POLK-BURNETT ELECTRIC COOPERATIVE
AND SUBSIDIARIES
CENTURIA, WI
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

and
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

POLK-BURNETT ELECTRIC COOPERATIVE AND SUBSIDIARIES
CENTURIA,WISCONSIN

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Report of Independent Certified Public Accountants

Board of Directors
Polk-Burnett Electric Cooperative and Subsidiaries
Centuria, Wisconsin

We have audited the accompanying consolidated financial statements of Polk-Burnett Electric Cooperative and Subsidiaries which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 materials respects, the financial position of Polk-Burnett Electric Cooperative and Subsidiaries as of December 31, 2020 and 2019 and the results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Bauman Associates, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS

Eau Claire, Wisconsin
February 16, 2021

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POLK-BURNETT ELECTRIC COOPERATIVE
CONSOLIDATED BALANCE SHEETS
December 31, 2020 and 2019

ASSETS	2020	2019
PLANT, PROPERTY, AND EQUIPMENT:		
Plant	$ 103,821,889	$ 100,363,427
Construction work in progress	815,160	922,688
Total	104,637,049	101,286,115
Less accumulated depreciation	29,763,424	28,294,445
Net plant, property, and equipment	74,873,625	72,991,670
INVESTMENTS:		
Investments in associated cooperatives	15,641,863	15,477,016
Notes receivable	641,020	757,799
Other investments	32,602	30,747
Total investments	16,315,485	16,265,562
CURRENT ASSETS:		
Cash and cash equivalents	3,096,397	3,016,717
Temporary cash investments	500,178	7,335
Accounts receivable (less accumulated provision for uncollectible accounts of $49,486 in 2020 and $45,056 in 2019)	4,015,886	3,580,306
Notes receivable - current portion	111,000	105,500
Materials and supplies	637,925	468,018
Prepayments	488,063	578,145
Total current assets	8,849,449	7,756,021
DEFERRED DEBITS	698,336	863,513
TOTAL ASSETS	$ 100,736,895	$ 97,876,766

The accompanying notes are an integral part of these consolidated financial statements.

EQUITIES AND LIABILITIES	2020	2019
EQUITIES:		
Patronage capital	$ 50,950,234	$ 48,910,738
Other equities	6,639,275	5,633,951
Total equities	57,589,509	54,544,689
LONG-TERM DEBT	31,060,833	31,927,163
CURRENT LIABILITIES:		
Current portion of long-term debt	2,046,783	1,911,511
Accounts payable	803,516	695,934
Accounts payable - billed power costs	1,642,441	1,859,988
Propane customer deposits	1,951,294	1,809,734
Other current liabilities	1,329,743	1,400,251
Total current liabilities	7,773,777	7,677,418
DEFERRED CREDITS	4,312,776	3,727,496
TOTAL EQUITIES AND LIABILITIES	$ 100,736,895	$ 97,876,766

POLK-BURNETT ELECTRIC COOPERATIVE
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2020 and 2019

	2020	2019
OPERATING REVENUES	$ 36,776,949	$ 38,403,014
LESS COST OF GOODS SOLD	21,168,690	22,195,438
GROSS MARGINS	15,608,259	16,207,576
OPERATING EXPENSES:		
Operations	1,657,596	1,682,366
Maintenance	1,978,728	2,598,376
Customer accounts	728,178	843,751
Customer service and information	523,765	514,240
Sales	17,302	42,382
Administrative and general	2,626,818	2,725,241
Depreciation	3,037,797	2,961,812
Rent	1,500	1,800
Other	464,866	465,858
Total operating expenses	11,036,550	11,835,826
OPERATING MARGINS BEFORE CAPITAL CREDITS	4,571,709	4,371,750
CAPITAL CREDITS FROM OTHER COOPERATIVES	848,474	868,178
OPERATING MARGINS	5,420,183	5,239,928
NON-OPERATING MARGINS:		
Interest income	82,879	135,281
Finance charges	7,853	9,257
Gain on sale of property and equipment	60,870	2,262
Other non-operating income (expense)	407,062	436,852
Total non-operating margins	558,664	583,652
MARGINS BEFORE INTEREST AND INCOME TAX	5,978,847	5,823,580
INTEREST EXPENSE	1,225,845	1,267,593
INCOME TAX EXPENSE (BENEFIT)	144,418	176,689
NET MARGINS	$ 4,608,584	$ 4,379,298

The accompanying notes are an integral part of these consolidated financial statements.

