

**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY  
MONTROSE, COLORADO**

**CONSOLIDATED FINANCIAL STATEMENTS WITH CONSOLIDATING  
AND ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**  
CERTIFIED PUBLIC ACCOUNTANTS  
LUBBOCK, TEXAS

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**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

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**LUBBOCK, TEXAS 79423-1954**

**Independent Auditor's Report**

Board of Directors  
Delta-Montrose Electric Association and Subsidiary  
Montrose, Colorado

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Delta-Montrose Electric Association and Subsidiary, (the Association) which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income and patronage capital and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Delta-Montrose Electric Association and Subsidiary as of December 31, 2016 and 2015, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Consolidating and Accompanying Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules and schedules of electric plant, accumulated provision for depreciation, other property and investments, patronage capital, and FFB, CFC & CoBank mortgage notes are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied to the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2017 on our consideration of Delta-Montrose Electric Association and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Delta-Montrose Electric Association and Subsidiary's internal control over financial reporting and compliance.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

Lubbock, Texas

April 18, 2017

## DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Exhibit A

CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2016 AND 2015

## ASSETS

	December 31,	
	2016	2015
<b>PLANT, PROPERTY, AND EQUIPMENT</b>		
Electric Plant in Service	\$ 164,617,009	\$ 160,884,377
Other Property and Equipment	3,946,563	1,767,825
Construction Work in Progress	10,562,464	4,100,610
	<u>\$ 179,126,036</u>	<u>\$ 166,752,812</u>
Less: Accumulated Provision for Depreciation and Amortization	73,093,339	68,324,586
	<u>\$ 106,032,697</u>	<u>\$ 98,428,226</u>
<b>OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE</b>		
Investments in Associated Organizations	\$ 51,035,923	\$ 50,651,083
Other Investments	191,127	219,808
	<u>\$ 51,227,050</u>	<u>\$ 50,870,891</u>
<b>CURRENT ASSETS</b>		
Cash - General	\$ 2,494,055	\$ 2,430,911
Cash - Restricted	374,897	443,249
Temporary Cash Investments (At Cost)	4,010,841	4,865,000
Temporary Cash Investments - Restricted	5,179,159	4,236,000
Accounts Receivable (Less allowance for uncollectibles of \$52,468 in 2016 and \$537,652 in 2015)	4,167,978	3,783,525
Unbilled Revenue	5,754,383	5,707,425
Materials and Supplies (At Average Cost)	2,821,326	2,602,355
Other Current and Accrued Assets	111,740	337,846
	<u>\$ 24,914,379</u>	<u>\$ 24,406,311</u>
<b>OTHER ASSETS</b>		
Deferred Debits	\$ 5,028,756	\$ 5,202,888
Intangibles	69,632	
	<u>\$ 5,098,388</u>	<u>\$ 5,202,888</u>
<b>TOTAL ASSETS</b>	<u>\$ 187,272,514</u>	<u>\$ 178,908,316</u>

## EQUITIES AND LIABILITIES

<b>EQUITIES</b>		
Patronage Capital	\$ 89,086,872	\$ 87,879,324
Other Equities	8,713,501	8,267,350
	<u>\$ 97,800,373</u>	<u>\$ 96,146,674</u>
<b>LONG-TERM DEBT</b>		
FFB Mortgage Notes Less Current Maturities	\$ 30,266,398	\$ 24,270,491
CFC Mortgage Notes Less Current Maturities	24,773,887	26,532,281
CoBank Mortgage Notes Less Current Maturities	19,456,261	20,295,831
	<u>\$ 74,496,546</u>	<u>\$ 71,098,603</u>
Less: Advanced Payments	6,038,055	6,469,427
	<u>\$ 68,458,491</u>	<u>\$ 64,629,176</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 3,348,410	\$ 3,128,897
Accounts Payable	6,984,238	5,722,466
Accrued Taxes	816,982	937,178
Accrued Employee Compensated Absences	1,570,688	1,542,753
Accrued Interest	432,884	155,985
Other Current Liabilities	61,559	77,323
	<u>\$ 13,214,761</u>	<u>\$ 11,564,602</u>
<b>OTHER LIABILITIES</b>		
Deferred Credits	\$ 7,798,889	\$ 6,567,864
<b>TOTAL EQUITIES AND LIABILITIES</b>	<u>\$ 187,272,514</u>	<u>\$ 178,908,316</u>

See accompanying notes to consolidated financial statements.

## DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Exhibit B

**CONSOLIDATED STATEMENTS OF INCOME AND PATRONAGE CAPITAL  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	December 31,				Increase (Decrease)
	2016		2015		
	Amount	%	Amount	%	
<b>OPERATING REVENUES</b>					
Residential	\$ 35,391,777	55.1	\$ 34,475,118	53.0	\$ 916,659
Irrigation	149,921	0.2	119,139	0.2	30,782
Small Commercial	15,919,522	24.7	15,586,407	24.0	333,115
Large Commercial	9,148,372	14.2	12,141,326	18.7	(2,992,954)
Street Lighting and Public Buildings	545,856	0.8	560,741	0.9	(14,885)
Unbilled Revenue	46,958	0.1	(256,114)	(0.4)	303,072
Deferred Revenue Plan	(750,000)	(1.2)	(750,000)	(1.2)	0
Internet Services	26,586	0.0			26,586
Other Operating Revenues	3,923,210	6.1	3,103,913	4.8	819,297
<b>Total Operating Revenues</b>	<b>\$ 64,402,202</b>	<b>100.0</b>	<b>\$ 64,980,530</b>	<b>100.0</b>	<b>\$ (578,328)</b>
<b>OPERATING EXPENSES</b>					
Purchased Power	\$ 40,641,001	63.1	\$ 41,859,450	64.4	\$ (1,218,449)
Cost of Goods Sold - Other	3,367	0.0	3,367	0.0	0
Hydro - Operation	628,651	1.0	587,206	0.9	41,445
Hydro - Maintenance	76,845	0.1	68,004	0.1	8,841
Transmission	443,060	0.7	344,741	0.5	98,319
Distribution - Operation	3,390,449	5.3	3,159,491	4.9	230,958
Distribution - Maintenance	2,008,048	3.1	1,801,145	2.8	206,903
Customer Accounts	2,248,821	3.5	2,241,491	3.4	7,330
Customer Service and Information	499,158	0.8	529,216	0.8	(30,058)
Sales	244,175	0.4	167,183	0.3	76,992
Administrative and General	5,779,852	9.0	5,299,003	8.2	480,849
Depreciation and Amortization	5,400,284	8.4	5,338,946	8.2	61,338
Other Deductions	486,094	0.8	619,069	1.0	(132,975)
<b>Total Operating Expenses</b>	<b>\$ 61,849,805</b>	<b>96.2</b>	<b>\$ 62,018,312</b>	<b>95.5</b>	<b>\$ (168,507)</b>
<b>OPERATING MARGINS - BEFORE FIXED CHARGES</b>	<b>\$ 2,552,397</b>	<b>3.8</b>	<b>\$ 2,962,218</b>	<b>4.5</b>	<b>\$ (409,821)</b>
<b>FIXED CHARGES</b>					
Interest on Long-Term Debt	2,477,175	3.8	2,577,252	4.0	(100,077)
<b>OPERATING MARGINS - AFTER FIXED CHARGES</b>	<b>\$ 75,222</b>	<b>0.0</b>	<b>\$ 384,966</b>	<b>0.5</b>	<b>\$ (309,744)</b>
G & T Capital Credits	1,104,017	1.7	1,931,393	3.0	(827,376)
Other Capital Credits	285,468	0.4	392,254	0.6	(106,786)
<b>NET OPERATING MARGINS</b>	<b>\$ 1,464,707</b>	<b>2.1</b>	<b>\$ 2,708,613</b>	<b>4.1</b>	<b>\$ (1,243,906)</b>
<b>NONOPERATING MARGINS (LOSS)</b>					
Interest Income	\$ 458,420	0.7	\$ 468,790	0.7	\$ (10,370)
Gain on Disposal of Assets	51,818	0.1	53,585	0.1	(1,767)
Other Nonoperating Income (Loss)	(126,133)	(0.2)	9,240	0.0	(135,373)
	<b>\$ 384,105</b>	<b>0.6</b>	<b>\$ 531,615</b>	<b>0.8</b>	<b>\$ (147,510)</b>
<b>NET MARGINS</b>	<b>\$ 1,848,812</b>	<b>2.7</b>	<b>\$ 3,240,228</b>	<b>4.9</b>	<b>\$ (1,391,416)</b>
<b>PATRONAGE CAPITAL - BEGINNING OF PERIOD</b>	<b>87,879,324</b>		<b>88,553,802</b>		
Transfers to Other Equities	(313,339)		(1,123,834)		
Patronage Capital Retired - Cash	(195,113)		(2,706,813)		
Patronage Capital Retired - Discounted	(132,812)		(84,059)		
<b>PATRONAGE CAPITAL - END OF PERIOD</b>	<b>\$ 89,086,872</b>		<b>\$ 87,879,324</b>		

