

Secretary's Report

Included with this report is the RUS Form 7, which contains Statement of Operations (Part A) and the Balance Sheet (Part C). The balance sheet is a snapshot of our financial position as of 12/31/2019 and lists assets and liabilities. The net utility plant as of that date was \$21,376,549, an increase of \$358,498 from 2018.

The Statement of Operations shows revenues and expenses. Net margins for period ended 12/31/2019 was \$531,424, a decrease of \$241,106 from 2018.

For Period ended 12/31/2019, our net TIER was 1.78 and an OTIER (operating TIER) of 1.43.

The TIER (times interest earned ratio) is how our lenders determine the financial health of the organization. To meet the requirements of our loan covenants, we need to maintain a minimum OTIER of 1.10 and a net TIER of 1.25.

As of 12/31/2019, we have met all debt service and TIER ratios.

Five members volunteered for the election committee and they met on June 16, 2020 at the office at 500 James K Paul St, Ontonagon, MI, to count the ballots received for the Ewen/Trout Creek District. The "Teller's Certification" is included with the reports.

President's Audit Report

An independent audit of Ontonagon's financial statements for 2019 was completed in September by Makela, Pollack & Ahonen, PLLC, of Ironwood Michigan.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

The auditor's responsibility is to express an opinion on the financial statements based on their audit. The audit was conducted 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. Those standards require that they plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Karl Ahonen, CPA, reported their findings at the October 16, 2020 board meeting. Karl stated "in our opinion, the financial statements present fairly, in all material respects, the financial position of the Ontonagon County R.E.A. as of December 31, 2019, and the results of its operations, changes in net assets and its cash flows, thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America. An "unqualified" or "clean opinion" was issued.

2019 Manager's Report

It is our sincerest hope everyone is safe and healthy. We certainly have seen challenging times in 2020. At the September board meeting, a motion was made and approved, to cancel the 2020 annual meeting. We would have preferred holding the meeting in person.

We ended 2019 with an Operating TIER (OTIER) of 1.43 and a net TIER of 1.78. They are down from 1.68 & 2.12 respectively from 12/31/2018, still solid and well within the range required by our loan covenants. A total of 58,417 accounts were billed in 2019 as compared to 58,291 in 2018. We also connected 44 new accounts. Our kWh purchases and sales remained flat. Our net plant increased by \$358,394 and our long-term debt decreased by \$647,000. We did not need to draw down any long-term loan funds during 2019.

We replaced a digger at the L'anse shop and ordered a new bucket truck for Ontonagon. The new Bucket was delivered in April of 2020. Truck orders are now out almost two years.

In April of 2019 Mark Urbis was hired as our line superintendent, replacing William Tucker. In May we added an apprentice lineman to our crew. We now have two apprentices, one in Houghton and the other in Ontonagon.

At the end of November and beginning of December, we experienced back to back storms. They were "one of the worst," according to our crews. We had to call in contractors to help with the restoration. Mutual aid was not available, as everyone was hit with these same storms. Help came to us from Indiana. The expense incurred with this storm series, cost us about \$200,000. Cloverland Electric, at the Sault, was hit with another storm over New Years. Luckily, we escaped that one and we were able to send a crew to help with their restoration. Mutual aid is always less expensive compared to hiring outside contractors. In the case of the November/December storms, every coop in Michigan and Wisconsin was affected and unable to send help. Our crews spent their Thanksgiving working their turkey feathers off in order to restore power to our members.

In September of 2019 we brought our 'Right of Way' Clearing Crew in house. Two journeyman tree trimmers were hired, both came from Asplundh, bringing a total of 30 years of experience. We purchased a skidsteer and a tree bucket. The skidsteer was new, we were able to find a used tree bucket. This crew and the tree bucket have been invaluable. During the late year storms, had we had not had our own tree crew, we would have had to hire someone to remove the fallen trees or our linemen would have been forced to do it, slowing the restoration.

