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UNITED STATES DEPARTMENT OF AGRICULTURE  
RURAL UTILITIES SERVICE

**FINANCIAL AND OPERATING REPORT  
ELECTRIC DISTRIBUTION**

BORROWER DESIGNATION

WI0063

PERIOD ENDED December, 2016 (Prepared with Audited Data)

BORROWER NAME

Bayfield Electric Cooperative

INSTRUCTIONS - See help in the online application.

This information is analyzed and used to determine the submitter's financial situation and feasibility for loans and guarantees. You are required by contract and applicable regulations to provide the information. The information provided is subject to the Freedom of Information Act (5 U.S.C. 552)

**CERTIFICATION**

**We recognize that statements contained herein concern a matter within the jurisdiction of an agency of the United States and the making of a false, fictitious or fraudulent statement may render the maker subject to prosecution under Title 18, United States Code Section 1001.**

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.

**ALL INSURANCE REQUIRED BY PART 1788 OF 7 CFR CHAPTER XVII, RUS, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES DURING THE PERIOD COVERED BY THIS REPORT PURSUANT TO PART 1718 OF 7 CFR CHAPTER XVII**

(check one of the following)

All of the obligations under the RUS loan documents have been fulfilled in all material respects.

There has been a default in the fulfillment of the obligations under the RUS loan documents. Said default(s) is/are specifically described in Part D of this report.

Diane Berweger

3/31/2017

DATE

**PART A. STATEMENT OF OPERATIONS**

ITEM	YEAR-TO-DATE			THIS MONTH (d)
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	
1. Operating Revenue and Patronage Capital	13,110,839	13,642,240	13,966,205	1,801,543
2. Power Production Expense	0	0	0	0
3. Cost of Purchased Power	6,204,088	6,164,877	6,331,313	645,059
4. Transmission Expense	0	0	0	0
5. Regional Market Expense	0	0	0	0
6. Distribution Expense - Operation	882,577	894,425	919,067	56,498
7. Distribution Expense - Maintenance	1,565,543	1,971,342	964,568	24,888
8. Customer Accounts Expense	355,012	287,435	273,059	(14,186)
9. Customer Service and Informational Expense	290,162	272,268	170,763	12,813
10. Sales Expense	16,765	9,791	3,439	210
11. Administrative and General Expense	1,217,945	1,066,666	796,825	55,287
<b>12. Total Operation &amp; Maintenance Expense (2 thru 11)</b>	<b>10,532,092</b>	<b>10,666,804</b>	<b>9,459,034</b>	<b>780,569</b>
13. Depreciation and Amortization Expense	1,439,768	1,523,203	2,972,586	125,536
14. Tax Expense - Property & Gross Receipts	206,062	211,886	204,470	21,185
15. Tax Expense - Other	0	0	0	0
16. Interest on Long-Term Debt	880,385	970,391	897,600	167,693
17. Interest Charged to Construction - Credit	(69,970)	(58,180)	(25,200)	(5,450)
18. Interest Expense - Other	26,955	6,815	1,710	3,230
19. Other Deductions	270	0	0	0
<b>20. Total Cost of Electric Service (12 thru 19)</b>	<b>13,015,562</b>	<b>13,320,919</b>	<b>13,510,200</b>	<b>1,092,763</b>
<b>21. Patronage Capital &amp; Operating Margins (1 minus 20)</b>	<b>95,277</b>	<b>321,321</b>	<b>456,005</b>	<b>708,780</b>
22. Non Operating Margins - Interest	66,478	44,840	43,839	10,482
23. Allowance for Funds Used During Construction	0	0	0	0
24. Income (Loss) from Equity Investments	0	0	0	0
25. Non Operating Margins - Other	168,548	8,869	94,106	55
26. Generation and Transmission Capital Credits	292,229	244,482	264,455	70,608
27. Other Capital Credits and Patronage Dividends	110,409	111,383	65,701	57,967
28. Extraordinary Items		0	0	0
<b>29. Patronage Capital or Margins (21 thru 28)</b>	<b>732,941</b>	<b>730,895</b>	<b>924,106</b>	<b>847,892</b>

UNITED STATES DEPARTMENT OF AGRICULTURE  
RURAL UTILITIES SERVICE

FINANCIAL AND OPERATING REPORT  
ELECTRIC DISTRIBUTION

BORROWER DESIGNATION

WI0063

PERIOD ENDED

December, 2016

INSTRUCTIONS - See help in the online application.

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT

ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	87	61	5. Miles Transmission	0.00	0.00
2. Services Retired	18	53	6. Miles Distribution – Overhead	1,261.09	1,236.47
3. Total Services in Place	9,462	9,474	7. Miles Distribution - Underground	687.55	717.95
4. Idle Services (Exclude Seasonals)	505	514	<b>8. Total Miles Energized (5 + 6 + 7)</b>	1,948.64	1,954.42

PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	53,215,553	30. Memberships	40,565
2. Construction Work in Progress	968,736	31. Patronage Capital	10,822,649
<b>3. Total Utility Plant (1 + 2)</b>	<b>54,184,289</b>	32. Operating Margins - Prior Years	0
4. Accum. Provision for Depreciation and Amort.	22,943,893	33. Operating Margins - Current Year	703,047
<b>5. Net Utility Plant (3 - 4)</b>	<b>31,240,396</b>	34. Non-Operating Margins	27,848
6. Non-Utility Property (Net)	1,500	35. Other Margins and Equities	1,008,420
7. Investments in Subsidiary Companies	0	<b>36. Total Margins &amp; Equities (30 thru 35)</b>	<b>12,602,529</b>
8. Invest. in Assoc. Org. - Patronage Capital	4,652,989	37. Long-Term Debt - RUS (Net)	0
9. Invest. in Assoc. Org. - Other - General Funds	0	38. Long-Term Debt - FFB - RUS Guaranteed	7,973,663
10. Invest. in Assoc. Org. - Other - Nongeneral Funds	561,530	39. Long-Term Debt - Other - RUS Guaranteed	0
11. Investments in Economic Development Projects	194,469	40. Long-Term Debt Other (Net)	16,437,382
12. Other Investments	318,465	41. Long-Term Debt - RUS - Econ. Devel. (Net)	0
13. Special Funds	0	42. Payments – Unapplied	0
<b>14. Total Other Property &amp; Investments (6 thru 13)</b>	<b>5,728,953</b>	<b>43. Total Long-Term Debt (37 thru 41 - 42)</b>	<b>24,411,045</b>
15. Cash - General Funds	843,342	44. Obligations Under Capital Leases - Noncurrent	0
16. Cash - Construction Funds - Trustee	15	45. Accumulated Operating Provisions and Asset Retirement Obligations	337,500
17. Special Deposits	0	<b>46. Total Other Noncurrent Liabilities (44 + 45)</b>	<b>337,500</b>
18. Temporary Investments	232,688	47. Notes Payable	925,000
19. Notes Receivable (Net)	0	48. Accounts Payable	930,245
20. Accounts Receivable - Sales of Energy (Net)	1,486,337	49. Consumers Deposits	85,066
21. Accounts Receivable - Other (Net)	1,023,760	50. Current Maturities Long-Term Debt	1,485,000
22. Renewable Energy Credits	0	51. Current Maturities Long-Term Debt - Economic Development	0
23. Materials and Supplies - Electric & Other	748,810	52. Current Maturities Capital Leases	0
24. Prepayments	114,448	53. Other Current and Accrued Liabilities	519,052
25. Other Current and Accrued Assets	0	<b>54. Total Current &amp; Accrued Liabilities (47 thru 53)</b>	<b>3,944,363</b>
<b>26. Total Current and Accrued Assets (15 thru 25)</b>	<b>4,449,400</b>	55. Regulatory Liabilities	0
27. Regulatory Assets	0	56. Other Deferred Credits	467,000
28. Other Deferred Debits	343,688	<b>57. Total Liabilities and Other Credits (36 + 43 + 46 + 54 thru 56)</b>	<b>41,762,437</b>
<b>29. Total Assets and Other Debits (5+14+26 thru 28)</b>	<b>41,762,437</b>		