See accompanying notes to consolidated financial statements.

## DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Exhibit C

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	December 31,	
	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margins	\$ 1,848,812	\$ 3,240,228
Adjustments to Reconcile Net Margins to Net Cash		
From Operating Activities		
Depreciation	5,788,562	5,630,238
Capital Credits - Noncash	(562,228)	(1,615,424)
Deferred Charges	174,132	(4,838,125)
Deferred Credits	1,231,025	1,278,727
Accounts Receivable and Unbilled Revenue	(431,411)	719,344
Notes Receivable	28,681	23,518
Inventories and Other Current Assets	7,135	(333,955)
Payables and Accrued Expenses	1,430,646	655,195
Net Cash Provided by Operating Activities	<u>\$ 9,515,354</u>	<u>\$ 4,759,746</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Utility Plant and Other Property and Equipment	\$ (13,372,743)	\$ (6,290,020)
Salvage Over (Under) Plant Removal Costs	(20,290)	11,460,562
Additions to Intangibles	(69,632)	
Investments in Associated Organizations	177,388	38,158
Net Cash Provided by (Used in) Investing Activities	<u>\$ (13,285,277)</u>	<u>\$ 5,208,700</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Long-Term Debt - RUS	\$	\$ (251,443)
Advances from FFB - Long-Term Debt	6,647,000	
Payments on Long-Term Debt - FFB	(470,971)	(560,038)
Payments on Long-Term Debt - CFC	(1,753,479)	(1,688,071)
Payments on Long-Term Debt - CoBank	(805,093)	(391,359)
Net Change in RUS Cushion of Credit	431,371	(1,293,803)
Capital Credit Retirements - Cash	(195,113)	(2,706,813)
Net Cash Provided by (Used in) Financing Activities	<u>\$ 3,853,715</u>	<u>\$ (6,891,527)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	\$ 83,792	\$ 3,076,919
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>11,975,160</u>	<u>8,898,241</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 12,058,952</u>	<u>\$ 11,975,160</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for:		
Interest	\$ 2,199,998	\$ 3,089,224
Income Taxes	<u>\$ 0</u>	<u>\$ 0</u>

**NON CASH INVESTING AND FINANCING ACTIVITIES**

During 2015, the Association paid outstanding loans from RUS of \$21,493,156 with proceeds from CoBank.

These transactions are not reflected above.

See accompanying notes to consolidated financial statements.



**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations**

Delta-Montrose Electric Association and Subsidiary (the Association) is a Colorado non-profit corporation organized to provide electric service at the retail level to primarily residential and commercial accounts in Montrose County and the surrounding areas. Power delivered at retail is purchased wholesale primarily from Tri-State Generation and Transmission Association, Inc. Any revenues earned in excess of costs incurred are allocated to members of the Association and are reflected as patronage capital equity in the balance sheet. The Association also maintains a division organized to provide maintenance for geothermal heating and cooling systems.

DMEA Utilities Services, LLC (DMEAUS) is a for-profit corporation organized to pursue development opportunities. DMEAUS is a wholly-owned subsidiary of the Association.

**System of Accounts**

The accounting records of the Association are maintained in accordance with the Rural Utilities Service (RUS) Uniform System of Accounts (USOA) prescribed for RUS electric borrowers.

**Principles of Consolidation**

The consolidated financial statements include the accounts of Delta-Montrose Electric Association and its wholly-owned subsidiary, DMEAUS. All material intercompany transactions have been eliminated.

**Electric Plant, Maintenance, and Depreciation**

Electric plant is stated at the original cost of construction which includes the cost of contracted services, direct labor, materials, and overhead items. Contributions from others toward the construction of an electric plant are credited to the applicable plant accounts.

When property which represents a retirement unit is replaced or removed, the average cost of such property as determined from the continuing property records is credited to electric plant, and such cost, together with cost of removal less salvage, is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expense and other accounts.

**Electric Revenues**

The Association's headquarters facility is located in Montrose, Colorado. The service area includes members located in several counties in western Colorado. The Association records a receivable for electric revenues as billed on a monthly basis. The Association has calculated that its unbilled revenue for delivered power usage which has not been billed to consumers at December 31, 2016 and 2015 amounted to \$5,754,383 and \$5,707,425, respectively. This amount is included as a component of current assets in the balance sheet.

**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Inventories**

Materials and supplies inventories are valued at average unit cost.

**Financial Instruments with Off-Balance-Sheet Risk**

The Association maintains its temporary cash investments and checking accounts in financial institutions located in its service area. The Federal Deposit Insurance Corporation (FDIC) insures cash deposits. The Association maintains accounts at FDIC insured institutions and at times deposits exceeded the insured amounts.

**Patronage Capital Certificates**

Patronage capital from associated organizations is recorded at the stated amount of the certificates.

The G & T patronage income recognized for the 2016 and 2015 years are as follows:

	December 31,	
	2016	2015
Final Allocation for 2016	\$ 1,104,017	\$
Final Allocation for 2015		1,931,393
	<u>\$ 1,104,017</u>	<u>\$ 1,931,393</u>

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Association considers cash – general, cash – restricted, temporary cash investments, and temporary cash investments – restricted to be cash equivalents.

**Use of Estimates in the Preparation of Financial Statements**

The preparation 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. Actual results could differ from those estimates.

**Comparative Financial Information**

Certain amounts in the prior period financial statements have been reclassified in order to conform to current period presentation.

**Allowance for Uncollectible Accounts**

The Association uses an aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collectability. The accounts deemed uncollectible are written off upon approval by management.

**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2. Assets Pledged**

Substantially all assets are pledged as security for the long-term debt to CoBank, the Federal Financing Bank (FFB), and to the National Rural Utilities Cooperative Finance Cooperative (CFC).

**3. Property, Plant, and Equipment**

The major classes of plant are as follows:

	December 31,	
	2016	2015
Hydro Plant	\$ 20,041,324	\$ 19,952,183
Transmission Plant	3,199,575	3,105,635
Distribution Plant	118,902,630	116,628,125
General Plant	22,473,480	21,198,434
Other Property and Equipment	3,946,563	1,767,825
Plant in Service	\$ 168,563,572	\$ 162,652,202
Construction Work in Progress	10,562,464	4,100,610
Total Plant in Service	\$ 179,126,036	\$ 166,752,812

The Association provides for depreciation of plant as follows:

Hydro Plant	2.50%
Transmission Plant	2.75%
Distribution Plant	2.30% - 8.00%
General Plant	
Structures and Improvements	3.00%
Transportation Equipment	10.99% - 16.99%
Power Operated Equipment	10.99% - 16.99%
All Other General Plant	6.00% - 16.00%

Depreciation for the year ended December 31, 2016 was \$5,788,562 of which \$5,400,284 was charged to depreciation expense, and \$388,278 allocated to other accounts. Depreciation for the year ended December 31, 2015 was \$5,630,238, of which \$5,338,946 was charged to depreciation expense and \$291,292 allocated to other accounts.

