

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0572-0032. The time required to complete this information collection is estimated to average 21 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

UNITED STATES DEPARTMENT OF AGRICULTURE  
RURAL UTILITIES SERVICE

BORROWER DESIGNATION  
MI0048

FINANCIAL AND OPERATING REPORT  
ELECTRIC POWER SUPPLY

PERIOD ENDED December 2019 (Prepared with Audited Data)

BORROWER NAME  
Great Lakes Energy Cooperative

INSTRUCTIONS - See help in the online application.

This information is analyzed and used to determine the submitter's financial situation and feasibility for loans and guarantees. You are required by contract and applicable regulations to provide the information. The information provided is subject to the Freedom of Information Act (5 U.S.C. 552)

#### CERTIFICATION

We recognize that statements contained herein concern a matter within the jurisdiction of an agency of the United States and the making of a false, fictitious or fraudulent statement may render the maker subject to prosecution under Title 18, United States Code Section 1001.

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.

**ALL INSURANCE REQUIRED BY PART 1788 OF 7 CFR CHAPTER XVII, RUS, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES DURING THE PERIOD COVERED BY THIS REPORT PURSUANT TO PART 1718 OF 7 CFR CHAPTER XVII**

(check one of the following)

☒ All of the obligations under the RUS loan documents have been fulfilled in all material respects.

☐ There has been a default in the fulfillment of the obligations under the RUS loan documents. Said default(s) is/are specifically described in Part A Section C of this report.

William Scott

5/6/2020

DATE

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE							BORROWER DESIGNATION MI0048					
FINANCIAL AND OPERATING REPORT ELECTRIC POWER SUPPLY PART F IC - INTERNAL COMBUSTION PLANT							PLANT Beaver Island					
							PERIOD ENDED December 2019					
INSTRUCTIONS - See help in the online application.												
SECTION A. INTERNAL COMBUSTION GENERATING UNITS												
NO.	UNIT NO. (a)	SIZE (kW) (b)	FUEL CONSUMPTION				OPERATING HOURS					
			OIL (1000 Gals.) (c)	GAS (1000 C.F.) (d)	OTHER (e)	TOTAL (f)	IN SERVICE (g)	ON STANDBY (h)	OUT OF SERVICE SCHED. (i) UNSCH. (j)		GROSS GENER.(MWh) (k)	BTU PER kWh (l)
1.	1	1,250	7.08				120	8,640			100	
2.	2	1,250	7.08				120	8,640			99	
3.	3	900	5.15				91	8,669			52	
4.												
5.												
6.	Total	3,400	19.31	0.00	0.00		331	25,949	0	0	251	
7.	Average BTU		139,979.28				Station Service (MWh)			154.00	10,768.92	
8.	Total BTU (10 <sup>6</sup> )		2,703.00			2,703.00	Net Generation (MWh)			97.00		
9.	Total Del. Cost (\$)		70,868.00				Station Service % of Gross			61.35	27,865.98	
SECTION B. LABOR REPORT						SECTION C. FACTORS & MAXIMUM DEMAND						
NO.	ITEM	VALUE	NO.	ITEM	VALUE	NO.	ITEM	VALUE				
1.	No. Employees Full Time (Include Superintendent)		5.	Maintenance Plant Payroll (\$)		1.	Load Factor (%)	1.06%				
2.	No. Employees Part Time		6.	Other Accounts Plant Payroll (\$)		2.	Plant Factor (%)	0.84%				
3.	Total Employee Hours Worked		7.	Total Plant Payroll (\$)		3.	Running Plant Capacity Factor (%)	65.72%				
4.	Operating Plant Payroll (\$)					4.	15 Min. Gross Max. Demand (kW)	2,700				
						5.	Indicated Gross Max. Demand (kW)	2,700				
SECTION D. COST OF NET ENERGY GENERATED												
NO.	PRODUCTION EXPENSE	ACCOUNT NUMBER	AMOUNT (\$) (a)	MILLS/NET (kWh) (b)	\$/10 <sup>6</sup> BTU (c)							
1.	Operation, Supervision and Engineering	546	0									
2.	Fuel, Oil	547.1	67,526		24.98							
3.	Fuel, Gas	547.2	0		0.00							
4.	Fuel, Other	547.3	0		0.00							
5.	Energy for Compressed Air	547.4	0		0.00							
6.	Fuel SubTotal (2 thru 5)	547	67,526	696.14	24.98							
7.	Generation Expenses	548	125,312									
8.	Miscellaneous Other Power Generation Expenses	549	0									
9.	Rents	550	0									
10.	Non-Fuel SubTotal (1 + 7 thru 9)		125,312		1,291.87							
11.	Operation Expense (6 + 10)		192,838		1,988.02							
12.	Maintenance, Supervision and Engineering	551	0									
13.	Maintenance of Structures	552	0									
14.	Maintenance of Generating and Electric Plant	553	35,176									
15.	Maintenance of Miscellaneous Other Power Generating Plant	554	0									
16.	Maintenance Expense (12 thru 15)		35,176		362.63							
17.	Total Production Expense (11 + 16)		228,014	2,350.65								
18.	Depreciation	403.4,411.10	0									
19.	Interest	427	0									
20.	Total Fixed Cost (18 + 19)		0		0.00							
21.	Power Cost (17 + 20)		228,014	2,350.65								
Remarks (including Unscheduled Outages)												

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0572-0032. The time required to complete this information collection is estimated to average 15 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE	BORROWER DESIGNATION MI0048
FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION	PERIOD ENDED December 2019 (Prepared with Audited Data)
	BORROWER NAME Great Lakes Energy Cooperative

INSTRUCTIONS - See help in the online application.

This information is analyzed and used to determine the submitter's financial situation and feasibility for loans and guarantees. You are required by contract and applicable regulations to provide the information. The information provided is subject to the Freedom of Information Act (5 U.S.C. 552)

#### CERTIFICATION

We recognize that statements contained herein concern a matter within the jurisdiction of an agency of the United States and the making of a false, fictitious or fraudulent statement may render the maker subject to prosecution under Title 18, United States Code Section 1001.

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.

ALL INSURANCE REQUIRED BY PART 1788 OF 7 CFR CHAPTER XVII, RUS, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES DURING THE PERIOD COVERED BY THIS REPORT PURSUANT TO PART 1718 OF 7 CFR CHAPTER XVII

(check one of the following)

☒ All of the obligations under the RUS loan documents have been fulfilled in all material respects.

☐ There has been a default in the fulfillment of the obligations under the RUS loan documents. Said default(s) is/are specifically described in Part D of this report.

William Scott

5/6/2020

DATE

#### PART A. STATEMENT OF OPERATIONS

ITEM	YEAR-TO-DATE			THIS MONTH
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	
1. Operating Revenue and Patronage Capital	197,995,566	205,826,012	202,050,032	20,645,988
2. Power Production Expense	202,165	228,014	202,083	13,945
3. Cost of Purchased Power	117,635,144	121,179,303	119,348,298	12,855,527
4. Transmission Expense				
5. Regional Market Expense				
6. Distribution Expense - Operation	12,202,975	12,333,281	12,125,020	1,053,010
7. Distribution Expense - Maintenance	18,330,625	21,745,262	19,159,910	3,128,688
8. Customer Accounts Expense	5,564,758	5,415,335	5,697,084	519,271
9. Customer Service and Informational Expense	4,789,506	4,416,927	4,350,142	638,215
10. Sales Expense	451,515	322,960	437,448	16,568
11. Administrative and General Expense	8,800,196	8,456,992	9,183,279	514,825
12. Total Operation & Maintenance Expense (2 thru 11)	167,976,884	174,098,074	170,503,264	18,740,049
13. Depreciation and Amortization Expense	14,488,296	15,194,308	15,254,136	1,286,077
14. Tax Expense - Property & Gross Receipts				
15. Tax Expense - Other	17,722	53,821	16,500	6,000
16. Interest on Long-Term Debt	10,249,893	10,367,956	10,504,862	865,311
17. Interest Charged to Construction - Credit				
18. Interest Expense - Other	175,896	291,245	300,513	43,944
19. Other Deductions	(91,843)	6,313	51,896	6,720
20. Total Cost of Electric Service (12 thru 19)	192,816,848	200,011,717	196,631,171	20,948,101
21. Patronage Capital & Operating Margins (1 minus 20)	5,178,718	5,814,295	5,418,861	(302,113)
22. Non Operating Margins - Interest	2,189,257	2,344,024	1,108,299	467,145
23. Allowance for Funds Used During Construction				
24. Income (Loss) from Equity Investments	(1,778,965)	(2,521,006)	(5,207,244)	866,509
25. Non Operating Margins - Other	(569,217)	91,409	75,000	56,875
26. Generation and Transmission Capital Credits	8,393,707	6,609,118	8,454,556	(803,011)
27. Other Capital Credits and Patronage Dividends	1,424,085	1,366,054	1,047,360	405,974
28. Extraordinary Items				
29. Patronage Capital or Margins (21 thru 28)	14,837,585	13,703,894	10,896,832	691,379