<p style="text-align: center;">UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE <b>FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION</b></p>	<p>BORROWER DESIGNATION  WI0063</p>
<p>INSTRUCTIONS - See help in the online application.</p>	<p>PERIOD ENDED December, 2016</p>
<p><b>PART D. NOTES TO FINANCIAL STATEMENTS</b></p>	
<p>The 2016 effect of the margin stabilization plan was to defer revenues of \$467,000.00 in December 2016 to 2017 which was amortized to January 2017 revenues/margins.</p>	

<p style="text-align: center;">UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE <b>FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION</b></p>	<p>BORROWER DESIGNATION  WI0063</p>
<p>INSTRUCTIONS - See help in the online application.</p>	<p>PERIOD ENDED December, 2016</p>
<p><b>PART D. CERTIFICATION LOAN DEFAULT NOTES</b></p>	
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**FINANCIAL AND OPERATING REPORT  
ELECTRIC DISTRIBUTION**

BORROWER DESIGNATION  
WI0063

PERIOD ENDED  
December, 2016

INSTRUCTIONS - See help in the online application.

**PART E. CHANGES IN UTILITY PLANT**

PLANT ITEM	BALANCE BEGINNING OF YEAR (a)	ADDITIONS (b)	RETIREMENTS (c)	ADJUSTMENTS AND TRANSFERS (d)	BALANCE END OF YEAR (e)
1. Distribution Plant	39,934,106	2,416,849	315,026	0	42,035,929
2. General Plant	3,872,593	532,095	492,017	0	3,912,671
3. Headquarters Plant	5,282,739	870	0	0	5,283,609
4. Intangibles	155	0	0	0	155
5. Transmission Plant	1,696,843	284,725	1,044		1,980,524
6. Regional Transmission and Market Operation Plant	0	0	0	0	0
7. All Other Utility Plant	35,627		32,958	0	2,669
<b>8. Total Utility Plant in Service (1 thru 7)</b>	<b>50,822,063</b>	<b>3,234,539</b>	<b>841,045</b>	<b>0</b>	<b>53,215,557</b>
9. Construction Work in Progress	1,441,095	(472,360)			968,735
<b>10. Total Utility Plant (8 + 9)</b>	<b>52,263,158</b>	<b>2,762,179</b>	<b>841,045</b>	<b>0</b>	<b>54,184,292</b>

**PART F. MATERIALS AND SUPPLIES**

ITEM	BALANCE BEGINNING OF YEAR (a)	PURCHASED (b)	SALVAGED (c)	USED (NET) (d)	SOLD (e)	ADJUSTMENT (f)	BALANCE END OF YEAR (g)
1. Electric	301,859	1,386,086	0	940,515	41,829	43,209	748,810
2. Other	0						0

**PART G. SERVICE INTERRUPTIONS**

ITEM	AVERAGE MINUTES PER CONSUMER BY CAUSE				TOTAL (e)
	POWER SUPPLIER (a)	MAJOR EVENT (b)	PLANNED (c)	ALL OTHER (d)	
1. Present Year	29.103	110.312	19.288	1,655.941	1,814.644
2. Five-Year Average	38.770	238.270	9.860	465.600	752.500

**PART H. EMPLOYEE-HOUR AND PAYROLL STATISTICS**

1. Number of Full Time Employees	25	4. Payroll - Expensed	1,339,668
2. Employee - Hours Worked - Regular Time	48,073	5. Payroll - Capitalized	307,175
3. Employee - Hours Worked - Overtime	3,670	6. Payroll - Other	245,655

**PART I. PATRONAGE CAPITAL**

ITEM	DESCRIPTION	THIS YEAR (a)	CUMULATIVE (b)
1. Capital Credits - Distributions	a. General Retirements	289,279	3,716,742
	b. Special Retirements	21,375	498,433
	<b>c. Total Retirements (a + b)</b>	<b>310,654</b>	<b>4,215,175</b>
2. Capital Credits - Received	a. Cash Received From Retirement of Patronage Capital by Suppliers of Electric Power	72,345	
	b. Cash Received From Retirement of Patronage Capital by Lenders for Credit Extended to the Electric System	23,883	
	<b>c. Total Cash Received (a + b)</b>	<b>96,228</b>	

**PART J. DUE FROM CONSUMERS FOR ELECTRIC SERVICE**

1. Amount Due Over 60 Days	\$ 44,795	2. Amount Written Off During Year	\$ 17,841
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**ENERGY EFFICIENCY AND CONSERVATION LOAN PROGRAM**

1. Anticipated Loan Delinquency %		4. Anticipated Loan Default %	
2. Actual Loan Delinquency %		5. Actual Loan Default %	
3. Total Loan Delinquency Dollars YTD	\$	6. Total Loan Default Dollars YTD	\$

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE  <b>FINANCIAL AND OPERATING REPORT          ELECTRIC DISTRIBUTION</b>	BORROWER DESIGNATION  WI0063
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INSTRUCTIONS - See help in the online application	PERIOD ENDED December, 2016
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**PART K. kWh PURCHASED AND TOTAL COST**

No	ITEM	SUPPLIER CODE	RENEWABLE ENERGY PROGRAM NAME	RENEWABLE FUEL TYPE	kWh PURCHASED	TOTAL COST	AVERAGE COST (Cents/kWh)	INCLUDED IN TOTAL COST - FUEL COST ADJUSTMENT	INCLUDED IN TOTAL COST - WHEELING AND OTHER CHARGES
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	
1	Dairyland Power Cooperative (WI0064)	4716			84,854,947	6,164,877	7.27		
	Total				84,854,947	6,164,877	7.27		

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE  <b>FINANCIAL AND OPERATING REPORT          ELECTRIC DISTRIBUTION</b>		BORROWER DESIGNATION  WI0063
INSTRUCTIONS - See help in the online application		PERIOD ENDED December, 2016
<b>PART K. kWh PURCHASED AND TOTAL COST</b>		
<b>No</b>	<b>Comments</b>	
1		

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE <b>FINANCIAL AND OPERATING REPORT          ELECTRIC DISTRIBUTION</b>		BORROWER DESIGNATION WI0063	
INSTRUCTIONS - See help in the online application.		PERIOD ENDED December, 2016	
<b>PART L. LONG-TERM LEASES</b>			
No	NAME OF LESSOR (a)	TYPE OF PROPERTY (b)	RENTAL THIS YEAR (c)
	<b>TOTAL</b>		



UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE  <b>FINANCIAL AND OPERATING REPORT          ELECTRIC DISTRIBUTION</b>		BORROWER DESIGNATION WI0063	
INSTRUCTIONS - See help in the online application.		PERIOD ENDED December, 2016	
<b>PART M. ANNUAL MEETING AND BOARD DATA</b>			
1. Date of Last Annual Meeting 6/13/2016	2. Total Number of Members 8,113	3. Number of Members Present at Meeting 117	4. Was Quorum Present? Y
5. Number of Members Voting by Proxy or Mail 0	6. Total Number of Board Members 9	7. Total Amount of Fees and Expenses for Board Members \$ 123,784	8. Does Manager Have Written Contract? N

**RUS Financial and Operating Report Electric Distribution**

**Revision Date 2014**

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE <b>FINANCIAL AND OPERATING REPORT</b> <b>ELECTRIC DISTRIBUTION</b>	BORROWER DESIGNATION WI0063
INSTRUCTIONS - See help in the online application.	PERIOD ENDED December, 2016

**PART N. LONG-TERM DEBT AND DEBT SERVICE REQUIREMENTS**

No	ITEM	BALANCE END OF YEAR (a)	INTEREST (Billed This Year) (b)	PRINCIPAL (Billed This Year) (c)	TOTAL (Billed This Year) (d)
1	Rural Utilities Service (Excludes RUS - Economic Development Loans)	0	148,954	185,039	333,993
2	National Rural Utilities Cooperative Finance Corporation	16,437,382	584,726	72,120	656,846
3	CoBank, ACB				
4	Federal Financing Bank	7,973,663	155,908	86,715	242,623
5	RUS - Economic Development Loans				
6	Payments Unapplied				
7	Principal Payments Received from Ultimate Recipients of IRP Loans				
8	Principal Payments Received from Ultimate Recipients of REDL Loans				
9	Principal Payments Received from Ultimate Recipients of EE Loans				
	<b>TOTAL</b>	24,411,045	889,588	343,874	1,233,462

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE  <b>FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION</b>	BORROWER DESIGNATION WI0063
	PERIOD ENDED December, 2016
INSTRUCTIONS - See help in the online application.	

