

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0572-0032. The time required to complete this information collection is estimated to average 21 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

BORROWER DESIGNATION MI0037

FINANCIAL AND OPERATING REPORT
ELECTRIC POWER SUPPLY

PERIOD ENDED December, 2016 (Prepared with Audited Data)

BORROWER NAME Thumb Electric Cooperative of Michigan

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 A Section C of this report.

Della Bran

3-20-17
DATE

| reUNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE | | BORROWER DESIGNATION MI0037 | | |
|--|----------------------|--------------------------------|--|------------------|
| FINANCIAL AND OPERATING REPORT ELECTRIC POWER SUPPLY PART C - SOURCES AND DISTRIBUTION OF ENERGY | | PERIOD ENDED December, 2016 | | |
| INSTRUCTIONS - See help in the online application. | | | | |
| SOURCES OF ENERGY (a) | NO. OF PLANTS (b) | CAPACITY (kW) (c) | NET ENERGY RECEIVED BY SYSTEM (MWh) (d) | COST (\$) (e) |
| Generated in Own Plant (Details on Parts D, E, F IC, F CC, and G) | | | | |
| 1. Fossil Steam | 0 | 0 | 0 | 0 |
| 2. Nuclear | 0 | 0 | 0 | 0 |
| 3. Hydro | 0 | 0 | 0 | 0 |
| 4. Combined Cycle | 0 | 0 | 0 | 0 |
| 5. Internal Combustion | 2 | 21,913 | 563 | 110,411 |
| 6. Other | | | | |
| 7. Total in Own Plant (1 thru 6) | 2 | 21,913 | 563 | 110,411 |
| Purchased Power | | | | |
| 8. Total Purchased Power | | | 0 | 0 |
| Interchanged Power | | | | |
| 9. Received Into System (Gross) | | | | |
| 10. Delivered Out of System (Gross) | | | | |
| 11. Net Interchange (9 - 10) | | | | |
| Transmission For or By Others - (Wheeling) | | | | |
| 12. Received Into System | | | | |
| 13. Delivered Out of System | | | | |
| 14. Net Energy Wheeled (12 - 13) | | | | |
| 15. Total Energy Available for Sale (7 + 8 + 11 + 14) | | | 562 | |
| Distribution of Energy | | | | |
| 16. Total Sales | | | 0 | |
| 17. Energy Furnished to Others Without Charge | | | | |
| 18. Energy Used by Borrower (Excluding Station Use) | | | | |
| 19. Total Energy Accounted For (16 thru 18) | | | 0 | |
| Losses | | | | |
| 20. Energy Losses - MWh (15 - 19) | | | 562 | |
| 21. Energy Losses - Percentage ((20 / 15) * 100) | | | 100.00 % | |

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

FINANCIAL AND OPERATING REPORT
ELECTRIC POWER SUPPLY
PART F IC - INTERNAL COMBUSTION PLANT

BORROWER DESIGNATION
MI0037

PLANT
Caro

PERIOD ENDED
December, 2016

INSTRUCTIONS - See help in the online application.

SECTION A. INTERNAL COMBUSTION GENERATING UNITS

| NO. | UNIT NO. (a) | SIZE (kW) (b) | FUEL CONSUMPTION | | | | OPERATING HOURS | | | | | |
|-----|------------------------------|---------------|----------------------|---------------------|-------------|-----------|----------------------------|----------------|---------------------------|------------|-----------------------|-----------------|
| | | | OIL (1000 Gals.) (c) | GAS (1000 C.F.) (d) | OTHER (e) | TOTAL (f) | IN SERVICE (g) | ON STANDBY (h) | OUT OF SERVICE SCHED. (i) | UNSCH. (j) | GROSS GENER.(MWh) (k) | BTU PER kWh (l) |
| 1. | 1 | 1,313 | .09 | | | | 1 | 8,783 | | | 1 | |
| 2. | 2 | 1,313 | .09 | | | | 1 | 8,783 | | | 1 | |
| 3. | 3 | 1,313 | .09 | | | | 1 | 8,783 | | | 1 | |
| 4. | 4 | 1,550 | .10 | | | | 1 | 8,783 | | | 1 | |
| 5. | 5 | 2,000 | .15 | | | | 1 | 8,783 | | | 2 | |
| 6. | Total | 9,489 | .66 | 0.00 | 0.00 | | 6 | 52,698 | 0 | 0 | 7 | |
| 7. | Average BTU | | 139,500.00 | | | | Station Service (MWh) | | | | (326.80) | 12,441.09 |
| 8. | Total BTU (10 ⁶) | | 92.07 | | | 92.07 | Net Generation (MWh) | | | | 334.20 | |
| 9. | Total Del. Cost (\$) | | | | | | Station Service % of Gross | | | | (4,416.22) | 275.49 |

SECTION B. LABOR REPORT

SECTION C. FACTORS & MAXIMUM DEMAND

| NO. | ITEM | VALUE | NO. | ITEM | VALUE | NO. | ITEM | VALUE |
|-----|--|-------|-----|-----------------------------------|--------|-----|-----------------------------------|--------|
| 1. | No. Employees Full Time (Include Superintendent) | 1 | 5. | Maintenance Plant Payroll (\$) | | 1. | Load Factor (%) | 0.00% |
| 2. | No. Employees Part Time | | 6. | Other Accounts Plant Payroll (\$) | 76,751 | 2. | Plant Factor (%) | 0.01% |
| 3. | Total Employee Hours Worked | 2,180 | 7. | Total Plant Payroll (\$) | 79,723 | 3. | Running Plant Capacity Factor (%) | 77.99% |
| 4. | Operating Plant Payroll (\$) | 2,972 | | | | 4. | 15 Min. Gross Max. Demand (kW) | |
| | | | | | | 5. | Indicated Gross Max. Demand (kW) | |

SECTION D. COST OF NET ENERGY GENERATED

| NO. | PRODUCTION EXPENSE | ACCOUNT NUMBER | AMOUNT (\$) (a) | MILLS/NET (kWh) (b) | \$/10 ⁶ BTU (c) |
|-----|---|----------------|-----------------|---------------------|----------------------------|
| 1. | Operation, Supervision and Engineering | 546 | 573 | | |
| 2. | Fuel, Oil | 547.1 | 1,059 | | 11.50 |
| 3. | Fuel, Gas | 547.2 | 0 | | 0.00 |
| 4. | Fuel, Other | 547.3 | 0 | | 0.00 |
| 5. | Energy for Compressed Air | 547.4 | 0 | 0.00 | |
| 6. | Fuel SubTotal (2 thru 5) | 547 | 1,059 | 3.16 | 11.50 |
| 7. | Generation Expenses | 548 | 1,631 | | |
| 8. | Miscellaneous Other Power Generation Expenses | 549 | 7,196 | | |
| 9. | Rents | 550 | 0 | | |
| 10. | Non-Fuel SubTotal (1 + 7 thru 9) | | 9,400 | 28.12 | |
| 11. | Operation Expense (6 + 10) | | 10,459 | 31.29 | |
| 12. | Maintenance, Supervision and Engineering | 551 | 0 | | |
| 13. | Maintenance of Structures | 552 | 1,113 | | |
| 14. | Maintenance of Generating and Electric Plant | 553 | 348 | | |
| 15. | Maintenance of Miscellaneous Other Power Generating Plant | 554 | 0 | | |
| 16. | Maintenance Expense (12 thru 15) | | 1,461 | 4.37 | |
| 17. | Total Production Expense (11 + 16) | | 11,920 | 35.66 | |
| 18. | Depreciation | 403.4, 411.10 | 57,549 | | |
| 19. | Interest | 427 | 3,594 | | |
| 20. | Total Fixed Cost (18 + 19) | | 61,143 | 182.95 | |
| 21. | Power Cost (17 + 20) | | 73,063 | 218.62 | |

Remarks (including Unscheduled Outages)

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

FINANCIAL AND OPERATING REPORT
ELECTRIC POWER SUPPLY
PART F IC - INTERNAL COMBUSTION PLANT

BORROWER DESIGNATION
MI0037

PLANT
Caro

PERIOD ENDED
December, 2016

INSTRUCTIONS - See help in the online application.

SECTION A. INTERNAL COMBUSTION GENERATING UNITS

| NO. | UNIT NO. (a) | SIZE (kW) (b) | FUEL CONSUMPTION | | | | OPERATING HOURS | | | | | |
|-----|------------------------------|------------------|-------------------------|------------------------|--------------|--------------|----------------------------|-------------------|------------------------------|------------------------------|--------------------------|--------------------|
| | | | OIL (1000 Gals.) (c) | GAS (1000 C.F.) (d) | OTHER (e) | TOTAL (f) | IN SERVICE (g) | ON STANDBY (h) | OUT OF SERVICE SCHED. (i) | OUT OF SERVICE UNSCH. (j) | GROSS GENER.(MWh) (k) | BTU PER kWh (l) |
| 1. | 6 | 2,000 | .14 | | | | 1 | 8,783 | | | 2 | |
| 2. | | | | | | | | | | | | |
| 3. | | | | | | | | | | | | |
| 4. | | | | | | | | | | | | |
| 5. | | | | | | | | | | | | |
| 6. | Total | | | | | | | | | | | |
| 7. | Average BTU | | | | | | Station Service (MWh) | | | | | |
| 8. | Total BTU (10 ⁶) | | | | | | Net Generation (MWh) | | | | | |
| 9. | Total Del. Cost (\$) | | | | | | Station Service % of Gross | | | | | |

SECTION B. LABOR REPORT

SECTION C. FACTORS & MAXIMUM DEMAND

| NO. | ITEM | VALUE | NO. | ITEM | VALUE | NO. | ITEM | VALUE |
|-----|--|-------|-----|-----------------------------------|-------|-----|-----------------------------------|-------|
| 1. | No. Employees Full Time (Include Superintendent) | | 5. | Maintenance Plant Payroll (\$) | | 1. | Load Factor (%) | |
| 2. | No. Employees Part Time | | 6. | Other Accounts Plant Payroll (\$) | | 2. | Plant Factor (%) | |
| 3. | Total Employee Hours Worked | | 7. | Total Plant Payroll (\$) | | 3. | Running Plant Capacity Factor (%) | |
| 4. | Operating Plant Payroll (\$) | | | | | 4. | 15 Min. Gross Max. Demand (kW) | |
| | | | | | | 5. | Indicated Gross Max. Demand (kW) | |

SECTION D. COST OF NET ENERGY GENERATED

| NO. | PRODUCTION EXPENSE | ACCOUNT NUMBER | AMOUNT (\$) (a) | MILLS/NET (kWh) (b) | \$/10 ⁶ BTU (c) |
|-----|---|----------------|--------------------|------------------------|-------------------------------|
| 1. | Operation, Supervision and Engineering | 546 | | | |
| 2. | Fuel, Oil | 547.1 | | | |
| 3. | Fuel, Gas | 547.2 | | | |
| 4. | Fuel, Other | 547.3 | | | |
| 5. | Energy for Compressed Air | 547.4 | | | |
| 6. | Fuel SubTotal (2 thru 5) | 547 | | | |
| 7. | Generation Expenses | 548 | | | |
| 8. | Miscellaneous Other Power Generation Expenses | 549 | | | |
| 9. | Rents | 550 | | | |
| 10. | Non-Fuel SubTotal (1 + 7 thru 9) | | | | |
| 11. | Operation Expense (6 + 10) | | | | |
| 12. | Maintenance, Supervision and Engineering | 551 | | | |
| 13. | Maintenance of Structures | 552 | | | |
| 14. | Maintenance of Generating and Electric Plant | 553 | | | |
| 15. | Maintenance of Miscellaneous Other Power Generating Plant | 554 | | | |
| 16. | Maintenance Expense (12 thru 15) | | | | |
| 17. | Total Production Expense (11 + 16) | | | | |
| 18. | Depreciation | 403.4, 411.10 | | | |
| 19. | Interest | 427 | | | |
| 20. | Total Fixed Cost (18 + 19) | | | | |
| 21. | Power Cost (17 + 20) | | | | |

Remarks (including Unscheduled Outages)

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

FINANCIAL AND OPERATING REPORT
ELECTRIC POWER SUPPLY
PART F IC - INTERNAL COMBUSTION PLANT

BORROWER DESIGNATION
MI0037

PLANT
Ublly

PERIOD ENDED
December, 2016

INSTRUCTIONS - See help in the online application.

