

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

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

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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, 2019 and 2018, 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, 2019 and 2018, 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 7, 2020 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, 2020

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Exhibit A

**CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018**

ASSETS

	December 31,	
	<u>2019</u>	<u>2018</u>
PLANT, PROPERTY, AND EQUIPMENT		
Electric Plant in Service	\$ 209,337,980	\$ 198,623,122
Other Property and Equipment	13,565,469	8,898,915
Construction Work in Progress	9,641,720	14,754,244
	<u>\$ 232,545,169</u>	<u>\$ 222,276,281</u>
Less: Accumulated Provision for Depreciation and Amortization	\$ 90,008,878	82,935,022
	<u>\$ 142,536,291</u>	<u>\$ 139,341,259</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 52,215,607	\$ 52,208,740
Other Investments	132,907	137,369
	<u>\$ 52,348,514</u>	<u>\$ 52,346,109</u>
CURRENT ASSETS		
Cash - General	\$ 12,100,610	\$ 4,714,399
Cash - Restricted	9,250,504	6,465,565
Accounts Receivable (Less allowance for uncollectibles of \$35,962 in 2019 and \$59,599 in 2018)	5,473,742	2,446,499
Unbilled Revenue	6,188,684	5,858,857
Materials and Supplies (At Average Cost)	3,950,767	3,796,131
Other Current and Accrued Assets	389,857	243,148
	<u>\$ 37,354,164</u>	<u>\$ 23,524,599</u>
OTHER ASSETS		
Deferred Debits	\$ 9,723,625	\$ 5,657,512
Intangibles	155,948	155,948
	<u>\$ 9,879,573</u>	<u>\$ 5,813,460</u>
TOTAL ASSETS	<u>\$ 242,118,542</u>	<u>\$ 221,025,427</u>

EQUITIES AND LIABILITIES

EQUITIES		
Patronage Capital	\$ 91,119,853	\$ 92,082,527
Other Equities	9,141,089	8,913,084
	<u>\$ 100,260,942</u>	<u>\$ 100,995,611</u>
LONG-TERM DEBT		
FFB Mortgage Notes Less Current Maturities	\$ 72,747,583	\$ 28,503,874
CFC Mortgage Notes Less Current Maturities	40,263,993	31,331,685
CoBank Mortgage Notes Less Current Maturities	113,011,576	41,717,291
	<u>\$ 113,011,576</u>	<u>\$ 101,552,850</u>
Less: Advanced Payments	3,307,890	98,244,960
	<u>\$ 113,011,576</u>	<u>\$ 98,244,960</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 4,591,227	\$ 3,842,078
Line of Credit - CFC	81,845	
Accounts Payable	6,706,588	4,524,833
Accrued Taxes	870,291	931,319
Accrued Employee Compensated Absences	1,579,964	1,725,405
Accrued Interest	545,027	301,770
Other Current Liabilities	49,898	52,675
	<u>\$ 14,424,840</u>	<u>\$ 11,378,080</u>
OTHER LIABILITIES		
Deferred Credits	\$ 14,421,184	\$ 10,406,776
TOTAL EQUITIES AND LIABILITIES	<u>\$ 242,118,542</u>	<u>\$ 221,025,427</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, 2019 AND 2018**

	December 31,				Increase (Decrease)
	2019		2018		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 38,496,319	55.1	\$ 37,040,280	53.8	\$ 1,456,039
Irrigation	193,325	0.3	189,089	0.3	4,236
Small Commercial	17,074,756	24.4	16,737,367	24.3	337,389
Large Commercial	8,032,582	11.5	8,254,181	12.0	(221,599)
Street Lighting and Public Buildings	522,119	0.7	526,904	0.8	(4,785)
Unbilled Revenue	345,827	0.5	(246,013)	(0.4)	591,840
Deferred Revenue Plan	(3,000,000)	(4.3)	250,000	0.4	(3,250,000)
Internet Services (Net of Cost of Sales of \$4,119,499 for 2019 and \$2,739,446 for 2018)	1,299,627	1.9	400,001	0.6	899,626
Other Operating Revenues	6,939,458	9.9	5,617,152	8.2	1,322,306
Total Operating Revenues	\$ 69,904,013	100.0	\$ 68,768,961	100.0	\$ 1,135,052
OPERATING EXPENSES					
Purchased Power	\$ 43,640,009	62.4	\$ 42,455,182	61.7	\$ 1,184,827
Cost of Goods Sold - Other	3,367	0.0	3,367	0.0	0
Hydro - Operation	605,912	0.9	609,844	0.9	(3,932)
Hydro - Maintenance	51,148	0.1	84,673	0.1	(33,525)
Transmission	423,384	0.6	483,886	0.7	(60,502)
Distribution - Operation	3,712,421	5.3	3,783,157	5.5	(70,736)
Distribution - Maintenance	2,515,415	3.6	2,385,465	3.5	129,950
Customer Accounts	1,745,966	2.5	1,759,689	2.6	(13,723)
Customer Service and Information Sales	449,895	0.6	464,344	0.7	(14,449)
	598,243	0.9	566,068	0.8	32,175
Administrative and General	6,752,398	9.7	6,565,233	9.5	187,165
Depreciation and Amortization	8,203,206	11.7	7,162,796	10.4	1,040,410
Other Deductions	660,085	0.9	765,816	1.1	(105,731)
Total Operating Expenses	\$ 69,361,449	99.2	\$ 67,089,520	97.5	\$ 2,271,929
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 542,564	0.8	\$ 1,679,441	2.5	\$ (1,136,877)
FIXED CHARGES					
Interest on Long-Term Debt	3,988,347	5.7	3,378,299	4.9	610,048
Amortization of Debt Cost	42,448	0.1		0.0	42,448
OPERATING MARGINS (LOSS) - AFTER FIXED CHARGES	\$ (3,488,231)	(5.0)	\$ (1,698,858)	(2.4)	\$ (1,789,373)
G & T Capital Credits	1,519,490	2.2	1,374,549	2.0	144,941
Other Capital Credits	539,322	0.8	770,008	1.1	(230,686)
NET OPERATING MARGINS	\$ (1,429,419)	(2.0)	\$ 445,699	0.7	\$ (1,875,118)
NONOPERATING MARGINS (LOSS)					
Interest Income	\$ 379,588	0.5	\$ 355,295	0.5	\$ 24,293
Gain (Loss) on Disposal of Assets	69,899	0.1	50,693	0.1	19,206
Other Nonoperating Income (Loss)	(58,121)	(0.1)	(119,629)	(0.2)	61,508
	\$ 391,366	0.5	\$ 286,359	0.4	\$ 105,007
NET MARGINS BEFORE PROVISION FOR INCOME TAXES	\$ (1,038,053)	(1.6)	\$ 732,058	1.0	\$ (1,770,111)
PROVISION FOR INCOME TAX EXPENSE	389,822	0.6	442,911	0.6	(53,089)
NET MARGINS	\$ (648,231)	(1.0)	\$ 1,174,969	1.6	\$ (1,823,200)
PATRONAGE CAPITAL - BEGINNING OF PERIOD	92,082,527		91,119,024		
Transfers to Other Equities	(167,103)		(24,021)		
Patronage Capital Retired - Cash	(86,438)		(107,405)		
Patronage Capital Retired - Discounted	(60,902)		(80,040)		
PATRONAGE CAPITAL - END OF PERIOD	\$ 91,119,853		\$ 92,082,527		

