

**PRESQUE ISLE ELECTRIC & GAS CO-OP**  
**REPORT ON CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2020 AND 2019**

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**PRESQUE ISLE ELECTRIC & GAS CO-OP  
BOARD OF DIRECTORS  
DECEMBER 31, 2020**

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

President & Chief Executive Officer

Tom Sobeck



### **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, 2020 and 2019, which comprises the balance sheet, related statements of revenue, 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, 2020 and 2019, 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.

**Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating balance sheet and consolidating statement of revenue are presented for purposes of additional analysis and is 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.

*Harris Group, CPA's*

Traverse City, Michigan  
March 18, 2021

**PRESQUE ISLE ELECTRIC & GAS CO-OP  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2020 AND 2019**

	2020	2019
<b>ASSETS</b>		
UTILITY PLANT:		
In-Service – at cost	\$ 157,380,139	\$ 152,290,738
Construction work in progress	14,993,745	1,759,728
Goodwill	8,729,857	8,729,857
SUBTOTAL	181,103,741	162,780,323
Less accumulated depreciation and amortization	78,861,950	74,884,948
NET UTILITY PLANT	102,241,791	87,895,375
OTHER ASSETS AND INVESTMENTS		
Investments in associated organizations	23,948,108	24,206,436
CURRENT ASSETS:		
Cash and temporary cash investments	2,889,575	2,959,103
Accounts Receivable, less allowance for possible losses of \$121,000 in 2020 and 2019.	5,718,742	5,473,718
Materials and supplies (at average cost)	2,709,315	2,130,544
Other current assets	390,775	406,006
TOTAL CURRENT ASSETS	11,708,407	10,969,371
DEFERRED DEBITS	305,915	368,655
TOTAL ASSETS	\$ 138,204,221	\$ 123,439,837

The accompanying notes are an integral part of these statements.

	<u>2020</u>	<u>2019</u>
<b>EQUITIES AND LIABILITIES</b>		
<b>EQUITIES:</b>		
Memberships	\$ 301,545	\$ 292,815
Patronage capital	52,917,069	49,931,677
Other equities	<u>4,713,037</u>	<u>4,402,941</u>
<b>TOTAL EQUITIES</b>	<u>57,931,651</u>	<u>54,627,433</u>
<b>LONG-TERM DEBT, NET OF CURRENT MATURITIES:</b>		
Mortgage notes to National Rural Utilities Cooperative Finance Corporation (CFC)	67,483,649	56,146,573
Accrued post – retirement benefits	<u>919,327</u>	<u>937,615</u>
<b>TOTAL LONG-TERM DEBT</b>	<u>68,402,976</u>	<u>57,084,188</u>
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	2,456,000	2,119,000
Line of credit	4,000,000	3,800,000
Accounts payable, purchased energy	2,192,984	2,226,124
Accounts payable, other	572,328	727,927
Patronage capital payable	41,973	36,827
Customer deposits	594,147	583,011
Accrued property taxes	548,756	538,125
Accrued interest	306,555	276,795
Accrued sick and vacation pay	690,045	610,265
Accrued other	<u>316,854</u>	<u>536,597</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>11,730,386</u>	<u>11,454,671</u>
<b>DEFERRED CREDITS</b>	<u>139,208</u>	<u>273,545</u>
<b>TOTAL EQUITIES AND LIABILITIES</b>	<u>\$ 138,204,221</u>	<u>\$ 123,439,837</u>

