PRESQUE ISLE ELECTRIC & GAS CO-OP

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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PRESQUE ISLE ELECTRIC & GAS CO-OP
BOARD OF DIRECTORS
DECEMBER 31, 2019

John Brown	Chairperson
Allan Berg	Vice Chairperson
Sandra Borowicz	Secretary
Charles Arbour	Treasurer
Kurt Krajniak	Director
Raymond Wozniak	Director
Sally Knopf	Director
Daryl Peterson	Director
Brentt Lucas	Director

<u>President & Chief Executive Officer</u>

Tom Sobeck

HARRIS GROUP
Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Presque Isle Electric & Gas Co-op (the Co-op) and subsidiary, as of December 31, 2019 and 2018, which comprises the balance sheet, related statements of income, retained earnings, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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 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 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 consolidated 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, 2019 and 2018, 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.

Emphasis of Matter
As discussed in Note 1, in 2018 the Co-op acquired Presque Isle Aurora Gas Assets, Inc., a wholly-owned subsidiary.

Harris Group CPA's

Traverse City, Michigan
March 14, 2020

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PRESQUE ISLE ELECTRIC & GAS CO-OP
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
UTILITY PLANT:		
In-Service – at cost	$ 161,020,595	$ 158,392,302
Construction work in progress	1,759,728	1,014,201
SUBTOTAL	162,780,323	159,406,503
Less accumulated depreciation and amortization	74,884,948	70,648,602
NET UTILITY PLANT	87,895,375	88,757,901
OTHER ASSETS AND INVESTMENTS		
Investments in associated organizations	24,206,436	24,621,871
CURRENT ASSETS:		
Cash and temporary cash investments	2,959,103	2,964,539
Accounts Receivable, less allowance for possible losses of $121,000 in 2019 and 2018.	5,473,718	4,498,418
Materials and supplies (at average cost)	2,130,544	1,945,684
Other current assets	406,006	373,934
TOTAL CURRENT ASSETS	10,969,371	9,782,575
DEFERRED DEBITS	368,655	341,403
TOTAL ASSETS	$ 123,439,837	$ 123,503,750

The accompanying notes are an integral part of these statements.

	2019	2018
EQUITIES AND LIABILITIES		
EQUITIES:		
Memberships	$ 292,815	$ 285,265
Patronage capital	49,931,677	50,329,692
Other equities	4,402,941	3,612,994
TOTAL EQUITIES	54,627,433	54,227,951
LONG-TERM DEBT, NET OF CURRENT MATURITIES:		
Mortgage notes to National Rural Utilities Cooperative Finance Corporation (CFC)	56,146,573	58,272,209
Accrued post – retirement benefits	937,615	1,216,061
TOTAL LONG-TERM DEBT	57,084,188	59,488,270
CURRENT LIABILITIES:		
Current maturities of long-term debt	2,119,000	2,010,000
Line of credit	3,800,000	2,500,000
Accounts payable, purchased energy	2,226,124	2,298,895
Accounts payable, other	727,927	456,740
Patronage capital payable	36,827	26,784
Customer deposits	583,011	596,468
Accrued property taxes	538,125	550,280
Accrued interest	276,795	293,986
Accrued sick and vacation pay	610,265	564,781
Accrued other	536,597	489,595
TOTAL CURRENT LIABILITIES	11,454,671	9,787,529
DEFERRED CREDITS	273,545	-
TOTAL EQUITIES AND LIABILITIES	$ 123,439,837	$ 123,503,750

PRESQUE ISLE ELECTRIC & GAS CO-OP
CONSOLIDATED STATEMENTS OF REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
OPERATING REVENUES	$ 47,308,955	$ 46,046,735
OPERATING EXPENSES:		
Cost of energy	25,188,530	25,020,082
Distribution – operation	2,229,339	2,096,353
Distribution – maintenance	4,087,077	4,368,302
Consumers accounts	2,132,063	2,180,561
Customer service and information expense	844,353	874,923
Administrative and general	2,844,203	2,087,233
Depreciation and amortization	5,212,520	4,445,463
Taxes – property	1,163,905	1,179,823
Taxes – other	61,417	1,064
TOTAL OPERATING EXPENSES	43,763,407	42,253,804
OPERATING MARGIN BEFORE FIXED CHARGES	3,545,548	3,792,931
FIXED CHARGES:		
Interest	2,810,247	2,717,103
Other deductions	1,008	1,000
TOTAL FIXED CHARGES	2,811,255	2,718,103
OPERATING MARGINS AFTER FIXED CHARGES	734,293	1,074,828
CAPITAL CREDITS:		
Generation and transmission capital credits	1,141,584	1,486,730
Other capital credits	309,544	273,028
TOTAL CAPITAL CREDITS	1,451,128	1,759,758
NET OPERATING MARGINS	2,185,421	2,834,586

The accompanying notes are an integral part of these statements.

