

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

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

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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 balance sheets as of December 31, 2015 and 2014, 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, 2015 and 2014, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2016 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 7, 2016

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Exhibit A

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

ASSETS

	December 31,	
	2015	2014
PLANT, PROPERTY, AND EQUIPMENT		
Electric Plant in Service	\$ 160,884,377	\$ 168,968,346
Other Property and Equipment	1,767,825	1,767,825
Construction Work in Progress	4,100,610	3,021,400
	<u>\$ 166,752,812</u>	<u>\$ 173,757,571</u>
Less: Accumulated Provision for Depreciation and Amortization	68,324,586	64,528,565
	<u>\$ 98,428,226</u>	<u>\$ 109,229,006</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 50,651,083	\$ 49,073,817
Other Investments	219,808	243,326
	<u>\$ 50,870,891</u>	<u>\$ 49,317,143</u>
CURRENT ASSETS		
Cash - General	\$ 2,430,911	\$ 2,707,821
Cash - Restricted	443,249	3,492,751
Temporary Cash Investments (At Cost)	4,865,000	2,697,669
Temporary Cash Investments - Restricted	4,236,000	
Accounts Receivable (Less Allowance for Uncollectibles of \$537,652 in 2015 and \$75,279 in 2014)	3,783,525	4,246,755
Unbilled Revenue	5,707,425	5,963,539
Materials and Supplies (At Average Cost)	2,602,355	2,490,541
Other Current and Accrued Assets	337,846	115,705
	<u>\$ 24,406,311</u>	<u>\$ 21,714,781</u>
OTHER ASSETS		
Deferred Debits	\$ 5,202,888	\$ 364,763
TOTAL ASSETS	<u>\$ 178,908,316</u>	<u>\$ 180,625,693</u>

EQUITIES AND LIABILITIES

EQUITIES		
Patronage Capital	\$ 87,879,324	\$ 88,553,802
Other Equities	8,267,350	7,059,457
	<u>\$ 96,146,674</u>	<u>\$ 95,613,259</u>
LONG-TERM DEBT		
RUS Mortgage Notes Less Current Maturities	\$	\$ 21,245,871
FFB Mortgage Notes Less Current Maturities	24,270,491	24,851,282
CFC Mortgage Notes Less Current Maturities	26,532,281	28,285,515
CoBank Mortgage Notes Less Current Maturities	20,295,831	
	<u>\$ 71,098,603</u>	<u>\$ 74,382,668</u>
Less: Advanced Payments	6,469,427	5,175,623
	<u>\$ 64,629,176</u>	<u>\$ 69,207,045</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 3,128,897	\$ 2,735,742
Accounts Payable	5,722,466	5,216,116
Accrued Taxes	937,178	957,322
Accrued Employee Compensated Absences	1,542,753	1,435,829
Accrued Interest	155,985	94,941
Other Current Liabilities	77,323	76,302
	<u>\$ 11,564,602</u>	<u>\$ 10,516,252</u>
OTHER LIABILITIES		
Deferred Credits	\$ 6,567,864	\$ 5,289,137
TOTAL EQUITIES AND LIABILITIES	<u>\$ 178,908,316</u>	<u>\$ 180,625,693</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, 2015 AND 2014**

	December 31,				Increase (Decrease)
	2015		2014		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 34,475,118	53.0	\$ 34,908,881	54.1	\$ (433,763)
Irrigation	119,139	0.2	27,862	0.0	91,277
Small Commercial	15,586,407	24.0	15,575,084	24.2	11,323
Large Commercial	12,141,326	18.7	13,672,537	21.2	(1,531,211)
Street Lighting and Public Buildings	560,741	0.9	571,540	0.9	(10,799)
Unbilled Revenue	(256,114)	(0.4)	(247,548)	(0.4)	(8,566)
Deferred Revenue Plan	(750,000)	(1.2)	(1,750,000)	(2.7)	1,000,000
Other Operating Revenues	3,103,913	4.8	1,728,755	2.7	1,375,158
Total Operating Revenues	<u>\$ 64,980,530</u>	<u>100.0</u>	<u>\$ 64,487,111</u>	<u>100.0</u>	<u>\$ 493,419</u>
OPERATING EXPENSES					
Purchased Power	\$ 41,859,450	64.4	\$ 42,012,678	65.1	\$ (153,228)
Cost of Goods Sold - Other	3,367	0.0	3,367	0.0	0
Hydro - Operation	587,206	0.9	717,245	1.1	(130,039)
Hydro - Maintenance	68,004	0.1	34,904	0.1	33,100
Transmission	344,741	0.5	394,028	0.6	(49,287)
Distribution - Operation	3,159,491	4.9	3,562,802	5.5	(403,311)
Distribution - Maintenance	1,801,145	2.8	1,804,412	2.8	(3,267)
Customer Accounts	2,241,491	3.4	1,644,608	2.6	596,883
Customer Service and Information	529,216	0.8	456,540	0.7	72,676
Sales	167,183	0.3	75,343	0.1	91,840
Administrative and General	5,299,003	8.2	4,668,385	7.2	630,618
Depreciation and Amortization	5,338,946	8.2	5,549,728	8.6	(210,782)
Other Deductions	619,069	1.0	17,652	0.0	601,417
Total Operating Expenses	<u>\$ 62,018,312</u>	<u>95.5</u>	<u>\$ 60,941,692</u>	<u>94.4</u>	<u>\$ 1,076,620</u>
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 2,962,218	4.5	\$ 3,545,419	5.6	\$ (583,201)
FIXED CHARGES					
Interest on Long-Term Debt	2,577,252	4.0	2,767,473	4.3	(190,221)
OPERATING MARGINS - AFTER FIXED CHARGES	\$ 384,966	0.5	\$ 777,946	1.3	\$ (392,980)
G & T Capital Credits	1,931,393	3.0	2,463,322	3.8	(531,929)
Other Capital Credits	392,254	0.6	188,760	0.3	203,494
NET OPERATING MARGINS	<u>\$ 2,708,613</u>	<u>4.1</u>	<u>\$ 3,430,028</u>	<u>5.4</u>	<u>\$ (721,415)</u>
NONOPERATING MARGINS (LOSS)					
Interest Income	\$ 468,790	0.7	\$ 318,049	0.5	\$ 150,741
Gain on Disposal of Assets	53,585	0.1	19,519	0.0	34,066
Other Nonoperating Income (Loss)	9,240	0.0	(13,765)	0.0	23,005
	<u>\$ 531,615</u>	<u>0.8</u>	<u>\$ 323,803</u>	<u>0.5</u>	<u>\$ 207,812</u>
NET MARGINS	<u>\$ 3,240,228</u>	<u>4.9</u>	<u>\$ 3,753,831</u>	<u>5.9</u>	<u>\$ (513,603)</u>
PATRONAGE CAPITAL - BEGINNING OF PERIOD	88,553,802		87,875,766		
Transfers to Other Equities	(1,123,834)		(318,059)		
Patronage Capital Retired - Cash	(2,706,813)		(1,995,972)		
Patronage Capital Retired - Discounted	(84,059)		(761,764)		
PATRONAGE CAPITAL - END OF PERIOD	<u>\$ 87,879,324</u>		<u>\$ 88,553,802</u>		

