

**PRESQUE ISLE ELECTRIC & GAS CO-OP**  
**REPORT ON FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

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**PRESQUE ISLE ELECTRIC & GAS CO-OP  
BOARD OF DIRECTORS  
DECEMBER 31, 2015**

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

President & Chief Executive Officer

Brian J. Burns



**Independent Auditor's Report**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of Presque Isle Electric & Gas Co-op as of December 31, 2015 and 2014, 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Presque Isle Electric & Gas Co-op as of December 31, 2015 and 2014, 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.

A handwritten signature in black ink that reads 'HARRIS GROUP'. The signature is written in a cursive style and is placed over a light green rectangular background.

Traverse City, Michigan  
March 17, 2016

**PRESQUE ISLE ELECTRIC & GAS CO-OP**  
**BALANCE SHEETS**  
**DECEMBER 31, 2015 AND 2014**

	2015	2014
<b>ASSETS</b>		
UTILITY PLANT:		
In-Service – at cost	\$ 134,118,565	\$ 130,543,972
Construction work in progress	146,917	445,687
SUBTOTAL	134,265,482	130,989,659
Less accumulated depreciation and amortization	57,822,400	54,738,554
NET UTILITY PLANT	76,443,082	76,251,105
OTHER ASSETS AND INVESTMENTS		
Investments on associated organizations	25,439,018	23,960,796
CURRENT ASSETS:		
Cash and temporary cash investments	2,031,248	2,311,764
Accounts Receivable, less allowance for possible losses of \$118,000 in 2015 and 2014.	4,550,055	5,016,658
Materials and supplies (at average cost)	1,439,184	1,455,279
Other current assets	452,143	397,577
TOTAL CURRENT ASSETS	8,472,630	9,181,278
DEFERRED DEBITS	252,010	284,987
TOTAL ASSETS	\$ 110,606,740	\$ 109,678,166

The accompanying notes are an integral part of these statements.

	2015	2014
EQUITIES AND LIABILITIES		
EQUITIES:		
Memberships	\$ 261,005	\$ 253,450
Patronage capital	48,581,114	46,408,676
Other equities	921,902	604,095
	<hr/>	<hr/>
TOTAL EQUITIES	49,764,021	47,266,221
	<hr/>	<hr/>
LONG-TERM DEBT, NET OF CURRENT MATURITIES:		
Mortgage notes to National Rural Utilities Cooperative Finance Corporation (CFC)	46,629,653	48,131,300
Accrued post – retirement benefits	2,360,963	2,289,627
	<hr/>	<hr/>
TOTAL LONG-TERM DEBT	48,990,616	50,420,927
	<hr/>	<hr/>
CURRENT LIABILITIES:		
Current maturities of long-term debt	1,498,000	2,269,000
CoBank line of credit	5,000,000	4,750,000
Accounts payable, purchased energy	2,162,865	2,376,050
Accounts payable, other	526,459	407,246
Patronage capital payable	11,310	8,626
Customer deposits	524,193	469,176
Accrued property taxes	494,441	513,712
Accrued interest	263,025	293,020
Accrued sick and vacation pay	618,500	580,056
Accrued other	493,494	312,026
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	11,592,287	11,978,912
	<hr/>	<hr/>
DEFERRED CREDITS	259,816	12,106
	<hr/>	<hr/>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 110,606,740</u>	<u>\$ 109,678,166</u>

**PRESQUE ISLE ELECTRIC & GAS CO-OP**  
**STATEMENTS OF REVENUE**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
OPERATING REVENUES	\$ 43,840,025	\$ 46,156,932
OPERATING EXPENSES:		
Cost of energy	24,747,830	26,634,255
Distribution – operation	1,513,362	1,457,018
Distribution – maintenance	4,050,372	3,267,440
Consumers accounts	1,823,430	1,893,565
Customer service and information expense	568,117	566,841
Administrative and general	1,766,286	1,715,046
Depreciation and amortization	3,599,611	3,512,749
Taxes – property	1,084,466	1,124,499
Taxes – other	1,733	1,960
	39,155,207	40,173,373
TOTAL OPERATING EXPENSES		
OPERATING MARGIN BEFORE FIXED CHARGES	4,684,818	5,983,559
FIXED CHARGES:		
Interest	2,410,426	2,643,203
Other deductions	1,577	-
	2,412,003	2,643,203
TOTAL FIXED CHARGES		
OPERATING MARGINS AFTER FIXED CHARGES	2,272,815	3,340,356
CAPITAL CREDITS:		
Generation and transmission capital credits	1,752,797	1,316,485
Other capital credits	275,035	364,859
	2,027,832	1,681,344
TOTAL CAPITAL CREDITS		
NET OPERATING MARGINS	4,300,647	5,021,700

The accompanying notes are an integral part of these statements.