SECTION A. INTERNAL COMBUSTION GENERATING UNITS

| NO. | UNIT NO. (a) | SIZE (kW) (b) | FUEL CONSUMPTION | | | | OPERATING HOURS | | | | | |
|-----|------------------------------|------------------|-------------------------|------------------------|--------------|--------------|----------------------------|-------------------|---|---|--------------------------|--------------------|
| | | | OIL (1000 Gals.) (c) | GAS (1000 C.F.) (d) | OTHER (e) | TOTAL (f) | IN SERVICE (g) | ON STANDBY (h) | OUT OF SERVICE SCHED. (i) UNSCH. (j) | | GROSS GENER.(MWh) (k) | BTU PER kWh (l) |
| 1. | 1 | 630 | .05 | | | | 1 | 8,783 | | | 1 | |
| 2. | 2 | 736 | .05 | | | | 1 | 8,783 | | | 1 | |
| 3. | 3 | 736 | .05 | | | | 1 | 8,783 | | | 1 | |
| 4. | 4 | 980 | .05 | | | | 1 | 8,783 | | | 1 | |
| 5. | 5 | 1,550 | .08 | | | | 1 | 8,783 | | | 1 | |
| 6. | Total | 12,424 | .58 | 30.00 | 0.00 | | 9 | 79,047 | 0 | 0 | 9 | |
| 7. | Average BTU | | 139,500.00 | 17,568.00 | | | Station Service (MWh) | | | | (218.90) | 51,675.53 |
| 8. | Total BTU (10 ⁶) | | 80.91 | 527.04 | | 607.95 | Net Generation (MWh) | | | | 228.30 | |
| 9. | Total Del. Cost (\$) | | | | | | Station Service % of Gross | | | | (2,328.72) | 2,662.94 |

SECTION B. LABOR REPORT

SECTION C. FACTORS & MAXIMUM DEMAND

| NO. | ITEM | VALUE | NO. | ITEM | VALUE | NO. | ITEM | VALUE |
|-----|--|-------|-----|-----------------------------------|--------|-----|-----------------------------------|--------|
| 1. | No. Employees Full Time (Include Superintendent) | 1 | 5. | Maintenance Plant Payroll (\$) | 1,620 | 1. | Load Factor (%) | 0.00% |
| 2. | No. Employees Part Time | | 6. | Other Accounts Plant Payroll (\$) | 74,185 | 2. | Plant Factor (%) | 0.01% |
| 3. | Total Employee Hours Worked | 2,128 | 7. | Total Plant Payroll (\$) | 76,902 | 3. | Running Plant Capacity Factor (%) | 75.66% |
| 4. | Operating Plant Payroll (\$) | 1,097 | | | | 4. | 15 Min. Gross Max. Demand (kW) | |
| | | | | | | 5. | Indicated Gross Max. Demand (kW) | |

SECTION D. COST OF NET ENERGY GENERATED

| NO. | PRODUCTION EXPENSE | ACCOUNT NUMBER | AMOUNT (\$) (a) | MILLS/NET (kWh) (b) | S/10 ⁶ BTU (c) |
|-----|---|----------------|--------------------|------------------------|------------------------------|
| 1. | Operation, Supervision and Engineering | 546 | 1,009 | | |
| 2. | Fuel, Oil | 547.1 | 930 | | |
| 3. | Fuel, Gas | 547.2 | 329 | | |
| 4. | Fuel, Other | 547.3 | 0 | | |
| 5. | Energy for Compressed Air | 547.4 | 0 | 0.00 | |
| 6. | Fuel SubTotal (2 thru 5) | 547 | 1,259 | 5.51 | |
| 7. | Generation Expenses | 548 | 1,552 | | |
| 8. | Miscellaneous Other Power Generation Expenses | 549 | 2,546 | | |
| 9. | Rents | 550 | 0 | | |
| 10. | Non-Fuel SubTotal (1 + 7 thru 9) | | 5,107 | 22.37 | |
| 11. | Operation Expense (6 + 10) | | 6,366 | 27.88 | |
| 12. | Maintenance, Supervision and Engineering | 551 | 0 | | |
| 13. | Maintenance of Structures | 552 | 1,312 | | |
| 14. | Maintenance of Generating and Electric Plant | 553 | 3,464 | | |
| 15. | Maintenance of Miscellaneous Other Power Generating Plant | 554 | 277 | | |
| 16. | Maintenance Expense (12 thru 15) | | 5,053 | 22.13 | |
| 17. | Total Production Expense (11 + 16) | | 11,419 | 50.02 | |
| 18. | Depreciation | 403.4, 411.10 | 18,742 | | |
| 19. | Interest | 427 | 7,187 | | |
| 20. | Total Fixed Cost (18 + 19) | | 25,929 | 113.57 | |
| 21. | Power Cost (17 + 20) | | 37,348 | 163.59 | |

Remarks (including Unscheduled Outages)

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

**FINANCIAL AND OPERATING REPORT
ELECTRIC POWER SUPPLY
PART F IC - INTERNAL COMBUSTION PLANT**

BORROWER DESIGNATION
MI0037

PLANT
Ubyly

PERIOD ENDED
December, 2016

INSTRUCTIONS - See help in the online application.

SECTION A. INTERNAL COMBUSTION GENERATING UNITS

| NO. | UNIT NO. (a) | SIZE (kW) (b) | FUEL CONSUMPTION | | | | OPERATING HOURS | | | | | |
|-----|------------------------------|------------------|-------------------------|------------------------|--------------|--------------|----------------------------|-------------------|------------------------------|---------------|--------------------------|--------------------|
| | | | OIL (1000 Gals.) (c) | GAS (1000 C.F.) (d) | OTHER (e) | TOTAL (f) | IN SERVICE (g) | ON STANDBY (h) | OUT OF SERVICE SCHED. (i) | UNSCH. (j) | GROSS GENER.(MWh) (k) | BTU PER kWh (l) |
| 1. | 6 | 1,542 | .03 | 11.22 | | | 1 | 8,783 | | | 1 | |
| 2. | 7 | 2,500 | .19 | | | | 1 | 8,783 | | | 3 | |
| 3. | 8 | 2,250 | .04 | 7.10 | | | 1 | 8,783 | | | 1 | |
| 4. | 9 | 1,500 | .04 | 11.68 | | | 1 | 8,783 | | | 2 | |
| 5. | | | | | | | | | | | | |
| 6. | Total | | | | | | | | | | | |
| 7. | Average BTU | | | | | | Station Service (MWh) | | | | | |
| 8. | Total BTU (10 ⁶) | | | | | | Net Generation (MWh) | | | | | |
| 9. | Total Del. Cost (\$) | | | | | | Station Service % of Gross | | | | | |

SECTION B. LABOR REPORT

SECTION C. FACTORS & MAXIMUM DEMAND

| NO. | ITEM | VALUE | NO. | ITEM | VALUE | NO. | ITEM | VALUE |
|-----|--|-------|-----|-----------------------------------|-------|-----|-----------------------------------|-------|
| 1. | No. Employees Full Time (Include Superintendent) | | 5. | Maintenance Plant Payroll (\$) | | 1. | Load Factor (%) | |
| 2. | No. Employees Part Time | | 6. | Other Accounts Plant Payroll (\$) | | 2. | Plant Factor (%) | |
| 3. | Total Employee Hours Worked | | 7. | Total Plant Payroll (\$) | | 3. | Running Plant Capacity Factor (%) | |
| 4. | Operating Plant Payroll (\$) | | | | | 4. | 15 Min. Gross Max. Demand (kW) | |
| | | | | | | 5. | Indicated Gross Max. Demand (kW) | |

SECTION D. COST OF NET ENERGY GENERATED

| NO. | PRODUCTION EXPENSE | ACCOUNT NUMBER | AMOUNT (\$) (a) | MILLS/NET (kWh) (b) | S/10 ⁶ BTU (c) |
|-----|---|----------------|-----------------|---------------------|---------------------------|
| 1. | Operation, Supervision and Engineering | 546 | | | |
| 2. | Fuel, Oil | 547.1 | | | |
| 3. | Fuel, Gas | 547.2 | | | |
| 4. | Fuel, Other | 547.3 | | | |
| 5. | Energy for Compressed Air | 547.4 | | | |
| 6. | Fuel SubTotal (2 thru 5) | 547 | | | |
| 7. | Generation Expenses | 548 | | | |
| 8. | Miscellaneous Other Power Generation Expenses | 549 | | | |
| 9. | Rents | 550 | | | |
| 10. | Non-Fuel SubTotal (1 + 7 thru 9) | | | | |
| 11. | Operation Expense (6 + 10) | | | | |
| 12. | Maintenance, Supervision and Engineering | 551 | | | |
| 13. | Maintenance of Structures | 552 | | | |
| 14. | Maintenance of Generating and Electric Plant | 553 | | | |
| 15. | Maintenance of Miscellaneous Other Power Generating Plant | 554 | | | |
| 16. | Maintenance Expense (12 thru 15) | | | | |
| 17. | Total Production Expense (11 + 16) | | | | |
| 18. | Depreciation | 403.4, 411.10 | | | |
| 19. | Interest | 427 | | | |
| 20. | Total Fixed Cost (18 + 19) | | | | |
| 21. | Power Cost (17 + 20) | | | | |

Remarks (including Unscheduled Outages)

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UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

BORROWER DESIGNATION MI0037

FINANCIAL AND OPERATING REPORT
ELECTRIC DISTRIBUTION

PERIOD ENDED December, 2016 (Prepared with Audited Data)

BORROWER NAME Thumb Electric Cooperative of Michigan

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)

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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.

Dallas Braun

3-10-17
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 | 19,550,303 | 20,162,929 | 20,178,650 | 1,990,931 |
| 2. Power Production Expense | 51,427 | 64,428 | 62,976 | 3,673 |
| 3. Cost of Purchased Power | 9,548,694 | 9,871,912 | 9,849,734 | 929,255 |
| 4. Transmission Expense | 108,509 | 236,146 | 160,140 | 9,019 |
| 5. Regional Market Expense | | | | |
| 6. Distribution Expense - Operation | 612,634 | 535,483 | 599,098 | 52,328 |
| 7. Distribution Expense - Maintenance | 2,567,453 | 2,231,870 | 2,092,280 | 162,057 |
| 8. Customer Accounts Expense | 609,142 | 690,699 | 685,945 | 8,014 |
| 9. Customer Service and Informational Expense | 414,583 | 426,702 | 470,205 | 48,337 |
| 10. Sales Expense | | | | |
| 11. Administrative and General Expense | 962,910 | 927,544 | 1,009,902 | 75,619 |
| 12. Total Operation & Maintenance Expense (2 thru 11) | 14,875,352 | 14,984,784 | 14,930,280 | 1,288,302 |
| 13. Depreciation and Amortization Expense | 2,085,880 | 2,183,367 | 2,120,250 | 184,483 |
| 14. Tax Expense - Property & Gross Receipts | 754,690 | 785,610 | 833,820 | 21,462 |
| 15. Tax Expense - Other | 4,995 | | | |
| 16. Interest on Long-Term Debt | 1,456,776 | 1,510,355 | 1,503,001 | 141,653 |
| 17. Interest Charged to Construction - Credit | | | | |
| 18. Interest Expense - Other | 51,260 | 52,266 | 73,125 | 9,034 |
| 19. Other Deductions | | | | |
| 20. Total Cost of Electric Service (12 thru 19) | 19,228,953 | 19,516,382 | 19,460,476 | 1,644,934 |
| 21. Patronage Capital & Operating Margins (1 minus 20) | 321,350 | 646,547 | 718,174 | 345,997 |
| 22. Non Operating Margins - Interest | 44,577 | 74,221 | 84,563 | 3,797 |
| 23. Allowance for Funds Used During Construction | | | | |
| 24. Income (Loss) from Equity Investments | 85,541 | 43,024 | 3,231 | 18,465 |
| 25. Non Operating Margins - Other | 41,767 | 70,925 | 40,020 | 3,969 |
| 26. Generation and Transmission Capital Credits | | | | |
| 27. Other Capital Credits and Patronage Dividends | 109,919 | 122,870 | 105,000 | 10,632 |
| 28. Extraordinary Items | | | | |
| 29. Patronage Capital or Margins (21 thru 28) | 603,154 | 957,587 | 950,988 | 382,860 |