**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**4. Investments in Associated Organizations and Other Investments**

Investments in associated organizations consist of the following:

	December 31,	
	<u>2016</u>	<u>2015</u>
CFC		
Capital Term Certificates	\$ 1,624,312	\$ 1,629,787
Patronage Capital	505,573	450,670
Membership	1,000	1,000
Tri-State G & T Association		
Patronage Capital	47,506,384	47,026,659
Western United Electric Supply Corp		
Patronage Capital	916,097	1,036,752
Federated Insurance		
Patronage Capital	270,448	233,719
Other	212,109	272,496
	<u>\$ 51,035,923</u>	<u>\$ 50,651,083</u>

Other investments consist of the following:

	December 31,	
	<u>2016</u>	<u>2015</u>
Notes Receivable - Geothermal Loans	\$ 191,127	\$ 219,808

**5. Restricted Cash and Temporary Cash Investments**

Restricted cash consists of the following:

	December 31,	
	<u>2016</u>	<u>2015</u>
Education and Charitable Fund	\$ 275,828	\$ 411,534
Deferred Compensation	99,069	31,715
	<u>\$ 374,897</u>	<u>\$ 443,249</u>

Restricted temporary cash investments consist of the following:

	December 31,	
	<u>2016</u>	<u>2015</u>
Uncompahgre Valley Water Users Association	\$ 1,179,159	\$ 986,000
Deferred Revenue - Select Notes - CFC	4,000,000	3,250,000
	<u>\$ 5,179,159</u>	<u>\$ 4,236,000</u>

**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

During the year ended December 31, 2012, the Association adopted a Deferred Revenue Plan. As a result of that plan, \$750,000 of cash was moved to Restricted Cash. During the year ended December 31, 2014, the Association moved an additional \$1,750,000 to Restricted Cash. During the year ended December 31, 2015, the Association restricted an additional \$750,000 and reclassified the total deferred revenue amount of \$3,250,000 to Restricted Temporary Cash Investments. During the year ending December 31, 2016 the Association moved an additional \$750,000 to Restricted Temporary Cash Investments. See Note 18, "Deferred Credits", for further explanation.

During the year ended December 31, 2011, the Association finalized its agreements with the Uncompahgre Valley Water Users Association (UVWUA) to begin construction of a hydroelectric generation facility. This agreement gave Delta-Montrose Electric Association water rights for the facility at no cost for the term of the debt that will be utilized to construct the facility. During the year ended December 31, 2013, the hydroelectric generation facility became operational. Annually, the amount of any power cost savings less expenses related to this facility are split 50/50 with UVWUA, with UVWUA's portion being the Association's cost of water rights from UVWUA. The Association is contractually obligated to reinvest UVWUA's share in specified investments. For the years ended December 31, 2016 and 2015, UVWUA's share was \$1,179,159 and \$986,000, respectively. Once all debt obligations are satisfied, the Association has the right to either acquire a 50% interest in the facility in exchange for agreeing to forego any future rental payments, or market and sell 50% of the power generated by the facility.

**6. Temporary Cash Investments (At Cost)**

Temporary cash investments consist of:

	December 31,	
	2016	2015
Certificates of Deposit	\$ 4,010,841	\$ 75,000
Select Notes - CFC	4,010,841	4,790,000
	<u>\$ 4,010,841</u>	<u>\$ 4,865,000</u>

**7. Materials and Supplies (At Average Cost)**

Materials and supplies consist of:

	December 31,	
	2016	2015
Electric Inventory	\$ 1,322,466	\$ 1,288,167
Special Equipment Inventory	1,130,326	1,050,487
Vehicle Inventory	31,634	37,926
Fiber Optic Inventory	230,586	225,775
Other	106,314	
	<u>\$ 2,821,326</u>	<u>\$ 2,602,355</u>

**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**8. Deferred Debits**

Deferred debits consist of:

	December 31,	
	2016	2015
Smart Grid	\$ 155,000	\$ 231,272
TriState Facility Use Charge	4,427,596	4,672,440
Other	446,160	299,176
	<u>\$ 5,028,756</u>	<u>\$ 5,202,888</u>

Beginning in 2011, the Association started participation in the Smart Grid Demonstration Grant Program. This Department of Energy program in cooperation with the National Rural Electric Cooperative Association (NRECA) was to assist in the implementation of the Association's smart grid infrastructure. During 2014, the project was completed with \$482,972 of the total project costs being deferred. These deferred charges consisted of in-home displays, cyber security program, and payments for NRECA smart grid cash share. In 2015, the in-home displays were reclassified to inventory. These charges are being amortized over five years.

In consideration of Tri-State's ownership, operation, maintenance, and replacement of looped facilities, the Association was required to pay a facility use charge of \$4,896,880 over 20 years. The Association prepaid the entire amount in 2015 and is amortizing over 20 years. Amortization was \$244,844 during the year ending December 31, 2016.

**9. Intangible Assets**

During 2016, DMEAUS acquired a netblock which is a range of Internet Protocol (IP) addresses that a specific Internet Service Provider or datacenter owns and can assign at will. The netblock has an indefinite life and as such, the cost is not amortized. The net book value of the netblock held by DMEAUS is \$69,632 for 2016.

**10. Income Taxes**

The Association is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code as long as 85% of its revenue is from members for the sole purpose of meeting losses and expenses. For the years ended December 31, 2016 and 2015, the Association qualified for exemption. However, the Association has engaged in unrelated trades or businesses and is subject to the Unrelated Business Income Tax imposed on tax-exempt entities by Section 511 of the Internal Revenue Code. The Association has an unrelated business loss carryover of \$970,794 that may be used to offset future unrelated business taxable income for a period not to exceed 20 years and begins to expire in the year 2021.

DMEAUS is an association taxed as a C-corporation for federal and state income tax reporting purposes. Current taxes are impacted by the availability of net operating loss carryovers, which may be used to offset future taxable income for a period not to exceed 20 years. At December 31, 2016, DMEAUS reported net operating loss carryovers of \$370,183 which begin to expire in the year 2023.

**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The Association follows the asset and liability method for reporting income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Association's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized and settled. As changes in the tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Deferred federal and state income taxes result from transactions which enter into the determination of taxable income in different periods than recorded for financial reporting purposes. Principal sources of deferred federal and state income taxes are net operating loss carryovers and accelerated depreciation. For both federal and state income tax reporting purposes, these net operating loss carryovers are being used to offset future taxable income for a period not to exceed 20 years. The federal and state deferred tax assets are estimated to be \$505,357 and \$242,381, at December 31, 2016 and 2015, respectively. However, until there is sufficient evidence that current and future operations will perform as forecasted, the utilization of the deferred tax assets resulting from net operating loss carryover is uncertain. Therefore, a valuation allowance has been recorded and the net deferred tax asset recorded on the books is \$0 at both December 31, 2016 and 2015. Additionally, the corresponding provision for deferred income tax is \$0 for both years then ended.

The Association and DMEAUS have adopted the "uncertain tax positions" provisions of accounting provisions generally accepted in the United States of America. The primary tax position of the Association is its filing status as a tax exempt entity. The Association and DMEAUS have determined it is more likely than not that their tax position will be sustained upon examination by the Internal Revenue Service or applicable state taxing authority and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Association files its income tax return in the U.S. federal jurisdiction. DMEAUS files income tax returns in the U.S. federal jurisdiction and in the state of Colorado. The Association and DMEAUS are no longer subject to U.S. federal jurisdictions for the years before 2013. DMEAUS is no longer subject to income tax examinations by Colorado State taxing authorities for years before 2013. The Association and DMEAUS recognize interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended December 31, 2016 and 2015.