**PART O. POWER REQUIREMENTS DATABASE - ANNUAL SUMMARY**

CLASSIFICATION	CONSUMER SALES & REVENUE DATA	DECEMBER (a)	AVERAGE NO. CONSUMERS SERVED (b)	TOTAL YEAR TO DATE (c)
1. Residential Sales (excluding seasonal)	a. No. Consumers Served	4,926	4,927	
	b. kWh Sold			53,190,356
	c. Revenue			8,278,181
2. Residential Sales - Seasonal	a. No. Consumers Served	3,957	3,946	
	b. kWh Sold			14,617,364
	c. Revenue			3,358,867
3. Irrigation Sales	a. No. Consumers Served			
	b. kWh Sold			
	c. Revenue			
4. Comm. and Ind. 1000 KVA or Less	a. No. Consumers Served	68	67	
	b. kWh Sold			9,389,860
	c. Revenue			996,859
5. Comm. and Ind. Over 1000 KVA	a. No. Consumers Served			
	b. kWh Sold			
	c. Revenue			
6. Public Street & Highway Lighting	a. No. Consumers Served			
	b. kWh Sold			
	c. Revenue			
7. Other Sales to Public Authorities	a. No. Consumers Served			
	b. kWh Sold			
	c. Revenue			
8. Sales for Resale - RUS Borrowers	a. No. Consumers Served			
	b. kWh Sold			
	c. Revenue			
9. Sales for Resale - Other	a. No. Consumers Served			
	b. kWh Sold			
	c. Revenue			
<b>10. Total No. of Consumers (lines 1a thru 9a)</b>		8,951	8,940	
<b>11. Total kWh Sold (lines 1b thru 9b)</b>				77,197,580
<b>12. Total Revenue Received From Sales of Electric Energy (lines 1c thru 9c)</b>				12,633,907
13. Transmission Revenue				0
14. Other Electric Revenue				1,008,333
15. kWh - Own Use				265,054
16. Total kWh Purchased				84,854,947
17. Total kWh Generated				
18. Cost of Purchases and Generation				6,164,877
19. Interchange - kWh - Net				
20. Peak - Sum All kW Input (Metered) Non-coincident ___ Coincident <u>X</u>				18,074

UNITED STATES DEPARTMENT OF AGRICULTURE  
RURAL UTILITIES SERVICE

**FINANCIAL AND OPERATING REPORT  
ELECTRIC DISTRIBUTION**

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PERIOD ENDED December, 2016

INSTRUCTIONS - See help in the online application.

**PART P. ENERGY EFFICIENCY PROGRAMS**

CLASSIFICATION	ADDED THIS YEAR			TOTAL TO DATE		
	No. of Consumers (a)	Amount Invested (b)	Estimated MMBTU Savings (c)	No. of Consumers (d)	Amount Invested (e)	Estimated MMBTU Savings (f)
1. Residential Sales (excluding seasonal)	99	27,075	810	508	147,162	2,537
2. Residential Sales - Seasonal	6	4,494	166	66	20,193	264
3. Irrigation Sales						
4. Comm. and Ind. 1000 KVA or Less	6	3,419	384	29	77,852	3,925
5. Comm. and Ind. Over 1000 KVA						
6. Public Street and Highway Lighting						
7. Other Sales to Public Authorities						
8. Sales for Resale – RUS Borrowers						
9. Sales for Resale – Other						
<b>10. Total</b>	<b>111</b>	<b>34,988</b>	<b>1,360</b>	<b>603</b>	<b>245,207</b>	<b>6,726</b>

RUS Financial and Operating Report Electric Distribution

Revision Date 2014

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE  <b>FINANCIAL AND OPERATING REPORT</b> <b>ELECTRIC DISTRIBUTION</b> <b>INVESTMENTS, LOAN GUARANTEES AND LOANS</b>	BORROWER DESIGNATION WI0063  PERIOD ENDED December, 2016
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INSTRUCTIONS - Reporting of investments is required by 7 CFR 1717, Subpart N. Investment categories reported on this Part correspond to Balance Sheet items in Part C. Identify all investments in Rural Development with an 'X' in column (e). Both 'Included' and 'Excluded' Investments must be reported. See help in the online application.

**PART Q. SECTION I. INVESTMENTS (See Instructions for definitions of Income or Loss)**

No	DESCRIPTION (a)	INCLUDED (\$) (b)	EXCLUDED (\$) (c)	INCOME OR LOSS (\$) (d)	RURAL DEVELOPMENT (e)
<b>1</b>	<b>Non-Utility Property (NET)</b>				
	Iron River Development	1,500			
	Totals	1,500			
<b>2</b>	<b>Investments in Associated Organizations</b>				
	NISC-Membership	25			
	Iron River Development Group-Common Stock	100			
	Cooperative Services	5,800			
	Rural Electric Supply Cooperative-Common Stock	500			
	Federated Insurance	125,667			
	Cooperative Energy Services - Common Stock	100			
	Cooperative Energy Services - Membership	10			
	NRUCFC-Membership		1,000		
	CRC	2,500			
	NRECA-Membership	10			
	NRTC-Patronage Capital	354,109			
	Resco-Patronage Capital	115,762			
	NISC-Patronage Capital	58,676			
	Midland Services-Patronage Capital	1,547			
	Norvado	36,690			
	Iron River Cooperative-Patronage Capital	2,944			
	NRUCFC-Patronage Capital	0	187,190		
	NRUCFC-Subordinate Certificate	0	346,819		
	Dairyland Power Cooperative-Patronage Capital	3,886,072			
	Wisconsin Rural Enterprise Fund	79,000			
	Cooperative Response Center	10,000			
	Totals	4,679,512	535,009		
<b>3</b>	<b>Investments in Economic Development Projects</b>				
	DRUMMOND SANITARY DISTRICT	61,135			X
	Willow Manor Assisted Living	133,334			
	Totals	194,469			
<b>4</b>	<b>Other Investments</b>				
	Industrial Park	292,612			X
	Garden Center Lot	25,853			
	ERC Loans				
	Totals	318,465			
<b>5</b>	<b>Special Funds</b>				
	Deferred Comp	0			
	Totals	0			
<b>6</b>	<b>Cash - General</b>				
	Working Funds	1,275			
	Checking	375,063			
	Checking - (Restricted funds)	467,000			
	Totals	843,338			
<b>8</b>	<b>Temporary Investments</b>				
	Dairyland Power Cooperative	443			
	RESTRICTED FUNDS RUS COC	232,245			
	Totals	232,688			
<b>9</b>	<b>Accounts and Notes Receivable - NET</b>				
	Notes Receivable	0			
	Customer Accounts Receivable-Net	1,023,760			

<p style="text-align: center;">UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE</p> <p style="text-align: center;"><b>FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION INVESTMENTS, LOAN GUARANTEES AND LOANS</b></p>	<p>BORROWER DESIGNATION WI0063</p> <hr/> <p>PERIOD ENDED December, 2016</p>
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<b>PART Q. SECTION I. INVESTMENTS (See Instructions for definitions of Income or Loss)</b>				
	Totals	1,023,760		
<b>11</b>	<b>TOTAL INVESTMENTS (1 thru 10)</b>	<b>7,293,732</b>	<b>535,009</b>	

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE  <b>FINANCIAL AND OPERATING REPORT          ELECTRIC DISTRIBUTION          INVESTMENTS, LOAN GUARANTEES AND LOANS</b>	BORROWER DESIGNATION WI0063
	PERIOD ENDED December, 2016

INSTRUCTIONS - Reporting of investments is required by 7 CFR 1717, Subpart N. Investment categories reported on this Part correspond to Balance Sheet items in Part C. Identify all investments in Rural Development with an 'X' in column (e). Both 'Included' and 'Excluded' Investments must be reported. See help in the online application.

