PRESQUE ISLE ELECTRIC & GAS CO-OP

REPORT ON FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

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PRESQUE ISLE ELECTRIC & GAS CO-OP
BOARD OF DIRECTORS
DECEMBER 31, 2005

Allan H. Bruder	Chairperson
Allen L. Barr	Vice-Chairperson
Sally L. Knopf	Secretary
Robert W. Wegmeyer	Treasurer
Glen G. Alsobrooks	Director
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Raymond Wozniak	Director

President & Chief Executive Officer

Brian J. Burns

Independent Auditor's Report

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

We have audited the accompanying balance sheets of Presque Isle Electric & Gas Co-op as of December 31, 2005 and 2004, and the related statements of revenue and patronage capital, and cash flows for the years then ended. These financial statements are the responsibility of Presque Isle Electric & Gas Co-op's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2005 and 2004, 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.

Certified Public Accountants
February 1, 2006

PRESQUE ISLE ELECTRIC & GAS CO-OP
BALANCE SHEETS
DECEMBER 31, 2005 AND 2004

	2005	2004
ASSETS		
UTILITY PLANT:		
In-Service – at cost	$ 91,184,593	$ 86,758,724
Construction work in progress	7,748,244	9,433,700
SUBTOTAL	98,932,837	96,192,424
Less accumulated depreciation and amortization	31,509,040	30,573,521
NET UTILITY PLANT	67,423,797	65,618,903
OTHER ASSETS AND INVESTMENTS		
Investments on associated organizations	13,492,900	11,561,188
CURRENT ASSETS:		
Cash and temporary cash investments	905,687	617,493
Accounts Receivable, less allowance for possible losses of $94,000 in 2005 and 2004	6,715,917	4,755,493
Materials and supplies (at average cost)	981,297	979,760
Other current assets	105,611	21,374
TOTAL CURRENT ASSETS	8,708,512	6,374,120
DEFERRED DEBITS	241,524	257,782
TOTAL ASSETS	$ 89,866,733	$ 83,811,993

The accompanying notes are an integral part of these statements.

	2005	2004
EQUITIES AND LIABILITIES		
EQUITIES:		
Memberships	$ 200,180	$ 193,775
Patronage capital	29,857,657	27,192,004
Other equities	687,457	685,927
TOTAL EQUITIES	30,745,294	28,071,706
LONG-TERM DEBT, NET OF CURRENT MATURITIES:		
Mortgage notes to National Rural Utilities Cooperative Finance Corporation (CFC)	48,376,767	45,589,250
Accrued post – retirement benefits	399,529	520,300
TOTAL LONG-TERM DEBT	48,776,296	46,109,550
CURRENT LIABILITIES:		
Current maturities of long-term debt	1,270,000	1,165,000
CFC line of credit	3,764,883	3,056,014
Accounts payable, purchased energy	2,029,235	1,729,208
Accounts payable, other	416,664	415,234
Patronage capital payable	98,013	103,011
Customer deposits	142,211	97,499
Accrued property taxes	646,671	739,771
Accrued interest	258,035	241,851
Accrued sick and vacation pay	575,326	567,494
Accrued other	327,591	425,683
TOTAL CURRENT LIABILITIES	9,528,629	8,540,765
DEFERRED CREDITS	816,514	1,089,972
TOTAL EQUITIES AND LIABILITIES	$ 89,866,733	$ 83,811,993

PRESQUE ISLE ELECTRIC & GAS CO-OP
STATEMENTS OF REVENUE AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
OPERATING REVENUES	$ 33,155,949	$ 29,173,497
OPERATING EXPENSES:		
Cost of energy	20,005,354	17,528,173
Distribution – operation	1,477,699	1,329,661
Distribution – maintenance	2,004,090	1,623,688
Consumers accounts	1,283,460	1,163,196
Customer service and information expense	129,565	120,162
Administrative and general	1,321,719	1,295,381
Depreciation and amortization	2,472,289	2,428,061
Taxes – property	869,181	915,998
Taxes – other	179,663	162,999
TOTAL OPERATING EXPENSES	29,743,020	26,567,319
OPERATING MARGIN BEFORE FIXED CHARGES	3,412,929	2,606,178
FIXED CHARGES:		
Interest	2,867,322	2,648,667
Other deductions	1,217	439
TOTAL FIXED CHARGES	2,868,539	2,649,106
OPERATING MARGINS AFTER FIXED CHARGES	544,390	(42,928)
CAPITAL CREDITS:		
Generation and transmission capital credits	1,985,080	1,887,697
Other capital credits	269,937	265,160
TOTAL CAPITAL CREDITS	2,255,017	2,152,857
NET OPERATING MARGINS	2,799,407	2,109,929