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE  FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION			BORROWER DESIGNATION  MI0048		
INSTRUCTIONS - See help in the online application.			PERIOD ENDED  December 2019		
PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT					
ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	1,008	1,238	5. Miles Transmission		
2. Services Retired	267	365	6. Miles Distribution -- Overhead	10,936.00	10,896.00
3. Total Services in Place	135,989	136,862	7. Miles Distribution - Underground	3,515.00	3,612.00
4. Idle Services (Exclude Seasonals)	9,955	10,329	8. Total Miles Energized (5 + 6 + 7)	14,451.00	14,508.00
PART C. BALANCE SHEET					
ASSETS AND OTHER DEBITS			LIABILITIES AND OTHER CREDITS		
1. Total Utility Plant in Service	546,986,359		30. Memberships	519,740	
2. Construction Work in Progress	27,663,054		31. Patronage Capital	191,799,743	
3. Total Utility Plant (1 + 2)	574,649,413		32. Operating Margins - Prior Years	0	
4. Accum. Provision for Depreciation and Amort.	154,345,142		33. Operating Margins - Current Year	13,789,467	
5. Net Utility Plant (3 - 4)	420,304,271		34. Non-Operating Margins	(85,573)	
6. Non-Utility Property (Net)	0		35. Other Margins and Equities	8,024,547	
7. Investments in Subsidiary Companies	56,402		36. Total Margins & Equities (30 thru 35)	214,047,924	
8. Invest. in Assoc. Org. - Patronage Capital	112,037,749		37. Long-Term Debt - RUS (Net)	0	
9. Invest. in Assoc. Org. - Other - General Funds	0		38. Long-Term Debt - FFB - RUS Guaranteed	198,905,230	
10. Invest. in Assoc. Org. - Other - Nongeneral Funds	4,569,603		39. Long-Term Debt - Other - RUS Guaranteed	0	
11. Investments in Economic Development Projects	1,311,525		40. Long-Term Debt Other (Net)	129,097,064	
12. Other Investments	2,603,852		41. Long-Term Debt - RUS - Econ. Devel. (Net)	998,319	
13. Special Funds	0		42. Payments -- Unapplied	29,886,600	
14. Total Other Property & Investments (6 thru 13)	120,579,131		43. Total Long-Term Debt (37 thru 41 - 42)	299,114,013	
15. Cash - General Funds	2,623,773		44. Obligations Under Capital Leases - Noncurrent	4,499,461	
16. Cash - Construction Funds - Trustee	0		45. Accumulated Operating Provisions and Asset Retirement Obligations	6,351,621	
17. Special Deposits	0		46. Total Other Noncurrent Liabilities (44 + 45)	10,851,082	
18. Temporary Investments	0		47. Notes Payable	2,159,128	
19. Notes Receivable (Net)	0		48. Accounts Payable	20,508,339	
20. Accounts Receivable - Sales of Energy (Net)	15,270,403		49. Consumers Deposits	1,523,086	
21. Accounts Receivable - Other (Net)	8,130,499		50. Current Maturities Long-Term Debt	8,151,601	
22. Renewable Energy Credits	0		51. Current Maturities Long-Term Debt - Economic Development	181,008	
23. Materials and Supplies - Electric & Other	6,296,338		52. Current Maturities Capital Leases	1,128,485	
24. Prepayments	198,451		53. Other Current and Accrued Liabilities	14,779,412	
25. Other Current and Accrued Assets	55,522		54. Total Current & Accrued Liabilities (47 thru 53)	48,431,059	
26. Total Current and Accrued Assets (15 thru 25)	32,574,986		55. Regulatory Liabilities	2,019,680	
27. Regulatory Assets	918,963		56. Other Deferred Credits	4,609,953	
28. Other Deferred Debits	4,696,360		57. Total Liabilities and Other Credits (36 + 43 + 46 + 54 thru 56)	579,073,711	
29. Total Assets and Other Debits (5+14+26 thru 28)	579,073,711				

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE <b>FINANCIAL AND OPERATING REPORT</b> <b>ELECTRIC DISTRIBUTION</b>	BORROWER DESIGNATION  MI0048
INSTRUCTIONS - See help in the online application.	PERIOD ENDED December 2019
<b>PART D. NOTES TO FINANCIAL STATEMENTS</b>	

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE <b>FINANCIAL AND OPERATING REPORT</b> <b>ELECTRIC DISTRIBUTION</b>	BORROWER DESIGNATION  MI0048
INSTRUCTIONS - See help in the online application.	PERIOD ENDED December 2019
<b>PART D. CERTIFICATION LOAN DEFAULT NOTES</b>	

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE				BORROWER DESIGNATION MI0048			
FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION				PERIOD ENDED December 2019			
INSTRUCTIONS - See help in the online application.							
PART E. CHANGES IN UTILITY PLANT							
PLANT ITEM	BALANCE BEGINNING OF YEAR (a)	ADDITIONS (b)	RETIREMENTS (c)	ADJUSTMENTS AND TRANSFERS (d)	BALANCE END OF YEAR (e)		
1. Distribution Plant	441,235,575	55,170,239	4,303,164		492,102,650		
2. General Plant	30,827,110	2,162,066	2,508,837		30,480,339		
3. Headquarters Plant	14,459,995	82,410			14,542,405		
4. Intangibles	0				0		
5. Transmission Plant	0				0		
6. Regional Transmission and Market Operation Plant							
7. All Other Utility Plant	9,129,623	731,344			9,860,967		
8. Total Utility Plant in Service (1 thru 7)	495,652,303	58,146,059	6,812,001		546,986,361		
9. Construction Work in Progress	18,022,863	9,640,192			27,663,055		
10. Total Utility Plant (8 + 9)	513,675,166	67,786,251	6,812,001		574,649,416		
PART F. MATERIALS AND SUPPLIES							
ITEM	BALANCE BEGINNING OF YEAR (a)	PURCHASED (b)	SALVAGED (c)	USED (NET) (d)	SOLD (e)	ADJUSTMENT (f)	BALANCE END OF YEAR (g)
1. Electric	3,824,809	15,081,027	59,079	12,495,321	5,842	(167,414)	6,296,338
2. Other	0						0
PART G. SERVICE INTERRUPTIONS							
ITEM	AVERAGE MINUTES PER CONSUMER BY CAUSE				TOTAL (e)		
	POWER SUPPLIER (a)	MAJOR EVENT (b)	PLANNED (c)	ALL OTHER (d)			
1. Present Year	4.710	553.580	6.790	164.290	729.370		
2. Five-Year Average	11.350	451.570	4.710	153.936	621.566		
PART H. EMPLOYEE-HOUR AND PAYROLL STATISTICS							
1. Number of Full Time Employees	242	4. Payroll - Expensed	13,791,646				
2. Employee - Hours Worked - Regular Time	507,918	5. Payroll - Capitalized	6,315,154				
3. Employee - Hours Worked - Overtime	45,226	6. Payroll - Other	4,692,025				
PART I. PATRONAGE CAPITAL							
ITEM	DESCRIPTION	THIS YEAR (a)	CUMULATIVE (b)				
1. Capital Credits - Distributions	a. General Retirements	5,080,000					
	b. Special Retirements	202,099					
	c. Total Retirements (a + b)	5,282,099					
2. Capital Credits - Received	a. Cash Received From Retirement of Patronage Capital by Suppliers of Electric Power	8,061,935					
	b. Cash Received From Retirement of Patronage Capital by Lenders for Credit Extended to the Electric System	606,865					
	c. Total Cash Received (a + b)	8,668,800					
PART J. DUE FROM CONSUMERS FOR ELECTRIC SERVICE							
1. Amount Due Over 60 Days	\$ 482,878	2. Amount Written Off During Year	\$ 142,511				
ENERGY EFFICIENCY AND CONSERVATION LOAN PROGRAM							
1. Anticipated Loan Delinquency %		4. Anticipated Loan Default %					
2. Actual Loan Delinquency %		5. Actual Loan Default %					
3. Total Loan Delinquency Dollars YTD	\$	6. Total Loan Default Dollars YTD	\$				

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE  <b>FINANCIAL AND OPERATING REPORT          ELECTRIC DISTRIBUTION</b>					BORROWER DESIGNATION  MI0048				
INSTRUCTIONS - See help in the online application					PERIOD ENDED December 2019				
<b>PART K. kWh PURCHASED AND TOTAL COST</b>									
No	ITEM	SUPPLIER CODE	RENEWABLE ENERGY PROGRAM NAME	RENEWABLE FUEL TYPE	kWh PURCHASED	TOTAL COST	AVERAGE COST (Cents/kWh)	INCLUDED IN TOTAL COST - FUEL COST ADJUSTMENT	INCLUDED IN TOTAL COST - WHEELING AND OTHER CHARGES
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Wolverine Pwr Supply Coop, Inc	20910	Wind	Wind	109,937,114	8,240,193	7.50		
2	Wolverine Pwr Supply Coop, Inc	20910			1,506,785,154	112,939,109	7.50		
	Total				1,616,722,268	121,179,302	7.50		



UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE  <b>FINANCIAL AND OPERATING REPORT  ELECTRIC DISTRIBUTION</b>		BORROWER DESIGNATION  MI0048	
INSTRUCTIONS - See help in the online application		PERIOD ENDED December 2019	
<b>PART K. kWh PURCHASED AND TOTAL COST</b>			
<b>No</b>	<b>Comments</b>		
1			
2			

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE  FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION		BORROWER DESIGNATION  MI0048	
INSTRUCTIONS - See help in the online application.		PERIOD ENDED December 2019	
PART L. LONG-TERM LEASES			
No	NAME OF LESSOR (a)	TYPE OF PROPERTY (b)	RENTAL THIS YEAR (c)
1	Antenna Designs	Tower	3,465
2	EW Marine	Tower	9,450
3	RFC Fire and Rescue	Tower	4,521
4	CSX Transport	Railroad	387
5	State of Michigan	Railroad	285
	TOTAL		18,108

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE		BORROWER DESIGNATION MI0048	
FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION		PERIOD ENDED December 2019	
INSTRUCTIONS - See help in the online application.			
PART M. ANNUAL MEETING AND BOARD DATA			
1. Date of Last Annual Meeting 8/21/2019	2. Total Number of Members 106,046	3. Number of Members Present at Meeting 0	4. Was Quorum Present? N
5. Number of Members Voting by Proxy or Mail 695	6. Total Number of Board Members 9	7. Total Amount of Fees and Expenses for Board Members \$ 380,682	8. Does Manager Have Written Contract? Y

RUS Financial and Operating Report Electric Distribution

Revision Date 2014

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE  FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION			BORROWER DESIGNATION  MI0048		
INSTRUCTIONS - See help in the online application.			PERIOD ENDED December 2019		
PART N. LONG-TERM DEBT AND DEBT SERVICE REQUIREMENTS					
No	ITEM	BALANCE END OF YEAR (a)	INTEREST (Billed This Year) (b)	PRINCIPAL (Billed This Year) (c)	TOTAL (Billed This Year) (d)
1	Rural Utilities Service (Excludes RUS - Economic Development Loans)				
2	National Rural Utilities Cooperative Finance Corporation	37,949,891	598,399	1,019,128	1,617,527
3	CoBank, ACB	90,747,173	4,062,076	8,032,313	12,094,389
4	Federal Financing Bank	198,905,230	6,400,212	4,808,958	11,209,170
5	RUS - Economic Development Loans	998,319	0	140,672	140,672
6	Payments Unapplied	29,886,600			
7	Principal Payments Received from Ultimate Recipients of IRP Loans				
8	Principal Payments Received from Ultimate Recipients of REDL Loans				
9	Principal Payments Received from Ultimate Recipients of EE Loans				
10	City of Newaygo	400,000			
11	Farm Credit Services	3,332,543	152,546	569,359	721,905
12	Altec Capital Services	1,073,997	77,221	445,764	522,985
13	Enterprise	47,282	3,359	14,561	17,920
14	Tesla	45,639	0	5,869	5,869
	TOTAL	303,613,474	11,293,813	15,036,624	26,330,437

