

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

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

**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

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

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**TABLE OF CONTENTS**

|   | <u>Statement<br/>Identification</u> | <u>Page<br/>No.</u> |
|---|-------------------------------------|---------------------|
| Independent Auditor's Report  |                                     | 1                   |
| Consolidated Financial Statements   |                                     |                     |
| Consolidated Balance Sheets   | Exhibit A                           | 3                   |
| Consolidated Statements of Income and Patronage Capital   | Exhibit B                           | 4                   |
| Consolidated Statements of Cash Flows   | Exhibit C                           | 5                   |
| Notes to Consolidated Financial Statements  |                                     | 6                   |
| Consolidating and Accompanying Information  |                                     |                     |
| Consolidating Information   |                                     |                     |
| Consolidating Balance Sheet – 2017  | Schedule 1                          | 21                  |
| Consolidating Balance Sheet – 2016  | Schedule 2                          | 22                  |
| Consolidating Statement of Income and Patronage Capital – 2017  | Schedule 3                          | 23                  |
| Consolidating Statement of Income and Patronage Capital – 2016  | Schedule 4                          | 24                  |
| Accompanying Information  |                                     |                     |
| Electric Plant  | Schedule 5                          | 25                  |
| Accumulated Provision for Depreciation  | Schedule 6                          | 26                  |
| Other Property and Investments  | Schedule 7                          | 27                  |
| Patronage Capital   | Schedule 8                          | 28                  |
| FFB, CFC, and CoBank Mortgage Notes   | Schedule 9                          | 29                  |
| Compliance and Internal Control Section   |                                     |                     |
| Report on Compliance with Aspects of Contractual Agreements<br>And Regulatory Requirements for Electric Borrowers   |                                     | 30                  |
| Report on Internal Control Over Financial Reporting and on Compliance<br>and Other Matters Based on and Audit of the Consolidated Financial Statements<br>Performed in Accordance with <i>Government Auditing Standards</i> |                                     | 32                  |

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

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**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, 2017 and 2016, 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, 2017 and 2016, 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 19, 2018 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 19, 2018

## DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Exhibit A

**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2017 AND 2016**

**ASSETS**

|   | December 31,          |                       |
|---|-----------------------|-----------------------|
|   | 2017                  | 2016                  |
| <b>PLANT, PROPERTY, AND EQUIPMENT</b>   |                       |                       |
| Electric Plant in Service   | \$ 187,394,553        | \$ 164,617,009        |
| Other Property and Equipment  | 1,513,866             | 3,946,563             |
| Construction Work in Progress   | 11,372,272            | 10,562,464            |
|   | <u>\$ 200,280,691</u> | <u>\$ 179,126,036</u> |
| Less: Accumulated Provision for Depreciation and Amortization                                       | 77,963,878            | 73,093,339            |
|   | <u>\$ 122,316,813</u> | <u>\$ 106,032,697</u> |
| <b>OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE</b>                                       |                       |                       |
| Investments in Associated Organizations   | \$ 52,199,265         | \$ 51,035,923         |
| Other Investments   | 172,735               | 191,127               |
|   | <u>\$ 52,372,000</u>  | <u>\$ 51,227,050</u>  |
| <b>CURRENT ASSETS</b>   |                       |                       |
| Cash - General  | \$ 5,106,962          | \$ 2,494,055          |
| Cash - Restricted   | 2,636,033             | 374,897               |
| Temporary Cash Investments (At Cost)  |                       | 4,010,841             |
| Temporary Cash Investments - Restricted   | 3,761,000             | 5,179,159             |
| Accounts Receivable (Less allowance for uncollectibles<br>of \$63,409 in 2017 and \$52,468 in 2016) | 5,632,975             | 4,167,978             |
| Unbilled Revenue  | 6,047,972             | 5,754,383             |
| Materials and Supplies (At Average Cost)  | 3,780,568             | 2,821,326             |
| Other Current and Accrued Assets  | 414,765               | 111,740               |
|   | <u>\$ 27,380,275</u>  | <u>\$ 24,914,379</u>  |
| <b>OTHER ASSETS</b>   |                       |                       |
| Deferred Debits   | \$ 5,834,018          | \$ 5,028,756          |
| Intangibles   | 155,948               | 69,632                |
|   | <u>\$ 5,989,966</u>   | <u>\$ 5,098,388</u>   |
| <b>TOTAL ASSETS</b>   | <u>\$ 208,059,054</u> | <u>\$ 187,272,514</u> |

**EQUITIES AND LIABILITIES**

|   |                       |                       |
|---|-----------------------|-----------------------|
| <b>EQUITIES</b>                               |                       |                       |
| Patronage Capital                             | \$ 91,119,024         | \$ 89,086,872         |
| Other Equities                                | 8,809,024             | 8,713,501             |
|   | <u>\$ 99,928,048</u>  | <u>\$ 97,800,373</u>  |
| <b>LONG-TERM DEBT</b>                         |                       |                       |
| FFB Mortgage Notes Less Current Maturities    | \$ 29,498,669         | \$ 30,266,398         |
| CFC Mortgage Notes Less Current Maturities    | 23,231,063            | 24,773,887            |
| CoBank Mortgage Notes Less Current Maturities | 38,140,776            | 19,456,261            |
|   | <u>\$ 90,870,508</u>  | <u>\$ 74,496,546</u>  |
| Less: Advanced Payments                       | 4,492,746             | 6,038,055             |
|   | <u>\$ 86,377,762</u>  | <u>\$ 68,458,491</u>  |
| <b>CURRENT LIABILITIES</b>                    |                       |                       |
| Current Maturities of Long-Term Debt          | \$ 3,570,639          | \$ 3,348,410          |
| Accounts Payable                              | 6,624,813             | 6,984,238             |
| Accrued Taxes                                 | 872,001               | 816,982               |
| Accrued Employee Compensated Absences         | 1,567,352             | 1,570,688             |
| Accrued Interest                              | 475,178               | 432,884               |
| Other Current Liabilities                     | 167,117               | 61,559                |
|   | <u>\$ 13,277,100</u>  | <u>\$ 13,214,761</u>  |
| <b>OTHER LIABILITIES</b>                      |                       |                       |
| Deferred Credits                              | \$ 8,476,144          | \$ 7,798,889          |
| <b>TOTAL EQUITIES AND LIABILITIES</b>         | <u>\$ 208,059,054</u> | <u>\$ 187,272,514</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, 2017 AND 2016**