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, 2015 AND 2014**

	December 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 3,240,228	\$ 3,753,831
Adjustments to Reconcile Net Margins to Net Cash		
From Operating Activities		
Depreciation	5,630,238	5,810,552
Capital Credits - Noncash	(1,615,424)	(1,195,365)
Deferred Charges	(4,838,125)	(354,159)
Deferred Credits	1,278,727	2,065,828
Accounts Receivable and Unbilled Revenue	719,344	1,018,213
Notes Receivable	23,518	44,241
Inventories and Other Current Assets	(333,955)	216,395
Payables and Accrued Expenses	655,195	(53,531)
Net Cash Provided by Operating Activities	\$ 4,759,746	\$ 11,306,005
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant and Other Property and Equipment	\$ (6,290,020)	\$ (4,817,982)
Salvage Over Plant Removal Costs	11,460,562	96,588
Investments in Associated Organizations	38,158	30,163
Net Cash Provided by (Used in) Investing Activities	\$ 5,208,700	\$ (4,691,231)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt - RUS	\$ (251,443)	\$ (480,925)
Payments on Long-Term Debt - FFB	(560,038)	(539,650)
Payments on Long-Term Debt - CFC	(1,688,071)	(1,645,400)
Payments on Long-Term Debt - CoBank	(391,359)	
Payments on Long-Term Debt - RUS Cushion of Credit	(1,293,803)	(2,207,289)
Capital Credit Retirements - Cash	(2,706,813)	(1,995,972)
Net Cash Used in Financing Activities	\$ (6,891,527)	\$ (6,869,236)
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 3,076,919	\$ (254,462)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	8,898,241	9,152,703
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 11,975,160	\$ 8,898,241
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	\$ 3,089,224	\$ 2,773,896
Income Taxes	\$ 0	\$ 0

NON CASH INVESTING AND FINANCING ACTIVITIES

During 2015, the Association paid outstanding loans from RUS of \$21,493,156 with proceeds from CoBank. These transactions are not reflected above.

See accompanying notes to consolidated financial statements.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

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

System of Accounts

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

Principles of Consolidation

The consolidated financial statements include the accounts of the 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, 2015 and 2014 amounted to \$5,707,425 and \$5,963,539, respectively. This amount is included as a component of current assets in the balance sheet.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Inventories

Materials and supplies inventories are valued at average unit cost.

Financial Instruments with Off-Balance-Sheet Risk

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

Patronage Capital Certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificates. At the end of each year, the Association receives an estimated allocation from its generation and transmission power supply cooperative (G & T). In accordance with the USOA, the Association records this estimated amount as income. Any differences between the estimated amounts and actual final allocations are recorded in the following years. For the years ended 2015 and 2014, the actual final allocations were recorded.

