POLK-BURNETT ELECTRIC COOPERATIVE
AND SUBSIDIARIES
CENTURIA, WI
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Polk-Burnett Electric Cooperative and Subsidiaries as of December 31, 2021 and 2020, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, members' equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Polk-Burnett Electric Cooperative and Subsidiaries as of December 31, 2021 and 2020, and the results of its operations and and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Polk-Burnett Electric Cooperative and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Polk-Burnett Electric Cooperative and Subsidiaries' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our

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opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Polk-Burnett Electric Cooperative and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Polk-Burnett Electric Cooperative and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, amount other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2022, on our consideration of Polk-Burnett Electric Cooperative and Subsidiaries' 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 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 Polk-Burnett Electric Cooperative and Subsidiaries' internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Polk-Burnett Electric Cooperative and Subsidiaries' internal control over financial reporting and compliance.

Bauman Associates, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS

Eau Claire, Wisconsin
February 14, 2022

POLK-BURNETT ELECTRIC COOPERATIVE
CONSOLIDATED BALANCE SHEETS
December 31, 2021 and 2020

ASSETS		2021		2020
PLANT, PROPERTY, AND EQUIPMENT:				
Plant	$	107,284,703	$	103,821,889
Construction work in progress		1,837,085		815,160
Total		109,121,788		104,637,049
Less accumulated depreciation		29,909,394		29,763,424
Net plant, property, and equipment		79,212,394		74,873,625
INVESTMENTS:				
Investments in associated cooperatives		16,308,174		15,641,863
Notes receivable		702,532		641,020
Other investments		14,412		32,602
Total investments		17,025,118		16,315,485
CURRENT ASSETS:				
Cash and cash equivalents		4,437,455		3,096,397
Temporary cash investments		959,176		500,178
Accounts receivable (less accumulated provision for uncollectible accounts of $22,500 in 2021 and $49,486 in 2020)		2,147,337		4,015,886
Notes receivable - current portion		124,000		111,000
Materials and supplies		836,473		637,925
Prepayments		713,783		488,063
Total current assets		9,218,224		8,849,449
DEFERRED DEBITS		883,398		698,336
TOTAL ASSETS	$	106,339,134	$	100,736,895

EQUITIES AND LIABILITIES	2021	2020
EQUITIES:		
Patronage capital	$ 53,746,037	$ 50,950,234
Other equities	7,257,833	6,639,275
Total equities	61,003,870	57,589,509
LONG-TERM DEBT	32,817,341	31,060,833
CURRENT LIABILITIES:		
Current portion of long-term debt	2,222,812	2,046,783
Accounts payable	650,594	803,516
Accounts payable - billed power costs	1,654,770	1,642,441
Propane customer deposits	2,713,571	1,951,294
Other current liabilities	1,368,559	1,329,743
Total current liabilities	8,610,306	7,773,777
DEFERRED CREDITS	3,907,617	4,312,776
TOTAL EQUITIES AND LIABILITIES	$ 106,339,134	$ 100,736,895

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

POLK-BURNETT ELECTRIC COOPERATIVE
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2021 and 2020

	2021	2020
OPERATING REVENUES	$ 38,997,925	$ 36,776,949
LESS COST OF GOODS SOLD	22,286,750	21,168,690
GROSS MARGINS	16,711,175	15,608,259
OPERATING EXPENSES:		
Operations	1,749,329	1,657,596
Maintenance	2,419,138	1,978,728
Customer accounts	718,918	728,178
Customer service and information	441,753	523,765
Sales	18,069	17,302
Administrative and general	2,879,561	2,626,818
Depreciation	3,241,419	3,037,797
Rent	2,100	1,500
Other	455,083	464,866
Total operating expenses	11,925,370	11,036,550
OPERATING MARGINS BEFORE CAPITAL CREDITS	4,785,805	4,571,709
CAPITAL CREDITS FROM OTHER COOPERATIVES	1,013,627	848,474
OPERATING MARGINS	5,799,432	5,420,183
NON-OPERATING MARGINS:		
Interest income	45,151	82,879
Finance charges	7,426	7,853
Gain on sale of property and equipment	41,697	60,870
Other non-operating income (expense)	350,273	407,062
Total non-operating margins	444,547	558,664
MARGINS BEFORE INTEREST AND INCOME TAX	6,243,979	5,978,847
INTEREST EXPENSE	1,200,423	1,225,845
INCOME TAX EXPENSE (BENEFIT)	3,610	144,418
NET MARGINS	$ 5,039,946	$ 4,608,584