| | |
|---|--------------------------------|
| UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION | BORROWER DESIGNATION MI0037 |
| INSTRUCTIONS - See help in the online application. | PERIOD ENDED December, 2016 |

| 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 | 54 | 67 | 5. Miles Transmission | 147.81 | 147.81 |
| 2. Services Retired | 56 | 45 | 6. Miles Distribution - Overhead | 1,981.34 | 1,982.03 |
| 3. Total Services in Place | 12,723 | 12,756 | 7. Miles Distribution - Underground | 18.73 | 19.24 |
| 4. Idle Services (Exclude Seasonals) | 525 | 531 | 8. Total Miles Energized (5 + 6 + 7) | 2,147.88 | 2,149.08 |

| PART C. BALANCE SHEET | | | | | |
|--|------------|--|--|------------|--|
| ASSETS AND OTHER DEBITS | | | LIABILITIES AND OTHER CREDITS | | |
| 1. Total Utility Plant in Service | 89,329,057 | | 30. Memberships | 175,160 | |
| 2. Construction Work in Progress | 1,852,090 | | 31. Patronage Capital | 21,319,328 | |
| 3. Total Utility Plant (1 + 2) | 91,181,147 | | 32. Operating Margins - Prior Years | 0 | |
| 4. Accum. Provision for Depreciation and Amort. | 28,045,305 | | 33. Operating Margins - Current Year | 646,547 | |
| 5. Net Utility Plant (3 - 4) | 63,135,842 | | 34. Non-Operating Margins | 311,040 | |
| 6. Non-Utility Property (Net) | 107,154 | | 35. Other Margins and Equities | 1,723,814 | |
| 7. Investments in Subsidiary Companies | 1,593,470 | | 36. Total Margins & Equities (30 thru 35) | 24,175,889 | |
| 8. Invest. in Assoc. Org. - Patronage Capital | 830,278 | | 37. Long-Term Debt - RUS (Net) | 11,572,764 | |
| 9. Invest. in Assoc. Org. - Other - General Funds | 0 | | 38. Long-Term Debt - FFB - RUS Guaranteed | 23,846,686 | |
| 10. Invest. in Assoc. Org. - Other - Nongeneral Funds | 763,722 | | 39. Long-Term Debt - Other - RUS Guaranteed | 0 | |
| 11. Investments in Economic Development Projects | 0 | | 40. Long-Term Debt Other (Net) | 4,075,198 | |
| 12. Other Investments | 128,623 | | 41. Long-Term Debt - RUS - Econ. Devel. (Net) | 0 | |
| 13. Special Funds | 33,009 | | 42. Payments - Unapplied | 0 | |
| 14. Total Other Property & Investments (6 thru 13) | 3,456,256 | | 43. Total Long-Term Debt (37 thru 41 - 42) | 39,494,648 | |
| 15. Cash - General Funds | 556,681 | | 44. Obligations Under Capital Leases - Noncurrent | 0 | |
| 16. Cash - Construction Funds - Trustee | 0 | | 45. Accumulated Operating Provisions and Asset Retirement Obligations | 0 | |
| 17. Special Deposits | 0 | | 46. Total Other Noncurrent Liabilities (44 + 45) | 0 | |
| 18. Temporary Investments | 0 | | 47. Notes Payable | 3,304,608 | |
| 19. Notes Receivable (Net) | 0 | | 48. Accounts Payable | 1,525,616 | |
| 20. Accounts Receivable - Sales of Energy (Net) | 2,755,794 | | 49. Consumers Deposits | 187,520 | |
| 21. Accounts Receivable - Other (Net) | 339,207 | | 50. Current Maturities Long-Term Debt | 1,937,345 | |
| 22. Renewable Energy Credits | 0 | | 51. Current Maturities Long-Term Debt - Economic Development | 0 | |
| 23. Materials and Supplies - Electric & Other | 913,031 | | 52. Current Maturities Capital Leases | 0 | |
| 24. Prepayments | 726,136 | | 53. Other Current and Accrued Liabilities | 1,217,741 | |
| 25. Other Current and Accrued Assets | 52,222 | | 54. Total Current & Accrued Liabilities (47 thru 53) | 8,172,830 | |
| 26. Total Current and Accrued Assets (15 thru 25) | 5,343,071 | | 55. Regulatory Liabilities | 0 | |
| 27. Regulatory Assets | 0 | | 56. Other Deferred Credits | 111,728 | |
| 28. Other Deferred Debits | 19,926 | | 57. Total Liabilities and Other Credits (36 + 43 + 46 + 54 thru 56) | 71,955,095 | |
| 29. Total Assets and Other Debits (5+14+26 thru 28) | 71,955,095 | | | | |

| | |
|--|---|
| <p style="text-align: center;">UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION</p> | <p>BORROWER DESIGNATION MI0037</p> |
| <p>INSTRUCTIONS - See help in the online application.</p> | <p>PERIOD ENDED December, 2016</p> |
| <p>PART D. NOTES TO FINANCIAL STATEMENTS</p> | |
| | |

| | |
|--|---|
| <p style="text-align: center;">UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION</p> | <p>BORROWER DESIGNATION MI0037</p> |
| <p>INSTRUCTIONS - See help in the online application.</p> | <p>PERIOD ENDED December, 2016</p> |
| <p>PART D. CERTIFICATION LOAN DEFAULT NOTES</p> | |
| | |

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

FINANCIAL AND OPERATING REPORT
ELECTRIC DISTRIBUTION

BORROWER DESIGNATION MI0037

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 | 63,129,952 | 2,541,003 | 482,146 | | 65,188,809 |
| 2. General Plant | 4,812,226 | 393,263 | 270,629 | | 4,934,860 |
| 3. Headquarters Plant | 1,274,875 | 20,305 | 9,175 | | 1,286,005 |
| 4. Intangibles | 834 | | | | 834 |
| 5. Transmission Plant | 9,808,567 | 381,784 | 168,063 | | 10,022,288 |
| 6. Regional Transmission and Market Operation Plant | | | | | |
| 7. All Other Utility Plant | 7,896,261 | | | | 7,896,261 |
| 8. Total Utility Plant in Service (1 thru 7) | 86,922,715 | 3,336,355 | 930,013 | | 89,329,057 |
| 9. Construction Work in Progress | 902,290 | 949,800 | | | 1,852,090 |
| 10. Total Utility Plant (8 + 9) | 87,825,005 | 4,286,155 | 930,013 | | 91,181,147 |

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 | 931,491 | 673,929 | 15,840 | 746,998 | 304 | (12,859) | 861,099 |
| 2. Other | 41,323 | 80,279 | | | 68,900 | (770) | 51,932 |

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 | 0.000 | 33.106 | .862 | 260.940 | 294.908 |
| 2. Five-Year Average | 0.000 | 324.098 | 1.269 | 180.435 | 505.802 |

PART H. EMPLOYEE-HOUR AND PAYROLL STATISTICS

| | | | |
|---|--------|--------------------------|-----------|
| 1. Number of Full Time Employees | 30 | 4. Payroll - Expensed | 1,373,343 |
| 2. Employee - Hours Worked - Regular Time | 62,555 | 5. Payroll - Capitalized | 1,018,529 |
| 3. Employee - Hours Worked - Overtime | 5,736 | 6. Payroll - Other | 505,578 |

PART I. PATRONAGE CAPITAL

| ITEM | DESCRIPTION | THIS YEAR (a) | CUMULATIVE (b) |
|------------------------------------|---|---------------|----------------|
| 1. Capital Credits - Distributions | a. General Retirements | 271,739 | 4,296,292 |
| | b. Special Retirements | 140,250 | 3,986,617 |
| | c. Total Retirements (a + b) | 411,989 | 8,282,909 |
| 2. Capital Credits - Received | a. Cash Received From Retirement of Patronage Capital by Suppliers of Electric Power | 0 | |
| | b. Cash Received From Retirement of Patronage Capital by Lenders for Credit Extended to the Electric System | 39,554 | |
| | c. Total Cash Received (a + b) | 39,554 | |

PART J. DUE FROM CONSUMERS FOR ELECTRIC SERVICE

| | | | |
|----------------------------|------------|-----------------------------------|-----------|
| 1. Amount Due Over 60 Days | \$ 291,211 | 2. Amount Written Off During Year | \$ 50,672 |
|----------------------------|------------|-----------------------------------|-----------|

ENERGY EFFICIENCY AND CONSERVATION LOAN PROGRAM

| | | | |
|---------------------------------------|------|-----------------------------------|------|
| 1. Anticipated Loan Delinquency % | 0 | 4. Anticipated Loan Default % | 0 |
| 2. Actual Loan Delinquency % | 0 | 5. Actual Loan Default % | 0 |
| 3. Total Loan Delinquency Dollars YTD | \$ 0 | 6. Total Loan Default Dollars YTD | \$ 0 |

| | |
|---|------------------------------------|
| UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION | BORROWER DESIGNATION MI0037 |
| INSTRUCTIONS - See help in the online application | PERIOD ENDED December, 2016 |

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 | CMS Marketing, Serv & Trade Co | 3991 | | | 184,801,359 | 9,871,913 | 5.34 | | 1,334,270 |
| | Total | | | | 184,801,359 | 9,871,913 | 5.34 | | 1,334,270 |

| | | |
|--|-----------------|------------------------------------|
| UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION | | BORROWER DESIGNATION MI0037 |
| INSTRUCTIONS - See help in the online application | | PERIOD ENDED December, 2016 |
| PART K. kWh PURCHASED AND TOTAL COST | | |
| No | Comments | |
| 1 | | |

| UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION | | BORROWER DESIGNATION MI0037 | |
|--|-----------------------|--------------------------------|-------------------------|
| INSTRUCTIONS - See help in the online application. | | PERIOD ENDED December, 2016 | |
| PART L. LONG-TERM LEASES | | | |
| No | NAME OF LESSOR (a) | TYPE OF PROPERTY (b) | RENTAL THIS YEAR (c) |
| | TOTAL | | |

| | |
|--|--------------------------------|
| UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION | BORROWER DESIGNATION MI0037 |
| INSTRUCTIONS - See help in the online application. | PERIOD ENDED December, 2016 |

PART M. ANNUAL MEETING AND BOARD DATA

| | | | |
|--|---------------------------------------|---|---|
| 1. Date of Last Annual Meeting 6/11/2016 | 2. Total Number of Members 12,187 | 3. Number of Members Present at Meeting 291 | 4. Was Quorum Present? Y |
| 5. Number of Members Voting by Proxy or Mail 43 | 6. Total Number of Board Members 9 | 7. Total Amount of Fees and Expenses for Board Members \$ 69,588 | 8. Does Manager Have Written Contract? Y |

RUS Financial and Operating Report Electric Distribution

Revision Date 2014

| | |
|--|------------------------------------|
| UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION | BORROWER DESIGNATION MI0037 |
| 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) | 11,572,764 | 555,201 | 393,793 | 948,994 |
| 2 | National Rural Utilities Cooperative Finance Corporation | 2,638,119 | 116,842 | 536,268 | 653,110 |
| 3 | CoBank, ACB | 1,437,080 | 100,903 | 494,264 | 595,167 |
| 4 | Federal Financing Bank | 23,846,685 | 737,409 | 497,610 | 1,235,019 |
| 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 | | | | |
| | TOTAL | 39,494,648 | 1,510,355 | 1,921,935 | 3,432,290 |