The G & T patronage income recognized for the 2015 and 2014 years are as follows:

	December 31,	
	<u>2015</u>	<u>2014</u>
Final Allocation for 2015	\$ 1,931,393	\$
Final Allocation for 2014		<u>2,463,322</u>
	<u>\$ 1,931,393</u>	<u>\$ 2,463,322</u>

Cash and Cash Equivalents

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Financial Information

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

Allowance for Uncollectible Accounts

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

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Assets Pledged

Substantially all assets are pledged as security for the long-term debt to RUS, 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,	
	2015	2014
Hydro Plant	\$ 19,952,183	\$ 19,941,470
Transmission Plant	3,105,635	14,591,980
Distribution Plant	116,628,125	114,726,528
General Plant	21,198,434	19,708,368
Other Property and Equipment	1,767,825	1,767,825
Plant in Service	\$ 162,652,202	\$ 170,736,171
Construction Work in Progress	4,100,610	3,021,400
Total Plant in Service	\$ 166,752,812	\$ 173,757,571

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, 2015 was \$5,630,238 of which \$5,338,946 was charged to depreciation expense, and \$291,292 allocated to other accounts. Depreciation for the year ended December 31, 2014 was \$5,810,552, of which \$5,549,728 was charged to depreciation expense and \$260,824 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,	
	2015	2014
Capital Term Certificates	\$ 1,629,787	\$ 1,634,990
Patronage Capital	450,670	393,655
Membership	1,000	1,000
Tri-State G & T Association		
Patronage Capital	47,026,659	45,727,457
Western United Electric Supply Corp		
Patronage Capital	1,036,752	965,726
Federated Insurance		
Patronage Capital	233,719	201,428
Other	272,496	149,561
	<u>\$ 50,651,083</u>	<u>\$ 49,073,817</u>

Other Investments consist of the following:

	December 31,	
	2015	2014
Notes Receivable - Geothermal Loans	\$ 219,808	\$ 243,326

5. Restricted Cash and Temporary Cash Investments

Restricted Cash consists of the following:

	December 31,	
	2015	2014
Education and Charitable Fund	\$ 411,534	\$ 468,751
Deferred Revenue		2,500,000
Uncompahgre Valley Water Users Association		524,000
Deferred Compensation	31,715	
	<u>\$ 443,249</u>	<u>\$ 3,492,751</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Restricted Temporary Cash Investments consist of the following:

	December 31,	
	2015	2014
Uncompahgre Valley Water Users Association	\$ 986,000	\$
Deferred Revenue - Select Notes - CFC	3,250,000	
	<u>\$ 4,236,000</u>	<u>\$ 0</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. 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, 2015 and 2014, UWVUA's share was \$986,000 and \$524,000, respectively. Once all debt obligations are satisfied, the Association has the right to either acquire a 50% interest in the facility in exchange for agreeing to forego any future rental payments, or market and sell 50% of the power generated by the facility.

6. Temporary Cash Investments (At Cost)

Temporary cash investments consist of:

	December 31,	
	2015	2014
Certificates of Deposit	\$ 75,000	\$ 75,000
Tri-State Prepaid Power Program		1,619,631
Select Notes - CFC	4,790,000	1,000,777
Other Investments - Members Federal Credit Union		2,261
	<u>\$ 4,865,000</u>	<u>\$ 2,697,669</u>

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,	
	2015	2014
Electric Inventory	\$ 1,288,167	\$ 1,314,434
Special Equipment Inventory	1,050,487	1,106,275
Vehicle Inventory	37,926	50,875
Fiber Optic Inventory	225,775	18,957
	<u>\$ 2,602,355</u>	<u>\$ 2,490,541</u>

8. Deferred Debits

Deferred debits consist of:

	December 31,	
	2015	2014
Smart Grid	\$ 231,272	\$ 346,533
TriState Facility Use Charge	4,672,440	
Other	299,176	18,230
	<u>\$ 5,202,888</u>	<u>\$ 364,763</u>

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

In consideration of Tri-State's ownership, operation, maintenance, and replacement of looped facilities, the Association was required to pay a facility use charge of \$4,896,880 over 20 years. The Association prepaid the entire amount in 2015 and is amortizing over 20 years. Amortization was \$224,440 during the year ending December 31, 2015.

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, 2015 and 2014, 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 \$893,252 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.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DMEAUS is an association taxed as a C-corporation for federal and state income tax reporting purposes. Current taxes are impacted by the availability of net operating loss carryovers, which may be used to offset future taxable income for a period not to exceed 20 years. At December 31, 2015, DMEAUS reported net operating loss carryovers of \$152,862 which begin to expire in the year 2023.

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

Deferred federal and state income taxes result from transactions which enter into the determination of taxable income in different periods than recorded for financial reporting purposes. Principal sources of deferred federal and state income taxes are net operating loss carryovers and accelerated depreciation. For both federal and state income tax reporting purposes, these net operating loss carryovers are being used to offset future taxable income for a period not to exceed 20 years. The federal and state deferred tax assets are estimated to be \$242,381 and \$238,598, at December 31, 2015 and 2014, respectively. However, based on available information, management believes that it is more likely than not that the federal deferred tax assets resulting from net operating loss carryover will not be utilized in the future. Therefore, a valuation allowance has been recorded and the net deferred tax asset recorded on the books is \$0 at both December 31, 2015 and 2014. Additionally, the corresponding provision for deferred income tax is \$0 for both years then ended.

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

The Association files its income tax return in the U.S. federal jurisdiction. DMEAUS files income tax returns in the U.S. federal jurisdiction and in the state of Colorado. The Association and DMEAUS are no longer subject to U.S. federal jurisdictions for the years before 2012. DMEAUS is no longer subject to income tax examinations by Colorado State taxing authorities for years before 2012. 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, 2015 and 2014.