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, 2019 AND 2018**

	December 31,	
	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins (Loss)	\$ (648,231)	\$ 1,174,969
Adjustments to Reconcile Net Margins to Net Cash		
From Operating Activities		
Depreciation and Amortization	8,729,261	7,565,939
Capital Credits - Noncash	(87,109)	(85,003)
Deferred Charges	(4,066,113)	176,506
Deferred Credits	4,014,408	1,930,632
Accounts Receivable and Unbilled Revenue	(3,357,070)	3,375,591
Notes Receivable	4,462	35,366
Inventories and Other Current Assets	(301,345)	156,054
Payables and Accrued Expenses	2,215,766	(2,170,459)
Net Cash From Operating Activities	<u>\$ 6,504,029</u>	<u>\$ 12,159,595</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant and Other Property and Equipment	\$ (11,820,667)	\$ (24,492,312)
Salvage Over (Under) Plant Removal Costs	(103,627)	(98,074)
Investments in Associated Organizations	80,242	75,528
Net Cash From Investing Activities	<u>\$ (11,844,052)</u>	<u>\$ (24,514,858)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from CoBank - Long-Term Debt	\$	\$ 5,000,000
Advances from CFC - Long-Term Debt	18,820,304	10,000,000
Payments on Long-Term Debt - FFB	(602,477)	(970,074)
Payments on Long-Term Debt - CFC	(1,637,051)	(1,805,152)
Payments on Long-Term Debt - CoBank	(1,400,905)	(1,270,994)
Net Change in RUS Cushion of Credit	335,895	1,184,857
Net Activity on Line of Credit - CFC	81,845	
Capital Credit Retirements - Cash	(86,438)	(107,405)
Net Cash From Financing Activities	<u>\$ 15,511,173</u>	<u>\$ 12,031,232</u>
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 10,171,150	\$ (324,031)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>11,179,964</u>	<u>11,503,995</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 21,351,114</u>	<u>\$ 11,179,964</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	\$ 4,154,524	\$ 3,645,670
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 From Contracts with Customers

The Association's headquarters facility is located in Montrose, Colorado. The service area includes members located in several counties in western Colorado.

Substantially all operating revenues and customer accounts receivables are derived from contracts with customers. Performance obligations related to the sale of energy are satisfied as energy is delivered to customers. The Association recognizes revenue that corresponds to the price of the energy delivered to the customer.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The measurement of energy sales to customers is generally based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated, and the corresponding unbilled revenue is recognized. The Association has calculated that its unbilled revenue for delivered power usage which has not been billed to customers at December 31, 2019 and 2018 amounted to \$6,188,684 and \$5,842,857, respectively.

The Association does not recognize a separate financing component of its collections from customers as contract terms are short-term in nature. The Association presents its revenues net of any excise or sales taxes or fees.

DMEAUS Revenues

Generally, revenues that are derived from customers are cancellable on a short-term basis and are billed monthly and recognized as revenue in the month that the performance obligation is fulfilled. Monthly service plan revenues derived from local services, and recurring special access revenues are billed and recognized in the month that service is provided. Usage sensitive revenues such as access (revenues earned from originating/terminating long distance calls) are generally billed as a per minute charge and are billed in arrears and recognized in the month the service was provided.

Sales of equipment and other services that are provided are considered to be a separate performance obligation. When equipment and installation is a distinct performance obligation, the Association records the sale of the equipment when the customer takes possession of the products and services are accepted by the customer.

Revenue recognized from fixed term contracts that bundle services or equipment is allocated based on the standalone selling price of all required performance obligations of the contract and any discounts are recognized over the contract term. Promotional discounts relating to bundled services are attributed to each required component of the bundled services. There were no material costs to acquire customer contracts that would be required to be deferred and amortized over the contract period. It has been estimated that DMEAUS has installation charges that have not been billed in the amount of \$16,000 as of December 31, 2018. In 2019, these amounts were determined to be insignificant and the unbilled receivable was adjusted to zero.