**PRESQUE ISLE ELECTRIC & GAS CO-OP**  
**STATEMENTS OF REVENUE**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**  
**(Continued)**

	2015	2014
NET OPERATING MARGINS (from previous page)	\$ 4,300,647	\$ 5,021,700
NON-OPERATING MARGINS:		
Interest and dividend income	52,949	58,988
Other expenses	(300,921)	(338,633)
TOTAL NON-OPERATING MARGINS	(247,972)	(279,645)
NET MARGINS	\$ 4,052,675	\$ 4,742,055

The accompanying notes are an integral part of these statements.



**PRESQUE ISLE ELECTRIC & GAS CO-OP**  
**STATEMENT OF CHANGES IN PATRONAGE CAPITAL**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Other Equities</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
Balance, January 1, 2014	\$ 246,835	\$ 42,547,162	\$ 1,767,375	\$ (2,890,639)	\$ 41,670,733
Capital credits retired		(880,541)			(800,541)
Memberships retired	6,615				6,615
Other equity transactions			155,799		155,799
Amortize other comprehensive loss				1,571,560	1,571,560
Net margin		4,742,055			4,742,055
Balance, December 31, 2014	253,450	46,480,676	1,923,174	(1,319,079)	47,266,221
Capital credits retired		(1,952,237)			(1,952,237)
Memberships issued (retired)	7,555				7,555
Other equity transactions			317,807		317,807
Net margin		4,052,675			4,052,675
Balance, December 31, 2015	<u>\$ 261,005</u>	<u>\$ 48,581,114</u>	<u>\$ 2,240,981</u>	<u>\$ (1,319,079)</u>	<u>\$ 49,764,021</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, 2015 AND 2014**

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from consumers	\$ 44,361,588	\$ 45,766,076
Cash paid to suppliers and employees	(34,212,358)	(36,970,265)
Interest received	52,949	58,988
Interest paid	(2,576,993)	(2,801,616)
Taxes paid	(1,103,347)	(1,084,974)
	<u>6,521,839</u>	<u>4,968,209</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Construction and acquisition of plant	(4,156,261)	(3,909,266)
(Increase) decrease in:		
Material inventory	16,095	(177,423)
Investments – associated organizations	549,611	1,371,631
	<u>(3,590,555)</u>	<u>(2,715,058)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payment of debt	(2,022,647)	(2,590,001)
Memberships issued	7,555	6,615
Patronage capital retired	(1,952,237)	(880,541)
Increased (decrease) in:		
Consumer deposits	55,017	83,312
Deferred credits	382,705	64,374
Other equities	317,807	1,727,359
	<u>(3,211,800)</u>	<u>(1,588,882)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	(280,516)	664,269
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>2,311,764</u>	<u>1,647,495</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 2,031,248</u>	<u>\$ 2,311,764</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, 2015 AND 2014**  
**(Continued)**

	2015	2014
RECONCILIATION OF NET MARGINS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Margins	\$ 4,052,675	\$ 4,742,055
Adjustments to reconcile net margins to net cash provided by Operating activities:		
Depreciation and amortization	3,719,132	3,653,469
(Gain) loss on disposition of assets	317,151	354,558
G&T and other capital credits	(2,027,832)	(1,681,344)
(Increase) decrease in:		
Customer and other accounts receivable	466,603	(474,443)
Other current assets	(54,566)	(37,347)
Deferred debits	32,977	32,977
Amortization of debt discount	(134,995)	(134,995)
Increase (decrease) in:		
Accounts payable	(91,288)	(5,970)
Accrued property taxes	(19,271)	44,954
Accrued interest payable	(29,995)	(23,418)
Current and accrued liabilities – other	291,248	(1,502,287)
Total Adjustments	2,469,164	226,154
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 6,521,839	\$ 4,968,209
NON-CASH ITEMS – INVESTING & FINANCING		
Capital credits from associated organizations	\$ 2,027,832	\$ 1,681,344

The accompanying notes are an integral part of these statements.

**PRESQUE ISLE ELECTRIC & GAS CO-OP**  
**NOTES TO 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.

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

Utility Plant

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

Investments

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

Cash

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

Consumer Energy Prepayments and Unbilled Revenues

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

Accounts receivable

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

Regulation

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

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

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

Materials and Supplies

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

Flex Benefit Plan

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

Contributions in Aid of Construction

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

Income Taxes

The Cooperative is exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code which provides, in part that the Cooperative derive at least 85 percent of its annual gross income from members to retain the exemption. The Cooperative expects to meet the requirements for the tax year ended December 31, 2015. Accordingly, no provision for income taxes has been made in the financial statements. The Cooperative's federal information returns for Calendar year 2011 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).

