

MICHIGAN PUBLIC SERVICE COMMISSION

ADDITIONAL SCHEDULES FOR AN ELECTRIC UTILITY COOPERATIVE

This form is authorized by Case No. [U-12134](#), the Code of Conduct. Filing of this form is mandatory pursuant to [PA 3 of 1939](#). Failure to provide this information will put you in [violation of this act](#) and the commission shall order such remedies and penalties as necessary.

Report submitted for year ending:	December 31, 2017				
Present name of respondent:	PRESQUE ISLE ELECTRIC & GAS CO-OP				
Address of principal place of business:	19831 M-68 HIGHWAY ONAWAY, MI 49765				
Utility representative to whom inquires regarding this report may be directed:					
Name:	RANDY STEMPKY	Title:	CHIEF FINANCIAL OFFICER		
Address:	19831 M-68 HIGHWAY				
City:	ONAWAY	State:	MI	Zip:	49765
Direct Telephone, Include Area Code:	989-733-8515				
If the utility name has been changed during the past year:					
Prior Name:					
Date of Change:					
Two copies of the published annual report to stockholders:					
[]	were forwarded to the Commission				
[]	will be forwarded to the Commission				
	<u>on or about</u>				
Annual reports to stockholders:					
[]	are published				
[]	are not published				

FOR ASSISTANCE IN COMPLETION OF THIS FORM:

Contact the Michigan Public Service Commission (Jennifer Brooks) at brooks10@michigan.gov OR forward correspondence to:

Michigan Public Service Commission
Financial Analysis & Audit Division
Attn: Jennifer Brooks
7109 W. Saginaw Hwy
PO Box 30221
Lansing, MI 48909

PRESQUE ISLE ELECTRIC & GAS CO-OP

19831 M68 Hwy. P.O. Box 308 Onaway, MI 49765 (989) 733-8515 1-800-423-6634 Fax (989) 733-2247

CERTIFICATION

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.

Signature of Chief Financial Officer

Date

Signature of Chief Executive Officer

Date

PART 1 - STATEMENT OF COMBINED OPERATIONS FOR THE PERIOD ENDED DECEMBER 31, 2017

RUS Form 7 Line Number	ITEM	YEAR TO DATE			THIS MONTH
		2016	2017	BUDGET	
1.	Operating Revenue - Electric	35,822,664	35,617,160	35,680,914	3,233,915
1.	Operating Revenue - Gas	7,312,300	7,292,453	7,312,351	1,058,183
	Total Revenue	43,134,964	42,909,614	42,993,265	4,292,097
3.	Cost of Purchased Energy - Electric	21,112,750	20,722,593	21,164,529	1,969,392
3.	Cost of Purchased Energy - Gas	3,269,519	3,281,263	3,250,158	527,183
	Total Cost of Energy Sold	24,382,270	24,003,855	24,414,687	2,496,575
	Gross Revenues	18,752,694	18,905,758	18,578,578	1,795,522
5.	Distribution Expense - Operation	1,848,171	1,678,316	1,747,089	105,155
6.	Distribution Expense - Maintenance	3,919,475	3,841,955	4,353,255	440,899
7.	Consumer Accounts Expense	1,890,613	1,781,925	2,134,611	125,501
8.	Customer Service and Informational Expense	672,529	832,042	749,463	63,057
10.	Administrative and General Expense	1,865,636	1,871,995	1,914,380	117,673
	Total Operation & Maintenance Expense	10,196,423	10,006,233	10,898,798	852,285
12.	Depreciation & Amortization Expense	3,679,291	3,748,845	3,858,608	314,316
13.	Tax Expense - Property & Gross Receipts	1,123,240	1,136,847	1,137,318	112,923
14.	Tax Expense - Other	1,678	1,052	1,733	(1)
15.	Interest on Long-Term Debt	2,346,955	2,432,979	2,526,344	202,595
17.	Interest Expense - Other	95,972	31,062	115,578	846
18.	Other Deductions	220	1,000	0	0
	Total Cost of Operations	17,443,779	17,358,017	18,538,379	1,482,964
20.	Patronage Capital & Operating Margins	1,308,915	1,547,741	40,199	312,558
21.	Non-Operating Margins - Interest	52,123	74,105	55,968	1,753
23.	Income (Loss) from Equity Investments	(233,529)	(88,479)	(319,777)	12,091
24.	Non-Operating Margins - Other	0	0	0	0
25. a	Generation and Transmission Capital Credits	1,908,599	1,340,933	1,300,000	1,340,933
25. b	G & T Capital Credits - PSDFC	0	0	0	0
26.	Other Capital Credits and Patronage Dividends	257,415	271,253	319,947	24,721
27.	Extraordinary Items	0	0	0	0
28.	Patronage Capital	3,293,522	3,145,553	1,396,337	1,692,056
	Net T.I.E.R.	2.35	2.28		
	Operating T.I.E.R.	1.54	1.63		

ITEM	ELECTRIC YEAR TO DATE		GAS YEAR TO DATE	
	2016	2017	2016	2017
1. New Services Connected	187	213	109	129
2. Services Retired	95	88	0	0
3. Total Services in Place	35616	35780	9862	10007
4. Idle Services (Excl Seasonal)	2311	2312	590	602
5. Miles Distribution - Overhead	3837	3,838		
6. Miles Distribution - Underground	1040	1,051		
7. Total Miles Energized (5 + 6)	4877	4,890		

PRESQUE ISLE ELECTRIC & GAS CO-OP

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CERTIFICATION

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.

Signature of Chief Financial Officer

Date

Signature of Chief Executive Officer

Date

PART 1A - STATEMENT OF ELECTRICAL OPERATIONS FOR THE PERIOD ENDED DECEMBER 31, 2017

RUS Form 7 Line Number	ITEM	YEAR TO DATE			THIS MONTH
		2016	2017	BUDGET	
1.	Operating Revenue - Electric	35,822,664	35,617,160	35,680,914	3,233,915
1.					
	Total Revenue	35,822,664	35,617,160	35,680,914	3,233,915
3.	Cost of Purchased Energy - Electric	21,112,750	20,722,593	21,164,529	1,969,392
3.					
	Total Cost of Energy Sold	21,112,750	20,722,593	21,164,529	1,969,392
	Gross Revenues	14,709,914	14,894,568	14,516,385	1,264,522
5.	Distribution Expense - Operation	1,148,982	1,056,367	1,133,754	46,224
6.	Distribution Expense - Maintenance	3,663,726	3,593,859	4,113,738	382,624
7.	Consumer Accounts Expense	1,474,830	1,377,122	1,670,117	91,344
8.	Customer Service and Informational Expens	642,002	803,051	650,892	62,078
10.	Administrative and General Expense	1,493,505	1,485,628	1,587,038	77,472
	Total Operation & Maintenance Expense	8,423,046	8,316,027	9,155,539	659,742
12.	Depreciation & Amortization Expense	2,978,343	3,019,129	3,133,005	252,687
13.	Tax Expense - Property & Gross Receipts	859,703	873,652	872,490	88,384
14.	Tax Expense - Other	1,678	1,052	1,733	(1)
15.	Interest on Long-Term Debt	1,531,782	1,587,376	1,768,441	132,721
17.	Interest Expense - Other	73,843	20,045	86,875	237
18.	Other Deductions	172	1,000	0	0
	Total Cost of Operations	13,868,568	13,818,280	15,018,083	1,133,770
20.	Patronage Capital & Operating Margins	841,346	1,076,287	(501,698)	130,752
21.	Non-Operating Margins - Interest	51,180	69,171	53,629	1,368
23.	Income (Loss) from Equity Investments	(223,192)	(102,178)	(325,241)	509
24.	Non-Operating Margins - Other	0	0	0	0
25.a	Generation and Transmission Capital Credit	1,908,599	1,340,933	1,300,000	1,340,933
25.b	G & T Capital Credits - PSDFC	0	0	0	0
26.	Other Capital Credits and Patronage Divider	188,927	199,893	238,541	19,282
27.	Extraordinary Items See attached sheet	0	0	0	0
28.	Patronage Capital	2,766,860	2,584,106	765,231	1,492,844
	Net T.I.E.R.	2.72	2.61		
	Operating T.I.E.R.	1.52	1.67		

PART 2A - DATA ON ELECTRICAL DISTRIBUTION PLANT

ITEM	YEAR TO DATE	
	2016	2017
1. New Services Connected	187	213
2. Services Retired	95	88
3. Total Services in Place	35,616	35,780
4. Idle Services (Excl Seasonal)	2,311	2,312
5. Miles Distribution - Overhead	3,837	3,838
6. Miles Distribution - Underground	1,040	1,051
7. Total Miles Energized (5 + 6)	4,877	4,890

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We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.