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.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 2019 and 2018 are as follows:

	December 31,	
	2019	2018
Final Allocation for 2019	\$ 1,519,490	\$
Final Allocation for 2018		1,374,549
	<u>\$ 1,519,490</u>	<u>\$ 1,374,549</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.

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 Corporation (CFC).

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Property, Plant, and Equipment

The major classes of plant are as follows:

	December 31,	
	2019	2018
Hydro Plant	\$ 20,113,774	\$ 20,063,973
Transmission Plant	3,274,324	3,285,299
Distribution Plant	157,210,570	147,220,434
General Plant	28,739,312	28,053,416
Other Property and Equipment	13,565,469	8,898,915
Plant in Service	\$ 222,903,449	\$ 207,522,037
Construction Work in Progress	9,641,720	14,754,244
Total Plant in Service	\$ 232,545,169	\$ 222,276,281

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	16.99%
Power Operated Equipment	10.99% - 16.99%
All Other General Plant	6.00% - 16.00%

Depreciation for the year ended December 31, 2019 was \$8,729,261 of which \$8,130,925 was charged to depreciation expense, and \$598,336 allocated to other accounts. 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.

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,	
	2019	2018
Capital Term Certificates	\$ 1,610,257	\$ 1,610,257
Patronage Capital	654,449	613,185
Membership	1,000	1,000
Tri-State G & T Association		
Patronage Capital	47,665,085	47,911,923
Western United Electric Supply Corp		
Patronage Capital	1,496,287	1,346,444
Federated Insurance		
Patronage Capital	332,315	356,287
Other	456,214	369,644
	<u>\$ 52,215,607</u>	<u>\$ 52,208,740</u>

Other investments consist of the following:

	December 31,	
	2019	2018
Notes Receivable - Geothermal Loans	\$ 132,907	\$ 137,369

5. Restricted Cash and Temporary Cash Investments

Restricted cash consists of the following:

	December 31,	
	2019	2018
Education and Charitable Fund	\$ 105,155	\$ 337,463
Deferred Compensation	100,349	122,102
Uncompahgre Valley Water Users Association	1,295,000	1,256,000
Deferred Revenue	7,750,000	4,750,000
	<u>\$ 9,250,504</u>	<u>\$ 6,465,565</u>

The Association had an agreement with the Uncompahgre Valley Water Users Association (UVWUA) for 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 would 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.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018, UVWUA's share was \$1,295,000 and \$1,256,000, 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.

The Association has adopted and amended a Deferred Revenue Plan beginning in 2012. As a result of that plan, \$7,750,000 and \$4,750,000 of cash is considered restricted as of December 31, 2019 and 2018, respectively. See Note 17 for further information on this plan.

6. Materials and Supplies (At Average Cost)

Materials and supplies consist of the following:

	December 31,	
	2019	2018
Electric Inventory	\$ 1,384,387	\$ 1,411,079
Special Equipment Inventory	1,249,266	1,252,007
Vehicle Inventory	24,967	30,649
Fiber Optic Inventory	1,062,477	916,984
Other	229,670	185,412
	<u>\$ 3,950,767</u>	<u>\$ 3,796,131</u>

7. Deferred Debits

Deferred debits consist of the following:

	December 31,	
	2019	2018
Tri-State Facility Use Charge	\$ 3,693,064	\$ 3,937,908
Unamortized Debt Cost	3,777,856	
Power Supply Deposits	386,373	
Business Development Costs	330,876	463,216
Deferred Tax Asset (See Note 9)	1,325,730	935,909
Other	209,726	320,479
	<u>\$ 9,723,625</u>	<u>\$ 5,657,512</u>

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, 2019 and 2018.

In 2019, the Association paid off all FFB debt early by refinancing it with CFC resulting in debt costs of \$3,820,304 to be amortized over the maturity of the new debt (15 years). Amortization was \$42,448 for the year ended December 31, 2019. See Note 13.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During the year ended December 31, 2019, the Association paid a deposit for transmission services. This deposit will reduce the first payments for these services when they initiate.

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 during each of the years ending December 31, 2019 and 2018.

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, for \$69,632. 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, 2019 and 2018. The netblock has an indefinite life and as such, the cost is not amortized. The value of the netblock is reviewed annually for impairment.

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, 2019 and 2018, 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, 2019, the total NOL carryovers available to the Association and DMEAUS are \$315,149 and \$14,217,357, 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	\$ 315,149	2021	\$
DMEAUS	4,384,840	2023	9,832,517
	<u>\$ 4,699,989</u>		<u>\$ 9,832,517</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 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>2019</u>	<u>2018</u>
<u>Federal</u>		
Deferred Tax Asset	\$ 3,206,763	\$ 2,222,963
Deferred Tax Liability	(2,060,273)	(1,285,929)
	<u>\$ 1,146,490</u>	<u>\$ 937,034</u>
Less: Valuation Allowance	(66,181)	(173,350)
	<u>\$ 1,080,309</u>	<u>\$ 763,684</u>
<u>State</u>		
Deferred Tax Asset	\$ 668,440	\$ 424,528
Deferred Tax Liability	(423,019)	(252,303)
	<u>\$ 245,421</u>	<u>\$ 172,225</u>
Less: Valuation Allowance	0	0
	<u>\$ 245,421</u>	<u>\$ 172,225</u>
Total Noncurrent Deferred Income Tax Asset	<u>\$ 1,325,730</u>	<u>\$ 935,909</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,	
	2019	2018
<u>Federal and State Income Tax</u>		
Deferred Federal Tax Benefit (Expense)	\$ (828,040)	\$ (701,986)
Deferred State Tax Benefit (Expense)	(155,546)	(143,336)
Current Year Net Operating Loss	1,266,239	1,253,835
Decrease (Increase) in Valuation Allowance	107,169	34,398
	<u>\$ 389,822</u>	<u>\$ 442,911</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 2016. DMEAUS is no longer subject to income tax examinations by Colorado State taxing authorities for years before 2015. 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, 2019 and 2018.