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, 2021 and 2020

	Patronage Capital	Accumulated Unallocated Non-operating Margins	Other Equities	Accumulated Margins of Subsidiaries	Total
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
Unallocated 2020 margins	(539,235)	539,235	-	-	-
Net margins (losses)	5,020,335	-	-	19,611	5,039,946
Retirement of capital credits	(1,685,297)	-	59,712	-	(1,625,585)
Balance December 31, 2021	$ 53,746,037	$ 3,011,167	$ 955,235	$ 3,291,431	$ 61,003,870

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, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margins	$ 5,039,946	$ 4,608,584
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	3,496,421	3,311,907
Non-cash portion of patronage capital received	(1,013,627)	(848,474)
Loss (Gain) on asset disposal	(26,697)	(60,870)
Regulatory liability deferrals	-	1,000,000
Regulatory liability deferral recognition	(500,000)	(500,000)
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	1,868,549	(435,580)
Decrease (increase) in materials and supplies	(198,548)	(169,907)
Decrease (increase) in other current assets	(225,720)	90,082
Increase (decrease) in deferred debits	(185,062)	165,177
Increase (decrease) in accounts payable	(140,593)	(109,965)
Increase (decrease) in propane customer deposits	762,277	141,560
Increase (decrease) in other current liabilities	38,816	(70,508)
Increase (decrease) in other deferred credits	94,841	85,280
Net cash provided by operating activities	9,010,603	7,207,286
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment	17,896	52,642
Extension and replacement of plant	(8,934,930)	(6,223,067)
Contributions in aid of construction	1,108,541	1,037,433
Purchase of investments and cash lent on notes	(180,000)	-
Proceeds from investments and notes receivable	470,994	793,051
Net cash used in investing activities	(7,517,499)	(4,339,941)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(2,067,463)	(1,931,058)
Proceeds from long-term debt	4,000,000	2,000,000
Net borrowings (payments) on line of credit	-	(800,000)
Retirements of patronage capital, net of gain	(1,625,585)	(1,563,764)
Net cash used in financing activities	306,952	(2,294,822)
Net decrease in cash and cash equivalents	1,800,056	572,523
Cash and cash equivalents at beginning	3,596,575	3,024,052
Cash and cash equivalents at end	$ 5,396,631	$ 3,596,575

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, 2021 and 2020

	2021	2020
Supplemental disclosure of cash flow information:		
Cash payments during the year for:		
Interest paid	$ 1,200,423	$ 1,239,074
Income tax paid (received)	$ 85,048	$ 246,346
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	$ 1,013,627	$ 848,474

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, 2021 and 2020 are:

	2021	2020
Electric materials and supplies	$ 603,662	$ 486,389
Propane inventory	232,811	151,536
Total	$ 836,473	$ 637,925

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, 2021 and 2020.

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)

	2021	2020
Electric:		
Sales to customers	$ 33,542,005	$ 33,353,588
Other	366,158	(683,142)
	33,908,163	32,670,446
Propane:		
Sales to customers	4,970,474	3,978,584
Other	132,358	140,277
Less intercompany sales	(13,070)	(12,358)
	5,089,762	4,106,503
Total operating revenues	$ 38,997,925	$ 36,776,949

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.

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 14, 2022, the date the financial statements were available to be issued.

Note 2 PLANT, PROPERTY, AND EQUIPMENT

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

	Composite Depreciation Rates %	2021	2020
Electric Utility Plant			
Intangible		$ 348	$ 348
Distribution	3.07%	85,766,399	82,657,050
General	3.92%	14,511,776	14,540,731
Total in service		100,278,523	97,198,129
Under construction		1,837,085	815,160
Less accumulated depreciation		(26,097,465)	(26,207,559)
Subtotal Electric Plant		76,018,143	71,805,730
Non-Utility Plant			
Non-Utility Plant	2.15%	1,039,247	1,039,247
Less accumulated depreciation		(513,770)	(491,390)
Total Non-Utility Plant		525,477	547,857
Total Electric Cooperative Plant		76,543,620	72,353,587
Propane Subsidiary Plant			
In service	4.21%	5,966,933	5,584,513
Less accumulated depreciation		(3,298,159)	(3,064,475)
Subtotal		2,668,774	2,520,038
Net plant, property, and equipment		$ 79,212,394	$ 74,873,625