Signature of Chief Financial Officer

Date

Signature of Chief Executive Officer

Date

PART 1B - STATEMENT OF GAS OPERATIONS FOR THE PERIOD ENDED DECEMBER 31, 2017

RUS Form 7 Line Number	ITEM	YEAR TO DATE			THIS MONTH
		2016	2017	BUDGET	
1.					
1.	Operating Revenue - Gas	7,312,300	7,292,453	7,312,351	1,058,183
	Total Revenue	7,312,300	7,292,453	7,312,351	1,058,183
3.					
3.	Cost of Purchased Energy - Gas	3,269,519	3,281,263	3,250,158	527,183
	Total Cost of Energy Sold	3,269,519	3,281,263	3,250,158	527,183
	Gross Revenues	4,042,780	4,011,191	4,062,193	531,000
5.	Distribution Expense - Operation	699,189	621,949	613,335	58,931
6.	Distribution Expense - Maintenance	255,748	248,096	239,517	58,275
7.	Consumer Accounts Expense	415,783	404,803	464,494	34,157
8.	Customer Service and Informational Expens	30,526	28,991	98,571	979
10.	Administrative and General Expense	372,130	386,367	327,342	40,201
	Total Operation & Maintenance Expense	1,773,377	1,690,206	1,743,259	192,543
12.	Depreciation & Amortization Expense	700,948	729,716	725,603	61,629
13.	Tax Expense - Property & Gross Receipts	263,537	263,195	264,828	24,539
14.	Tax Expense - Other	0	0	0	0
15.	Interest on Long-Term Debt	815,172	845,603	757,903	69,874
17.	Interest Expense - Other	22,129	11,017	28,703	609
18.	Other Deductions	48	0	0	0
	Total Cost of Operations	3,575,212	3,539,737	3,520,296	349,194
20.	Patronage Capital & Operating Margins	467,569	471,454	541,897	181,806
21.	Non-Operating Margins - Interest	943	4,934	2,339	386
23.	Income (Loss) from Equity Investments	(10,337)	13,699	5,464	11,582
24.	Non-Operating Margins - Other	0	0	0	0
25.a	Generation and Transmission Capital Credits	0	0	0	0
25.b	G & T Capital Credits - PSDFC	0	0	0	0
26.	Other Capital Credits and Patronage Dividen	68,488	71,360	81,406	5,439
27.	Extraordinary Items	0	0	0	0
28.	Patronage Capital	526,662	561,447	631,106	199,213

Net T.I.E.R. 1.63 1.66

Operating T.I.E.R. 1.56 1.55

PART 2B - DATA ON GAS DISTRIBUTION PLANT

ITEM	YEAR TO DATE	
	2016	2017
1. New Services Connected	109	129
2. Services Retired	0	0
3. Total Services in Place	9,862	10,007
4. Idle Services (Excl Seasonal)	590	602
5. Miles Distribution - Overhead	0	0
6. Miles Distribution - Underground	0	0
7. Total Miles Energized (5 + 6)	0	0

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PART 3 - COMBINED BALANCE SHEET AS OF DECEMBER 31 2017

RUS Form 7 Line Number	ASSETS AND OTHER DEBITS	RUS Form 7 Line Number	LIABILITIES AND OTHER CREDITS
1a.	Utility Plant in Service - Electric 106,721,777	30a.	Memberships - Electric 253,020
1b.	Utility Plant in Service - Gas 33,517,888	30b.	Memberships - Gas 23,910
1.	Utility Plant in Service - Combined 140,239,665	30.	Memberships - Combined 276,930
2a.	Construction Work in Progress - Electric 1,145	31a.	Patronage Capital - Electric 41,093,302
2b.	Construction Work in Progress - Gas 31,199	31b.	Patronage Capital - Gas 5,926,264
2.	Construction Work in Progress - Combined 32,344	31.	Patronage Capital - Combined 47,019,566
3a.	Total Utility Plant (1 + 2) - Electric 106,722,922	32a.	Operating Margins - Prior Years - Electric (253,082)
3b.	Total Utility Plant (1 + 2) - Gas 33,549,086	32b.	Operating Margins - Prior Years - Gas 0
3.	Total Utility Plant - Combined 140,272,009	32.	Operating Margins - Prior Years - Combined (253,082)
4a.	Accumulated Provision for Depreciation - Electric 54,425,493	33a.	Operating Margins - Current Year - Electric 1,076,287
4b.	Accumulated Provision for Depreciation - Gas 9,311,626	33b.	Operating Margins - Current Year - Gas 471,454
4.	Accum. Provision for Depreciation - Combined 63,737,119	33.	Operating Margins - Current Year - Combined 1,547,741
5a.	Net Utility Plant (3 - 4) - Electric 52,297,430	34a.	Non Operating Margins - Electric 1,507,819
5b.	Net Utility Plant (3 - 4) - Gas 24,237,460	34b.	Non Operating Margins - Gas 89,994
5.	Net Utility Plant - Combined 76,534,889	34.	Non Operating Margins - Combined 1,597,812
7.	Investments in Subsidiary Companies 0	35a.	Other Margins and Equities - Electric 3,082,374
8.a	Invest. in Assoc. Org- Patronage Capital - WPC 20,486,928	35b.	Other Margins and Equities - Gas 7,174
8.b	Invest. in Assoc. Org- Patronage Capital - Other 2,630,927	35.	Other Margins and Equities - Combined 3,089,548
9.	Invest. in Assoc. Org. - Other - General Funds 4,800	36a.	Total Margins and Equities (30 thru 35) - Electric 46,759,720
10.	Invest. in Assoc. Org. - Other - Nongeneral Funds 1,521,664	36b.	Total Margins and Equities (30 thru 35) - Gas 6,518,795
11.	Invest. in Economic Development Projects 0	36.	Total Margins and Equities (30 thru 35) - Combined 53,278,515
12.	Other Investments 0	37.	Long Term Debt - RUS (Net)
13.	Restricted Funds 0		(Payments-Unapplied \$ -0-) 0
14.	Total Other Property and Investments (6 thru 13) 24,644,319	38.	Long Term Debt - RUS - Econ. Dev. (Net) 0
15.	Cash - General Funds 1,447,193	39.	Long Term Debt - Other - RUS Guaranteed 0
16.	Cash - Construction Funds 0	40.	Long Term Debt - Other (Net) 48,874,610
17.	Special Deposits 0	41.	Total Long Term Debt (37 thru 40) 48,874,610
18.	Temporary Investments 1,523,887	42.	Obligations Under Capital Leases 0
19.	Notes Receivable - Net 0	43.	Deferred Compensation 0
20.	Accounts Receivable - Net Sales of Energy 4,374,732	44.	Total Other Non Current Liabilities (42+43) 0
21.	Accounts Receivable - Net Other 273,651	45.	Line of Credit Balance Due 0
22.	Materials and Supplies - Electric and Other 1,460,638	46.	Accounts Payable 3,318,592
23.	Prepayments 347,401	47.	Consumers Deposits 544,851
24.	Other Current and Accrued Assets 0	48.	Other Current and Accrued Liabilities 4,797,694
25.	Total Current and Accrued Assets (15 thru 24) 9,427,502	49.	Total Current and Accrued Liabilities (45 thru 48) 8,661,137
26.	Regulatory Assets 0	50.	Deferred Credits 29,244
27.	Other Deferred Debits 236,795	51.	Accumulated Deferred Income Taxes 0
28.	Accumulated Deferred Income Taxes 0	52.	Total Liabilities and Other Credits
29.	Total Assets and Other Debits (5 + 14 + 25 thru 28) 110,843,506		(36+41+44+49 thru 51) 110,843,506
			<i>ESTIMATED CONTRIBUTIONS IN AID OF CONSTRUCTION</i>
		53.	Balance Beginning of the Year - Electric 21,072,560
		54.	Balance Beginning of the Year - Gas 4,461,294
		55.	Balance Beginning of the Year - Gas AER 1,054,511
			Amount Received This Year (Net) - Electric 580,904
			Amount Received This Year (Net) - Gas 199,543
			Amount Received This Year (Net) - Gas AER
			Total Contributions in Aid of Construction - Electric 21,653,464
			Total Contributions in Aid of Construction - Gas 4,660,837
			Total Contributions in Aid of Construction - Gas AER 1,054,511