PRESQUE ISLE ELECTRIC & GAS CO-OP
CONSOLIDATED STATEMENTS OF REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Continued)

	2019	2018
NET OPERATING MARGINS (from previous page)	$ 2,185,421	$ 2,834,586
NON-OPERATING MARGINS:		
Interest and dividend income	90,001	73,660
Other expenses	(184,081)	(341,236)
TOTAL NON-OPERATING MARGINS	(94,080)	(267,576)
NET MARGINS	$ 2,091,341	$ 2,567,010

The accompanying notes are an integral part of these statements.

PRESQUE ISLE ELECTRIC & GAS CO-OP
CONSOLIDATED STATEMENT OF CHANGES IN PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Memberships	Patronage Capital	Other Equities	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2018	$ 276,930	$ 50,165,119	$ 3,089,548	$ (253,082)	$ 53,278,515
Capital credits retired		(2,402,437)			(2,402,437)
Memberships issued (retired)	8,335				8,335
PIAGA acquisition equity			260,647		260,647
Other equity transactions			515,881		515,881
Net margin		2,567,010			2,567,010
Balance, December 31, 2018	285,265	50,329,692	3,866,076	(253,082)	54,227,951
Capital credits retired		(2,489,356)			(2,489,356)
Memberships issued (retired)	7,550				7,550
Other equity transactions			515,801		515,801
Other comprehensive income				274,146	274,146
Net margin		2,091,341			2,091,341
Balance, December 31, 2019	$ 292,815	$ 49,931,677	$ 4,381,877	$ 21,064	$ 54,627,433

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, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from consumers	$ 46,636,670	$ 46,385,280
Cash paid to suppliers and employees	(37,166,919)	(37,120,098)
Interest received	90,001	73,660
Interest paid	(2,828,446)	(2,683,559)
Taxes paid	(1,203,758)	(1,135,593)
Net Cash Provided by Operating Activities	5,527,548	5,519,690
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and acquisition of plant & goodwill	(5,069,451)	(17,140,972)
(Increase) decrease in:		
Material inventory	(184,860)	(485,046)
Investments – associated organizations	1,869,734	1,779,036
Net Cash Used In Investing Activities	(3,384,577)	(15,846,982)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of debt	(2,016,636)	(1,823,401)
Advances of long term debt	-	11,500,000
Advances on line of credit	1,300,000	2,500,000
Memberships issued	7,550	8,335
Patronage capital retired	(2,489,356)	(2,402,437)
Adjustment to pension benefit obligation	274,146	-
Increased (decrease) in:		
Consumer deposits	(13,457)	51,617
Deferred credits	273,545	(29,244)
Other equities	515,801	515,881
Net cash Provided (Used) by Financing Activities	(2,148,407)	10,320,751
NET INCREASE IN CASH AND CASH EQUIVALENTS	(5,436)	(6,541)
CASH AND CASH EQUIVALENTS, beginning of year	2,964,539	2,971,080
CASH AND CASH EQUIVALENTS, end of year	$ 2,959,103	$ 2,964,539

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, 2019 AND 2018
(Continued)

	2019	2018
RECONCILIATION OF NET MARGINS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Margins	$ 2,091,341	$ 2,567,010
Adjustments to reconcile net margins to net cash provided by Operating activities:		
Depreciation and amortization	5,467,658	4,674,583
(Gain) loss on disposition of assets	461,148	507,196
G&T and other capital credits	(1,451,129)	(1,759,758)
(Increase) decrease in:		
Customer and other accounts receivable	(975,300)	149,965
Other currents assets	(32,072)	(26,533)
Deferred debits	(27,252)	(104,608)
Increase (decrease) in:		
Accounts payable	208,459	(545,663)
Accrued property taxes	(12,155)	18,094
Accrued interest payable	(17,191)	34,544
Current and accrued liabilities – other	92,487	62,892
Accrued post retirement benefits	(278,446)	(58,032)
Total Adjustments	3,436,207	2,952,680
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 5,527,548	$ 5,519,690
NON-CASH ITEMS – INVESTING & FINANCING		
Capital credits from associated organizations	$ 1,451,129	$ 1,759,758

The accompanying notes are an integral part of these statements.