**PART Q. SECTION II. LOAN GUARANTEES**

No	ORGANIZATION (a)	MATURITY DATE (b)	ORIGINAL AMOUNT (\$) (c)	LOAN BALANCE (\$) (d)	RURAL DEVELOPMENT (e)
	<b>TOTAL</b>				
	TOTAL (Included Loan Guarantees Only)				

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE  <b>FINANCIAL AND OPERATING REPORT          ELECTRIC DISTRIBUTION          INVESTMENTS, LOAN GUARANTEES AND LOANS</b>	BORROWER DESIGNATION WI0063
	PERIOD ENDED December, 2016

INSTRUCTIONS - Reporting of investments is required by 7 CFR 1717, Subpart N. Investment categories reported on this Part correspond to Balance Sheet items in Part C. Identify all investments in Rural Development with an 'X' in column (e). Both 'Included' and 'Excluded' Investments must be reported. See help in the online application.

**SECTION III. RATIO**

RATIO OF INVESTMENTS AND LOAN GUARANTEES TO UTILITY PLANT [Total of Included Investments (Section I, 11b) and Loan Guarantees - Loan Balance (Section II, 5d) to Total Utility Plant (Line 3, Part C) of this report]	13.46 %
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**SECTION IV. LOANS**

No	ORGANIZATION (a)	MATURITY DATE (b)	ORIGINAL AMOUNT (\$) (c)	LOAN BALANCE (\$) (d)	RURAL DEVELOPMENT (e)
	<b>TOTAL</b>				



# **BAYFIELD ELECTRIC COOPERATIVE**

Independent Auditor's Reports and  
Financial Statements  
December 31, 2016 and 2015



**BAYFIELD ELECTRIC COOPERATIVE  
IRON RIVER, WISCONSIN**

**Contents**

	<u>Page</u>
Independent Auditor's Report.....	1 - 2
Financial Statements:	
Balance Sheets.....	3 - 4
Statements of Margins and Patronage Capital .....	5
Statements of Comprehensive Income .....	6
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8 - 21
Supplementary Information:	
Independent Auditor's Report on Supplementary Information.....	23
Schedule of Loan Proceeds and Selected Expenditures.....	24
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <u>Government Auditing</u> <u>Standards</u> .....	25 - 27
Independent Auditor's Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers.....	28 - 31

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Bayfield Electric Cooperative  
Iron River, Wisconsin

We have audited the accompanying financial statements of Bayfield Electric Cooperative (a Wisconsin corporation) which comprise the balance sheet as of December 31, 2016, and the related statements of margins and patronage capital, comprehensive income and cash flows for the year then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Bayfield Electric Cooperative as of December 31, 2016, and the results of its operations and its cash flows for the year 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 10, 2017, on our consideration of Bayfield Electric Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 the Cooperative's internal control over financial reporting and compliance.

***Prior Year Audited by Other Auditors***

The 2015 financial statements were audited by other auditors and their report thereon, dated March 14, 2016, expressed an unmodified opinion.

**BKD, LLP**

Madison, Wisconsin

April 10, 2017

**BAYFIELD ELECTRIC COOPERATIVE  
IRON RIVER, WISCONSIN**

**BALANCE SHEETS  
December 31, 2016 and 2015**

	2016	2015
<u>ASSETS</u>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 91,288	\$ 1,026,964
Temporary investments - restricted	467,000	425,000
Accounts receivable:		
Customers		
Less allowance of \$59,966 and \$74,955, respectively	1,486,337	1,164,323
Other	911,205	10,865
Notes receivable	43,877	48,765
Materials and supplies at average cost	748,810	301,859
Prepayments	114,448	106,221
Other	75,820	73,596
	3,938,785	3,157,593
<b>OTHER NONCURRENT ASSETS</b>		
Investments in associated organizations	5,214,520	4,974,455
Other investments	867,831	871,577
Deferred debits	500,907	560,707
	6,583,258	6,406,739
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Electric plant in service	53,215,553	50,822,059
Less accumulated depreciation	22,943,894	22,092,619
	30,271,659	28,729,440
Construction work in progress	968,735	1,441,096
	31,240,394	30,170,536
<b>TOTAL ASSETS</b>	<b>\$ 41,762,437</b>	<b>\$ 39,734,868</b>

See Notes to Financial Statements

**BAYFIELD ELECTRIC COOPERATIVE  
IRON RIVER, WISCONSIN**

**BALANCE SHEETS  
December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ 1,485,000	\$ 1,892,000
Accounts payable:		
Affiliates	645,059	600,135
Other	285,186	93,682
Line of credit	925,000	300,000
Consumer deposits	85,066	86,053
Other current and accrued liabilities	<u>519,052</u>	<u>460,794</u>
	<u>3,944,363</u>	<u>3,432,664</u>
 <b>LONG-TERM DEBT, LESS CURRENT PORTION</b>	 <u>24,411,045</u>	 <u>23,457,313</u>
 <b>OTHER NONCURRENT LIABILITIES AND DEFERRED CREDITS</b>		
Other postretirement benefits	337,500	1,551,700
Deferred credits	<u>467,000</u>	<u>425,000</u>
	<u>804,500</u>	<u>1,976,700</u>
 <b>MEMBERS' EQUITY</b>		
Memberships	40,565	40,480
Patronage capital	11,553,544	11,087,291
Accumulated other comprehensive income	968,900	(299,100)
Other	<u>39,520</u>	<u>39,520</u>
	<u>12,602,529</u>	<u>10,868,191</u>
 <b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	 <u>\$ 41,762,437</u>	 <u>\$ 39,734,868</u>

See Notes to Financial Statements

**BAYFIELD ELECTRIC COOPERATIVE  
IRON RIVER, WISCONSIN**

**STATEMENTS OF MARGINS AND PATRONAGE CAPITAL  
Years ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES	\$ <u>13,642,241</u>	\$ <u>13,110,839</u>
OPERATING EXPENSES		
Cost of purchased power	6,164,877	6,204,088
Distribution expense - operations	894,423	882,577
Distribution expense - maintenance	1,971,343	1,565,544
Consumer accounts	287,435	355,012
Customer service and information	282,060	306,927
Administrative and general	1,066,666	1,217,944
Depreciation	1,523,204	1,439,769
General taxes	211,885	206,061
Interest	6,815	26,955
	<u>12,408,708</u>	<u>12,204,877</u>
OPERATING MARGINS	<u>1,233,533</u>	<u>905,962</u>
FIXED CHARGES		
Interest on long-term debt	(970,391)	(880,385)
Interest charged to construction	58,180	69,970
	<u>(912,211)</u>	<u>(810,415)</u>
MARGINS AFTER FIXED CHARGES	<u>321,322</u>	<u>95,547</u>
GENERATING AND TRANSMISSION AND OTHER CAPITAL CREDITS	<u>355,865</u>	<u>402,638</u>
NET OPERATING MARGINS	<u>677,187</u>	<u>498,185</u>
NONOPERATING MARGINS		
Interest income	44,840	66,478
Other nonoperating income - net	8,868	168,278
	<u>53,708</u>	<u>234,756</u>
NET MARGINS	730,895	732,941
PATRONAGE CAPITAL - BEGINNING OF YEAR	11,087,291	10,757,486
Capital credits retired and adjustments	<u>(264,642)</u>	<u>(403,136)</u>
PATRONAGE CAPITAL - END OF YEAR	<u>\$ 11,553,544</u>	<u>\$ 11,087,291</u>

