

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

MONTROSE, COLORADO

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

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

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

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2018 and 2017, 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, 2018 and 2017, 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 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 15, 2019 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 15, 2019

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Exhibit A

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

ASSETS

	December 31,	
	<u>2018</u>	<u>2017</u>
PLANT, PROPERTY, AND EQUIPMENT		
Electric Plant in Service	\$ 198,623,122	\$ 187,394,553
Other Property and Equipment	8,898,915	1,513,866
Construction Work in Progress	14,754,244	11,372,272
	<u>\$ 222,276,281</u>	<u>\$ 200,280,691</u>
Less: Accumulated Provision for Depreciation and Amortization	82,935,022	77,963,878
	<u>\$ 139,341,259</u>	<u>\$ 122,316,813</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 52,208,740	\$ 52,199,265
Other Investments	137,369	172,735
	<u>\$ 52,346,109</u>	<u>\$ 52,372,000</u>
CURRENT ASSETS		
Cash - General	\$ 4,714,399	\$ 5,106,962
Cash - Restricted	6,465,565	2,636,033
Temporary Cash Investments - Restricted		3,761,000
Accounts Receivable (Less allowance for uncollectibles of \$59,599 in 2018 and \$63,409 in 2017)	2,446,499	5,632,975
Unbilled Revenue	5,858,857	6,047,972
Materials and Supplies (At Average Cost)	3,796,131	3,780,568
Other Current and Accrued Assets	243,148	414,765
	<u>\$ 23,524,599</u>	<u>\$ 27,380,275</u>
OTHER ASSETS		
Deferred Debits	\$ 5,657,512	\$ 5,834,018
Intangibles	155,948	155,948
	<u>\$ 5,813,460</u>	<u>\$ 5,989,966</u>
TOTAL ASSETS	<u>\$ 221,025,427</u>	<u>\$ 208,059,054</u>

EQUITIES AND LIABILITIES

EQUITIES		
Patronage Capital	\$ 92,306,128	\$ 91,119,024
Other Equities	8,689,483	8,809,024
	<u>\$ 100,995,611</u>	<u>\$ 99,928,048</u>
LONG-TERM DEBT		
FFB Mortgage Notes Less Current Maturities	\$ 28,503,874	\$ 29,498,669
CFC Mortgage Notes Less Current Maturities	31,331,685	23,231,063
CoBank Mortgage Notes Less Current Maturities	41,717,291	38,140,776
	<u>\$ 101,552,850</u>	<u>\$ 90,870,508</u>
Less: Advanced Payments	3,307,890	4,492,746
	<u>\$ 98,244,960</u>	<u>\$ 86,377,762</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 3,842,078	\$ 3,570,639
Accounts Payable	4,524,833	6,624,813
Accrued Taxes	931,319	872,001
Accrued Employee Compensated Absences	1,725,405	1,567,352
Accrued Interest	301,770	475,178
Other Current Liabilities	52,675	167,117
	<u>\$ 11,378,080</u>	<u>\$ 13,277,100</u>
OTHER LIABILITIES		
Deferred Credits	\$ 10,406,776	\$ 8,476,144
TOTAL EQUITIES AND LIABILITIES	<u>\$ 221,025,427</u>	<u>\$ 208,059,054</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, 2018 AND 2017**

	December 31,				Increase (Decrease)
	2018		2017		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 37,040,280	53.9	\$ 36,417,988	55.4	\$ 622,292
Irrigation	189,089	0.3	175,495	0.3	13,594
Small Commercial	16,737,367	24.3	16,438,534	25.0	298,833
Large Commercial	8,254,181	12.0	8,597,600	13.1	(343,419)
Street Lighting and Public Buildings	526,904	0.8	553,219	0.8	(26,315)
Unbilled Revenue	(246,013)	(0.4)	334,487	0.5	(580,500)
Deferred Revenue Plan	250,000	0.4	(1,000,000)	(1.5)	1,250,000
Internet Services (Net of Cost of Sales of \$2,739,446 for 2018 and \$1,144,108 for 2017)	400,001	0.6	143,941	0.2	256,060
Other Operating Revenues	5,617,152	8.1	4,083,624	6.2	1,533,528
Total Operating Revenues	\$ 68,768,961	100.0	\$ 65,744,888	100.0	\$ 3,024,073
OPERATING EXPENSES					
Purchased Power	\$ 42,455,182	61.7	\$ 41,435,419	63.0	\$ 1,019,763
Cost of Goods Sold - Other	3,367	0.0	3,367	0.0	0
Hydro - Operation	609,844	0.9	556,369	0.8	53,475
Hydro - Maintenance	84,673	0.1	154,635	0.2	(69,962)
Transmission	483,886	0.7	485,605	0.7	(1,719)
Distribution - Operation	3,783,157	5.5	3,694,804	5.6	88,353
Distribution - Maintenance	2,385,465	3.5	2,279,539	3.5	105,926
Customer Accounts	1,759,689	2.6	1,860,366	2.8	(100,677)
Customer Service and Information	464,344	0.7	472,952	0.7	(8,608)
Sales	566,068	0.8	510,302	0.8	55,766
Administrative and General	6,565,233	9.5	6,407,025	9.7	158,208
Depreciation and Amortization	7,162,796	10.4	5,754,390	8.8	1,408,406
Other Deductions	765,816	1.1	684,899	1.0	80,917
Total Operating Expenses	\$ 67,089,520	97.5	\$ 64,299,672	97.6	\$ 2,789,848
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 1,679,441	2.5	\$ 1,445,216	2.4	\$ 234,225
FIXED CHARGES					
Interest on Long-Term Debt	3,378,299	4.9	2,632,163	4.0	746,136
OPERATING MARGINS (LOSS) - AFTER FIXED CHARGES	\$ (1,698,858)	(2.4)	\$ (1,186,947)	(1.6)	\$ (511,911)
G & T Capital Credits	1,374,549	2.0	2,002,295	3.0	(627,746)
Other Capital Credits	770,008	1.1	713,242	1.1	56,766
NET OPERATING MARGINS	\$ 445,699	0.7	\$ 1,528,590	2.5	\$ (1,082,891)
NONOPERATING MARGINS (LOSS)					
Interest Income	\$ 355,295	0.5	\$ 380,369	0.6	\$ (25,074)
Gain (Loss) on Disposal of Assets	50,693	0.1	(118,493)	(0.2)	169,186
Other Nonoperating Income (Loss)	(119,629)	(0.2)	(67,628)	(0.1)	(52,001)
	\$ 286,359	0.4	\$ 194,248	0.3	\$ 92,111
NET MARGINS BEFORE PROVISION FOR INCOME TAXES	\$ 732,058	1.0	\$ 1,722,838	2.5	\$ (990,780)
PROVISION FOR INCOME TAX EXPENSE	442,911	0.6	492,998	0.7	(50,087)
NET MARGINS	\$ 1,174,969	1.6	\$ 2,215,836	3.2	\$ (1,040,867)
PATRONAGE CAPITAL - BEGINNING OF PERIOD	91,119,024		89,086,872		
Transfers to Other Equities	199,580		7,228		
Patronage Capital Retired - Cash	(107,405)		(114,160)		
Patronage Capital Retired - Discounted	(80,040)		(76,752)		
PATRONAGE CAPITAL - END OF PERIOD	\$ 92,306,128		\$ 91,119,024		