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE		BORROWER DESIGNATION MI0048		
FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION		PERIOD ENDED December 2019		
INSTRUCTIONS - See help in the online application.				
PART O. POWER REQUIREMENTS DATABASE - ANNUAL SUMMARY				
CLASSIFICATION	CONSUMER SALES & REVENUE DATA	DECEMBER (a)	AVERAGE NO. CONSUMERS SERVED (b)	TOTAL YEAR TO DATE (c)
1. Residential Sales (excluding seasonal)	a. No. Consumers Served	75,897	75,726	
	b. kWh Sold			720,207,033
	c. Revenue			105,849,155
2. Residential Sales - Seasonal	a. No. Consumers Served	39,545	39,411	
	b. kWh Sold			148,079,278
	c. Revenue			30,680,245
3. Irrigation Sales	a. No. Consumers Served			
	b. kWh Sold			
	c. Revenue			
4. Comm. and Ind. 1000 KVA or Less	a. No. Consumers Served	10,799	10,821	
	b. kWh Sold			177,631,222
	c. Revenue			24,121,799
5. Comm. and Ind. Over 1000 KVA	a. No. Consumers Served	292	292	
	b. kWh Sold			493,144,107
	c. Revenue			40,157,762
6. Public Street & Highway Lighting	a. No. Consumers Served			
	b. kWh Sold			
	c. Revenue			
7. Other Sales to Public Authorities	a. No. Consumers Served			
	b. kWh Sold			
	c. Revenue			
8. Sales for Resale - RUS Borrowers	a. No. Consumers Served			
	b. kWh Sold			
	c. Revenue			
9. Sales for Resale - Other	a. No. Consumers Served			
	b. kWh Sold			
	c. Revenue			
10.	Total No. of Consumers (lines 1a thru 9a)	126,533	126,250	
11.	Total kWh Sold (lines 1b thru 9b)			1,539,061,640
12.	Total Revenue Received From Sales of Electric Energy (lines 1c thru 9c)			200,808,961
13.	Transmission Revenue			0
14.	Other Electric Revenue			5,017,051
15.	kWh - Own Use			154,000
16.	Total kWh Purchased			1,616,722,268
17.	Total kWh Generated			251,000
18.	Cost of Purchases and Generation			121,407,317
19.	Interchange - kWh - Net			0
20.	Peak - Sum All kW Input (Metered) Non-coincident <input type="checkbox"/> Coincident <input checked="" type="checkbox"/>			294,813

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE			BORROWER DESIGNATION MI0048			
FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION			PERIOD ENDED December 2019			
INSTRUCTIONS - See help in the online application.						
PART P. ENERGY EFFICIENCY PROGRAMS						
CLASSIFICATION	ADDED THIS YEAR			TOTAL TO DATE		
	No. of Consumers (a)	Amount Invested (b)	Estimated MMBTU Savings (c)	No. of Consumers (d)	Amount Invested (e)	Estimated MMBTU Savings (f)
1. Residential Sales (excluding seasonal)	3,261	1,859,117	24,626	52,727	12,040,635	194,618
2. Residential Sales - Seasonal	665	379,116	5,022	8,897	2,050,215	31,780
3. Irrigation Sales						
4. Comm. and Ind. 1000 KVA or Less	52	623,612	13,410	926	4,833,737	103,043
5. Comm. and Ind. Over 1000 KVA	36	440,010	9,462	292	2,598,491	64,138
6. Public Street and Highway Lighting						
7. Other Sales to Public Authorities						
8. Sales for Resale – RUS Borrowers						
9. Sales for Resale – Other						
10. Total	4,014	3,301,855	52,520	62,842	21,523,078	393,579

RUS Financial and Operating Report Electric Distribution

Revision Date 2014

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE		BORROWER DESIGNATION MI0048			
FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION INVESTMENTS, LOAN GUARANTEES AND LOANS		PERIOD ENDED December 2019			
INSTRUCTIONS - Reporting of investments is required by 7 CFR 1717, Subpart N. Investment categories reported on this Part correspond to Balance Sheet items in Part C. Identify all investments in Rural Development with an 'X' in column (e). Both 'Included' and 'Excluded' Investments must be reported. See help in the online application.					
PART Q. SECTION I. INVESTMENTS (See Instructions for definitions of Income or Loss)					
No	DESCRIPTION (a)	INCLUDED (\$) (b)	EXCLUDED (\$) (c)	INCOME OR LOSS (\$) (d)	RURAL DEVELOPMENT (e)
2	Investments in Associated Organizations				
	NRTC patronage capital	25,561			
	WPC patronage - G&T		107,763,638		
	NRUCFC Patronage		734,596		
	Federated Patronage	610,489			
	CoBank patronage		2,253,538		
	NISC Patronage	237,852			
	Resco Patronage	412,075			
	Resco Stock	500			
	WPC Membership - G&T	600			
	NRUCFC Membership		1,000		
	CoBank Membership		1,000		
	NRTC Membership	2,000			
	NISC Membership	25			
	Geothermal Energy Membership	600			
	NRUCFC CTC's/Membership Certificates		4,563,878		
	Investments in Subsidiaries	56,402			
	Totals	1,346,104	115,317,650		
3	Investments in Economic Development Projects				
	Revolving Loan Fund		131,525		X
	Kilwins Confections		60,000		X
	Manthei Veneer		1,120,000		X
	Totals		1,311,525		
4	Other Investments				
	Homestead Funds - GLE employees Def. comp.		761,639		
	American Funds - Mutual Funds		1,842,213		
	Totals		2,603,852		
6	Cash - General				
	Fifth Third Bank	949,843	250,000		
	West Shore Bank	6,396	184,840		
	Choice One Bank	218,487			
	Huntington Bank	54,073	125,801		
	United Bank of Michigan	17,874	92,310		
	Choice One Bank - Economic Dev.	41,649	401,758		X
	Choice One Bank - Revolving Loan Fund	26,567	250,018		X
	Choice One Bank - IRP Account	7			X
	Working Funds - Petty Cash	4,150			
	Totals	1,319,046	1,304,727		
9	Accounts and Notes Receivable - NET				
	Other Accounts Receivable - Net		8,130,499		
	Totals		8,130,499		
11	TOTAL INVESTMENTS (1 thru 10)	2,665,150	128,668,253		

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE		BORROWER DESIGNATION MI0048			
FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION INVESTMENTS, LOAN GUARANTEES AND LOANS		PERIOD ENDED December 2019			
INSTRUCTIONS - Reporting of investments is required by 7 CFR 1717, Subpart N. Investment categories reported on this Part correspond to Balance Sheet items in Part C. Identify all investments in Rural Development with an 'X' in column (e). Both 'Included' and 'Excluded' Investments must be reported. See help in the online application.					
PART Q. SECTION II. LOAN GUARANTEES					
No	ORGANIZATION (a)	MATURITY DATE (b)	ORIGINAL AMOUNT (\$) (c)	LOAN BALANCE (\$) (d)	RURAL DEVELOPMENT (e)
1					
	<b>TOTAL</b>				
	TOTAL (Included Loan Guarantees Only)		0	0	



UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE		BORROWER DESIGNATION MI0048			
FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION INVESTMENTS, LOAN GUARANTEES AND LOANS		PERIOD ENDED December 2019			
INSTRUCTIONS - Reporting of investments is required by 7 CFR 1717, Subpart N. Investment categories reported on this Part correspond to Balance Sheet items in Part C. Identify all investments in Rural Development with an 'X' in column (e). Both 'Included' and 'Excluded' Investments must be reported. See help in the online application.					
SECTION III. RATIO					
RATIO OF INVESTMENTS AND LOAN GUARANTEES TO UTILITY PLANT [Total of Included Investments (Section I, 11b) and Loan Guarantees - Loan Balance (Section II, 5d) to Total Utility Plant (Line 3, Part C) of this report]					0.46 %
SECTION IV. LOANS					
No	ORGANIZATION (a)	MATURITY DATE (b)	ORIGINAL AMOUNT (\$) (c)	LOAN BALANCE (\$) (d)	RURAL DEVELOPMENT (e)
1	Employees, Officers, Directors		16,438	5,727	
2	Energy Resources Conservation Loans				
	TOTAL		16,438	5,727	



Consolidated Financial Statements  
December 31, 2019 and 2018  
**Great Lakes Energy Cooperative**

# GREAT LAKES ENERGY COOPERATIVE

## TABLE OF CONTENTS

	<u>PAGES</u>
INDEPENDENT AUDITOR'S REPORT	1-2
CONSOLIDATED BALANCE SHEETS	3
CONSOLIDATED STATEMENTS OF OPERATIONS	4
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	5
CONSOLIDATED STATEMENTS OF CASH FLOWS	6
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITIES	7
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	8-27
SUPPLEMENTARY INFORMATION:	
CONSOLIDATING BALANCE SHEET	29-30
CONSOLIDATING STATEMENT OF REVENUES AND NET MARGINS	31
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	32-33
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS	34-36



## Independent Auditor's Report

The Board of Directors  
Great Lakes Energy Cooperative  
Boyne City, Michigan

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Great Lakes Energy Cooperative, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, cash flows, changes in equities, and comprehensive income for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

### **Opinion**

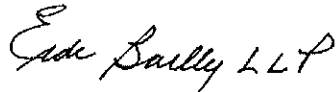
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Great Lakes Energy Cooperative as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report Issued in Accordance with *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated April 15, 2020, on our consideration of Great Lakes Energy Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Great Lakes Energy Cooperative's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Great Lakes Energy Cooperative's internal control over financial reporting and compliance.

### **Report on Other Legal and Regulatory Requirements**

In accordance with the *Rural Utility Service's* requirements set forth in 7 CFR Part 1773, we have also issued a report dated April 15, 2020, on our consideration of Great Lakes Energy Cooperative's compliance with aspects of contractual agreements and regulatory requirements for electric borrowers. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of procedures performed in accordance with Rural Utility Service's requirements in considering Great Lakes Energy Cooperative's compliance with certain regulatory requirements.

Handwritten signature of Erik Bailey in cursive script.

