounts payable, purchased energy	2,376,050	2,447,187
Accounts payable, other	407,246	349,515
Patronage capital payable	8,626	1,190
Customer deposits	469,176	385,864
Accrued property taxes	513,712	468,758
Accrued interest	293,020	316,438
Accrued sick and vacation pay	580,056	559,672
Accrued other	312,026	324,852
TOTAL CURRENT LIABILITIES	11,978,912	12,206,476
DEFERRED CREDITS	12,106	82,727
TOTAL EQUITIES AND LIABILITIES	$ 109,678,166	$ 108,146,709

PRESQUE ISLE ELECTRIC & GAS CO-OP
STATEMENTS OF REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
OPERATING REVENUES	$ 46,156,932	$ 43,939,243
OPERATING EXPENSES:		
Cost of energy	26,634,255	24,899,061
Distribution – operation	1,457,018	1,519,269
Distribution – maintenance	3,267,440	3,297,875
Consumers accounts	1,893,565	1,763,288
Customer service and information expense	566,841	585,357
Administrative and general	1,715,046	1,615,161
Depreciation and amortization	3,512,749	3,434,323
Taxes – property	1,124,499	1,051,677
Taxes – other	1,960	2,582
TOTAL OPERATING EXPENSES	40,173,373	38,168,593
OPERATING MARGIN BEFORE FIXED CHARGES	5,983,559	5,770,650
FIXED CHARGES:		
Interest	2,643,203	2,929,232
Other deductions	-	2,057
TOTAL FIXED CHARGES	2,643,203	2,931,289
OPERATING MARGINS AFTER FIXED CHARGES	3,340,356	2,839,361
CAPITAL CREDITS:		
Generation and transmission capital credits	1,316,485	1,761,560
Other capital credits	364,859	385,913
TOTAL CAPITAL CREDITS	1,681,344	2,147,473
NET OPERATING MARGINS	5,021,700	4,986,834

The accompanying notes are an integral part of these statements.

PRESQUE ISLE ELECTRIC & GAS CO-OP
STATEMENTS OF REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Continued)

	2014	2013
NET OPERATING MARGINS (from previous page)	$ 5,021,700	$ 4,986,834
NON-OPERATING MARGINS:		
Interest and dividend income	58,988	53,849
Other expenses	(338,633)	(182,159)
TOTAL NON-OPERATING MARGINS	(279,645)	(128,310)
NET MARGINS	$ 4,742,055	$ 4,858,524

The accompanying notes are an integral part of these statements.

PRESQUE ISLE ELECTRIC & GAS CO-OP
STATEMENT OF CHANGES IN PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Memberships	Patronage Capital	Other Equities	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2013	$ 240,265	$ 39,987,376	$ 1,301,699	$ (2,890,639)	$ 38,638,701
Capital credits retired		(2,311,924)			(2,311,924)
Memberships retired	6,570				6,570
Other equity transactions		13,186	465,676		478,862
Net margin		4,858,524			4,858,524
Balance, December 31, 2013	246,835	42,547,162	1,767,375	(2,890,639)	41,670,733
Capital credits retired		(880,541)			(880,541)
Memberships issued (retired)	6,615				6,615
Other equity transactions			155,799		155,799
Amortize other comprehensive loss				1,571,560	1,571,560
Net margin		4,742,055			4,742,055
Balance, December 31, 2014	$ 253,450	$ 46,408,676	$ 1,923,174	$ (1,319,079)	$ 47,266,221

The accompanying notes are an integral part of these statements.