See Notes to Financial Statements



**BAYFIELD ELECTRIC COOPERATIVE  
IRON RIVER, WISCONSIN**

**STATEMENTS OF COMPREHENSIVE INCOME  
Years ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
NET MARGINS	\$ 730,895	\$ 732,941
Other comprehensive income (loss):		
Defined benefit plans:		
Net actuarial loss	111,700	107,700
Amortization of actuarial loss	(24,200)	(5,400)
Prior service cost	(1,381,100)	-
Amortization of prior service cost	<u>25,600</u>	<u>-</u>
Other comprehensive income (loss)	<u>(1,268,000)</u>	<u>102,300</u>
COMPREHENSIVE INCOME (LOSS)	<u>\$ (537,105)</u>	<u>\$ 835,241</u>

See Notes to Financial Statements

**BAYFIELD ELECTRIC COOPERATIVE  
IRON RIVER, WISCONSIN**

**STATEMENTS OF CASH FLOWS  
Years ended December 31, 2016 and 2015**

	2016	2015
<b>OPERATING ACTIVITIES</b>		
Net margins	\$ 730,895	\$ 732,941
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	1,789,608	1,667,420
Realized gain on sale of property	-	(161,595)
Interest during construction	(58,180)	(69,970)
Margin stabilization	42,000	(475,000)
Changes in assets and liabilities:		
(Increase) Decrease in:		
Receivables	(1,222,354)	168,648
Materials and supplies	(446,951)	(178,612)
Deferred debits	59,800	83,701
Temporary Investments - restricted	(42,000)	475,000
Prepayments	(10,451)	28,038
Increase (Decrease) in:		
Accounts payable	236,428	(788,723)
Deferred retirement benefits	53,800	73,700
Consumer deposits	(987)	(802)
Other	58,258	46,068
Net cash provided by operating activities	1,189,866	1,600,814
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(2,671,040)	(5,130,914)
Purchase of other investments	(419,531)	(435,047)
Proceeds from sale of other investments	125,877	123,622
Collections of notes receivable	62,223	60,732
Cost of removing plant, net of salvage	(130,246)	122,636
Net cash used in investing activities	(3,032,717)	(5,258,971)
<b>FINANCING ACTIVITIES</b>		
Proceeds from long-term borrowing	7,546,100	6,621,000
Repayment of long-term debt	(6,973,508)	(935,265)
Prepayment of long-term debt	(25,860)	-
Proceeds from line of credit	625,000	-
Repayment of line of credit	-	(950,000)
Patronage capital retired	(264,642)	(403,136)
Memberships, net	85	210
Net cash provided by financing activities	907,175	4,332,809
Net Increase (Decrease) in Cash and Cash Equivalents	(935,676)	674,652
Cash and Cash Equivalents at Beginning of Year	1,026,964	352,312
Cash and Cash Equivalents at End of Year	\$ 91,288	\$ 1,026,964

See Notes to Financial Statements

**BAYFIELD ELECTRIC COOPERATIVE  
IRON RIVER, WISCONSIN**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

Bayfield Electric Cooperative (herein referred to as "the Cooperative") is a distributor of electric power in a service area located primarily in northern Wisconsin.

The accounting policies of the Cooperative conform to accounting principles generally accepted in the United States of America. Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions 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. Management has evaluated subsequent events through April 10, 2017, the date the financial statements were available for issue. The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts prescribed by the Rural Development Utilities Program (RDUP). The Cooperative is governed by a nine person Board of Directors. Rates for service are established by the Board of Directors.

Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents.

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected.

Investments

Nonmarketable equity investments over which the Cooperative has significant influence are reflected on the equity method. Other nonmarketable equity investments are stated at cost.

Property, Plant and Equipment

Property, plant and equipment is capitalized at original cost including the capitalized cost of salaries and wages, materials, certain payroll taxes, employee benefits and interest incurred during the construction period.

The Cooperative provides for depreciation for financial reporting purposes on the straight-line method by the application of rates based on the estimated service lives of the various classes of depreciable property. These estimates are subject to change in the near term.

**BAYFIELD ELECTRIC COOPERATIVE  
IRON RIVER, WISCONSIN**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property, Plant and Equipment (Continued)

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Distribution plant	33 years
Transmission plant	33 years
General plant	5-50 years
Other plant and equipment	33 years

Renewals and betterments of units of electric plant are charged to plant in service. When electric plant is retired, its cost is removed from the asset account and charged against accumulated depreciation less any salvage realized. Repairs and renewals of minor items of electric plant are included in expense.

While the Cooperative has determined it does not have a material legal obligation associated with long lived asset retirements, it has included in its depreciation rates estimated net removal costs associated with plant assets in which estimated cost of removal exceeds gross salvage. These costs are included in the determination of depreciation expense, which results in greater periodic depreciation expense and the recognition in accumulated depreciation of future removal costs for existing assets. In order to allocate these costs to customers over the life of the related assets, these depreciation costs have been included in the determination of the rates charged the Cooperative's patrons. The Cooperative has estimated the regulatory liability associated with the accumulated removal cost included in the accumulated depreciation classification at December 31, 2016 and 2015 to be \$1,025,000 and \$841,000, respectively.

Long-Lived Assets

The Cooperative would provide for impairment losses on long-lived assets when no longer cost of service regulated, indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Based on current conditions, management does not believe any of its long-lived assets are impaired.

Income Taxes

The Cooperative is organized under the cooperative laws of the State of Wisconsin. The Cooperative has obtained an exemption from federal income taxes under code section 501(c)12 of the Internal Revenue Code, and therefore the financial statements reflect no provision or liability for income taxes.

The Cooperative has evaluated its income tax positions and determined that there are no uncertain income tax positions that need to be recorded or reported in the financial statements at December 31, 2016 and 2015.

**BAYFIELD ELECTRIC COOPERATIVE  
IRON RIVER, WISCONSIN**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Income Taxes (Continued)

The Cooperative's federal income tax returns for years after 2012 to present remain subject to examination.

Revenue Recognition

The Cooperative recognizes revenues when earned regardless of the period in which they are billed.

The Cooperative recognizes taxes charged to customers on a net basis.

Purchased Power

The Cooperative purchases power for resale from Dairyland Power Cooperative (DPC), an affiliate, under terms of a contract not to expire before December 31, 2055.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were \$72,379 and \$94,711 in 2016 and 2015, respectively.

Patronage Capital

Revenues in excess of costs and expenses are assigned to patrons on a patronage basis in accordance with the Cooperative's bylaws and are represented by patronage capital.

**BAYFIELD ELECTRIC COOPERATIVE  
IRON RIVER, WISCONSIN**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Cooperative determined the fair value of its financial assets and liabilities based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following three levels of inputs may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities that the Cooperative has the ability to access at the measurement date.
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Cooperative has no assets or liabilities carried at fair value at December 31, 2016 and 2015.

**NOTE 2. COST AND EQUITY METHOD INVESTMENTS**

Investments in Associated Organizations

The Cooperative is a Class A member of DPC, a generation facility headquartered in La Crosse, Wisconsin, supplying power to 25 distribution cooperatives in Wisconsin, Minnesota, Iowa, and Illinois. These Class A members or owners share margins realized by DPC, on the cooperative principle, based on power purchased. This investment or patronage capital earned by Class A members is being returned on a 20-year cycle.