|   | December 31,          |              |                      |              | Increase<br>(Decrease) |
|---|-----------------------|--------------|----------------------|--------------|------------------------|
|   | 2017                  |              | 2016                 |              |                        |
|   | Amount                | %            | Amount               | %            |                        |
| <b>OPERATING REVENUES</b>   |                       |              |                      |              |                        |
| Residential   | \$ 36,417,988         | 55.4         | \$ 35,391,777        | 55.1         | \$ 1,026,211           |
| Irrigation  | 175,495               | 0.3          | 149,921              | 0.2          | 25,574                 |
| Small Commercial  | 16,438,534            | 25.0         | 15,919,522           | 24.8         | 519,012                |
| Large Commercial  | 8,597,600             | 13.1         | 9,148,372            | 14.2         | (550,772)              |
| Street Lighting and Public Buildings  | 553,219               | 0.8          | 545,856              | 0.9          | 7,363                  |
| Unbilled Revenue  | 334,487               | 0.5          | 46,958               | 0.1          | 287,529                |
| Deferred Revenue Plan   | (1,000,000)           | (1.5)        | (750,000)            | (1.2)        | (250,000)              |
| Internet Services (Net of Cost of Sales of \$1,144,108 for 2017 and \$189,008 for 2016) | 143,941               | 0.2          | (157,362)            | (0.2)        | 301,303                |
| Other Operating Revenues  | 4,083,624             | 6.2          | 3,918,150            | 6.1          | 165,474                |
| <b>Total Operating Revenues</b>   | <b>\$ 65,744,888</b>  | <b>100.0</b> | <b>\$ 64,213,194</b> | <b>100.0</b> | <b>\$ 1,531,694</b>    |
| <b>OPERATING EXPENSES</b>   |                       |              |                      |              |                        |
| Purchased Power   | \$ 41,435,419         | 63.0         | \$ 40,641,001        | 63.3         | \$ 794,418             |
| Cost of Goods Sold - Other  | 3,367                 | 0.0          | 3,367                | 0.0          | 0                      |
| Hydro - Operation   | 556,369               | 0.8          | 628,651              | 1.0          | (72,282)               |
| Hydro - Maintenance   | 154,635               | 0.2          | 76,845               | 0.1          | 77,790                 |
| Transmission  | 485,605               | 0.7          | 443,060              | 0.7          | 42,545                 |
| Distribution - Operation  | 3,694,804             | 5.6          | 3,390,449            | 5.3          | 304,355                |
| Distribution - Maintenance  | 2,279,539             | 3.5          | 2,008,048            | 3.1          | 271,491                |
| Customer Accounts   | 1,860,366             | 2.8          | 2,248,821            | 3.5          | (388,455)              |
| Customer Service and Information  | 472,952               | 0.7          | 499,158              | 0.8          | (26,206)               |
| Sales   | 510,302               | 0.8          | 249,235              | 0.4          | 261,067                |
| Administrative and General  | 6,407,025             | 9.7          | 5,585,784            | 8.7          | 821,241                |
| Depreciation and Amortization   | 5,754,390             | 8.8          | 5,400,284            | 8.4          | 354,106                |
| Other Deductions  | 684,899               | 1.0          | 486,094              | 0.8          | 198,805                |
| <b>Total Operating Expenses</b>   | <b>\$ 64,299,672</b>  | <b>97.6</b>  | <b>\$ 61,660,797</b> | <b>96.1</b>  | <b>\$ 2,638,875</b>    |
| <b>OPERATING MARGINS - BEFORE FIXED CHARGES</b>   | <b>\$ 1,445,216</b>   | <b>2.4</b>   | <b>\$ 2,552,397</b>  | <b>3.9</b>   | <b>\$ (1,107,181)</b>  |
| <b>FIXED CHARGES</b>  |                       |              |                      |              |                        |
| Interest on Long-Term Debt  | 2,632,163             | 4.0          | 2,477,175            | 3.9          | 154,988                |
| <b>OPERATING MARGINS (LOSS) - AFTER FIXED CHARGES</b>                                   | <b>\$ (1,186,947)</b> | <b>(1.6)</b> | <b>\$ 75,222</b>     | <b>0.0</b>   | <b>\$ (1,262,169)</b>  |
| G & T Capital Credits   | 2,002,295             | 3.0          | 1,104,017            | 1.7          | 898,278                |
| Other Capital Credits   | 713,242               | 1.1          | 285,468              | 0.4          | 427,774                |
| <b>NET OPERATING MARGINS</b>  | <b>\$ 1,528,590</b>   | <b>2.5</b>   | <b>\$ 1,464,707</b>  | <b>2.1</b>   | <b>\$ 63,883</b>       |
| <b>NONOPERATING MARGINS (LOSS)</b>  |                       |              |                      |              |                        |
| Interest Income   | \$ 380,369            | 0.6          | \$ 458,420           | 0.7          | \$ (78,051)            |
| Gain (Loss) on Disposal of Assets   | (118,493)             | (0.2)        | 51,818               | 0.1          | (170,311)              |
| Other Nonoperating Income (Loss)  | (67,628)              | (0.1)        | (126,133)            | (0.2)        | 58,505                 |
|   | <b>\$ 194,248</b>     | <b>0.3</b>   | <b>\$ 384,105</b>    | <b>0.6</b>   | <b>\$ (189,857)</b>    |
| <b>NET MARGINS BEFORE PROVISION FOR INCOME TAXES</b>                                    | <b>\$ 1,722,838</b>   | <b>2.5</b>   | <b>\$ 1,848,812</b>  | <b>2.8</b>   | <b>\$ (125,974)</b>    |
| <b>PROVISION FOR INCOME TAX EXPENSE</b>   | <b>492,998</b>        | <b>0.7</b>   | <b>0.0</b>           | <b>0.0</b>   | <b>492,998</b>         |
| <b>NET MARGINS</b>  | <b>\$ 2,215,836</b>   | <b>3.2</b>   | <b>\$ 1,848,812</b>  | <b>2.8</b>   | <b>\$ 367,024</b>      |
| <b>PATRONAGE CAPITAL - BEGINNING OF PERIOD</b>  | <b>89,086,872</b>     |              | <b>87,879,324</b>    |              |                        |
| Transfers to Other Equities   | 7,228                 |              | (313,339)            |              |                        |
| Patronage Capital Retired - Cash  | (114,160)             |              | (195,113)            |              |                        |
| Patronage Capital Retired - Discounted  | (76,752)              |              | (132,812)            |              |                        |
| <b>PATRONAGE CAPITAL - END OF PERIOD</b>  | <b>\$ 91,119,024</b>  |              | <b>\$ 89,086,872</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, 2017 AND 2016**

|   | December 31,           |                        |
|---|------------------------|------------------------|
|   | <u>2017</u>            | <u>2016</u>            |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                 |                        |                        |
| Net Margins   | \$ 2,215,836           | \$ 1,848,812           |
| Adjustments to Reconcile Net Margins to Net Cash            |                        |                        |
| From Operating Activities                                   |                        |                        |
| Depreciation  | 6,152,264              | 5,788,562              |
| Capital Credits - Noncash                                   | (1,247,105)            | (562,228)              |
| Deferred Charges  | (805,262)              | 174,132                |
| Deferred Credits  | 677,255                | 1,231,025              |
| Accounts Receivable and Unbilled Revenue                    | (1,758,586)            | (431,411)              |
| Notes Receivable  | 18,392                 | 28,681                 |
| Inventories and Other Current Assets                        | (1,262,267)            | 7,135                  |
| Payables and Accrued Expenses                               | (159,890)              | 1,430,646              |
| Net Cash Provided by Operating Activities                   | <u>\$ 3,830,637</u>    | <u>\$ 9,515,354</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                 |                        |                        |
| Additions to Utility Plant and Other Property and Equipment | \$ (22,589,963)        | \$ (13,372,743)        |
| Salvage Over (Under) Plant Removal Costs                    | 179,584                | (20,290)               |
| Additions to Intangibles                                    | (86,316)               | (69,632)               |
| Investments in Associated Organizations                     | 83,763                 | 177,388                |
| Net Cash Used in Investing Activities                       | <u>\$ (22,412,932)</u> | <u>\$ (13,285,277)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                 |                        |                        |
| Advances from FFB - Long-Term Debt                          | \$                     | \$ 6,647,000           |
| Advances from CoBank - Long-Term Debt                       | 20,000,000             |                        |
| Payments on Long-Term Debt - FFB                            | (738,805)              | (470,971)              |
| Payments on Long-Term Debt - CFC                            | (1,757,492)            | (1,753,479)            |
| Payments on Long-Term Debt - CoBank                         | (907,514)              | (805,093)              |
| Net Change in RUS Cushion of Credit                         | 1,545,309              | 431,371                |
| Capital Credit Retirements - Cash                           | (114,160)              | (195,113)              |
| Net Cash Provided by Financing Activities                   | <u>\$ 18,027,338</u>   | <u>\$ 3,853,715</u>    |
| <b>CHANGE IN CASH AND CASH EQUIVALENTS</b>                  | \$ (554,957)           | \$ 83,792              |
| <b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>        | <u>12,058,952</u>      | <u>11,975,160</u>      |
| <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>              | <u>\$ 11,503,995</u>   | <u>\$ 12,058,952</u>   |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>     |                        |                        |
| Cash Paid During the Year for:                              |                        |                        |
| Interest  | \$ 2,651,681           | \$ 2,199,998           |
| Income Taxes  | <u>\$ 0</u>            | <u>\$ 0</u>            |

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 on 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, 2017 and 2016 amounted to \$6,039,272 and \$5,754,383, respectively. Additionally, it has been estimated that Elevate has installation charges that have not been billed in the amount of \$8,700 and \$0 December 31, 2017 and 2016, respectively. These amounts are 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 2017 and 2016 years are as follows:

|                           | December 31,        |                     |
|---------------------------|---------------------|---------------------|
|                           | 2017                | 2016                |
| Final Allocation for 2017 | \$ 2,002,295        | \$                  |
| Final Allocation for 2016 |                     | 1,104,017           |
|                           | <u>\$ 2,002,295</u> | <u>\$ 1,104,017</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 Consolidated Financial Statements**

The preparation of consolidated 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 consolidated 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,          |                       |
|-------------------------------|-----------------------|-----------------------|
|                               | 2017                  | 2016                  |
| Hydro Plant                   | \$ 20,063,973         | \$ 20,041,324         |
| Transmission Plant            | 3,205,040             | 3,199,575             |
| Distribution Plant            | 133,326,163           | 118,902,630           |
| General Plant                 | 27,106,714            | 22,473,480            |
| Other Property and Equipment  | 5,206,529             | 3,946,563             |
| Plant in Service              | \$ 188,908,419        | \$ 168,563,572        |
| Construction Work in Progress | 11,372,272            | 10,562,464            |
| Total Plant in Service        | \$ <u>200,280,691</u> | \$ <u>179,126,036</u> |

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, 2017 was \$6,152,264 of which \$5,754,390 was charged to depreciation expense, and \$397,874 allocated to other accounts. 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.