The Lake Linden Tie line was completed. The Lake Linden load was then transferred to the Boston Substation. The Boston Substation has a transmission tap which is by-passing UPPCO lines, saving us expenses for the distribution costs passed on by UPPCO.

2019 was an exciting year with much forward progress. It is our hope, by June of 2021 we will be able to meet in person. Stay safe and be well.

District Election Schedules	Expires	Current Director
1 Green/Firesteel/Toivola	2022	Randy Myhren
4 Aura/Skanee	2021	Calvin Koski
3 Pelkie/Herman/Aura	2022	Wayne Heikkinen
5 Chassell/ Keweenaw Bay	2022	George Rajala
6 Boston	2023	Ann Gasperich
2 Ewen/Trout Creek/ Lake Mine	2023	Mike Urbis
7 Lake Linden	2021	William Hodges

Directors current compensation - \$325.00 (\$350.00/ president) per diem plus mileage
 Manager/Accountant Annual Salary - \$100,000.00

THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION

Annual Meeting of Members Held June 15, 2019

The Annual Meeting of Members of The Ontonagon County Rural Electrification Association was held at the Chassell High School in Chassell, Michigan on June 15, 2019. The President of the Board, Calvin Koski, called the meeting to order and welcomed the members. He then gave the Invocation and led the members in the Pledge of Allegiance.

The Election Committee was appointed to count the ballots for election of one new director. The other two directors ran unopposed.

The President next introduced Patrick Greeley, who would be moderating the meeting. He welcomed the members to the 83rd Annual Meeting, and introduced the members of the Board. He then explained the rules under which the meeting would be conducted.

George Rajala, Vice President, read the Proof of Mailing.

Bruce Johanson made a motion that the reading of last year's minutes be dispensed with as copies were made available at the registration table. This was approved, and last minutes of the 2018 Annual Meeting were approved.

It was announced that 49 members were present, and there was not a quorum for the meeting.

Calvin Koski gave the Auditor's report. George Rajala gave the Financial Report and Debbie Miles gave the manager's report. The coop has done well this past year. The net utility plant is \$21,018,051, an increase of \$445,182 from the previous year. Net margins for 12/31/2018 were \$772,530 as compared to \$548,731 for an increase of \$223,799. Those margins are allocated to the members. Our Operating Tier was 1.68 and the net TIER was 2.12.

Mark Urbis, the new line superintendent, was introduced. He gave a brief summary of his qualifications and interest in the Coop. He said we are ready to transfer our Lake Linden load to the Boston sub, saving approximately \$50,000 in distribution costs. An additional \$445,182 in new plant was added in 2018 and 37 new services were added. Several new linemen were hired during the year.

The meeting then went to old business. No voting took place on lowering the age to qualify as a director from 21 to 18, as there was not a quorum. Mel Haskell, Firesteel, wanted nominating ballots to be reviewed and requested an explanation of nominating petitions and validity. The Board's attorney recommended they not give that information, and they are not legally required to. Pat Kitzman, Ewen-Trout Creek, wanted to know why the lawyer gave that advice, and also challenged the rule of only having 3 minutes to speak. A long discussion resulted in Mel Haskell being given an additional 30 seconds for his questions and comments.

Chris Green asked why, when the coop was in such good financial health, were the \$700,000 in patronage capital not distributed. The manager explained that when we have the cash, patronage capital will be returned, but we need a certain equity before this can be done.

Richard Brooks asked how the attorney advises the Board. Rollin York asked if smart metering can detect a power outage if he's not there to report it. He was assured that it could.

Sarah Greene said in 2017 and 2018, the members voted for more transparency. They wanted a map of districts, clear policy on what board is allowed and not allowed to release to members. Evan McDonald stated that the co-op should be dissolved, some co-ops are interested in shared services. The President said the co-op wants to retain autonomy, but we are looking at shared services. A member asked what chemical instead of Round-up, which has been linked to cancer, the co-op is using. We are using a chemical reportedly to be safe. A member asked what the membership's liability for cleanup after purchasing properties. That should be spelled out in the purchase agreement.