Investments in associated organizations also include subordinated certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC). The subscription to Capital Term Certificates (CTCs) earned interest at 5%. The Loan Term Certificates (LTCs), earn interest at 3% until maturity except for those that are non-interest bearing and are issued as part of a new loan program. The Zero Term Certificates (ZTCs) are non-interest bearing.

**BAYFIELD ELECTRIC COOPERATIVE  
IRON RIVER, WISCONSIN**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 2. COST AND EQUITY METHOD INVESTMENTS (Continued)**

A summary of investments in associated organizations at December 31 is as follows:

	<u>2016</u>	<u>2015</u>
Investment in DPC	\$ 3,886,072	\$ 3,713,934
Investment in NRUCFC - CTCs - 5%	275,014	275,014
Investment in NRUCFC - LTCs - 3%	52,000	52,000
Investment in NRUCFC - ZTCs	19,805	20,794
Investment in NRUCFC - Patronage capital credits	187,190	162,050
Investment in other associated organizations	<u>794,439</u>	<u>750,663</u>
Total	<u>\$ 5,214,520</u>	<u>\$ 4,974,455</u>

The Cooperative has a 12.24% interest in the Wisconsin Rural Economic Fund, LLC (WREF). This investment is accounted for by the equity method. For the investments (\$79,000 at December 31, 2016 and 2015) accounted for under the equity method, the Cooperative recognizes its proportionate share of the income and losses accruing to it under the terms of its partnership agreements. The Cooperative has determined that a summary of condensed financial information pertaining to this investment is immaterial to the financial statements.

Other Investments

Other investments consist of:

	<u>2016</u>	<u>2015</u>
Notes receivable	\$ 307,732	\$ 369,956
Other	<u>603,976</u>	<u>550,386</u>
	911,708	920,342
Less: current portion	<u>(43,877)</u>	<u>(48,765)</u>
Total	<u>\$ 867,831</u>	<u>\$ 871,577</u>

Notes receivable includes amounts loaned for economic development projects in the Cooperative's service area of \$307,732 and \$369,955 at December 31, 2016 and 2015, respectively. The 2016 balance is comprised of amounts due from (1) an assisted living facility of \$199,780 (2) a greenhouse at \$46,817 and (3) municipal sanitation operation of \$61,135.

Because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs, management has determined it is not practical to estimate the fair value of these investments. However, management believes that the carrying amount of these investments at December 31, 2016 and 2015, included in other investments and investments in associated organizations is not impaired.

**BAYFIELD ELECTRIC COOPERATIVE  
IRON RIVER, WISCONSIN**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 3. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment includes the following:

	<u>2016</u>	<u>2015</u>
Electric plant in service:		
Intangible plant	\$ 155	\$ 155
Distribution plant	46,879,251	44,777,428
Transmission plant	1,980,524	1,696,843
General plant	4,352,954	4,312,006
Other plant and equipment	<u>2,669</u>	<u>35,627</u>
 Total property, plant and equipment	 <u>\$ 53,215,553</u>	 <u>\$ 50,822,059</u>

Depreciation charges on depreciable fixed assets for the years ended December 31, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
Electric operating expenses	\$ 1,523,204	\$ 1,439,769
Clearing accounts to construction and maintenance	<u>266,404</u>	<u>227,651</u>
 Total	 <u>\$ 1,789,608</u>	 <u>\$ 1,667,420</u>

**NOTE 4. LINE OF CREDIT**

Lines of credit at December 31, 2016 and 2015, of \$925,000 and \$300,000, respectively, were made under line of credit arrangements with the National Rural Utilities Cooperative Finance Corporation (NRUCFC) and bear interest at 2.50% and 2.90%, at December 31, 2016 and 2015, respectively. The Cooperative had available unused lines of credit of \$2,075,000 at December 31, 2016.



**BAYFIELD ELECTRIC COOPERATIVE  
IRON RIVER, WISCONSIN**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 5. LONG-TERM DEBT**

Long-term debt consists of:

	2016	2015
RDUP 4.5% note, due 2037	\$ -	\$ 820,457
RDUP 4.4% notes, due 2037	-	1,659,075
RDUP 3.7% note, due 2037	-	411,119
RDUP 4.2% note, due 2037	-	1,593,670
RDUP 3.8% note, due 2037	-	1,263,902
RDUP 2.7% note, due 2047	2,092,514	2,121,000
RDUP 3.1% note, due 2047	4,152,724	4,211,154
NRUCFC 3.0% notes, due 2018-2020	667,537	-
NRUCFC 3.8% notes, due 2028-2030	923,412	-
RDUP 1.9% note, due 2037	1,896,000	-
NRUCFC 3.7% notes, due 2026-2027	563,604	181,240
NRUCFC 2.7% notes, due 2017	261,079	718,987
NRUCFC 4.0% notes, due 2017-2033	2,709,112	1,815,399
NRUCFC 3.2% notes, due 2017	85,225	195,487
NRUCFC 7.1% note, due 2017	37,742	72,936
NRUCFC 3.5% notes, due 2024-2025	526,131	-
NRUCFC 4.2% notes, due 2019, 2025	1,116,989	1,202,035
NRUCFC 3.3% notes, due 2020	986,546	951,170
NRUCFC 4.5% notes, due 2020-2022	568,437	568,437
NRUCFC 6.95% note, due 2021	218,350	253,696
NRUCFC 3.1% note, due 2023	503,974	576,094
NRUCFC 4.6% note, due 2023	139,963	139,963
NRUCFC 3.4% notes, due 2022-2023	493,241	-
NRUCFC 4.7% notes, due 2024-2025	301,877	301,877
NRUCFC 4.8% notes, due 2026-2028	506,501	506,501
NRUCFC 4.9% notes, due 2029-2030	262,430	262,430
NRUCFC 4.6% note, due 2035	5,518,460	5,708,657
NRUCFC 4.0% notes, due 2034-2035	1,096,442	-
Other	500,000	500,000
Advance payments - cushion of credit	(232,245)	(685,973)
Total long-term debt	25,896,045	25,349,313
Less current portion	1,485,000	1,892,000
	\$ 24,411,045	\$ 23,457,313

**BAYFIELD ELECTRIC COOPERATIVE  
IRON RIVER, WISCONSIN**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 5. LONG-TERM DEBT (Continued)**

The annual requirements for principal payments on long-term debt for the next five years are as follows:

2017	\$ 1,485,000
2018	1,406,000
2019	1,412,000
2020	1,349,000
2021	1,236,000

Substantially all assets of the Cooperative are pledged as security for the long-term debt under certain loan and mortgage agreements with RDUP and NRUCFC.

Cash paid for interest net of amounts capitalized for 2016 totaled \$912,211.

Unadvanced funds at December 31, 2016 for long-term notes total \$1,753,000.

Under provisions of the long-term debt agreements, until the total of equities and margins equals or exceeds 30% of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited, generally, to 25% of the patronage capital or margins received by the Cooperative in the preceding year. In 2016 and 2015, a first-in, first-out and percentage method, was used to determine the patronage distribution.

The loan agreements underlying the RDUP and NRUCFC notes contain certain covenants pertaining to changes of members' electric rates and the submission of certain reports and studies under specified conditions. Also, current RDUP loan arrangements require the Cooperative to achieve a debt service coverage ratio (DSC) and a times interest earned ratio (TIER) of not less than 1.25 and an operating DSC and TIER of not less than 1.1. These ratios are to be determined by averaging each of the highest annual ratios during the three most recent fiscal years.

The Cooperative has obtained loans from DPC and RDUP to provide support to economic development projects in the Cooperative's service area. The loans are repayable in equal installments and bear interest at rates ranging from zero to 5%. Remaining principal payments on these loans at December 31, 2016 is \$254,488. The Cooperative has loaned similar amounts for real estate related and other economic development projects. The original note repayment terms were scheduled to match the DPC and RDUP loans.