**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:

| CFC                                 | December 31,         |                      |
|-------------------------------------|----------------------|----------------------|
|                                     | 2017                 | 2016                 |
| Capital Term Certificates           | \$ 1,618,539         | \$ 1,624,312         |
| Patronage Capital                   | 559,795              | 505,573              |
| Membership                          | 1,000                | 1,000                |
| Tri-State G & T Association         |                      |                      |
| Patronage Capital                   | 48,300,830           | 47,506,384           |
| Western United Electric Supply Corp |                      |                      |
| Patronage Capital                   | 1,078,576            | 916,097              |
| Federated Insurance                 |                      |                      |
| Patronage Capital                   | 348,965              | 270,448              |
| Other                               | 291,560              | 212,109              |
|                                     | <u>\$ 52,199,265</u> | <u>\$ 51,035,923</u> |

Other investments consist of the following:

|                                     | December 31,      |                   |
|-------------------------------------|-------------------|-------------------|
|                                     | 2017              | 2016              |
| Notes Receivable - Geothermal Loans | <u>\$ 172,735</u> | <u>\$ 191,127</u> |

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

Restricted cash consists of the following:

|                               | December 31,        |                   |
|-------------------------------|---------------------|-------------------|
|                               | 2017                | 2016              |
| Education and Charitable Fund | \$ 472,772          | \$ 275,828        |
| Deferred Compensation         | 163,261             | 99,069            |
| Deferred Revenue              | 2,000,000           |                   |
|                               | <u>\$ 2,636,033</u> | <u>\$ 374,897</u> |

**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Restricted temporary cash investments consist of the following:

|  | December 31,        |                     |
|--|---------------------|---------------------|
|  | 2017                | 2016                |
| Uncompahgre Valley Water Users Association | \$ 761,000          | \$ 1,179,159        |
| Deferred Revenue - Select Notes - CFC      | 3,000,000           | 4,000,000           |
|  | <u>\$ 3,761,000</u> | <u>\$ 5,179,159</u> |

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. During the year ending December 31, 2017 the Association moved an additional \$1,000,000 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 (UWVUA) 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 UWVUA, with UWVUA's portion being the Association's cost of water rights from UWVUA. The Association is contractually obligated to reinvest UWVUA's share in specified investments. For the years ended December 31, 2017 and 2016, UWVUA's share was \$761,000 and \$1,179,159, 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, |              |
|--------------------|--------------|--------------|
|                    | 2017         | 2016         |
| Select Notes - CFC | \$ 0         | \$ 4,010,841 |

## DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Materials and supplies consist of:

|                             | December 31,        |                     |
|-----------------------------|---------------------|---------------------|
|                             | 2017                | 2016                |
| Electric Inventory          | \$ 1,385,564        | \$ 1,322,466        |
| Special Equipment Inventory | 1,116,975           | 1,130,326           |
| Vehicle Inventory           | 36,417              | 31,634              |
| Fiber Optic Inventory       | 1,112,914           | 230,586             |
| Other                       | 128,698             | 106,314             |
|                             | <u>\$ 3,780,568</u> | <u>\$ 2,821,326</u> |

**8. Deferred Debits**

Deferred debits consist of:

|                               | December 31,        |                     |
|-------------------------------|---------------------|---------------------|
|                               | 2017                | 2016                |
| Smart Grid                    | \$ 95,000           | \$ 155,000          |
| Tri-State Facility Use Charge | 4,182,752           | 4,427,596           |
| Business Development Costs    | 595,556             |                     |
| Deferred Tax Asset            | 492,998             |                     |
| Other                         | 467,712             | 446,160             |
|                               | <u>\$ 5,834,018</u> | <u>\$ 5,028,756</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. As of December 31, 2017 these charges have been fully amortized.

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, 2017.

In 2017, DMEAUS incurred costs related to consulting and branding of its fiber network. The total amount deferred was \$661,726 and is being amortized over five years. Amortization was \$66,170 during the year ending December 31, 2017.

**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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. During 2017, DMEAUS acquired an additional netblock for \$86,316. The net book value of the netblock held by DMEAUS is \$155,948 at December 31, 2017.

**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, 2017 and 2016, 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 \$989,276 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 (NOL) carryovers, which may be used to offset future taxable income for a period not to exceed 20 years. At December 31, 2017, DMEAUS reported net operating loss carryovers of \$4,384,840 which begin to expire in the year 2023.

Income taxes are provided for tax effects of transactions reported in the financial statements and consists of taxes due currently plus deferred taxes. Because the Association and DMEAUS file on a stand-alone basis, current and deferred taxes, if any, are recorded separately based on the taxable income and temporary differences of each.

The Association and DMEAUS follow 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 and DMEAUS' 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 NOL carryovers and accelerated depreciation. For both federal and state income tax reporting purposes, these NOL carryovers are available to offset future taxable income for a period not to exceed 20 years. As of December 31, 2016, the ability by the Association and DMEAUS to utilize the respective NOL carryovers was considered by Management to be uncertain. Therefore, a valuation for the full amount of the net deferred tax assets was recorded, which resulted in a net deferred tax asset of \$0. In 2017, Management determined that is more likely than not that DMEAUS utilize the NOL carryovers.

## DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Therefore, a valuation allowance was not recorded as of December 31, 2017 for DMEAUS' NOL carryover. Due to the uncertainty of DMEA's ability to utilize the NOL carryover with existing sources of unrelated business taxable income, a valuation allowance remains for this portion of the NOL carryover as of December 31, 2017.

The Tax Cuts and Jobs Act, which was enacted in December 2017, replaced the graduated corporate income tax rate structure, which had a maximum effective corporate income tax rate of 35%, with a single rate of 21%. The newly enacted single federal corporate income tax rate is effective for tax years beginning after December 31, 2017 and has the impact of reducing the effective federal income tax rate used to calculate deferred tax assets and liabilities from 34% to 21%. The net deferred income tax asset has been reduced to reflect the newly enacted rates.

The components of the deferred tax assets recognized in the financial statements are as follows:

|   | December 31, |            |
|---|--------------|------------|
|   | 2017         | 2016       |
| <u>Net Noncurrent Deferred Income Taxes</u> |              |            |
| <b><u>Federal</u></b>                       |              |            |
| Deferred Tax Asset                          | \$ 1,183,214 | \$ 512,616 |
| Deferred Tax Liability                      | (571,527)    | (28,268)   |
|   | \$ 611,687   | \$ 484,348 |
| Less: Valuation Allowance                   | (207,748)    | (484,348)  |
|   | \$ 403,939   | \$ 0       |
| <b><u>State</u></b>                         |              |            |
| Deferred Tax Asset                          | \$ 200,614   | \$ 24,859  |
| Deferred Tax Liability                      | (111,555)    | (3,849)    |
|   | \$ 89,059    | \$ 21,010  |
| Less: Valuation Allowance                   | 0            | (21,010)   |
|   | \$ 89,059    | \$ 0       |
| Total Noncurrent Deferred Income Tax Asset  | \$ 492,998   | \$ 0       |

The components of the provision for federal and state tax benefit (expense) are as follows:

|  | December 31, |           |
|--|--------------|-----------|
|  | 2017         | 2016      |
| <u>Federal and State Income Tax</u>        |              |           |
| Deferred Federal Tax Benefit (Expense)     | \$ (865,265) | \$ 28,416 |
| Deferred State Tax Benefit (Expense)       | (117,829)    | 4,064     |
| Current Year Net Operating Loss            | 1,036,502    | 110,796   |
| Decrease (Increase) in Valuation Allowance | 293,946      | (143,276) |
| Effect of Enacted Rate Reduction           | 145,644      |           |
|  | \$ 492,998   | \$ 0      |



**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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 2014. DMEAUS is no longer subject to income tax examinations by Colorado State taxing authorities for years before 2014. 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, 2017 and 2016.