**11. Return of Capital**

Under the provisions of the mortgage agreement, until the equities and margins equal or exceed 30.00% of the total assets of the Association, the return to patrons of capital contributed by them is limited generally to 25.00% of the patronage capital or margins received by the Association in the prior calendar year. The equities and margins of the Association represent 52.22% and 53.74% of the total assets as of December 31, 2016 and 2015, respectively. Additionally, the Association retired \$327,925 and \$2,790,872 (of which \$195,113 and \$2,706,813 was paid in cash with the remainder discounted) during the years ended December 31, 2016 and 2015, respectively. The Association retires capital on a combination LIFO/FIFO (last-in, first-out / first-in, first-out) method.

**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**12. Patronage Capital**

	December 31,	
	2016	2015
Assigned	\$ 69,547,270	\$ 69,173,507
Assignable	48,110,725	46,949,013
	<u>\$ 117,657,995</u>	<u>\$ 116,122,520</u>
Less: Retired	(28,571,123)	(28,243,196)
	<u>\$ 89,086,872</u>	<u>\$ 87,879,324</u>

**13. Other Equities**

	December 31,	
	2016	2015
Accumulated Subsidiary Margins	\$ 237,220	\$ 237,220
Discounted/Donated Capital	5,050,527	4,917,715
Undistributed Nonoperating Margins	3,425,754	3,112,415
	<u>\$ 8,713,501</u>	<u>\$ 8,267,350</u>

**14. FFB Mortgage Notes**

Following is a summary of long-term mortgage notes due FFB with schedule maturities at various times:

	December 31,	
	2016	2015
3.941% Note	\$ 11,195,847	\$ 11,376,812
4.345% Note	4,249,035	4,313,544
4.747% Note	3,709,545	3,790,413
2.290% Note	5,251,300	5,360,077
2.303% Note	6,611,147	
	<u>\$ 31,016,874</u>	<u>\$ 24,840,846</u>
Less: Current Maturities	750,476	570,355
	<u>\$ 30,266,398</u>	<u>\$ 24,270,491</u>

The Association has \$6,038,055 and \$6,469,427 in advance payments as of December 31, 2016 and 2015, respectively.



**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Principal and interest installments on the above notes are due quarterly. As of December 31, 2016, the annual maturities of long-term debt due FFB for the next five years are as follows:

2017	\$ 750,476
2018	776,832
2019	804,189
2020	832,519
2021	862,067

**15. CFC Mortgage Notes**

Following is a summary of long-term mortgage notes due CFC with scheduled maturities at various times:

	December 31,	
	2016	2015
CFC Fixed Rate Notes Ranging from 2.50% to 6.60% in 2016 and 3.25% to 6.60% in 2015	\$ 7,747,234	\$ 8,731,957
CFC Fixed Rate CREBs Notes at 4.30%	18,784,144	19,552,900
	\$ 26,531,378	\$ 28,284,857
Less: Current Maturities	1,757,491	1,752,576
	<u>\$ 24,773,887</u>	<u>\$ 26,532,281</u>

The Association participated in the federal loan program for clean renewable energy bonds (CREBs) to finance renewable energy projects. The Association received federal tax credits in lieu of a portion of the traditional bond interest, resulting in lower effective interest rate for the Association. As of December 31, 2016 and 2015, the Association has \$18,784,144 and \$19,552,900 outstanding on these notes.

Principal and interest installments on the above notes are due quarterly. As of December 31, 2016, the annual maturities of long-term debt due CFC for the next five years are as follows:

2017	\$ 1,757,491
2018	1,542,824
2019	1,508,064
2020	1,554,529
2021	1,623,290

**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**16. CoBank Mortgage Notes**

Following is a summary of long-term mortgage notes due CoBank with schedule maturities at various times:

	December 31,	
	<u>2016</u>	<u>2015</u>
3.56% Note	\$ 3,706,286	\$ 3,881,288
3.70% Note	8,157,603	8,480,696
3.77% Note	<u>8,432,815</u>	<u>8,739,813</u>
	\$ 20,296,704	\$ 21,101,797
Less: Current Maturities	<u>840,443</u>	<u>805,966</u>
	<u>\$ 19,456,261</u>	<u>\$ 20,295,831</u>

Principal and interest installments on the above notes are due monthly. As of December 31, 2016, the annual maturities of long-term debt due CoBank for the next five years are as follows:

2017	\$ 840,443
2018	872,946
2019	905,767
2020	939,822
2021	975,158

**17. Lines of Credit**

The Association has a perpetual \$5,000,000 line of credit for short-term financing with CFC and a \$5,000,000 line with CoBank, both at variable interest rates. At December 31, 2016 and 2015, the Association had no amounts outstanding on either of these lines of credit.

**18. Deferred Credits**

	December 31,	
	<u>2016</u>	<u>2015</u>
Consumer Advances in Aid to Construction	\$ 276,285	\$ 315,727
Energy Prepayments	637,461	254,904
Unclaimed Capital Credits	2,003,977	2,106,919
Deferred Revenue Plan	4,000,000	3,250,000
Other Deferred Revenue	483,526	566,524
Other	<u>397,640</u>	<u>73,790</u>
	<u>\$ 7,798,889</u>	<u>\$ 6,567,864</u>

**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

During the year ended December 31, 2012, the Association adopted a Deferred Revenue Plan in accordance with *Accounting Standards Codification 980, Regulated Operations*. This Plan has been approved by RUS, and the Association deferred \$750,000 in 2012 related to this plan. The Association adopted plans that were approved by RUS to defer an additional \$1,750,000 in 2014, \$750,000 in 2015, and \$750,000 in 2016. The \$4,000,000 in revenue will be recognized annually over the years of 2017 – 2021 and is designed to help offset the potential increase of power cost.

**19. Pension Benefits**

Narrative Description

The NRECA Retirement Security Plan (the RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The RS Plan sponsor's Employer Identification Number is 53-0116145 and the RS 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.

Plan Information

The Association contributions to the RS Plan in 2016 and 2015 represented less than five percent of the total contributions made to the RS Plan by all participating employers. The Association made contributions to the RS Plan of \$1,128,738 in 2016 and \$1,166,800 in 2015.

For 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 RS Plan was over 80% funded on January 1, 2016 and 2015 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 RS Plan and may change as a result of plan experience.

**20. Litigation, Commitments, and Contingencies**

The Cooperative is involved in several instances of litigation. The ultimate outcome of the litigation cannot presently be determined. However, in management's opinion, the likelihood of any material adverse outcome is remote. Accordingly, adjustments, if any, which might result from the resolution of these matters, have not been reflected in these financial statements.

**21. Related Party Transactions and Power Supply Arrangements**

The Association's purchases its power from Tri-State Generation and Transmission Association, and under its existing wholesale power and energy requirements, is committed to purchase at least 95% of its electricity from Tri-State until 2040. The Association is represented on the power supplier's Board of Directors.

**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**22. Fair Value of Financial Instruments**

Accounting standards generally accepted in the United States, requires disclosure of fair value information about financial instruments. Many of the Association’s financial instruments lack an available market as characterized by a normal exchange between a willing buyer and a willing seller. Accordingly, significant assumptions, estimations, and present value calculations were used for purposes of this disclosure.

The following assumptions were used to estimate fair value of each class of financial instrument for which estimation is practicable.

Patronage Capital from Associated Organization – The right to receive cash is an inherent component of a financial instrument. The Association holds no right to receive cash since any payments are at the discretion of the governing body for the associated organizations. As such, Patronage Capital from Associated Organizations is not considered financial instruments.

CFC Capital Term Certificates – It is not practicable to estimate fair value for these financial instruments given the lack of a market and their long holding period.

Cash and Temporary Cash Investments – Valued at its carrying value, given the short period to maturity.

Long-Term Variable Rate Debt and Lines of Credit – Valued at its carrying value, due to the frequency at which these notes re-price.