POLK-BURNETT ELECTRIC COOPERATIVE
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
Years Ended December 31, 2020 and 2019

	Patronage Capital	Accumulated Unallocated Non-operating Margins	Other Equities	Accumulated Margins of Subsidiaries	Total
Balance December 31, 2018	$ 46,803,187	$ 1,290,797	$ 784,208	$ 2,453,163	$ 51,331,355
Unallocated 2018 margins	(585,471)	585,471	-	-	-
Net margins (losses)	3,913,491	-	-	465,807	4,379,298
Retirement of capital credits	(1,220,469)	-	54,505	-	(1,165,964)
Balance December 31, 2019	48,910,738	1,876,268	838,713	2,918,970	54,544,689
Unallocated 2019 margins	(595,664)	595,664	-	-	-
Net margins (losses)	4,255,734	-	-	352,850	4,608,584
Retirement of capital credits	(1,620,574)	-	56,810	-	(1,563,764)
Balance December 31, 2020	$ 50,950,234	$ 2,471,932	$ 895,523	$ 3,271,820	$ 57,589,509

The accompanying notes are an integral part of these consolidated financial statements.

POLK-BURNETT ELECTRIC COOPERATIVE
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margins	$ 4,608,584	$ 4,379,298
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	3,311,907	3,233,046
Non-cash portion of patronage capital received	(848,474)	(868,178)
Loss (Gain) on asset disposal	(60,870)	(2,262)
Regulatory liability deferrals	1,000,000	-
Regulatory liability deferral recognition	(500,000)	(749,621)
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	(435,580)	(1,181,665)
Decrease (increase) in materials and supplies	(169,907)	9,361
Decrease (increase) in other current assets	90,082	296,317
Increase (decrease) in deferred debits	165,177	245,248
Increase (decrease) in accounts payable	(109,965)	248,283
Increase (decrease) in propane customer deposits	141,560	73,946
Increase (decrease) in other current liabilities	(70,508)	37,660
Increase (decrease) in other deferred credits	85,280	130,211
Net cash provided by operating activities	7,207,286	5,851,644
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment	52,642	8,541
Extension and replacement of plant	(6,223,067)	(5,754,387)
Contributions in aid of construction	1,037,433	738,302
Purchase of investments and cash lent on notes	-	(698,279)
Proceeds from investments and notes receivable	793,051	384,205
Net cash used in investing activities	(4,339,941)	(5,321,618)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(1,931,058)	(1,745,213)
Proceeds from long-term debt	2,000,000	694,880
Net borrowings (payments) on line of credit	(800,000)	800,000
Retirements of patronage capital, net of gain	(1,563,764)	(1,165,964)
Net cash used in financing activities	(2,294,822)	(1,416,297)
Net decrease in cash and cash equivalents	572,523	(886,271)
Cash and cash equivalents at beginning	3,024,052	3,910,323
Cash and cash equivalents at end	$ 3,596,575	$ 3,024,052

The accompanying notes are an integral part of these consolidated financial statements.

POLK-BURNETT ELECTRIC COOPERATIVE
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020 and 2019

	2020	2019
Supplemental disclosure of cash flow information:		
Cash payments during the year for:		
Interest paid	$ 1,239,074	$ 1,297,775
Income tax paid (received)	$ 246,346	$ 163,000
Supplemental disclosure of non-cash investing and financing activities:		
The Cooperative and its subsidiaries record patronage capital allocations from associated organizations as revenue and as investments in associated organizations as follows:		
Patronage capital allocations	$ 848,474	$ 868,178

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

Polk-Burnett Electric Cooperative and Subsidiaries' (the Cooperative) principal line of business is providing electric service to residential and business customers residing in six rural counties in west central Wisconsin. The Cooperative, through the Subsidiary, sells propane at rates which are determined by management. Electric rates charged to customers are established by the Board of Directors.

Financial Statement Presentation

As a member-elected Board of Director regulated entity, the Cooperative accounts for the financial effects of regulation in accordance with the Financial Accounting Standards Board Accounting Standards Codification 980 Regulated Operations (FASB ASC 980). This statement allows for the recording of a regulatory asset or liability for amounts that will be collected or refunded through the rate-making process in the future. The accounting policies followed by the Cooperative are subject to the Federal Energy Regulatory Commission's Uniform System of Accounts prescribed for Class A and B Electric Utilities. The accounting policies conform to accounting principles generally accepted in the United States of America as applied in the case of regulated electric utilities. The Cooperative uses the accrual method of accounting. The Cooperative believes, based on current regulatory circumstances, that its use of regulatory accounting is appropriate and in accordance with the provisions of FASB ASC 980.

Principles of Consolidation

The consolidated financial statements include the accounts of Polk-Burnett Diversified Services, Inc. and its subsidiary Polk-Burnett Propane Services, Inc. as well as its affiliate Polk-Burnett Economic Development Corporation. All material intercompany transactions and accounts have been eliminated.

Concentrations of Credit Risk

Financial instruments which potentially subject the Cooperative to concentrations of credit risk consist principally of cash equivalents, accounts receivable and notes receivable. The Cooperative places its cash deposits and cash investment with high credit quality financial institutions and, by policy, generally limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to accounts receivable are limited due to the Cooperative's large number of customers. The Cooperative believes it is not exposed to any significant credit risks.