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 41.41% and 45.69% of the total assets as of December 31, 2019 and 2018, respectively. Additionally, the Association retired \$147,340 and \$187,445 (of which \$86,438 and \$107,405 was paid in cash with the remainder discounted) during the years ended December 31, 2019 and 2018, respectively. The Association retires capital on a combination of LIFO/FIFO (last-in, first-out / first-in, first-out) methods.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Patronage Capital

Patronage Capital consist of the following:

	December 31,	
	2019	2018
Assigned	\$ 40,881,908	\$ 41,029,249
Assignable	54,237,945	51,276,879
	\$ 95,119,853	\$ 92,306,128
Less: Assignable Deferred Revenue	(4,000,000)	
	<u>\$ 91,119,853</u>	<u>\$ 92,306,128</u>

12. Other Equities

Other Equities consist of the following:

	December 31,	
	2019	2018
Accumulated Subsidiary Margins	\$ 237,220	\$ 237,220
Discounted/Donated Capital	5,268,220	5,207,318
Undistributed Nonoperating Margins	3,635,649	3,468,546
	<u>\$ 9,141,089</u>	<u>\$ 8,913,084</u>

13. FFB Mortgage Notes

Following is a summary of long-term mortgage notes due FFB:

	December 31,	
	2019	2018
3.941% Note	\$	\$ 10,622,597
4.345% Note		4,043,614
4.747% Note		3,450,146
2.290% Note		4,914,283
2.303% Note		6,277,356
	\$ 0	\$ 29,307,996
Less: Current Maturities		804,122
	<u>\$ 0</u>	<u>\$ 28,503,874</u>

The Association had \$3,307,890 in advance payments as of December 31, 2018.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During the year ended December 31, 2019 all of the Association's FFB Notes were paid off and refinanced with CFC. This resulted in debt costs totaling \$3,820,304 that were set up as deferred debits and are being amortized over 15 years. This non-cash transaction is summarized below:

Balance of FFB Notes	\$ <u>28,705,518</u>
Paid off with RUS Advance Funds	\$ 2,971,995
Paid off with CFC Notes	<u>25,733,523</u>
	\$ <u>28,705,518</u>

14. CFC Mortgage Notes

Following is a summary of long-term mortgage notes due CFC with scheduled maturities at various times through 2049:

	December 31,	
	<u>2019</u>	<u>2018</u>
CFC Fixed Rate Notes Ranging from 2.71% to 5.20% in 2019 and 4.40% to 5.20% in 2018	\$ 59,613,974	\$ 15,823,789
CFC Fixed Rate CREBs Notes at 4.30%	<u>16,271,537</u>	<u>17,144,947</u>
	\$ 75,885,511	\$ 32,968,736
Less: Current Maturities	<u>3,137,928</u>	<u>1,637,051</u>
	<u>\$ 72,747,583</u>	<u>\$ 31,331,685</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, 2019 and 2018, the Association has \$16,271,537 and \$17,144,947 outstanding on these notes.

Principal and interest installments on the above notes are due quarterly. As of December 31, 2019, the annual maturities of long-term debt due CFC for the next five years are as follows:

2020	\$ 3,137,928
2021	3,026,613
2022	3,057,830
2023	3,055,897
2024	3,220,604

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,	
	2019	2018
3.56% Note	\$ 3,140,579	\$ 3,335,984
3.70% Note	7,109,662	7,472,138
3.77% Note	7,435,369	7,780,617
4.29% Note	14,350,100	14,646,595
4.44% Note	4,813,127	4,908,662
4.85% Note	4,868,455	4,974,200
	<u>\$ 41,717,292</u>	<u>\$ 43,118,196</u>
Less: Current Maturities	1,453,299	1,400,905
	<u>\$ 40,263,993</u>	<u>\$ 41,717,291</u>

Principal and interest installments on the above notes are due monthly. As of December 31, 2019, the annual maturities of long-term debt due CoBank for the next five years are as follows:

2020	\$ 1,453,299
2021	1,517,662
2022	1,579,786
2023	1,644,478
2024	1,707,646

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, 2019 and 2018, the Association had \$81,845 and \$0 outstanding on these lines of credit, respectively.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Deferred Credits

Deferred Credits consist of the following:

	December 31,	
	2019	2018
Consumer Advances in Aid to Construction	\$ 161,089	\$ 185,429
Energy Prepayments	581,646	584,168
Unclaimed Capital Credits	1,476,190	1,708,740
Deferred Revenue Plan	7,750,000	4,750,000
DMEAUS Deferred Revenue	791,731	566,466
Deferred Revenue - Grants	2,213,692	1,444,956
Other Deferred Revenue	931,948	1,021,933
Other	514,888	145,084
	<u>\$ 14,421,184</u>	<u>\$ 10,406,776</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. In 2019, an additional \$3,000,000 was deferred. The balance of this deferred revenue as of December 31, 2019 is \$7,750,000 and will be recognized over the years of 2020-2024.

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 2019 and 2018 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 \$868,757 in 2019 and \$1,030,952 in 2018. There have been no significant changes that affect the comparability of the 2019 and 2018 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, 2019 and 2018 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 \$395,184 and \$196,753 for the years ended December 31, 2019 and 2018, respectively.