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 53.74% and 52.90% of the total assets as of December 31, 2015 and 2014, respectively. Additionally, the Association retired \$2,790,872 and \$2,757,736 (of which \$2,706,813 and \$1,995,972 was paid in cash with the remainder discounted) during the years ended December 31, 2015 and 2014, 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

	December 31,	
	2015	2014
Assigned	\$ 69,173,507	\$ 68,389,817
Assignable	46,949,013	45,616,309
	\$ 116,122,520	\$ 114,006,126
Less: Retired	(28,243,196)	(25,452,324)
	<u>\$ 87,879,324</u>	<u>\$ 88,553,802</u>

12. Other Equities

	December 31,	
	2015	2014
Accumulated Subsidiary Margins	\$ 237,220	\$ 237,220
Discounted/Donated Capital	4,917,715	4,833,656
Undistributed Nonoperating Margins	3,112,415	1,988,581
	<u>\$ 8,267,350</u>	<u>\$ 7,059,457</u>

13. RUS Mortgage Notes

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

	December 31,	
	2015	2014
3.99% Note	\$	\$ 3,638,059
4.63% Note		4,363,461
4.69% Note		1,417,275
4.77% Note		1,406,492
4.83% Note		2,517,305
4.90% Note		4,368,356
5.00% Note		2,013,052
5.25% Note		2,020,599
	\$ 0	\$ 21,744,599
Less: Current Maturities		498,728
	<u>\$ 0</u>	<u>\$ 21,245,871</u>

The Association had \$5,175,623 in advance payments as of December 31, 2014. During 2015, the Association refinanced its RUS notes with CoBank.

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,	
	2015	2014
3.941% Note	\$ 11,376,812	\$ 11,609,212
4.345% Note	4,313,544	4,396,054
4.747% Note	3,790,413	3,893,583
2.290% Note	5,360,077	5,502,034
	<u>\$ 24,840,846</u>	<u>\$ 25,400,883</u>
Less: Current Maturities	<u>570,355</u>	<u>549,601</u>
	<u>\$ 24,270,491</u>	<u>\$ 24,851,282</u>

The Association has \$6,469,427 in advance payments as of December 31, 2015.

Principal and interest installments on the above notes are due quarterly. As of December 31, 2015, the annual maturities of long-term debt due FFB for the next five years are as follows:

2016	\$ 570,355
2017	591,937
2018	614,382
2019	637,726
2020	662,007

The Association has unadvanced funds available from FFB in the amount of \$6,647,000.

15. CFC Mortgage Notes

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

	December 31,	
	2015	2014
CFC Fixed Rate Notes Ranging from 3.25% to 6.60% in 2015 and 2.95% to 6.60% in 2014	\$ 8,731,957	\$ 9,683,293
CFC Fixed Rate CREBs Notes at 4.30%	<u>19,552,900</u>	<u>20,289,635</u>
	<u>\$ 28,284,857</u>	<u>\$ 29,972,928</u>
Less: Current Maturities	<u>1,752,576</u>	<u>1,687,413</u>
	<u>\$ 26,532,281</u>	<u>\$ 28,285,515</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 lower effective interest rate for the Association. As of December 31, 2015 and 2014, the Association has \$19,552,900 and \$20,289,635 outstanding on these notes.

Principal and interest installments on the above notes are due quarterly. As of December 31, 2015, the annual maturities of long-term debt due CFC for the next five years are as follows:

2016	\$ 1,752,576
2017	1,758,285
2018	1,542,315
2019	1,507,592
2020	1,553,881

16. CoBank Mortgage Notes

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

	December 31,	
	2015	2014
3.56% Note	\$ 3,881,288	\$
3.70% Note	8,480,696	
3.77% Note	8,739,813	
	<u>\$ 21,101,797</u>	<u>\$ 0</u>
Less: Current Maturities	805,966	
	<u>\$ 20,295,831</u>	<u>\$ 0</u>

Principal and interest installments on the above notes are due monthly. As of December 31, 2015, the annual maturities of long-term debt due CoBank for the next five years are as follows:

2016	\$ 805,966
2017	840,444
2018	872,946
2019	902,985
2020	936,936

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, 2015 and 2014, the Association had no amounts outstanding on either of these lines of credit.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Deferred Credits

	December 31,	
	2015	2014
Consumer Advances in Aid to Construction	\$ 315,727	\$ 316,599
Energy Prepayments	254,904	218,261
Unclaimed Capital Credits	2,106,919	1,559,506
Deferred Revenue Plan	3,250,000	2,500,000
Other Deferred Revenue	566,524	649,521
Other	73,790	45,250
	<u>\$ 6,567,864</u>	<u>\$ 5,289,137</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 and \$750,000 in 2015. The \$3,250,000 in revenue will be recognized annually over the years of 2016 – 2020 and is designed to help offset the potential increase of power cost.

19. Pension Benefits

Narrative Description

The NRECA Retirement Security Plan (the RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The RS Plan sponsor's Employer Identification Number is 53-0116145 and the RS Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Plan Information

The Association contributions to the RS Plan in 2015 and 2014 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 \$1,166,800 in 2015 and \$1,108,465 in 2014.

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, 2015 and 2014 based on the PPA funding target and PPA actuarial value of assets on those dates.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Management has represented that there is no pending or threatened litigation against the Association, which would materially affect the financial position.