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, 2018 AND 2017**

	December 31,	
	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 1,174,969	\$ 2,215,836
Adjustments to Reconcile Net Margins to Net Cash		
From Operating Activities		
Depreciation	7,565,939	6,152,264
Capital Credits - Noncash	(85,003)	(1,247,105)
Deferred Charges	176,506	(805,262)
Deferred Credits	1,930,632	677,255
Accounts Receivable and Unbilled Revenue	3,375,591	(1,758,586)
Notes Receivable	35,366	18,392
Inventories and Other Current Assets	156,054	(1,262,267)
Payables and Accrued Expenses	<u>(2,170,459)</u>	<u>(159,890)</u>
Net Cash From Operating Activities	<u>\$ 12,159,595</u>	<u>\$ 3,830,637</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant and Other Property and Equipment	\$ (24,492,312)	\$ (22,589,963)
Salvage Over (Under) Plant Removal Costs	(98,074)	179,584
Additions to Intangibles		(86,316)
Investments in Associated Organizations	<u>75,528</u>	<u>83,763</u>
Net Cash From Investing Activities	<u>\$ (24,514,858)</u>	<u>\$ (22,412,932)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from CoBank - Long-Term Debt	\$ 5,000,000	\$ 20,000,000
Advances from CFC - Long-Term Debt	10,000,000	
Payments on Long-Term Debt - FFB	(970,074)	(738,805)
Payments on Long-Term Debt - CFC	(1,805,152)	(1,757,492)
Payments on Long-Term Debt - CoBank	(1,270,994)	(907,514)
Net Change in RUS Cushion of Credit	1,184,857	1,545,309
Capital Credit Retirements - Cash	<u>(107,405)</u>	<u>(114,160)</u>
Net Cash From Financing Activities	<u>\$ 12,031,232</u>	<u>\$ 18,027,338</u>
CHANGE IN CASH AND CASH EQUIVALENTS	\$ (324,031)	\$ (554,957)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>11,503,995</u>	<u>12,058,952</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 11,179,964</u>	<u>\$ 11,503,995</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	\$ 3,645,670	\$ 2,651,681
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.

DMEA Utilities Services, LLC (DMEAUS) is a for-profit corporation organized to pursue development opportunities including a fiber broadband company dba Elevate. 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, 2018 and 2017 amounted to \$5,842,857 and \$6,039,272, respectively. Additionally, it has been estimated that DMEAUS has installation charges that have not been billed in the amount of \$16,000 and \$8,700 December 31, 2018 and 2017, 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 years 2018 and 2017 are as follows:

	December 31,	
	<u>2018</u>	<u>2017</u>
Final Allocation for 2018	\$ 1,374,549	\$
Final Allocation for 2017	<u> </u>	<u>2,002,295</u>
	<u>\$ 1,374,549</u>	<u>\$ 2,002,295</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.

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,	
	2018	2017
Hydro Plant	\$ 20,063,973	\$ 20,063,973
Transmission Plant	3,285,299	3,205,040
Distribution Plant	147,220,434	133,326,163
General Plant	28,053,416	27,106,714
Other Property and Equipment	8,898,915	5,206,529
Plant in Service	\$ 207,522,037	\$ 188,908,419
Construction Work in Progress	14,754,244	11,372,272
Total Plant in Service	\$ 222,276,281	\$ 200,280,691

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, 2018 was \$7,565,939 of which \$7,162,796 was charged to depreciation expense, and \$403,143 allocated to other accounts. 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.

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,	
	2018	2017
Capital Term Certificates	\$ 1,610,257	\$ 1,618,539
Patronage Capital	613,185	559,795
Membership	1,000	1,000
Tri-State G & T Association		
Patronage Capital	47,911,923	48,300,830
Western United Electric Supply Corp		
Patronage Capital	1,346,444	1,078,576
Federated Insurance		
Patronage Capital	356,287	348,965
Other	369,644	291,560
	<u>\$ 52,208,740</u>	<u>\$ 52,199,265</u>

Other investments consist of the following:

	December 31,	
	2018	2017
Notes Receivable - Geothermal Loans	<u>\$ 137,369</u>	<u>\$ 172,735</u>

5. Restricted Cash and Temporary Cash Investments

Restricted cash consists of the following:

	December 31,	
	2018	2017
Education and Charitable Fund	\$ 337,463	\$ 472,772
Deferred Compensation	122,102	163,261
Uncompahgre Valley Water Users Association	1,256,000	
Deferred Revenue	<u>4,750,000</u>	<u>2,000,000</u>
	<u>\$ 6,465,565</u>	<u>\$ 2,636,033</u>

Restricted temporary cash investments consist of the following:

	December 31,	
	2018	2017
Uncompahgre Valley Water Users Association	\$	\$ 761,000
Deferred Revenue - Select Notes - CFC		<u>3,000,000</u>
	<u>\$ 0</u>	<u>\$ 3,761,000</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Association has adopted and amended a Deferred Revenue Plan beginning in 2012. As a result of that plan, \$4,750,000 and \$5,000,000 of cash is considered restricted as of December 31, 2018 and 2017, respectively. See Note 17 “Deferred Credits” for further information on this plan.