Note 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates in the financial statements are plant useful lives and the self-funded medical insurance reserve. Actual results could differ from those estimates.

Investments in Associated Cooperatives

Investments in associated cooperatives are recorded at cost plus undistributed allocated equities from other cooperatives. Patronage allocations are recognized in the year the allocation pertains to and are redeemable only at the option of the issuing cooperative.

Other Investments

Other investments are recorded at cost, which approximates fair market value.

General

The Cooperative maintains its books in conformance with the Uniform System of Accounts prescribed by the Rural Development Utilities Program (RDUP).

Cash and Cash Equivalents

The Cooperative considers all highly liquid cash instruments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates fair market value.

Accounts Receivable

Receivables are stated at the amount the Cooperative expects to collect from outstanding balances. The Cooperative provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after the Cooperative has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the receivable accounts. Changes in the valuation allowance have not been material to the financial statements.

Note 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Electric materials and supplies are recorded at average unit cost and propane inventory is recorded at the lower of average unit cost or market. Balances as of December 31, 2020 and 2019 are:

	2020	2019
Electric materials and supplies	$ 486,389	$ 331,362
Propane inventory	151,536	136,656
Total	$ 637,925	$ 468,018

Plant, Maintenance and Depreciation

Plant, property, and equipment are recorded at cost. The cost of additions includes contracted work, direct labor, materials and allocable overheads. When units of property are retired, sold or otherwise disposed of in the ordinary course of business, their average book cost, less net salvage, is charged to accumulated depreciation. Included in accumulated depreciation are non-legal costs of removing plant. Repairs and the replacement and renewal of items determined to be less than units of property are charged to maintenance. Any gains or losses on utility and non-utility plant and equipment using individual unit depreciation are reflected in operations. Depreciation for electric distribution plant is computed on the straight-line composite rate method which expenses the cost of plant over their estimated useful lives. General plant depreciation rates have been applied on a straight-line unit basis which expenses the cost of plant over their estimated useful lives. Depreciation rates are adopted by the Board of Directors.

Asset Retirement Obligation

The FASB ASC requires entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. When the liability is initially recorded, the entity capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accrued to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. The Cooperative has determined it does not have a material legal obligation to remove long-lived assets as described by the FASB ASC, and accordingly has not recognized any asset retirement obligation costs in its financial statements for the years ended December 31, 2020 and 2019.

Note 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or their fair value less cost to sell.

Patronage Capital

Amounts received from the furnishing of electric energy in excess of operating costs and expenses are assigned to patrons on a patronage basis. Certain amounts received by the Cooperative from its other operations in excess of costs and expenses are allocated to its patrons on a patronage basis to the extent they are not needed to offset current or prior deficits. Dividends paid from the Cooperative's subsidiaries may be allocated to electric patrons on a patronage basis.

Revenue From Contracts With Customers

Performance obligations related to the sale of energy are satisfied as energy or propane is delivered to members. The Cooperative recognizes revenue that corresponds to the price of the energy or propane delivered to the member. The measurement of energy sales to members is generally based on a meter reading. The measurement of propane sales to members is based on the current market rate set by the Cooperative or the rate specified in a customer pre-buy contract in which they have the opportunity to purchase. The Cooperative cycle bills for energy sales and meters are read at different times for different cycles but are consistent on a monthly basis. The Cooperative does not provide an estimate for unbilled revenues at month end for electric service as the financial statement impact is minimal and accounting treatment is consistent. Payments for energy and propane delivered are due from members the following month. Following is a summary of revenues by source for the years presented:

Note 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue From Contracts With Customers (Continued)

	2020	2019
Electric:		
Sales to customers	$ 33,353,588	$ 32,950,391
Other	(683,142)	673,496
	32,670,446	33,623,887
Propane:		
Sales to customers	3,978,584	4,681,450
Other	140,277	113,348
Less intercompany sales	(12,358)	(15,671)
	4,106,503	4,779,127
Total operating revenues	$ 36,776,949	$ 38,403,014

The Cooperative does not recognize a separate financing component of its collections from customers as contract terms are short-term in nature. The Cooperative presents its revenue net of any excise or sales taxes or fees.

Self-funded Health Insurance

The Cooperative has a self-funded health insurance plan which provides medical payments to employees and their dependents that are not covered by the high deductible insurance plan. The health care expense is based on actual claims paid, reinsurance premiums, administrative fees and unpaid claims at year end. All health care costs are expensed as incurred.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were $17,302 and $42,382 for the years ended December 31, 2020 and 2019, respectively.

Derivative Instruments and Hedging Activities

The Cooperative's policy is to not use freestanding derivatives and to not enter into contracts with terms that cannot be designated as normal purchases or sales. Management has determined that the Cooperative has no freestanding or embedded derivatives.