More discussion was held on hiring a lawyer to moderate the meeting, members could not receive a list of members for their district, how are ballots sent out, etc. UPPCO had lowered their rates recently, why do we not have a rate decrease. A cost of service study is needed to change the rates.

Ellen Lutz noted our wholesale power contract was up in 2025, and asked how soon the coop starts looking for other options. We will start meeting with Wolverine in 2021-2022, which will probably be the cheapest wholesale power. Wolverine being a cooperative is non-profit, therefore, allocates any margins back to the members as we do.

Thanks was given to the manager and employees for the dedicated work they do.

The election committee announced the results of the election:

Fran Wiideman - 49 votes

Randy Myhren -47 votes

Bruce Johanson -46 votes

Fran Wiideman was declared the winner and remains the director for the Green, Firesteel & Lake Mine District.

Door prizes were drawn and the meeting adjourned.

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

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

BORROWER DESIGNATION MI0029

**FINANCIAL AND OPERATING REPORT
ELECTRIC DISTRIBUTION**

PERIOD ENDED December 2019

BORROWER NAME The Ontonagon County Rural Electrification Ass

INSTRUCTIONS - See help in the online application.

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

CERTIFICATION

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

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

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

(check one of the following)

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

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

Deborah Miles

6/19/2020

DATE

PART A. STATEMENT OF OPERATIONS

ITEM	YEAR-TO-DATE			THIS MONTH (d)
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	
1. Operating Revenue and Patronage Capital	6,381,536	6,332,676	6,433,242	542,679
2. Power Production Expense				
3. Cost of Purchased Power	2,258,962	2,196,418	2,338,603	187,754
4. Transmission Expense				
5. Regional Market Expense				
6. Distribution Expense - Operation	372,015	334,122	452,377	(2,717)
7. Distribution Expense - Maintenance	563,274	721,547	613,180	240,949
8. Customer Accounts Expense	222,932	205,115	241,703	940
9. Customer Service and Informational Expense	124,926	120,818	127,656	9,400
10. Sales Expense				
11. Administrative and General Expense	523,967	575,355	555,226	46,628
12. Total Operation & Maintenance Expense (2 thru 11)	4,066,076	4,153,375	4,328,745	482,954
13. Depreciation and Amortization Expense	827,214	834,069	858,000	72,297
14. Tax Expense - Property & Gross Receipts	300,171	341,547	300,000	45,547
15. Tax Expense - Other				
16. Interest on Long-Term Debt	688,844	683,671	725,024	56,092
17. Interest Charged to Construction - Credit				
18. Interest Expense - Other	11,915	2,658		604
19. Other Deductions	20,188	20,598	20,436	1,702
20. Total Cost of Electric Service (12 thru 19)	5,914,408	6,035,918	6,232,205	659,196
21. Patronage Capital & Operating Margins (1 minus 20)	467,128	296,758	201,037	(116,517)
22. Non Operating Margins - Interest	6,888	10,075	4,560	422
23. Allowance for Funds Used During Construction				
24. Income (Loss) from Equity Investments	51,205	59,059	38,000	19,662
25. Non Operating Margins - Other	93,522	66,644	3,000	33,381
26. Generation and Transmission Capital Credits				
27. Other Capital Credits and Patronage Dividends	153,786	98,888	100,000	3,236
28. Extraordinary Items				
29. Patronage Capital or Margins (21 thru 28)	772,529	531,424	346,597	(59,816)

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION	BORROWER DESIGNATION MI0029
INSTRUCTIONS - See help in the online application.	PERIOD ENDED December 2019

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT

ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	37	44	5. Miles Transmission		
2. Services Retired	49	15	6. Miles Distribution – Overhead	817.66	820.81
3. Total Services in Place	5,828	5,864	7. Miles Distribution - Underground	147.05	149.02
4. Idle Services (Exclude Seasonals)	629	631	8. Total Miles Energized (5 + 6 + 7)	964.71	969.83

PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	30,566,525	30. Memberships	22,760
2. Construction Work in Progress	877,591	31. Patronage Capital	5,820,468
3. Total Utility Plant (1 + 2)	31,444,116	32. Operating Margins - Prior Years	0
4. Accum. Provision for Depreciation and Amort.	10,067,567	33. Operating Margins - Current Year	395,643
5. Net Utility Plant (3 - 4)	21,376,549	34. Non-Operating Margins	135,781
6. Non-Utility Property (Net)	0	35. Other Margins and Equities	32,497
7. Investments in Subsidiary Companies	0	36. Total Margins & Equities (30 thru 35)	6,407,149
8. Invest. in Assoc. Org. - Patronage Capital	295,429	37. Long-Term Debt - RUS (Net)	79,320
9. Invest. in Assoc. Org. - Other - General Funds	713,924	38. Long-Term Debt - FFB - RUS Guaranteed	3,418,597
10. Invest. in Assoc. Org. - Other - Nongeneral Funds	74,828	39. Long-Term Debt - Other - RUS Guaranteed	0
11. Investments in Economic Development Projects	0	40. Long-Term Debt Other (Net)	11,999,147
12. Other Investments	0	41. Long-Term Debt - RUS - Econ. Devel. (Net)	0
13. Special Funds	0	42. Payments – Unapplied	0
14. Total Other Property & Investments (6 thru 13)	1,084,181	43. Total Long-Term Debt (37 thru 41 - 42)	15,497,064
15. Cash - General Funds	250,641	44. Obligations Under Capital Leases - Noncurrent	0
16. Cash - Construction Funds - Trustee	15	45. Accumulated Operating Provisions and Asset Retirement Obligations	96,000
17. Special Deposits	0	46. Total Other Noncurrent Liabilities (44 + 45)	96,000
18. Temporary Investments	0	47. Notes Payable	112,058
19. Notes Receivable (Net)	0	48. Accounts Payable	404,156
20. Accounts Receivable - Sales of Energy (Net)	547,396	49. Consumers Deposits	14,550
21. Accounts Receivable - Other (Net)	60,494	50. Current Maturities Long-Term Debt	620,000
22. Renewable Energy Credits	0	51. Current Maturities Long-Term Debt - Economic Development	0
23. Materials and Supplies - Electric & Other	224,073	52. Current Maturities Capital Leases	0
24. Prepayments	(2,337)	53. Other Current and Accrued Liabilities	419,574
25. Other Current and Accrued Assets	0	54. Total Current & Accrued Liabilities (47 thru 53)	1,570,338
26. Total Current and Accrued Assets (15 thru 25)	1,080,282	55. Regulatory Liabilities	41,967
27. Regulatory Assets	0	56. Other Deferred Credits	33,809
28. Other Deferred Debits	105,315	57. Total Liabilities and Other Credits (36 + 43 + 46 + 54 thru 56)	23,646,327
29. Total Assets and Other Debits (5+14+26 thru 28)	23,646,327		

TELLER'S CERTIFICATION

The members of the Teller's Committee, having been appointed to serve as tellers for the election of Directors for the Ontonagon County Rural Electrification Association (Coop), gathered at the office of the Coop, on June 16, 2020, have counted the ballots cast for directors and report the following count:

Ewen/Trout Creek/Lake Mine	Paul Koski	<u>79</u>
	Michael Urbis	<u>107</u>

The By-Laws of the Ontonagon County Rural Electrification Association provides for the candidate receiving the highest number of votes cast from their respective district to be elected as director to represent that district on the Board of Directors. In the event that only one member files a nominating petition in a particular district, that member is declared the winner and no election is held in that district.

Signed: Paul Koski
Janet Supanek
Robert H. ...
Jenny Mueke
Mary Keminski