19. Litigation, Commitments, and Contingencies

There is no litigation pending against the Association at December 31, 2019, that could have a material effect on the consolidated financial statements.

At December 31, 2019, the Association is committed to purchase two large trucks. The total obligation for these vehicles amounts to \$532,364.

20. Related Party Transactions and Power Supply Arrangements

The Association 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:

	Carrying Value	Fair Value
Fixed Rate Debt - 2019	\$ <u>117,602,803</u>	\$ <u>125,772,501</u>
Fixed Rate Debt - 2018	\$ <u>105,394,928</u>	\$ <u>99,587,021</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.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. Subsequent Events

The Association's management has evaluated subsequent events through April 7, 2020, the date which the financial statements were available for issue.

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared states of emergency. It is anticipated that these impacts will continue for some time. There has been no material financial impact to the Association's operations to date. Future potential impacts include disruptions or restrictions on our employees' ability to work, reduced consumer demand for energy, and customers' ability to pay their monthly bills in a timely fashion. Changes to our operating environment may also be impacted. These changes may impact operating costs and net income. The future effects of these issues are unknown.

23. Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers, Topic 606*, which provides a new framework for the recognition of revenue. The Association implemented the guidance on January 1, 2019. Results and disclosures for reporting periods beginning after December 31, 2018 are presented in accordance with Topic 606, while prior period results have not been adjusted and continue to be reported in accordance with prior accounting guidance. The implementation did not have a material impact on the Association's financial statements, other than increased disclosures regarding revenues related to contracts with customers.

24. Recently Issued Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The new standard is effective for nonpublic entities for fiscal years beginning after December 15, 2020. 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, 2019**

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	\$ 209,337,980	\$	\$	\$ 209,337,980
Other Property and Equipment	1,513,866	12,051,603		13,565,469
Construction Work in Progress	8,042,461	1,599,259		9,641,720
	<u>\$ 218,894,307</u>	<u>\$ 13,650,862</u>	<u>\$ 0</u>	<u>\$ 232,545,169</u>
Less: Accumulated Provision for Depreciation and Amortization	87,454,164	2,554,714		90,008,878
	<u>\$ 131,440,143</u>	<u>\$ 11,096,148</u>	<u>\$ 0</u>	<u>\$ 142,536,291</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE				
Investments in Associated Organizations	\$ 52,215,607	\$	\$	\$ 52,215,607
Investments in Affiliated Company	(3,684,915)		3,684,915	0
Other Investments	132,907			132,907
	<u>\$ 48,663,599</u>	<u>\$ 0</u>	<u>\$ 3,684,915</u>	<u>\$ 52,348,514</u>
CURRENT ASSETS				
Cash - General	\$ 11,234,495	\$ 866,115	\$	\$ 12,100,610
Cash - Restricted	9,250,504			9,250,504
Accounts Receivable (Less Allowance for Uncollectibles of \$35,962)	22,155,708	334,328	(17,016,294)	5,473,742
Accrued Unbilled Revenue	6,188,684			6,188,684
Materials and Supplies (At Average Cost)	3,721,097	229,670		3,950,767
Other Current and Accrued Assets	316,636	73,221		389,857
	<u>\$ 52,867,124</u>	<u>\$ 1,503,334</u>	<u>\$ (17,016,294)</u>	<u>\$ 37,354,164</u>
OTHER ASSETS				
Deferred Debits	\$ 8,067,018	\$ 1,656,607	\$	\$ 9,723,625
Intangibles		155,948		155,948
	<u>\$ 8,067,018</u>	<u>\$ 1,812,555</u>	<u>\$ 0</u>	<u>\$ 9,879,573</u>
TOTAL ASSETS	<u>\$ 241,037,884</u>	<u>\$ 14,412,037</u>	<u>\$ (13,331,379)</u>	<u>\$ 242,118,542</u>

EQUITIES AND LIABILITIES

EQUITIES				
Patronage Capital	\$ 91,119,853	\$	\$	\$ 91,119,853
Other Equities	9,141,089	(3,684,915)	3,684,915	9,141,089
	<u>\$ 100,260,942</u>	<u>\$ (3,684,915)</u>	<u>\$ 3,684,915</u>	<u>\$ 100,260,942</u>
LONG-TERM DEBT				
CFC Mortgage Notes Less Current Maturities	\$ 72,747,583	\$	\$	\$ 72,747,583
CoBank Mortgage Notes Less Current Maturities	40,263,993			40,263,993
	<u>\$ 113,011,576</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 113,011,576</u>
CURRENT LIABILITIES				
Current Maturities of Long-Term Debt	\$ 4,591,227	\$	\$	\$ 4,591,227
Line of Credit - CFC	81,845			81,845
Accounts Payable	6,588,386	17,134,496	(17,016,294)	6,706,588
Accrued Taxes	827,146	43,145		870,291
Accrued Employee Compensated Absences	1,452,384	127,580		1,579,964
Accrued Interest	545,027			545,027
Other Current Liabilities	49,898			49,898
	<u>\$ 14,135,913</u>	<u>\$ 17,305,221</u>	<u>\$ (17,016,294)</u>	<u>\$ 14,424,840</u>
OTHER LIABILITIES				
Deferred Credits	\$ 13,629,453	\$ 791,731	\$ 0	\$ 14,421,184
TOTAL EQUITIES AND LIABILITIES	<u>\$ 241,037,884</u>	<u>\$ 14,412,037</u>	<u>\$ (13,331,379)</u>	<u>\$ 242,118,542</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Schedule 2