During the year ended December 31, 2011, the Association finalized its agreements with the Uncompahgre Valley Water Users Association (UVWUA) to begin construction of a hydroelectric generation facility. This agreement gave Delta-Montrose Electric Association water rights for the facility at no cost for the term of the debt that will be utilized to construct the facility. During the year ended December 31, 2013, the hydroelectric generation facility became operational. Annually, the amount of any power cost savings less expenses related to this facility are split 50/50 with UVWUA, with UVWUA’s portion being the Association’s cost of water rights from UVWUA. The Association is contractually obligated to reinvest UVWUA’s share in specified investments. For the years ended December 31, 2018 and 2017, UVWUA’s share was \$1,256,000 and \$761,000, respectively. Once all debt obligations are satisfied, the Association has the right to either acquire a 50% interest in the facility in exchange for agreeing to forego any future rental payments, or market and sell 50% of the power generated by the facility.

6. Materials and Supplies (At Average Cost)

Materials and supplies consist of the following:

	December 31,	
	2018	2017
Electric Inventory	\$ 1,411,079	\$ 1,385,564
Special Equipment Inventory	1,252,007	1,116,975
Vehicle Inventory	30,649	36,417
Fiber Optic Inventory	916,984	1,112,914
Other	185,412	128,698
	<u>\$ 3,796,131</u>	<u>\$ 3,780,568</u>

7. Deferred Debits

Deferred debits consist of the following:

	December 31,	
	2018	2017
Smart Grid	\$ 35,000	\$ 95,000
Tri-State Facility Use Charge	3,937,908	4,182,752
Business Development Costs	463,216	595,556
Deferred Tax Asset	935,909	492,998
Other	285,479	467,712
	<u>\$ 5,657,512</u>	<u>\$ 5,834,018</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 each of the years ending December 31, 2018 and 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 \$132,340 and \$66,170 during the years ending December 31, 2018 and 2017, respectively.

8. 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. 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, 2018 and 2017.

9. 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, 2018 and 2017, 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. Principal sources of unrelated business income activities are dispatching services and intercompany fiber leases.

DMEAUS is an association taxed as a C-corporation for federal and state income tax reporting purposes and files applicable corporate income tax returns.

For losses arising in tax years beginning before January 1, 2018, net operating losses (NOLs) were generally allowed to be carried back for a period of up to two years for offsetting prior years’ taxable income or carried forward for a period not to exceed 20 years for offsetting future taxable income. For losses arising in tax years beginning after December 31, 2017, the carry forward period is indefinite and the amount utilized for any year is limited to 80% of taxable income for such year. At December 31, 2018, the total NOL carryovers available to the Association and DMEAUS are \$825,474 and \$9,276,900, respectively.

Net operating loss carryovers and expirations by each company are as follows:

	Pre-2018 (20 Year Carryover)	Begins Expiring	Post - 2017 (Indefinite Carryover)
DMEA	\$ 825,474	2021	\$
DMEAUS	4,384,840	2023	4,892,060
	<u>\$ 5,210,314</u>		<u>\$ 4,892,060</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. It is anticipated the NOL carryovers available to DMEAUS will be fully utilized before expiring. Therefore, a valuation allowance for the related deferred tax asset is not recorded. However, a valuation allowance of the deferred tax asset related to the NOL carryover for the Association is recorded as it is anticipated such NOL carryovers will not be fully utilized.

In December 2017, the federal enacted corporate income tax rate was reduced from graduated tax structure, with a maximum effective corporate income tax rate of 35%, to a single tax rate of 21% for tax years beginning after December 31, 2017. The net impact of the rate change was a reduction in the net deferred income tax liability as of December 31, 2017, which was reflected as a component of the provision for deferred income tax benefit (expense) for the 2017 calendar year.

In accordance with ASU 2015-17 "Income Taxes", the Association and DMEAUS classify all deferred income tax assets and liabilities as non-current. Components of net deferred federal tax asset (liability) recognized in the consolidated financial statements are as follows:

<u>Net Noncurrent Deferred Income Taxes</u>	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
<u>Federal</u>		
Deferred Tax Asset	\$ 2,222,963	\$ 1,183,214
Deferred Tax Liability	(1,285,929)	(571,527)
	<u>\$ 937,034</u>	<u>\$ 611,687</u>
Less: Valuation Allowance	(173,350)	(207,748)
	<u>\$ 763,684</u>	<u>\$ 403,939</u>
<u>State</u>		
Deferred Tax Asset	\$ 424,528	\$ 200,614
Deferred Tax Liability	(252,303)	(111,555)
	<u>\$ 172,225</u>	<u>\$ 89,059</u>
Less: Valuation Allowance	0	0
	<u>\$ 172,225</u>	<u>\$ 89,059</u>
Total Noncurrent Deferred Income Tax Asset	<u>\$ 935,909</u>	<u>\$ 492,998</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	December 31,	
	2018	2017
<u>Federal and State Income Tax</u>		
Deferred Federal Tax Benefit (Expense)	\$ (701,986)	\$ (865,265)
Deferred State Tax Benefit (Expense)	(143,336)	(117,829)
Current Year Net Operating Loss	1,253,835	1,036,502
Decrease (Increase) in Valuation Allowance	34,398	293,946
Effect of Enacted Rate Reduction		145,644
	<u>\$ 442,911</u>	<u>\$ 492,998</u>

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 primary tax positions for DMEAUS are the timing differences impacting taxable income. The Association and DMEAUS have determined it is more likely than not that their tax positions will be sustained upon examination by the Internal Revenue Service or other 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 2015. 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, 2018 and 2017.