PART 4 - NOTES TO COMBINED FINANCIAL STATEMENTS

THIS SPACE BELOW IS PROVIDED FOR IMPORTANT NOTES REGARDING THE FINANCIAL STATEMENT CONTAINED IN THIS REPORT.

PRESQUE ISLE ELECTRIC & GAS CO-OP

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ELECTRIC OPERATIONS PLANT RATIOS, SALES & REVENUE REPORT FOR THE MONTH ENDING DECEMBER 31, 2017

BALANCE SHEET RATIOS

Current Assets to Current Liabilities	- Combined	108.85 %
Margins & Equities as % of Assets	- Combined	48.07 %
Long Term Debt as % of Net Utility Plant	- Combined	63.86 %
Long Term Debt as % of Plant	- Combined	34.84 %
Modified Debt Service Coverage Ratio	- Combined	2.72

CONSUMER SALES AND REVENUE DATA - MONTHLY

CLASS OF SERVICE	Number Receiving Service	kWh Sold	Amount	Number of Minimum Bills
	A.	B.	C.	D.
Sales - Residential	17,568	12,259,993	1,713,476	967
Sales - Seasonal	13,510	2,824,858	671,170	12,612
Sales - General Service - Oil	469	482,637	61,307	42
Sales - Irrigation	26	4,887	1,543	17
Sales - General Service	1,472	2,312,163	282,535	183
Sales - Large Power - Oil	9	131,918	14,242	
Sales - Large Power	42	2,271,568	226,912	
Sales - Public Street & Highway Lighting	39	15,249	4,023	
Sales - Public Buildings	333	348,762	44,581	37
Consumer Sales - PSCR			137,254	
Total Sales of Electric Energy (1 thru 11)	33,468	20,652,035	3,157,044	13,858
Other Electric Revenue			76,870	
Total (12 + 13)			3,233,915	
Last Year kWh Sales	33,305	20,448,521		

CONSUMER SALES AND REVENUE DATA - YEAR TO DATE

CLASS OF SERVICE	Average Number Receiving Service	kWh Sold Cumulative	Amount Cumulative
	B.	C.	D.
Sales - Residential	17,492	132,181,001	18,876,176
Sales - Seasonal	13,497	32,102,777	7,746,692
Sales - General Service - Oil	469	4,908,048	639,090
Sales - Irrigation	26	127,818	22,710
Sales - General Service	1,455	30,689,153	3,688,508
Sales - Large Power - Oil	9	1,517,202	164,180
Sales - Large Power	41	30,267,390	3,028,008
Sales - Public Street & Highway Lighting	39	269,261	55,628
Sales - Public Buildings	333	4,512,310	566,165
Consumer Sales - PSCR			(258,454)
Total Sales of Electric Energy (1 thru 11)	33,361	236,574,960	34,528,702
Other Electric Revenue			1,088,458
Total (12 + 13)			35,617,160
Last Year kWh Sales		239,756,252	

KWH AND KWH STATISTICS

ITEM	THIS MONTH	YEAR-TO-DATE
1. kWh Purchased	24,949,986	256,931,537
2. Interchange kWh-Net	1,037	39,267
3. Total kWh (1 + 2)	24,951,023	256,970,804
4. Total kWh-Sold	20,652,035	236,574,960
5. Office Use - **For Information Purposes Only**	22,204	263,909
6. Total Unaccounted for (3 - 4)	4,300,025	20,435,111
7. Percent System Loss (6/3)x100	17.23	7.95
8. Maximum Demand (kw)	45,522	45,522
9. Month When Maximum Demand Occured		12

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GAS OPERATIONS SALES & REVENUE REPORT FOR THE MONTH DECEMBER 31, 2017

CONSUMER SALES AND REVENUE DATA - MONTHLY

CLASS OF SERVICE	Number Receiving Service A.	CCF Sold B.	Amount C.	Number of Minimum Bills D.
Gas Sales - Residential	5,321	650,499	656,598	198
Gas Sales - Residential - Line Retention	62			
Gas Sales - Seasonal	3,549	319,570	334,130	355
Gas Sales - Seasonal - Line Retention	78			
Gas Sales - General Service	285	86,912	71,898	15
Gas Sales - General Service - Line Retention	1			
Gas Sales - Large Power	7	27,116	21,110	1
Gas Sales - Public Buildings	102	45,765	37,003	6
Gas Sales - Public Buildings - Line Retention				
Gas Cost Recovery (Over)/Undercollection			(69,531)	
Less: Area Expansion Rate				
Total Sales of Natural Gas Energy (1 thru 11)	9,405	1,129,862	1,051,208	575
Other Gas Revenue			6,975	
Total (12 + 13)			1,058,183	
Last Year CCF Sales	9,272	934,290		

CONSUMER SALES AND REVENUE DATA - YEAR TO DATE

CLASS OF SERVICE	Average Number Receiving Service B.	CCF Sold Cumulative C.	Amount Cumulative D.
Gas Sales - Residential	5,249	4,301,046	4,496,074
Gas Sales - Residential - Line Retention	61		
Gas Sales - Seasonal	3,525	1,681,737	1,981,923
Gas Sales - Seasonal - Line Retention	82		
Gas Sales - General Service	284	682,295	566,980
Gas Sales - General Service - Line Retention	1		
Gas Sales - Large Power	4	193,067	139,529
Gas Sales - Public Buildings	102	312,313	251,742
Gas Sales - Public Buildings - Line Retention			
Gas Cost Recovery (Over)/Undercollection			(226,292)
Less: Area Expansion Rate			
Total Sales of Natural Gas Energy (1 thru 11)	9,308	7,170,458	7,209,957
Other Gas Revenue			82,497
Total (12 + 13)			7,292,453
Last Year CCF Sales		6,677,958	

PRESQUE ISLE ELECTRIC & GAS CO-OP

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STATISTICAL INFORMATION FOR THE MONTH ENDING DECEMBER 31, 2017

	THIS YEAR	LAST YEAR
1. KWHRS Sold Per Consumer:		
a. For the Month	617	614
b. Year to Date	<u>591</u>	<u>599</u>
2. Average Monthly Bill	94.33	100.48
Average Residential Bill	<u>97.53</u>	<u>95.36</u>
3. Average Bill:		
a. Year To Date	86.25	87.55
b. YTD Residential	<u>89.93</u>	<u>89.40</u>
4. Cost Per KWHR Purchased		
a. This Month Mills	78.93	90.54
b. Year to Date Mills	<u>80.64</u>	<u>81.23</u>
5. Revenue Per KWHR Sold:		
a. This Month Mills	152.87	163.66
b. Year to Date Mills	<u>145.95</u>	<u>146.21</u>
6. Power Cost Adjustment		
a. This Month	<u>0.000870</u>	<u>-0.001310</u>
7. Number of New Members - Electric	68	77
Number of Transferred Members Added - Electric	1411	1230
7. Number of New Members - Gas	47	40
Number of Transferred Members Added - Gas	<u>151</u>	<u>161</u>
8. Security Lights Billed	<u>1945</u>	<u>2040</u>
9. Regular Payroll - Hours	12,198.50	12,753.00
Overtime Payroll - Hours	1,995.50	1,662.75
Total Payroll	<u>14,194.00</u>	<u>14,415.75</u>
10. Number of Employees		
Full Time	71	70
Temporary	<u>6</u>	<u>5</u>
11. Principal Paid To CFC-YTD	1,621,675.15	1,500,367.85
Interest Paid To CFC-YTD	<u>2,435,745.78</u>	<u>2,348,025.05</u>
12. Interest Paid on Line of Credit - YTD	<u>24,143.47</u>	<u>89,077.69</u>