**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	\$ 92,082,527	\$ (2,468,187)	\$ 2,468,148	\$ 92,082,488
Other Equities	8,913,084			8,913,084
	<u>\$ 100,995,611</u>	<u>\$ (2,468,187)</u>	<u>\$ 2,468,148</u>	<u>\$ 100,995,572</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	128,735		1,725,444
Accrued Interest	301,770			301,770
Other Current Liabilities	52,675			52,675
	<u>\$ 14,605,233</u>	<u>\$ 14,153,295</u>	<u>\$ (17,380,409)</u>	<u>\$ 11,378,119</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 3

CONSOLIDATING INFORMATION
STATEMENT OF INCOME AND PATRONAGE CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>DMEA</u>	<u>DMEAUS</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
OPERATING REVENUES				
Residential	\$ 38,496,319	\$	\$	\$ 38,496,319
Irrigation Sales	193,325			193,325
Small Commercial	17,074,756			17,074,756
Large Commercial	8,032,582			8,032,582
Street Lighting and Public Buildings	522,119			522,119
Unbilled Revenue	345,827			345,827
Deferred Revenue Plan	(3,000,000)			(3,000,000)
Internet Services (Net of Cost of Sales of \$4,119,499)		1,322,800	(23,173)	1,299,627
Other Operating Revenues	<u>6,880,452</u>	<u>59,006</u>		<u>6,939,458</u>
Total Operating Revenues	<u>\$ 68,545,380</u>	<u>\$ 1,381,806</u>	<u>\$ (23,173)</u>	<u>\$ 69,904,013</u>
OPERATING EXPENSES				
Purchased Power	\$ 43,640,009	\$	\$	\$ 43,640,009
Cost of Goods Sold - Other		3,367		3,367
Hydro - Operation	605,912			605,912
Hydro - Maintenance	51,148			51,148
Transmission	423,384			423,384
Distribution - Operation	3,712,421			3,712,421
Distribution - Maintenance	2,515,415			2,515,415
Customer Accounts	1,745,966			1,745,966
Customer Service and Information	449,895			449,895
Sales	215,770	382,473		598,243
Administrative and General	6,169,207	606,364	(23,173)	6,752,398
Depreciation and Amortization	6,684,533	1,518,673		8,203,206
Other Deductions	<u>635,749</u>	<u>24,336</u>		<u>660,085</u>
Total Operating Expenses	<u>\$ 66,849,409</u>	<u>\$ 2,535,213</u>	<u>\$ (23,173)</u>	<u>\$ 69,361,449</u>
OPERATING MARGINS (LOSS) - BEFORE FIXED CHARGES	\$ 1,695,971	\$ (1,153,407)	\$ 0	\$ 542,564
FIXED CHARGES				
Interest on Long-Term Debt	3,988,347	456,045	(456,045)	3,988,347
Amortization of Debt Cost	<u>42,448</u>			<u>42,448</u>
OPERATING MARGINS (LOSS) - AFTER FIXED CHARGES	\$ (2,334,824)	\$ (1,609,452)	\$ 456,045	\$ (3,488,231)
Generation and Transmission Capital Credits	1,519,490			1,519,490
Other Capital Credits	<u>539,322</u>			<u>539,322</u>
NET OPERATING MARGINS (LOSS)	<u>\$ (276,012)</u>	<u>\$ (1,609,452)</u>	<u>\$ 456,045</u>	<u>\$ (1,429,419)</u>
NONOPERATING MARGINS (LOSS)				
Interest Income	\$ 835,633	\$	\$ (456,045)	\$ 379,588
Affiliated Company - Income (Loss) from Operations	(1,216,728)		1,216,728	0
Gain (Loss) on Disposition of Property	66,997	2,902		69,899
Other Nonoperating Income (Loss)	<u>(58,121)</u>			<u>(58,121)</u>
	<u>\$ (372,219)</u>	<u>\$ 2,902</u>	<u>\$ 760,683</u>	<u>\$ 391,366</u>
NET MARGINS (LOSS) BEFORE PROVISION FOR INCOME TAXES	\$ (648,231)	\$ (1,606,550)	\$ 1,216,728	\$ (1,038,053)
PROVISION FOR INCOME TAX BENEFIT (EXPENSE)		<u>389,822</u>		<u>389,822</u>
NET MARGINS (LOSS)	\$ (648,231)	\$ (1,216,728)	\$ 1,216,728	\$ (648,231)
PATRONAGE CAPITAL AND OTHER EQUITIES - BEGINNING OF PERIOD				
	92,082,527	(2,468,187)	2,468,187	92,082,527
Transfer Nonoperating Margins to Other Equities	(167,103)			(167,103)
Patronage Capital Retired - Cash	(86,438)			(86,438)
Patronage Capital Retired - Discounted	<u>(60,902)</u>			<u>(60,902)</u>
PATRONAGE CAPITAL AND OTHER EQUITIES - END OF PERIOD	<u>\$ 91,119,853</u>	<u>\$ (3,684,915)</u>	<u>\$ 3,684,915</u>	<u>\$ 91,119,853</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Schedule 4

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	464,344			464,344
Sales	194,392	371,676		566,068
Administrative and General	5,924,687	650,401	(9,855)	6,565,233
Depreciation and Amortization	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 BENEFIT (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)
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>\$ 92,082,527</u>	<u>\$ (2,468,148)</u>	<u>\$ 2,468,148</u>	<u>\$ 92,082,527</u>