**PRESQUE ISLE ELECTRIC & GAS CO-OP  
CONSOLIDATED STATEMENTS OF REVENUE  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020	2019
OPERATING REVENUES	\$ 46,506,749	\$ 47,308,955
OPERATING EXPENSES:		
Cost of energy	24,091,855	25,188,530
Distribution – operation	2,060,231	2,229,339
Distribution – maintenance	4,717,773	4,087,077
Consumers accounts	2,202,361	2,132,063
Customer service and information expense	746,091	844,353
Administrative and general	2,481,026	2,844,203
Depreciation and amortization	5,244,046	5,212,520
Taxes – property	1,206,200	1,163,905
Taxes – other	50,119	61,417
TOTAL OPERATING EXPENSES	42,799,702	43,763,407
OPERATING MARGIN BEFORE FIXED CHARGES	3,707,047	3,545,548
FIXED CHARGES:		
Interest	2,803,245	2,810,247
Other deductions		1,008
TOTAL FIXED CHARGES	2,803,245	2,811,255
OPERATING MARGINS AFTER FIXED CHARGES	903,802	734,293
CAPITAL CREDITS:		
Generation and transmission capital credits	1,244,361	1,141,584
Other capital credits	321,324	309,544
TOTAL CAPITAL CREDITS	1,565,685	1,451,128
NET OPERATING MARGINS	2,469,487	2,185,421

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, 2020 AND 2019**  
(Continued)

	2020	2019
NET OPERATING MARGINS (from previous page)	\$ 2,469,487	\$ 2,185,421
NON-OPERATING MARGINS:		
Interest and dividend income	71,330	90,001
Other income	1,797,763	(184,081)
TOTAL NON-OPERATING MARGINS	1,869,093	(94,080)
NET MARGINS	\$ 4,338,580	\$ 2,091,341

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, 2020 AND 2019**

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Other Equities</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
Balance, January 1, 2019	\$ 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		<u>2,091,341</u>			<u>2,091,341</u>
Balance, December 31, 2019	292,815	49,931,677	4,381,877	21,064	54,627,433
Capital credits retired		(1,353,188)			(1,353,188)
Memberships issued (retired)	8,730				8,730
Other equity transactions			310,096		310,096
Net margin		<u>4,338,580</u>			<u>4,338,580</u>
Balance, December 31, 2020	<u>\$ 301,545</u>	<u>\$ 52,917,069</u>	<u>\$ 4,691,973</u>	<u>\$ 21,064</u>	<u>\$ 57,931,651</u>

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, 2020 AND 2019**

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from consumers	\$ 48,525,047	\$ 46,636,670
Cash paid to suppliers and employees	(36,251,668)	(37,166,919)
Interest received	71,330	90,001
Interest paid	(2,773,485)	(2,828,446)
Taxes paid	(1,272,532)	(1,203,758)
	8,298,692	5,527,548
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Construction and acquisition of plant & goodwill	(20,329,976)	(5,069,451)
(Increase) decrease in:		
Material inventory	(578,771)	(184,860)
Investments – associated organizations	1,824,014	1,869,734
	(19,084,733)	(3,384,577)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payment of debt	(2,225,924)	(2,016,636)
Advances of long term debt	13,900,000	-
Advances on line of credit	200,000	1,300,000
Memberships issued	8,730	7,550
Patronage capital retired	(1,353,188)	(2,489,356)
Adjustment to pension benefit obligation	-	274,146
Increased (decrease) in:		
Consumer deposits	11,136	(13,457)
Deferred credits	(134,337)	273,545
Other equities	310,096	515,801
	10,716,513	(2,148,407)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	(69,528)	(5,436)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	2,959,103	2,964,539
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 2,889,575	\$ 2,959,103

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, 2020 AND 2019**  
(Continued)

	2020	2019
RECONCILIATION OF NET MARGINS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Margins	\$ 4,338,580	\$ 2,091,341
Adjustments to reconcile net margins to net cash provided by Operating activities:		
Depreciation and amortization	5,823,837	5,467,658
(Gain) loss on disposition of assets	170,468	461,148
G&T and other capital credits	(1,565,685)	(1,451,129)
(Increase) decrease in:		
Customer and other accounts receivable	(245,024)	(975,300)
Other current assets	15,231	(32,072)
Deferred debits	62,740	(27,252)
Increase (decrease) in:		
Accounts payable	(183,593)	208,459
Accrued property taxes	10,631	(12,155)
Accrued interest payable	29,760	(17,191)
Current and accrued liabilities – other	(139,965)	92,487
Accrued post retirement benefits	(18,288)	(278,446)
Total Adjustments	3,960,112	3,436,207
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 8,298,692	\$ 5,527,548
NON-CASH ITEMS – INVESTING & FINANCING		
Capital credits from associated organizations	\$ 1,565,685	\$ 1,451,129

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.