PRESQUE ISLE ELECTRIC & GAS CO-OP
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from consumers	$ 45,766,076	$ 44,558,873
Cash paid to suppliers and employees	(36,970,265)	(33,994,979)
Interest received	58,988	53,849
Interest paid	(2,801,616)	(3,103,729)
Taxes paid	(1,084,974)	(1,232,024)
Net Cash Provided by Operating Activities	4,968,209	6,281,990
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and acquisition of plant	(3,909,266)	(3,799,589)
(Increase) decrease in:		
Material inventory	(177,423)	8,811
Investments – associated organizations	1,371,631	719,047
Net Cash Used In Investing Activities	(2,715,058)	(3,071,731)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances	-	2,000,000
Payment of debt	(2,590,001)	(4,099,777)
Memberships issued	6,615	6,570
Patronage capital retired	(880,541)	(2,311,924)
Unclaimed patronage	-	13,186
Increased (decrease) in:		
Consumer deposits	83,312	25,635
Deferred credits	64,374	(370,793)
Other equities	1,727,359	465,676
Net cash Provided (Used) by Financing Activities	(1,588,882)	(4,271,427)
NET INCREASE IN CASH AND CASH EQUIVALENTS	664,269	(1,061,168)
CASH AND CASH EQUIVALENTS, beginning of year	1,647,495	2,708,663
CASH AND CASH EQUIVALENTS, end of year	$ 2,311,764	$ 1,647,495

The accompanying notes are an integral part of these statements.

PRESQUE ISLE ELECTRIC & GAS CO-OP
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Continued)

	2014	2013
RECONCILIATION OF NET MARGINS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Margins	$ 4,742,055	$ 4,858,524
Adjustments to reconcile net margins to net cash provided by Operating activities:		
Depreciation and amortization	3,653,469	3,600,963
(Gain) loss on disposition of assets	354,558	180,888
G&T and other capital credits	(1,681,344)	(2,147,473)
(Increase) decrease in:		
Customer and other accounts receivable	(474,443)	577,205
Other currents assets	(37,347)	(32,059)
Deferred debits	32,977	(120,548)
Amortization of debt discount	(134,995)	(134,995)
Increase (decrease) in:		
Accounts payable	(5,970)	(448,823)
Accrued property taxes	44,954	11,841
Accrued interest payable	(23,418)	(37,445)
Current and accrued liabilities – other	(1,502,287)	(26,088)
Total Adjustments	226,154	1,423,466
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 4,968,209	$ 6,281,990
NON-CASH ITEMS – INVESTING & FINANCING		
Capital credits from associated organizations	$ 1,681,344	$ 2,147,473

The accompanying notes are an integral part of these statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the accounting policies adopted by Presque Isle Electric & Gas Co-op which have a significant effect on the financial statements.

Nature of Operations

Presque Isle Electric & Gas Co-op (Presque Isle) is a member-owned, not-for-profit corporation whose purpose is to provide retail energy services to its members. As a cooperative, all monies in excess of cost of providing electric service are capital, at the moment of receipt, and are credited to each member's capital account.

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Utility Plant

Additions, with a life expectancy of more than one year, are recorded at cost, less contributions in aid of construction received from customers. As items are retired or otherwise disposed of, the asset account is credited for the cost and the accumulated depreciation account is charged. The cost of removal, less salvage, is charged to the loss on disposition of utility plant account, and shown on the Statement of Revenue.

Investments

The carrying values of investments in associated organizations are stated at cost, adjusted for capital credits earned or retired. Short-term investments are stated at cost, which approximates market value.

Cash

For purposes of the statement of cash flows, Presque Isle considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Consumer Energy Prepayments and Unbilled Revenues

Seasonal account billings are accounted for as deferred credits and recognized as income on a straight-line basis over a period of one year. There were no estimated net unbilled revenues for the year.

Accounts receivable

Accounts receivable consist primarily of amounts due from members for electric and gas service. An allowance for doubtful accounts has been estimated based on collection history. When a member's account becomes past due and uncollectible, the member's service is terminated. The Board of Directors approve all accounts charged off.

Regulation

Electric accounting and rate matters are subject to the Board of Directors and membership approval. Natural gas accounting and rate matters are either subject to Home Rule approval pursuant to the Michigan Home Rule Statute or subject to the approval of the Michigan Public Service Commission.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Materials and Supplies

Electrical and natural gas materials and supplies are valued at average cost. Merchandise held for resale is valued on the first-in, first-out basis.