Note 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Cooperative has been granted tax exempt status by the Internal Revenue Service and the State of Wisconsin.

Polk-Burnett Diversified Services, Inc. and its subsidiary Polk-Burnett Propane Services, Inc. and Polk-Burnett Economic Development Corporation are taxable at the federal and state level, and a provision for income taxes is included in the financial statements. A deferred tax liability for Polk-Burnett Propane Services, Inc. is recorded for future tax consequences attributable to temporary differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. Principally these differences relate to depreciation of property and equipment and operating loss carryforwards.

Date of Management Review

In preparing these financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through February 16, 2021, the date the financial statements were available to be issued.

New Accounting Pronouncement

In 2014, the FASB issued *Revenue from Contracts with Customers. Topic 606 (ASU No. 2014-09)*, which provides a new framework for the recognition of revenue. The Cooperative implemented the guidance on a modified retrospective basis on January 1, 2019. Results for reporting periods beginning after December 31, 2018 are presented in accordance with Topic 606, while prior period results have not been adjusted and continue to be reported in accordance with prior accounting guidance. The implementation did not have a material impact on the Cooperative's consolidated financial statements, other than increased disclosures regarding revenues related to contracts with customers.

Note 2 PLANT, PROPERTY, AND EQUIPMENT

The cost and composite depreciation rates for plant, property, and equipment are as follows:

	Composite Depreciation Rates %	2020	2019
Electric Utility Plant			
Intangible		$ 348	$ 348
Distribution	3.07%	82,657,050	79,782,668
General	3.92%	14,540,730	14,152,197
Total in service		97,198,128	93,935,213
Under construction		815,160	922,688
Less accumulated depreciation		(26,207,558)	(24,852,387)
Subtotal Electric Plant		71,805,730	70,005,514
Non-Utility Plant			
Non-Utility Plant	2.15%	1,039,247	1,039,247
Less accumulated depreciation		(491,390)	(469,010)
Total Non-Utility Plant		547,857	570,237
Total Electric Cooperative Plant		72,353,587	70,575,751
Propane Subsidiary Plant			
In service	4.21%	5,584,513	5,388,966
Less accumulated depreciation		(3,064,475)	(2,973,047)
Subtotal		2,520,038	2,415,919
Net plant, property, and equipment		$ 74,873,625	$ 72,991,670

The non-utility plant is held in the electric utility and is leased to the subsidiaries or held directly by the subsidiary.

Note 3 INVESTMENTS

Investments in Associated Cooperatives

	2020	2019
Patronage Capital Credits		
Dairyland Power Cooperative (DPC)	$ 12,313,931	$ 12,180,837
National Rural Utilities Cooperative Finance Corporation (CFC)	1,531,619	1,486,150
Federated Rural Electric Insurance Exchange	266,452	256,941
Rural Electric Supply Cooperative (RESCO)	209,312	194,288
Subtotal	14,321,314	14,118,216
CFC member capital securities (matures 1/9/44, 5.00%)	100,000	100,000
Capital Term Certificates of the National Rural Utilities Cooperative Finance Corporation		
Capital term certificates - maturities 10/1/2070-2080; interest rate, 5.0%	532,131	532,131
Loan term certificates - maturities 10/1/2025 - 2025; interest rate, 3.0%	36,250	47,900
Loan capital certificates - maturities 7/1/2023 to 11/1/2039 non-interest bearing	486,824	525,455
Subtotal	1,055,205	1,105,486
Other	165,344	153,314
Total	$ 15,641,863	$ 15,477,016

The investment in DPC consists primarily of capital credits for the Cooperative's share of DPC's operating margins that have been allocated but not received and its share of unallocated operating losses. Operating margins and losses are recognized based on the Cooperative's percentage of DPC's power output sold to its members each year, which approximates the Cooperative's ownership in DPC. During 2020 and 2019, the Cooperative recognized income of $668,147 and $676,274, respectively, related to its portion of DPC's margin.

Investments in CFC represent undistributed capital credits allocated to the Cooperative as well as loan and capital term certificates. The certificates represent investments made pursuant to CFC borrowing requirements. During 2020 and 2019 the Cooperative recognized income of $106,644 and $117,152, respectively, related to its portion of CFC's margins.

All CFC securities are classified as held-to-maturity.

Note 3 INVESTMENTS (Continued)

Investments in Associated Cooperatives (Continued)

The investments in Federated Rural Electric Insurance Exchange and Rural Electric Supply Cooperative represent undistributed capital credits allocated to the Cooperative. The Cooperative purchases insurance and material and supplies from these two Cooperatives. During 2020 and 2019 Polk-Burnett recognized income of $27,856 and $27,168, respectively, from Federated and $34,210 and $32,451 respectively, from RESCO related to its portion of these Cooperative's margins.