**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 48.03% and 52.22% of the total assets as of December 31, 2017 and 2016, respectively. Additionally, the Association retired \$190,912 and \$327,925 (of which \$114,160 and \$195,113 was paid in cash with the remainder discounted) during the years ended December 31, 2017 and 2016, respectively. The Association retires capital on a combination LIFO/FIFO (last-in, first-out / first-in, first-out) method.

**12. Patronage Capital**

|               | December 31,         |                      |
|---------------|----------------------|----------------------|
|               | 2017                 | 2016                 |
| Assigned      | \$ 69,978,726        | \$ 69,547,270        |
| Assignable    | 49,902,333           | 48,110,725           |
|               | \$ 119,881,059       | \$ 117,657,995       |
| Less: Retired | (28,762,035)         | (28,571,123)         |
|               | <u>\$ 91,119,024</u> | <u>\$ 89,086,872</u> |

**13. Other Equities**

|                                    | December 31,        |                     |
|------------------------------------|---------------------|---------------------|
|                                    | 2017                | 2016                |
| Accumulated Subsidiary Margins     | \$ 237,220          | \$ 237,220          |
| Discounted/Donated Capital         | 5,127,278           | 5,050,527           |
| Undistributed Nonoperating Margins | 3,444,526           | 3,425,754           |
|                                    | <u>\$ 8,809,024</u> | <u>\$ 8,713,501</u> |

**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**14. FFB Mortgage Notes**

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

|                          | December 31,         |                      |
|--------------------------|----------------------|----------------------|
|                          | 2017                 | 2016                 |
| 3.941% Note              | \$ 10,949,089        | \$ 11,195,847        |
| 4.345% Note              | 4,160,945            | 4,249,035            |
| 4.747% Note              | 3,598,356            | 3,709,545            |
| 2.290% Note              | 5,104,137            | 5,251,300            |
| 2.303% Note              | 6,465,542            | 6,611,147            |
|                          | <u>\$ 30,278,069</u> | <u>\$ 31,016,874</u> |
| Less: Current Maturities | <u>779,400</u>       | <u>750,476</u>       |
|                          | <u>\$ 29,498,669</u> | <u>\$ 30,266,398</u> |

The Association has \$4,492,746 and \$6,038,055 in advance payments as of December 31, 2017 and 2016, respectively.

Principal and interest installments on the above notes are due quarterly. As of December 31, 2017, the annual maturities of long-term debt due FFB for the next five years are as follows:

|      |            |
|------|------------|
| 2018 | \$ 779,400 |
| 2019 | 804,054    |
| 2020 | 829,804    |
| 2021 | 859,262    |
| 2022 | 889,849    |

**15. CFC Mortgage Notes**

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

|  | December 31,         |                      |
|--|----------------------|----------------------|
|  | 2017                 | 2016                 |
| CFC Fixed Rate Notes Ranging from 3.25% to 6.60%<br>in 2017 and 2.50% to 6.60% in 2016 | \$ 6,791,909         | \$ 7,747,234         |
| CFC Fixed Rate CREBs Notes at 4.30%  | 17,981,978           | 18,784,144           |
|  | <u>\$ 24,773,887</u> | <u>\$ 26,531,378</u> |
| Less: Current Maturities   | <u>1,542,824</u>     | <u>1,757,491</u>     |
|  | <u>\$ 23,231,063</u> | <u>\$ 24,773,887</u> |

**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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 a lower effective interest rate for the Association. As of December 31, 2017 and 2016, the Association has \$17,981,978 and \$18,784,144 outstanding on these notes.

Principal and interest installments on the above notes are due quarterly. As of December 31, 2017, the annual maturities of long-term debt due CFC for the next five years are as follows:

|      |              |
|------|--------------|
| 2018 | \$ 1,542,824 |
| 2019 | 1,508,064    |
| 2020 | 1,554,530    |
| 2021 | 1,623,290    |
| 2022 | 1,536,938    |

**16. CoBank Mortgage Notes**

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

|                          | December 31,         |                      |
|--------------------------|----------------------|----------------------|
|                          | 2017                 | 2016                 |
| 3.56% Note               | \$ 3,524,471         | \$ 3,706,286         |
| 3.70% Note               | 7,821,288            | 8,157,603            |
| 3.77% Note               | 8,112,938            | 8,432,815            |
| 4.29% Note               | 14,930,493           |                      |
| 4.44% Note               | 5,000,000            |                      |
|                          | <u>\$ 39,389,190</u> | <u>\$ 20,296,704</u> |
| Less: Current Maturities | 1,248,414            | 840,443              |
|                          | <u>\$ 38,140,776</u> | <u>\$ 19,456,261</u> |

Principal and interest installments on the above notes are due monthly. As of December 31, 2017, the annual maturities of long-term debt due CoBank for the next five years are as follows:

|      |              |
|------|--------------|
| 2018 | \$ 1,248,414 |
| 2019 | 1,295,159    |
| 2020 | 1,342,913    |
| 2021 | 1,401,046    |
| 2022 | 1,457,304    |

The Association has \$5,000,000 available to be advanced from CoBank.

**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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, 2017 and 2016, the Association had no amounts outstanding on either of these lines of credit.

**18. Deferred Credits**

|  | December 31,        |                     |
|--|---------------------|---------------------|
|  | 2017                | 2016                |
| Consumer Advances in Aid to Construction | \$ 238,942          | \$ 276,285          |
| Energy Prepayments                       | 623,027             | 637,461             |
| Unclaimed Capital Credits                | 1,857,117           | 2,003,977           |
| Deferred Revenue Plan                    | 5,000,000           | 4,000,000           |
| Elevate Deferred Revenue                 | 167,000             |                     |
| Other Deferred Revenue                   | 400,528             | 483,526             |
| Other                                    | 189,530             | 397,640             |
|  | <u>\$ 8,476,144</u> | <u>\$ 7,798,889</u> |

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, \$750,000 in 2016, and \$1,000,000 in 2017. The \$5,000,000 in revenue will be recognized annually over the years of 2018 – 2022 and is designed to help offset the potential increase of power cost. This plan has been approved by RUS.

**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 2017 and 2016 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 \$1,136,740 in 2017 and \$1,128,738 in 2016.

**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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, 2017 and 2016 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**

There is no litigation pending against the Cooperative at December 31, 2017, that could have a material effect on the consolidated 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.

**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 Organizations – 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.

**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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:

|                        | <u>Carrying<br/>Value</u> | <u>Fair<br/>Value</u> |
|------------------------|---------------------------|-----------------------|
| Fixed Rate Debt - 2017 | \$ <u>94,441,147</u>      | \$ <u>82,926,718</u>  |
| Fixed Rate Debt - 2016 | \$ <u>77,844,956</u>      | \$ <u>70,015,143</u>  |

**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**

The Association’s management has evaluated subsequent events through April 19, 2018, the date which the financial statements were available for issue.

**DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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 classified 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, 2017**

**ASSETS**

|  | <u>DMEA</u>           | <u>DMEAUS</u>       | <u>Eliminating<br/>Entries</u> | <u>Consolidated<br/>Total</u> |
|--|-----------------------|---------------------|--------------------------------|-------------------------------|
| <b>UTILITY PLANT/ FIXED ASSETS AT COST</b>                             |                       |                     |                                |                               |
| Electric Plant in Service  | \$ 183,701,890        | \$ 3,692,663        | \$                             | \$ 187,394,553                |
| Other Property and Equipment   | 1,513,866             |                     |                                | 1,513,866                     |
| Construction Work in Progress  | 9,416,003             | 1,956,269           |                                | 11,372,272                    |
|  | <u>\$ 194,631,759</u> | <u>\$ 5,648,932</u> | <u>\$ 0</u>                    | <u>\$ 200,280,691</u>         |
| Less: Accumulated Provision for Depreciation<br>and Amortization       | 77,668,389            | 295,489             |                                | 77,963,878                    |
|  | <u>\$ 116,963,370</u> | <u>\$ 5,353,443</u> | <u>\$ 0</u>                    | <u>\$ 122,316,813</u>         |
| <b>OTHER PROPERTY AND INVESTMENTS AT COST<br/>OR STATED VALUE</b>      |                       |                     |                                |                               |
| Investments in Associated Organizations                                | \$ 52,199,265         | \$                  | \$                             | \$ 52,199,265                 |
| Investments in Affiliated Company                                      | (1,105,023)           |                     | 1,105,023                      | 0                             |
| Other Investments  | 172,735               |                     |                                | 172,735                       |
|  | <u>\$ 51,266,977</u>  | <u>\$ 0</u>         | <u>\$ 1,105,023</u>            | <u>\$ 52,372,000</u>          |
| <b>CURRENT ASSETS</b>  |                       |                     |                                |                               |
| Cash - General   | \$ 4,622,901          | \$ 484,061          | \$                             | \$ 5,106,962                  |
| Cash - Restricted  | 2,636,033             |                     |                                | 2,636,033                     |
| Temporary Cash Investments - Restricted                                | 3,761,000             |                     |                                | 3,761,000                     |
| Accounts Receivable (Less Allowance<br>for Uncollectibles of \$63,409) | 13,629,209            | 92,747              | (8,088,981)                    | 5,632,975                     |
| Accrued Unbilled Revenue   | 6,039,272             | 8,700               |                                | 6,047,972                     |
| Materials and Supplies (At Average Cost)                               | 3,651,870             | 128,698             |                                | 3,780,568                     |
| Other Current and Accrued Assets                                       | 335,087               | 79,678              |                                | 414,765                       |
|  | <u>\$ 34,675,372</u>  | <u>\$ 793,884</u>   | <u>\$ (8,088,981)</u>          | <u>\$ 27,380,275</u>          |
| <b>OTHER ASSETS</b>  |                       |                     |                                |                               |
| Deferred Debits  | \$ 4,745,464          | \$ 1,088,554        | \$                             | \$ 5,834,018                  |
| Intangibles  |                       | 155,948             |                                | 155,948                       |
|  | <u>\$ 4,745,464</u>   | <u>\$ 1,244,502</u> | <u>\$ 0</u>                    | <u>\$ 5,989,966</u>           |
| <b>TOTAL ASSETS</b>  | <u>\$ 207,651,183</u> | <u>\$ 7,391,829</u> | <u>\$ (6,983,958)</u>          | <u>\$ 208,059,054</u>         |

**EQUITIES AND LIABILITIES**

|   |                       |                       |                       |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>EQUITIES</b>                               |                       |                       |                       |                       |
| Patronage Capital                             | \$ 91,119,024         | \$                    | \$                    | \$ 91,119,024         |
| Other Equities                                | 8,809,024             | (1,105,023)           | 1,105,023             | 8,809,024             |
|   | <u>\$ 99,928,048</u>  | <u>\$ (1,105,023)</u> | <u>\$ 1,105,023</u>   | <u>\$ 99,928,048</u>  |
| <b>LONG-TERM DEBT</b>                         |                       |                       |                       |                       |
| FFB Mortgage Notes Less Current Maturities    | \$ 29,498,669         | \$                    | \$                    | \$ 29,498,669         |
| CFC Mortgage Notes Less Current Maturities    | 23,231,063            |                       |                       | 23,231,063            |
| CoBank Mortgage Notes Less Current Maturities | 38,140,776            |                       |                       | 38,140,776            |
|   | <u>\$ 90,870,508</u>  | <u>\$ 0</u>           | <u>\$ 0</u>           | <u>\$ 90,870,508</u>  |
| Less: Advanced Payments                       | 4,492,746             |                       |                       | 4,492,746             |
|   | <u>\$ 86,377,762</u>  | <u>\$ 0</u>           | <u>\$ 0</u>           | <u>\$ 86,377,762</u>  |
| <b>CURRENT LIABILITIES</b>                    |                       |                       |                       |                       |
| Current Maturities of Long-Term Debt          | \$ 3,570,639          | \$                    | \$                    | \$ 3,570,639          |
| Accounts Payable                              | 6,615,114             | 8,098,680             | (8,088,981)           | 6,624,813             |
| Accrued Taxes                                 | 855,840               | 16,161                |                       | 872,001               |
| Accrued Employee Compensated Absences         | 1,567,352             |                       |                       | 1,567,352             |
| Accrued Interest                              | 475,178               |                       |                       | 475,178               |
| Other Current Liabilities                     | 78,175                | 88,942                |                       | 167,117               |
|   | <u>\$ 13,162,298</u>  | <u>\$ 8,203,783</u>   | <u>\$ (8,088,981)</u> | <u>\$ 13,277,100</u>  |
| <b>OTHER LIABILITIES</b>                      |                       |                       |                       |                       |
| Deferred Credits                              | \$ 8,183,075          | \$ 293,069            | \$ 0                  | \$ 8,476,144          |
| <b>TOTAL EQUITIES AND LIABILITIES</b>         | <u>\$ 207,651,183</u> | <u>\$ 7,391,829</u>   | <u>\$ (6,983,958)</u> | <u>\$ 208,059,054</u> |

## DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Schedule 2

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

**ASSETS**

|  | <u>DMEA</u>           | <u>DMEAUS</u>       | <u>Eliminating<br/>Entries</u> | <u>Consolidated<br/>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<br>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<br/>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<br>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 3

**CONSOLIDATING INFORMATION**  
**STATEMENT OF INCOME AND PATRONAGE CAPITAL**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