The accompanying notes are an integral part of these statements.

PRESQUE ISLE ELECTRIC & GAS CO-OP
STATEMENTS OF REVENUE AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Continued)

	2005	2004
NET OPERATING MARGINS (from previous page)	$ 2,799,407	$ 2,109,929
NON-OPERATING MARGINS:		
Interest and dividend income	89,042	52,054
Other	(231,230)	(6,131)
TOTAL NON-OPERATING MARGINS	(142,188)	45,923
NET MARGINS, before extraordinary item	2,657,219	2,155,852
EXTRAORDINARY ITEM		
Settlement with the State of Michigan on a sales tax dispute, including related fees		223,504
NET MARGINS	2,657,219	1,932,348
PATRONAGE CAPITAL, beginning of year	27,192,004	25,236,060
Other equity transactions – assignment of sales tax refund	8,434	23,596
PATRONAGE CAPITAL, end of year	$ 29,857,657	$ 27,192,004

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, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from consumers	$ 31,252,457	$ 28,364,536
Cash paid to suppliers and employees	(25,861,013)	(22,446,274)
Interest received	89,042	52,054
Interest paid	(2,986,133)	(2,767,109)
Taxes paid	(1,429,196)	(1,117,817)
Net Cash Provided by Operating Activities	1,065,157	2,085,390
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and acquisition of plant	(4,330,132)	(4,695,984)
Plant removal costs	(292,601)	(55,360)
(Increase) decrease in:		
Material inventory	(1,537)	(38,770)
Investments – associated organizations	323,305	712,912
Net Cash Used In Investing Activities	(4,300,965)	(4,077,202)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances from CFC	20,993,697	16,982,791
Payment of debt	(17,392,313)	(14,997,715)
Memberships issued	6,405	2,305
Increased (decrease) in:		
Consumer deposits	44,712	86,859
Deferred credits	(138,463)	(400,660)
Other equities	1,530	6,411
Patronage capital retired		
Sales tax refund to be assigned	8,434	23,596
Net cash Provided by Financing Activities	3,524,002	1,703,587
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	288,194	(288,225)
CASH AND CASH EQUIVALENTS, beginning of year	617,493	905,718
CASH AND CASH EQUIVALENTS, end of year	$ 905,687	$ 617,493

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, 2005 AND 2004
(Continued)

	2005	2004
RECONCILIATION OF NET MARGINS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Margins	$ 2,657,219	$ 1,932,348
Adjustments to reconcile net margins to net cash provided by Operating activities:		
Depreciation and amortization	2,560,868	2,501,376
(Gain) loss on disposition of assets	257,005	52,933
G&T and other capital credits	(2,255,017)	(2,152,857)
(Increase) decrease in:		
Customer and other accounts receivable	(1,960,454)	(880,233)
Other currents assets	(84,237)	82,987
Deferred debits	16,258	410,387
Amortization of debt discount	(134,995)	(134,995)
Increase (decrease) in:		
Accounts payable	296,459	205,528
Accrued property taxes	(93,100)	(10,238)
Accrued interest payable	16,184	16,553
Current and accrued liabilities – other	(211,033)	61,601
Total Adjustments	(1,592,062)	153,042
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,065,157	$ 2,085,390
NON-CASH ITEMS – INVESTING & FINANCING		
Capital credits from associated organizations	2,255,017	2,152,857

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.