Economic Development Note Receivable

In 2014, the Cooperative executed an interest-free loan in the amount of $360,000 to the Grantsburg Fire Association which will be repaid with ten annual payments of $36,000 beginning in December of 2015. $300,000 was funded with an interest free loan from the USDA and $60,000 was provided by the Cooperative. The Cooperative has $216,000 and $180,000 available as of December 31, 2020 and 2019, respectively, exclusively for this purpose. This note has a balance of $144,000 and $180,000 as of December 31, 2020 and 2019, respectively.

Rural Development Note Receivable

In 2019, the Cooperative executed an interest-free loan in the amount of $694,880 to Allied Emergency Services, Inc which will be repaid with monthly payments of $5,791 beginning in October of 2019, until the full amount is paid off or the tenth anniversary, whichever first occurs. The full amount was funded with an interest free loan from the USDA. This note has a balance of $608,020 and $683,299 as of December 31, 2020 and 2019, respectively.

Note 4 DEFERRED DEBITS

The balance of deferred debits consists of the following:

	2020	2019
NRECA RS Plan prepayment	$ 599,075	$ 757,574
Unamortized debt expense	99,261	105,939
	$ 698,336	$ 863,513

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 Retirement Security (RS) Plan (a defined benefit multiemployer pension plan) to make a prepayment and reduce future required contributions. 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 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

Note 4 DEFERRED DEBITS (continued)

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 that expected, plan assumption changes, and other factors may have an impact on the differential in billing rates and the 15 year period. On April 30, 2013 a prepayment of $2,385,677 ($2,129,726 Electric Cooperative and $255,951 Propane) was made to the NRECA RS Plan. The Cooperative is amortizing this amount over ten years.

Note 5 EQUITIES

Patronage Capital

	2020	2019
Assignable	$ 4,255,734	$ 3,913,491
Assigned to date	72,302,582	68,984,755
Subtotal	76,558,316	72,898,246
Retired to date	25,608,082	23,987,508
Total	$ 50,950,234	$ 48,910,738

The mortgage provisions restrict the retirement of patronage capital unless, after retirement, the total equity of the Cooperative equals at least 20% of the assets of the Cooperative. However, retirements (exclusive of any distributions to the estates of deceased patrons) can be made if such distributions do not exceed 30% of the preceding year's net consolidated margin. No distribution can be made if there is unpaid, when due, any installments of principal or interest on the notes.

Distributions to estates are made at the request of the estates. The retirement paid out is discounted, and the excess is retained by the Cooperative as a gain on retirement of capital credits. Patronage capital credits, arising from prior years' margins, are retired chronologically.

No interest shall be paid or payable to the patrons on any capital furnished by the patrons.

Note 5 EQUITIES (Continued)

Other Equities

	2020	2019
Accumulated unallocated non-operating margins	$ 2,471,932	$ 1,876,268
Gain on early retirement of capital credits	895,523	838,713
Accumulated margins of subsidiaries	3,271,820	2,918,970
Total	$ 6,639,275	$ 5,633,951

Accumulated Unallocated Non-Operating Margins

Accumulated unallocated non-operating margins consist of non-operating margins less deficits from operating divisions.

Gain on Early Retirements of Capital Credits

Gain on early retirement of capital credits consists of the discounted portion of capital credits paid to estates, due to early retirement.

Accumulated Margins of Subsidiaries

The accumulated margins of subsidiaries consist of the income, net of losses, from the wholly owned subsidiaries from their date of incorporation to December 31, 2020 and 2019.

Note 6 LONG-TERM DEBT AND LINE OF CREDIT

Long term debt is as follows:

	2020	2019
National Rural Utilities Cooperative Finance Corporation (CFC) Mortgage notes - interest rates of 3.20% to 7.60%, notes payable in quarterly installments with maturities at various dates from 2027 to 2050.	$ 30,363,965	$ 30,127,474
Farmer Mac notes serviced through CFC - interest rates of 3.98% payable in semi-annual installments with maturities at various dates from 2036 to 2037.	1,755,211	1,826,068
United States Department of Agriculture (USDA) note, non-bearing interest, with monthly installments. Polk-Burnett is the intermediary. See Note 3 for detail.	608,020	677,508
Rural Economic Development note payable, interest rate of zero percent unless used for unapproved purposes at which time interest at a rate established in 31 CFR 901.9 would begin to accumulate until repaid. No maturity as long as used for economic development, as stated.	300,000	300,000
CoBank Line of Credit, interest rate 2.45%. Matures July 2021.	-	800,000
National Cooperative Services Corporation (NCSC) note, interest rate of 3.85%, payable in quarterly installments and matures in 2023.	80,420	107,624
	33,107,616	33,838,674
Less amount due within one year	2,046,783	1,911,511
Total long-term debt	$ 31,060,833	$ 31,927,163

Substantially all assets are pledged to CFC and NCSC as a security on the mortgage notes. The notes mature from 18 to 40 years from the date of issuance. The notes payable to CFC contain provisions for changing the rate of interest at specified future dates.