**BAYFIELD ELECTRIC COOPERATIVE  
IRON RIVER, WISCONSIN**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 5. LONG-TERM DEBT (Continued)**

The Cooperative has received a \$200,000 grant from the USDA Rural Economic Development Loan and Grant Fund Program (REDLG). There are no payments due on the grant unless the Cooperative fails to comply with the conditions therein. The funds may be supplemented by funds from the Cooperative and DPC and loaned to entities involved in economic development projects in the Cooperative's service area. The proceeds from loan repayment will be maintained in a separate account for the Cooperative to loan to future qualifying projects. At December 31, 2016 and 2015 the Cooperative has unpaid amounts totaling \$66,989 and \$90,336, respectively, to economic development projects. Payments are due the Cooperative monthly on a straight-line basis over a ten year period. Interest rates on the advances range from zero to 4.5 percent. Certain advances are secured by real estate. In 2010, the Cooperative received an additional \$300,000 from REDLG. In 2010, the Cooperative advanced \$300,000 to an economic development project without interest. Payments are due the Cooperative monthly on a straight-line basis over a ten year period. The loan is secured by real estate. The remaining outstanding amounts under this loan are \$147,500 and \$177,500 at December 31, 2016 and 2015, respectively. Proceeds from loan repayment are to be maintained in a separate restricted account. Other investments includes restricted investment accounts of \$285,511 and \$232,174 at December 31, 2016 and 2015, respectively.

**NOTE 6. DEFERRED DEBITS**

	2016	2015
Deferred debits consist of:		
Survey/Investigation Costs	23,640	51,697
R&S Power Vision loan	434,983	509,010
Solar Power Shares	42,284	-
Total	\$ 500,907	\$ 560,707

**NOTE 7. MULTIEMPLOYER DEFINED BENEFIT PENSION PLAN**

The Cooperative contributes to the "Retirement and Security Program (R&S) for Employees of the National Rural Electric Cooperative Association (NRECA) and Its Member Systems". The multiemployer program is a defined benefit pension plan covering most employees. The risk of participating in this multiemployer plan is different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

**BAYFIELD ELECTRIC COOPERATIVE  
IRON RIVER, WISCONSIN**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 7. MULTIEMPLOYER DEFINED BENEFIT PENSION PLAN (Continued)**

- If the Cooperative chooses to stop participating in the multiemployer plan, they may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Cooperative's participation in this plan for the annual period ended December 31, 2016, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2016 is for the plan's year-end at December 31, 2015. The zone status is based on information that the Cooperative received from the plan. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or rehabilitation plan (RP) is either pending or has been implemented.

The plan does not have a certified zone status as currently defined by the PPA because the plan is considered a multiple employer plan pursuant to the Internal Revenue Code and ERISA.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status	FIP/RP Status Pending/Implemented	Contributions		Surcharge Imposed
				12/31/16	12/31/15	
RS	53-0116145 / 333	N/A	N/A	\$ 259,627	\$ 281,913	N/A

At the date the financial statements were issued, Forms 5500 were not available for the plan year ending in 2016.

**NOTE 8. EMPLOYEE BENEFIT PLANS**

The Cooperative has a post-retirement benefit plan for retirees that provides health insurance to retired employees. Employee contributions are required. The plan anticipates that benefits offered under the plan will be adjusted periodically in accordance with the changes adopted for the active employees.

In 2016, the plan was amended to only provide benefits to qualifying employees until they reach the age of 65. Prior to 2016, benefits were provided until the death of the employee.

**BAYFIELD ELECTRIC COOPERATIVE  
IRON RIVER, WISCONSIN**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 8. EMPLOYEE BENEFITS PLANS (Continued)**

The following table sets forth information about the benefit plan for the year ended December 31:

	2016	2015
Post-retirement plan obligations and funded status:		
Accumulated post-retirement benefit obligation at December 31	\$ (337,500)	\$(1,551,700)
Plan assets at fair value at December 31	-	-
Funded status	\$ (337,500)	\$(1,551,700)
	2016	2015
Amounts recognized in the balance sheet:		
Noncurrent liabilities	\$ (337,500)	\$(1,551,700)
Amounts recognized in accumulated other comprehensive income:		
Net actuarial loss	\$ 386,600	\$ 299,100
Prior service cost (credit)	(1,355,500)	-
Total	\$ (968,900)	\$ 299,100
	2016	2015
<u>Other changes in plan assets and benefit obligations previously recognized in changes in comprehensive income:</u>		
Net loss	\$ 87,500	\$ 102,300
Prior service cost (credit)	(1,381,100)	-
Amortization of prior service cost (credit) and net loss	25,600	-
Total recognized in other comprehensive income	(1,268,000)	-
Net periodic benefit cost	109,700	-
Total recognized in net periodic benefit cost and other comprehensive income	\$(1,158,300)	\$ -

The estimated net loss and prior service credit that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2017 is expected to be \$(118,200).

**BAYFIELD ELECTRIC COOPERATIVE  
IRON RIVER, WISCONSIN**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 8. EMPLOYEE BENEFITS PLANS (Continued)**

**Assumptions**

The key actuarial assumptions used to determine the post-retirement benefit obligation as of December 31, 2016 and 2015 are as follows:

	2016	2015
Weighted-average assumptions used to determine postretirement benefit obligations at December 31:		
Discount rate	4.05 %	4.15 %
Weighted-average assumptions used to determine periodic benefit cost at December 31:		
Discount Rate	4.15 %	4.60 %
Health care inflation:		
Initial rate	8.00 %	7.00 %
Ultimate rate	5.00 %	5.00 %
Year ultimate rate achieved	2022	2020
Benefits cost	\$ 109,700	\$ 120,600
Contribution	\$ 55,900	\$ 46,900
Benefits paid	\$ 55,900	\$ 46,900

**Contributions**

The Cooperative expects to contribute \$39,700 to its benefit plan in 2017.

**Estimated Future Benefit Payments**

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid over the next five years as follows:

	Other Benefits
2017	\$ 39,700
2018	17,700
2019	16,300
2020	20,800
2021	29,300

**BAYFIELD ELECTRIC COOPERATIVE  
IRON RIVER, WISCONSIN**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 9. DETAIL OF PATRONAGE CAPITAL**

Patronage capital consists of:

	2016	2015
Assignable	\$ 730,895	\$ 732,941
Assigned	<u>11,087,291</u>	<u>10,757,486</u>
	<u>11,818,186</u>	<u>11,490,427</u>
Less: capital credits - general retirement and adjustments	<u>(264,642)</u>	<u>(403,136)</u>
Total	<u>\$ 11,553,544</u>	<u>\$ 11,087,291</u>

The Cooperative is organized and operates under the cooperative form of organization. As such, patronage capital or margins are allocated to patrons on the basis of individual consumption of electric energy.

**NOTE 10. CONCENTRATIONS OF CREDIT RISK**

The Cooperative grants credit for service to members, all of whom are located in the franchised service area. The collectability of the accounts receivable arising from such sales is dependent upon the economy of the service area which is primarily rural.

Financial instruments that potentially subject the Cooperative to concentrations of credit risk consist principally of cash equivalents, deposits, accounts receivable, notes receivable and investments. The Company places its temporary investments in several financial institutions which limits the amount of credit exposure in any one financial institution.

The Cooperative maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Cooperative has not experienced any losses in such accounts. The Cooperative believes it is not exposed to any significant credit risk on cash and cash equivalents.

Approximately 50% of the labor force is subject to collective bargaining agreements. The current bargaining agreement is in effect until December 31, 2018.

**NOTE 11. COMMITMENTS AND CONTINGENCIES**

Under the wholesale power agreement, the Cooperative is committed to purchase its electric power requirements from DPC until December 31, 2055. The rate paid for such purchases is subject to periodic review.