10. 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 45.69% and 48.03% of the total assets as of December 31, 2018 and 2017, respectively. Additionally, the Association retired \$187,445 and \$190,912 (of which \$107,405 and \$114,160 was paid in cash with the remainder discounted) during the years ended December 31, 2018 and 2017, respectively. The Association retires capital on a combination LIFO/FIFO (last-in, first-out / first-in, first-out) method.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Patronage Capital

Patronage Capital consist of the following:

	December 31,	
	2018	2017
Assigned	\$ 69,978,726	\$ 69,978,726
Assignable	51,276,879	49,902,333
	\$ 121,255,605	\$ 119,881,059
Less: Retired	(28,949,477)	(28,762,035)
	<u>\$ 92,306,128</u>	<u>\$ 91,119,024</u>

12. Other Equities

Other Equities consist of the following:

	December 31,	
	2018	2017
Accumulated Subsidiary Margins	\$ 237,220	\$ 237,220
Discounted/Donated Capital	5,207,318	5,127,278
Undistributed Nonoperating Margins	3,244,945	3,444,526
	<u>\$ 8,689,483</u>	<u>\$ 8,809,024</u>

13. FFB Mortgage Notes

Following is a summary of long-term mortgage notes due FFB with schedule maturities at various times through 2047:

	December 31,	
	2018	2017
3.941% Note	\$ 10,622,597	\$ 10,949,089
4.345% Note	4,043,614	4,160,945
4.747% Note	3,450,146	3,598,356
2.290% Note	4,914,283	5,104,137
2.303% Note	6,277,356	6,465,542
	\$ 29,307,996	\$ 30,278,069
Less: Current Maturities	804,122	779,400
	<u>\$ 28,503,874</u>	<u>\$ 29,498,669</u>

The Association has \$3,307,890 and \$4,492,746 in advance payments as of December 31, 2018 and 2017, respectively.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Principal and interest installments on the above notes are due quarterly. As of December 31, 2018, the annual maturities of long-term debt due FFB for the next five years are as follows:

2019	\$ 804,122
2020	829,783
2021	859,240
2022	889,826
2023	921,587

14. CFC Mortgage Notes

Following is a summary of long-term mortgage notes due CFC with scheduled maturities at various times through 2043:

	December 31,	
	<u>2018</u>	<u>2017</u>
CFC Fixed Rate Notes Ranging from 4.40% to 5.20% in 2018 and 3.25% to 6.60% in 2017	\$ 15,823,789	\$ 6,791,909
CFC Fixed Rate CREBs Notes at 4.30%	<u>17,144,947</u>	<u>17,981,978</u>
	\$ 32,968,736	\$ 24,773,887
Less: Current Maturities	<u>1,637,051</u>	<u>1,542,824</u>
	<u>\$ 31,331,685</u>	<u>\$ 23,231,063</u>

The Association participated in the federal loan program for clean renewable energy bonds (CREBs) to finance renewable energy projects. The Association received federal tax credits in lieu of a portion of the traditional bond interest, resulting in a lower effective interest rate for the Association. As of December 31, 2018 and 2017, the Association has \$17,144,947 and \$17,981,978 outstanding on these notes.

Principal and interest installments on the above notes are due quarterly. As of December 31, 2018, the annual maturities of long-term debt due CFC for the next five years are as follows:

2019	\$ 1,637,051
2020	1,690,141
2021	1,765,812
2022	1,756,178
2023	1,711,503

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. CoBank Mortgage Notes

Following is a summary of long-term mortgage notes due CoBank with schedule maturities at various times through 2045:

	December 31,	
	<u>2018</u>	<u>2017</u>
3.56% Note	\$ 3,335,984	\$ 3,524,471
3.70% Note	7,472,138	7,821,288
3.77% Note	7,780,617	8,112,938
4.29% Note	14,646,595	14,930,493
4.44% Note	4,908,662	5,000,000
4.85% Note	<u>4,974,200</u>	
	\$ 43,118,196	\$ 39,389,190
Less: Current Maturities	<u>1,400,905</u>	<u>1,248,414</u>
	<u>\$ 41,717,291</u>	<u>\$ 38,140,776</u>

Principal and interest installments on the above notes are due monthly. As of December 31, 2018, the annual maturities of long-term debt due CoBank for the next five years are as follows:

2019	\$ 1,400,905
2020	1,453,299
2021	1,517,662
2022	1,579,786
2023	1,644,478

16. 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 of credit with CoBank, both at variable interest rates. In addition, the Association has an emergency line of credit available with CFC in the amount of \$10,000,000. At December 31, 2018 and 2017, the Association had no amounts outstanding on either of these lines of credit.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Deferred Credits

Deferred Credits consist of the following:

	December 31,	
	2018	2017
Consumer Advances in Aid to Construction	\$ 185,429	\$ 238,942
Energy Prepayments	584,168	623,027
Unclaimed Capital Credits	1,708,740	1,857,117
Deferred Revenue Plan	4,750,000	5,000,000
DMEAUS Deferred Revenue	566,466	167,000
Deferred Revenue - Grants	1,444,956	
Other Deferred Revenue	1,021,933	400,528
Other	145,084	189,530
	<u>\$ 10,406,776</u>	<u>\$ 8,476,144</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 and its subsequent amendments was designed to help offset the potential increase of power cost in future years and have been approved by RUS. 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. In 2018, this plan was amended and \$250,000 of 2014 deferred revenue was recognized. The balance of this deferred revenue as of December 31, 2018 is \$4,750,000 and will be recognized annually over the years of 2019-2022.

18. Pension Benefits

Defined Benefit Plan

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 2018 and 2017 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 \$1,030,952 in 2018 and \$1,019,140 in 2017. There have been no significant changes that affect the comparability of the 2018 and 2017 contributions.

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, 2018 and 2017 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.

Defined Contribution Plan

The Association also participates in a 401(k) plan, a defined contribution plan provided through NRECA. The Association makes monthly contributions to the plan. The cost for the Association was \$196,753 and \$115,368 for the years ended December 31, 2018 and 2017, respectively.

19. Litigation, Commitments, and Contingencies

There is no litigation pending against the Cooperative at December 31, 2018, that could have a material effect on the consolidated financial statements.

At December 31, 2018, the Association is committed to purchase two large trucks. The total obligation for these vehicles amounts to \$455,050.