|   | <u>DMEA</u>          | <u>DMEAUS</u>         | <u>Eliminating<br/>Entries</u> | <u>Consolidated<br/>Total</u> |
|---|----------------------|-----------------------|--------------------------------|-------------------------------|
| <b>OPERATING REVENUES</b>   |                      |                       |                                |                               |
| Residential   | \$ 36,417,988        | \$                    | \$                             | \$ 36,417,988                 |
| Irrigation Sales  | 175,495              |                       |                                | 175,495                       |
| Small Commercial  | 16,438,534           |                       |                                | 16,438,534                    |
| Large Commercial  | 8,597,600            |                       |                                | 8,597,600                     |
| Street Lighting and Public Buildings                              | 553,219              |                       |                                | 553,219                       |
| Unbilled Revenue  | 334,487              |                       |                                | 334,487                       |
| Deferred Revenue Plan   | (1,000,000)          |                       |                                | (1,000,000)                   |
| Internet Services (Net of Cost of Sales of \$1,144,108)           |                      | (50,695)              | 194,636                        | 143,941                       |
| Other Operating Revenues  | 4,251,199            | 57,421                | (224,996)                      | 4,083,624                     |
| Total Operating Revenues  | <u>\$ 65,768,522</u> | <u>\$ 6,726</u>       | <u>\$ (30,360)</u>             | <u>\$ 65,744,888</u>          |
| <b>OPERATING EXPENSES</b>   |                      |                       |                                |                               |
| Purchased Power   | \$ 41,435,419        | \$                    | \$                             | \$ 41,435,419                 |
| Cost of Goods Sold - Other  |                      | 3,367                 |                                | 3,367                         |
| Hydro - Operation   | 556,369              |                       |                                | 556,369                       |
| Hydro - Maintenance   | 154,635              |                       |                                | 154,635                       |
| Transmission  | 485,605              |                       |                                | 485,605                       |
| Distribution - Operation  | 3,694,804            |                       |                                | 3,694,804                     |
| Distribution - Maintenance  | 2,279,539            |                       |                                | 2,279,539                     |
| Customer Accounts   | 1,860,366            |                       |                                | 1,860,366                     |
| Customer Service and Information Sales                            | 472,952              |                       |                                | 472,952                       |
| Administrative and General  | 179,456              | 330,846               |                                | 510,302                       |
| Depreciation and Amortization                                     | 5,521,122            | 916,263               | (30,360)                       | 6,407,025                     |
| Other Deductions  | 5,592,373            | 162,017               |                                | 5,754,390                     |
| Other Deductions  | 682,949              | 1,950                 |                                | 684,899                       |
| Total Operating Expenses  | <u>\$ 62,915,589</u> | <u>\$ 1,414,443</u>   | <u>\$ (30,360)</u>             | <u>\$ 64,299,672</u>          |
| <b>OPERATING MARGINS (LOSS) - BEFORE FIXED CHARGES</b>            | <u>\$ 2,852,933</u>  | <u>\$ (1,407,717)</u> | <u>\$ 0</u>                    | <u>\$ 1,445,216</u>           |
| <b>FIXED CHARGES</b>  |                      |                       |                                |                               |
| Interest on Long-Term Debt  | 2,632,163            | 151,099               | (151,099)                      | 2,632,163                     |
| <b>OPERATING MARGINS (LOSS) - AFTER FIXED CHARGES</b>             | <u>\$ 220,770</u>    | <u>\$ (1,558,816)</u> | <u>\$ 151,099</u>              | <u>\$ (1,186,947)</u>         |
| G and T Capital Credits   | 2,002,295            |                       |                                | 2,002,295                     |
| Other Capital Credits   | 713,242              |                       |                                | 713,242                       |
| <b>NET OPERATING MARGINS (LOSS)</b>                               | <u>\$ 2,936,307</u>  | <u>\$ (1,558,816)</u> | <u>\$ 151,099</u>              | <u>\$ 1,528,590</u>           |
| <b>NONOPERATING MARGINS (LOSS)</b>                                |                      |                       |                                |                               |
| Interest Income   | \$ 531,468           | \$                    | \$ (151,099)                   | \$ 380,369                    |
| Affiliated Company - Income (Loss) from Operations                | (1,065,818)          |                       | 1,065,818                      | 0                             |
| Gain (Loss) on Disposition of Property                            | (92,493)             |                       | (26,000)                       | (118,493)                     |
| Other Nonoperating Income (Loss)                                  | (67,628)             |                       |                                | (67,628)                      |
|   | <u>\$ (694,471)</u>  | <u>\$ 0</u>           | <u>\$ 888,719</u>              | <u>\$ 194,248</u>             |
| <b>NET MARGINS (LOSS) BEFORE PROVISION FOR INCOME TAXES</b>       | <u>\$ 2,241,836</u>  | <u>\$ (1,558,816)</u> | <u>\$ 1,039,818</u>            | <u>\$ 1,722,838</u>           |
| <b>PROVISION FOR INCOME TAX EXPENSE</b>                           |                      | 492,998               |                                | 492,998                       |
| <b>NET MARGINS (LOSS)</b>   | <u>\$ 2,241,836</u>  | <u>\$ (1,065,818)</u> | <u>\$ 1,039,818</u>            | <u>\$ 2,215,836</u>           |
| <b>PATRONAGE CAPITAL AND OTHER EQUITIES - BEGINNING OF PERIOD</b> | 89,086,872           | (39,205)              | 39,205                         | 89,086,872                    |
| Transfer Nonoperating Margins to Other Equities                   | (18,772)             |                       | 26,000                         | 7,228                         |
| Patronage Capital Retired - Cash                                  | (114,160)            |                       |                                | (114,160)                     |
| Patronage Capital Retired - Discounted                            | (76,752)             |                       |                                | (76,752)                      |
| <b>PATRONAGE CAPITAL AND OTHER EQUITIES - END OF PERIOD</b>       | <u>\$ 91,119,024</u> | <u>\$ (1,105,023)</u> | <u>\$ 1,105,023</u>            | <u>\$ 91,119,024</u>          |

## DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Schedule 4

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

|   | <u>DMEA</u>          | <u>DMEAUS</u>       | <u>Eliminating<br/>Entries</u> | <u>Consolidated<br/>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 (Net of Cost of Sales of \$189,008)                 |                      | (157,362)           |                                | (157,362)                     |
| Other Operating Revenues  | 3,881,135            | 42,075              | (5,060)                        | 3,918,150                     |
| Total Operating Revenues  | <u>\$ 64,333,541</u> | <u>\$ (115,287)</u> | <u>\$ (5,060)</u>              | <u>\$ 64,213,194</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              |                     |                                | 249,235                       |
| Administrative and General  | 5,375,524            | 215,320             | (5,060)                        | 5,585,784                     |
| 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>\$ 240,947</u>   | <u>\$ (5,060)</u>              | <u>\$ 61,660,797</u>          |
| OPERATING MARGINS (LOSS) - BEFORE FIXED CHARGES                       | \$ 2,908,631         | \$ (356,234)        | \$ 0                           | \$ 2,552,397                  |
| <b>FIXED CHARGES</b>  |                      |                     |                                |                               |
| Interest on Long-Term Debt  | 2,477,175            | 17,248              | (17,248)                       | 2,477,175                     |
| OPERATING MARGINS (LOSS) - AFTER FIXED CHARGES                        | \$ 431,456           | \$ (373,482)        | \$ 17,248                      | \$ 75,222                     |
| G and T Capital Credits   | 1,104,017            |                     |                                | 1,104,017                     |
| Other Capital Credits   | 285,468              |                     |                                | 285,468                       |
| NET OPERATING MARGINS (LOSS)  | <u>\$ 1,820,941</u>  | <u>\$ (373,482)</u> | <u>\$ 17,248</u>               | <u>\$ 1,464,707</u>           |
| <b>NONOPERATING MARGINS (LOSS)</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>             |
| NET MARGINS (LOSS)  | \$ 1,848,812         | \$ (373,482)        | \$ 373,482                     | \$ 1,848,812                  |
| <b>PATRONAGE CAPITAL AND OTHER EQUITIES -<br/>BEGINNING OF PERIOD</b> |                      |                     |                                |                               |
|   | 87,879,324           | 334,277             | (334,277)                      | 87,879,324                    |
| <b>Transfer Nonoperating Margins to<br/>Other Equities</b>            |                      |                     |                                |                               |
|   | (313,339)            |                     |                                | (313,339)                     |
| Patronage Capital Retired - Cash                                      | (195,113)            |                     |                                | (195,113)                     |
| Patronage Capital Retired - Discounted                                | (132,812)            |                     |                                | (132,812)                     |
| PATRONAGE CAPITAL AND OTHER EQUITIES -<br>END OF PERIOD               | <u>\$ 89,086,872</u> | <u>\$ (39,205)</u>  | <u>\$ 39,205</u>               | <u>\$ 89,086,872</u>          |