PRESQUE ISLE ELECTRIC & GAS CO-OP

19831 M68 Hwy. P.O. Box 308 Onaway, MI 49765 (989) 733-8515 1-800-423-6634 Fax (989) 733-2247

STATISTICAL INFORMATION FOR THE MONTH ENDING DECEMBER 31, 2017

	THIS YEAR	LAST YEAR
1. CCF'S Sold Per Consumer:		
a. For the Month	120	101
b. Year to Date	<u>64</u>	<u>61</u>
2. Average Monthly Bill	111.77	85.91
Average Residential Bill	<u>123.40</u>	<u>103.67</u>
3. Average Bill:		
a. Year To Date	64.55	65.59
b. YTD Residential	<u>71.38</u>	<u>73.03</u>
4. Cost Per CCF Purchased		
a. This Month	0.37	0.47
b. Year to Date	<u>0.43</u>	<u>0.47</u>
5. Revenue Per CCF Sold:		
a. This Month	0.93	0.85
b. Year to Date	<u>1.01</u>	<u>1.08</u>
6A. Total Active Accounts	9,405	9272
6B. Total Service Lines Installed	<u>10,007</u>	<u>9862</u>
7. Number of New Members - Gas	47	40
Number of Transferred Members Added - Gas	<u>151</u>	<u>161</u>

PRESQUE ISLE ELECTRIC & GAS CO-OP

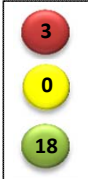
19831 M68 Hwy. P.O. Box 308 Oneway, MI 49765 (989) 733-8515 1-800-423-6634 Fax (989) 733-2247

CASH REPORT AS OF DECEMBER 31, 2017

Cash Balance As Of	11/30/2017		\$2,042,832.03
Receipts			
Utility Billings		\$3,090,558.66	
Interest		1,753.26	
Other Accounts Receivable		77,419.43	
Other		1,521,405.73	
CFC LTD		<u>0.00</u>	
Total Receipts			<u>4,691,137.08</u>
Total Receipts & Previous Balance			6,733,969.11
Less: Cash Disbursements			<u>(3,762,888.69)</u>
Cash Balance As Of	12/31/2017		<u>\$2,971,080.42</u>

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION FINANCIAL AND STATISTICAL REPORT	BORROWER NAME	Presque Isle Electric & Gas Co-op
	BORROWER DESIGNATION	MI028
	ENDING DATE	12/31/2017

Submit one electronic copy and one signed hard copy to CFC. Round all numbers to the nearest dollar.

CERTIFICATION	BALANCE CHECK RESULTS	AUTHORIZATION CHOICES
We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.	 <p style="margin-top: 10px;"> Needs Attention Please Review Matches </p>	A. NRECA uses rural electric system data for legislative, regulatory and other purposes. May we provide this report from your system to NRECA?
Signature of Office Manager or Accountant _____ Date _____		<input checked="" type="radio"/> YES <input type="radio"/> NO
Signature of Manager _____ Date _____		B. Will you authorize CFC to share your data with other cooperatives? <input checked="" type="radio"/> YES <input type="radio"/> NO

PART A. STATEMENT OF OPERATIONS				
ITEM	YEAR-TO-DATE			THIS MONTH
	LAST YEAR	THIS YEAR	BUDGET	
	(a)	(b)	(c)	
1. Operating Revenue and Patronage Capital	43,134,964	42,909,614	42,993,265	4,292,097
2. Power Production Expense	0	0	0	0
3. Cost of Purchased Power	24,382,270	24,003,855	24,414,687	2,496,575
4. Transmission Expense	0	0	0	0
5. Regional Market Operations Expense	0	0	0	0
6. Distribution Expense - Operation	1,848,171	1,678,316	1,747,089	105,155
7. Distribution Expense - Maintenance	3,919,475	3,841,955	4,353,255	440,899
8. Consumer Accounts Expense	1,890,613	1,781,925	2,134,611	125,501
9. Customer Service and Informational Expense	672,529	832,042	749,463	63,057
10. Sales Expense	0	0	0	0
11. Administrative and General Expense	1,865,636	1,871,995	1,914,380	117,673
12. Total Operation & Maintenance Expense (2 thru 11)	34,578,693	34,010,089	35,313,485	3,348,861
13. Depreciation & Amortization Expense	3,679,291	3,748,845	3,858,608	314,316
14. Tax Expense - Property & Gross Receipts	1,123,240	1,136,847	1,137,318	112,923
15. Tax Expense - Other	1,678	1,052	1,733	(1)
16. Interest on Long-Term Debt	2,346,955	2,432,979	2,526,344	202,595
17. Interest Charged to Construction (Credit)	0	0	0	0
18. Interest Expense - Other	95,972	31,062	115,578	846
19. Other Deductions	220	1,000	0	0
20. Total Cost of Electric Service (12 thru 19)	41,826,049	41,361,873	42,953,066	3,979,539
21. Patronage Capital & Operating Margins (1 minus 20)	1,308,915	1,547,741	40,199	312,558
22. Non Operating Margins - Interest	52,123	74,105	55,968	1,753
23. Allowance for Funds Used During Construction	0	0	0	0
24. Income (Loss) from Equity Investments	(233,529)	(88,479)	(319,777)	12,091
25. Non Operating Margins - Other	0	0	0	0
26. Generation & Transmission Capital Credits	1,908,599	1,340,933	1,300,000	1,340,933
27. Other Capital Credits & Patronage Dividends	257,415	271,253	319,947	24,721
28. Extraordinary Items	0	0	0	0
29. Patronage Capital or Margins (21 thru 28)	3,293,522	3,145,553	1,396,337	1,692,056

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT					
ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR	THIS YEAR		LAST YEAR	THIS YEAR
	(a)	(b)		(a)	(b)
1. New Services Connected	187	213	5. Miles Transmission	0	0
2. Services Retired	95	88	6. Miles Distribution Overhead	3,837	3,838
3. Total Services In Place	35,616	35,780	7. Miles Distribution Underground	1,040	1051
4. Idle Services (Exclude Seasonal)	2,311	2,312	8. Total Miles Energized (5+6+7)	4,877	4,889

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION FINANCIAL AND STATISTICAL REPORT		BORROWER NAME	Presque Isle El
		BORROWER DESIGNATION	MI028
		ENDING DATE	12/31/2017

PART E. CHANGES IN UTILITY PLANT

	PLANT ITEM	BALANCE BEGINNING OF YEAR (a)	ADDITIONS (b)	RETIREMENTS (c)	ADJUSTMENTS AND TRANSFER (d)	BALANCE END OF YEAR (e)
1	Distribution Plant Subtotal	95,403,010	2,865,219	968,431	0	97,299,798
2	General Plant Subtotal	7,046,258	1,208,973	58,921	0	8,196,310
3	Headquarters Plant	1,546,965	33,771	5,757	0	1,574,979
4	Intangibles	25,648	0	0	0	25,648
5	Transmission Plant Subtotal	0	0	0	0	0
6	Regional Transmission and Market Operation Plant	0	0	0	0	0
7	Production Plant - Steam	0	0	0	0	0
8	Production Plant - Nuclear	0	0	0	0	0
9	Production Plant - Hydro	0	0	0	0	0
10	Production Plant - Other	0	0	0	0	0
11	All Other Utility Plant	32,775,997	495,629	128,696	0	33,142,930
12	SUBTOTAL: (1 thru 11)	136,797,877	4,603,593	1,161,805	0	140,239,665
13	Construction Work in Progress	172,012	(139,668)			32,344
14	TOTAL UTILITY PLANT (12+13)	136,969,889	4,463,925	1,161,805	0	140,272,009

CFC NO LONGER REQUIRES SECTIONS "F", "G", AND "N" DATA
Those sections refer to data on "Analysis of Accumulated Provision for Depreciation" (F),
"Materials and Supplies" (G), "Annual Meeting and Board Data" (N), and "Conservation Data" (P).