Organization

Presque Isle Electric & Gas Co-op (Presque Isle) is a non-profit organization generally exempt from income tax under Section 501(c)(12) of the United States Internal Revenue Code. Presque Isle is subject to the Single Business Tax Act of the State of Michigan.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Materials and Supplies

Electrical 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.

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, 2005 and 2004 consisted of:

	2005	2004
Intangible plant	$ 979,674	$ 973,676
Distribution plant	85,625,649	80,565,918
General plant	4,579,270	5,219,130
	91,184,593	86,758,724
Construction work in progress	7,748,244	9,433,700
TOTAL	$ 98,932,837	$ 96,192,424

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

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, 2005:

	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, 2005 and 2004:

	2005	2004
Charged to:		
Classified as depreciation and amortization	$ 2,472,289	$ 2,428,061
Classified in other operating expenses	88,579	73,315
	2,560,868	2,501,376
Charged to construction	205,558	247,841
TOTAL DEPRECIATION AND AMORTIZATION	$ 2,766,426	$ 2,749,217

NOTE 5: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations consisted of the following at December 31, 2005 and 2004:

	2005	2004
Wolverine Power Supply Coop. Inc. - capital credits	$ 8,333,888	$ 7,891,843
Wolverine Power Supply Coop. Inc. - PSDF	2,593,694	1,257,488
National Rural Utilities Cooperative Finance Corp.:		
Capital term certificates maturing December 1, 2020 through October 1, 2080 at interest rates between 3% and 5%	1,732,413	1,666,530
Patronage capital certificates	663,747	595,561
Other	169,158	149,766
TOTAL	$ 13,492,900	$ 11,561,188

NOTE 6: SHORT-TERM INVESTMENTS - RESTRICTED

On March 20, 1984, the Michigan Public Service Commission issued its opinion and order in Case No. U-7901, directing Michigan's Rural Electric Cooperatives to maintain power supply cost recovery over-collections and refundable contributions in restricted accounts to be used only for the purpose for which they are intended.

In order to accomplish the objectives of the Commission, a non-complex mechanism acceptable to CFC and a workable approach acceptable to Presque Isle Electric & Gas Co-op, Inc., on December 17, 1985, entered into an agreement with CFC to escrow power supply cost recovery over-collections and refundable contributions. A monthly certification is to be included with the monthly form advising CFC as to amounts included in the special funds representing power supply cost recovery over-collections and refundable contributions.

Presque Isle is to provide CFC a copy of the monthly certification described above which will serve as notice to CFC as to the amount below which the fund should not fall. Under the provisions of the agreement with CFC when the amount of deposits held by CFC falls below the level set forth in the latest available certification furnished CFC, CFC will advise the Commission if Presque Isle has not remedied the deficiency within three business days of notification by CFC to Presque Isle.

There were no amounts required to be restricted as of December 31, 2005 and 2004.

NOTE 7: 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	$ 447,511	$ 447,511
Uninsured	418,288	457,176
Cash in banks, credit union & CFC	$ 865,799	904,687
Working funds		1,000
Total per books		$ 905,687

NOTE 8: DEFERRED DEBITS

The Cooperative has recorded deferred debits in the following amounts:

	2005	2004
Prepaid tap fees	$ 79,339	$ 81,892
Prepaid years of service	162,185	175,890
TOTAL	$ 241,524	$ 257,782

NOTE 9: MEMBERSHIPS

The following is a summary of changes in memberships for the years ended December 31, 2005 and 2004:

	2005	2004
Balance, beginning	$ 193,775	$ 191,470
Membership and subscriptions issued	7,935	8,345
Adjustment	(1,530)	(6,040)
Balance, ending	$ 200,180	$ 193,775

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 10: PATRONAGE CAPITAL

Patronage capital balances as of December 31, 2005 and 2004 consisted of:

	2005	2004
Assignable	$ 2,657,219	$ 1,932,348
Sales tax refund assignable	8,434	23,596
Assigned to date	31,338,887	29,382,943
	34,004,540	31,338,887
Less retirements to date	4,146,883	4,146,883
Balance	$ 29,857,657	$ 27,192,004

NOTE 10: PATRONAGE CAPITAL - continued

Under the provisions of the Mortgage Agreement, until the equities and margins equal or exceed thirty 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 34.21% and 33.49% of the total assets for the years 2005 and 2004, respectively. There were capital credits retired of $0 during 2005 or 2004, respectively.