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

FINANCIAL AND OPERATING REPORT
ELECTRIC DISTRIBUTION

BORROWER DESIGNATION

MI0037

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 | 9,087 | 9,113 | |
| | b. kWh Sold | | | 124,433,096 |
| | c. Revenue | | | 14,326,256 |
| 2. Residential Sales - Seasonal | a. No. Consumers Served | 2,104 | 2,076 | |
| | b. kWh Sold | | | 4,676,853 |
| | c. Revenue | | | 1,199,394 |
| 3. Irrigation Sales | a. No. Consumers Served | 46 | 46 | |
| | b. kWh Sold | | | 528,268 |
| | c. Revenue | | | 72,550 |
| 4. Comm. and Ind. 1000 KVA or Less | a. No. Consumers Served | 988 | 967 | |
| | b. kWh Sold | | | 39,037,657 |
| | c. Revenue | | | 3,522,139 |
| 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 | | | |
| 10. Total No. of Consumers (lines 1a thru 9a) | | 12,225 | 12,202 | |
| 11. Total kWh Sold (lines 1b thru 9b) | | | | 168,675,874 |
| 12. Total Revenue Received From Sales of Electric Energy (lines 1c thru 9c) | | | | 19,120,339 |
| 13. Transmission Revenue | | | | 0 |
| 14. Other Electric Revenue | | | | 1,042,590 |
| 15. kWh - Own Use | | | | 373,235 |
| 16. Total kWh Purchased | | | | 184,801,359 |
| 17. Total kWh Generated | | | | 16,782 |
| 18. Cost of Purchases and Generation | | | | 10,172,486 |
| 19. Interchange - kWh - Net | | | | |
| 20. Peak - Sum All kW Input (Metered) Non-coincident <input checked="" type="checkbox"/> Coincident | | | | 34,555 |

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE
**FINANCIAL AND OPERATING REPORT
ELECTRIC DISTRIBUTION**

BORROWER DESIGNATION MI0037

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) | 1,431 | 278,621 | 5,174 | 6,690 | 1,347,755 | 9,264 |
| 2. Residential Sales - Seasonal | | | | | | |
| 3. Irrigation Sales | | | | | | |
| 4. Comm. and Ind. 1000 KVA or Less | 10 | 41,373 | 1,285 | 185 | 320,587 | 2,313 |
| 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 | | | | | | |
| 10. Total | 1,441 | 319,994 | 6,459 | 6,875 | 1,668,342 | 11,577 |

RUS Financial and Operating Report Electric Distribution

Revision Date 2014

| | |
|--|--|
| UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION INVESTMENTS, LOAN GUARANTEES AND LOANS | BORROWER DESIGNATION MI0037 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 I INVESTMENTS (See Instructions for definitions of Income or Loss) | | | | | |
|--|--|-------------------------|-------------------------|-------------------------------|-----------------------------|
| No | DESCRIPTION (a) | INCLUDED (\$) (b) | EXCLUDED (\$) (c) | INCOME OR LOSS (\$) (d) | RURAL DEVELOPMENT (e) |
| 1 | Non-Utility Property (NET) | | | | |
| | Vacant Lot | 12,000 | | | |
| | Rental Home | 95,154 | | | |
| | Totals | 107,154 | | | |
| 2 | Investments in Associated Organizations | | | | |
| | CFC, CoBank Patronage, CTCs | | 977,278 | | |
| | NISC, NRTC, RSC, MECA, Federated | 466,722 | | | |
| | Mbr Cap Sec | 150,000 | | | |
| | TEsC | 1,593,470 | | | |
| | Totals | 2,210,192 | 977,278 | | |
| 4 | Other Investments | | | | |
| | ERC Loans | 128,623 | | | |
| | Totals | 128,623 | | | |
| 5 | Special Funds | | | | |
| | Member Contributions | 33,009 | | | |
| | Totals | 33,009 | | | |
| 6 | Cash - General | | | | |
| | General Fund | 556,681 | | | |
| | Totals | 556,681 | | | |
| 9 | Accounts and Notes Receivable - NET | | | | |
| | W/H Billing | 204,418 | | | |
| | A/R Other | 639,908 | | | |
| | Bad Debt Reserve | (505,119) | | | |
| | Totals | 339,207 | | | |
| 11 | TOTAL INVESTMENTS (1 thru 10) | 3,374,866 | 977,278 | | |

| | |
|--|--------------------------------|
| UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION INVESTMENTS, LOAN GUARANTEES AND LOANS | BORROWER DESIGNATION MI0037 |
| | 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) |
|----|--|----------------------|--------------------------------|-----------------------------|-----------------------------|
| | TOTAL | | | | |
| | TOTAL (Included Loan Guarantees Only) | | | | |

| | |
|--|--------------------------------|
| UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION INVESTMENTS, LOAN GUARANTEES AND LOANS | BORROWER DESIGNATION MI0037 |
| | 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] | 3.70 % |
|--|--------|

SECTION IV. LOANS

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



The Board of Directors
Thumb Electric Cooperative of Michigan
Ubyly, Michigan

We have audited the financial statements of Thumb Electric Cooperative of Michigan as of and for the year ended December 31, 2016 and have issued our report thereon dated March 16, 2017. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated December 13, 2016, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of Thumb Electric Cooperative of Michigan solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.



Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Thumb Electric Cooperative of Michigan is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2016. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

- Depreciation Expense – Management's estimate of depreciation expense is based on the estimated useful lives of the Cooperative's fixed assets.
- Allowance for Doubtful Accounts – Management's estimate of the allowance for doubtful accounts is based on historical revenues, historical loss levels, and an analysis of the collectability of individual accounts.
- Unbilled Revenue – Management's estimate of the unbilled revenue are based upon estimated delivered power through December 31, 2016.
- Inventory reserve – Management's estimate is based upon estimated inventory shrinkage.
- Deferred tax – Management's estimate of deferred tax is based upon current rates and expected reversal of significant timing differences.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users.

The consolidated financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. We did not identify any material misstatements to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management that are included in the management representation letter dated March 16, 2017.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with Thumb Electric Cooperative of Michigan, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Thumb Electric Cooperative of Michigan's auditors.

This report is intended solely for the information and use of the Board of Directors and management of Thumb Electric Cooperative of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
March 16, 2017



Financial Statements
December 31, 2016 and 2015
Thumb Electric Cooperative of Michigan



Thumb Electric Cooperative of Michigan
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December 31, 2016 and 2015

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Thumb Electric Cooperative of Michigan
Board of Directors (Unaudited)
December 31, 2016 and 2015

| | |
|--------------------|----------------|
| Louis Wenzlaff | President |
| Donald Wolschleger | Vice President |
| Beth McDonald | Secretary |
| Randall Dhyse | Treasurer |
| Duane Kursinsky | Director |
| Jonathan Findlay | Director |
| Carl Cousins | Director |
| Kim Nunn | Director |
| Mike Briolat | Director |



Independent Auditor's Report

The Board of Directors
Thumb Electric Cooperative of Michigan
Ubyly, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Thumb Electric Cooperative of Michigan, Inc., which comprise the balance sheet as of December 31, 2016 and 2015, and the related statements of operations, members' equity, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 qualified audit opinion.

Basis for Qualified Opinion

As more fully described in Note 5 to the financial statements, the Cooperative reports its investment in Thumb Energy Services Corporation, a wholly owned subsidiary, on the equity method of accounting. In our opinion, accounting principles generally accepted in the United States of America require that all majority-owned subsidiaries be accounted for as consolidated subsidiaries. If the financial statements of Thumb Energy Services Corporation had been consolidated with those of Thumb Electric Cooperative of Michigan, total assets and total liabilities and equities would be decreased by \$409,759 and \$636,093 as of December 31, 2016 and 2015, and revenues and expenses would be increased by \$845,133 and \$1,111,645 for the years then ended.

Qualified Opinion

In our opinion, except for the effects of not consolidating Thumb Energy Services Corporation, as discussed in the above paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Thumb Electric Cooperative of Michigan as of December 31, 2016 and 2015, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 1 is presented for the purposes of additional analysis and is not a required part of the financial statements. The listing of the board of directors has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide assurance on it.



Fargo, North Dakota
March 16, 2017

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Thumb Electric Cooperative of Michigan
Balance Sheets
December 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| Equities and Liabilities | | |
| Equities | | |
| Memberships | \$ 175,160 | \$ 172,395 |
| Patronage capital | 22,148,341 | 21,764,988 |
| Other equities | <u>1,852,382</u> | <u>1,631,463</u> |
| Total equities | <u>24,175,883</u> | <u>23,568,846</u> |
| | | |
| Long-Term Debt, Net of Current Maturities | <u>39,494,649</u> | <u>38,560,596</u> |
| | | |
| Current Liabilities | | |
| Current maturities of long-term debt | 1,929,640 | 1,841,163 |
| Note payable - line of credit | 3,304,608 | 2,151,680 |
| Accounts payable: | | |
| Purchased power | 964,402 | 842,026 |
| Subsidiary | 63,527 | 38,711 |
| Other | 492,854 | 1,254,606 |
| Accrued property taxes | 599,701 | 575,106 |
| Accrued payroll and vacation | 527,656 | 487,444 |
| Customer deposits | 187,520 | 185,008 |
| Other | <u>102,924</u> | <u>111,554</u> |
| Total current liabilities | <u>8,172,832</u> | <u>7,487,298</u> |
| | | |
| Deferred Credits | <u>111,728</u> | <u>133,414</u> |
| | | |
| Total equities and liabilities | <u>\$ 71,955,092</u> | <u>\$ 69,750,154</u> |

Thumb Electric Cooperative of Michigan

Statements of Operations

Years Ended December 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|-------------------|-------------------|
| Operating Revenues | | |
| Electric sales | \$ 18,930,534 | \$ 18,623,490 |
| Other sales | 1,232,396 | 926,814 |
| | <u>20,162,930</u> | <u>19,550,304</u> |
| Operating Expenses | | |
| Cost of power | 9,871,912 | 9,548,694 |
| Generation | 23,341 | 9,791 |
| Transmission | 236,145 | 108,510 |
| Distribution - operations | 535,485 | 612,632 |
| Distribution - maintenance | 2,231,870 | 2,567,455 |
| Customer accounts | 698,729 | 621,112 |
| Customer service | 412,157 | 394,062 |
| Sales | 6,515 | 8,549 |
| Administrative and general | 968,634 | 1,004,550 |
| Depreciation | 2,183,368 | 2,085,881 |
| Taxes - property | 785,610 | 754,690 |
| Taxes - other | - | 4,995 |
| | <u>17,953,766</u> | <u>17,720,921</u> |
| Operating Income Before Fixed Charges | 2,209,164 | 1,829,383 |
| Fixed Charges: | | |
| Interest on long-term debt | 1,510,355 | 1,456,776 |
| Other interest | 52,266 | 51,260 |
| | <u>1,562,621</u> | <u>1,508,036</u> |
| Operating Margins After Fixed Charges | 646,543 | 321,347 |
| Capital Credits | <u>122,869</u> | <u>109,919</u> |
| Net Operating Margins | <u>769,412</u> | <u>431,266</u> |
| Nonoperating Margins | | |
| Interest | 74,221 | 44,576 |
| Income from subsidiary | 43,026 | 85,541 |
| Other income | 70,923 | 41,767 |
| | <u>188,170</u> | <u>171,884</u> |
| Net Margins | <u>\$ 957,582</u> | <u>\$ 603,150</u> |

Thumb Electric Cooperative of Michigan
 Statements of Members' Equity
 Years Ended December 31, 2016 and 2015

| | <u>Memberships</u> | <u>Patronage Capital</u> | <u>Other</u> | <u>Total</u> |
|-------------------------------|--------------------|------------------------------|---------------------|----------------------|
| Balance, December 31, 2014 | \$ 169,680 | \$ 22,289,988 | \$ 1,254,352 | \$ 23,714,020 |
| Memberships issued | 2,715 | - | - | 2,715 |
| Other equity transactions | - | (65,605) | 198,559 | 132,954 |
| Retirement of capital credits | - | (977,004) | 93,011 | (883,993) |
| Current year margins | - | 517,609 | 85,541 | 603,150 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance, December 31, 2015 | 172,395 | 21,764,988 | 1,631,463 | 23,568,846 |
| Memberships issued | 2,765 | - | - | 2,765 |
| Other equity transactions | - | 5,147 | 76,607 | 81,754 |
| Retirement of capital credits | - | (536,350) | 101,286 | (435,064) |
| Current year margins | - | 914,556 | 43,026 | 957,582 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance, December 31, 2016 | <u>\$ 175,160</u> | <u>\$ 22,148,341</u> | <u>\$ 1,852,382</u> | <u>\$ 24,175,883</u> |