ACCOMPANYING INFORMATION

DELTA-MONTROSE ELECTRIC ASSOCIATION

Schedule 5

ELECTRIC PLANT
FOR THE YEAR ENDED DECEMBER 31, 2019

	Balance 1/1/2019	Additions	Retirements	Balance 12/31/2019
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	49,801		7,091,587
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>\$ 49,801</u>	<u>\$ 0</u>	<u>\$ 20,113,774</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	1,412,531	341	4,270	1,408,602
Overhead Conductors and Devices	1,155,918		7,046	1,148,872
Total	<u>\$ 3,285,299</u>	<u>\$ 341</u>	<u>\$ 11,316</u>	<u>\$ 3,274,324</u>
DISTRIBUTION PLANT				
Land and Land Rights	\$ 1,358,767	\$	\$	\$ 1,358,767
Structures and Improvements	3,765,402			3,765,402
Station Equipment	6,742,195	52,536	84,205	6,710,526
Poles, Towers, and Fixtures	24,661,631	853,940	162,169	25,353,402
Overhead Conductors and Devices	23,181,811	490,867	133,065	23,539,613
Underground Conduit	5,317,034	20,754	3,596	5,334,192
Underground Conductors and Devices	15,155,435	779,184	74,931	15,859,688
Line Transformers	14,571,183	721,093	314,928	14,977,348
Services	15,994,577	99,210	29,682	16,064,105
Meters	11,251,498	93,056	22,297	11,322,257
Fiber	24,560,571	7,690,874	4,025	32,247,420
Street Lighting	660,330	21,473	3,953	677,850
Total	<u>\$ 147,220,434</u>	<u>\$ 10,822,987</u>	<u>\$ 832,851</u>	<u>\$ 157,210,570</u>
GENERAL PLANT				
Land and Land Rights	\$ 204,830	\$	\$	\$ 204,830
Structures and Improvements	4,396,855	170,556		4,567,411
Office Furniture and Equipment	6,405,306	320,631	119,662	6,606,275
Transportation Equipment	5,109,812	756,323	568,238	5,297,897
Stores Equipment	191,759			191,759
Tools, Shop, and Garage Equipment	1,909,058	27,304	1,244	1,935,118
Laboratory Equipment	469,203			469,203
Power Operated Equipment	1,670,958		4,540	1,666,418
Communications Equipment	6,457,237	40,664		6,497,901
SCADA and Other GPS Equipment	1,005,370	9,014		1,014,384
Miscellaneous Equipment	233,028	58,606	3,518	288,116
Total	<u>\$ 28,053,416</u>	<u>\$ 1,383,098</u>	<u>\$ 697,202</u>	<u>\$ 28,739,312</u>
Total Classified Electric Plant in Service	\$ 198,623,122	\$ 12,256,227	\$ 1,541,369	\$ 209,337,980
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	11,988,933	(3,946,472)		8,042,461
Total Utility Plant	<u>\$ 212,125,921</u>	<u>\$ 8,309,755</u>	<u>\$ 1,541,369</u>	<u>\$ 218,894,307</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION

Schedule 6

ACCUMULATED PROVISION FOR DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2019

	Balance 1/1/2019	Depreciation Accruals	Retirements	Balance 12/31/2019
Hydro Plant	\$ 2,927,225	\$ 549,741	\$	\$ 3,476,966
Transmission Plant	\$ 1,990,951	\$ 87,504	\$ 15,208	\$ 2,063,247
Distribution Plant	\$ 60,136,039	\$ 5,042,611	\$ 939,642	\$ 64,239,008
General Plant				
Structures and Improvements	\$ 1,807,569	\$ 139,799	\$	\$ 1,947,368
Office Furniture and Fixtures	5,223,510	373,567	119,654	5,477,423
Transportation Equipment	3,598,868	498,521	551,149	3,546,240
Stores Equipment	123,043	6,120		129,163
Tools, Shop, and Garage Equipment	1,397,417	59,885	1,244	1,456,058
Laboratory Equipment	315,902	13,460		329,362
Power Operated Equipment	1,184,187	99,816	4,540	1,279,463
Communications Equipment	1,531,876	278,254		1,810,130
Miscellaneous Equipment	919,414	30,583	2,516	947,481
Total General Plant	\$ 16,101,786	\$ 1,500,005	\$ 679,103	\$ 16,922,688
Total Classified Electric Plant in Service	\$ 81,156,001	\$ 7,179,861	\$ 1,633,953	\$ 86,701,909
Fiber Organization	29,610	18,700		48,310
Geothermal Loop Devices	569,392	68,840		638,232
Community Solar Arrays	78,924	15,468		94,392
Retirement Work in Progress	(11,258)		17,421	(28,679)
Total	\$ 81,822,669	\$ 7,282,869	\$ 1,651,374	\$ 87,454,164

(1)

(2)

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

\$ 6,684,533
<u>598,336</u>
<u>\$ 7,282,869</u>

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

\$ 1,541,369
<u>110,005</u>

Loss Due to Retirement

<u>\$ 1,651,374</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION

Schedule 7

**OTHER PROPERTY AND INVESTMENTS
DECEMBER 31, 2019 AND 2018**

INVESTMENTS IN ASSOCIATED ORGANIZATIONS

	December 31,	
	<u>2019</u>	<u>2018</u>
Memberships		
National Rural Utilities Cooperative Finance Corporation	\$ 1,000	\$ 1,000
Patronage Capital		
Tri-State Generation and Transmission Association, Inc.	47,665,085	47,911,923
National Rural Utilities Cooperative Finance Corporation	654,449	613,185
Western United Electric Supply Corporation	1,496,287	1,346,444
Federated Insurance	332,315	356,287
CoBank	195,662	130,829
National Information Solutions Cooperative	259,982	238,525
National Rural Telecommunications Cooperative	570	290
Capital Term Certificates		
National Rural Utilities Cooperative Finance Corporation	1,610,257	1,610,257
Total Investments in Associated Organizations	<u>\$ 52,215,607</u>	<u>\$ 52,208,740</u>