Note 6 LONG-TERM DEBT AND LINE OF CREDIT (Continued)

Approximate annual principal payments on the existing long-term debt for the next five years are:

2021	$	2,046,783
2022	$	2,148,820
2023	$	1,906,021
2024	$	1,613,193
2025	$	1,676,004

Un-advanced loan funds of $4,078,000 are available to the Cooperative from CFC. The mortgage agreement with CFC requires, among other provisions, that the Cooperative maintain certain annual debt service coverage levels. The Cooperative was in compliance with the annual debt service coverage covenant at December 31, 2020.

Line of Credit

The Cooperative has a perpetual line of credit agreement with the National Rural Utilities Cooperative Finance Corporation providing the Cooperative with loans up to $5.0 million on a revolving basis. Interest is payable quarterly at rates established by CFC, which are not to exceed the lowest prime rate as published in the "Money Rates" column of *The Wall Street Journal* plus 1% or lesser rate as fixed by CFC. The agreement provides that combined borrowing on this and any other line of credit shall not exceed $5.0 million. Outstanding advances in any single calendar year may not exceed the prior calendar year's plant additions plus one-twelfth of annual operations and maintenance expenses. Any advances must be paid in full within 360 days of the advance or remain as long-term debt as the Cooperative can convert its line of credit to long-term at the discretion of the Board of Directors. The Cooperative did not have any outstanding balance on the line of credit as of December 31, 2020 and 2019.

The Cooperative has a revolving line of credit with CoBank providing the Cooperative with loans up to $1.0 million on a revolving basis. Interest is payable monthly at rates established by CoBank. The rate was 2.45% at December 31, 2020. The term of the commitment is up to and including July 31, 2021. The commitment will be renewed for an additional year if the lender provides the borrower a renewal notice. The unpaid principal is due on the last day of the term of the commitment. The Cooperative has an outstanding balance of $- and $800,000 as of December 31, 2020 and 2019, respectively.

Note 6 LONG-TERM DEBT AND LINE OF CREDIT (Continued)

Line of Credit (Continued)

The Cooperative guarantees, through its propane subsidiary, a perpetual line of credit agreement with the NCSC providing the Cooperative with loans up to $3.0 million on a revolving basis. Interest is payable quarterly at rates established by NCSC, which are not to exceed the lowest prime rate as published in the "Money Rates" column of *The Wall Street Journal* plus 1% or lesser rate as fixed by NCSC. The agreement provides that combined borrowing on this and any other line of credit shall not exceed the prior calendar year's plant additions plus one-twelfth of annual operations and maintenance expenses. Any advances must be paid in full within 360 days of the advance and remain at a zero balance for at least five consecutive business days. The Cooperative did not have any outstanding balance on the line of credit as of December 31, 2020 and 2019.

All outstanding lines of credit are classified as long-term on the balances sheet due to the long-term financing that the Cooperative has available.

Note 7 OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	2020	2019
Electric customer deposits	$ 158,589	$ 167,929
Taxes other than income	40,613	50,325
Accrued interest	215,715	228,944
Accrued payroll	279,951	268,828
Self-funded health insurance	24,306	51,539
Accrued employee vacations	601,386	554,189
Income tax payable	-	47,499
State tax collections payable	9,183	30,998
Total	$ 1,329,743	$ 1,400,251

Note 8 DEFERRED CREDITS

The balance of deferred credits consists of the following:

	2020	2019
Unclaimed patronage capital retirement refunds, and general fund checks	$ 556,909	$ 525,713
Deferred gain on RDUP buy out, net of amortization	79,063	97,115
Regulatory liabilities	2,965,161	2,465,161
Deferred tax liability (See note 9)	693,000	623,000
Other deferred credit	18,643	16,507
Total	$ 4,312,776	$ 3,727,496

In 1995 and 1996, the Cooperative refinanced its RDUP debt of $9.3 million with funds from CFC and RDUP resulting in a gain of $1,396,538. The gain is deferred and is being amortized over the remaining lives of the original notes using the effective interest rate amortization method. The amortization amounted to $18,052 for 2020 and $20,619 for 2019 and was credited to interest expense and the accumulated amortization is $1,317,475 and $1,299,423 at December 31, 2020 and 2019, respectively. The deferred gain on refinancing has been deferred in accordance with the FASB ASC.