20. 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.

21. 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.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

	<u>Carrying Value</u>	<u>Fair Value</u>
Fixed Rate Debt - 2018	\$ <u>105,394,928</u>	\$ <u>99,587,021</u>
Fixed Rate Debt - 2017	\$ <u>94,441,147</u>	\$ <u>82,926,718</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.

22. Subsequent Events

The Association’s management has evaluated subsequent events through April 15, 2019, the date which the financial statements were available for issue.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23. 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, 2018**

ASSETS

	<u>DMEA</u>	<u>DMEAUS</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
UTILITY PLANT/ FIXED ASSETS AT COST				
Electric Plant in Service	\$ 198,623,122	\$	\$	\$ 198,623,122
Other Property and Equipment	1,513,866	7,385,049		8,898,915
Construction Work in Progress	11,988,933	2,765,311		14,754,244
	<u>\$ 212,125,921</u>	<u>\$ 10,150,360</u>	<u>\$ 0</u>	<u>\$ 222,276,281</u>
Less: Accumulated Provision for Depreciation and Amortization	81,822,669	1,112,353		82,935,022
	<u>\$ 130,303,252</u>	<u>\$ 9,038,007</u>	<u>\$ 0</u>	<u>\$ 139,341,259</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE				
Investments in Associated Organizations	\$ 52,208,740	\$	\$	\$ 52,208,740
Investments in Affiliated Company	(2,468,148)		2,468,148	0
Other Investments	137,369			137,369
	<u>\$ 49,877,961</u>	<u>\$ 0</u>	<u>\$ 2,468,148</u>	<u>\$ 52,346,109</u>
CURRENT ASSETS				
Cash - General	\$ 3,556,684	\$ 1,157,715	\$	\$ 4,714,399
Cash - Restricted	6,465,565			6,465,565
Accounts Receivable (Less Allowance for Uncollectibles of \$59,599)	19,599,365	227,543	(17,380,409)	2,446,499
Accrued Unbilled Revenue	5,842,857	16,000		5,858,857
Materials and Supplies (At Average Cost)	3,610,718	185,413		3,796,131
Other Current and Accrued Assets	171,325	71,823		243,148
	<u>\$ 39,246,514</u>	<u>\$ 1,658,494</u>	<u>\$ (17,380,409)</u>	<u>\$ 23,524,599</u>
OTHER ASSETS				
Deferred Debits	\$ 4,258,387	\$ 1,399,125	\$	\$ 5,657,512
Intangibles		155,948		155,948
	<u>\$ 4,258,387</u>	<u>\$ 1,555,073</u>	<u>\$ 0</u>	<u>\$ 5,813,460</u>
TOTAL ASSETS	<u>\$ 223,686,114</u>	<u>\$ 12,251,574</u>	<u>\$ (14,912,261)</u>	<u>\$ 221,025,427</u>

EQUITIES AND LIABILITIES

EQUITIES				
Patronage Capital	\$ 92,306,128	\$ (2,468,148)	\$ 2,468,148	\$ 92,306,128
Other Equities	8,689,483			8,689,483
	<u>\$ 100,995,611</u>	<u>\$ (2,468,148)</u>	<u>\$ 2,468,148</u>	<u>\$ 100,995,611</u>
LONG-TERM DEBT				
FFB Mortgage Notes Less Current Maturities	\$ 28,503,874	\$	\$	\$ 28,503,874
CFC Mortgage Notes Less Current Maturities	31,331,685			31,331,685
CoBank Mortgage Notes Less Current Maturities	41,717,291			41,717,291
	<u>\$ 101,552,850</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 101,552,850</u>
Less: Advanced Payments	3,307,890			3,307,890
	<u>\$ 98,244,960</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 98,244,960</u>
CURRENT LIABILITIES				
Current Maturities of Long-Term Debt	\$ 3,842,078	\$	\$	\$ 3,842,078
Accounts Payable	7,915,451	13,989,791	(17,380,409)	4,524,833
Accrued Taxes	896,550	34,769		931,319
Accrued Employee Compensated Absences	1,596,709	128,696		1,725,405
Accrued Interest	301,770			301,770
Other Current Liabilities	52,675			52,675
	<u>\$ 14,605,233</u>	<u>\$ 14,153,256</u>	<u>\$ (17,380,409)</u>	<u>\$ 11,378,080</u>
OTHER LIABILITIES				
Deferred Credits	\$ 9,840,310	\$ 566,466	\$ 0	\$ 10,406,776
TOTAL EQUITIES AND LIABILITIES	<u>\$ 223,686,114</u>	<u>\$ 12,251,574</u>	<u>\$ (14,912,261)</u>	<u>\$ 221,025,427</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Schedule 2

CONSOLIDATING INFORMATION
BALANCE SHEET
DECEMBER 31, 2017

ASSETS

	<u>DMEA</u>	<u>DMEAUS</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
UTILITY PLANT/ FIXED ASSETS AT COST				
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 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>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE				
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>
CURRENT ASSETS				
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 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>
OTHER ASSETS				
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>
TOTAL ASSETS	<u>\$ 207,651,183</u>	<u>\$ 7,391,829</u>	<u>\$ (6,983,958)</u>	<u>\$ 208,059,054</u>

EQUITIES AND LIABILITIES

EQUITIES				
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>
LONG-TERM DEBT				
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>
CURRENT LIABILITIES				
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>
OTHER LIABILITIES				
Deferred Credits	\$ 8,183,075	\$ 293,069	\$ 0	\$ 8,476,144
TOTAL EQUITIES AND LIABILITIES	<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 3