PRESQUE ISLE ELECTRIC & GAS CO-OP
NOTES TO CONSOLIDATED FINANCIAL 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.

Presque Isle Aurora Gas Assets (PIAGA) is a wholly-owned subsidiary of Presque Isle Electric & Gas Cooperative (PIE&G), acquired in 2018. PIE&G has a rental agreement with PIAGA for use of building, equipment, and transportation assets. In addition, there is an irrevocable right to use agreement that grants PIE&G access and use of PIAGA natural gas pipelines and related property. In consideration, PIE&G manages, operates and maintains the assets.

Use of Estimates

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.

Member 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Materials and Supplies

Electrical and natural gas materials and supplies are valued at average cost. Merchandise held for resale is valued at average cost.

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.

Contributions in Aid of Construction

Contributions in aid of construction are received from members on electrical and gas service requests 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, 2019. Accordingly, no provision for income taxes has been made in the financial statements. The Cooperative's federal information returns for Calendar year 2013 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, 2019 and 2018 consisted of:

	2019	2018
Intangible plant & goodwill	$ 10,400,753	$ 10,400,753
Distribution plant	137,503,965	135,479,874
General plant	12,280,980	11,676,778
Transmission plant	834,897	834,897
	161,020,595	158,392,302
Construction work in progress	1,759,728	1,014,201
TOTAL	$ 162,780,323	$ 159,406,503

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, 2019:

	Years
Structures and improvements	10-50
Office furniture equipment	1.5-7
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, 2019 and 2018:

	2019	2018
Charged to:		
Classified as depreciation and amortization expense	$ 5,212,520	$ 4,445,463
Classified in other operating expenses	255,138	229,120
	5,467,658	4,674,583
Capitalized to construction	312,883	299,228
TOTAL DEPRECIATION AND AMORTIZATION	$ 5,780,541	$ 4,973,811

NOTE 5: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations consisted of the following at December 31, 2019 and 2018:

	2019	2018
Wolverine Power Supply Coop. Inc. - capital credits	$ 19,878,686	$ 20,379,590
National Rural Utilities Cooperative Finance Corp.:		
Capital term certificates maturing October 1, 2020 through October 1, 2080 at interest rates between 3% and 5.0%	1,477,458	1,500,225
Patronage capital certificates	2,192,140	2,094,040
Other	658,152	648,016
TOTAL	$ 24,206,436	$ 24,621,871

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	$ 1,324,650	$ 1,324,650
Uninsured	3,525,177	1,632,953
Cash in banks and credit union	$ 4,849,827	2,957,603
Working funds		1,500
Total per books		$ 2,959,103

NOTE 7: DEFERRED DEBITS

The Cooperative has recorded deferred debits in the following amounts:

	2019	2018
Prepaid tap fees	$ 51,394	$ 53,390
Prepaid years of service	33,240	48,466
Other deferred debits	59,655	59,655
Consumer prepayments	224,366	58,917
Over (Under) collection of WPSC costs	-	120,975
TOTAL	$ 368,655	$ 341,403

NOTE 8: MEMBERSHIPS

The following is a summary of changes in memberships for the years ended December 31, 2019 and 2018:

	2019	2018
Balance, beginning	$ 285,265	$ 276,930
Membership and subscriptions issued	7,550	8,335
Balance, ending	$ 292,815	$ 285,265

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, 2019 and 2018 consisted of:

	2019	2018
Assignable	$ 2,091,341	$ 2,567,010
Assigned to date	67,573,267	65,006,257
	69,664,608	67,573,267
Less retirements to date	19,732,931	17,243,575
Balance	$ 49,931,677	$ 50,329,692

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 44.2% and 43.6%% of the total assets for the years 2019 and 2018, respectively. There were capital credits retired of $2,489,356 and $2,402,437 during 2019 and 2018, respectively.