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

**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.

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.

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.

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, 2020. 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.

Principles of Consolidation

The consolidated financial statements for 2020 combine the financial results of Presque Isle Electric and Gas Cooperative, Inc. and its wholly-owned subsidiary, Presque Isle Aurora Gas Assets, Inc., as required. Presque Isle Electric and Gas Cooperative, Inc. has accounted for the investment using the equity method. All significant inter-company transactions and accounts have been eliminated.

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

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Fair Value of Financial Instruments

Certain investment assets are recorded at fair value, which is determined in accordance with fair value measuring criteria under generally accepted accounting principles. Fair value is defined as the price that would be received in exchange for an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at year end, the measurement date, in the principal or most advantageous market for the asset or liability being valued at its fair value.

Under generally accepted accounting principles a hierarchy has been established which prioritizes the techniques for determining fair value. The highest priority, level 1, is quoted market prices in an active market. Level 2 involves quoted market prices in a market that is not considered active while level 3 involves fair value established using other factors but without a market. The valuation level used in determining fair value depends on the Cooperative's ability to access the markets at the measurement date.

Financial instruments, such as cash, temporary investments and special funds, accounts receivable, accounts payable, accrued expenses and customer deposits are carried in the consolidated financial statements at cost. These amounts approximate the fair value of such instruments due to their short maturity. Notes and other receivables are carried at cost as they are made under various government programs which specify below-market interest rates. Investments and memberships in other cooperatives are carried at cost plus undistributed capital credits assigned by the investee cooperatives as there is no practical way to determine a market value for these investments.

**NOTE 2: RELATED PARTY TRANSACTIONS**

Wolverine, the Cooperative's exclusive power supplier, is owned by its member cooperative customers. The Cooperative's investment in Wolverine includes a membership and Wolverine's capital credits allocated to the Cooperative. The Cooperative's contract with Wolverine is valid through 2057 and the agreement requires the Cooperative to purchase all the electric power it sells from Wolverine at Wolverine's current prices. The cost of electric power purchased from Wolverine amounted to \$20,013,908 in 2020 and to \$20,398,045 in 2019.

At December 31, 2020, the Cooperative's share of Wolverine's capital credits amounted to \$19,563,165, which equates to approximately 8.98 percent of all capital credits allocated by Wolverine. For the years ended 2020 and 2019, Wolverine allocated capital credits to the Cooperative in the amounts of \$1,244,361 and \$1,141,584, respectively.

Amounts payable to Wolverine at December 31, 2020 and 2019 were \$1,808,516 and \$1,786,434, respectively. These payables were related to obligations under the purchase power agreement.

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

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

Major classes of electric and gas plant as of December 31, 2020 and 2019 consisted of:

	<u>2020</u>	<u>2019</u>
Distribution plant	\$ 141,323,475	\$ 137,503,965
General plant	13,550,871	12,280,980
Transmission plant	834,897	834,897
Goodwill	8,729,857	8,729,857
Intangible Plant	<u>1,670,896</u>	<u>1,670,896</u>
	166,109,996	161,020,595
Construction work in progress	<u>14,993,745</u>	<u>1,759,728</u>
<b>TOTAL</b>	<u><u>\$ 181,103,741</u></u>	<u><u>\$ 162,780,323</u></u>

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, 2020:

	<u>Years</u>
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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Charged to:		
Classified as depreciation and amortization expense	\$ 4,350,275	\$ 4,318,749
Amortization of Goodwill	893,771	893,771
Classified in other operating expenses	<u>155,526</u>	<u>255,138</u>
	5,399,572	5,467,658
Capitalized to construction	<u>424,265</u>	<u>312,883</u>
<b>TOTAL DEPRECIATION AND AMORTIZATION</b>	<u><u>\$ 5,823,837</u></u>	<u><u>\$ 5,780,541</u></u>