NOTE 11: MORTGAGE NOTES

Long-term debt is composed of 4.30 percent to 6.65 percent mortgage notes payable to the National Rural Utilities Cooperative Finance Corporation (CFC). All mortgage notes to CFC will be repriced and the interest rate adjusted accordingly during the next 10 years in accordance with the policy and procedure governing such repricing. The notes are for 35 year periods each, with principal and interest installments due either quarterly or monthly. The notes are scheduled to be fully repaid at various times from September 2010 through February 2038.

There were unadvanced loan funds available at December 31, 2005 in the amount of $14,000,000.

Detail of the long-term debt is as follows:

	2005	2004
National Rural Utilities Cooperative Finance Corporation mortgage notes bearing interest at 4.30% to 6.65% per annum for 2005 and 2004	$ 49,569,267	$ 46,704,250
Zero term certificate loan (ZTC) non-interest Bearing	77,500	50,000
	49,646,767	46,754,250
Less current maturities	1,270,000	1,165,000
TOTAL LONG-TERM DEBT	$ 48,376,767	$ 45,589,250

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

2006	$ 1,270,000
2007	$ 1,340,000
2008	$ 1,415,000
2009	$ 1,490,000
2010	$ 1,570,000

NOTE 12: LINE OF CREDIT

Presque Isle has available a short-term line of credit from CFC of $5,890,000 for 2005 and 2004 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 2005 and 2004. Balance available at December 31, 2005 and 2004 was $2,125,117 and $2,833,986. The outstanding balance at December 31, 2005 and 2004 was $3,764,883 and $3,056,014, respectively.

NOTE 13: DEFERRED CREDITS

Following is a summary of the amounts recorded as deferred credits as of December 31, 2005 and 2004:

	2005	2004
Deferred gain from extinguishments of debt	$ 1,349,955	$ 1,484,951
Customer energy prepayments	(533,441)	(394,979)
TOTAL	$ 816,514	$ 1,089,972

NOTE 14: 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 $369,566 in 2005 and $351,647 in 2004.

NOTE 15: 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 .0052 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.

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 from/(to) member-consumers for under/(over) collections in the amounts of $1,602,931 and $56,111 at December 31, 2005 and 2004, respectively. These amounts are included in the accounts receivable balance.

NOTE 16: 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 2005 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, 2005 is as follows:

	2005	2004
(Accrued) post-retirement benefit costs, beginning	$ (520,300)	$ (638,100)
Net periodic post-retirement benefit (costs)	(45,833)	(50,000)
Contributions made	166,604	167,800
(Accrued) post-retirement benefit cost, end of year	$ (399,529)	$ (520,300)

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

	2005	2004
Interest cost	$ 25,667	$ 27,831
Net amortization and deferral	20,166	22,169
Net periodic post-retirement benefit cost	$ 45,833	$ 50,000

For measurement purposes a 13.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2005; the rate was assumed to decrease gradually to an ultimate rate of 3.5% 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 $122,940 and the aggregate of the service and interest cost components of the net periodic benefit cost by $8,299. Decreasing the assumed health care cost trend rates by 1 percentage point in each year would decrease the accumulated post-retirement benefit obligation $111,396 and the aggregate of the service and interest cost components of the net periodic benefit cost by $7,519.

The weighted-average discount rate used in determining the accumulated post-retirement benefit obligation was 7.5 percent.

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: RECLASSIFICATION OF AMOUNTS

Certain amounts previously reported have been reclassified to conform to the 2005 presentation.

NOTE 19: EXTRAORDINARY ITEM

The Co-op had an on-going dispute with the Michigan Department of Treasury for the collection of sales tax from members during March 1995 through September 1998. A Consent Judgment was agreed to during November 2004. The settlement requires the Co-op to pay $175,000 to the Michigan Department of Treasury. The extraordinary expense of $223,504 includes attorney and consultant fees in representing the Co-op.