CONSOLIDATING INFORMATION
STATEMENT OF INCOME AND PATRONAGE CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>DMEA</u>	<u>DMEAUS</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
OPERATING REVENUES				
Residential	\$ 37,040,280	\$	\$	\$ 37,040,280
Irrigation Sales	189,089			189,089
Small Commercial	16,737,367			16,737,367
Large Commercial	8,254,181			8,254,181
Street Lighting and Public Buildings	526,904			526,904
Unbilled Revenue	(246,013)			(246,013)
Deferred Revenue Plan	250,000			250,000
Internet Services (Net of Cost of Sales of \$2,739,446)		409,856	(9,855)	400,001
Other Operating Revenues	5,562,943	54,209		5,617,152
Total Operating Revenues	<u>\$ 68,314,751</u>	<u>\$ 464,065</u>	<u>\$ (9,855)</u>	<u>\$ 68,768,961</u>
OPERATING EXPENSES				
Purchased Power	\$ 42,455,182	\$	\$	\$ 42,455,182
Cost of Goods Sold - Other		3,367		3,367
Hydro - Operation	609,844			609,844
Hydro - Maintenance	84,673			84,673
Transmission	483,886			483,886
Distribution - Operation	3,783,157			3,783,157
Distribution - Maintenance	2,385,465			2,385,465
Customer Accounts	1,759,689			1,759,689
Customer Service and Information Sales	464,344			464,344
Administrative and General	194,392	371,676		566,068
Depreciation and Amortization	5,924,687	650,401	(9,855)	6,565,233
Other Deductions	6,262,352	900,444		7,162,796
Other Deductions	752,382	13,434		765,816
Total Operating Expenses	<u>\$ 65,160,053</u>	<u>\$ 1,939,322</u>	<u>\$ (9,855)</u>	<u>\$ 67,089,520</u>
OPERATING MARGINS (LOSS) - BEFORE FIXED CHARGES	\$ 3,154,698	\$ (1,475,257)	\$ 0	\$ 1,679,441
FIXED CHARGES				
Interest on Long-Term Debt	3,378,299	330,779	(330,779)	3,378,299
OPERATING MARGINS (LOSS) - AFTER FIXED CHARGES	\$ (223,601)	\$ (1,806,036)	\$ 330,779	\$ (1,698,858)
Generation and Transmission Capital Credits	1,374,549			1,374,549
Other Capital Credits	770,008			770,008
NET OPERATING MARGINS (LOSS)	<u>\$ 1,920,956</u>	<u>\$ (1,806,036)</u>	<u>\$ 330,779</u>	<u>\$ 445,699</u>
NONOPERATING MARGINS (LOSS)				
Interest Income	\$ 686,074	\$	\$ (330,779)	\$ 355,295
Affiliated Company - Income (Loss) from Operations	(1,363,125)		1,363,125	0
Gain (Loss) on Disposition of Property	50,693			50,693
Other Nonoperating Income (Loss)	(119,629)			(119,629)
	<u>\$ (745,987)</u>	<u>\$ 0</u>	<u>\$ 1,032,346</u>	<u>\$ 286,359</u>
NET MARGINS (LOSS) BEFORE PROVISION FOR INCOME TAXES	\$ 1,174,969	\$ (1,806,036)	\$ 1,363,125	\$ 732,058
PROVISION FOR INCOME TAX EXPENSE		442,911		442,911
NET MARGINS (LOSS)	\$ 1,174,969	\$ (1,363,125)	\$ 1,363,125	\$ 1,174,969
PATRONAGE CAPITAL AND OTHER EQUITIES - BEGINNING OF PERIOD				
	91,119,024	(1,105,023)	1,105,023	91,119,024
Transfer Nonoperating Margins to Other Equities	(24,021)			(24,021)
Transfer Operating Loss to Other Equities	223,601			223,601
Patronage Capital Retired - Cash	(107,405)			(107,405)
Patronage Capital Retired - Discounted	(80,040)			(80,040)
PATRONAGE CAPITAL AND OTHER EQUITIES - END OF PERIOD	<u>\$ 92,306,128</u>	<u>\$ (2,468,148)</u>	<u>\$ 2,468,148</u>	<u>\$ 92,306,128</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Schedule 4

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

	<u>DMEA</u>	<u>DMEAUS</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
OPERATING REVENUES				
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>
OPERATING EXPENSES				
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	472,952			472,952
Sales	179,456	330,846		510,302
Administrative and General	5,521,122	916,263	(30,360)	6,407,025
Depreciation and Amortization	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>
OPERATING MARGINS (LOSS) - BEFORE FIXED CHARGES	\$ 2,852,933	\$ (1,407,717)	\$ 0	\$ 1,445,216
FIXED CHARGES				
Interest on Long-Term Debt	2,632,163	151,099	(151,099)	2,632,163
OPERATING MARGINS (LOSS) - AFTER FIXED CHARGES	\$ 220,770	\$ (1,558,816)	\$ 151,099	\$ (1,186,947)
Generation and Transmission Capital Credits	2,002,295			2,002,295
Other Capital Credits	713,242			713,242
NET OPERATING MARGINS (LOSS)	<u>\$ 2,936,307</u>	<u>\$ (1,558,816)</u>	<u>\$ 151,099</u>	<u>\$ 1,528,590</u>
NONOPERATING MARGINS (LOSS)				
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>
NET MARGINS (LOSS) BEFORE PROVISION FOR INCOME TAXES	\$ 2,241,836	\$ (1,558,816)	\$ 1,039,818	\$ 1,722,838
PROVISION FOR INCOME TAX EXPENSE		492,998		492,998
NET MARGINS (LOSS)	\$ 2,241,836	\$ (1,065,818)	\$ 1,039,818	\$ 2,215,836
PATRONAGE CAPITAL AND OTHER EQUITIES - BEGINNING OF PERIOD				
	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)
PATRONAGE CAPITAL AND OTHER EQUITIES - END OF PERIOD	<u>\$ 91,119,024</u>	<u>\$ (1,105,023)</u>	<u>\$ 1,105,023</u>	<u>\$ 91,119,024</u>