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

**NOTE 4: INVESTMENTS IN ASSOCIATED ORGANIZATIONS**

Investments in associated organizations consisted of the following at December 31, 2020 and 2019:

	2020	2019
Wolverine Power Supply Coop. Inc. - capital credits	\$ 19,563,165	\$ 19,878,686
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%	1,417,768	1,477,458
Patronage capital certificates	2,283,268	2,192,140
Other	683,907	658,152
 TOTAL	 \$ 23,948,108	 \$ 24,206,436

**NOTE 5: CONCENTRATION OF CREDIT RISK**

Financial instruments that potentially subject the Cooperative to a significant concentration of credit risk consist primarily of cash, accounts receivable, and investments and memberships. Cash is maintained with credit worthy banks, and credit risk is dissipated with accounts receivable due to size of membership, so the Cooperative believes there is not significant risk in these areas. The majority of the Cooperative's investments are its membership in Wolverine, its exclusive power supplier, and management believes there is not significant risk in this area.

**NOTE 6: ASSETS PLEDGED**

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

**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	\$ 1,390,637	\$ 1,390,637
Uninsured	1,953,976	1,497,438
 Cash in banks and credit union	 \$ 3,344,613	 2,888,075
 Working funds		 1,500
Total per books		\$ 2,889,575

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

**NOTE 8: DEFERRED DEBITS**

The Cooperative has recorded deferred debits in the following amounts:

	2020	2019
Prepaid tap fees	\$ 49,398	\$ 51,394
Prepaid years of service	18,014	33,240
Other deferred debits	33,534	59,655
Consumer prepayments	204,969	224,366
<b>TOTAL</b>	<b>\$ 305,915</b>	<b>\$ 368,655</b>

**NOTE 9: MEMBERSHIPS**

The following is a summary of changes in memberships for the years ended December 31, 2020 and 2019:

	2020	2019
Balance, beginning	\$ 292,815	\$ 285,265
Membership and subscriptions issued	8,730	7,550
Balance, ending	<b>\$ 301,545</b>	<b>\$ 292,815</b>

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, 2020 and 2019 consisted of:

	2020	2019
Assignable	\$ 4,338,580	\$ 2,091,341
Assigned to date	69,664,608	67,573,267
	74,003,188	69,664,608
Less retirements to date	21,086,119	19,732,931
Balance	<b>\$ 52,917,069</b>	<b>\$ 49,931,677</b>

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

**NOTE 10: 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 41.91% and 44.2%% of the total assets for the years 2020 and 2019, respectively. There were capital credits retired of \$1,353,188 and \$2,489,356 during 2020 and 2019, respectively.

**NOTE 11: MORTGAGE NOTES**

Long-term debt is composed of 3.17% 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, 2020 in the amount of \$36,000,000

Detail of the long-term debt is as follows:

	<u>2020</u>	<u>2019</u>
National Rural Utilities Cooperative Finance Corporation mortgage notes bearing interest at 3.65% to 6.30% per annum for 2020 and 2019	\$ 69,939,649	\$ 58,265,573
	69,939,649	58,265,573
Less current maturities	<u>2,456,000</u>	<u>2,119,000</u>
<b>TOTAL LONG-TERM DEBT</b>	<u>\$ 67,483,649</u>	<u>\$ 56,146,573</u>

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

2021	\$	2,455,518
2022	\$	2,564,177
2023	\$	2,678,054
2024	\$	2,724,551
2025	\$	2,822,229

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

**NOTE 12: LINE OF CREDIT**

Presque Isle had available a short-term line of credit from CFC for 2020 and 2019 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 2020 and 2019. Balance available at December 31, 2020 and 2019 was \$8,000,000. The outstanding balance at December 31, 2020 and 2019 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 2.45% at December 31, 2020. Presque Isle had an outstanding balance of \$4,000,000 at December 31, 2020 and \$3,800,000 at December 31, 2019.