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

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

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

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

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

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 - 2015	\$ <u>74,227,500</u>	\$ <u>68,442,386</u>
Fixed Rate Debt - 2014	\$ <u>77,118,411</u>	\$ <u>75,572,268</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 7, 2016, the date which the financial statements were available for issue.

CONSOLIDATING AND ACCOMPANYING INFORMATION

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

CERTIFIED PUBLIC ACCOUNTANTS

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LUBBOCK, TEXAS 79423-1954

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATING AND ACCOMPANYING INFORMATION

We have audited the consolidated financial statements of Delta-Montrose Electric Association and Subsidiary as of and for the years ended December 31, 2015 and 2014, and our report thereon dated April 7, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. 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.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 7, 2016

CONSOLIDATING INFORMATION

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Schedule 1

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

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

EQUITIES AND LIABILITIES

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

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Schedule 2

**CONSOLIDATING INFORMATION
BALANCE SHEET
DECEMBER 31, 2014**

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	\$ 168,968,346	\$	\$	\$ 168,968,346
Other Property and Equipment	1,306,947	460,878		1,767,825
Construction Work in Progress	3,021,400			3,021,400
	<u>\$ 173,296,693</u>	<u>\$ 460,878</u>	<u>\$ 0</u>	<u>\$ 173,757,571</u>
Less: Accumulated Provision for Depreciation and Amortization	64,344,213	184,352		64,528,565
	<u>\$ 108,952,480</u>	<u>\$ 276,526</u>	<u>\$ 0</u>	<u>\$ 109,229,006</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE				
Investments in Associated Organizations	\$ 49,073,817	\$	\$	\$ 49,073,817
Investments in Affiliated Company	322,907		(322,907)	0
Other Investments	243,326			243,326
	<u>\$ 49,640,050</u>	<u>\$ 0</u>	<u>\$ (322,907)</u>	<u>\$ 49,317,143</u>
CURRENT ASSETS				
Cash - General	\$ 2,539,389	\$ 168,432	\$	\$ 2,707,821
Cash - Restricted	3,492,751			3,492,751
Temporary Cash Investments (At cost)	2,622,669	75,000		2,697,669
Accounts Receivable (Less Allowance for Uncollectibles of \$75,279)	4,246,755			4,246,755
Accrued Unbilled Revenue	5,963,539			5,963,539
Materials and Supplies (At Average Cost)	2,490,541			2,490,541
Other Current and Accrued Assets	95,503	20,202		115,705
	<u>\$ 21,451,147</u>	<u>\$ 263,634</u>	<u>\$ 0</u>	<u>\$ 21,714,781</u>
DEFERRED CHARGES				
Deferred Debits	\$ 364,763	\$ 0	\$ 0	\$ 364,763
TOTAL ASSETS	<u>\$ 180,408,440</u>	<u>\$ 540,160</u>	<u>\$ (322,907)</u>	<u>\$ 180,625,693</u>

EQUITIES AND LIABILITIES

EQUITIES				
Patronage Capital	\$ 88,553,802	\$	\$	\$ 88,553,802
Other Equities	7,059,457	322,907	(322,907)	7,059,457
	<u>\$ 95,613,259</u>	<u>\$ 322,907</u>	<u>\$ (322,907)</u>	<u>\$ 95,613,259</u>
LONG-TERM DEBT				
RUS Mortgage Notes Less Current Maturities	\$ 21,245,871	\$	\$	\$ 21,245,871
FFB Mortgage Notes Less Current Maturities	24,851,282			24,851,282
CFC Mortgage Notes Less Current Maturities	28,285,515			28,285,515
	<u>\$ 74,382,668</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 74,382,668</u>
Less: Advanced Payments	5,175,623			5,175,623
	<u>\$ 69,207,045</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 69,207,045</u>
CURRENT LIABILITIES				
Current Maturities of Long-Term Debt	\$ 2,735,742	\$	\$	\$ 2,735,742
Accounts Payable	5,211,485	4,631		5,216,116
Accrued Taxes	957,322			957,322
Accrued Employee Compensated Absences	1,435,829			1,435,829
Accrued Interest	94,941			94,941
Other Current Liabilities	76,302			76,302
	<u>\$ 10,511,621</u>	<u>\$ 4,631</u>	<u>\$ 0</u>	<u>\$ 10,516,252</u>
OTHER LIABILITIES				
Deferred Credits	\$ 5,076,515	\$ 212,622	\$ 0	\$ 5,289,137
TOTAL EQUITIES AND LIABILITIES	<u>\$ 180,408,440</u>	<u>\$ 540,160</u>	<u>\$ (322,907)</u>	<u>\$ 180,625,693</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Schedule 3