Fargo, North Dakota  
April 15, 2020

# GREAT LAKES ENERGY COOPERATIVE CONSOLIDATED BALANCE SHEETS

as of December 31, 2019 and 2018

	2019	2018		2019	2018
ASSETS			EQUITIES AND LIABILITIES		
<b>ELECTRIC PLANT:</b>			<b>EQUITIES:</b>		
Distribution and generation plant, at cost	\$ 574,649,414	\$ 513,675,163	Memberships	\$ 519,740	\$ 519,740
Less accumulated depreciation	154,345,142	146,888,481	Patronage capital	201,014,847	192,162,429
Net electric plant	420,304,272	366,786,682	Donated capital	8,024,547	6,966,685
			Accumulated other comprehensive income	4,488,790	6,148,928
			Total equities	214,047,924	205,797,782
<b>OTHER ASSETS AND INVESTMENTS:</b>			<b>LONG-TERM LIABILITIES:</b>		
Non-utility property, net of accumulated depreciation	4,728,661	2,982,531	Long-term debt, net of current maturities	299,114,013	261,578,830
Investments and memberships	119,211,205	119,488,078	Obligation under capital lease	4,499,461	4,930,606
Notes and other receivables	1,028,606	53,600	Obligation (Asset) under interest rate swap	1,834,105	(168,365)
Other Assets	1,143,095	-	Other non-current liabilities	4,517,516	2,847,543
Total other assets and investments	126,111,567	122,524,209	Total long-term liabilities	309,965,095	269,188,614
<b>CURRENT ASSETS:</b>			<b>CURRENT LIABILITIES:</b>		
Cash	2,623,773	8,387,040	Current maturities of long-term debt	8,332,610	6,560,342
Accounts receivable, net of allowance for uncollectible accounts of \$1,551,269 in 2019 and \$1,517,398 in 2018	17,469,724	15,029,836	Current maturities of lease obligations	1,128,485	970,634
Materials and supplies	6,296,338	3,824,809	Notes payable	2,159,128	158,848
Other current assets, including current portion of notes and other receivables	1,931,322	1,674,417	Accounts payable	20,893,885	16,738,377
Total current assets	28,321,157	28,916,102	Accrued expenses	14,824,017	14,963,499
			Customer deposits	1,523,486	1,520,635
			Total current liabilities	48,861,611	40,912,335
<b>DEFERRED CHARGES</b>			<b>DEFERRED CREDITS</b>		
	4,767,267	6,010,275		6,629,633	8,338,537
Total assets	\$ 579,504,263	\$ 524,237,268	Total equities and liabilities	\$ 579,504,263	\$ 524,237,268

The accompanying notes are a part of these consolidated financial statements.

GREAT LAKES ENERGY COOPERATIVE  
CONSOLIDATED STATEMENTS OF OPERATIONS  
for the years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES	\$ 206,506,566	\$ 197,997,536
OPERATING EXPENSES:		
Purchased and produced power	121,407,317	117,837,309
Purchased phone and internet	81,212	9,791
Distribution expenses:		
Operations	13,873,224	12,992,603
Maintenance	21,745,262	18,330,625
Customer accounts and service expense	10,756,792	11,044,327
Administration and general	9,091,069	9,269,528
Depreciation and amortization	15,519,119	14,524,164
Other operating expenses	<u>855,688</u>	<u>86,709</u>
Total operating expenses	<u>193,329,683</u>	<u>184,095,056</u>
OPERATING MARGINS BEFORE FIXED CHARGES	13,176,883	13,902,480
FIXED CHARGES, interest expense	<u>10,972,868</u>	<u>10,485,904</u>
OPERATING MARGINS AFTER FIXED CHARGES	2,204,015	3,416,576
NON-OPERATING MARGINS:		
Interest and investment income	2,344,024	2,189,257
Other income (expenses), net	<u>91,409</u>	<u>(569,542)</u>
Total non-operating margins	2,435,433	1,619,715
CAPITAL CREDITS, from associated organizations	<u>7,975,172</u>	<u>9,817,792</u>
Net margins before federal income taxes	12,614,620	14,854,083
FEDERAL INCOME TAX PROVISION (BENEFIT)	<u>(1,089,275)</u>	<u>16,500</u>
Net margins	<u>\$ 13,703,895</u>	<u>\$ 14,837,583</u>

The accompanying notes are a part of these consolidated financial statements.

GREAT LAKES ENERGY COOPERATIVE  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
for the years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
NET MARGINS	\$ 13,703,895	\$ 14,837,583
Other comprehensive income (expense):		
Unrealized holding gain (loss) on securities arising during year	-	(156,960)
Directors' pension liability adjustment	(133,567)	269,897
Postretirement Health Insurance Benefit Plan liability adjustment	661,951	(382,552)
Increase (decrease) in fair value of interest rate swap	<u>(2,002,470)</u>	<u>816,507</u>
Net other comprehensive income (loss)	<u>(1,474,086)</u>	<u>546,892</u>
Comprehensive income	<u><u>\$ 12,229,809</u></u>	<u><u>\$ 15,384,475</u></u>

The accompanying notes are a part of these consolidated financial statements.



GREAT LAKES ENERGY COOPERATIVE  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
for the years ended December 31, 2019 and 2018

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net margins	\$ 13,703,895	\$ 14,837,583
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization	15,759,990	14,524,219
Capital credits from associated organizations	(7,975,173)	(9,817,792)
Net (gain) loss on sale of assets	(259,637)	513,025
Depreciation (appreciation) on investments	(326,172)	50,991
Bad debt provision	189,996	225,000
Changes in assets and liabilities:		
Accounts receivable	(4,558,314)	(242,779)
Materials and supplies	(2,412,815)	(1,184,970)
Other assets and deferred charges	(135,390)	(162,157)
Accounts payable	8,463,830	5,153,119
Accrued expenses and other liabilities	(139,483)	300,387
Customer deposits	2,851	(78,927)
Other non-current liabilities and deferred credits	(880,749)	(1,411,491)
Net cash provided by operating activities	<u>21,432,829</u>	<u>22,706,208</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net investments and memberships	7,217,394	6,016,810
Proceeds from sale of assets	272,214	263,825
Property additions	(69,562,259)	(39,058,438)
Plant removal costs	(3,303,613)	(2,641,994)
Additions to notes receivable	(1,208,219)	(15,017)
Collection on notes receivable	176,736	96,885
Net cash used in investing activities	<u>(66,407,747)</u>	<u>(35,337,929)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contributions in aid of construction received net of refunds	1,590,086	2,024,213
Net proceeds from (payment of) short-term debt	2,000,280	(444)
Payment of capital leases	(1,035,553)	(673,567)
Proceeds from long-term debt	56,469,679	29,490,696
Payment of long-term debt	(15,801,305)	(8,445,620)
Capital credits paid out	(5,069,398)	(5,000,000)
Recovery of previously paid out capital credits	1,057,862	782,291
Net cash provided by financing activities	<u>39,211,651</u>	<u>18,177,569</u>
Net change in cash	(5,763,267)	5,545,848
CASH, beginning of year	8,387,040	2,841,192
CASH, end of year	<u>\$ 2,623,773</u>	<u>\$ 8,387,040</u>

The accompanying notes are a part of these consolidated financial statements.

GREAT LAKES ENERGY COOPERATIVE  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITIES

Years ended December 31, 2019 and 2018

	Memberships	Patronage Capital	Donated Capital	AOCI	Total
Balance at December 31, 2017	\$ 519,740	\$ 182,313,757	\$ 6,184,394	\$ 5,602,036	\$ 194,619,927
Net margins	-	14,837,583	-	-	14,837,583
Other comprehensive income (expense):					
Unrealized holding loss on securities	-	-	-	(156,960)	(156,960)
Directors' pension and Postretirement Health Insurance Benefit					
Plan liability adjustments	-	-	-	(112,655)	(112,655)
Unrealized gain on interest rate swap				816,507	816,507
Sales tax returned	-	157,897	-	-	157,897
Undeliverable retired patronage refunds to members and other adjustments	-	-	782,291	-	782,291
Patronage refunds to members:					
Cash refunds	-	(5,000,000)	-	-	(5,000,000)
Non-cash refunds	-	(146,808)	-	-	(146,808)
Balance at December 31, 2018	519,740	192,162,429	6,966,685	6,148,928	205,797,782
Net margins	-	13,703,895	-	-	13,703,895
Reclass unrealized holding gain due to ASU2016-01	-	186,052	-	(186,052)	-
Other comprehensive income (expense):					
Directors' pension and Postretirement Health Insurance Benefit					
Plan liability adjustments	-	-	-	528,384	528,384
Unrealized loss on interest rate swap				(2,002,470)	(2,002,470)
Sales tax returned	-	234,037	-	-	234,037
Undeliverable retired patronage refunds to members and other adjustments	-	-	1,057,862	-	1,057,862
Patronage refunds to members:					
Cash refunds	-	(5,069,400)	-	-	(5,069,400)
Non-cash refunds	-	(202,166)	-	-	(202,166)
Balance at December 31, 2019	<u>\$ 519,740</u>	<u>\$ 201,014,847</u>	<u>\$ 8,024,547</u>	<u>\$ 4,488,790</u>	<u>\$ 214,047,924</u>

The accompanying notes are a part of these consolidated financial statements.

GREAT LAKES ENERGY COOPERATIVE  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2019 and 2018

---

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Great Lakes Energy Cooperative (the Company) is an electric distribution cooperative servicing areas in parts of 26 counties located in the western portion of Michigan's Lower Peninsula.

The Company is organized as a member cooperative with all customers being members. Each member who joins the cooperative is entitled to certain membership rights, including the right to vote on certain corporate matters. The Company is governed by a board of directors elected by the members.

As a cooperative, annual net margins are assigned to members as capital credits based on their relative purchase of electric power during the year. It is the Company's policy to retire these capital credits when the financial condition of the Company permits.

The Company has a wholly-owned for-profit subsidiary which provides high speed internet and phone service primarily to its members. These business activities are unrelated to the distribution of electricity.

The Company is a nonprofit organization exempt from federal income tax under Section 501(c)(12) of the Internal Revenue Code, except for tax on any unrelated business income. The Company is exempt from income taxes levied by The State of Michigan.

**Basis of Accounting**

The Company is subject to the accounting and reporting rules and regulations of Rural Utilities Service, a Federal Government agency. The Company follows the Federal Energy Regulatory Commission's Uniform System of Accounts prescribed for Class A and B Electric Utilities as modified by the Rural Utilities Service.

**Principles of Consolidation**

In 2018, the Company formed a new wholly-owned subsidiary, Great Lakes Energy Connections, Inc. (GLEC), an internet service provider. The Company is constructing and will own the infrastructure. GLEC has a right to access the fiber for ISP services and will pay market rates to the Company. The consolidated financial statements include the accounts of both companies. All significant intercompany transactions have been eliminated in preparing the consolidated financial statements.

**Electric Plant**

Electric plant includes the electric distribution system, a small generating plant, real estate and various buildings and operating equipment. These assets are recorded at cost, net of any contributions received from customers to defray the cost of constructing the distribution system. Assets are depreciated over their estimated useful lives under the straight-line method.

The cost of any distribution system and generating plant that is retired, plus the cost of removal, net of any salvage value realized, is charged, in total, against accumulated depreciation; a gain or loss is not recognized. The cost and related accumulated depreciation of buildings and operating equipment retired or sold are removed from their respective accounts and a gain or loss is recognized.