Retirement Plan

Presque Isle has a retirement savings plan for substantially all employees. Under the terms of the plan, Presque Isle is required to contribute 10 to 16 percent of the employee's total base earnings to the retirement plan.

Flex Benefit Plan

Presque Isle has a Flexible Benefits Plan. The purpose of the plan is to provide eligible employees a choice between cash and the specified welfare benefits described in the plan. Pre-Tax Premium elections under the plan are intended to qualify for the exclusion from income provided in Section 125 of the Internal Revenue Code of 1986.

Contributions in Aid of Construction

Contributions in aid of construction are received from customers on electrical and gas installations and re-applied against the construction costs.

Income Taxes

The Cooperative is exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code which provides, in part that the Cooperative derive at least 85 percent of its annual gross income from members to retain the exemption. The Cooperative expects to meet the requirements for the tax year ended December 31, 2014. Accordingly, no provision for income taxes has been made in the financial statements. The Cooperative's federal information returns for Calendar year 2010 and after are subject to examination by the Internal Revenue Service.

NOTE 2: ASSETS PLEDGED

Substantially all assets are pledged as collateral on long-term debt payable to the National Rural Utilities Cooperative Finance Corporation (CFC).

NOTE 3: ELECTRIC AND GAS PLANT AND DEPRECIATION RATES AND PROCEDURES

Major classes of electric and gas plant as of December 31, 2014 and 2013 consisted of:

	2014	2013
Intangible plant	$ 1,065,114	$ 1,025,191
Distribution plant	121,667,640	118,104,490
General plant	7,811,218	7,438,805
	130,543,972	126,568,486
Construction work in progress	445,687	1,526,265
TOTAL	$ 130,989,659	$ 128,094,751

NOTE 4: ELECTRIC AND GAS PLANT AND DEPRECIATION RATES AND PROCEDURES

Provision has been made for depreciation of the distribution plant at a straight-line rate of 10 to 50 years for all distribution plant additions.

General plant depreciation rates have been applied on a straight-line basis as follows for the year ended December 31, 2014:

	Years
Structures and improvements	10-50
Office furniture equipment	3-7
Transportation equipment	4-7
Power operated equipment	3-16
Other	4-5

Depreciation and amortization of electric and gas plant in service was charged as follows for the years ended December 31, 2014 and 2013:

	2014	2013
Charged to:		
Classified as depreciation and amortization	$ 3,512,749	$ 3,434,323
Classified in other operating expenses	140,720	166,640
	3,653,469	3,600,963
Charged to construction	235,407	191,521
TOTAL DEPRECIATION AND AMORTIZATION	$ 3,888,876	$ 3,792,484

NOTE 5: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations consisted of the following at December 31, 2014 and 2013:

	2014	2013
Wolverine Power Supply Coop. Inc. - capital credits	$ 13,105,742	$ 11,789,257
Wolverine Power Supply Coop. Inc. - PSDF	6,925,238	7,980,339
National Rural Utilities Cooperative Finance Corp.:		
Capital term certificates maturing October 1, 2020 through October 1, 2080 at interest rates between 3% and 7.50%	1,597,549	1,722,559
Patronage capital certificates	1,688,545	1,576,447
Other	643,722	582,482
TOTAL	$ 23,960,796	$ 23,651,084

NOTE 6: CASH AND INVESTMENTS

Statements of Financial Accounting Standards (SFAS) No. 105 require disclosure of significant concentrations of credit risk arising from cash deposits in excess of federally insured limits.