**NOTE 13: DEFERRED CREDITS**

Following is a summary of the amounts recorded as deferred credits as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Under-collection of WPSC PSCR Costs	\$ 139,208	\$ 273,545
TOTAL	<u>\$ 139,208</u>	<u>\$ 273,545</u>

**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 \$618,397 in 2020 and \$584,494 in 2019.

**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 +0.8785 mills per KWH for the current period.

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

**NOTE 15: 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 \$384,537 and \$206,646 at December 31, 2020 and 2019, 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 \$116,757 and \$(54,729) for the years ended December 31, 2020 and 2019, respectively. This amount is recorded in accounts receivable.

**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 2020 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, 2020 is as follows:

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

**NOTE 16: POST-RETIREMENT BENEFITS OTHER THAN PENSIONS - continued**

	<u>2020</u>	<u>2019</u>
(Accrued) post-retirement benefit costs, beginning	\$ (937,615)	\$ (1,216,061)
Net periodic post-retirement benefit (costs)	(51,172)	(70,242)
Contributions made	<u>69,460</u>	<u>72,305</u>
(Accrued) post-retirement benefit cost, end of year	<u>\$ (919,327)</u>	<u>\$ (937,615)</u>

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

	<u>2020</u>	<u>2019</u>
Interest cost	\$ (51,172)	\$ (32,040)
Net actuarial gain (loss)	<u>-</u>	<u>(38,202)</u>
Net periodic post-retirement benefit cost	<u>\$ (51,172)</u>	<u>\$ (70,242)</u>

For measurement purposes a 8.25% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2020; 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 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.

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

**NOTE 18: LETTERS OF CREDIT**

The Co-op has a letter of credit outstanding to CFC for \$1,500,000 at December 31, 2020. 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 2020 presentation.

**NOTE 20: 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, 2020, the most recent statement of financial position presented herein, through March 18, 2021, the issuance date of the accompanying financial statements. No significant such events or transactions were identified.

**SUPPLEMENTARY INFORMATION**



**PRESQUE ISLE ELECTRIC & GAS COOPERATIVE**  
**CONSOLIDATING BALANCE SHEET**  
**DECEMBER 31, 2020**

	Presque Isle Electric & Gas Cooperative	Presque Isle Aurora Gas Assets	Eliminations	Consolidated Total
<b>ASSETS</b>				
<b>UTILITY PLANT:</b>				
In service – at cost	\$ 151,242,667	\$ 6,137,472	\$	\$ 157,380,139
Construction work in progress	14,993,745			14,993,745
Goodwill	8,729,857			8,729,857
	174,966,269	6,137,472		181,103,741
Less accumulated depreciation & amortization	(75,064,593)	(3,797,357)		(78,861,950)
<b>NET UTILITY PLANT</b>	<b>99,901,676</b>	<b>2,340,115</b>		<b>102,241,791</b>
<b>OTHER ASSETS AND INVESTMENTS:</b>				
Investments and memberships	23,948,108			23,948,108
Investment in subsidiary	2,571,910		(2,571,910)	
<b>TOTAL OTHER ASSETS AND INVESTMENTS</b>	<b>26,520,018</b>		<b>(2,571,910)</b>	<b>23,948,108</b>
<b>CURRENT ASSETS:</b>				
Cash and temporary cash investments	2,406,151	483,424		2,889,575
Accounts receivable, less allowance for doubtful accounts of approximately \$121,000	5,718,742			5,718,742
Intercompany	2,940	22,702	(25,642)	
Materials and supplies	2,709,315			2,709,315
Prepaid expenses and other current assets	390,775			390,775
<b>TOTAL CURRENT ASSETS</b>	<b>11,227,923</b>	<b>506,126</b>	<b>(25,642)</b>	<b>11,708,407</b>
<b>DEFERRED DEBITS</b>	<b>305,915</b>			<b>305,915</b>
<b>TOTAL ASSETS</b>	<b>\$ 137,955,532</b>	<b>\$ 2,846,241</b>	<b>\$ (2,597,552)</b>	<b>\$ 138,204,221</b>