NOTE 10: MORTGAGE NOTES

Long-term debt is composed of 3.65% to 6.30% 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, 2020 through April 2048.

There were unadvanced loan funds available at December 31, 2019 in the amount of $49,900,000.

Detail of the long-term debt is as follows:

	2019	2018
National Rural Utilities Cooperative Finance Corporation mortgage notes bearing interest at 3.65% to 6.30% per annum for 2019 and 2018	$ 58,265,573	$ 60,282,209
	58,265,573	60,282,209
Less current maturities	2,119,000	2,010,000
TOTAL LONG-TERM DEBT	$ 56,146,573	$ 58,272,209

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

2020	$	2,119,000
2021	$	2,129,564
2022	$	2,229,297
2023	$	2,334,073
2024	$	2,359,032

NOTE 11: LINE OF CREDIT

Presque Isle had available a short-term line of credit from CFC for 2019 and 2018 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 2019 and 2018. Balance available at December 31, 2019 and 2018 was $8,000,000. The outstanding balance at December 31, 2019 and 2018 was $-0-.

Additionally, Presque Isle has a $8,000,000 unsecured revolving line-of-credit agreement with CoBank. Interest on outstanding borrowings is payable monthly and is computed at 3.89% at December 31, 2019. Presque Isle had an outstanding balance of $3,800,000 at December 31, 2019 and $2,500,000 at December 31, 2018.

NOTE 12: DEFERRED CREDITS

Following is a summary of the amounts recorded as deferred credits as of December 31, 2019 and 2018:

	2019		2018	
Under-collection of WPSC PSCR Costs	$	273,545	$	-
Customer energy prepayments		-		-
TOTAL	$	273,545	$	-

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 $586,494 in 2019 and $530,687 in 2018.

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 +0.8785 mills per KWH for the current period.

NOTE 14: POWER SUPPLY COST RECOVERY CLAUSE - continued

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 to)/from member-consumers for under/(over) collections in the amounts of $206,646 and $(888,464) at December 31, 2019 and 2018, respectively. These amounts are included in the accounts receivable balance.

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 $(54,729) and $103,112 for the years ended December 31, 2019 and 2018, 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 2019 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, 2019 is as follows:

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

	2019	2018
(Accrued) post-retirement benefit costs, beginning	$ (1,216,061)	$ (1,274,093)
Net periodic post-retirement benefit (costs)	(70,242)	(5,708)
Contributions made	72,305	63,740
Valuation adjustment	276,383	-
(Accrued) post-retirement benefit cost, end of year	$ (937,615)	$ (1,216,061)

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

	2019	2018
Interest cost	$ (32,040)	$ (5,708)
Net actuarial gain (loss)	(38,202)	-
Net periodic post-retirement benefit cost	$ (70,242)	$ (5,708)

For measurement purposes a 8.25% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2019; the rate was assumed to decrease gradually to an ultimate rate of 4.5% 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 $38,574. Decreasing the assumed health care cost trend rates by 1 percentage point in each year would decrease the accumulated post-retirement benefit obligation $32,244.

The weighted-average discount rate used in determining the accumulated post-retirement benefit obligation was 3.78 percent.

NOTE 16: 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 17: LETTERS OF CREDIT

The Co-op has a letter of credit outstanding to CFC for $1,500,000 at December 31, 2019. 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 18: RECLASSIFICATION OF AMOUNTS

Certain amounts previously reported have been reclassified to conform to the 2019 presentation.

NOTE 19: SUBSEQUENT EVENTS

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, 2019, the most recent statement of financial position presented herein, through March 14, 2020, the issuance date of the accompanying financial statements. No significant such events or transactions were identified.

ADDITIONAL INFORMATION

PRESQUE ISLE ELECTRIC & GAS COOPERATIVE
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2019