In January 2013, Dairyland Power Cooperative received settlement proceeds from a lawsuit it filed against the United States Government and decided to refund 50% of the total settlement back to its member cooperatives. The portion of the settlement proceeds received in 2013 by the Cooperative totaled $1,069,031 and was recorded as a regulatory liability. The Cooperative intends to use the regulatory liability to offset costs as part of the future process of setting rates. In 2016, Dairyland Power Cooperative received $73.5 million of settlement proceeds from a lawsuit it filed against the United States Government and decided to refund approximately $47.6 million of the total settlement back to its member cooperatives. The portion of the settlement proceeds received in 2017 by the Cooperative totaled $2,657,267 and $1,657,267 was recorded as a regulatory liability. The remaining $1 million was recorded as non-operating margins in 2017. The Cooperative intends to use the regulatory liability to offset costs as part of the future process of setting rates. The Cooperative recognized $500,000 of these deferrals during the years ended December 31, 2020 and 2019.

In 2018, the board resolved to defer $988,484 of the Cooperative's revenue to offset anticipated service costs in future periods. The deferral will be recognized over a four-year period starting in 2019 and going through 2022. The Cooperative recognized $249,621 of this deferral during the year ended December 31, 2019 and none in 2020.

Note 8 DEFERRED CREDITS (Continued)

In 2020, the board resolved to defer $1,000,000 of the Cooperative's revenue to offset anticipated service costs in future periods primarily as a result of reduced expenses and credits from their power provider which were not anticipated during the year.

Note 9 INCOME TAXES

The provision for income tax expense (benefit) includes the following components:

	2020	2019
Current expense (benefit)		
Federal	$ 57,096	$ 135,427
State	17,322	51,262
Deferred income tax expense (benefit)		
Federal	50,000	(7,000)
State	20,000	(3,000)
Total	$ 144,418	$ 176,689

Deferred income taxes based upon timing differences resulting primarily from depreciation are summarized as follows:

	2020	2019	2018
Deferred income tax assets	$ -	$ -	$ -
Deferred income tax liabilities	693,000	623,000	633,000
	693,000	623,000	633,000
Less - valuation allowance	-	-	-
Net deferred income tax liability	$ 693,000	$ 623,000	$ 633,000

Note 10 SELF-FUNDED HEALTH INSURANCE

The Cooperative has a self-funded program for employee health insurance. Stop-loss insurance coverage limits the Cooperative's risk to a maximum of $45,000 per insured individual and approximately $979,070 for all insured in the aggregate. The plan is administered and claims are validated by a benefits management company. All claims are expensed on the accrual basis when the benefits management company becomes aware of their validity. A liability of $24,306 and $51,369 as of December 31, 2020 and 2019, respectively, has been recorded to cover potential claims that may have occurred but which the benefits management company has not yet become aware of at December 31, 2020 and 2019.

Actual medical claims paid by the Cooperative for medical and prescription benefits was $394,003 and $526,192 in 2020 and 2019, respectively. The Cooperative offers a high deductible plan with deductibles of $2,000 and $3,000 for single plans and $4,000 and $6,000 for family plans.

Note 11 EMPLOYEE BENEFITS

Multi-employer Defined Benefit Pension Plan

The Cooperative participates in two pension plans covering union and nonunion employees through participation in the National Rural Electric Company Association (NRECA) Retirement and Security Program, a defined benefit pension plan qualified under Section 401 and tax exempt under 501(a) of the Internal Revenue Code. It is a multiemployer 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 multiemployer 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 Cooperative made contributions to the plan of $894,952 and $838,783 in 2020 and 2019, respectively, and represent less than 5 percent of the total contributions made to the plan by all participating employers. There have been no significant changes that affect the comparability of 2020 and 2019 contributions. The Cooperative is required to make contributions for those employees covered by the collective bargaining agreement through April 30, 2022.

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, 2020 and January 1, 2019, based on the PPA funding target and PPA actuarial value of assets on those dates.

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.

Defined Contributions Plan

The Cooperative has a NRECA 401(k) defined contribution savings plan for employees who meet certain age and service requirements The Cooperative matches employee contributions up to 1.0% for union employees and 6.0% for non-union employees' compensation into the plan. Non-union employees have to contribute 6% to get the employer’s 6% contribution. Savings plan expense was $163,398 in 2020 and $163,170 in 2019.

Note 11 EMPLOYEE BENEFITS (Continued)

Other Plans

The Cooperative also provides employees with medical and dental insurance coverage, short-term and long-term disability, and life insurance, which are funded by employer and employee contributions. Along with these benefits, they also fund contributions to a health savings account for each employee. The Cooperative's cost related to these benefits was $683,576 and $785,592 in 2020 and 2019, respectively.

Compensated Absences

The cost of compensated absences (vacation, sick leave taken, and holidays) was $542,024 and $589,918 in 2020 and 2019, respectively.

Note 12 RELATED PARTY TRANSACTIONS AND COMMITMENTS

Purchased Power Agreement

Polk-Burnett Electric Cooperative is a member of Dairyland Power Cooperative (DPC) which is an electric generation and transmission cooperative. The Cooperative obtained most of its purchased power from DPC for the years ended December 31, 2020 and 2019. The Cooperative also purchases solar output from SoCore Energy. In 2020 and 2019, the Cooperative's total purchased power was $18,811,166 and $19,267,005 respectively.