**ACCOMPANYING INFORMATION**

DELTA-MONTROSE ELECTRIC ASSOCIATION

Schedule 5

ELECTRIC PLANT  
FOR THE YEAR ENDED DECEMBER 31, 2017

|  | Balance<br>1/1/2017   | Additions            | Retirements         | Balance<br>12/31/2017 |
|--|-----------------------|----------------------|---------------------|-----------------------|
| <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             | 22,649               |                     | 7,142,959             |
| Accessory Electric Equipment               | 1,867,228             |                      |                     | 1,867,228             |
| Other Power Plant Equipment                | 157,902               |                      |                     | 157,902               |
| Total                                      | <u>\$ 20,041,324</u>  | <u>\$ 22,649</u>     | <u>\$ 0</u>         | <u>\$ 20,063,973</u>  |
| <b>TRANSMISSION PLANT</b>                  |                       |                      |                     |                       |
| Land and Land Rights                       | \$ 96,364             | \$                   | \$                  | \$ 96,364             |
| Structures and Improvements                | 32                    |                      |                     | 32                    |
| Station Equipment                          | 620,454               |                      |                     | 620,454               |
| Poles, Towers, and Fixtures                | 1,362,605             | 5,647                | 1,467               | 1,366,785             |
| Overhead Conductors and Devices            | 1,120,120             | 1,285                |                     | 1,121,405             |
| Total                                      | <u>\$ 3,199,575</u>   | <u>\$ 6,932</u>      | <u>\$ 1,467</u>     | <u>\$ 3,205,040</u>   |
| <b>DISTRIBUTION PLANT</b>                  |                       |                      |                     |                       |
| Land and Land Rights                       | \$ 1,297,435          | \$ 61,332            | \$                  | \$ 1,358,767          |
| Structures and Improvements                | 3,765,603             |                      |                     | 3,765,603             |
| Station Equipment                          | 6,111,696             | 335,641              | 2,218               | 6,445,119             |
| Poles, Towers, and Fixtures                | 23,806,191            | 870,430              | 153,610             | 24,523,011            |
| Overhead Conductors and Devices            | 22,262,190            | 734,937              | 176,964             | 22,820,163            |
| Underground Conduit                        | 5,222,827             | 82,808               | 15,214              | 5,290,421             |
| Underground Conductors and Devices         | 14,766,900            | 221,617              | 44,565              | 14,943,952            |
| Line Transformers                          | 14,003,489            | 573,376              | 230,880             | 14,345,985            |
| Services                                   | 15,902,862            | 100,212              | 50,769              | 15,952,305            |
| Meters                                     | 10,890,057            | 367,657              | 18,770              | 11,238,944            |
| Installations on Consumers' Premises       | 193,415               |                      | 5,590               | 187,825               |
| Fiber                                      | 0                     | 11,755,130           |                     | 11,755,130            |
| Street Lighting                            | 679,965               | 39,628               | 20,655              | 698,938               |
| Total                                      | <u>\$ 118,902,630</u> | <u>\$ 15,142,768</u> | <u>\$ 719,235</u>   | <u>\$ 133,326,163</u> |
| <b>GENERAL PLANT</b>                       |                       |                      |                     |                       |
| Land and Land Rights                       | \$ 204,830            | \$                   | \$                  | \$ 204,830            |
| Structures and Improvements                | 3,401,923             | 337,436              |                     | 3,739,359             |
| Office Furniture and Equipment             | 6,208,504             | 197,405              |                     | 6,405,909             |
| Transportation Equipment                   | 4,984,735             | 537,008              | 707,730             | 4,814,013             |
| Stores Equipment                           | 181,958               | 9,801                |                     | 191,759               |
| Tools, Shop, and Garage Equipment          | 1,723,874             | 55,713               |                     | 1,779,587             |
| Laboratory Equipment                       | 433,576               | 33,366               |                     | 466,942               |
| Power Operated Equipment                   | 1,694,158             | 43,098               | 29,658              | 1,707,598             |
| Communications Equipment                   | 2,461,349             | 3,963,788            |                     | 6,425,137             |
| SCADA and Other GPS Equipment              | 948,317               | 185,169              |                     | 1,133,486             |
| Miscellaneous Equipment                    | 230,256               | 7,838                |                     | 238,094               |
| Total                                      | <u>\$ 22,473,480</u>  | <u>\$ 5,370,622</u>  | <u>\$ 737,388</u>   | <u>\$ 27,106,714</u>  |
| Total Classified Electric Plant in Service | \$ 164,617,009        | \$ 20,542,971        | \$ 1,458,090        | \$ 183,701,890        |
| Fiber Organization                         |                       | 93,506               |                     | 93,506                |
| Geothermal Loop Devices                    | 1,042,837             | (5,984)              | 3,217               | 1,033,636             |
| Community Solar Arrays                     | 246,958               | 139,766              |                     | 386,724               |
| Construction Work in Progress              | 10,562,464            | (1,146,461)          |                     | 9,416,003             |
| Total Utility Plant                        | <u>\$ 176,469,268</u> | <u>\$ 19,623,798</u> | <u>\$ 1,461,307</u> | <u>\$ 194,631,759</u> |

DELTA-MONTROSE ELECTRIC ASSOCIATION

Schedule 6

ACCUMULATED PROVISION FOR DEPRECIATION  
FOR THE YEAR ENDED DECEMBER 31, 2017

|  | Balance<br>1/1/2017  | Depreciation<br>Accruals | Retirements         | Balance<br>12/31/2017 |
|--|----------------------|--------------------------|---------------------|-----------------------|
| Hydro Plant                                | \$ 1,830,675         | \$ 547,742               | \$ 0                | \$ 2,378,417          |
| Transmission Plant                         | \$ 1,844,837         | \$ 85,408                | \$ 1,567            | \$ 1,928,678          |
| Distribution Plant                         | \$ 53,363,738        | \$ 4,118,474             | \$ 707,368          | \$ 56,774,844         |
| General Plant                              |                      |                          |                     |                       |
| Structures and Improvements                | \$ 1,588,458         | \$ 106,401               | \$                  | \$ 1,694,859          |
| Office Furniture and Fixtures              | 4,917,013            | 340,122                  |                     | 5,257,135             |
| Transportation Equipment                   | 3,992,472            | 335,248                  | 707,730             | 3,619,990             |
| Stores Equipment                           | 111,185              | 5,745                    |                     | 116,930               |
| Tools, Shop, and Garage Equipment          | 1,288,296            | 51,555                   |                     | 1,339,851             |
| Laboratory Equipment                       | 289,560              | 12,841                   |                     | 302,401               |
| Power Operated Equipment                   | 1,041,518            | 100,464                  | 6,520               | 1,135,462             |
| Communications Equipment                   | 1,042,587            | 206,630                  |                     | 1,249,217             |
| Miscellaneous Equipment                    | 1,001,465            | 23,481                   |                     | 1,024,946             |
| Total General Plant                        | <u>\$ 15,272,554</u> | <u>\$ 1,182,487</u>      | <u>\$ 714,250</u>   | <u>\$ 15,740,791</u>  |
| Total Classified Electric Plant in Service | \$ 72,311,804        | \$ 5,934,111             | \$ 1,423,185        | \$ 76,822,730         |
| Fiber Organization                         |                      | 10,910                   |                     | 10,910                |
| Geothermal Loop Devices                    | 434,776              | 68,993                   | 3,217               | 500,552               |
| Community Solar Arrays                     | 49,387               | 14,070                   |                     | 63,457                |
| Retirement Work in Progress                | <u>126,061</u>       |                          | <u>(144,679)</u>    | <u>270,740</u>        |
| Total                                      | <u>\$ 72,922,028</u> | <u>\$ 6,028,084</u>      | <u>\$ 1,281,723</u> | <u>\$ 77,668,389</u>  |
|  |                      | (1)                      | (2)                 |                       |
| (1) Charged to Depreciation Expense        |                      | \$ 5,592,372             |                     |                       |
| Charged to Clearing and Other Accounts     |                      | <u>435,712</u>           |                     |                       |
|  |                      | <u>\$ 6,028,084</u>      |                     |                       |
| (2) Cost of Units Retired                  |                      |                          | \$ 1,461,307        |                       |
| Salvage in Excess of Cost of Removal       |                      |                          | <u>(179,584)</u>    |                       |
| Loss Due to Retirement                     |                      |                          | <u>\$ 1,281,723</u> |                       |



**DELTA-MONTROSE ELECTRIC ASSOCIATION**

**Schedule 7**

**OTHER PROPERTY AND INVESTMENTS  
DECEMBER 31, 2017 AND 2016**

**INVESTMENTS IN ASSOCIATED ORGANIZATIONS**

|  | December 31,         |                      |
|--|----------------------|----------------------|
|  | <u>2017</u>          | <u>2016</u>          |
| Memberships  |                      |                      |
| National Rural Utilities Cooperative Finance Corporation | \$ 1,000             | \$ 1,000             |
| Patronage Capital  |                      |                      |
| Tri-State Generation and Transmission Association, Inc.  | 48,300,830           | 47,506,384           |
| National Rural Utilities Cooperative Finance Corporation | 559,795              | 505,573              |
| Western United Electric Supply Corporation               | 1,078,576            | 916,097              |
| Federated Insurance                                      | 348,965              | 270,448              |
| CoBank   | 80,104               | 28,328               |
| National Information Solutions Cooperative               | 211,167              | 183,407              |
| National Rural Telecommunications Cooperative            | 289                  | 374                  |
| Capital Term Certificates                                |                      |                      |
| National Rural Utilities Cooperative Finance Corporation | 1,618,539            | 1,624,312            |
| Total Investments in Associated Organizations            | <u>\$ 52,199,265</u> | <u>\$ 51,035,923</u> |

**INVESTMENT IN AFFILIATED COMPANY**

|  |                       |                    |
|--|-----------------------|--------------------|
| DMEA Utilities Services, LLC           | \$ <u>(1,105,023)</u> | \$ <u>(39,205)</u> |
| Total Investment in Affiliated Company | <u>\$ (1,105,023)</u> | <u>\$ (39,205)</u> |

**OTHER INVESTMENTS**

|                                      |                      |                      |
|--------------------------------------|----------------------|----------------------|
| Notes Receivable - Geothermal Loans  | \$ <u>172,735</u>    | \$ <u>191,127</u>    |
| Total Other Investments              | <u>\$ 172,735</u>    | <u>\$ 191,127</u>    |
| Total Other Property and Investments | <u>\$ 51,266,977</u> | <u>\$ 51,187,845</u> |