PART H. SERVICE INTERRUPTIONS

	ITEM	Avg. Minutes per Consumer by Cause	Avg. Minutes per Consumer by Cause	Avg. Minutes per Consumer by Cause	Avg. Minutes per Consumer by Cause	TOTAL (e)
		Power Supplier (a)	Major Event (b)	Planned (c)	All Other (d)	
1.	Present Year	31.70	559.80	3.70	287.90	883.10
2.	Five-Year Average	10.70	394.40	3.90	232.30	641.30

PART I. EMPLOYEE - HOUR AND PAYROLL STATISTICS

1.	Number of Full Time Employees	71	4.	Payroll - Expensed	4,154,378
2.	Employee - Hours Worked - Regular Time	153,152	5.	Payroll - Capitalized	1,550,516
3.	Employee - Hours Worked - Overtime	16,756	6.	Payroll - Other	0

PART J. PATRONAGE CAPITAL

	ITEM	THIS YEAR	CUMULATIVE	PART K. DUE FROM CONSUMERS FOR ELECTRIC SERVICE	
		(a)	(b)	1. Amount Due Over 60 Days:	2. Amount Written Off During Year:
1.	General Retirement	2,623,036	13,307,352	422,905	
2.	Special Retirements	5,157	38,604	86,177	
3.	Total Retirements (1+2)	2,628,193	13,345,956		
4.	Cash Received from Retirement of Patronage Capital by Suppliers of Electric Power	1,503,119			
5.	Cash Received from Retirement of Patronage Capital by Lenders for Credit Extended to the Electric System	100,487			
6.	Total Cash Received (4+5)	1,603,606			

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION FINANCIAL AND STATISTICAL REPORT							BORROWER NAME	Presque Isle El		
							BORROWER DESIGNATION	MI028		
							ENDING DATE	12/31/2017		
PART L. KWH PURCHASED AND TOTAL COST										
	NAME OF SUPPLIER (a)	CFC USE ONLY SUPPLIER CODE (b)	RENEWABLE ENERGY PROGRAM NAME (c)	RENEWABLE FUEL TYPE (d)	KWH PURCHASED (e)	TOTAL COST (f)	AVERAGE COST PER KWH (cents) (g)	INCLUDED IN TOTAL COST		
								FUEL COST ADJUSTMENT (h)	WHEELING & OTHER CHARGES (or Credits) (i)	COMMENTS (j)
1	Wolverine Power Supply			0 None	256,931,537	20,722,593	8.07	0	0	Comments
2				0 None	0	0	0.00	0	0	Comments
3				0 None	0	0	0.00	0	0	Comments
4				0 None	0	0	0.00	0	0	Comments
5				0 None	0	0	0.00	0	0	Comments
6				0 None	0	0	0.00	0	0	Comments
7				0 None	0	0	0.00	0	0	Comments
8				0 None	0	0	0.00	0	0	Comments
9				0 None	0	0	0.00	0	0	Comments
10				0 None	0	0	0.00	0	0	Comments
11				0 None	0	0	0.00	0	0	Comments
12				0 None	0	0	0.00	0	0	Comments
13				0 None	0	0	0.00	0	0	Comments
14				0 None	0	0	0.00	0	0	Comments
15				0 None	0	0	0.00	0	0	Comments
16				0 None	0	0	0.00	0	0	Comments
17				0 None	0	0	0.00	0	0	Comments
18				0 None	0	0	0.00	0	0	Comments
19				0 None	0	0	0.00	0	0	Comments
20				0 None	0	0	0.00	0	0	Comments
21	TOTALS				256,931,537	20,722,593	8.07	0	0	

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION FINANCIAL AND STATISTICAL REPORT	BORROWER NAME	Presque Isle El
	BORROWER DESIGNATION	MI028
	ENDING DATE	12/31/2017

PART L. KWH PURCHASED AND TOTAL COST (Continued)

COMMENTS	
1	
2	
3	
4	
5	
6	
7	
8	
9	
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11	
12	
13	
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15	
16	
17	
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19	
20	

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION FINANCIAL AND STATISTICAL REPORT	BORROWER NAME	Presque Isle El
	BORROWER DESIGNATION	MI028
	ENDING DATE	12/31/2017

PART M. LONG-TERM LEASES (If additional space is needed, use separate sheet)

*LIST BELOW ALL "RESTRICTED PROPERTY" ** HELD UNDER "LONG TERM" LEASE. (If none, State "NONE")*

	NAME OF LESSOR	TYPE OF PROPERTY	RENTAL THIS YEAR
1.			\$0
2.			\$0
3.			TOTAL \$0

** "RESTRICTED PROPERTY" means all properties other than automobiles, trucks, tractors, other vehicles (including without limitation aircraft and ships), office and warehouse space and office equipment (including without limitation computers). "LONG TERM" means leases having unexpired terms in excess of 3 years and covering property having an initial cost in excess of \$250,000).

PART O. LONG-TERM DEBT SERVICE REQUIREMENTS

	NAME OF LENDER	BALANCE END OF YEAR	BILLED THIS YEAR			CFC USE ONLY (d)
			INTEREST (a)	PRINCIPAL (b)	TOTAL (c)	
1	National Rural Utilities Cooperative Finance Corporation	50,605,610	2,435,746	1,621,675	4,057,421	
2	NCSC	0	0	0	0	
3	Farmer Mac	0	0	0	0	
4		0	0	0	0	
5		0	0	0	0	
6		0	0	0	0	
7		0	0	0	0	
8		0	0	0	0	
9		0	0	0	0	
10	Principal Payments Received from Ultimate Recipients of IRP Loans			0		
11	Principal Payments Received from Ultimate Recipients of REDL Loans			0		
12	TOTAL (Sum of 1 thru 9)	\$50,605,610	\$2,435,746	\$1,621,675	\$4,057,421	

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION FINANCIAL AND STATISTICAL REPORT	BORROWER NAME	Presque Isle El
	BORROWER DESIGNATION	MI028
	ENDING DATE	12/31/2017