**BAYFIELD ELECTRIC COOPERATIVE  
IRON RIVER, WISCONSIN**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 12. MARGIN STABILIZATION PLAN**

On March 3, 1990, the Board of Directors approved a Margin Stabilization Plan (the Plan). The purpose of the Plan is to mitigate the effects of weather conditions on margins generated by the Cooperative's rate structure. The Plan focuses on achieving a targeted modified times interest earned ratio (TIER) of 1.50 times. Margins in excess of the targeted modified TIER are deducted from current income and recorded as a deferred credit. Costs incurred in excess of the targeted TIER are restored to current income and recorded as a deferred charge. The deferred credits and deferred charges are to be amortized to revenues in the subsequent period. Deferred credits related to the plan were \$467,000 and \$425,000 at December 31, 2016 and 2015, respectively.

In accordance with the Plan, when the margins exceed the targeted TIER, the Cooperative is to segregate the cash equivalent as a special fund.



**SUPPLEMENTARY INFORMATION**

**INDEPENDENT AUDITOR'S REPORT ON  
SUPPLEMENTARY INFORMATION**

To the Board of Directors  
Bayfield Electric Cooperative  
Iron River, Wisconsin

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

*BKD, LLP*

Madison, Wisconsin  
April 10, 2017

**BAYFIELD ELECTRIC COOPERATIVE  
IRON RIVER, WISCONSIN**

**SCHEDULE OF LOAN PROCEEDS AND SELECTED EXPENDITURES  
Year Ended December 31, 2016**

Loan Proceeds

Long and intermediate-term loan advances during the year ended December 31, 2016	\$ <u>7,546,100</u>
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Advances on NRUCFC line of credit during the year ended December 31, 2016	\$ <u>925,000</u>
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Selected Expenditures

Construction expenditures during the year ended December 31, 2016	\$ <u>2,671,040</u>
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Notes to Schedule

The Cooperative's long-term loan fund advances from NRUCFC are governed by the RDUP NRUCFC Restated Mortgage and Security Agreement, as set forth in the Loan Agreements dated July 13, 2003 and November 11, 2011.

The Cooperative has a line of credit from NRUCFC under its revolving line of credit arrangement dated July 12, 2001.

Construction expenditures reflect the amount of funds expended in 2016 toward the construction and improvement of the Cooperative's distribution and transmission system and the acquisition of general plant assets.

See Independent Auditor's Report on Supplementary Information

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

To the Board of Directors  
Bayfield Electric Cooperative  
Iron River, Wisconsin

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 Bayfield Electric Cooperative, which comprise the balance sheet as of December 31, 2016 and the related statements of margins and patronage capital, comprehensive income, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 10, 2017, which includes an other matter paragraph referring to other auditors.

**Internal Control Over Financial Reporting**

Management of the Cooperative is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Cooperative's internal control to determine the audit procedures that are appropriate in the circumstances 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 Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Cooperative's 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.

We consider the following deficiencies in the Cooperative's internal control to be significant deficiencies:

- **Criteria:** In order for the Cooperative to fulfill its reporting requirements and prepare complete financial statement disclosures it must put in place personnel and properly designed controls to ensure fairly stated financial statements.

**Condition:** The Cooperative has utilized accounting assistance from another party to draft financial statements and assist with the preparation of certain normal annual closing entries.

**Cause:** The Cooperative has a limited number of personnel.

**Effect:** Lack of experience in preparing financial statements and normal closing entries could result in incomplete disclosures and/or incorrect presentation of information which could have an adverse impact on users of the financial statements.

**Recommendation:** While putting in place the personnel and properly designed controls may not be a cost effective solution to completing the Cooperative's reporting requirements, management should strive to educate staff on changing reporting requirements and review the financial statements with disclosure at multiple levels prior to issuance.

**Management's Response:** The Cooperative reviews and approves the results of these activities and believes this approach provides a cost effective solution in light of their limited resources.

- **Criteria:** Complete segregation of duties and a formal risk assessment process are essential in maintaining internal controls over financial reporting and managing the information technology system of the Cooperative.

**Condition:** The Cooperative's limited resources and personnel do not allow for complete segregation of duties or a formal risk assessment and monitoring system.

**Cause:** The Cooperative has a limited number of personnel and it therefore is not able to dedicate the required resources to maintain complete segregation of duties or prepare formal risk assessment and monitoring systems.

**Effect:** Due to the lack of a formal internal control and information technology system and segregation of duties, there is a potential for an employee to perpetrate and conceal a theft of assets from the Cooperative.

**Recommendation:** Complete segregation of incompatible duties in the accounting department may not be possible at the current staffing levels. Management and those charged with governance should be aware of the limitations of the internal control system as currently implemented and should remain alert for opportunities to improve the segregation of duties through the reallocation of duties or reassignment of responsibilities.

**Management's Response:** The Cooperative periodically performs an informal risk assessment and monitors the business risk associated with assignment of personnel to various activities.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Cooperative'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 or other matters that are required to be reported under *Government Auditing Standards*.

## **Bayfield Electric Cooperative's Response to Findings**

The Cooperative's response to the findings identified in our audit are described above. Bayfield Electric Cooperative's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **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 Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

Madison, Wisconsin  
April 10, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS  
OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS  
FOR ELECTRIC BORROWERS**

To the Board of Directors  
Bayfield Electric Cooperative  
Iron River, Wisconsin

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 Bayfield Electric Cooperative, which comprise the balance sheet as of December 31, 2016, and the related statements of margins and patronage capital, comprehensive income and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 10, 2017. In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2017, on our consideration of Bayfield Electric Cooperative'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 and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Bayfield Electric Cooperative 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 the clarified 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 Bayfield Electric Cooperative'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 Bayfield Electric Cooperative's accounting and records to indicate that Bayfield Electric Cooperative 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 the approval of the sale, lease or transfer of 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 approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers 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;

Schedule of Deferred Debits

Survey/Investigation Costs	\$	23,640
R&S Power Vision loan		434,983
Solar Power Shares		<u>42,284</u>
Total deferred debits	\$	<u><u>500,907</u></u>

Schedule of Deferred Credits

Margin stabilization		<u>467,000</u>
Total deferred credits	\$	<u><u>467,000</u></u>

- Comply with the requirements for the detailed schedule of investments.



**BAYFIELD ELECTRIC COOPERATIVE**  
**SCHEDULE OF SUBSIDIARY AND AFFILIATE INVESTMENTS**  
**December 31, 2016 and 2015**

<u>Entity Name</u>	<u>WREF</u>	<u>NRUCFC</u>	<u>DPC</u>
Principal Business	Investing	Financial	Generation & Transmission of Electricity
Accounting method	Equity	Cost	Cost
Year ended December 31, 2015			
Investment advances			
Prior years	\$ 150,000	\$ 481,776	\$ 1,703,366
Earnings (losses)			
Prior years	(71,000)	121,074	2,518,076
Current year	-	42,307	292,229
Dividends received			
Prior years	-	(89,506)	(732,196)
Current year	-	(45,793)	(67,541)
Book value of investment December 31, 2015	<u>79,000</u>	<u>509,858</u>	<u>3,713,934</u>
Year ended December 31, 2016			
Earnings (losses)			
Current year	-	49,023	244,482
Dividends received			
Current year	-	(24,872)	(72,344)
Book value of investment December 31, 2016	<u>\$ 79,000</u>	<u>\$ 534,009</u>	<u>\$ 3,886,072</u>
Cost Investments:			
Dividends/Distribution Received			
at December 31, 2015	\$ -	\$ 45,793	\$ 67,541
at December 31, 2016	\$ -	\$ 24,872	\$ 72,334

This report is intended solely for the information and use of the board of directors, management of the Cooperative, the Rural Development Utilities Program 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.

*BKD, LLP*

Madison, Wisconsin  
April 10, 2017