	Presque Isle Electric & Gas Cooperative	Presque Isle Aurora Gas Assets	Eliminations	Consolidated Total
ASSETS				
UTILITY PLANT:				
In service – at cost	$ 154,874,099	$ 6,146,496	$	$ 161,020,595
Construction work in progress	1,759,728			1,759,728
	156,633,827	6,146,496		162,780,323
Less accumulated depreciation	(71,251,369)	(3,633,579)		(74,884,948)
NET UTILITY PLANT	85,382,458	2,512,917		87,895,375
OTHER ASSETS AND INVESTMENTS:				
Investments and memberships	24,206,436			24,206,436
Investment in subsidiary	2,571,910		(2,571,910)	
TOTAL OTHER ASSETS AND INVESTMENTS	26,778,346		(2,571,910)	24,206,436
CURRENT ASSETS:				
Cash and temporary cash investments	2,629,750	329,353		2,959,103
Accounts receivable, less allowance for doubtful accounts of approximately $121,000	5,473,718			5,473,718
Intercompany		46,141	(46,141)	
Materials and supplies	2,130,544			2,130,544
Prepaid expenses and other current assets	406,006			406,006
TOTAL CURRENT ASSETS	10,640,018	375,494	(46,141)	10,969,371
DEFERRED DEBITS	368,655			368,655
TOTAL ASSETS	$ 123,169,477	$ 2,888,411	$ (2,618,051)	$ 123,439,837

	Presque Isle Electric & Gas Cooperative	Presque Isle Aurora Gas Assets	Eliminations	Consolidated Total
EQUITIES:				
Memberships	$ 292,815	$	$	$ 292,815
Patronage capital	49,931,677			49,931,677
Other equities	4,142,294	2,832,557	(2,571,910)	4,402,941
TOTAL EQUITIES	54,366,786	2,832,557	(2,571,910)	54,627,433
LONG-TERM DEBT, NET OF CURRENT MATURITIES:				
Mortgage notes to National Rural Utilities Cooperative Finance Corporation	56,146,573			56,146,573
Accrued post-retirement benefits	937,615			937,615
TOTAL LONG-TERM DEBT	57,084,188			57,084,188
CURRENT LIABILITIES:				
Current maturities of long-term debt	2,119,000			2,119,000
Line of credit	3,800,000			3,800,000
Accounts payable:				
Purchased power	2,226,124			2,226,124
Other	727,927			727,927
Intercompany	46,141		(46,141)	
Patronage capital payable	36,827			36,827
Customer deposits and prepayments	583,011			583,011
Accrued property taxes	527,271	10,854		538,125
Accrued interest	276,795			276,795
Accrued vacation and sick pay	610,265			610,265
Other current liabilities	491,597	45,000		536,597
TOTAL CURRENT LIABILITIES	11,444,958	55,854	(46,141)	11,454,671
DEFERRED CREDITS	273,545			273,545
TOTAL EQUITIES AND LIABILITIES	$ 123,169,477	$ 2,888,411	$ (2,618,051)	$ 123,439,837

PRESQUE ISLE ELECTRIC & GAS COOPERATIVE
CONSOLIDATING STATEMENT OF REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2019

	Presque Isle Electric & Gas Cooperative	Presque Isle Aurora Gas Assets	Eliminations	Consolidated Total
OPERATING REVENUES	$ 47,308,955	$	$	$ 47,308,955
OPERATING EXPENSES:				
Cost of energy	25,188,530			25,188,530
Distribution – operation	2,229,339			2,229,339
Distribution – maintenance	4,087,077			4,087,077
Consumers accounts	2,132,063			2,132,063
Customer service and information expense	844,353			844,353
Administrative and general	2,836,111	8,092		2,844,203
Depreciation and amortization	5,027,155	185,365		5,212,520
Taxes – property	1,145,966	17,939		1,163,905
Taxes – other	1,152	60,265		61,417
TOTAL OPERATING EXPENSES	43,491,746	271,661		43,763,407
OPERATING MARGINS BEFORE FIXED CHARGES	3,817,209	(271,661)		3,545,548
FIXED CHARGES:				
Interest on long-term debt	2,810,247			2,810,247
Other deductions	1,008			1,008
TOTAL FIXED CHARGES	2,811,255			2,811,255
OPERATING MARGINS AFTER FIXED CHARGES	1,005,954	(271,661)		734,293
CAPITAL CREDITS	1,451,128			1,451,128
NET OPERATING MARGINS	2,457,082	(271,661)		2,185,421
NON-OPERATING MARGINS:				
Interest Income	89,723	278		90,001
Other	(455,464)	271,383		(184,081)
TOTAL NON-OPERATING MARGINS	(365,741)	271,661		(94,080)
NET MARGINS	$ 2,091,341	$	$	$ 2,091,341

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 CPA's

Certified Public Accountants
March 14, 2020

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