PART R. POWER REQUIREMENTS DATABASE

CLASSIFICATION	CONSUMER, SALES, AND REVENUE DATA	JANUARY CONSUMERS (a)	DECEMBER CONSUMERS (b)	AVERAGE CONSUMERS (c)	TOTAL KWH SALES AND REVENUE (d)
1. Residential Sales (excluding seasonal)	a. No. Consumers Served	17,453	17,568	17,511	
	b. KWH Sold				132,148,680
	c. Revenue				18,876,176
2. Residential Sales - Seasonal	a. No. Consumers Served	13,490	13,510	13,500	
	b. KWH Sold				32,095,831
	c. Revenue				7,746,692
3. Irrigation Sales	a. No. Consumers Served	26	26	26	
	b. KWH Sold				127,818
	c. Revenue				22,710
4. Comm. and Ind. 1000 KVA or Less	a. No. Consumers Served	4	4	4	
	b. KWH Sold				16,874,500
	c. Revenue				1,629,813
5. Comm. and Ind. Over 1000 KVA	a. No. Consumers Served	1,963	1,988	1,976	
	b. KWH Sold				50,507,293
	c. Revenue				5,889,973
6. Public Street & Highway Lighting	a. No. Consumers Served	39	39	39	
	b. KWH Sold				269,261
	c. Revenue				55,628
7. Other Sales to Public Authority	a. No. Consumers Served	334	333	334	
	b. KWH Sold				4,512,310
	c. Revenue				566,165
8. Sales for Resales-RUS Borrowers	a. No. Consumers Served		0	0	
	b. KWH Sold				0
	c. Revenue				(258,454)
9. Sales for Resales-Other	a. No. Consumers Served	0	0	0	
	b. KWH Sold				0
	c. Revenue				0
10. TOTAL No. of Consumers (lines 1a thru 9a)		33,309	33,468	33,389	0
11. TOTAL KWH Sold (lines 1b thru 9b)					236,535,693
12. TOTAL Revenue Received From Sales of Electric Energy (line 1c thru 9c)					34,528,703
13. Transmission Revenue					0
14. Other Electric Revenue					1,088,458
15. KWH - Own Use					263,909
16. TOTAL KWH Purchased					256,931,537
17. TOTAL KWH Generated					0
18. Cost of Purchases and Generation					20,722,593
19. Interchange - KWH - Net					39,267
20. Peak - Sum All KW Input (Metered)					45,522
		<input type="radio"/> None <input type="radio"/> Non-coincident <input checked="" type="radio"/> Coincident			

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION FINANCIAL AND STATISTICAL REPORT	BORROWER NAME	Presque Isle El
	BORROWER DESIGNATION	MI028
	ENDING DATE	12/31/2017

PART S. ENERGY EFFICIENCY PROGRAMS

Line #	Classification	Added This Year			Total To Date		
		Number of Consumers (a)	Amount Invested (b)	ESTIMATED MMBTU Savings (c)	Number of Consumers (d)	Amount Invested (e)	ESTIMATED MMBTU Savings (f)
1.	Residential Sales (excluding seasonal)	0	0	0	0	0	0
2.	Residential Sales - Seasonal	0	0	0	0	0	0
3.	Irrigation Sales	0	0	0	0	0	0
4.	Comm. and Ind. 1000 KVA or Less	0	0	0	0	0	0
5.	Comm. and Ind. Over 1000 KVA	0	0	0	0	0	0
6.	Public Street and Highway Lighting	0	0	0	0	0	0
7.	Other Sales to Public Authorities	0	0	0	0	0	0
8.	Sales for Resales - RUS Borrowers	0	0	0	0	0	0
9.	Sales for Resales - Other	0	0	0	0	0	0
10.	TOTAL	0	0	0	0	0	0

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION FINANCIAL AND STATISTICAL REPORT		BORROWER NAME		Presque Isle El
		BORROWER DESIGNATION		MI028
		ENDING DATE		12/31/2017
(All investments refer to your most recent CFC Loan Agreement)				
7a - PART 1 - INVESTMENTS				
DESCRIPTION (a)	INCLUDED (\$) (b)	EXCLUDED (\$) (c)	INCOME OR LOSS (d)	
2. INVESTMENTS IN ASSOCIATED ORGANIZATIONS				
5	See Attached Sheet	642,528	24,001,791	
6				
7				
8				
Subtotal (Line 5 thru 8)		642,528	24,001,791	0
3. INVESTMENTS IN ECONOMIC DEVELOPMENT PROJECTS				
9				
10				
11				
12				
Subtotal (Line 9 thru 12)		0	0	0
4. OTHER INVESTMENTS				
13				
14				
15				
16				
Subtotal (Line 13 thru 16)		0	0	0
5. SPECIAL FUNDS				
17				
18				
19				
20				
Subtotal (Line 17 thru 20)		0	0	0
6. CASH - GENERAL				
21	See Attached Sheet	576,796	870,397	
22				
23				
24				
Subtotal (Line 21 thru 24)		576,796	870,397	0
7. SPECIAL DEPOSITS				
25				
26				
27				
28				
Subtotal (Line 25 thru 28)		0	0	0
8. TEMPORARY INVESTMENTS				
29	NRUCFC	1,504,049		
30	Citizens Nat'l Bank - IMMA	19,838		
31				
32				
Subtotal (Line 29 thru 32)		1,523,887	0	0
9. ACCOUNT & NOTES RECEIVABLE - NET				
33	See Attached Sheet	273,651		
34				
35				
36				
Subtotal (Line 33 thru 36)		273,651	0	0
10. COMMITMENTS TO INVEST WITHIN 12 MONTHS BUT NOT ACTUALLY PURCHASED				
37				
38				
39				
40				
Subtotal (Line 37 thru 40)		0	0	0
Total		3,016,862	24,872,189	0

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION FINANCIAL AND STATISTICAL REPORT	BORROWER NAME	Presque Isle El
	BORROWER DESIGNATION	MI028
	ENDING DATE	12/31/2017

(All investments refer to your most recent CFC Loan Agreement)

7a - PART II. LOAN GUARANTEES

Line No.	Organization & Guarantee Beneficiary (a)	Maturity Date of Guarantee Obligation (b)	Original Amount (\$) (c)	Performance Guarantee Exposure or Loan Balance (\$) (d)	Available Loans (Covered by Guarantees) (e)
1			0	0	0
2			0	0	0
3			0	0	0
4			0	0	0
5			0	0	0
TOTALS (Line 1 thru 5)			0	0	0

7a - PART III. LOANS

Line No.	Name of Organization (a)	Maturity Date (b)	Original Amount (\$) (c)	Loan Balance (\$) (d)	Available Loans (e)
1			0	0	0
2			0	0	0
3			0	0	0
4			0	0	0
5			0	0	0
TOTALS (Line 1 thru 5)			0	0	0

7a - PART IV. TOTAL INVESTMENTS AND LOANS GUARANTEES

1	TOTAL (Part I, Total - Column b + Part II, Totals - Column d + Column e + Part III, Totals - Column d + Column e)	3,016,862
2	LARGER OF (a) OR (b)	26,639,257
	a. 15 percent of Total Utility Plant (CFC Form 7, Part C, Line 3)	21,040,801
	b. 50 percent of Total Equity (CFC Form 7, Part C, Line 35)	26,639,257

Part I - Investments

Line 2. Account #	Investments in Associated Organizations Description	Amount	Included	Excluded
123.14	Central Area Data Processing	\$210,618.04	\$210,618.04	
123.11	Wolverine Power Supply - Patronage	\$13,561,690.13		\$13,561,690.13
123.12	NRUCFC - Patronage	\$1,989,898.89		\$1,989,898.89
123.13	RESCO Patronage	\$338,749.00	\$338,749.00	
123.16	WPSC - Power Supply Development Fund	\$6,925,238.24		\$6,925,238.24
123.40	Wolverine Power Supply - Membership	\$200.00		\$200.00
123.42	NRUCFC - Membership	\$1,000.00		\$1,000.00
123.43	MECA - Membership	\$1,000.00		\$1,000.00
123.45	NRTC - Membership	\$1,000.00	\$1,000.00	
123.21&22	NRUCFC - Capital Term Certificates	\$934,872.00		\$934,872.00
123.00	RESCO - Stock	\$500.00	\$500.00	
123.23	NRUCFC ZTC's	\$586,792.13		\$586,792.13
123.09	Cooperative Response Center	\$22,435.03	\$22,435.03	
123.41	CoBank Membership	\$1,000.00		\$1,000.00
123.17	CoBank Patronage	\$69,225.83	\$69,225.83	
123.46	NCSC Membership	\$100.00		\$100.00
	Total	\$24,644,319.29	\$642,527.90	\$24,001,791.39