Under its wholesale power agreement, the Cooperative is committed to purchase its electric power and energy requirements from DPC until December 31, 2060. The rates paid to DPC are subject to periodic review.

Management Consulting, Accounting and Other Services to Propane Subsidiary

Polk-Burnett Electric Cooperative has an agreement with the Propane subsidiary, whereby the Cooperative furnishes management consulting, accounting, building and office space, and bulk facility maintenance and other related products and services as may be required by them. Compensation for such services is at cost. The agreement is to continue in force for one year and is automatically renewable for successive one year terms unless, either party, sixty days prior to the expiration of any contract term notifies the other of its desire to renegotiate the substantial provisions of the agreement or terminate the contract. The total costs charged to the subsidiary under the agreements amounted to $35,725 and $35,835 per year in 2020 and 2019, respectively. This activity has been eliminated in the consolidated financial statements.

Note 12 RELATED PARTY TRANSACTIONS AND COMMITMENTS (Continued)

Lease of Office and Bulk Plant Facilities to Propane Subsidiary

The Cooperative leases office space and bulk plant facilities to the Propane subsidiary. The annual base rent is $16,800 and $16,586 in 2020 and 2019, respectively, plus taxes, other than real estate assessments, insurance premiums and utility services. The base rent shall increase each year by an amount equal to the amount of the increase in real estate tax due and payable during the succeeding year. The lease is effective January 1, 2014 and the office space and bulk plant facilities have a five year term. The office space and bulk plant facilities shall automatically renew for successive five year periods upon like terms unless either party, no later than ninety days prior to the first or any subsequent termination date, notifies the other party in writing of its intention of non-renewal. The total costs charged to the subsidiary under the agreements amounted to $16,800 and $16,586 in 2020 and 2019, respectively. This activity has been eliminated in the consolidated financial statements.

Other Related Party Transactions

The Cooperative purchased $12,358 and $15,671 in propane from the Propane subsidiary and had a balance of $0 in propane deposits at year end in 2020 and 2019.

The Cooperative also charges interest to subsidiaries for the use of funds. No interest was charged in 2020 or 2019.

Substation Operating Lease Commitment

In August 2002 the Cooperative entered into an agreement to lease a substation from another rural electric cooperative under a non-cancelable operating lease agreement. The lease agreement currently requires a monthly base lease payment of $1,439 and expires August 10, 2032.

Note 12 RELATED PARTY TRANSACTIONS AND COMMITMENTS (Continued)

Substation Operating Lease Commitment (Continued)

The annual rent expense under this agreement was $17,268 for 2020 and 2019. Scheduled future minimum lease payments under the lease agreement are as follows:

Year Ending December 31,		
2021	$	17,268
2022		17,268
2023		17,268
2024		17,268
2025		17,268
Thereafter		113,681
	$	200,021

Propane Contract Commitments

At December 31, 2020, Polk-Burnett Propane Services, Inc., has contracted for approximately 1,069,181 gallons of propane gas purchases with suppliers and had 1,367,104 gallons deliverable to prepaid contract members. No gains or losses on these contracts are included in the financial statements.

Note 13 CASH AND CASH EQUIVALENTS

At December 31, 2020 and 2019, cash and cash equivalents as defined in Note 1 consists of:

	2020	2019
Cash - general	$ 3,096,397	$ 3,016,717
Temporary cash investments	500,178	7,335
Total	$ 3,596,575	$ 3,024,052

Note 14 FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA) REIMBURSEMENTS

During 2020 the Cooperative submitted information for a claim for FEMA funds related to emergency weather related construction and maintenance costs that were incurred during 2019. The Cooperative has considered the likelihood that they will receive funds as well as considering past results and have recorded a receivable of $1,248,650 in 2019 which represents approximately 75% of the total claim. This amount is recorded in accounts receivable in the 2019 consolidated balance sheet.

During 2020 the Cooperative was notified that the amounts had been received by the state and they are anticipating receiving an amount of $2,018,504. The receivable was adjusted and is reflected in accounts receivable in the 2020 consolidated balance sheet. The amounts have not been received as of the report date.

Note 15 PANDEMIC UNCERTAINTIES

Due to the COVID-19 pandemic and subsequent declaration of a Public Health Emergency in Wisconsin, the cooperative has taken measures to mitigate risks that could affect its operations if they had not been addressed, including the ability to provide reliable service. These measures impacted the financial performance of the Cooperative in 2020 and may have lasting impacts into following periods, however, the impacts were not and are not deemed to have a material financial impact. Furthermore, other economic uncertainties which would be material may arise which may negatively impact financial and operating performance including loss of revenues and potential for increases in accounts receivable. Other financial impacts could occur as a result of the continuing effects of the pandemic though such potential impacts are unknown at this time.