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

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

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Schedule 4

CONSOLIDATING INFORMATION
STATEMENT OF INCOME AND PATRONAGE CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>DMEA</u>	<u>DMEAUS</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
OPERATING REVENUES				
Residential	\$ 34,908,881	\$	\$	\$ 34,908,881
Irrigation Sales	27,862			27,862
Small Commercial	15,575,084			15,575,084
Large Commercial	13,672,537			13,672,537
Street Lighting and Public Buildings	571,540			571,540
Unbilled Revenue	(247,548)			(247,548)
Deferred Revenue Plan	(1,750,000)			(1,750,000)
Other Operating Revenues	1,690,685	38,070		1,728,755
Total Operating Revenues	<u>\$ 64,449,041</u>	<u>\$ 38,070</u>	<u>\$ 0</u>	<u>\$ 64,487,111</u>
OPERATING EXPENSES				
Purchased Power	\$ 42,012,678	\$	\$	\$ 42,012,678
Cost of Goods Sold - Other		3,367		3,367
Hydro - Operation	717,245			717,245
Hydro - Maintenance	34,904			34,904
Transmission	394,028			394,028
Distribution - Operation	3,562,802			3,562,802
Distribution - Maintenance	1,804,412			1,804,412
Customer Accounts	1,644,608			1,644,608
Customer Service and Information	456,540			456,540
Sales	75,343			75,343
Administrative and General	4,668,375	10		4,668,385
Depreciation and Amortization	5,526,684	23,044		5,549,728
Other Deductions	259	17,393		17,652
Total Operating Expenses	<u>\$ 60,897,878</u>	<u>\$ 43,814</u>	<u>\$ 0</u>	<u>\$ 60,941,692</u>
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 3,551,163	\$ (5,744)	\$ 0	\$ 3,545,419
FIXED CHARGES				
Interest on Long-Term Debt	<u>2,767,473</u>			<u>2,767,473</u>
OPERATING MARGINS - AFTER FIXED CHARGES	\$ 783,690	\$ (5,744)	\$ 0	\$ 777,946
G and T Capital Credits	2,463,322			2,463,322
Other Capital Credits	<u>188,760</u>			<u>188,760</u>
NET OPERATING MARGINS	<u>\$ 3,435,772</u>	<u>\$ (5,744)</u>	<u>\$ 0</u>	<u>\$ 3,430,028</u>
NONOPERATING MARGINS				
Interest Income	\$ 317,883	\$ 166	\$	\$ 318,049
Affiliated Company - Income from Operations	(5,578)		5,578	0
Gain on Disposition of Property	19,519			19,519
Other Nonoperating (Loss)	(13,765)			(13,765)
	<u>\$ 318,059</u>	<u>\$ 166</u>	<u>\$ 5,578</u>	<u>\$ 323,803</u>
NET MARGINS	\$ 3,753,831	\$ (5,578)	\$ 5,578	\$ 3,753,831
PATRONAGE CAPITAL AND OTHER EQUITIES -				
BEGINNING OF PERIOD	87,875,766	328,485	(328,485)	87,875,766
Transfer Nonoperating Margins to				
Other Equities	(318,059)			(318,059)
Patronage Capital Retired - Cash	(1,995,972)			(1,995,972)
Patronage Capital Retired - Discounted	<u>(761,764)</u>			<u>(761,764)</u>
PATRONAGE CAPITAL AND OTHER EQUITIES -				
END OF PERIOD	<u>\$ 88,553,802</u>	<u>\$ 322,907</u>	<u>\$ (322,907)</u>	<u>\$ 88,553,802</u>

ACCOMPANYING INFORMATION

DELTA-MONTROSE ELECTRIC ASSOCIATION

Schedule 5

ELECTRIC PLANT
FOR THE YEAR ENDED DECEMBER 31, 2015

	Balance 1/1/2015	Additions	Retirements	Balance 12/31/2015
HYDRO PLANT				
Land and Land Rights	\$ 300,112	\$	\$	\$ 300,112
Structures and Improvements	3,543,273	10,713		3,553,986
Reservoirs, Dams, and Waterways	7,041,786			7,041,786
Wheels, Turbines, and Generators	7,120,310			7,120,310
Accessory Electric Equipment	1,855,989			1,855,989
Other Power Plant Equipment	80,000			80,000
Total	<u>\$ 19,941,470</u>	<u>\$ 10,713</u>	<u>\$ 0</u>	<u>\$ 19,952,183</u>
TRANSMISSION PLANT				
Land and Land Rights	\$ 96,364	\$	\$	\$ 96,364
Structures and Improvements	32			32
Station Equipment	12,035,921		11,509,696	526,225
Poles, Towers, and Fixtures	1,344,362	17,182	4,124	1,357,420
Overhead Conductors and Devices	1,115,301	15,147	4,854	1,125,594
Total	<u>\$ 14,591,980</u>	<u>\$ 32,329</u>	<u>\$ 11,518,674</u>	<u>\$ 3,105,635</u>
DISTRIBUTION PLANT				
Land and Land Rights	\$ 1,287,805	\$ 9,630	\$	\$ 1,297,435
Structures and Improvements	3,907,181	(141,578)		3,765,603
Station Equipment	5,656,185	1,477,347	1,034,691	6,098,841
Poles, Towers, and Fixtures	22,819,709	564,310	89,570	23,294,449
Overhead Conductors and Devices	21,613,677	383,027	71,477	21,925,227
Underground Conduit	5,001,886	98,063	3,591	5,096,358
Underground Conductors and Devices	13,823,842	276,594	23,891	14,076,545
Line Transformers	13,314,841	407,022	117,109	13,604,754
Services	15,793,973	79,886	25,693	15,848,166
Meters	10,593,918	129,115	11,314	10,711,719
Installations on Consumers' Premises	201,503	1,077	1,786	200,794
Street Lighting	712,008	64,842	68,616	708,234
Total	<u>\$ 114,726,528</u>	<u>\$ 3,349,335</u>	<u>\$ 1,447,738</u>	<u>\$ 116,628,125</u>
GENERAL PLANT				
Land and Land Rights	\$ 204,830	\$	\$	\$ 204,830
Structures and Improvements	3,080,377	48,521		3,128,898
Office Furniture and Equipment	5,866,804	263,419		6,130,223
Transportation Equipment	4,278,781	396,087	190,545	4,484,323
Stores Equipment	140,994	2,636		143,630
Tools, Shop, and Garage Equipment	1,653,341	26,575		1,679,916
Laboratory Equipment	333,089	74,585		407,674
Power Operated Equipment	1,117,255	391,675		1,508,930
Communications Equipment	1,877,149	600,019	135,638	2,341,530
SCADA and Other GPS Equipment	950,501		2,184	948,317
Miscellaneous Equipment	205,247	14,916		220,163
Total	<u>\$ 19,708,368</u>	<u>\$ 1,818,433</u>	<u>\$ 328,367</u>	<u>\$ 21,198,434</u>
Total Classified Electric Plant in Service	\$ 168,968,346	\$ 5,210,810	\$ 13,294,779	\$ 160,884,377
Geothermal Loop Devices	1,059,989			1,059,989
Community Solar Arrays	246,958			246,958
Construction Work in Progress	<u>3,021,400</u>	<u>1,079,210</u>		<u>4,100,610</u>
Total Utility Plant	<u>\$ 173,296,693</u>	<u>\$ 6,290,020</u>	<u>\$ 13,294,779</u>	<u>\$ 166,291,934</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION

Schedule 6

ACCUMULATED PROVISION FOR DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2015

	Balance 1/1/2015	Depreciation Accruals	Retirements	Balance 12/31/2015
Hydro Plant	\$ 763,231	\$ 530,624	\$	\$ 1,293,855
Transmission Plant	\$ 2,337,525	\$ 83,791	\$ 547,664	\$ 1,873,652
Distribution Plant	\$ 47,330,931	\$ 3,957,852	\$ 1,198,240	\$ 50,090,543
General Plant				
Structures and Improvements	\$ 1,396,134	\$ 94,605	\$	\$ 1,490,739
Office Furniture and Fixtures	4,350,640	370,620		4,721,260
Transportation Equipment	3,685,603	211,997	190,545	3,707,055
Stores Equipment	102,360	3,396		105,756
Tools, Shop, and Garage Equipment	1,187,677	50,411		1,238,088
Laboratory Equipment	269,658	7,982		277,640
Power Operated Equipment	863,372	79,293		942,665
Communications Equipment	785,161	117,648	12,647	890,162
Miscellaneous Equipment	965,037	18,503	259	983,281
Total General Plant	\$ 13,605,642	\$ 954,455	\$ 203,451	\$ 14,356,646
Total Classified Electric Plant in Service	\$ 64,037,329	\$ 5,526,722	\$ 1,949,355	\$ 67,614,696
Geothermal Loop Devices	299,809	70,595		370,404
Community Solar Arrays	29,631	9,877		39,508
Retirement Work in Progress	(22,556)		(115,138)	92,582
Total	\$ 64,344,213	\$ 5,607,194	\$ 1,834,217	\$ 68,117,190

(1)

(2)

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

\$ 5,315,902
291,292
<u>\$ 5,607,194</u>

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

\$ 13,294,779
<u>(11,460,562)</u>

Loss Due to Retirement

<u>\$ 1,834,217</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION

Schedule 7

OTHER PROPERTY AND INVESTMENTS

DECEMBER 31, 2015 AND 2014

INVESTMENTS IN ASSOCIATED ORGANIZATIONS

	December 31,	
	<u>2015</u>	<u>2014</u>
Memberships		
National Rural Utilities Cooperative Finance Corporation	\$ 1,000	\$ 1,000
Patronage Capital		
Tri-State Generation and Transmission Association, Inc.	47,026,659	45,727,457
National Rural Utilities Cooperative Finance Corporation	450,671	393,655
Western United Electric Supply Corporation	1,036,752	965,726
Federated Insurance	233,719	201,428
CoBank	109,762	1,467
National Information Solutions Cooperative	162,360	147,720
National Rural Telecommunications Cooperative	374	374
Capital Term Certificates		
National Rural Utilities Cooperative Finance Corporation	1,629,786	1,634,990
Total Investments in Associated Organizations	\$ <u>50,651,083</u>	\$ <u>49,073,817</u>

INVESTMENT IN AFFILIATED COMPANY

DMEA-Utility Services, LLC	\$ <u>334,277</u>	\$ <u>322,907</u>
Total Investment in Affiliated Company	\$ <u>334,277</u>	\$ <u>322,907</u>

OTHER INVESTMENTS

Notes Receivable - Geothermal Loans	\$ <u>219,808</u>	\$ <u>243,326</u>
Total Other Investments	\$ <u>219,808</u>	\$ <u>243,326</u>
Total Other Property and Investments	\$ <u><u>51,205,168</u></u>	\$ <u><u>49,640,050</u></u>