Long-Term Fixed Rate Debt – Estimated by computing the present value by individual note to maturity, using currently quoted or offered rates for similar issues of debt. The year-end CFC fixed interest rate for long-term debt re-pricing every seven years was used in the calculation for all fixed rate long-term debt. These are the only financial instruments of the Association that have a difference in fair value and carrying value.

The carrying value of the Association’s fixed rate debt and the estimated fair value are as follows:

	Carrying Value	Fair Value
Fixed Rate Debt - 2016	\$ <u>77,844,956</u>	\$ <u>70,015,143</u>
Fixed Rate Debt - 2015	\$ <u>74,227,500</u>	\$ <u>68,442,386</u>

**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Fair Value Hierarchy**

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs are unobservable inputs for the asset or liability.

Long-Term Fixed Rate Debt valuations are considered to be Level 2.

**23. Subsequent Events**

Effective January 1, 2017, the Association increased rates an average of 3.61%, which is expected to bring in additional revenue of approximately \$2,266,000.

The Association's management has evaluated subsequent events through April 18, 2017, the date which the financial statements were available for issue.

**24. Recently Issued Accounting Pronouncements**

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be clarified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The new standard is effective for nonpublic entities for fiscal years beginning after December 15, 2019. The Association is evaluating the impact of the new standard on the financial statements.

**CONSOLIDATING AND ACCOMPANYING INFORMATION**

**CONSOLIDATING INFORMATION**

## DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Schedule 1

**CONSOLIDATING INFORMATION  
BALANCE SHEET  
DECEMBER 31, 2016**

**ASSETS**

	<u>DMEA</u>	<u>DMEAUS</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
<b>UTILITY PLANT/ FIXED ASSETS AT COST</b>				
Electric Plant in Service	\$ 164,617,009	\$	\$	\$ 164,617,009
Other Property and Equipment	1,289,795	2,656,768		3,946,563
Construction Work in Progress	10,562,464			10,562,464
	<u>\$ 176,469,268</u>	<u>\$ 2,656,768</u>	<u>\$ 0</u>	<u>\$ 179,126,036</u>
Less: Accumulated Provision for Depreciation and Amortization	72,922,028	171,311		73,093,339
	<u>\$ 103,547,240</u>	<u>\$ 2,485,457</u>	<u>\$ 0</u>	<u>\$ 106,032,697</u>
<b>OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE</b>				
Investments in Associated Organizations	\$ 51,035,923	\$	\$	\$ 51,035,923
Investments in Affiliated Company	(39,205)		39,205	0
Other Investments	191,127			191,127
	<u>\$ 51,187,845</u>	<u>\$ 0</u>	<u>\$ 39,205</u>	<u>\$ 51,227,050</u>
<b>CURRENT ASSETS</b>				
Cash - General	\$ 2,324,924	\$ 169,131	\$	\$ 2,494,055
Cash - Restricted	374,897			374,897
Temporary Cash Investments	4,010,841			4,010,841
Temporary Cash Investments - Restricted	5,179,159			5,179,159
Accounts Receivable (Less Allowance for Uncollectibles of \$52,468)	6,862,889	20,731	(2,715,642)	4,167,978
Accrued Unbilled Revenue	5,754,383			5,754,383
Materials and Supplies (At Average Cost)	2,715,012	106,314		2,821,326
Other Current and Accrued Assets	87,463	24,277		111,740
	<u>\$ 27,309,568</u>	<u>\$ 320,453</u>	<u>\$ (2,715,642)</u>	<u>\$ 24,914,379</u>
<b>OTHER ASSETS</b>				
Deferred Debits	\$ 5,028,756	\$	\$	\$ 5,028,756
Intangibles		69,632		69,632
	<u>\$ 5,028,756</u>	<u>\$ 69,632</u>	<u>\$ 0</u>	<u>\$ 5,098,388</u>
<b>TOTAL ASSETS</b>	<u>\$ 187,073,409</u>	<u>\$ 2,875,542</u>	<u>\$ (2,676,437)</u>	<u>\$ 187,272,514</u>

**EQUITIES AND LIABILITIES**

<b>EQUITIES</b>				
Patronage Capital	\$ 89,086,872	\$	\$	\$ 89,086,872
Other Equities	8,713,501	(39,205)	39,205	8,713,501
	<u>\$ 97,800,373</u>	<u>\$ (39,205)</u>	<u>\$ 39,205</u>	<u>\$ 97,800,373</u>
<b>LONG-TERM DEBT</b>				
FFB Mortgage Notes Less Current Maturities	\$ 30,266,398	\$	\$	\$ 30,266,398
CFC Mortgage Notes Less Current Maturities	24,773,887			24,773,887
CoBank Mortgage Notes Less Current Maturities	19,456,261			19,456,261
	<u>\$ 74,496,546</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 74,496,546</u>
Less: Advanced Payments	6,038,055			6,038,055
	<u>\$ 68,458,491</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 68,458,491</u>
<b>CURRENT LIABILITIES</b>				
Current Maturities of Long-Term Debt	\$ 3,348,410	\$	\$	\$ 3,348,410
Accounts Payable	6,984,238	2,715,642	(2,715,642)	6,984,238
Accrued Taxes	814,157	2,825		816,982
Accrued Employee Compensated Absences	1,529,328	41,360		1,570,688
Accrued Interest	432,884			432,884
Other Current Liabilities	61,559			61,559
	<u>\$ 13,170,576</u>	<u>\$ 2,759,827</u>	<u>\$ (2,715,642)</u>	<u>\$ 13,214,761</u>
<b>OTHER LIABILITIES</b>				
Deferred Credits	\$ 7,643,969	\$ 154,920	\$ 0	\$ 7,798,889
<b>TOTAL EQUITIES AND LIABILITIES</b>	<u>\$ 187,073,409</u>	<u>\$ 2,875,542</u>	<u>\$ (2,676,437)</u>	<u>\$ 187,272,514</u>



## DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Schedule 2

**CONSOLIDATING INFORMATION  
BALANCE SHEET  
DECEMBER 31, 2015**

**ASSETS**

	<u>DMEA</u>	<u>DMEAUS</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
<b>UTILITY PLANT/ FIXED ASSETS AT COST</b>				
Electric Plant in Service	\$ 160,884,377	\$	\$	\$ 160,884,377
Other Property and Equipment	1,306,947	460,878		1,767,825
Construction Work in Progress	4,100,610			4,100,610
	<u>\$ 166,291,934</u>	<u>\$ 460,878</u>	<u>\$ 0</u>	<u>\$ 166,752,812</u>
Less: Accumulated Provision for Depreciation and Amortization	68,117,190	207,396		68,324,586
	<u>\$ 98,174,744</u>	<u>\$ 253,482</u>	<u>\$ 0</u>	<u>\$ 98,428,226</u>
<b>OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE</b>				
Investments in Associated Organizations	\$ 50,651,083	\$	\$	\$ 50,651,083
Investments in Affiliated Company	334,277		(334,277)	0
Other Investments	219,808			219,808
	<u>\$ 51,205,168</u>	<u>\$ 0</u>	<u>\$ (334,277)</u>	<u>\$ 50,870,891</u>
<b>CURRENT ASSETS</b>				
Cash - General	\$ 2,258,180	\$ 172,731	\$	\$ 2,430,911
Cash - Restricted	443,249			443,249
Temporary Cash Investments	4,790,000	75,000		4,865,000
Temporary Cash Investments - Restricted	4,236,000			4,236,000
Accounts Receivable (Less Allowance for Uncollectibles of \$537,652)	3,783,525			3,783,525
Accrued Unbilled Revenue	5,707,425			5,707,425
Materials and Supplies (At Average Cost)	2,602,355			2,602,355
Other Current and Accrued Assets	321,011	16,835		337,846
	<u>\$ 24,141,745</u>	<u>\$ 264,566</u>	<u>\$ 0</u>	<u>\$ 24,406,311</u>
<b>OTHER ASSETS</b>				
Deferred Debits	\$ 5,202,888	\$ 0	\$ 0	\$ 5,202,888
<b>TOTAL ASSETS</b>	<u>\$ 178,724,545</u>	<u>\$ 518,048</u>	<u>\$ (334,277)</u>	<u>\$ 178,908,316</u>