ACCOMPANYING INFORMATION

DELTA-MONTROSE ELECTRIC ASSOCIATION

Schedule 5

ELECTRIC PLANT
FOR THE YEAR ENDED DECEMBER 31, 2018

	Balance 1/1/2018	Additions	Retirements	Balance 12/31/2018
HYDRO PLANT				
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	7,142,959			7,142,959
Accessory Electric Equipment	1,867,228			1,867,228
Other Power Plant Equipment	157,902			157,902
Total	<u>\$ 20,063,973</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 20,063,973</u>
TRANSMISSION PLANT				
Land and Land Rights	\$ 96,364	\$	\$	\$ 96,364
Structures and Improvements	32			32
Station Equipment	620,454			620,454
Poles, Towers, and Fixtures	1,366,785	52,074	6,328	1,412,531
Overhead Conductors and Devices	1,121,405	36,655	2,142	1,155,918
Total	<u>\$ 3,205,040</u>	<u>\$ 88,729</u>	<u>\$ 8,470</u>	<u>\$ 3,285,299</u>
DISTRIBUTION PLANT				
Land and Land Rights	\$ 1,358,767	\$	\$	\$ 1,358,767
Structures and Improvements	3,765,603		201	3,765,402
Station Equipment	6,445,119	405,154	108,078	6,742,195
Poles, Towers, and Fixtures	24,523,011	364,473	225,853	24,661,631
Overhead Conductors and Devices	22,820,163	671,527	309,879	23,181,811
Underground Conduit	5,290,421	37,508	10,895	5,317,034
Underground Conductors and Devices	14,943,952	271,292	59,809	15,155,435
Line Transformers	14,345,985	458,822	233,624	14,571,183
Services	15,952,305	112,622	70,350	15,994,577
Meters	11,238,944	294,976	282,422	11,251,498
Fiber	11,942,955	12,627,678	10,062	24,560,571
Street Lighting	698,938	110,888	149,496	660,330
Total	<u>\$ 133,326,163</u>	<u>\$ 15,354,940</u>	<u>\$ 1,460,669</u>	<u>\$ 147,220,434</u>
GENERAL PLANT				
Land and Land Rights	\$ 204,830	\$	\$	\$ 204,830
Structures and Improvements	3,739,359	695,123	37,627	4,396,855
Office Furniture and Equipment	6,405,909	394,960	395,563	6,405,306
Transportation Equipment	4,814,013	710,404	414,605	5,109,812
Stores Equipment	191,759			191,759
Tools, Shop, and Garage Equipment	1,779,587	129,471		1,909,058
Laboratory Equipment	466,942	2,261		469,203
Power Operated Equipment	1,707,598	7,877	44,517	1,670,958
Communications Equipment	6,425,137	32,100		6,457,237
SCADA and Other GPS Equipment	1,133,486	2,089	130,205	1,005,370
Miscellaneous Equipment	238,094		5,066	233,028
Total	<u>\$ 27,106,714</u>	<u>\$ 1,974,285</u>	<u>\$ 1,027,583</u>	<u>\$ 28,053,416</u>
Total Classified Electric Plant in Service	\$ 183,701,890	\$ 17,417,954	\$ 2,496,722	\$ 198,623,122
Fiber Organization	93,506			93,506
Geothermal Loop Devices	1,033,636			1,033,636
Community Solar Arrays	386,724			386,724
Construction Work in Progress	9,416,003	2,572,930		11,988,933
Total Utility Plant	<u>\$ 194,631,759</u>	<u>\$ 19,990,884</u>	<u>\$ 2,496,722</u>	<u>\$ 212,125,921</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION

Schedule 6

**ACCUMULATED PROVISION FOR DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Balance 1/1/2018	Depreciation Accruals	Retirements	Balance 12/31/2018
Hydro Plant	\$ <u>2,378,417</u>	\$ <u>548,808</u>	\$ _____	\$ <u>2,927,225</u>
Transmission Plant	\$ <u>1,928,678</u>	\$ <u>86,682</u>	\$ <u>24,409</u>	\$ <u>1,990,951</u>
Distribution Plant	\$ <u>56,774,844</u>	\$ <u>4,642,008</u>	\$ <u>1,280,813</u>	\$ <u>60,136,039</u>
General Plant				
Structures and Improvements	\$ 1,694,859	\$ 130,330	\$ 17,620	\$ 1,807,569
Office Furniture and Fixtures	5,257,135	361,938	395,563	5,223,510
Transportation Equipment	3,619,990	393,483	414,605	3,598,868
Stores Equipment	116,930	6,113		123,043
Tools, Shop, and Garage Equipment	1,339,851	57,566		1,397,417
Laboratory Equipment	302,401	13,501		315,902
Power Operated Equipment	1,135,462	93,242	44,517	1,184,187
Communications Equipment	1,249,217	282,659		1,531,876
Miscellaneous Equipment	1,024,946	29,739	135,271	919,414
Total General Plant	\$ <u>15,740,791</u>	\$ <u>1,368,571</u>	\$ <u>1,007,576</u>	\$ <u>16,101,786</u>
Total Classified Electric Plant in Service	\$ 81,333,656	\$ 6,646,069	\$ 2,312,798	\$ 81,156,001
Fiber Organization	10,910	18,700		29,610
Geothermal Loop Devices	500,552	68,840		569,392
Community Solar Arrays	63,457	15,467		78,924
Retirement Work in Progress	<u>270,740</u>		<u>281,998</u>	<u>(11,258)</u>
Total	\$ <u>82,179,315</u>	\$ <u>6,749,076</u>	\$ <u>2,594,796</u>	\$ <u>81,822,669</u>
		(1)	(2)	
(1) Charged to Depreciation Expense		\$ 6,262,352		
Charged to Clearing and Other Accounts		<u>486,724</u>		
		<u>\$ 6,749,076</u>		
(2) Cost of Units Retired			\$ 2,496,722	
Salvage in Excess of Cost of Removal			<u>98,074</u>	
Loss Due to Retirement			<u>\$ 2,594,796</u>	

DELTA-MONTROSE ELECTRIC ASSOCIATION

Schedule 7

**OTHER PROPERTY AND INVESTMENTS
DECEMBER 31, 2018 AND 2017**

INVESTMENTS IN ASSOCIATED ORGANIZATIONS

	December 31,	
	<u>2018</u>	<u>2017</u>
Memberships		
National Rural Utilities Cooperative Finance Corporation	\$ 1,000	\$ 1,000
Patronage Capital		
Tri-State Generation and Transmission Association, Inc.	47,911,923	48,300,830
National Rural Utilities Cooperative Finance Corporation	613,185	559,795
Western United Electric Supply Corporation	1,346,444	1,078,576
Federated Insurance	356,287	348,965
CoBank	130,829	80,104
National Information Solutions Cooperative	238,525	211,167
National Rural Telecommunications Cooperative	290	289
Capital Term Certificates		
National Rural Utilities Cooperative Finance Corporation	1,610,257	1,618,539
Total Investments in Associated Organizations	<u>\$ 52,208,740</u>	<u>\$ 52,199,265</u>