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

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

Major classes of electric and gas plant as of December 31, 2015 and 2014 consisted of:

	<u>2015</u>	<u>2014</u>
Intangible plant	\$ 1,021,015	\$ 1,065,114
Distribution plant	124,889,085	121,667,640
General plant	<u>8,208,465</u>	<u>7,811,218</u>
	134,118,565	130,543,972
Construction work in progress	<u>146,917</u>	<u>445,687</u>
<b>TOTAL</b>	<u><u>\$ 134,265,482</u></u>	<u><u>\$ 130,989,659</u></u>

**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, 2015:

	<u>Years</u>
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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Charged to:		
Classified as depreciation and amortization	\$ 3,599,611	\$ 3,512,749
Classified in other operating expenses	<u>119,521</u>	<u>140,720</u>
	3,719,132	3,653,469
Charged to construction	<u>215,547</u>	<u>235,407</u>
<b>TOTAL DEPRECIATION AND AMORTIZATION</b>	<u><u>\$ 3,934,679</u></u>	<u><u>\$ 3,888,876</u></u>

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

**NOTE 5: INVESTMENTS IN ASSOCIATED ORGANIZATIONS**

Investments in associated organizations consisted of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Wolverine Power Supply Coop. Inc. - capital credits	\$ 14,504,891	\$ 13,105,742
Wolverine Power Supply Coop. Inc. - PSDF	6,925,238	6,925,238
National Rural Utilities Cooperative Finance Corp.:		
Capital term certificates maturing October 1, 2020 through October 1, 2080 at interest rates between 3% and 7.50%	1,562,423	1,597,549
Patronage capital certificates	1,792,556	1,688,545
Other	<u>653,910</u>	<u>643,722</u>
 TOTAL	 <u>\$ 25,439,018</u>	 <u>\$ 23,960,796</u>

**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.

	<u>Per Institution</u>	<u>Per Book</u>
Insured	\$ 1,104,726	\$ 1,104,726
Uninsured	<u>1,345,843</u>	<u>925,415</u>
 Cash in banks and credit union	 <u>\$ 2,450,569</u>	 2,030,141
 Working funds		 <u>1,107</u>
 Total per books		 <u>\$ 2,031,248</u>

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

**NOTE 7: DEFERRED DEBITS**

The Cooperative has recorded deferred debits in the following amounts:

	<u>2015</u>	<u>2014</u>
Prepaid tap fees	\$ 59,378	\$ 61,374
Prepaid years of service	132,977	161,908
Regulatory prepaid asset	-	2,050
Other deferred debits	<u>59,655</u>	<u>59,655</u>
 TOTAL	 <u>\$ 252,010</u>	 <u>\$ 284,987</u>

**NOTE 8: MEMBERSHIPS**

The following is a summary of changes in memberships for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Balance, beginning	\$ 253,450	\$ 246,835
Membership and subscriptions issued	<u>7,555</u>	<u>6,615</u>
 Balance, ending	 <u>\$ 261,005</u>	 <u>\$ 253,450</u>

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, 2015 and 2014 consisted of:

	<u>2015</u>	<u>2014</u>
Assignable	\$ 4,052,675	\$ 4,742,055
Assigned to date	<u>55,503,696</u>	<u>50,761,641</u>
	59,556,371	55,503,696
Less retirements to date	<u>10,975,257</u>	<u>9,095,020</u>
 Balance	 <u>\$ 48,581,114</u>	 <u>\$ 46,408,676</u>



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

**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 45.0% and 43.1% of the total assets for the years 2015 and 2014, respectively. There were capital credits retired of \$1,880,237 and \$880,541 during 2015 and 2014, respectively.

**NOTE 10: MORTGAGE NOTES**

Long-term debt is composed of 6.5 percent to 6.65 percent mortgage notes payable to the National Rural Utilities Cooperative Finance Corporation (CFC). All mortgage notes to CFC will be re-priced and the interest rate adjusted accordingly during the next 10 years in accordance with the policy and procedure governing such re-pricing. The notes are for 35 year periods each, with principal and interest installments due either quarterly or semiannually. The notes are scheduled to be fully repaid at various times from March 2017 through November 2047.

There were unadvanced loan funds available at December 31, 2015 in the amount of \$15,500,000.