**EQUITIES AND LIABILITIES**

<b>EQUITIES</b>				
Patronage Capital	\$ 87,879,324	\$	\$	\$ 87,879,324
Other Equities	8,267,350	334,277	(334,277)	8,267,350
	<u>\$ 96,146,674</u>	<u>\$ 334,277</u>	<u>\$ (334,277)</u>	<u>\$ 96,146,674</u>
<b>LONG-TERM DEBT</b>				
FFB Mortgage Notes Less Current Maturities	\$ 24,270,491	\$	\$	\$ 24,270,491
CFC Mortgage Notes Less Current Maturities	26,532,281			26,532,281
CoBank Mortgage Notes Less Current Maturities	20,295,831			20,295,831
	<u>\$ 71,098,603</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 71,098,603</u>
Less: Advanced Payments	6,469,427			6,469,427
	<u>\$ 64,629,176</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 64,629,176</u>
<b>CURRENT LIABILITIES</b>				
Current Maturities of Long-Term Debt	\$ 3,128,897	\$	\$	\$ 3,128,897
Accounts Payable	5,722,466			5,722,466
Accrued Taxes	937,178			937,178
Accrued Employee Compensated Absences	1,542,753			1,542,753
Accrued Interest	155,985			155,985
Other Current Liabilities	77,323			77,323
	<u>\$ 11,564,602</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,564,602</u>
<b>OTHER LIABILITIES</b>				
Deferred Credits	\$ 6,384,093	\$ 183,771	\$ 0	\$ 6,567,864
<b>TOTAL EQUITIES AND LIABILITIES</b>	<u>\$ 178,724,545</u>	<u>\$ 518,048</u>	<u>\$ (334,277)</u>	<u>\$ 178,908,316</u>

## DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Schedule 3

**CONSOLIDATING INFORMATION**  
**STATEMENT OF INCOME AND PATRONAGE CAPITAL**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>DMEA</u>	<u>DMEAUS</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
<b>OPERATING REVENUES</b>				
Residential	\$ 35,391,777	\$	\$	\$ 35,391,777
Irrigation Sales	149,921			149,921
Small Commercial	15,919,522			15,919,522
Large Commercial	9,148,372			9,148,372
Street Lighting and Public Buildings	545,856			545,856
Unbilled Revenue	46,958			46,958
Deferred Revenue Plan	(750,000)			(750,000)
Internet Services		31,646	(5,060)	26,586
Other Operating Revenues	3,881,135	42,075		3,923,210
Total Operating Revenues	<u>\$ 64,333,541</u>	<u>\$ 73,721</u>	<u>\$ (5,060)</u>	<u>\$ 64,402,202</u>
<b>OPERATING EXPENSES</b>				
Purchased Power	\$ 40,641,001	\$	\$	\$ 40,641,001
Cost of Goods Sold - Other		3,367		3,367
Hydro - Operation	628,651			628,651
Hydro - Maintenance	76,845			76,845
Transmission	443,060			443,060
Distribution - Operation	3,390,449			3,390,449
Distribution - Maintenance	2,008,048			2,008,048
Customer Accounts	2,248,821			2,248,821
Customer Service and Information	499,158			499,158
Sales	249,235		(5,060)	244,175
Administrative and General	5,375,524	404,328		5,779,852
Depreciation and Amortization	5,379,989	20,295		5,400,284
Other Deductions	484,129	1,965		486,094
Total Operating Expenses	<u>\$ 61,424,910</u>	<u>\$ 429,955</u>	<u>\$ (5,060)</u>	<u>\$ 61,849,805</u>
<b>OPERATING MARGINS - BEFORE FIXED CHARGES</b>	<u>\$ 2,908,631</u>	<u>\$ (356,234)</u>	<u>\$ 0</u>	<u>\$ 2,552,397</u>
<b>FIXED CHARGES</b>				
Interest on Long-Term Debt	<u>2,477,175</u>	<u>17,248</u>	<u>(17,248)</u>	<u>2,477,175</u>
<b>OPERATING MARGINS - AFTER FIXED CHARGES</b>	<u>\$ 431,456</u>	<u>\$ (373,482)</u>	<u>\$ 17,248</u>	<u>\$ 75,222</u>
G and T Capital Credits	1,104,017			1,104,017
Other Capital Credits	<u>285,468</u>			<u>285,468</u>
<b>NET OPERATING MARGINS</b>	<u>\$ 1,820,941</u>	<u>\$ (373,482)</u>	<u>\$ 17,248</u>	<u>\$ 1,464,707</u>
<b>NONOPERATING MARGINS</b>				
Interest Income	\$ 475,668	\$	\$ (17,248)	\$ 458,420
Affiliated Company - Income (Loss) from Operations	(373,482)		373,482	0
Gain on Disposition of Property	51,818			51,818
Other Nonoperating Income (Loss)	(126,133)			(126,133)
	<u>\$ 27,871</u>	<u>\$ 0</u>	<u>\$ 356,234</u>	<u>\$ 384,105</u>
<b>NET MARGINS</b>	<u>\$ 1,848,812</u>	<u>\$ (373,482)</u>	<u>\$ 373,482</u>	<u>\$ 1,848,812</u>
<b>PATRONAGE CAPITAL AND OTHER EQUITIES - BEGINNING OF PERIOD</b>	87,879,324	334,277	(334,277)	87,879,324
Transfer Nonoperating Margins to Other Equities	(313,339)			(313,339)
Patronage Capital Retired - Cash	(195,113)			(195,113)
Patronage Capital Retired - Discounted	<u>(132,812)</u>			<u>(132,812)</u>
<b>PATRONAGE CAPITAL AND OTHER EQUITIES - END OF PERIOD</b>	<u>\$ 89,086,872</u>	<u>\$ (39,205)</u>	<u>\$ 39,205</u>	<u>\$ 89,086,872</u>

## DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Schedule 4

**CONSOLIDATING INFORMATION**  
**STATEMENT OF INCOME AND PATRONAGE CAPITAL**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>DMEA</u>	<u>DMEAUS</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
<b>OPERATING REVENUES</b>				
Residential	\$ 34,475,118	\$	\$	\$ 34,475,118
Irrigation Sales	119,139			119,139
Small Commercial	15,586,407			15,586,407
Large Commercial	12,141,326			12,141,326
Street Lighting and Public Buildings	560,741			560,741
Unbilled Revenue	(256,114)			(256,114)
Deferred Revenue Plan	(750,000)			(750,000)
Other Operating Revenues	3,066,289	37,624		3,103,913
Total Operating Revenues	<u>\$ 64,942,906</u>	<u>\$ 37,624</u>	<u>\$ 0</u>	<u>\$ 64,980,530</u>
<b>OPERATING EXPENSES</b>				
Purchased Power	\$ 41,859,450	\$	\$	\$ 41,859,450
Cost of Goods Sold - Other		3,367		3,367
Hydro - Operation	587,206			587,206
Hydro - Maintenance	68,004			68,004
Transmission	344,741			344,741
Distribution - Operation	3,159,491			3,159,491
Distribution - Maintenance	1,801,145			1,801,145
Customer Accounts	2,241,491			2,241,491
Customer Service and Information	529,216			529,216
Sales	167,183			167,183
Administrative and General	5,298,993	10		5,299,003
Depreciation and Amortization	5,315,902	23,044		5,338,946
Other Deductions	619,069			619,069
Total Operating Expenses	<u>\$ 61,991,891</u>	<u>\$ 26,421</u>	<u>\$ 0</u>	<u>\$ 62,018,312</u>
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 2,951,015	\$ 11,203	\$ 0	\$ 2,962,218
<b>FIXED CHARGES</b>				
Interest on Long-Term Debt	<u>2,577,252</u>			<u>2,577,252</u>
OPERATING MARGINS - AFTER FIXED CHARGES	\$ 373,763	\$ 11,203	\$ 0	\$ 384,966
G and T Capital Credits	1,931,393			1,931,393
Other Capital Credits	<u>392,254</u>			<u>392,254</u>
NET OPERATING MARGINS	<u>\$ 2,697,410</u>	<u>\$ 11,203</u>	<u>\$ 0</u>	<u>\$ 2,708,613</u>
<b>NONOPERATING MARGINS</b>				
Interest Income	\$ 468,623	\$ 167	\$	\$ 468,790
Affiliated Company - Income from Operations	11,370		(11,370)	0
Gain on Disposition of Property	53,585			53,585
Other Nonoperating Income	9,240			9,240
	<u>\$ 542,818</u>	<u>\$ 167</u>	<u>\$ (11,370)</u>	<u>\$ 531,615</u>
NET MARGINS	\$ 3,240,228	\$ 11,370	\$ (11,370)	\$ 3,240,228
<b>PATRONAGE CAPITAL AND OTHER EQUITIES -</b>				
BEGINNING OF PERIOD	88,553,802	322,907	(322,907)	88,553,802
Transfer Nonoperating Margins to				
Other Equities	(1,123,834)			(1,123,834)
Patronage Capital Retired - Cash	(2,706,813)			(2,706,813)
Patronage Capital Retired - Discounted	<u>(84,059)</u>			<u>(84,059)</u>
PATRONAGE CAPITAL AND OTHER EQUITIES -	<u>\$ 87,879,324</u>	<u>\$ 334,277</u>	<u>\$ (334,277)</u>	<u>\$ 87,879,324</u>
END OF PERIOD				