Thumb Electric Cooperative of Michigan
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|--|---------------|---------------|
| Operating Activities | | |
| Cash received from customers | \$ 19,796,673 | \$ 20,078,036 |
| Cash paid to suppliers and employees | (15,084,747) | (15,321,271) |
| Interest received | 74,223 | 44,609 |
| Interest paid | (1,562,621) | (1,508,036) |
| Taxes paid | (761,015) | (742,043) |
| Net Cash from Operating Activities | 2,462,513 | 2,551,295 |
| Investing Activities | | |
| Construction and acquisition of plant, net | (4,638,053) | (5,697,379) |
| Receipt of contribution in aid of construction | 331,759 | 177,239 |
| Cost of removal/salvage, net | (251,609) | (581,928) |
| (Increase) decrease in: | | |
| Materials inventory | 61,061 | 73,860 |
| Investments in associated organizations | 97,932 | 83,043 |
| Other investments | (237,348) | (64,707) |
| Net Cash used for Investing Activities | (4,636,258) | (6,009,872) |
| Financing Activities | | |
| Proceeds from debt | 2,900,000 | 4,000,000 |
| Payments on debt | (1,878,955) | (1,992,700) |
| Draws on cushion of credit | 1,485 | - |
| Advances on line of credit | 7,254,608 | 9,956,834 |
| Payments on line of credit | (6,101,680) | (8,131,520) |
| Patronage capital credits paid | (353,310) | (751,039) |
| Proceeds from memberships issued | 2,765 | 2,715 |
| Increase in consumer deposits | 2,512 | 6,656 |
| Net Cash from Financing Activities | 1,827,425 | 3,090,946 |
| Net Change in Cash and Cash Equivalents | (346,320) | (367,631) |
| Cash and Cash Equivalents at Beginning of Year | 637,160 | 1,004,791 |
| Cash and Cash Equivalents at End of Year | \$ 290,840 | \$ 637,160 |

Thumb Electric Cooperative of Michigan
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|---|--------------|--------------|
| Reconciliation of Net Margins to Net Cash | | |
| Provided by Operating Activities: | | |
| Net margins | \$ 957,582 | \$ 603,150 |
| Adjustments to reconcile net margins to net cash provided | | |
| by operating activities: | | |
| Depreciation | 2,380,685 | 2,278,447 |
| Capital credits | (122,869) | (109,919) |
| Amortization of security retirement prepayment | 190,043 | 190,043 |
| (Gain) loss on disposal of electric plant | 64,092 | (6,101) |
| Income from subsidiary | (43,026) | (85,541) |
| (Increase) decrease in: | | |
| Customer and other accounts receivable | (442,340) | 468,795 |
| Current and accrued assets - other | 42,380 | (6,728) |
| Deferred charges | (5,652) | 3,297 |
| Increase (decrease) in: | | |
| Accounts payable | (614,560) | (884,266) |
| Accrued property taxes | 24,595 | 17,642 |
| Accrued payroll and vacation | 40,212 | 80,177 |
| Accrued other | (8,629) | 2,299 |
| Total adjustments | 1,504,931 | 1,948,145 |
| Net Cash Provided by Operating Activities | \$ 2,462,513 | \$ 2,551,295 |

Note 1 - Summary of Significant Accounting Policies

Principal Business Activity

Thumb Electric Cooperative of Michigan (the Cooperative), a Michigan corporation, provides for the electric energy needs of its members, the rural residents of the counties of Huron, Sanilac and Tuscola in the Thumb area of Michigan.

Consolidation Policy and Preparation of Financial Statements

The financial statements of the Cooperative have been prepared on the accrual basis of accounting. The Cooperative reports its investment in its wholly owned subsidiary, Thumb Energy Services Corporation, using the equity method. Accounting principles generally accepted in the United States of America require wholly owned subsidiaries to be consolidated. In arriving at the decision not to consolidate its subsidiary, management concluded that since the primary users of the statements are the Board of Directors, management and members, consolidation of the subsidiary's statements would tend to obscure the financial position and activities of the Cooperative. See Note 5.

Regulation

On October 30, 1984, the MPSC issued an order authorizing the Cooperative to implement a Times Interest Earned Ratio (TIER) ratemaking mechanism. Under TIER ratemaking, the Cooperative is required to make annual filings to the MPSC indicating whether or not their rates need adjustment.

The MPSC did approve a rate change with the approval of U-17677, dated November 7, 2016 which went into effect in December 2016.

The Cooperative accrues revenues for electric power supply costs, subject to annual reconciliation hearings conducted before the Michigan Public Service Commission (MPSC). The Cooperative records any over-recovery or under-recovery of purchased power costs as a liability or an asset until these costs are refunded or billed to its members.

As a result of the ratemaking process, the Cooperative applies Accounting Standards Codification (ASC) 980, *Regulated Operations*. The application of generally accepted accounting principles by the Cooperative differs in certain respects from the application by non-regulated businesses as a result of applying ASC 980. Such differences generally relate to the time at which certain items enter into the determination of net margins in order to follow the principle of matching costs and revenues.

Electric Plant

Property and equipment are carried at cost less contributions in aid of construction. The cost of additions to electric plant includes contracted work, direct labor and materials and allocable overheads. When units of property that are specifically identifiable are retired, sold or otherwise disposed of in the ordinary course of business, their book cost less net salvage is recognized as a gain or loss. All other units of property that are retired, sold or otherwise disposed of in the ordinary course of business, their average book cost less net salvage is charged to accumulated depreciation. Repairs and the replacement and renewal of items determined to be less than units of property are charged to maintenance expense.

Depreciation

Depreciation for financial reporting purposes is determined by straight-line composite rates based on the estimated useful lives of the various classes of property in compliance with applicable RUS guidelines. The overall composite rates for 2016 and 2015 were 2.48% and 2.47%, respectively.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Cooperative considers all highly liquid debt instruments purchased with an original maturity of 30 days or less to be temporary cash investments.

Investments

Investments in other cooperatives and associated organizations are recorded at initial cost including allocated equities. The Cooperative's investment in its wholly owned subsidiary, Thumb Energy Services Corporation, is recorded using the equity method. Under this method, the investment is adjusted for the subsidiary's underlying earnings and losses.

Receivables and Credit Policies

Trade receivables are uncollateralized member obligations due under normal trade terms requiring payment within 21 days from the billing date. Unpaid trade receivables with dates over 30 days old are assessed a late fee of 2% of the unpaid balance or the amount of the bill less tax, whichever is less. Non-interest bearing notes receivable are stated at principal balance and are collateralized by equipment.

Payments on trade and notes receivables are allocated to the earliest unpaid billings. The carrying amounts of trade receivables are reduced by a valuation allowance that reflects management's best estimate of the amount that will not be collected. Management reviews all trade receivable balances periodically and adjusts the allowance accounts based on current economic conditions and past experience. When a member's account becomes past due and uncollectible, the member's service is terminated. The Board of Directors approves all accounts charged off.

Materials and Supplies

Electrical materials and supplies are valued at the lower of market or average cost.

Deferred Debits

Deferred debits consist primarily of engineering costs for future work plans and equipment clearing accounts. Engineering costs are amortized over the remaining term of the work plan. Clearing charges are spread to work orders based on equipment use for those work orders. Deferred debits also include a retirement security prepayment made to ensure proper funding of the Retirement Security Plan which is being amortized over a 7 year period.

Patronage Capital

The Cooperative operates on a nonprofit basis. Amounts received from the furnishing of electric energy in excess of operating costs and expenses are assigned to patrons on a patronage basis. All other amounts received by the Cooperative from its operations in excess of costs and expenses, to the extent they are not needed to offset current or prior losses, may be credited to a general unallocated reserve, at the discretion and determination of the board of directors. The Cooperative, at the discretion of the board of directors, does not allocate margins received from its subsidiary.

Revenue Recognition and Unbilled Revenues

The Cooperative recognizes revenue on members' unbilled accounts based upon estimated usage in the current billing cycle.

Power Costs

Power costs include all power delivered to the Cooperative, regardless of whether the power supplier has billed the Cooperative for power delivered.

Deferred Credits

Deferred credits consist primarily of member advances on construction and advance payments made by members in connection with electric service.

Business and Credit Risk

Financial instruments which potentially subject the Cooperative to concentrations of credit risk consist primarily of temporary cash instruments and trade receivables. The Cooperative provides electrical service on account to its members whom are located primarily in the counties of Huron, Sanilac and Tuscola in the Thumb area of Michigan. The Cooperative has established policies for extending the credit based upon factors surrounding the credit risk of specified members, historical trends and other information. Concentrations of credit risk with respect to trade receivables are limited due to the Cooperative's large number of members. Nonetheless, the Cooperative's ability to collect from its members is affected by the economic conditions in which it operates.

The Cooperative maintains its temporary cash investments and cash balances with high credit quality financial institutions. Although such investments and cash balances may exceed the federally insured limit of \$250,000 from time to time, they are, in the opinion of management, subject to minimal risk.

Accounting Estimates

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

Advertising Costs

Advertising costs of \$34,667 and \$34,574 in 2016 and 2015, respectively, are expensed as incurred.

Sales Taxes and Low Income Assistance

The Cooperative has members in a state which imposes a sales tax and low income fee on certain sales. The Cooperative collects the sales taxes and low income fees from its members and remits the entire amount to the state of Michigan. The Cooperative's accounting policy is to exclude the tax collected and remitted from revenue and cost of revenue.

Fair Value Measurements

Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* which provides a framework for measuring fair value under generally accepted accounting principles, became effective to Cooperative as of January 1, 2008. In accordance with the provision of ASC 820-10, the Cooperative has deferred the adoption of ASC 820 for one year for non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. Therefore, the Cooperative adopted ASC 820 on January 1, 2009. There was no adjustment to financial assets as a result of the adoption of ASC 820.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

The Cooperative does not have any assets or liabilities subject to the level 1, 2, or 3 valuation as of December 31, 2016 and 2015 and does not anticipate participating in transactions of this type in the future.

Income Taxes

The Cooperative is exempt from federal income tax under Section 501(c)(12) of the United States Internal Revenue Code, therefore no provision for federal income tax is recorded. However, income from unrelated business activities is subject to income tax at normal corporate rates.

The Cooperative has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10. The Cooperative had no unrecognized tax benefits as of December 31, 2016 and 2015.

The Cooperative will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if such penalties and interest are incurred. Under normal circumstances, the Cooperative is no longer subject to Federal and State tax examinations by tax authorities for years before 2013.

The Cooperative undergoes an annual analysis of its various tax positions, assessing the likelihood of those positions being upheld upon examination with relevant tax authorities, as defined by ASC 740-10.

Subsequent Events

The Cooperative has evaluated subsequent events through March 16, 2017, the date which the financial statements were available to be issued. The Cooperative advanced \$3,000,000 of an existing FFB loan on January 13, 2017.

Note 2 - Short Term Investments – Restricted

On March 20, 1984, the Michigan Public Service Commission issued its opinion and order in Case No. U-7901, directing Michigan's Rural Electric Cooperatives to maintain power supply cost recovery over-collections and refundable contributions in restricted accounts to be used only for the purpose for which they are intended.

In order to accomplish the objectives of the Commission, Rural Utility Service (RUS) accounting and reporting requirements, a non-complex mechanism acceptable to Cooperative Finance Corporation (CFC) and a workable approach acceptable to Thumb Electric Cooperative of Michigan, Thumb, on December 17, 1985, entered into an agreement with CFC to escrow power supply cost recovery over-collections and refundable contributions. A monthly certification is to be included with the monthly Form 7 advising RUS as to amounts included in the special funds representing power supply recovery over-collections and refundable contributions.