Cash Balances

131.00	Citizen's National Bank - Checking	\$197,153.86		\$197,153.86
131.01	Onaway Community Federal Credit Union - Checkir	\$128,044.31		\$128,044.31
131.02	OCFCU - Savings	\$376,540.67	\$126,540.67	\$250,000.00
131.10	PNC Bank	\$700,255.27	\$450,255.27	\$250,000.00
131.11	Chemical Bank	\$42,913.19		\$42,913.19
131.13	Columbus Bank & Trust	\$2,352.57		\$2,352.57
135.00	OCFCU - Working Funds	-\$66.72		-\$66.72
	Total	\$1,447,193.15	\$576,795.94	\$870,397.21

Temporary Investments

136.00	NRUCFC	\$1,504,049.22		
136.01	Citizen's Nat'l Bank - IMMA	\$19,838.05		

Accounts Receivable - Other

142.20	Accounts Receivable - Aid To Construction	\$119,580.28		
142.22	A/R - Miscellaneous	\$61,464.86		
142.24	A/R - Water Heater Loans	\$59,747.39		
142.25	A/R - Natural Gas Incentive Loans	\$782.37		
142.26	A/R - Appliance Sales	\$1,491.85		
142.27	A/R - Natural Gas Miscellaneous	\$9,652.13		
142.29	A/R - Natural Gas Construction	\$16,990.85		
143.00	A/R - Employees	\$2,414.54		
143.02	A/R - Employees Sec 125 Plan	\$1,526.59		
		\$273,650.86		

PRESQUE ISLE ELECTRIC & GAS CO-OP
REPORT ON FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

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**PRESQUE ISLE ELECTRIC & GAS CO-OP
BOARD OF DIRECTORS
DECEMBER 31, 2017**

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

Report on the Financial Statements

We have audited the accompanying financial statements of Presque Isle Electric & Gas Co-op as of December 31, 2017 and 2016, 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, 2017 and 2016, 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.

Traverse City, Michigan
March 13, 2018

**PRESQUE ISLE ELECTRIC & GAS CO-OP
BALANCE SHEETS
DECEMBER 31, 2017 AND 2016**

	2017	2016
ASSETS		
UTILITY PLANT:		
In-Service – at cost	\$ 140,239,665	\$ 136,797,878
Construction work in progress	32,344	172,012
SUBTOTAL	140,272,009	136,969,890
Less accumulated depreciation and amortization	63,737,119	60,747,421
NET UTILITY PLANT	76,534,890	76,222,469
OTHER ASSETS AND INVESTMENTS		
Investments on associated organizations	24,644,319	24,733,009
CURRENT ASSETS:		
Cash and temporary cash investments	2,971,080	3,494,617
Accounts Receivable, less allowance for possible losses of \$118,000 in 2017 and 2016.	4,648,383	4,645,458
Materials and supplies (at average cost)	1,460,638	1,508,895
Other current assets	347,401	397,673
TOTAL CURRENT ASSETS	9,427,502	10,046,643
DEFERRED DEBITS	236,795	221,082
TOTAL ASSETS	\$ 110,843,506	\$ 111,223,203

The accompanying notes are an integral part of these statements.

	<u>2017</u>	<u>2016</u>
EQUITIES AND LIABILITIES		
EQUITIES:		
Memberships	\$ 276,930	\$ 268,545
Patronage capital	50,165,119	49,647,759
Other equities	<u>2,836,466</u>	<u>1,234,718</u>
TOTAL EQUITIES	<u>53,278,515</u>	<u>51,151,022</u>
LONG-TERM DEBT, NET OF CURRENT MATURITIES:		
Mortgage notes to National Rural Utilities Cooperative Finance Corporation (CFC)	48,874,610	50,609,285
Accrued post – retirement benefits	<u>1,274,093</u>	<u>2,436,845</u>
TOTAL LONG-TERM DEBT	<u>50,148,703</u>	<u>53,046,130</u>
CURRENT LIABILITIES:		
Current maturities of long-term debt	1,731,000	1,618,000
Accounts payable, purchased energy	2,471,023	2,279,843
Accounts payable, other	847,569	432,531
Patronage capital payable	20,661	18,047
Customer deposits	544,851	533,947
Accrued property taxes	521,015	514,337
Accrued interest	259,442	261,976
Accrued sick and vacation pay	575,134	631,841
Accrued other	<u>416,349</u>	<u>408,634</u>
TOTAL CURRENT LIABILITIES	<u>7,387,044</u>	<u>6,699,156</u>
DEFERRED CREDITS	<u>29,244</u>	<u>326,895</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 110,843,506</u>	<u>\$ 111,223,203</u>

PRESQUE ISLE ELECTRIC & GAS CO-OP
STATEMENTS OF REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES	\$ 42,909,614	\$ 43,134,964
OPERATING EXPENSES:		
Cost of energy	24,003,855	24,382,270
Distribution – operation	1,678,316	1,848,171
Distribution – maintenance	3,841,955	3,919,474
Consumers accounts	1,781,925	1,890,613
Customer service and information expense	832,042	672,529
Administrative and general	1,871,995	1,865,636
Depreciation and amortization	3,748,845	3,679,291
Taxes – property	1,136,847	1,123,240
Taxes – other	1,052	1,678
TOTAL OPERATING EXPENSES	<u>38,896,832</u>	<u>39,382,902</u>
OPERATING MARGIN BEFORE FIXED CHARGES	<u>4,012,782</u>	<u>3,752,062</u>
FIXED CHARGES:		
Interest	2,464,041	2,442,927
Other deductions	1,000	220
TOTAL FIXED CHARGES	<u>2,465,041</u>	<u>2,443,147</u>
OPERATING MARGINS AFTER FIXED CHARGES	<u>1,547,741</u>	<u>1,308,915</u>
CAPITAL CREDITS:		
Generation and transmission capital credits	1,340,933	1,908,599
Other capital credits	271,253	257,415
TOTAL CAPITAL CREDITS	<u>1,612,186</u>	<u>2,166,014</u>
NET OPERATING MARGINS	<u>3,159,927</u>	<u>3,474,929</u>

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, 2017 AND 2016
(Continued)

	2017	2016
NET OPERATING MARGINS (from previous page)	\$ 3,159,927	\$ 3,474,929
NON-OPERATING MARGINS:		
Interest and dividend income	74,105	52,123
Other expenses	(88,479)	(233,530)
TOTAL NON-OPERATING MARGINS	(14,374)	(181,407)
NET MARGINS	\$ 3,145,553	\$ 3,293,522

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, 2017 AND 2016**

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Other Equities</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
Balance, January 1, 2016	\$ 261,005	\$ 48,581,114	\$ 2,240,981	\$ (1,319,079)	\$ 49,764,021
Capital credits retired		(1,237,688)			(1,237,688)
Memberships retired	7,540				7,540
Other equity transactions		(989,189)	312,816		(676,373)
Net margin		<u>3,293,522</u>			<u>3,293,522</u>
Balance, December 31, 2016	268,545	49,647,759	2,553,797	(1,319,079)	51,151,022
Capital credits retired		(2,628,193)			(2,628,193)
Memberships issued (retired)	8,385				8,385
Other equity transactions			535,751	1,065,997	1,601,748
Net margin		<u>3,145,553</u>			<u>3,145,553</u>
Balance, December 31, 2017	<u>\$ 276,930</u>	<u>\$ 50,165,119</u>	<u>\$ 3,089,548</u>	<u>\$ (253,082)</u>	<u>\$ 53,278,515</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, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from consumers	\$ 42,955,756	\$ 43,064,510
Cash paid to suppliers and employees	(34,458,481)	(34,323,485)
Interest received	74,105	52,123
Interest paid	(2,467,575)	(2,444,196)
Taxes paid	(1,103,791)	(1,095,749)
	5,000,014	5,253,203
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and acquisition of plant	(4,346,202)	(3,862,090)
(Increase) decrease in:		
Material inventory	48,257	(69,711)
Investments – associated organizations	1,700,876	1,882,834
	(2,597,069)	(2,048,967)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of debt	(1,621,675)	(1,500,368)
Advances of long term debt	-	5,600,000
Payments on line of credit - net	-	(5,000,000)
Memberships issued	8,385	7,540
Patronage capital retired	(2,628,193)	(1,237,688)
Adjustment to pension benefit obligation	1,065,997	-
Increased (decrease) in:		
Consumer deposits	10,904	9,754
Deferred credits	(297,651)	67,079
Other equities	535,751	312,816
	(2,926,482)	(1,740,867)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(523,537)	1,463,369
CASH AND CASH EQUIVALENTS, beginning of year	3,494,617	2,031,248
CASH AND CASH EQUIVALENTS, end of year	\$ 2,971,080	\$ 3,494,617