**ACCOMPANYING INFORMATION**

## DELTA-MONTROSE ELECTRIC ASSOCIATION

Schedule 5

ELECTRIC PLANT  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Balance 1/1/2016	Additions	Retirements	Balance 12/31/2016
<b>HYDRO PLANT</b>				
Land and Land Rights	\$ 300,112	\$	\$	\$ 300,112
Structures and Improvements	3,553,986			3,553,986
Reservoirs, Dams, and Waterways	7,041,786			7,041,786
Wheels, Turbines, and Generators	7,120,310			7,120,310
Accessory Electric Equipment	1,855,989	11,239		1,867,228
Other Power Plant Equipment	80,000	77,902		157,902
Total	<u>\$ 19,952,183</u>	<u>\$ 89,141</u>	<u>\$ 0</u>	<u>\$ 20,041,324</u>
<b>TRANSMISSION PLANT</b>				
Land and Land Rights	\$ 96,364	\$	\$	\$ 96,364
Structures and Improvements	32			32
Station Equipment	526,225	181,583	87,354	620,454
Poles, Towers, and Fixtures	1,357,420	7,027	1,842	1,362,605
Overhead Conductors and Devices	1,125,594	6,741	12,215	1,120,120
Total	<u>\$ 3,105,635</u>	<u>\$ 195,351</u>	<u>\$ 101,411</u>	<u>\$ 3,199,575</u>
<b>DISTRIBUTION PLANT</b>				
Land and Land Rights	\$ 1,297,435	\$	\$	\$ 1,297,435
Structures and Improvements	3,765,603			3,765,603
Station Equipment	6,098,841	12,855		6,111,696
Poles, Towers, and Fixtures	23,294,449	633,865	122,123	23,806,191
Overhead Conductors and Devices	21,925,227	509,712	172,749	22,262,190
Underground Conduit	5,096,358	135,000	8,531	5,222,827
Underground Conductors and Devices	14,076,545	724,482	34,127	14,766,900
Line Transformers	13,604,754	560,688	161,953	14,003,489
Services	15,848,166	96,679	41,983	15,902,862
Meters	10,711,719	198,432	20,094	10,890,057
Installations on Consumers' Premises	200,794		7,379	193,415
Street Lighting	708,234	56,664	84,933	679,965
Total	<u>\$ 116,628,125</u>	<u>\$ 2,928,377</u>	<u>\$ 653,872</u>	<u>\$ 118,902,630</u>
<b>GENERAL PLANT</b>				
Land and Land Rights	\$ 204,830	\$	\$	\$ 204,830
Structures and Improvements	3,128,898	273,025		3,401,923
Office Furniture and Equipment	6,130,223	255,836	177,555	6,208,504
Transportation Equipment	4,484,323	500,412		4,984,735
Stores Equipment	143,630	38,328		181,958
Tools, Shop, and Garage Equipment	1,679,916	43,958		1,723,874
Laboratory Equipment	407,674	25,902		433,576
Power Operated Equipment	1,508,930	185,228		1,694,158
Communications Equipment	2,341,530	120,564	745	2,461,349
SCADA and Other GPS Equipment	948,317			948,317
Miscellaneous Equipment	220,163	10,093		230,256
Total	<u>\$ 21,198,434</u>	<u>\$ 1,453,346</u>	<u>\$ 178,300</u>	<u>\$ 22,473,480</u>
Total Classified Electric Plant in Service	\$ 160,884,377	\$ 4,666,215	\$ 933,583	\$ 164,617,009
Geothermal Loop Devices	1,059,989	(11,602)	5,550	1,042,837
Community Solar Arrays	246,958			246,958
Construction Work in Progress	<u>4,100,610</u>	<u>6,461,854</u>		<u>10,562,464</u>
Total Utility Plant	<u>\$ 166,291,934</u>	<u>\$ 11,116,467</u>	<u>\$ 939,133</u>	<u>\$ 176,469,268</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION

Schedule 6

ACCUMULATED PROVISION FOR DEPRECIATION  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Balance 1/1/2016	Depreciation Accruals	Retirements	Balance 12/31/2016
Hydro Plant	\$ 1,293,855	\$ 536,820	\$ 0	\$ 1,830,675
Transmission Plant	\$ 1,873,652	\$ 82,772	\$ 111,587	\$ 1,844,837
Distribution Plant	\$ 50,090,543	\$ 3,971,215	\$ 698,020	\$ 53,363,738
General Plant				
Structures and Improvements	\$ 1,490,739	\$ 97,719	\$	\$ 1,588,458
Office Furniture and Fixtures	4,721,260	373,308	177,555	4,917,013
Transportation Equipment	3,707,055	285,417		3,992,472
Stores Equipment	105,756	5,429		111,185
Tools, Shop, and Garage Equipment	1,238,088	50,208		1,288,296
Laboratory Equipment	277,640	11,920		289,560
Power Operated Equipment	942,665	98,853		1,041,518
Communications Equipment	890,162	152,615	190	1,042,587
Miscellaneous Equipment	983,281	18,184		1,001,465
Total General Plant	\$ 14,356,646	\$ 1,093,653	\$ 177,745	\$ 15,272,554
Total Classified Electric Plant in Service	\$ 67,614,696	\$ 5,684,460	\$ 987,352	\$ 72,311,804
Geothermal Loop Devices	370,404	69,922	5,550	434,776
Community Solar Arrays	39,508	9,879		49,387
Retirement Work in Progress	92,582		(33,479)	126,061
<b>Total</b>	<b>\$ 68,117,190</b>	<b>\$ 5,764,261</b>	<b>\$ 959,423</b>	<b>\$ 72,922,028</b>

(1)

(2)