	Presque Isle Electric & Gas Cooperative	Presque Isle Aurora Gas Assets	Eliminations	Consolidated Total
<b>EQUITIES:</b>				
Memberships	\$ 301,545	\$	\$	\$ 301,545
Patronage capital	52,917,069			52,917,069
Other equities	4,452,390	2,832,557	(2,571,910)	4,713,037
<b>TOTAL EQUITIES</b>	<b>57,671,004</b>	<b>2,832,557</b>	<b>(2,571,910)</b>	<b>57,931,651</b>
<b>LONG-TERM DEBT, NET OF CURRENT MATURITIES:</b>				
Mortgage notes to National Rural Utilities Cooperative Finance Corporation	67,483,649			67,483,649
Accrued post-retirement benefits	919,327			919,327
<b>TOTAL LONG-TERM DEBT</b>	<b>68,402,976</b>			<b>68,402,976</b>
<b>CURRENT LIABILITIES:</b>				
Current maturities of long-term debt	2,456,000			2,456,000
Line of credit	4,000,000			4,000,000
Accounts payable:				
Purchased power	2,192,984			2,192,984
Other	572,328			572,328
Intercompany	22,702	2,940	(25,642)	
Patronage capital payable	41,973			41,973
Customer deposits and prepayments	594,147			594,147
Accrued property taxes	548,756	10,744		548,756
Accrued interest	306,555			306,555
Accrued vacation and sick pay	690,045			690,045
Other current liabilities	316,854			316,854
<b>TOTAL CURRENT LIABILITIES</b>	<b>11,742,344</b>	<b>13,684</b>	<b>(25,642)</b>	<b>11,730,386</b>
<b>DEFERRED CREDITS</b>	<b>139,208</b>			<b>139,208</b>
<b>TOTAL EQUITIES AND LIABILITIES</b>	<b>\$ 137,955,532</b>	<b>\$ 2,846,241</b>	<b>\$ (2,597,552)</b>	<b>\$ 138,204,221</b>

**PRESQUE ISLE ELECTRIC & GAS COOPERATIVE  
CONSOLIDATING STATEMENT OF REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Presque Isle Electric & Gas Cooperative	Presque Isle Aurora Gas Assets	Eliminations	Consolidated Total
OPERATING REVENUES	\$ 46,506,749	\$	\$	\$ 46,506,749
OPERATING EXPENSES:				
Cost of energy	24,091,855			24,091,855
Distribution – operation	2,137,754		(77,523)	2,060,231
Distribution – maintenance	4,769,450		(51,677)	4,717,773
Consumers accounts	2,202,361			2,202,361
Customer service and information expense	746,091			746,091
Administrative and general	2,590,485	3,765	(113,224)	2,481,026
Depreciation and amortization	5,071,245	172,801		5,244,046
Taxes – property	1,188,573	17,627		1,206,200
Taxes – other	1,216	48,903		50,119
<b>TOTAL OPERATING EXPENSES</b>	<b>42,799,030</b>	<b>243,096</b>	<b>(242,424)</b>	<b>42,799,702</b>
OPERATING MARGINS BEFORE FIXED CHARGES	3,707,719	(243,096)	242,424	3,707,047
FIXED CHARGES:				
Interest on long-term debt	2,803,245			2,803,245
<b>TOTAL FIXED CHARGES</b>	<b>2,803,245</b>			<b>2,803,245</b>
OPERATING MARGINS AFTER FIXED CHARGES	904,474	(243,096)	242,424	903,802
CAPITAL CREDITS	1,565,685			1,565,685
NET OPERATING MARGINS	2,470,159	(243,096)	242,424	2,469,487
NON-OPERATING MARGINS:				
Interest Income	70,658	672		71,330
Other	1,797,763	242,424	(242,424)	1,797,763
<b>TOTAL NON-OPERATING MARGINS</b>	<b>1,868,421</b>	<b>243,096</b>	<b>(242,424)</b>	<b>1,869,093</b>
NET MARGINS	\$ 4,338,580	\$	\$	\$ 4,338,580



## AUDITORS' CERTIFICATION REGARDING LOAN FUND EXPENDITURES

During the period of this audit, Presque Isle Electric & Gas Co-op received \$13,900,000 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 18, 2021