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, 2017 AND 2016
(Continued)

	2017	2016
RECONCILIATION OF NET MARGINS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Margins	\$ 3,145,553	\$ 3,293,522
Adjustments to reconcile net margins to net cash provided by		
Operating activities:		
Depreciation and amortization	3,931,664	3,838,364
(Gain) loss on disposition of assets	102,117	244,339
G&T and other capital credits	(1,612,186)	(2,166,014)
(Increase) decrease in:		
Customer and other accounts receivable	(2,925)	(95,403)
Other current assets	50,272	54,470
Deferred debits	(15,713)	30,928
Increase (decrease) in:		
Accounts payable	608,832	29,787
Accrued property taxes	6,678	19,896
Accrued interest payable	(2,534)	(1,049)
Current and accrued liabilities – other	(48,992)	(71,519)
Accrued post retirement benefits	(1,162,752)	75,882
 Total Adjustments	 1,854,461	 1,959,681
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 \$ 5,000,014	 \$ 5,253,203
 NON-CASH ITEMS – INVESTING & FINANCING		
Capital credits from associated organizations	\$ 1,612,186	\$ 2,166,014

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.

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.

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.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2017. 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, 2017 and 2016 consisted of:

	2017	2016
Intangible plant	\$ 1,021,015	\$ 1,021,015
Distribution plant	129,447,361	127,183,640
General plant	9,771,289	8,593,222
	140,239,665	136,797,878
Construction work in progress	32,344	172,012
TOTAL	\$ 140,272,009	\$ 136,969,890

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, 2017:

	<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, 2017 and 2016:

	2017	2016
Charged to:		
Classified as depreciation and amortization	\$ 3,748,845	\$ 3,679,291
Classified in other operating expenses	182,819	159,073
	3,931,664	3,838,364
Charged to construction	246,716	211,825
TOTAL DEPRECIATION AND AMORTIZATION	\$ 4,178,380	\$ 4,050,189

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, 2017 and 2016:

	2017	2016
Wolverine Power Supply Coop. Inc. - capital credits	\$ 20,486,928	\$ 20,649,114
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%	1,521,664	1,542,010
Patronage capital certificates	1,989,899	1,889,412
Other	645,828	652,473
 TOTAL	 \$ 24,644,319	 \$ 24,733,009

In 2016, Wolverine Power Supply Coop, Inc. restated its balance sheet for changes to methods of depreciation, the effect of this change was a reduction of the investment by \$989,189, this change is reflected as an equity transaction for 2016.

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	\$ 1,065,104	\$ 1,065,104
Uninsured	1,930,960	1,904,476
Cash in banks and credit union	\$ 2,996,064	2,969,580
Working funds		1,500
Total per books		\$ 2,971,080

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

NOTE 7: DEFERRED DEBITS

The Cooperative has recorded deferred debits in the following amounts:

	2017	2016
Prepaid tap fees	\$ 55,386	\$ 57,382
Prepaid years of service	75,113	104,045
Other deferred debits	59,655	59,655
Consumer prepayments	46,641	-
TOTAL	\$ 236,795	\$ 221,082

NOTE 8: MEMBERSHIPS

The following is a summary of changes in memberships for the years ended December 31, 2017 and 2016:

	2017	2016
Balance, beginning	\$ 268,545	\$ 261,005
Membership and subscriptions issued	8,385	7,540
Balance, ending	\$ 276,930	\$ 268,545

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, 2017 and 2016 consisted of:

	2017	2016
Assignable	\$ 3,145,553	\$ 3,293,522
Adjustment-WPSC prior depreciation	-	(989,189)
Assigned to date	61,860,704	59,556,371
	65,006,257	61,860,704
Less retirements to date	14,841,138	12,212,945
Balance	\$ 50,165,119	\$ 49,647,759

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 48.0% and 45.9% of the total assets for the years 2017 and 2016, respectively. There were capital credits retired of \$2,628,193 and \$1,237,688 during 2017 and 2016, respectively.

NOTE 10: MORTGAGE NOTES

Long-term debt is composed of 2.75 percent to 6.45 percent mortgage notes payable to the National Rural Utilities Cooperative Finance Corporation (CFC). All mortgage notes to CFC will be re-priced and the interest rate adjusted accordingly during the next 10 years in accordance with the policy and procedure governing such re-pricing. The notes are for 35 year periods each, with principal and interest installments due either quarterly or semiannually. The notes are scheduled to be fully repaid at various times from December, 2020 through November 2047.

There were unadvanced loan funds available at December 31, 2017 in the amount of \$9,900,000.

Detail of the long-term debt is as follows:

	<u>2017</u>	<u>2016</u>
National Rural Utilities Cooperative Finance Corporation mortgage notes bearing interest at 3.65% to 6.45% per annum for 2017 and 2016	\$ 50,605,610	\$ 52,227,285
	50,605,610	52,227,285
Less current maturities	<u>1,731,000</u>	<u>1,618,000</u>
TOTAL LONG-TERM DEBT	<u>\$ 48,874,610</u>	<u>\$ 50,609,285</u>

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

2018	\$	1,731,000
2019	\$	1,813,379
2020	\$	1,901,123
2021	\$	1,904,419
2022	\$	1,996,411

**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 2017 and 2016 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 2017 and 2016. Balance available at December 31, 2017 and 2016 was \$8,000,000. The outstanding balance at December 31, 2017 and 2016 was \$-0-.

Additionally, Presque Isle has a \$6,000,000 unsecured revolving line-of-credit agreement with CoBank. Interest on outstanding borrowings is payable monthly and is computed at 5.0% at December 31, 2017. Presque Isle had an outstanding balance of \$0 at December 31, 2017 and 2016.

NOTE 12: DEFERRED CREDITS

Following is a summary of the amounts recorded as deferred credits as of December 31, 2017 and 2016:

	2017	2016
Under-collection of 2016 WPSC PSCR Costs	\$ 29,244	\$ 281,835
Customer energy prepayments	-	45,060
TOTAL	\$ 29,244	\$ 326,895

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 \$515,800 in 2017 and \$437,149 in 2016.

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 -1.31 mills per KWH for the current period.

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

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 \$(191,698) and \$67,491 at December 31, 2017 and 2016, 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 \$80,306 and \$140,152 for the years ended December 31, 2017 and 2016, 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 2017 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, 2017 is as follows:

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

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

	2017	2016
(Accrued) post-retirement benefit costs, beginning	\$ (2,436,845)	\$ (2,360,963)
Net periodic post-retirement benefit (costs)	(47,967)	(183,835)
Contributions made	118,914	107,953
Valuation adjustment	1,091,805	-
(Accrued) post-retirement benefit cost, end of year	\$ (1,274,093)	\$ (2,436,845)

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

	2017	2016
Interest cost	\$ (37,692)	\$ 88,006
Net actuarial gain (loss)	(10,275)	95,829
	\$ (47,967)	\$ 183,835

For measurement purposes a 8.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2017; 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 \$89,913. Decreasing the assumed health care cost trend rates by 1 percentage point in each year would decrease the accumulated post-retirement benefit obligation \$72,499.

The weighted-average discount rate used in determining the accumulated post-retirement benefit obligation was 3.08 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.

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

NOTE 17: LETTERS OF CREDIT

The Co-op has a letter of credit outstanding to CFC for \$1,500,000 at December 31, 2017. 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 2017 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, 2017, the most recent statement of financial position presented herein, through March 13, 2018, 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.

Certified Public Accountants
March 13, 2018