# GREAT LAKES ENERGY COOPERATIVE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2019 and 2018

---

### **Non-utility Property**

At December 31, 2019, non-utility property consisted of equipment owned by GLEC being depreciated under the straight-line method over its estimated useful life using the lives permitted for income tax purposes. Amortization of leased plant is included in depreciation expense.

### **Investments and Memberships**

The Company has Investments in associated companies and other investments which are accounted for as equity securities. The Company has determined that these investments do not have a readily determinable fair value. Investments in associated companies are recorded at the Company's share of allocated patronage capital and the other investments are recorded at cost. These investments are assessed for impairment, if any, and adjusted for changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Company has not identified any impairments and there has not been observable price changes during the years ended December 31, 2019 and 2018.

Investments in mutual funds are carried at market value. Certain of these investments are directly related to deferred-compensation obligations and changes in market value are recorded as changes in the related liability. The remaining investments are classified as equity investments with changes in market value reported in net margins.

As of January 1, 2019, the Company adopted the provisions of Accounting Standards Update (ASU) 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The most significant effect resulting from the adoption of the standard is the recognition in net income of the changes in fair value of available-for-sale securities. The cumulative-effect adjustment resulting from the adoption of the standard was to increase retained earnings and decrease accumulated other comprehensive income as of January 1, 2019 by \$186,052.

### **Notes and Other Receivables**

Notes and other receivables include primarily low or zero interest loans made under Federal Rural Economic Development programs. These receivables, as reported in the balance sheets, are net of related allowances for uncollectible accounts of \$140,987 in 2019 and 2018 with any additions to the allowance charged against margins. Interest income is recognized on these receivables by applying the stipulated interest rates to any unpaid balance; any fee revenue is recognized when assessed.

### **Electric Revenues and Accounts Receivable**

Rates for electricity charged to members are established by the Board of Directors. Revenue is recognized when electricity is delivered to customers. Bills are rendered in staggered cycles throughout each month for economic and business reasons. Consequently, at the end of each month a portion of the recorded revenue remains unbilled. The unbilled revenue is computed by applying approved revenue rates to the difference between total kilowatt hours (KWH) delivered to customers, as determined from electronic meter readings taken at month end, and the KWH used for cycle billing purposes.

The Company bills and collects Michigan sales tax related to electric revenue from most of its customers. The sales tax billed is reflected in accounts receivable and recorded as a liability; it is not recorded as revenue or as an expense.

GREAT LAKES ENERGY COOPERATIVE  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2019 and 2018

---

Any electric accounts receivable not collected within one month of billing are assessed a one-time late fee of 2 percent. This fee is included as part of operating revenue.

Allowances are provided for accounts receivable that may become uncollectible, with additions to the allowance charged against margins. Past collection experience is tracked by the Company and is used to determine additions to the allowance. Accounts receivable are written off by a charge against the allowance only after collection efforts have been exhausted and future collection appears unlikely.

### **Materials and Supplies**

Materials and supplies, which are recorded at average cost, consist primarily of items necessary to construct and maintain the distribution system and fuel to operate the generating plant.

### **Deferred Charges**

Deferred charges consist primarily of preliminary survey, pension related costs, and deferred Energy Optimization program costs. The preliminary survey costs are being amortized straight-line over periods not exceeding twenty years, and the other deferred costs over various periods. In 2013, the Company made a prepayment which totaled \$7,329,821 to the National Rural Electric Cooperative Association for the Retirement Security Plan to enhance the Plan's funded status. The prepayment is being amortized over 18 years, which is the weighted average life of the Company's workforce.

### **Deferred Credits**

Deferred credits consist primarily of refundable contributions in aid of construction, which are refundable for a certain period of time, contributions received for future construction, and Energy Optimization program revenues. Upon expiration of the refund period, any contributions not refunded are credited to the electric plant's distribution system. Contributions for future construction are applied against the distribution system when construction costs related to the contribution are incurred. Energy Optimization program revenues are recognized as program expenses are incurred.

### **Fair Value of Financial Instruments**

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

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

Financial instruments, such as cash, temporary investments, accounts receivable, accounts payable, accrued expenses and customer deposits are carried in the consolidated financial statements at cost. These amounts approximate the fair value of such instruments due to their short maturity.

GREAT LAKES ENERGY COOPERATIVE  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2019 and 2018

Notes and other receivables are carried at cost as they are made under various government programs which specify below-market interest rates. Investments and memberships in other cooperatives are carried at cost plus undistributed capital credits assigned by the investee cooperatives as there is no practical way to determine a market value for these investments. Investments in mutual funds are carried at active published market prices as of year-end.

### Revenue Recognition

The Company accounts for customer revenues under Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers.

The Company's performance obligation related to the sale of energy is satisfied as energy is delivered to customers; therefore, revenue from the delivery of energy is recognized over time as energy is delivered to the customers. The Company reads customer meters at the end of each month and bills customers each month based on various billing cycles. Accordingly, revenue is recorded through the end of each accounting period. Telecommunications revenues are also recognized over time. Customers are billed in advance for the following month and revenue is recognized in that same month.

The Company does not have any significant financing components related to contracts with customers as payment is received shortly after being billed to customers.

The following table depicts revenues by timing of revenue recognition and type of revenue for the years ended December 31, 2019 and 2018, respectively:

	2019	2018
Electric revenues (transferred over time) from contracts with customers	\$ 205,826,013	\$ 197,995,565
Telecommunications revenues (transferred over time) from contracts with customers	680,553	1,971
Revenue from contracts with customers	<u>\$ 206,506,566</u>	<u>\$ 197,997,536</u>

### Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of any contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses. Areas requiring the use of significant estimates by management include useful lives of plant, potential uncollectible accounts, notes and other receivables, and postretirement benefit costs. Actual results could differ from the estimates embedded in the consolidated financial statements.

### Cash Flows

The Company reports its cash flows using the indirect method in order to present a reconciliation of net margins to significant changes in cash. Cash reported on the consolidated statement of cash flows is reflected on the consolidated balance sheet.

GREAT LAKES ENERGY COOPERATIVE  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Years ended December 31, 2019 and 2018

**NOTE B - ELECTRIC PLANT**

Major classes of electric plant as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Distribution System	\$ 492,102,648	\$ 441,235,572
Generation plant	2,240,629	2,225,778
General plant	45,022,745	45,287,106
Assets under capital lease	7,620,338	6,903,844
Construction work in progress, net of related contributions in aid of construction	<u>27,663,054</u>	<u>18,022,863</u>
	574,649,414	513,675,163
Less accumulated depreciation	<u>154,345,142</u>	<u>146,888,481</u>
Total	<u>\$ 420,304,272</u>	<u>\$ 366,786,682</u>

During 2019 and 2018, the various components of the electric plant were depreciated based on management's estimate of their useful lives. The lives used equate to an annual composite rate of approximately 2.7 percent for the distribution system and 2.5 percent for the generation plant for 2019 and 2.9 percent for the distribution system and 2.5 percent for the generation plant for 2018.

General plant is being depreciated over the following lives:

<u>General Plant</u>	<u>Life</u>
Structures and improvements	50 years
Office furniture and equipment:	
General office equipment and general purpose data processing equipment	3-16 years
Special purpose data processing equipment	3 years
Computer software	3 years
Transportation equipment:	
Automobile and pickup trucks	5-8.5 years
Heavy trucks	10 years
Power operated equipment	8 years
Communications equipment	5-12.5 years
Load control equipment	10 years
Other	10-20 years

GREAT LAKES ENERGY COOPERATIVE  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Years ended December 31, 2019 and 2018

**NOTE C - INVESTMENTS AND MEMBERSHIPS**

Investments consisted of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Wolverine Power Cooperative, Inc:		
Patronage capital credits and membership	\$ 107,764,238	\$ 109,217,055
National Rural Utilities Cooperative Finance Corporation:		
Capital Term Certificates	4,563,878	4,563,878
Patronage capital credits and membership	735,596	786,417
Other memberships, patronage capital and mutual fund investments	<u>6,147,493</u>	<u>4,920,728</u>
Total	<u>\$ 119,211,205</u>	<u>\$ 119,488,078</u>

Wolverine Power Cooperative, Inc. (Wolverine) is an electric generating and transmission cooperative in which the Company has an approximate 49.7 percent interest. According to the contract with Wolverine, all electric power required by the Company is to be purchased from Wolverine (see Note R).

The Company carries its investments in various mutual funds at their fair values. A portion of the investments aggregating \$761,639 at December 31, 2019 and \$513,901 at December 31, 2018 represent investments held on behalf of current and former directors and employees. Accordingly, annual changes in the fair values of these investments are recorded as an adjustment to their related liability accounts.

Management classifies the remaining investments as equity investments. Annual changes in fair value are determined under level 1 valuation techniques and are recognized as income or expenses. A comparison of cost and fair value of these investments at December 31, 2019 and 2018 follows:

	<u>2019</u>	<u>2018</u>
Cost of remaining mutual fund investments	\$ 1,440,933	\$ 1,361,718
Gain	<u>401,281</u>	<u>186,052</u>
Fair value	<u>\$ 1,842,214</u>	<u>\$ 1,547,770</u>



GREAT LAKES ENERGY COOPERATIVE  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Years ended December 31, 2019 and 2018

**NOTE D - NOTES AND LOANS RECEIVABLE**

Notes receivable consisted of the following as of December 31, 2019 and 2018:

	2019	2018
Rural Economic Development loans, net of allowance for uncollectible loans	\$ 1,170,537	\$ 137,286
Employee loans	5,727	7,495
	1,176,264	144,781
Less current portion	147,658	91,181
Total	\$ 1,028,606	\$ 53,600

The current portions of notes receivable are classified with other current assets in the balance sheets.

**Rural Economic Development Loans Receivable**

The Rural Economic Development loans receivable are zero or low interest loans due in periodic installments of principal and, where appropriate, interest until final maturity. The loans are financed from grants or loans obtained by the Company under various federal programs established for the purpose of promoting loans through electric cooperatives to qualifying entities within their communities for the purpose of promoting economic development. The loans are collateralized by real estate mortgages or an irrevocable stand-by letter of credit.

The allowance for uncollectible loans was \$140,987 as of December 31, 2019 and 2018.