Thumb Electric Cooperative of Michigan is to provide CFC a copy of the monthly certification described above which will serve as notice to CFC as to the amount which the fund should not fall below. Under the provisions of the agreement with CFC when the amount of deposits held by CFC falls below the level set forth in the latest available certification furnished CFC, CFC will advise RUS and the Board of Directors if Thumb Electric Cooperative has not remedied the deficiency within three business days of notification by CFC to Thumb Electric Cooperative of Michigan.

The following is a summary of the cash amounts restricted as of December 31, 2016 and 2015:

| | 2016 | 2015 |
|--|------------|------------|
| Construction advances | \$ 36,992 | \$ 57,331 |
| Customer deposits | 187,520 | 185,008 |
| PSCR (receivable) payable | (289,700) | 119,300 |
| | (65,188) | 361,639 |
| Difference in required investment excess (under) invested | 364,040 | (211,639) |
| Total funds restricted | \$ 298,852 | \$ 150,000 |

Note 3 - Electric Plant and Equipment

Electric plant in service at December 31, 2016 and 2015 consist of the following:

| | 2016 | 2015 |
|--------------|---------------|---------------|
| Distribution | \$ 65,188,811 | \$ 63,129,954 |
| Transmission | 10,022,287 | 9,808,566 |
| Production | 7,896,261 | 7,896,261 |
| General | 6,220,863 | 6,087,102 |
| Intangible | 834 | 834 |
| Total | \$ 89,329,056 | \$ 86,922,717 |

Depreciation charges at December 31, 2016 and 2015 were as follows:

| | 2016 | 2015 |
|--|--------------|--------------|
| Charged to operations | | |
| Classified as depreciation | \$ 2,183,368 | \$ 2,085,881 |
| Classified in other operating expenses | 7,679 | 6,569 |
| | 2,191,047 | 2,092,450 |
| Charged to transportation | 189,638 | 185,997 |
| Total | \$ 2,380,685 | \$ 2,278,447 |

Note 4 - Investments in Associated Organizations

Investments in associated organizations consisted of the following at December 31, 2016 and 2015:

| | 2016 | 2015 |
|--|--------------|--------------|
| National Rural Utilities Cooperative Finance Corporation: | | |
| Capital term certificates | \$ 609,351 | \$ 618,197 |
| Patronage capital credits | 272,213 | 266,212 |
| Member capital securities | 150,000 | 150,000 |
| Membership fee | 2,000 | 2,000 |
| | 1,033,564 | 1,036,409 |
| National Information Solutions Cooperative | | |
| Patronage capital credits | 113,455 | 105,519 |
| Federated Insurance | 168,400 | 152,552 |
| Other | 278,581 | 274,583 |
| Total | \$ 1,594,000 | \$ 1,569,063 |

Note 5 - Investments in Subsidiary

The Cooperative reports its investment in its wholly owned subsidiary, Thumb Energy Services Corporation, using the equity method. Accounting principles generally accepted in the United States of America require wholly owned subsidiaries to be consolidated. Thumb Energy Services Corporation provides propane services. In arriving at the decision not to consolidate its subsidiary, management concluded that since the primary users of the statements are the Board of Directors, management and members, consolidation of the subsidiary's statements would tend to obscure the financial position and activities of the Cooperative. Inclusion of the following condensed financial information of the subsidiary as of and for the years ended December 31, 2016 and 2015 permits users of these statements to be more fully informed.

Thumb Electric Cooperative of Michigan

Notes to Financial Statements

December 31, 2016 and 2015

Financial information related to Thumb Energy Services Corporation at December 31, 2016 and 2015 is as follows:

| | <u>2016</u> | <u>2015</u> |
|------------------------------|---------------------|---------------------|
| Balance Sheet | | |
| Current assets | \$ 845,127 | \$ 911,867 |
| Investments and other assets | 1,221,629 | 1,234,940 |
| | <u>\$ 2,066,756</u> | <u>\$ 2,146,807</u> |
| Current liabilities | \$ 194,382 | \$ 373,503 |
| Long-term liabilities | 278,904 | 301,301 |
| Equity | 1,593,470 | 1,472,003 |
| | <u>\$ 2,066,756</u> | <u>\$ 2,146,807</u> |
| Operations | | |
| Operating revenues | \$ 886,749 | \$ 1,197,031 |
| Operating expenses | (823,884) | (1,040,106) |
| Other expenses - net | (19,839) | (71,384) |
| Net income | <u>\$ 43,026</u> | <u>\$ 85,541</u> |

As a result of not consolidating Thumb Energy Services Corporation, the Cooperative's financial statements are understated as follows at December 31, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|------------------------|-------------------|---------------------|
| Assets and liabilities | <u>\$ 409,759</u> | <u>\$ 636,093</u> |
| Revenues and expenses | <u>\$ 845,133</u> | <u>\$ 1,111,645</u> |

Note 6 - Deferred Debits and Credits

Following is a summary of the amounts recorded as deferred debits and credits as of December 31, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------|-------------------|-------------------|
| Retirement security prepayment | \$ 654,975 | \$ 834,217 |
| Energy optimization | 19,925 | 25,074 |
| Total | <u>\$ 674,900</u> | <u>\$ 859,291</u> |

Thumb Electric Cooperative of Michigan

Notes to Financial Statements

December 31, 2016 and 2015

Following is a summary of the amounts recorded as deferred credits as of December 31, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|------------------------------|-------------------|-------------------|
| Customer prepayments | \$ 74,736 | \$ 76,083 |
| Line extension contributions | 33,009 | 55,016 |
| Underground contributions | 3,983 | 2,315 |
| | <u> </u> | <u> </u> |
| Total | <u>\$ 111,728</u> | <u>\$ 133,414</u> |

Note 7 - Patronage Capital

Patronage capital consisted of the following at December 31, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------|----------------------|----------------------|
| Assignable margins | \$ 914,556 | \$ 517,609 |
| Sales tax refund assignable | 29,232 | 41,598 |
| Assignable to date | 29,732,189 | 29,214,580 |
| | <u> </u> | <u> </u> |
| | <u>30,675,977</u> | <u>29,773,787</u> |
| Less: | | |
| Estate payments to date | 3,587,236 | 3,407,343 |
| Called for redemption to date | 4,364,125 | 4,119,102 |
| Discounted capital | 576,275 | 482,354 |
| | <u> </u> | <u> </u> |
| | <u>8,527,636</u> | <u>8,008,799</u> |
| Total | <u>\$ 22,148,341</u> | <u>\$ 21,764,988</u> |

Under the provisions of the Mortgage Agreements, until the equities and margins equal or exceed thirty percent of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited generally to twenty-five percent of the patronage capital or margins received by the Cooperative in the next preceding year.

The equities and margins of Thumb represent 33.60% and 33.79% percent of the total assets at December 31, 2016 and 2015.

Note 8 - Other Equities

At December 31, 2016 and 2015, other equities consisted of:

| | 2016 | 2015 |
|-----------------------------------|--------------|--------------|
| Non-operating margins | \$ 30,545 | \$ 30,545 |
| Retained earnings from subsidiary | 554,349 | 468,297 |
| Capital gains and losses | 3,137 | 3,137 |
| Donated capital | 5,371 | 4,761 |
| Retired capital credits-gain | 1,258,980 | 1,124,723 |
| | \$ 1,852,382 | \$ 1,631,463 |

The Cooperative began discounting the retirement of estate capital credits during 2011. The amount of discount credited to the retired capital credits –gain was approximately \$94,000 and \$87,000 during 2016 and 2015, respectively.

Note 9 - Mortgage Notes

| | 2016 | 2015 |
|--|---------------|---------------|
| RUS and FFB mortgage notes payable in equal monthly or quarterly installments including interest at 2.625% - 5.500% maturing to the year 2042, secured by utility plant assets | \$ 36,327,374 | \$ 34,318,777 |
| NRUCFC mortgage notes payable in equal quarterly installments including interest at 2.30% - 6.75% maturing to the year 2031, secured by utility plant assets | 3,170,424 | 4,137,632 |
| CoBank mortgage notes payable in equal quarterly installments including interest at 4.22% - 6.49% maturing to the year 2027, secured by utility plant assets | 1,926,491 | 2,397,030 |
| | 41,424,289 | 40,853,439 |
| Less current maturities of long-term debt | 1,929,640 | 1,841,163 |
| Total long-term debt | \$ 39,494,649 | \$ 39,012,276 |

Thumb Electric Cooperative of Michigan

Notes to Financial Statements

December 31, 2016 and 2015

As of December 31, 2016, approximate annual maturities of long-term debt outstanding for the next five years are as follows:

| <u>Year Ending December 31,</u> | <u>RUS and FFB</u> | <u>NRUCFC</u> | <u>CoBank</u> | <u>Total</u> |
|-------------------------------------|----------------------|---------------------|---------------------|----------------------|
| 2017 | \$ 907,924 | \$ 532,305 | \$ 489,411 | \$ 1,929,640 |
| 2018 | 954,179 | 535,808 | 491,559 | 1,981,546 |
| 2019 | 1,002,789 | 416,110 | 494,063 | 1,912,962 |
| 2020 | 1,053,876 | 228,741 | 263,904 | 1,546,521 |
| 2021 | 1,107,565 | 170,716 | 22,289 | 1,300,570 |
| Thereafter | 31,301,041 | 1,286,744 | 165,265 | 32,753,050 |
| | <u>\$ 36,327,374</u> | <u>\$ 3,170,424</u> | <u>\$ 1,926,491</u> | <u>\$ 41,424,289</u> |

Substantially all assets are pledged as collateral on long-term debt payable to the Rural Utilities Service (RUS) of the United States of America, Federal Financing Bank (FFB) and the National Rural Utilities Cooperative Finance Corporation (CFC). Additionally, the Cooperative has no unadvanced loan funds available from RUS, FFB, CoBank or CFC as of December 31, 2016.

Note 10 - Line of Credit

Line of credit consists of the following:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------|--------------|--------------|
| NRUCFC line of credit | | |
| Available at December 31 | \$ 5,000,000 | \$ 5,000,000 |
| Outstanding at December 31 | 3,104,608 | - |
| Rate at December 31 | 2.10% | 2.90% |
| CoBank line of credit | | |
| Available at December 31 | \$ 5,000,000 | \$ 5,000,000 |
| Outstanding at December 31 | 200,000 | 1,700,000 |
| Rate at December 31 | 2.87% | 2.53% |
| Northstar Bank line of credit | | |
| Available at December 31 | \$ 2,000,000 | \$ 2,000,000 |
| Outstanding at December 31 | - | - |
| Rate at December 31 | 3.70% | 3.45% |

The line of credit agreement requires that when the agreement is for a term of more than twelve months, then within 360 days of the first advance, the cooperative will reduce to zero for a period of at least five consecutive business days amounts outstanding. The Cooperative was in compliance with this requirement for 2016 and 2015.

Note 11 - Retirement Plan

Pension Plan

The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (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 plan sponsor's Employer Identification Number is 53-0116145 and the 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.

Thumb Electric Cooperative of Michigan's contributions to the RS Plan in 2016 and 2015 represented less than five percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of \$336,131 and \$460,252 for the years ended December 31, 2016 and 2015, respectively. In 2013, the Cooperative made a \$1,307,813 prepayment to the National Rural Electric Cooperative Association for the Retirement Security Plan to enhance the Plan's funded status. With this prepayment, the Cooperative will pay 25% lower premiums than cooperatives in the Retirement Security Plan that did not make a prepayment. The prepayment will be amortized over 7 years. The amortization expense was \$190,043 and \$190,043 in 2016 and 2015, respectively.

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 percent funded on January 1, 2016 and 2015 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 plan and may change as a result of plan experience.