	Per Institution	Per Book
Insured	$ 1,249,797	$ 1,249,797
Uninsured	1,647,344	1,062,291
Cash in banks and credit union	$ 2,897,141	2,312,088
Working funds		(324)
Total per books		$ 2,311,764

NOTE 7: DEFERRED DEBITS

The Cooperative has recorded deferred debits in the following amounts:

	2014	2013
Prepaid tap fees	$ 61,374	$ 63,370
Prepaid years of service	161,908	190,839
Regulatory prepaid asset	2,050	4,100
Other deferred debits	59,655	59,655
TOTAL	$ 284,987	$ 317,964

NOTE 8: MEMBERSHIPS

The following is a summary of changes in memberships for the years ended December 31, 2014 and 2013:

	2014	2013
Balance, beginning	$ 246,835	$ 240,265
Membership and subscriptions issued	6,615	6,570
Balance, ending	$ 253,450	$ 246,835

Memberships have been adjusted to reflect the number of members currently receiving service. In accordance with the Co-op by-laws, memberships are not refunded when a member leaves the service area. The membership fee is transferred to donated capital when the member terminates service.

NOTE 9: PATRONAGE CAPITAL

Patronage capital balances as of December 31, 2014 and 2013 consisted of:

	2014	2013
Assignable	$ 4,742,055	$ 4,858,524
Assigned to date	50,761,641	45,903,117
	55,503,696	50,761,641
Less retirements to date	9,095,020	8,214,479
Balance	$ 46,408,676	$ 42,547,162

NOTE 9: PATRONAGE CAPITAL - continued

Under the provisions of the Mortgage Agreement, until the equities and margins equal or exceed twenty percent of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited generally to twenty-five percent of the patronage capital or margins received by the Cooperative in the next preceding year. The equities and margins of Presque Isle represent 43.1% and 38.5% of the total assets for the years 2014 and 2013, respectively. There were capital credits retired of $880,541 and $2,311,924 during 2014 and 2013, respectively.

NOTE 10: MORTGAGE NOTES

Long-term debt is composed of 2.95 percent to 6.65 percent mortgage notes payable to the National Rural Utilities Cooperative Finance Corporation (CFC). All mortgage notes to CFC will be re-priced and the interest rate adjusted accordingly during the next 10 years in accordance with the policy and procedure governing such re-pricing. The notes are for 35 year periods each, with principal and interest installments due either quarterly or semiannually. The notes are scheduled to be fully repaid at various times from December 2015 through November 2047.

There were unadvanced loan funds available at December 31, 2014 in the amount of $15,500,000.

Detail of the long-term debt is as follows:

	2014	2013
National Rural Utilities Cooperative Finance Corporation mortgage notes bearing interest at 2.90% to 6.65% per annum for 2014 and 2013	$ 50,400,300	$ 52,540,301
	50,400,300	52,540,301
Less current maturities	2,269,000	2,153,000
TOTAL LONG-TERM DEBT	$ 48,131,300	$ 50,387,301

Maturities of long-term debt for each of the next five years are as follows:

2015	$	2,269,000
2016	$	1,485,000
2017	$	1,523,000
2018	$	1,589,000
2019	$	1,670,000

NOTE 11: LINE OF CREDIT

Presque Isle had available a short-term line of credit from CFC for 2014 and 2013 of $8,000,000, with a revolving credit and term of sixty months. The agreement requires that within 360 days of the first advance, the cooperative will reduce to zero for a period of at least five consecutive business days amounts outstanding. The Cooperative was in compliance with this provision during 2014 and 2013. Balance available at December 31, 2014 and 2013 was $8,000,000. The outstanding balance at December 31, 2014 and 2013 was $-0-.

Additionally, Presque Isle has an $8,000,000 unsecured revolving line-of-credit agreement with CoBank. Interest on outstanding borrowings is payable monthly and is computed at 2.92% at December 31, 2014. Presque Isle had an outstanding balance of $4,750,000 for 2014 and $5,200,000 in 2013.

Presque Isle also had an $8,000,000 unsecured promissory note from Wolverine Power Supply Cooperative. Interest on advances was charged at 1.25%. The balance on December 31, 2014 was $0. The note expired December 31, 2014.