DELTA-MONTROSE ELECTRIC ASSOCIATION

Schedule 8

**PATRONAGE CAPITAL
DECEMBER 31, 2015**

Year	Generation and Transmission			Coop			Total Balance	
	Assignable	Assigned	Retired	Balance	Assignable	Assigned		Retired
1970-1990	\$	\$	\$	\$	\$	\$	\$	\$
1991					12,757,684	1,150,767	263,756	887,011
1992					3,405,697	3,405,697	706,027	2,699,670
1993		2,839,638	2,839,638	1,467,537	2,216,994	2,216,994	329,268	1,887,726
1994		2,710,033	2,710,033	1,596,244	1,710,889	1,710,889	228,010	1,482,879
1995		1,811,402	343,865	1,418,681	2,281,865	2,281,865	320,201	1,961,664
1996		1,902,824	306,580	1,678,920	2,169,430	2,169,430	289,976	1,879,454
1997		1,628,923	210,242	1,013,240	2,024,224	2,024,224	243,136	1,781,088
1998		1,884,000	205,080	1,258,434	2,130,664	2,130,664	193,505	1,937,159
1999		1,109,110	95,870	1,029,743	2,197,859	2,197,859	181,597	2,016,262
2000	1,258,434			1,889,605	927,378	927,378	68,680	858,698
2001	1,029,743			2,000,471	1,482,836	1,482,836	98,239	1,384,597
2002	1,889,605			2,584,463	3,276,106	3,276,106	201,451	3,074,655
2003	2,000,471			2,844,086	3,989,909	3,989,909	454,332	3,535,577
2004	2,584,463			2,793,436	1,952,288	1,952,288	342,686	1,609,602
2005	2,844,086			6,461,812	1,699,623	1,699,623	293,931	1,405,692
2006	2,793,436			5,065,772	1,578,511	1,578,511	677,998	900,513
2007	6,461,812			4,734,533	1,306,079	1,306,079	1,297,557	8,522
2008	5,065,772			3,307,406	1,478,005	1,478,005	1,467,882	10,123
2009	4,734,533			3,947,171	289,129	289,129	285,154	3,975
2010	3,307,406			1,264,342	1,291,168	1,291,168	21,057	1,270,111
2011	3,947,171			2,999,263	1,516,662	1,516,662	18,199	1,498,463
2012	1,264,342			2,463,322	1,401,732	1,401,732	521,747	879,985
2013	2,999,263			1,931,393	268,388	268,388	268,388	2,999,263
2014	2,463,322			53,749,874	783,690	783,690	1,427	782,263
2015	1,931,393			373,761	373,761	373,761		373,761
	<u>\$ 46,575,252</u>	<u>\$ 13,885,930</u>	<u>\$ 6,711,308</u>	<u>\$ 53,749,874</u>	<u>\$ 55,287,577</u>	<u>\$ 21,531,888</u>	<u>\$ 34,129,450</u>	<u>\$ 87,879,324</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, 2015

FFB MORTGAGE NOTES

<u>Note Number</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	<u>Amount Unadvanced</u>	<u>Principal Repayments</u>	<u>Net Obligation</u>
H0010	4.747%	\$ 4,680,000	\$	\$ 889,587	\$ 3,790,413
H0015	4.345%	4,709,000		395,456	4,313,544
H0020	3.941%	12,500,000		1,123,188	11,376,812
H0025	2.290%	5,810,000		449,923	5,360,077
REA-3296		6,647,000	6,647,000		
Advance Payments				6,469,427	(6,469,427)
TOTAL FFB:		<u>\$ 34,346,000</u>	<u>\$ 6,647,000</u>	<u>\$ 9,327,581</u>	<u>\$ 18,371,419</u>

CFC MORTGAGE NOTES

9018	6.05%	\$ 2,455,000	\$	\$ 2,257,943	\$ 197,057
9022	3.30%	1,201,000		1,073,912	127,088
9024	6.60%	2,554,255		2,090,442	463,813
9026	3.25%	644,898		289,414	355,484
9027	3.25%	2,269,000		641,903	1,627,097
9032	3.75-5.20%	9,489,000		3,527,582	5,961,418
9033	4.30%	22,000,000		2,447,100	19,552,900
TOTAL CFC:		<u>\$ 40,613,153</u>	<u>\$ 0</u>	<u>\$ 12,328,296</u>	<u>\$ 28,284,857</u>

COBANK MORTGAGE NOTES

2903273	3.56%	\$ 3,966,445	\$	\$ 85,157	\$ 3,881,288
2903282	3.70%	8,637,748		157,052	8,480,696
2903317	3.77%	8,888,963		149,150	8,739,813
TOTAL CFC:		<u>\$ 21,493,156</u>	<u>\$ 0</u>	<u>\$ 391,359</u>	<u>\$ 21,101,797</u>

Net obligations include \$570,355 due FFB, \$1,752,576 due CFC and \$805,966 due CoBank payable within one year and classified as current liabilities on the balance sheet.

COMPLIANCE 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 financial statements of Delta-Montrose Electric Association and Subsidiary (the Association), which comprise the balance sheet as of December 31, 2015, and the related statements of income and patronage capital, changes in cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 7, 2016. In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2016, 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 L.L.P.

Certified Public Accountants

Lubbock, Texas

April 7, 2016

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

CERTIFIED PUBLIC ACCOUNTANTS

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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 financial statements of Delta-Montrose Electric Association and Subsidiary (the Association) as of and for the year ended December 31, 2015, and have issued our report thereon dated April 7, 2016.

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 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 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 L.L.P.

Certified Public Accountants

Lubbock, Texas

April 7, 2016