**NOTE E – ACCOUNTS RECEIVABLE**

Accounts receivable include both billed and unbilled revenues. At December 31, 2019 and 2018 accounts receivable consisted of the following:

	2019	2018
Billed accounts	\$ 7,039,669	\$ 4,070,148
Unbilled accounts	11,981,324	12,477,086
	19,020,993	16,547,234
Less allowance for uncollectible accounts	1,551,269	1,517,398
Net accounts receivable	\$ 17,469,724	\$ 15,029,836

GREAT LAKES ENERGY COOPERATIVE  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Years ended December 31, 2019 and 2018

**NOTE F - DEFERRED CHARGES**

Deferred charges at December 31, 2019 and 2018 consisted of the following:

	2019	2018
Preliminary survey costs	\$ 178,484	\$ 213,358
Pension related costs (see Note P)	5,076,918	5,528,238
Accumulated power supply cost recovery charges	-	789,767
Deferred Energy Optimization Program costs	321,407	321,407
	<u>5,576,809</u>	<u>6,852,770</u>
Less current portion	<u>809,542</u>	<u>842,495</u>
Totals	<u>\$ 4,767,267</u>	<u>\$ 6,010,275</u>

**NOTE G - EQUITY**

At December 31, 2019 and 2018, cumulative transactions in patronage capital consisted of the following:

	2019	2018
Assigned and assignable margins	\$ 299,836,247	\$ 285,712,263
Retired	(93,471,933)	(88,402,533)
Undeliverable, transferred to donated capital	<u>(5,349,467)</u>	<u>(5,147,301)</u>
Balance	<u>\$ 201,014,847</u>	<u>\$ 192,162,429</u>

It is the practice of the Company to make patronage refunds to its patrons or members. Such refunds may be made provided total equity, after such refunds are made, is greater than 20 percent of total assets. At December 31, 2019 and 2018 equities of the Company represented approximately 38.0 percent and 39.5 percent, respectively, of its total assets.

GREAT LAKES ENERGY COOPERATIVE  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Years ended December 31, 2019 and 2018

**NOTE H - LONG-TERM DEBT**

Long-term debt consisted of the following at December 31, 2019 and 2018:

	2019	2018
Federal Financing Bank ("FFB")	\$ 204,000,547	\$ 186,313,397
Less RUS Cushion of Credit, advance payment earning 5 pct. Interest	(36,358,394)	(36,262,053)
	167,642,153	150,051,344
National Rural Utilities Cooperative Finance Corporation ("CFC")	39,275,403	10,585,776
CoBank ACB ("CoBank")	98,949,739	106,982,052
Rural Economic Development Loan Program ("REDLG")	1,579,328	520,000
	307,446,623	268,139,172
Less current maturities	8,332,610	6,560,342
Total long-term debt	\$ 299,114,013	\$ 261,578,830

FFB and REDLG loans are payable primarily in either monthly or quarterly installments, including principal and interest, and have various maturity dates through 2052. The FFB loans bear interest at various rates, which range between 2.04 percent and 4.60 percent. The REDLG borrowings bear no interest or interest at one percent.

The loan agreement with FFB is collateralized by a joint mortgage agreement with RUS, CFC and CoBank. Under the joint agreement, substantially all of the Company's assets, except transportation and power operated equipment, certain investments and memberships, certain temporary investments, and some office equipment, are pledged as collateral under terms of the joint agreement.

CFC loans are payable in quarterly or bi-annual installments, including principal and interest, and have various maturity dates through 2044. They bear interest at variable or fixed rates ranging between 2.35 percent and 4.4 percent.

CoBank loans are payable in monthly or quarterly installments, including principal and interest, and have various maturity dates through 2033. They bear interest at fixed rates ranging between 2.81 percent and 4.93 percent.

In 2015, GLE entered into three interest rate swap agreements. As of December 31, 2019 and 2018, GLE had three variable rate notes outstanding with Cobank totaling \$37,302,627 and \$39,662,787, respectively. This debt was refinanced in 2015 from fixed interest debt to variable rate debt. The notes accrue interest at 1-month LIBOR plus 1%. Prior to refinancing, the fixed rate debt bore interest at an average rate of 3.91%. In order to hedge interest rate risk, GLE entered into three corresponding interest rate swaps with notional amounts equaling the principal balances of the variable rate notes. The swap agreement notes bear interest at 1-month Libor plus 2.29%, 2.39% and 2.51%. The interest payments are due monthly with payments settled on a net basis. The net effect of the swap was to convert variable rate debt into fixed rate debt with an effective interest rate of 3.5%.

GREAT LAKES ENERGY COOPERATIVE  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2019 and 2018

---

The notional amount under the swap decreases as principal payments are made on the note so that the notional amount equals the principal outstanding under the note. The swap is designed to hedge the risk of changes in interest payments on the note caused by changes in LIBOR.

The swap was issued at market terms so that it had no fair value at its inception. The carrying amount of the swap has been adjusted to its fair value at the end of the year, which because of changes in forecasted levels of LIBOR resulted in reporting a liability for the fair value of the future net payments forecasted under the swap. The liability is classified as non-current since management does not intend to settle it during 2020. Since the critical terms of the swap and the note are the same, the swap is assumed to be completely effective as a hedge, therefore any change to its fair value is not included in operating income. Accordingly, adjustment of the swap's carrying amount is reported as other comprehensive gain or loss.

In addition to pledging its assets as collateral for the above loans, the Company has agreed under terms of loan agreements with the RUS, CFC and CoBank, to maintain margins at adequate levels to meet certain financial ratios of times interest earned and debt service coverage. RUS, CFC and CoBank use the three most recent years, including the current year, to determine whether these loan covenants have been met through an averaging computation. The Company was in compliance with these loan covenants during 2019 and 2018.

Aggregate annual future maturities of long-term debt, net of amortization of the cushion of credit, are as follows:

<u>Years</u>	<u>Loans</u>
2020	\$ 8,332,610
2021	8,312,357
2022	9,171,029
2023	9,278,253
2024	8,586,320
2025 and beyond	<u>263,766,054</u>
Total	<u>\$ 307,446,623</u>

GREAT LAKES ENERGY COOPERATIVE  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2019 and 2018

**NOTE I – CAPITAL LEASES**

The Company leases transportation equipment under capital leases. Details related to the leases are as follows:

	2019	2018
Farm Credit Leasing	\$ 3,974,661	\$ 3,839,420
Altec Capital Services	1,538,960	1,984,725
Enterprise Fleet Management	62,534	77,095
Tesla Finance	51,791	-
	<u>5,627,946</u>	<u>5,901,240</u>
Less current maturities	<u>1,128,485</u>	<u>970,634</u>
Total long-term capital lease obligations	<u>\$ 4,499,461</u>	<u>\$ 4,930,606</u>

Farm Credit leases are payable monthly and have various interest rates and various maturity dates through 2025.

Altec Capital Services leases are payable monthly and have various interest rates and various maturity dates through 2022.

Enterprise Fleet Management leases are payable monthly and have various interest rates and various maturity dates through 2023.

Tesla Finance lease is payable monthly and has a maturity date in 2022.

Future minimum payments under capital lease obligations as of December 31 are as follows:

2020	\$ 1,128,485
2021	1,091,475
2022	1,207,124
2023	958,568
2024	368,602
2025 and beyond	<u>873,692</u>
Total	<u>\$ 5,627,946</u>

The original cost of the equipment leased totaled \$7,620,338 and \$6,903,844 and the accumulated depreciation related to the capital leases was \$2,277,843 and \$1,189,454 as of the years ended December 31, 2019 and 2018, respectively.

GREAT LAKES ENERGY COOPERATIVE  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Years ended December 31, 2019 and 2018

**NOTE J – OTHER NON-CURRENT LIABILITIES**

The other non-current liabilities at December 31, 2019 and 2018 consisted of the following:

	2019	2018
Accumulated provision for directors' pension plan and employees' postretirement health insurance benefits	\$ 1,189,965	\$ 2,171,527
Employees' and directors' deferred compensation	979,430	676,016
Accumulated power supply cost recovery charges	2,348,121	-
Total	<u>\$ 4,517,516</u>	<u>\$ 2,847,543</u>

**NOTE K - NOTES PAYABLE**

The Company has three revolving lines of credit aggregating \$55,000,000.

The first two lines of credit are with CFC. One line is an unsecured perpetual line in the amount of \$25,000,000. The other CFC line of credit is a \$20,000,000 "bridge" loan until long-term funding from another lender is finalized, which is expected to be spring or summer 2020. At December 31, 2019, the perpetual line of credit had a balance of \$25,000,000 and the "bridge" loan had a balance of \$3,155,773.

In 2020, the balance of the \$25,000,000 line of credit and \$3,000,000 of the \$20,000,000 line of credit will be refinanced. Therefore, the aggregated \$28,000,000 CFC line of credit balances are reported as long-term debt in these financial statements. The remaining available balance under the CFC lines of credit was \$16,844,227 at December 31, 2019.

The third line of credit is with CoBank. It is a one-year line expiring October 31, 2020 in the amount of \$10,000,000. Any borrowings under the CoBank line are subject to a statutory first lien on the Company's equity, but is otherwise unsecured. At December 31, 2019 there was a \$2,003,355 balance on the CoBank line of credit. The remaining available balance under the CoBank line of credit was \$7,996,645 at December 31, 2019.

GREAT LAKES ENERGY COOPERATIVE  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Years ended December 31, 2019 and 2018

**NOTE L - DEFERRED CREDITS**

Deferred credits at December 31, 2019 and 2018 consisted of the following:

	2019	2018
Customer advances to defray system construction costs:		
Non-refundable	\$ 538,351	\$ 538,351
Refundable	4,071,602	5,049,521
Total customer advances	4,609,953	5,587,872
Estimated labor cost associated with initial installation of transformers and meters	-	233,541
Deferred Energy Optimization Program surcharge Revenue	2,019,680	2,517,124
Total	<u>\$ 6,629,633</u>	<u>\$ 8,338,537</u>

**NOTE M - CASH FLOW INFORMATION**

Additional cash flow information for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Cash paid during the year for:		
Interest	\$ 11,293,812	\$ 11,800,610
Federal income tax	34,000	12,000

**NOTE N - FEDERAL INCOME TAX**

The Company, as a tax-exempt entity, is exempt from federal income tax except for the rent it receives on its towers.

Management believes that positions taken during prior years and to be taken for 2019 in reporting federal taxable income for the Company are not controversial and have a high degree of being sustained upon any future examination by the taxing authority.

The Company's Federal income tax returns are subject to examination by the IRS, generally for three years after they are filed. The Company's State tax returns are subject to examination by State authorities, generally for four years after they are filed.

GLEC, the wholly-owned subsidiary, is taxable for federal income tax purposes. GLEC has recorded a deferred income tax benefit for the losses incurred to date at the current federal tax rate of 21%.

GREAT LAKES ENERGY COOPERATIVE  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2019 and 2018

---

**NOTE O - CONCENTRATION OF CREDIT RISK**

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash, investments and memberships, and accounts receivable.

Cash is maintained in credit worthy banks. Accordingly, the Company believes it has no significant credit risk regarding cash and temporary investments. Cash on deposit at December 31, 2019 and 2018, exceeded the Federal Depository Insurance limits by \$5,613,851 and \$9,027,465, respectively.