NOTE 12: DEFERRED CREDITS

Following is a summary of the amounts recorded as deferred credits as of December 31, 2014 and 2013:

	2014	2013
Deferred gain from extinguishments of debt	$ 134,996	$ 269,991
Customer energy prepayments	(122,890)	(187,264)
TOTAL	$ 12,106	$ 82,727

NOTE 13: RETIREMENT PLAN

Retirement plan benefits for substantially all employees are provided through participation in a defined contribution SelectRE pension plan with 401k option with cash and deferred arrangement of the National Rural Electric Cooperative Association (NRECA) and its member systems. The income earned by funds while held under the plan is tax-exempt under Code Sections 401 and 501 of the Internal Revenue Code. Contributions to the savings program, which are based on a percentage of the employees' compensation were $336,056 in 2014 and $310,347 in 2013.

NOTE 14: POWER SUPPLY COST RECOVERY CLAUSE

On October 12, 1982, the Governor of the State of Michigan signed PA 304 of 1982 into law creating the Power Supply Cost Recovery Clause (PSCR), a power cost recovery mechanism.

Wolverine Power Supply Cooperative, Inc. (Wolverine) and the member-distribution Cooperatives including Presque Isle, obtained authority to implement and apply PSCR clauses and monthly factors. Presque Isle's monthly factor may not exceed 24.18 mills per KWH for the current period.

Due to fluctuations in market conditions, over-collections or under-collections could result between the generation cooperative and distribution cooperative as well as between the distribution cooperatives and their member-consumers.

NOTE 14: POWER SUPPLY COST RECOVERY CLAUSE - continued

The PSCR clause includes provisions whereby power cost recovery over-collections must be remedied by refunds and power cost recovery under-collections must be remedied by additional collections.

Presque Isle's balance sheets reflect an amount (due to)/from member-consumers for under/(over) collections in the amounts of $(225,313) and $(402,671) at December 31, 2014 and 2013, respectively. These amounts are included in the accounts receivable balance.

On September 1, 2009, Presque Isle Electric & Gas Co-op implemented a new rate setting mechanism for its natural gas operations in 34 of its 36 franchised jurisdictions. This included a Gas Cost Recovery (GCR) mechanism. Due to fluctuations in market conditions, over-collections and under-collections of natural gas supply costs could result between the distribution cooperative and its member-consumers.

The GCR mechanism includes provisions whereby gas cost recovery over-collections must be remedied by refunds and gas cost recovery under-collections must be remedied by additional collections. Presque Isle's balance sheet reflects an amount due (to)/from member-consumers for under collections in the amounts of $128,910 and $(91,416) for the years ended December 31, 2014 and 2013, respectively. This amount is recorded in accounts receivable.

NOTE 15: POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

The cooperative has chosen to recognize the accounting method required by the Statement of Financial Accounting Standards No. 106 for Employer's Accounting for Post-retirement Benefits Other Than Pensions. The statement requires a transition from accounting, for these benefits, on a pay-as-you go (cash basis) to recognizing the benefit cost as they are earned (accrual basis). The change in accounting method requires the accounting for costs incurred to date but unpaid, which is called the Transition amount. This amount may be either expensed in the year of transition or it may be amortized over either the benefit period or twenty-years.

The plan sponsored by the company is a defined benefit post-retirement plan that covers all employees who retire from the cooperative before April 1, 1997 after (i) attainment of age 55 and completion of 30 years of service, or (ii) attainment of age 62. Spouses of pensioners are also insured until the pensioner's death.

At the end of 2014 there were no active participants and the accounting rules of the Financial Accounting Standards Board Statement No. 88 regarding curtailment must be recognized. The reconciliation of the funded status at December 31, 2014 is as follows:

	2014	2013
(Accrued) post-retirement benefit costs, beginning	$ (3,799,472)	$ (3,616,570)
Net periodic post-retirement benefit (costs)	(183,835)	(351,109)
Contributions made	122,120	168,207
Valuation adjustment	1,571,560	-
(Accrued) post-retirement benefit cost, end of year	$ (2,289,627)	$ (3,799,472)

NOTE 15: POST-RETIREMENT BENEFITS OTHER THAN PENSIONS - continued

Net periodic post-retirement benefit cost includes the following components:

	2014	2013
Interest cost	$ 88,006	$ 127,263
Net amortization and deferral	95,829	223,846
Net periodic post-retirement benefit cost	$ 183,835	$ 351,109

For measurement purposes a 9.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2014; the rate was assumed to decrease gradually to an ultimate rate of 5.0% per annum. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by 1 percentage point in each year would increase the accumulated post-retirement benefit obligation $162,634 and the aggregate of the service and interest cost components of the net periodic benefit cost by $13,969. Decreasing the assumed health care cost trend rates by 1 percentage point in each year would decrease the accumulated post-retirement benefit obligation $136,391 and the aggregate of the service and interest cost components of the net periodic benefit cost by $12,274.

The weighted-average discount rate used in determining the accumulated post-retirement benefit obligation was 5.71 percent.

NOTE 16: EARLY RETIREMENT INCENTIVE

The cooperative has made available at different times certain voluntary separation incentives to encourage early retirement. The incentive consists of two distinct benefits: a monthly cash payment and a continuation of health care benefits, both for a period of no longer than 48 months. The cash portion consists of a monthly payment equal to $10 for each full-year of service that the employee has with the Cooperative. The health care benefit consists of a continuation of the existing health insurance being provided to the employee by the Cooperative, with the employee being liable for the costs of continuing coverage for their spouse and dependents. There are five employees who have opted to receive this early retirement incentive. The Cooperative has accrued a liability to account for this contractual obligation. The obligation is detailed below:

	2014	2013
Cash portion	$ 14,740	$ 34,900
Health insurance portion	20,027	33,602
Total early retirement incentive liability	$ 34,767	$ 68,502

NOTE 17: FLEX BENEFIT PLAN - under Section 125 of the Internal Revenue Code

The Flexible Benefit Plan is for the benefit of substantially all employees who have been employed for at least 30 days. The Cooperative has elected to offer to eligible employees the following Benefit Plans and Policies subject to the terms and conditions of the plan: (1) Disability Income - Short-Term (A&S); (2) Cancer Insurance; (3) Intensive Care Insurance; (4) Accident Insurance; and (5) Medical Care Expense Reimbursement, not to exceed $1,200 per plan year. The maximum Pre-Tax Premiums a participant can contribute via the Salary Redirection Agreement is the aggregate cost of the applicable Benefit Plans or Policies selected minus any Nonelective Contributions made by the employer. It is intended that such Pre-Tax Premium accounts shall, for tax purposes, constitute an employer contribution.

NOTE 18: LETTERS OF CREDIT

The Co-op has a letter of credit outstanding to the Sequent Energy for $1,500,000 at December 31, 2014. This letter of credit is required in order to mitigate counter party risk in natural gas purchase transactions. This also is a risk management tool for the Co-op with respect to mark to market issues.

NOTE 19: RECLASSIFICATION OF AMOUNTS

Certain amounts previously reported have been reclassified to conform to the 2014 presentation.

NOTE 20: SUBSEQUENT EVENTS

Subsequent to year end, Presque Isle obtained an unsecured $8,000,000 Promissory Note from Wolverine Power Supply Cooperative, due on the earlier of December 31, 2015 or thirty days after demand by the lender. Interest on advances is charged at 1.25%.

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2014, the most recent statement of financial position presented herein, through March 17, 2015, the issuance date of the accompanying financial statements. No significant such events or transactions were identified.

HARRIS GROUP
Certified Public Accountants

AUDITORS' CERTIFICATION REGARDING LOAN FUND EXPENDITURES

During the period of this audit, Presque Isle Electric & Gas Co-op received $0 in long-term loan fund advances from CFC on loans controlled by the 100% CFC Mortgage and Loan Agreement. Based on our review of construction work orders and other plant accounting records created during the audit period, it is our opinion that these CFC loan funds were expended for purposes contemplated in the Loan Agreements on such loans.

Harris Group

Certified Public Accountants
March 17, 2015

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