**DELTA-MONTROSE ELECTRIC ASSOCIATION**

**Schedule 8**

**PATRONAGE CAPITAL  
DECEMBER 31, 2017**

| Year      | Generation and Transmission |                   |                  | Coop              |                |                   | Total<br>Balance  |                   |
|-----------|-----------------------------|-------------------|------------------|-------------------|----------------|-------------------|-------------------|-------------------|
|           | Assignable                  | Assigned          | Retired          | Balance           | Assignable     | Assigned          |                   | Retired           |
| 1970-1990 | \$                          | \$                | \$               | \$                | \$             | \$                | \$                | \$                |
| 1991      |                             |                   |                  |                   | 1,150,767      | 12,757,684        | 280,760           | 870,007           |
| 1992      |                             | 2,839,638         | 2,839,638        |                   | 3,405,697      | 3,405,697         | 756,211           | 2,649,486         |
| 1993      |                             | 2,710,033         | 2,710,033        |                   | 2,216,994      | 2,216,994         | 359,593           | 1,857,401         |
| 1994      |                             | 1,811,402         | 364,720          | 1,446,682         | 1,710,889      | 1,710,889         | 249,498           | 1,461,391         |
| 1995      |                             | 1,902,824         | 328,523          | 1,574,301         | 2,281,865      | 2,281,865         | 347,331           | 1,934,534         |
| 1996      |                             | 1,628,923         | 229,015          | 1,399,908         | 2,169,430      | 2,169,430         | 315,502           | 1,853,928         |
| 1997      |                             | 1,884,000         | 226,335          | 1,657,665         | 2,024,224      | 2,024,224         | 266,803           | 1,757,421         |
| 1998      |                             | 1,109,110         | 107,817          | 1,001,293         | 2,130,664      | 2,130,664         | 217,602           | 1,913,062         |
| 1999      |                             |                   |                  | 1,258,434         | 2,197,859      | 2,197,859         | 205,299           | 1,992,560         |
| 2000      |                             |                   |                  | 1,029,743         | 927,378        | 927,378           | 78,210            | 849,168           |
| 2001      |                             |                   |                  | 1,889,605         | 1,482,836      | 1,482,836         | 113,024           | 1,369,812         |
| 2002      |                             |                   |                  | 2,000,471         | 3,276,106      | 3,276,106         | 234,299           | 3,041,807         |
| 2003      |                             |                   |                  | 2,584,463         | 3,989,909      | 3,989,909         | 492,698           | 3,497,211         |
| 2004      |                             |                   |                  | 2,844,086         | 1,952,288      | 1,952,288         | 361,494           | 1,590,794         |
| 2005      |                             |                   |                  | 2,793,436         | 1,699,623      | 1,699,623         | 310,175           | 1,389,448         |
| 2006      |                             |                   |                  | 6,461,812         | 1,578,511      | 1,578,511         | 687,894           | 890,617           |
| 2007      |                             |                   |                  | 5,065,772         | 1,306,079      | 1,306,079         | 1,297,594         | 8,485             |
| 2008      |                             |                   |                  | 4,734,533         | 1,478,005      | 1,478,005         | 1,467,926         | 10,079            |
| 2009      |                             |                   |                  | 3,307,406         | 289,129        | 289,129           | 285,169           | 3,960             |
| 2010      |                             |                   |                  | 3,947,171         | 1,291,168      | 1,291,168         | 31,949            | 1,259,219         |
| 2011      |                             |                   |                  | 1,264,342         | 1,516,662      | 1,516,662         | 30,679            | 1,485,983         |
| 2012      |                             |                   |                  | 2,999,263         | 1,401,732      | 1,401,732         | 529,174           | 872,558           |
| 2013      |                             |                   |                  | 2,463,322         | 268,388        | 268,388           | 268,388           | 2,999,263         |
| 2014      |                             |                   |                  | 1,931,393         | 783,690        | 783,690           | 8,684             | 775,006           |
| 2015      |                             |                   |                  | 1,104,017         | 373,763        | 373,763           | 2,314             | 371,449           |
| 2016      |                             |                   |                  | 2,002,295         | 431,456        | 431,456           | 0                 | 431,456           |
| 2017      |                             |                   |                  |                   | 220,769        | 220,769           |                   |                   |
|           | \$                          | \$                | \$               | \$                | \$             | \$                | \$                | \$                |
|           | <u>49,681,564</u>           | <u>13,885,930</u> | <u>6,806,081</u> | <u>56,761,413</u> | <u>220,769</u> | <u>56,092,796</u> | <u>21,955,954</u> | <u>34,136,842</u> |
|           | \$                          | \$                | \$               | \$                | \$             | \$                | \$                | \$                |
|           | <u>91,119,024</u>           |                   |                  |                   |                |                   |                   | <u>91,119,024</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, 2017**

| <u>Note Number</u>           | <u>Interest Rate</u> | <u>Principal Amount</u> | <u>Amount Unadvanced</u> | <u>Principal Repayments</u> | <u>Net Obligation</u> |
|------------------------------|----------------------|-------------------------|--------------------------|-----------------------------|-----------------------|
| <b>FFB MORTGAGE NOTES</b>    |                      |                         |                          |                             |                       |
| H0010                        | 4.747%               | \$ 4,680,000            | \$                       | \$ 1,081,644                | \$ 3,598,356          |
| H0015                        | 4.345%               | 4,709,000               |                          | 548,055                     | 4,160,945             |
| H0020                        | 3.941%               | 12,500,000              |                          | 1,550,911                   | 10,949,089            |
| H0025                        | 2.290%               | 5,810,000               |                          | 705,863                     | 5,104,137             |
| H0030                        | 2.303%               | 6,647,000               |                          | 181,458                     | 6,465,542             |
| <b>TOTAL FFB:</b>            |                      | <b>\$ 34,346,000</b>    | <b>\$ 0</b>              | <b>\$ 4,067,931</b>         | <b>\$ 30,278,069</b>  |
| <b>CFC MORTGAGE NOTES</b>    |                      |                         |                          |                             |                       |
| 9022                         | 3.30%                | \$ 1,201,000            | \$                       | \$ 1,157,239                | \$ 43,761             |
| 9024                         | 6.60%                | 2,554,255               |                          | 2,218,783                   | 335,472               |
| 9026                         | 3.25%                | 644,898                 |                          | 340,788                     | 304,110               |
| 9027                         | 3.25%                | 2,269,000               |                          | 784,708                     | 1,484,292             |
| 9032                         | 4.20-5.20%           | 9,489,000               |                          | 4,864,726                   | 4,624,274             |
| 9033                         | 4.30%                | 22,000,000              |                          | 4,018,022                   | 17,981,978            |
| <b>TOTAL CFC:</b>            |                      | <b>\$ 38,158,153</b>    | <b>\$ 0</b>              | <b>\$ 13,384,266</b>        | <b>\$ 24,773,887</b>  |
| <b>COBANK MORTGAGE NOTES</b> |                      |                         |                          |                             |                       |
| 2903273                      | 3.56%                | \$ 3,966,445            | \$                       | \$ 441,974                  | \$ 3,524,471          |
| 2903282                      | 3.70%                | 8,637,748               |                          | 816,460                     | 7,821,288             |
| 2903317                      | 3.77%                | 8,888,963               |                          | 776,025                     | 8,112,938             |
| 3073292                      | 4.29%                | 15,000,000              |                          | 69,507                      | 14,930,493            |
| 3092928                      | 4.44%                | 5,000,000               |                          | 0                           | 5,000,000             |
| <b>TOTAL COBANK:</b>         |                      | <b>\$ 41,493,156</b>    | <b>\$ 0</b>              | <b>\$ 2,103,966</b>         | <b>\$ 39,389,190</b>  |

Net obligations include \$779,400 due FFB, \$1,542,824 due CFC and \$1,248,414 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**

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**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, 2017, and the related consolidated statements of income and patronage capital, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 19, 2018. In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2018, 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 19, 2018

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

**CERTIFIED PUBLIC ACCOUNTANTS**

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

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**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, 2017, and have issued our report thereon dated April 19, 2018.

**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 19, 2018