The majority of the Company's investments and memberships are invested in Wolverine, the Company's exclusive power supplier, in Capital Term Certificates issued by CFC, and in other cooperatives. The Company believes there is no significant credit risk associated with these investments. Mutual fund investments, which comprise 2.2 percent of investments, are subject to normal market fluctuations.

Any credit risk relative to accounts receivable is dissipated due to the large number of customers throughout the Company's service area.

**NOTE P - EMPLOYEE BENEFITS**

The Company currently offers most employees several types of employee benefits, including retirement plans and health insurance benefits. The Company also provides certain directors a retirement plan.

**Retirement Plans for Employees**

The Company participates with other electric cooperatives in a multi-employer retirement and security program sponsored by the National Rural Electric Cooperative Association (NRECA). Substantially all employees are covered by this program. The NRECA Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multi-employer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The NRECA retirement and security program provides benefits based on years of service and the highest five years of compensation during the last 10 years of employment. The Company makes contributions to the program equal to the amounts reflected as an expense in the consolidated financial statements. The Company's contributions to the RS Plan in 2019 and 2018 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Company's contributions to the program for 2019 and 2018 were \$3,272,840 and \$3,041,514, respectively. In 2013, the company elected to participate in a prepayment option offered to participating employers. See the description below for more information on the prepayment program.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the Retirement Security Plan was over 80 percent funded on January 1, 2019 and January 1, 2018, based on the PPA funding target and PPA actuarial value of assets on those dates.



GREAT LAKES ENERGY COOPERATIVE  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Years ended December 31, 2019 and 2018

---

Because the provisions of the PPA do not apply to the RS plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

**RS Plan Prepayment Option**

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the RS Plan to make a contribution prepayment and reduce future required contributions. In 2013, the Company made the prepayment which totaled \$7,329,821 to the National Rural Electric Cooperative Association for the Retirement Security Plan to enhance the Plan's funded status. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives, the billing rate is reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. However, changes in interest rates, asset returns and other plan experience different from expected, plan assumption changes and other factors may have an impact on the differential in billing rates and the 15 year period. The prepayment will be amortized over 18 years which is the weighted average life of the Company's workforce. The amortization expense was \$407,208 in 2019 and 2018.

**Retirement Plan for Directors**

The Company has a non-qualified unfunded pension plan for certain directors. The plan covers directors who serve on the Board for at least ten years, who were on the Board as of June 22, 2005, and who, under normal circumstances, retire before reaching the age of 72. Directors elected to the Board subsequent to that date are not eligible for the plan. The plan provides only for retirement benefits; it does not provide for death or disability benefits.

The Company accrues the annual cost associated with this plan and reports a liability for any unpaid benefits. However, there is no trust associated with this plan and monies to fund the plan come from the unrestricted assets of the Company.

GREAT LAKES ENERGY COOPERATIVE  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2019 and 2018

The following table provides information regarding projected benefit obligations, plan assets and funded status of the directors' plan as of December 31, 2019 and 2018:

	2019	2018
Change in benefit obligation:		
Benefit obligation at January 1	\$ 1,757,480	\$ 2,146,629
Service cost	-	-
Interest cost	62,039	96,384
Actuarial loss (gain)	133,567	(357,933)
Benefits paid	(113,100)	(127,600)
Benefit obligation at December 31	<u>\$ 1,839,986</u>	<u>\$ 1,757,480</u>
Change in plan assets:		
Fair value of plan assets at January 1	\$ -	\$ -
Company contributions	113,100	127,600
Benefits paid	(113,100)	(127,600)
Fair value of plan assets at December 31	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of funded status of plans:		
Projected benefit obligation	\$ 1,839,986	\$ 1,757,480
Fair value of plan assets	<u>-</u>	<u>-</u>
Recorded accrued benefit cost at December 31	<u>\$ 1,839,986</u>	<u>\$ 1,757,480</u>
Weighted average assumptions used to determine the benefit obligations as of December 31:		
Discount rate	3.53%	4.49%
Rate of compensation increase	3.00%	3.00%

Net period costs for the directors' plan were as follows for the years ended December 31, 2019 and 2018:

	2019	2018
Interest cost	<u>\$ 62,039</u>	<u>\$ 96,384</u>
Recorded net benefit cost	<u>\$ 62,039</u>	<u>\$ 96,384</u>

GREAT LAKES ENERGY COOPERATIVE  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2019 and 2018

Future benefits expected to be paid during the next 10 years are as follows:

2020	\$ 113,100
2021	104,700
2022	104,700
2023	104,700
2024	104,700
2025 – 2029	<u>511,400</u>
Total	<u>\$ 1,043,300</u>

The Company believes its contributions for the Plan during 2020 will approximate the expected benefits to be paid for that year, as indicated above.

**Benefit Restoration Plan**

The Company adopted a non-qualified benefit restoration plan (BRP) for corporate employees subject to an RS Plan pension limitation as provided by Sections 415 and 401(a)(7) of the Internal Revenue Code of 1986. This plan provides for a lump sum payment to the participants or their estate, if deceased, upon the lapse of substantial risk of forfeiture specified by the Company in the amount of the RS Plan payment calculation.

**Retirement Savings Plan for Employees**

The Company offers selective retirement savings plans to employees. The plans are offered to employees, pursuant to Section 401(k) of the Internal Revenue Code. The Company and employees make contributions to the employees' accounts. The Company's contributions are equal to the amounts reflected as an expense in the consolidated financial statements. The Company contributed approximately \$554,569 and \$514,276 during 2019 and 2018, respectively. Employees vest immediately in their contributions and in the contributions made by the Company.

**Postretirement Health Insurance Benefits for Employees**

The Company sponsors a defined benefit postretirement medical plan which covers most retired employees and provides partial or full medical insurance benefits for these employees and, under certain circumstances, their spouses and covered dependents. Determination of benefits is based on an employee's status upon retirement.

On May 3, 2012, the Company changed its post-retirement healthcare plan for employees retiring after January 2, 2013. The change reduced company plan contributions and limited the duration of coverage to retiring employees from the age of 62 through 64 years of age, after which no coverage or company contribution would be made.

Plan assets have been placed in a separate trust with a conservative investment approach and a strategy of diversification. The allocation of Plan assets at December 31, 2019 includes 1.5 percent in a money market fund, 7.5 percent in a fixed income fund, and 91.0 percent in an equity fund. The estimated overall long-term rate of return on Plan assets, based on historical rates for similar investments, is 7.75 percent.

# GREAT LAKES ENERGY COOPERATIVE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2019 and 2018

The following table provides information regarding accumulated postretirement benefit obligations, plan assets and funded status of the plan as of December 31, 2019 and 2018:

	2019	2018
Change in benefit obligation:		
Benefit obligation at January 1	\$ 4,540,404	\$ 4,899,065
Service cost	21,461	86,696
Interest (income) cost	(11,223)	20,412
Actuarial loss (gain)	181,426	(139,321)
Benefits paid from plan assets	(305,150)	(326,448)
Benefit obligation at December 31	<u>\$ 4,426,918</u>	<u>\$ 4,540,404</u>
Change in plan assets:		
Fair value of plan assets at January 1	\$ 4,317,366	\$ 4,571,530
Actual return on plan assets	1,082,015	(254,164)
Company contributions	305,150	326,448
Benefits paid	(305,150)	(326,448)
Fair value of plan assets at December 31	<u>\$ 5,399,381</u>	<u>\$ 4,317,366</u>
Reconciliation of funded status of plans:		
Benefit plan obligation at December 31	\$ (4,426,918)	\$ (4,540,404)
Fair value of plan assets at December 31	<u>5,399,381</u>	<u>4,317,366</u>
Recorded accrued benefit cost at December 31	<u>\$ 972,463</u>	<u>\$ (223,038)</u>
Weighted average assumptions as of December 31:		
Discount rate used to determine accumulated postretirement benefit obligation	3.53%	4.49%
Expected long-term rate of return on plan assets	5.00%	5.00%
Net periodic costs include the following components for the years ended December 31, 2019 and 2018:		
	2019	2018
Service cost	\$ 21,461	\$ 86,696
Interest cost	(11,223)	20,412
Expected return on plan assets	(215,868)	(228,576)
Amortization of prior service cost	(684,973)	(684,973)
Amortization of net loss	662,203	645,840
Recorded net benefit cost	<u>\$ (228,400)</u>	<u>\$ (160,601)</u>

GREAT LAKES ENERGY COOPERATIVE  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Years ended December 31, 2019 and 2018

Future benefits expected to be paid during the next 10 years are as follows:

2020	\$ 266,946
2021	297,661
2022	319,412
2023	339,017
2024	331,882
2025 – 2029	<u>1,641,383</u>
Total	<u>\$ 3,196,301</u>

The Company expects 2020 benefits to be paid by the Plan will approximate those listed above.

The 2019 costs were developed based on the health insurance plan in effect at January 1, 2019 and information regarding grandfathered participants as of May 3, 2012. For the year ended December 31, 2019, the assumptions are that retiree medical cost increases would be 6.5 percent and would decrease to 6.0 percent by 2025. The health care cost trend rate assumption significantly affects the amounts reported. For example, a one percentage point increase in each year would increase the accumulated postretirement benefit obligation as of December 31, 2019 by approximately \$176,675 and the interest cost components of net periodic retiree medical costs for 2019 by approximately \$6,237.

The Medicare Prescription Drug, Improvement and Modernization Act (Act) provides for a refund to companies who provide a drug benefit as a part of their postretirement health benefit program that is at least actuarially equivalent to Medicare. The Company's program provides a level of drug benefits that meet these criteria. During 2019 and 2018, the Company received refunds under the Act in the amount of \$18,901 and \$13,905, respectively. These amounts have been included in net margins. Future refunds under this Act will be recorded in net margins during the year received.

#### NOTE Q - RELATED PARTY TRANSACTIONS

Wolverine, the Company's exclusive power supplier, is owned by its member cooperative customers. The Company's investment in Wolverine includes a membership and Wolverine's capital credits allocated to the Company.

During 2008, the Company entered into an agreement with Wolverine to extend the 1949 power purchase agreement through 2050. This agreement requires the Company to purchase all the electric power it sells from Wolverine at Wolverine's current prices. The cost of electric power purchased from Wolverine amounted to \$121,407,317 in 2019 and to \$117,837,309 in 2018.

The Company also joined Wolverine and two of its other cooperative members during 2009 in the operation of a phone and radio communication system. In 2019, the Company stopped using the communication system. The Company's share of the operating costs of these systems was \$0 in 2019 and \$340,240 during 2018.