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

	2021	2020
Patronage Capital Credits		
Dairyland Power Cooperative (DPC)	$ 12,919,066	$ 12,313,931
National Rural Utilities Cooperative Finance Corporation (CFC)	1,566,870	1,531,619
Federated Rural Electric Insurance Exchange	276,601	266,452
Rural Electric Supply Cooperative (RESCO)	226,800	209,312
Subtotal	14,989,337	14,321,314
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; interest rate, 3.0%	36,250	36,250
Loan capital certificates - maturities 7/1/2023 to 11/1/2039 non-interest bearing	477,742	486,824
Subtotal	1,046,123	1,055,205
Other	172,714	165,344
Total	$ 16,308,174	$ 15,641,863

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 December 31, 2021 and 2020, the Cooperative recognized income of $825,984 and $668,147, 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 2021 and 2020 the Cooperative recognized income of $100,650 and $106,644, 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 2021 and 2020 Polk-Burnett recognized income of $30,731 and $27,856, respectively, from Federated and $37,537 and $34,210 respectively, from RESCO related to its portion of these Cooperative's margins.

Economic Development Notes 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. This note has a balance of $108,000 and $144,000 as of December 31, 2021 and 2020, respectively.

In 2021, the Cooperative executed an interest-free loan in the amount of $180,000 to the Town of Lorain which will be repaid with ten annual payments of $18,000 beginning in 2022.

The Cooperative has $72,000 and $216,000 available as of December 31, 2021 and 2020, respectively, exclusively for this purpose.

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 $538,532 and $608,020 as of December 31, 2021 and 2020, respectively.

Note 4 DEFERRED DEBITS

The balance of deferred debits consists of the following:

	2021	2020
NRECA RS Plan prepayment	$ 248,438	$ 461,414
Meter replacement costs	542,376	137,661
Unamortized debt expense	92,584	99,261
	$ 883,398	$ 698,336

Note 4 DEFERRED DEBITS (continued)

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 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.

The Cooperative is currently replacing its metering system and some of the costs of the meters are being temporarily recorded in deferred costs until the meters are placed into service and at that time they are recorded in plant and depreciated.

Note 5 EQUITIES

Patronage Capital

	2021	2020
Assignable	$ 5,020,335	$ 4,255,734
Assigned to date	76,019,073	72,302,582
Subtotal	81,039,408	76,558,316
Retired to date	27,293,371	25,608,082
Total	$ 53,746,037	$ 50,950,234

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.

Note 5 EQUITIES (Continued)

Patronage Capital (Continued)

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.

Other Equities

	2021	2020
Accumulated unallocated non-operating margins	$ 3,011,167	$ 2,471,932
Gain on early retirement of capital credits	955,235	895,523
Accumulated margins of subsidiaries	3,291,431	3,271,820
Total	$ 7,257,833	$ 6,639,275

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, 2021 and 2020.

Note 6 LONG-TERM DEBT AND LINE OF CREDIT

Long term debt is as follows:

	2021	2020
National Rural Utilities Cooperative Finance Corporation (CFC) Mortgage notes - interest rates of 2.45% to 7.60%, notes payable in quarterly installments with maturities at various dates from 2027 to 2051.	$ 32,467,962	$ 30,363,965
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.	1,681,507	1,755,211
United States Department of Agriculture (USDA) note, non-bearing interest, with monthly installments. Polk-Burnett is the intermediary. See Note 3 for detail.	538,532	608,020
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
National Cooperative Services Corporation (NCSC) note, interest rate of 3.85%, payable in quarterly installments and matures in 2023.	52,152	80,420
	35,040,153	33,107,616
Less amount due within one year	2,222,812	2,046,783
Total long-term debt	$ 32,817,341	$ 31,060,833

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:

2022	$	2,222,812
2023	$	1,990,783
2024	$	1,699,911
2025	$	1,764,705
2026	$	1,832,116

Un-advanced loan funds of $78,000 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, 2021.