INVESTMENT IN AFFILIATED COMPANY

DMEA Utilities Services, LLC	\$ <u>(3,684,915)</u>	\$ <u>(2,468,148)</u>
Total Investment in Affiliated Company	<u>\$ (3,684,915)</u>	<u>\$ (2,468,148)</u>

OTHER INVESTMENTS

Notes Receivable - Geothermal Loans	\$ <u>132,907</u>	\$ <u>137,369</u>
Total Other Investments	<u>\$ 132,907</u>	<u>\$ 137,369</u>
 Total Other Property and Investments	 <u>\$ 48,663,599</u>	 <u>\$ 49,877,961</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION

Schedule 8

PATRONAGE CAPITAL
DECEMBER 31, 2019

Year	Generation and Transmission			Association			Total Balance
	Assignable	Assigned	Retired	Assignable	Assigned	Retired	
1970-1990	\$	\$	\$	\$	\$ 12,757,684	\$ 12,757,684	\$
1991					1,150,767	289,718	861,049
1992					3,405,697	781,789	2,623,908
1993		2,839,638	2,839,638		2,216,994	376,031	1,840,963
1994		2,710,033	2,710,033		1,710,889	262,207	1,448,682
1995		1,811,402	376,372		2,281,865	362,547	3,354,348
1996		1,902,824	340,665		2,169,430	329,675	3,401,914
1997		1,628,923	239,277		2,024,224	280,260	3,133,610
1998		1,884,000	239,463		2,130,664	232,592	3,542,609
1999		1,109,110	115,810		2,197,859	221,180	2,969,979
2000	1,258,434				927,378	84,859	2,100,953
2001	1,029,743				1,482,836	123,476	2,389,103
2002	1,889,605				3,276,106	258,172	4,907,539
2003	2,000,471				3,989,909	521,759	5,468,621
2004	2,584,463				1,952,288	375,501	4,161,250
2005	2,844,086				1,699,623	322,437	4,221,272
2006	2,793,436				1,578,511	695,654	3,676,293
2007	6,461,812				1,306,079	1,297,633	6,470,258
2008	5,065,772				1,478,005	1,467,970	5,075,807
2009	4,734,533				289,129	285,183	4,738,479
2010	3,307,406				1,291,168	41,416	4,557,158
2011	3,947,171				1,516,662	41,672	5,422,161
2012	1,264,342				1,401,732	535,765	2,130,309
2013	2,999,263				268,388	268,388	2,999,263
2014	2,463,322				783,690	15,066	3,231,946
2015	1,931,392				373,763	5,432	2,299,723
2016	1,104,016				431,456	1,494	1,533,978
2017	2,002,294			1,220,770 *			3,223,064
2018	1,374,549			0 *			1,374,549
2019	1,488,744			472,321 *			1,961,065
	<u>\$ 52,544,854</u>	<u>\$ 13,885,930</u>	<u>\$ 6,861,258</u>	<u>\$ 1,693,091</u>	<u>\$ 56,092,796</u>	<u>\$ 22,235,560</u>	<u>\$ 95,119,853</u>

Less Deferred Revenues to be Assigned for 2017 and 2019 (4,000,000)

91,119,853

* 2017 - 2019 Association Assignable Margins are allocated as follows:

	Association Margins by Year	Net Loss offset with future margins	Net Deferred Revenue to be Assigned	Total
2017	220,770		1,000,000	1,220,770
2018	(223,601)	223,601		0
2019	(2,304,078)	(223,601)	3,000,000	472,321
	<u>(2,306,909)</u>	<u>0</u>	<u>4,000,000</u>	<u>1,693,091</u>

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

DELTA-MONTROSE ELECTRIC ASSOCIATION

Schedule 9

MORTGAGE NOTES
DECEMBER 31, 2019

<u>Note Number</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	<u>Amount Unadvanced</u>	<u>Principal Repayments</u>	<u>Net Obligation</u>
CFC MORTGAGE NOTES					
9026	4.60%	644,898		393,734	251,164
9027	4.65%	2,269,000		927,603	1,341,397
9032	4.40-5.20%	9,489,000		5,807,952	3,681,048
9033	4.30%	22,000,000		5,728,463	16,271,537
9035	3.50-4.90%	25,000,000		213,461	24,786,539
9036	2.71-3.63%	30,353,000		799,174	29,553,826
9037		<u>50,000,000</u>	<u>50,000,000</u>		
TOTAL CFC:		<u>\$ 139,755,898</u>	<u>\$ 50,000,000</u>	<u>\$ 13,870,387</u>	<u>\$ 75,885,511</u>
COBANK MORTGAGE NOTES					
2903273	3.56%	\$ 3,966,445	\$	\$ 825,866	\$ 3,140,579
2903282	3.70%	8,637,748		1,528,086	7,109,662
2903317	3.77%	8,888,963		1,453,594	7,435,369
3073292	4.29%	15,000,000		649,900	14,350,100
3092928	4.44%	5,000,000		186,873	4,813,127
3156105	4.85%	<u>5,000,000</u>		<u>131,545</u>	<u>4,868,455</u>
TOTAL COBANK:		<u>\$ 46,493,156</u>	<u>\$ 0</u>	<u>\$ 4,775,864</u>	<u>\$ 41,717,292</u>

Net obligations include \$3,137,928 due CFC and \$1,453,299 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.

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**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, 2019, 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 7, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2020, 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 7, 2020

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS FOR ELECTRIC BORROWERS
FOR THE YEAR ENDED DECEMBER 31, 2019**

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, 2019, and have issued our report thereon dated April 7, 2020.

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 7, 2020