(1) Charged to Depreciation Expense  
Charged to Clearing and Other Accounts

\$ 5,379,989  
384,272  
\$ 5,764,261

(2) Cost of Units Retired  
Salvage in Excess of Cost of Removal

\$ 939,133  
20,290

Loss Due to Retirement

\$ 959,423

**DELTA-MONTROSE ELECTRIC ASSOCIATION**

**Schedule 7**

**OTHER PROPERTY AND INVESTMENTS  
DECEMBER 31, 2016 AND 2015**

**INVESTMENTS IN ASSOCIATED ORGANIZATIONS**

	December 31,	
	<u>2016</u>	<u>2015</u>
Memberships		
National Rural Utilities Cooperative Finance Corporation	\$ 1,000	\$ 1,000
Patronage Capital		
Tri-State Generation and Transmission Association, Inc.	47,506,384	47,026,659
National Rural Utilities Cooperative Finance Corporation	505,573	450,671
Western United Electric Supply Corporation	916,097	1,036,752
Federated Insurance	270,448	233,719
CoBank	28,328	109,762
National Information Solutions Cooperative	183,407	162,360
National Rural Telecommunications Cooperative	374	374
Capital Term Certificates		
National Rural Utilities Cooperative Finance Corporation	1,624,312	1,629,786
Total Investments in Associated Organizations	<u>\$ 51,035,923</u>	<u>\$ 50,651,083</u>

**INVESTMENT IN AFFILIATED COMPANY**

DMEA-Utility Services, LLC	\$ (39,205)	\$ 334,277
Total Investment in Affiliated Company	<u>\$ (39,205)</u>	<u>\$ 334,277</u>

**OTHER INVESTMENTS**

Notes Receivable - Geothermal Loans	\$ 191,127	\$ 219,808
Total Other Investments	<u>\$ 191,127</u>	<u>\$ 219,808</u>
Total Other Property and Investments	<u>\$ 51,187,845</u>	<u>\$ 51,205,168</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION

Schedule 8

PATRONAGE CAPITAL  
DECEMBER 31, 2016

Year	Generation and Transmission				Coop				Total
	Assignable	Assigned	Retired	Balance	Assignable	Assigned	Retired	Balance	Balance
1970-1990	\$	\$	\$	\$	\$	\$ 12,757,684	\$ 12,757,684	\$	\$
1991						1,150,767	274,135	876,632	876,632
1992						3,405,697	738,821	2,666,876	2,666,876
1993		2,839,638	2,839,638			2,216,994	349,164	1,867,830	1,867,830
1994		2,710,033	2,710,033			1,710,889	242,388	1,468,501	1,468,501
1995		1,811,402	358,044	1,453,358		2,281,865	338,628	1,943,237	3,396,595
1996		1,902,824	321,238	1,581,586		2,169,430	306,908	1,862,522	3,444,108
1997		1,628,923	222,544	1,406,379		2,024,224	258,630	1,765,594	3,171,973
1998		1,884,000	218,912	1,665,088		2,130,664	209,174	1,921,490	3,586,578
1999		1,109,110	103,529	1,005,581		2,197,859	196,791	2,001,068	3,006,649
2000	1,258,434			1,258,434		927,378	74,720	852,658	2,111,092
2001	1,029,743			1,029,743		1,482,836	107,546	1,375,290	2,405,033
2002	1,889,605			1,889,605		3,276,106	221,579	3,054,527	4,944,132
2003	2,000,471			2,000,471		3,989,909	477,574	3,512,335	5,512,806
2004	2,584,463			2,584,463		1,952,288	353,851	1,598,437	4,182,900
2005	2,844,086			2,844,086		1,699,623	303,514	1,396,109	4,240,195
2006	2,793,436			2,793,436		1,578,511	683,707	894,804	3,688,240
2007	6,461,812			6,461,812		1,306,079	1,297,574	8,505	6,470,317
2008	5,065,772			5,065,772		1,478,005	1,467,903	10,102	5,075,874
2009	4,734,533			4,734,533		289,129	285,164	3,965	4,738,498
2010	3,307,406			3,307,406		1,291,168	26,988	1,264,180	4,571,586
2011	3,947,171			3,947,171		1,516,662	24,942	1,491,720	5,438,891
2012	1,264,342			1,264,342		1,401,732	525,694	876,038	2,140,380
2013	2,999,263			2,999,263		268,388	268,388		2,999,263
2014	2,463,322			2,463,322		783,690	5,211	778,479	3,241,801
2015	1,931,393			1,931,393		373,763	507	373,256	2,304,649
2016	1,104,017			1,104,017	431,456			431,456	1,535,473
	<u>\$ 47,679,269</u>	<u>\$ 13,885,930</u>	<u>\$ 6,773,938</u>	<u>\$ 54,791,261</u>	<u>\$ 431,456</u>	<u>\$ 55,661,340</u>	<u>\$ 21,797,185</u>	<u>\$ 34,295,611</u>	<u>\$ 89,086,872</u>

During 2000, the Association ceased assignment of its Generation and Transmission margins.



**DELTA-MONTROSE ELECTRIC ASSOCIATION**

**Schedule 9**

**FFB, CFC, AND COBANK MORTGAGE NOTES  
DECEMBER 31, 2016**

**FFB MORTGAGE NOTES**

<u>Note Number</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	<u>Amount Unadvanced</u>	<u>Principal Repayments</u>	<u>Net Obligation</u>
H0010	4.747%	\$ 4,680,000	\$	\$ 970,455	\$ 3,709,545
H0015	4.345%	4,709,000		459,965	4,249,035
H0020	3.941%	12,500,000		1,304,153	11,195,847
H0025	2.290%	5,810,000		558,700	5,251,300
H0030	2.303%	6,647,000		35,853	6,611,147
<b>TOTAL FFB:</b>		<b>\$ 34,346,000</b>	<b>\$ 0</b>	<b>\$ 3,329,126</b>	<b>\$ 31,016,874</b>

**CFC MORTGAGE NOTES**

9018	2.50%	\$ 2,455,000	\$	\$ 2,368,999	\$ 86,001
9022	3.30%	1,201,000		1,114,891	86,109
9024	6.60%	2,554,255		2,152,513	401,742
9026	3.25%	644,898		314,685	330,213
9027	3.25%	2,269,000		712,150	1,556,850
9032	4.00-5.20%	9,489,000		4,202,681	5,286,319
9033	4.30%	22,000,000		3,215,856	18,784,144
<b>TOTAL CFC:</b>		<b>\$ 40,613,153</b>	<b>\$ 0</b>	<b>\$ 14,081,775</b>	<b>\$ 26,531,378</b>

**COBANK MORTGAGE NOTES**

2903273	3.56%	\$ 3,966,445	\$	\$ 260,159	\$ 3,706,286
2903282	3.70%	8,637,748		480,145	8,157,603
2903317	3.77%	8,888,963		456,148	8,432,815
<b>TOTAL COBANK:</b>		<b>\$ 21,493,156</b>	<b>\$ 0</b>	<b>\$ 1,196,452</b>	<b>\$ 20,296,704</b>

Net obligations include \$750,476 due FFB, \$1,757,491 due CFC and \$840,443 due CoBank payable within one year and classified as current liabilities on the balance sheet.

**COMPLIANCE AND INTERNAL CONTROL SECTION**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**PHONE: (806) 747-3806**

**FAX: (806) 747-3815**

**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL  
AGREEMENTS AND REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS**

**Independent Auditor's Report**

Board of Directors  
Delta-Montrose Electric Association and Subsidiary  
Montrose, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Delta-Montrose Electric Association and Subsidiary (the Association), which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of income and patronage capital, changes in cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 18, 2017. In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2017, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above have been furnished to management.

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

Maintain adequate and effective accounting procedures;

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

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

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

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

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

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

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

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

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

Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the Board of Directors, management and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

Lubbock, Texas

April 18, 2017

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**PHONE: (806) 747-3806**

**FAX: (806) 747-3815**

**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AND AUDIT OF THE CONSOLIDATED FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**Independent Auditor's Report**

Board of Directors  
Delta-Montrose Electric Association and Subsidiary  
Montrose, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Delta-Montrose Electric Association and Subsidiary (the Association) as of and for the year ended December 31, 2016, and have issued our report thereon dated April 18, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Delta-Montrose Electric Association and Subsidiary's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

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

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

## Compliance and Other Matters

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

## Purpose of this Report

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

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

Lubbock, Texas

April 18, 2017