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, 2021 and 2020.

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 2.26% at December 31, 2021. The term of the commitment is up to and including July 31, 2022. 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 did not have any outstanding balance as of December 31, 2021 and 2020, 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, 2021 and 2020.

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:

	2021	2020
Electric customer deposits	$ 186,275	$ 158,589
Taxes other than income	69,630	40,613
Accrued interest	208,969	215,715
Accrued payroll	303,054	279,951
Self-funded health insurance	24,307	24,306
Accrued employee vacations	567,590	601,386
State tax collections payable	8,734	9,183
Total	$ 1,368,559	$ 1,329,743

Note 8 DEFERRED CREDITS

The balance of deferred credits consists of the following:

	2021	2020
Unclaimed patronage capital retirement refunds, and general fund checks	$ 733,444	$ 556,909
Deferred gain on RDUP buy out, net of amortization	61,012	79,063
Regulatory liabilities	2,465,161	2,965,161
Deferred tax liability (See note 9)	648,000	693,000
Other deferred credit	-	18,643
Total	$ 3,907,617	$ 4,312,776

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 $18,051 for December 31, 2021 and $18,052 for 2020 and was credited to interest expense and the accumulated amortization is $1,335,526 and $1,317,475 at December 31, 2021 and 2020, 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, 2021 and 2020.

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 none of this deferral during the year ended December 31, 2021 and 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. None of this deferral was used during 2021.

Note 9 INCOME TAXES

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

	2021	2020
Current expense (benefit)		
Federal	$ 34,378	$ 57,096
State	14,096	17,322
Deferred income tax expense (benefit)		
Federal	(32,000)	50,000
State	(13,000)	20,000
Total	$ 3,474	$ 144,418

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

	2021	2020	2019
Deferred income tax assets	$ -	$ -	$ -
Deferred income tax liabilities	648,000	693,000	623,000
	648,000	693,000	623,000
Less - valuation allowance	-	-	-
Net deferred income tax liability	$ 648,000	$ 693,000	$ 623,000

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 $24,307 and $24,306 as of December 31, 2021 and 2020, 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, 2021 and 2021.

Actual medical claims paid by the Cooperative for medical and prescription benefits was $808,453 and $394,003 in 2021 and 2020, 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 $945,027 and $894,952 in 2021 and 2020, 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 2021 and 2020 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, 2021 and January 1, 2020, 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 $171,875 in 2021 and $163,398 in 2020.

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 $1,108,339 and $683,576 in 2021 and 2020, respectively.

Compensated Absences

The cost of compensated absences (vacation, sick leave taken, and holidays) was $623,619 and $542,024 in 2021 and 2020, 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, 2021 and 2020. The Cooperative also purchases solar output from SoCore Energy. In 2021 and 2020, the Cooperative's total purchased power was $18,684,804 and $18,811,166 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 $55,812 and $35,725 per year in 2021 and 2020, 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 $16,848 and $16,800 in 2021 and 2020, 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 May 1, 2019 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 $16,848 and $16,800 in 2021 and 2020, respectively. This activity has been eliminated in the consolidated financial statements.

Other Related Party Transactions

The Cooperative purchased $13,070 and $12,358 in propane from the Propane subsidiary and had a balance of $0 in propane deposits at year end in 2021 and 2020.

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 2021 and 2020. Scheduled future minimum lease payments under the lease agreement are as follows:

Year Ending December 31,		
2022	$	17,268
2023		17,268
2024		17,268
2025		17,268
2026		17,268
Thereafter		96,413
	$	182,753

Propane Contract Commitments

At December 31, 2021, Polk-Burnett Propane Services, Inc., has contracted for approximately 1,184,208 gallons of propane gas purchases with suppliers and had 1,388,100 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, 2021 and 2020, cash and cash equivalents as defined in Note 1 consists of:

	2021	2020
Cash - general	$ 4,437,455	$ 3,096,397
Temporary cash investments	959,176	500,178
Total	$ 5,396,631	$ 3,596,575

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 Cooperative received $1,953,580 in 2021 and has a remaining receivable of $64,924 for admin costs as of the end of 2021.

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 2021 and 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.