Detail of the long-term debt is as follows:

	<u>2015</u>	<u>2014</u>
National Rural Utilities Cooperative Finance Corporation mortgage notes bearing interest at 6.5% to 6.65% per annum for 2015 and 2014	\$ 48,127,653	\$ 50,400,300
	48,127,653	50,400,300
Less current maturities	<u>1,498,000</u>	<u>2,269,000</u>
<b>TOTAL LONG-TERM DEBT</b>	<u>\$ 46,629,653</u>	<u>\$ 48,131,300</u>

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

2016	\$	1,497,800
2017	\$	1,534,947
2018	\$	1,599,489
2019	\$	1,680,389
2020	\$	1,765,834

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

**NOTE 11: LINE OF CREDIT**

Presque Isle had available a short-term line of credit from CFC for 2015 and 2014 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 2015 and 2014. Balance available at December 31, 2015 and 2014 was \$8,000,000. The outstanding balance at December 31, 2015 and 2014 was \$-0-.

Additionally, Presque Isle has an \$8,000,000 unsecured revolving line-of-credit agreement with CoBank. Interest on outstanding borrowings is payable monthly and is computed at 2.53% at December 31, 2015. Presque Isle had an outstanding balance of \$5,000,000 for 2015 and \$4,750,000 in 2014.

Presque Isle also had an \$8,000,000 unsecured promissory note from Wolverine Power Supply Cooperative. Interest on advances was charged at 1.25%. The balance on December 31, 2015 was \$0. The note expired December 31, 2015.

**NOTE 12: DEFERRED CREDITS**

Following is a summary of the amounts recorded as deferred credits as of December 31, 2015 and 2014:

	2015	2014
Under-collection of 2015 WPSC PSCR Costs	\$ 257,537	\$ -
Deferred gain from extinguishments of debt	-	134,996
Customer energy prepayments	2,279	(122,890)
TOTAL	\$ 259,816	\$ 12,106

**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 \$367,644 in 2015 and \$336,056 in 2014.

**NOTE 14: POWER SUPPLY COST RECOVERY CLAUSE**

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

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

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

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

**NOTE 14: POWER SUPPLY COST RECOVERY CLAUSE - continued**

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

Presque Isle's balance sheets reflect an amount (due to)/from member-consumers for under/(over) collections in the amounts of \$(113,551) and \$(225,313) at December 31, 2015 and 2014, respectively. These amounts are included in the accounts receivable balance.

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

The GCR mechanism includes provisions whereby gas cost recovery over-collections must be remedied by refunds and gas cost recovery under-collections must be remedied by additional collections. Presque Isle's balance sheet reflects an amount due (to)/from member-consumers for under collections in the amounts of \$355,670 and \$128,910 for the years ended December 31, 2015 and 2014, 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 2015 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, 2015 is as follows:

	2015	2014
(Accrued) post-retirement benefit costs, beginning	\$ (2,289,627)	\$ (3,799,472)
Net periodic post-retirement benefit (costs)	(183,835)	(183,835)
Contributions made	112,499	122,120
Valuation adjustment	-	1,571,560
(Accrued) post-retirement benefit cost, end of year	\$ (2,360,963)	\$ (2,289,627)

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

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

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

	2015	2014
Interest cost	\$ 88,006	\$ 88,006
Net amortization and deferral	95,829	95,829
Net periodic post-retirement benefit cost	\$ 183,835	\$ 183,835

For measurement purposes a 9.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2015; the rate was assumed to decrease gradually to an ultimate rate of 5.0% per annum. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by 1 percentage point in each year would increase the accumulated post-retirement benefit obligation \$162,634 and the aggregate of the service and interest cost components of the net periodic benefit cost by \$13,969. Decreasing the assumed health care cost trend rates by 1 percentage point in each year would decrease the accumulated post-retirement benefit obligation \$136,391 and the aggregate of the service and interest cost components of the net periodic benefit cost by \$12,274.

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

**NOTE 16: EARLY RETIREMENT INCENTIVE**

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

	2015	2014
Cash portion	\$ -	\$ 14,740
Health insurance portion	-	20,027
Total early retirement incentive liability	\$ -	\$ 34,767

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

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

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

**NOTE 18: LETTERS OF CREDIT**

The Co-op has a letter of credit outstanding to the Sequent Energy for \$1,500,000 at December 31, 2015. 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 2015 presentation.

**NOTE 20: SUBSEQUENT EVENTS**

Subsequent to year end, Presque Isle obtained an unsecured \$8,000,000 Promissory Note from Wolverine Power Supply Cooperative, due on the earlier of December 31, 2016 or thirty days after demand by the lender. Interest on advances is charged at 1.25%.

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2015, the most recent statement of financial position presented herein, through March 17, 2016, the issuance date of the accompanying financial statements. No significant such events or transactions were identified.



**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.

A light green rectangular box containing the handwritten signature 'HARRIS GROUP' in dark ink.

Certified Public Accountants  
March 17, 2016