At December 31, 2019, the Company's share of Wolverine's capital credits amounted to \$107,669,589 which equates to approximately 49.7 percent of all capital credits allocated by Wolverine. Wolverine allocated \$6,515,069 and \$8,393,707 in capital credits to the Company during 2019 and 2018, respectively. Capital Credits in the amount of \$8,061,935 and \$8,007,989 were paid by Wolverine in 2019 and 2018, respectively.

Amounts payable to Wolverine at December 31, 2019 and 2018 were \$12,822,228 and \$10,379,497, respectively. These payables were related to obligations under the purchase power agreement and the communication agreement.

#### **NOTE R – COMMITMENTS & CONTINGENCIES**

At December 31, 2019, the Company was committed for the purchase or lease of 12 vehicles at an aggregate cost, when fully equipped, of approximately \$1,804,488.

At December 31, 2019, the Company also has approximately 50% of its employees covered by a collective bargaining agreement. The collective bargaining agreement was renegotiated, and a new contract was entered into in January of 2018 which expires in December of 2020.

#### **NOTE S – SUBSEQUENT EVENTS**

The Company reviewed events occurring subsequent to December 31, 2019 for any requiring disclosure in accordance with generally accepted accounting principles through April 15, 2020, the date which the consolidated financial statements were available to be issued.

Subsequent to year-end, the Company has been impacted by the effects of the world-wide coronavirus pandemic. The Company is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the Company's financial position is not known.



Supplementary Information  
December 31, 2019 and 2018  
**Great Lakes Energy Cooperative**



## Independent Auditor's Report on Supplementary Information

The Board of Directors  
Great Lakes Energy Cooperative  
Boyne City, Michigan

We have audited the consolidated financial statements of Great Lakes Energy Cooperative as of December 31, 2019 and 2018, and our report thereon dated April 15, 2020, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the consolidating financial statements as a whole. The consolidating information presented on pages 29 through 31 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Eide Bailly LLP*

Fargo, North Dakota  
April 15, 2020



GREAT LAKES ENERGY COOPERATIVE  
DETAIL CONSOLIDATING BALANCE SHEET

As of December 31, 2019

ASSETS	Great Lakes Energy Cooperative	Great Lakes Energy Connections, Inc.	Adjustments and Eliminations	Consolidated
<b>ELECTRIC PLANT:</b>				
Distribution and generation plant, at cost	\$ 574,649,414	\$ -	\$ -	\$ 574,649,414
Less accumulated depreciation	154,345,142	-	-	154,345,142
Net electric plant	<u>420,304,272</u>	<u>-</u>	<u>-</u>	<u>420,304,272</u>
<b>OTHER ASSETS AND INVESTMENTS:</b>				
Non-utility property, net of accumulated depreciation	-	4,728,661	-	4,728,661
Investments and memberships	123,567,477	-	(4,356,272)	119,211,205
Investment in subsidiary	(4,299,871)	-	4,299,871	-
Notes and other receivables	1,028,606	-	-	1,028,606
Other assets	-	1,143,095	-	1,143,095
Total other assets and investments	<u>120,296,212</u>	<u>5,871,756</u>	<u>(56,401)</u>	<u>126,111,567</u>
<b>CURRENT ASSETS:</b>				
Cash	2,623,773	-	-	2,623,773
Accounts receivable, net of allowance for uncollectible accounts	17,370,969	98,755	-	17,469,724
Materials and supplies	6,296,338	-	-	6,296,338
Other current assets	1,635,248	296,074	-	1,931,322
Due from subsidiary company	6,165,179	-	(6,165,179)	-
Total current assets	<u>34,091,507</u>	<u>394,829</u>	<u>(6,165,179)</u>	<u>28,321,157</u>
<b>DEFERRED CHARGES</b>	4,767,267	-	-	4,767,267
<b>Total assets</b>	<u><u>\$ 579,459,258</u></u>	<u><u>\$ 6,266,585</u></u>	<u><u>\$ (6,221,580)</u></u>	<u><u>\$ 579,504,263</u></u>

GREAT LAKES ENERGY COOPERATIVE  
DETAIL CONSOLIDATING BALANCE SHEET

As of December 31, 2019

EQUITIES AND LIABILITIES	Great Lakes Energy Cooperative	Great Lakes Energy Connections, Inc.	Adjustments and Eliminations	Consolidated
<b>EQUITIES:</b>				
Memberships	\$ 519,740	\$ -	\$ -	\$ 519,740
Patronage capital	201,014,847	-	-	201,014,847
Donated capital	8,024,547	-	-	8,024,547
Accumulated other comprehensive income	4,488,790	-	-	4,488,790
Equity in subsidiary	-	(4,299,871)	4,299,871	-
Total equities	<u>214,047,924</u>	<u>(4,299,871)</u>	<u>4,299,871</u>	<u>214,047,924</u>
<b>LONG-TERM LIABILITIES</b>				
Long-Term Debt, Net Of Current Maturities	299,114,013	3,721,835	(3,721,835)	299,114,013
Obligation Under Capital Lease	4,499,461	-	-	4,499,461
Obligation (Asset) Under Interest Rate Swap	1,834,105	-	-	1,834,105
Other Non-Current Liabilities	4,517,516	-	-	4,517,516
Total long-term liabilities	<u>309,965,095</u>	<u>3,721,835</u>	<u>(3,721,835)</u>	<u>309,965,095</u>
<b>CURRENT LIABILITIES:</b>				
Current maturities of long-term debt	8,332,610	634,437	(634,437)	8,332,610
Current maturities of capital leases	1,128,485	-	-	1,128,485
Notes payable	2,159,128	-	-	2,159,128
Accounts payable	20,893,885	-	-	20,893,885
Accrued expenses	14,779,412	44,605	-	14,824,017
Customer deposits	1,523,086	400	-	1,523,486
Due to parent company	-	6,165,179	(6,165,179)	-
Total current liabilities	<u>48,816,606</u>	<u>6,844,621</u>	<u>(6,799,616)</u>	<u>48,861,611</u>
<b>DEFERRED CREDITS</b>	6,629,633	-	-	6,629,633
Total equities and liabilities	<u>\$ 579,459,258</u>	<u>\$ 6,266,585</u>	<u>\$ (6,221,580)</u>	<u>\$ 579,504,263</u>

GREAT LAKES ENERGY COOPERATIVE

DETAIL CONSOLIDATING STATEMENT OF REVENUES AND NET MARGINS

As of December 31, 2019

	Great Lakes Energy Cooperative	Great Lakes Energy Connections, Inc.	Adjustments and Eliminations	Consolidated
OPERATING REVENUES	\$ 205,826,013	\$ 680,553	\$ -	\$ 206,506,566
OPERATING EXPENSES:				
Purchased and produced power	121,407,317	-		121,407,317
Purchased phone and internet	-	81,212	-	81,212
Distribution expenses:				
Operations	12,333,281	1,539,943	-	13,873,224
Maintenance	21,745,262	-	-	21,745,262
Customer accounts, service and selling expenses	10,155,222	601,570	-	10,756,792
Administration and general	8,456,992	634,077	-	9,091,069
Depreciation and amortization	15,194,308	324,811	-	15,519,119
Other operating expenses (income), net	6,314	849,374	-	855,688
Total operating expenses	189,298,696	4,030,987	-	193,329,683
OPERATING MARGINS (LOSS) BEFORE FIXED CHARGES	16,527,317	(3,350,434)	-	13,176,883
FIXED CHARGES, interest expense	10,659,201	313,667	-	10,972,868
OPERATING MARGINS (LOSS) AFTER FIXED CHARGES	5,868,116	(3,664,101)	-	2,204,015
NON-OPERATING MARGINS (LOSS):				
Interest and investment income	2,344,024	-	-	2,344,024
Other income	91,409	-	-	91,409
Total non-operating margins	2,435,433	-	-	2,435,433
CAPITAL CREDITS, and equity in subsidiary's net income:				
From associated organizations	7,975,172	-	-	7,975,172
Equity (deficit) in subsidiary's net income	(2,521,006)	-	2,521,006	-
Total capital credits and equity in subsidiary	5,454,166	-	2,521,006	7,975,172
Net margins (loss) before federal income tax	13,757,715	(3,664,101)	2,521,006	12,614,620
FEDERAL INCOME TAX PROVISION (BENEFIT)	53,820	(1,143,095)	-	(1,089,275)
NET MARGINS (LOSS)	\$ 13,703,895	\$ (2,521,006)	\$ 2,521,006	\$ 13,703,895



**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with Government Auditing Standards**

The Board of Directors  
Great Lakes Energy Cooperative  
Boyne City, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Great Lakes Energy Cooperative, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, cash flows, comprehensive income, and changes in equities for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 15, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered Great Lakes Energy Cooperative's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Great Lakes Energy Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of Great Lakes Energy Cooperative's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Great Lakes Energy Cooperative's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Great Lakes Energy Cooperative's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Great Lakes Energy Cooperative's internal control or on compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Great Lakes Energy Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota  
April 15, 2020



**Independent Auditor's Report on Compliance with Aspects of  
Contractual Agreements and Regulatory Requirements**

The Board of Directors  
Great Lakes Energy Cooperative  
Boyne City, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Great Lakes Energy Cooperative which comprise the consolidated balance sheets as of December 31, 2019, and the related consolidated statements of operations, statements of consolidated comprehensive income, changes in equities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 15, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2020 on our consideration of Great Lakes Energy Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Great Lakes Energy Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Great Lakes Energy Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Great Lakes Energy Cooperative's accounting and records to indicate that Great Lakes Energy Cooperative did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

Disclose material related party transactions in the consolidated financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

Comply with the requirements for the detailed schedule of investments.

#### **Detailed Schedule of Deferred Debits and Deferred Credits**

	<u>2019</u>	<u>2018</u>
Deferred debits		
Preliminary survey and investigation charges	\$ 178,484	\$ 213,358
Pension related costs	5,076,918	5,528,238
Accumulated power supply cost recovery charges	-	789,767
Deferred energy optimization program costs	<u>321,407</u>	<u>321,407</u>
Total	<u>\$ 5,576,809</u>	<u>\$ 6,852,770</u>
Deferred credits		
Consumer advances for contributions in aid of construction	\$ 4,609,953	\$ 5,587,872
Estimated installation cost - special equipment	-	233,541
Deferred energy optimization program surcharge	<u>2,019,679</u>	<u>2,517,124</u>
Total	<u>\$ 6,629,632</u>	<u>\$ 8,338,537</u>

This report is intended solely for the information and use of the Board of Directors and management of Great Lakes Energy Cooperative and is not intended to be and should not be used by anyone other than these specified parties.

*Eide Bailly LLP*

Fargo, North Dakota  
April 15, 2020