Savings Plan

In addition to the above retirement plan, employees of the Cooperative are eligible to participate in the NRECA SelectRe 401(k) Pension Plan. The Cooperative made a contribution equal to 2.75% from November 1, 2013 through January 1, 2014, equal to 6.0% from January 1, 2014 through November 1, 2014, and equal to 3.0% from November 1, 2014 to December 31, 2015. The Cooperative made contributions of \$69,230 and \$67,147 in 2016 and 2015, respectively.

Note 12 - Related Party Transactions

Thumb Energy Services Corporation is wholly owned subsidiary of Thumb Electric Cooperative of Michigan (Thumb). At December 31, 2016 and 2015, Thumb reflected payables in the amount of \$63,527 and \$38,711, respectively. Thumb Electric Cooperative of Michigan has furnished personnel, office space, and other necessary operating facilities such as computer time for Thumb Energy Services' operations. Thumb Energy Services reimbursed Thumb Electric Cooperative \$70,555 and \$78,411 for the year ended December 31, 2016 and 2015, respectively, for these services.

Note 13 - Commitments and Contingencies

The Cooperative has entered into a Market Based Rate Full Requirement Agreement with CMS Energy Resource Management Company (CMS) to purchase its power and energy from CMS from January 1, 2014 through May 31, 2020.

Thumb Electric Cooperative of Michigan, (Guarantor), has agreed to guarantee 100% of line of credit loan and term loan advances obtained by Thumb Energy Services (TESC) from the National Cooperative Services Corporation (NCSC) in an amount not to exceed \$2,000,000 in total outstanding and at such interest rate or rates as shall be prescribed in the note or notes executed by and on behalf of TESC and delivered to NCSC, the proceeds of such loan to be used for general corporate purposes. The balance of the guaranteed loans outstanding as of December 31, 2016 was \$146,281.

Concentration of Sources of Labor

At December 31, 2016, the Cooperative has approximately 73% of its employees covered by a collective bargaining agreement. The collective bargaining agreement for employees will expire on November 1, 2017.

MICHIGAN PUBLIC SERVICE COMMISSION

ADDITIONAL SCHEDULES FOR AN ELECTRIC UTILITY COOPERATIVE

This form is authorized by Case No. U-12134, the Code of Conduct. Filing of this form is mandatory pursuant to PA 3 of 1939. Failure to provide this information will put you in violation of this act and the commission shall order such remedies and penalties as necessary.

| |
|--|
| Report submitted for year ending: December 31, 2016 |
| Present name of respondent: Thumb Electric Cooperative |
| Address of principal place of business: 2231 Main Street, Ubly, MI 48475 |
| Utility representative to whom inquires regarding this report may be directed: Name: Dallas Braun Title: General Manager Address: 2231 Main Street City: Ubly State: MI Zip: 48475 Direct Telephone, Include Area Code: 989-658-8571 |
| If the utility name has been changed during the past year: Prior Name: Date of Change: |
| Two copies of the published annual report to stockholders: [3/27/2017] were forwarded to the Commission [] will be forwarded to the Commission on or about |
| Annual reports to stockholders: [] are published [5/1/2017] are not published <i>will be</i> |

FOR ASSISTANCE IN COMPLETION OF THIS FORM:

Contact the Michigan Public Service Commission (Heather Cantin) at (517) 284-8266 or cantinh@michigan.gov OR forward correspondence to:

Michigan Public Service Commission
Financial Analysis & Audit Division
Attn: Heather Cantin
7109 W. Saginaw Hwy
PO Box 30221
Lansing, MI 48909



| | | | |
|---|---|---|-----------------------------------|
| Name of Respondent Thumb Electric | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04-04-17 | Year of Report 12-31-16 |
|---|---|---|-----------------------------------|

STATEMENT OF CASH FLOWS

1. If the notes to the cash flow statement in the respondent's annual stockholders report are applicable to this statement, such notes should be included on pages 122-123. Information about noncash investing and financing activities should be provided on pages 122-123. "Cash and Cash Equivalents at End of Year" with related amounts on the balance sheet.

2. Under "Other" specify significant amounts and group others.

3. Operating Activities-Other: Include gains and losses pertaining to operating activities only. Gains and losses pertaining to investing and financing activities should be reported in those activities. Show on pages 122-123 the amounts of interest paid (net of amounts capitalized) and income taxes paid.

| Line No. | Description (See Instructions for Explanation of Codes) (a) | Amounts (b) |
|----------|---|----------------|
| 1 | Net Cash Flow from Operating Activities: (enter outflows from company as negative #s) | |
| 2 | Net Income (Line 72 (c) on page 117) | |
| 3 | Noncash Charges (Credits) to Income: | |
| 4 | Depreciation and Depletion | |
| 5 | Amortization of (Specify) | |
| 6 | Intangible Plant | |
| 7 | | |
| 8 | Deferred Income Taxes (Net) | |
| 9 | Investment Tax Credit Adjustment (Net) | |
| 10 | Net (Increase) Decrease in Receivables | |
| 11 | Net (Increase) Decrease in Inventory | |
| 12 | Net (Increase) Decrease in Allowances Inventory | |
| 13 | Net (Increase) Decrease in Payables and Accrued Expenses | |
| 14 | Net (Increase) Decrease in Other Regulatory Assets | |
| 15 | Net (Increase) Decrease in Other Regulatory Liabilities | |
| 16 | (Less) Allowance for Other Funds Used During Construction | |
| 17 | (Less) Undistributed Earnings from Subsidiary Companies | |
| 18 | Other: | |
| 19 | | |
| 20 | | |
| 21 | | |
| 22 | Net Cash Provided by (Used in) Operating Activities (Total of lines 2 thru 21) | |
| 23 | | |
| 24 | Cash Flows from Investment Activities: | |
| 25 | Construction and Acquisition of Plant (including land): | |
| 26 | Gross Additions to Utility Plant (less nuclear fuel) | |
| 27 | Gross Additions to Nuclear Fuel | |
| 28 | Gross Additions to Common Utility Plant | |
| 29 | Gross Additions to Nonutility Plant | |
| 30 | (Less) Allowance to Other Funds Used During Construction | |
| 31 | Other: | |
| 32 | | |
| 33 | | |
| 34 | Cash Outflows for Plant (Total of lines 26 thru 33) | |
| 35 | | |
| 36 | Acquisition of Other Noncurrent Assets (d) | |
| 37 | Proceeds from Disposal of Noncurrent Assets (d) | |
| 38 | | |
| 39 | Investments in and Advances to Assoc. and Subsidiary Companies | |
| 40 | Contributions and Advances from Assoc. and Subsidiary Companies | |
| 41 | Disposition of Investments in (and Advances to) | |
| 42 | Associated and Subsidiary Companies | |
| 43 | | |
| 44 | Purchase of Investment Securities (a) | |
| 45 | Proceeds from Sales of Investment Securities (a) | |

| | | | |
|---|---|---|-----------------------------------|
| Name of Respondent Thumb Electric | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04-04-17 | Year of Report 12-31-16 |
|---|---|---|-----------------------------------|

STATEMENT OF CASH FLOWS (Continued)

4. **Investing Activities**
 (a) Include at Other (line 31) net cash outflow to acquire other companies. Provide a reconciliation of asset acquired with liabilities assumed on pages 122-123.
 (b) Do not include on this statement the dollar amount of leases capitalized per USofA General Instruction 20; instead provide a reconciliation of the dollar amount of leases capitalized with the plant cost on pages 122-123.

5. **Codes used:**
 (a) Net proceeds or payments.
 (b) Bonds, debentures and other long-term debt.
 (c) Include commercial paper.
 (d) Identify separately such items as Investments, fixed assets, intangibles, etc.
 Enter on pages 122-123 clarifications and explanations.

6.

| Line No. | Description (See instructions for Explanation of Codes) (a) | Amount (b) |
|----------|--|---------------|
| 46 | Loans Made or Purchased | |
| 47 | Collections on Loans | |
| 48 | | |
| 49 | Net (Increase) Decrease in Receivables | |
| 50 | Net (Increase) Decrease in Inventory | |
| 51 | Net (Increase) Decrease in Allowances Held for Speculation | |
| 52 | Net Increase (Decrease) in Payables and Accrued Expenses | |
| 53 | Other: | |
| 54 | | |
| 55 | see Attached | |
| 56 | Net Cash Provided by (Used In) Investing Activities | |
| 57 | (Total of lines 34 thru 55) | |
| 58 | | |
| 59 | Cash Flows from Financing Activities: | |
| 60 | Proceeds from Issuance of: | |
| 61 | Long Term Debt (b) | |
| 62 | Preferred Stock | |
| 63 | Common Stock | |
| 64 | Other: | |
| 65 | | |
| 66 | Net Increase in Short-Term Debt (c) | |
| 67 | Other: | |
| 68 | | |
| 69 | | |
| 70 | Cash Provided by Outside Sources (Total of lines 61 thru 69) | |
| 71 | | |
| 72 | Payments for Retirement of: | |
| 73 | Long Term Debt (b) | |
| 74 | Preferred Stock | |
| 75 | Common Stock | |
| 76 | Other: | |
| 77 | | |
| 78 | Net Decrease in Short-Term Debt (c) | |
| 79 | | |
| 80 | Dividends on Preferred Stock | |
| 81 | Dividends on Common Stock | |
| 82 | Net Cash Provided by (Used In) Financing Activities | |
| 83 | (Total of lines 70 thru 81) | |
| 84 | | |
| 85 | Net Increase (Decrease) in Cash and Cash Equivalents | |
| 86 | (Total of lines 22, 57 and 83) | |
| 87 | | |
| 88 | Cash and Cash Equivalents at Beginning of Year | |
| 89 | | |
| 90 | Cash and Cash Equivalents at End of Year | |

Thumb Electric Cooperative of Michigan
 Statements of Cash Flows
 Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|--|---------------|---------------|
| Operating Activities | | |
| Cash received from customers | \$ 19,796,673 | \$ 20,078,036 |
| Cash paid to suppliers and employees | (15,084,747) | (15,321,271) |
| Interest received | 74,223 | 44,609 |
| Interest paid | (1,562,621) | (1,508,036) |
| Taxes paid | (761,015) | (742,043) |
| Net Cash from Operating Activities | 2,462,513 | 2,551,295 |
| Investing Activities | | |
| Construction and acquisition of plant, net | (4,638,053) | (5,697,379) |
| Receipt of contribution in aid of construction | 331,759 | 177,239 |
| Cost of removal/salvage, net | (251,609) | (581,928) |
| (Increase) decrease in: | | |
| Materials inventory | 61,061 | 73,860 |
| Investments in associated organizations | 97,932 | 83,043 |
| Other investments | (237,348) | (64,707) |
| Net Cash used for Investing Activities | (4,636,258) | (6,009,872) |
| Financing Activities | | |
| Proceeds from debt | 2,900,000 | 4,000,000 |
| Payments on debt | (1,878,955) | (1,992,700) |
| Draws on cushion of credit | 1,485 | - |
| Advances on line of credit | 7,254,608 | 9,956,834 |
| Payments on line of credit | (6,101,680) | (8,131,520) |
| Patronage capital credits paid | (353,310) | (751,039) |
| Proceeds from memberships issued | 2,765 | 2,715 |
| Increase in consumer deposits | 2,512 | 6,656 |
| Net Cash from Financing Activities | 1,827,425 | 3,090,946 |
| Net Change in Cash and Cash Equivalents | (346,320) | (367,631) |
| Cash and Cash Equivalents at Beginning of Year | 637,160 | 1,004,791 |
| Cash and Cash Equivalents at End of Year | \$ 290,840 | \$ 637,160 |

Thumb Electric Cooperative of Michigan
 Statements of Cash Flows
 Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|--|--------------|--------------|
| Reconciliation of Net Margins to Net Cash Provided by Operating Activities: | | |
| Net margins | \$ 957,582 | \$ 603,150 |
| Adjustments to reconcile net margins to net cash provided by operating activities: | | |
| Depreciation | 2,380,685 | 2,278,447 |
| Capital credits | (122,869) | (109,919) |
| Amortization of security retirement prepayment | 190,043 | 190,043 |
| (Gain) loss on disposal of electric plant | 64,092 | (6,101) |
| Income from subsidiary | (43,026) | (85,541) |
| (Increase) decrease in: | | |
| Customer and other accounts receivable | (442,340) | 468,795 |
| Current and accrued assets - other | 42,380 | (6,728) |
| Deferred charges | (5,652) | 3,297 |
| Increase (decrease) in: | | |
| Accounts payable | (614,560) | (884,266) |
| Accrued property taxes | 24,595 | 17,642 |
| Accrued payroll and vacation | 40,212 | 80,177 |
| Accrued other | (8,629) | 2,299 |
| Total adjustments | 1,504,931 | 1,948,145 |
| Net Cash Provided by Operating Activities | \$ 2,462,513 | \$ 2,551,295 |

Name of Respondent.