INVESTMENT IN AFFILIATED COMPANY

DMEA Utilities Services, LLC	\$ (2,468,148)	\$ (1,105,023)
Total Investment in Affiliated Company	<u>\$ (2,468,148)</u>	<u>\$ (1,105,023)</u>

OTHER INVESTMENTS

Notes Receivable - Geothermal Loans	\$ 137,369	\$ 172,735
Total Other Investments	<u>\$ 137,369</u>	<u>\$ 172,735</u>
Total Other Property and Investments	<u>\$ 49,877,961</u>	<u>\$ 51,266,977</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION

Schedule 8

PATRONAGE CAPITAL
DECEMBER 31, 2018

Year	Generation and Transmission			Cooperative			Total Balance
	Assignable	Assigned	Retired	Assignable	Assigned	Retired	
1970-1990	\$	\$	\$	\$	\$ 12,757,684	\$ 12,757,684	\$
1991					1,150,767	285,047	865,720
1992					3,405,697	769,055	2,636,642
1993		2,839,638	2,839,638		2,216,994	367,808	1,849,186
1994		2,710,033	2,710,033		1,710,889	256,081	1,454,808
1995		1,811,402	371,422		2,281,865	355,999	3,365,846
1996		1,902,824	335,444		2,169,430	323,546	3,413,264
1997		1,628,923	234,630		2,024,224	274,330	3,144,187
1998		1,884,000	233,985		2,130,664	226,356	3,554,323
1999		1,109,110	112,495		2,197,859	214,597	2,979,877
2000	1,258,434				927,378	82,163	2,103,649
2001	1,029,743				1,482,836	119,371	2,393,208
2002	1,889,605				3,276,106	248,666	4,917,045
2003	2,000,471				3,989,909	509,926	5,480,454
2004	2,584,463				1,952,288	369,608	4,167,143
2005	2,844,086				1,699,623	317,260	4,226,449
2006	2,793,436				1,578,511	692,387	3,679,560
2007	6,461,812				1,306,079	1,297,633	6,470,258
2008	5,065,772				1,478,005	1,467,969	5,075,808
2009	4,734,533				289,129	285,178	4,738,484
2010	3,307,406				1,291,168	37,013	4,561,561
2011	3,947,171				1,516,662	36,685	5,427,148
2012	1,264,342				1,401,732	532,787	2,133,287
2013	2,999,263				268,388	268,388	2,999,263
2014	2,463,322				783,690	12,136	3,234,876
2015	1,931,392				373,763	4,007	2,301,148
2016	1,104,016				431,456	150	1,535,322
2017	2,002,294			220,769			2,223,063
2018	1,374,549						1,374,549
	<u>\$ 51,056,110</u>	<u>\$ 13,885,930</u>	<u>\$ 6,837,647</u>	<u>\$ 220,769</u>	<u>\$ 56,092,796</u>	<u>\$ 22,111,830</u>	<u>\$ 92,306,128</u>

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

DELTA-MONTROSE ELECTRIC ASSOCIATION

Schedule 9

MORTGAGE NOTES
DECEMBER 31, 2018

<u>Note Number</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	<u>Amount Unadvanced</u>	<u>Principal Repayments</u>	<u>Net Obligation</u>
FFB MORTGAGE NOTES					
H0010	4.747%	\$ 4,680,000	\$	\$ 1,229,854	\$ 3,450,146
H0015	4.345%	4,709,000		665,386	4,043,614
H0020	3.941%	12,500,000		1,877,403	10,622,597
H0025	2.290%	5,810,000		895,717	4,914,283
H0030	2.303%	6,647,000		369,644	6,277,356
TOTAL FFB:		<u>\$ 34,346,000</u>	<u>\$ 0</u>	<u>\$ 5,038,004</u>	<u>\$ 29,307,996</u>
CFC MORTGAGE NOTES					
9026	4.60%	644,898		367,339	277,559
9027	4.65%	2,269,000		857,672	1,411,328
9032	4.40-5.20%	9,489,000		5,354,097	4,134,903
9033	4.30%	22,000,000		4,855,054	17,144,946
9035	4.90%	10,000,000		0	10,000,000
TOTAL CFC:		<u>\$ 44,402,898</u>	<u>\$ 0</u>	<u>\$ 11,434,162</u>	<u>\$ 32,968,736</u>
COBANK MORTGAGE NOTES					
2903273	3.56%	\$ 3,966,445	\$	\$ 630,461	\$ 3,335,984
2903282	3.70%	8,637,748		1,165,610	7,472,138
2903317	3.77%	8,888,963		1,108,346	7,780,617
3073292	4.29%	15,000,000		353,405	14,646,595
3092928	4.44%	5,000,000		91,338	4,908,662
3156105	4.85%	5,000,000		25,800	4,974,200
TOTAL COBANK:		<u>\$ 46,493,156</u>	<u>\$ 0</u>	<u>\$ 3,374,960</u>	<u>\$ 43,118,196</u>

Net obligations include \$804,122 due FFB, \$1,637,051 due CFC and \$1,400,905 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

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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, 2018, 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 15, 2019. In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2019, 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.

The purpose of this report is solely to communicate, in connection with the audit of the financial statements, on compliance with aspects of contractual agreements and the regulatory requirements for electric borrowers based on the requirements of 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*. Accordingly, this report is not suitable for any other purpose.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 15, 2019

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS FOR ELECTRIC BORROWERS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Current year's findings:

None.

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

CERTIFIED PUBLIC ACCOUNTANTS

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**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, 2018, and have issued our report thereon dated April 15, 2019.

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 15, 2019