Thumb Electric

This Report Is:
 (1) An Original
 (2) A Resubmission

Date of Report
 (Mo, Da, Yr)
 04-04-17

Year of Report
 12-31-16

NONUTILITY PROPERTY (Account 121)

1. Give a brief description and state the location of nonutility property included in Account 121.
2. Designate with a double asterisk any property which is leased to another company. State name of lessee and whether lessee is an associated company.
3. Furnish particulars (details) concerning sales, purchases, or transfers of Nonutility Property during the year.
4. List separately all property previously devoted to public service and give date of transfer to Account 121, Nonutility Property.
5. Minor items (5% of the Balance at the End of the Year for Account 121 or \$100,000, whichever is less) may be grouped by (1) previously devoted to public service, or (2) other nonutility property.

| Line No. | Description and Location (a) | Balance at Beginning of Year (b) | Purchases, Sales Transfers, etc. (c) | Balance at End of Year (d) |
|----------|------------------------------|----------------------------------|--------------------------------------|----------------------------|
| 1 | VACANT Lot | | | |
| 2 | 2416 EAST DAYTON Rd. | \$ 12,000.- | | \$ 12,000.- |
| 3 | CARO, MI 48723 | | | |
| 4 | | | | |
| 5 | | | | |
| 6 | | | | |
| 7 | | | | |
| 8 | | | | |
| 9 | RENTAL Home | | | |
| 10 | 2434 EAST DAYTON Rd. | \$ 156,636 | | \$ 156,636 |
| 11 | CARO, MI 48723 | | | |
| 12 | | | | |
| 13 | | | | |
| 14 | | | | |
| 15 | | | | |
| 16 | | | | |
| 17 | | | | |
| TOTAL | | 168,636 | | 168,636 |

ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION OF NONUTILITY PROPERTY (Account 122)

Report below the information called for concerning depreciation and amortization of nonutility property.

| Line No. | Item (a) | Amount (b) |
|----------|--|------------|
| 1 | Balance, Beginning of Year | |
| 2 | Accruals for Year, Charged to | 57,008 |
| 3 | (417) Income from Nonutility Operations | |
| 4 | (418) Nonoperating Rental Income | |
| 5 | Other Accounts (Specify): | |
| 6 | | |
| 7 | TOTAL Accruals for Year (Enter Total of lines 3 thru 6) | |
| 8 | Net Charges for Plant Retired: | |
| 9 | Book Cost of Plant Retired | |
| 10 | Cost of Removal | |
| 11 | Salvage (Credit) | |
| 12 | TOTAL Net Charges (Enter Total of lines 9 thru 11) | 4474 |
| 13 | Other Debit or Credit Items (Describe): | |
| 14 | | |
| 15 | Balance, End of Year (Enter Total of lines 1, 7, 12, and 14) | 61,482 |

Thumb Electric Cooperative
Attachment to page 221 (M)

Dec 2016

Gen. Ledger a/c 421.00, Non-Operating Revenue

| | |
|----------------------------|----------|
| Rental Home | \$7,920 |
| DTE Solar Down payment | \$33,000 |
| Credit Card Program rebate | \$641 |
| Total | \$41,561 |

| | | | |
|---|---|--|-----------------------------------|
| Name of Respondent Thumb Electric | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04-04-17 | Year of Report 12-31-16 |
|---|---|--|-----------------------------------|

INVESTMENTS (Accounts 123, 124, 136)

1. Report below the investments in Accounts 123, *Investments in Associated Companies*, 124, *Other Investment*, and 136, *Temporary Cash Investments*.

in Account 124, *Other Investments*), state number of shares, class, and series of stock. Minor investments may be grouped by classes. Investments included in Account 136, *Temporary Cash Investments*, also may be grouped by classes.

2. Provide a subheading for each account and list thereunder the information called for:

(a) Investment in securities - List and describe each security owned, giving name of user, date acquired and date of maturity. For bonds, also give principal amount, date of issue, maturity, and interest rate. For capital stock (including capital stock of respondent reacquired under a definite plan for resale pursuant to authorization by the Board of Directors, and included

(b) Investment Advances-Report separately for each person or company the amounts of loans or investment advances which are properly includable in Account 123. Advances subject to current repayment should be included in Accounts 145 and 146. With respect to each advance, show whether the advance is a note or an open account. Each note should be

| Line No. | Description of Investment (a) | Book Cost at Beginning of Year (If book cost is different from cost to respondent, give cost to respondent in a footnote and explain difference) (b) | | Purchases or Additions During Year (c) |
|----------|--------------------------------------|--|------------|---|
| | | Original Cost | Book Value | |
| 1 | See ATTACHED | | | |
| 2 | | | | |
| 3 | | | | |
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|---|---|---|-----------------------------------|
| Name of Respondent Thumb Electric | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04-04-17 | Year of Report 12-31-16 |
|---|---|---|-----------------------------------|

INVESTMENTS (Accounts 123, 124, 136) (Cont'd)

listed giving date of issuance, maturity date, and specifying whether note is a renewal. Designate any advances due from officers, directors, stockholders, or employees. Exclude amounts reported on page 229.

3. For any securities, notes or accounts that were pledged designate with an asterisk such securities, notes, or accounts and in a footnote state the name of pledgee and purpose of the pledge.

4. If Commission approval was required for any advance made or security acquired, designate such fact in a footnote and give name of Commission, date of

authorization, and case or docket number.

5. Report in column (g) Interest and dividend revenues from investments including such revenues from securities disposed of during the year.

6. In column (h) report for each investment disposed of during the year the gain or loss represented by the difference between cost of the investment (or the other amount at which carried in the books of account if different from cost) and the selling price thereof, not including any dividend or interest adjustment includible in column (g).

| Sales or Other Dispositions During Year (d) | Principal Amount or No. of Shares at End of Year (e) | Book Cost at End of Year (If book cost is different from cost to respondent, give cost to respondent in a footnote and explain difference) (f) | | Revenues for Year (g) | Gain or Loss from Improvement Disposed of (h) | Line No. |
|--|---|--|------------|--------------------------|--|----------|
| | | Original Cost | Book Value | | | |
| | XXXX See Attached | | | | | 1 |
| | | | | | | 2 |
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Thumb Electric Cooperative
Attachment to page 222

Dec 2016

Gen. Ledger a/c 123, 124 and 136

| | Beginning Balance | Additions | Dispositions | Year End Balance | Revenue for Year |
|--|-------------------|-------------|--------------|------------------|------------------|
| CFC | \$887,780 | \$12,001 | \$14,847 | \$884,934 | \$12,001 |
| NISC | \$105,519 | \$10,633 | \$2,697 | \$113,455 | \$10,633 |
| NRTC | \$621 | \$0 | \$103 | \$518 | \$0 |
| RESCO | \$188,545 | \$16,169 | \$23,642 | \$181,072 | \$16,169 |
| Federated Insurance | \$152,552 | \$32,765 | \$16,917 | \$168,400 | \$32,765 |
| Thumb Energy Services (includes 200 shares @ \$ 1.00 / share) | \$1,472,005 | \$121,465 * | \$0 | \$1,593,470 | \$43,024 |
| MECA, (building investment) | \$0 | \$0 | \$0 | \$0 | \$0 |
| CoBank | \$81,159 | \$44,738 | \$33,554 | \$92,343 | \$44,738 |
| ERC Loans | \$118,567 *** | \$37,742 | \$27,686 | \$128,623 | \$0 |
| Coop Elevator | \$2,889 | \$648 | \$259 | \$3,278 | \$648 |
| Commercial Paper | \$150,000 | \$0 | \$150,000 | \$0 | \$0 |
| CFC Member Capital Securities | \$150,000 | \$0 | \$0 | \$150,000 | \$7,500 |

* \$ 85,541 Thumb Energy Services profit, plus \$ 78,441 equity investment made on 03-22-17, as allowed by MPSC, Case No. U-14778, approved on 08-22-06.

\$167,478

*** Loans made to members for energy efficiency or

| | | | |
|---|---|---|--|
| Name of Respondent Thumb Electric | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04-24-17 | Year of Report Dec. 31, 2016 |
|---|---|---|--|

NOTES AND ACCOUNTS RECEIVABLE SUMMARY FOR BALANCE SHEET

Show separately by footnote the total amount of notes and accounts receivable from directors, officers, and employees included in Notes Receivable (Account 141) and Other Accounts Receivable (Account 143).

| Line No. | Accounts (a) | Balance Beginning of Year (b) | Balance End of Year (c) |
|----------|--|----------------------------------|----------------------------|
| 1 | Notes Receivable (Account 141) | | |
| 2 | Customer Accounts Receivable (Account 142) | 2,891,337 | 3,095,001 |
| 3 | Other Accounts Receivable (Account 143) (Disclose any capital stock subscriptions received) | 328,896 | 339,207 |
| 4 | TOTAL | | |
| 5 | Less: Accumulated Provision for Uncollectible Accounts-Cr. (Account 144) | 522,331 | 505,762 |
| 6 | TOTAL, Less Accumulated Provision for Uncollectible Accounts | 2,697,902 | 3,095,001 |
| 7 | | | |
| 8 | | | |
| 9 | | | |
| 10 | | | |
| 11 | | | |
| 12 | | | |
| 13 | | | |
| 14 | | | |

ACCUMULATED PROVISION FOR UNCOLLECTIBLE ACCOUNT-CR. (Account 144)

1. Report below the information called for concerning this accumulated provision.
2. Explain any important adjustments of subaccounts.
3. Entries with respect to officers and employees shall not include items for utility services.

| Line No. | Item (a) | Utility Customers (b) | Merchandise Jobbing and Contract Work (c) | Officers and Employees (d) | Other (e) | Total (f) |
|----------|--|--------------------------|--|-------------------------------|--------------|--------------|
| 1 | Balance beginning of year | 522,331 | | | | 522,331 |
| 2 | Prov. for uncollectibles for current year | 16,000 | | | | 16,000 |
| 3 | Accounts written off | (50,672) | () | () | () | (50,672) |
| 4 | Coll. of accounts written off | | | | | |
| 5 | Adjustments (explain):PAYMENTS..... | 18,103 | | | | 18,103 |
| 6 | Balance end of year | 505,762 | | | | 505,762 |
| 7 | | | | | | |
| 8 | | | | | | |
| 9 | | | | | | |
| 10 | | | | | | |
| 11 | | | | | | |

| | | | |
|---|---|---|-----------------------------------|
| Name of Respondent Thumb Electric | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04-04-17 | Year of Report 12-31-16 |
|---|---|---|-----------------------------------|

RECEIVABLES FROM ASSOCIATED COMPANIES (Accounts 145, 146)

- | | |
|---|--|
| <p>1. Report particulars of notes and accounts receivable from associated companies* at end of year.</p> <p>2. Provide separate headings and totals for Accounts 145, Notes Receivable from Associated Companies, and 146, Accounts Receivable from Associated Companies, in addition to a total for the combined accounts.</p> <p>3. For notes receivable, list each note separately and state purpose for which received. Show also in column (a) date of note, date of maturity and interest rate.</p> | <p>4. If any note was received in satisfaction of an open account, state the period covered by such open account.</p> <p>5. Include in column (f) interest recorded as income during the year including interest on accounts and notes held any time during the year.</p> <p>6. Give particulars of any notes pledged or discounted, also of any collateral held as guarantee of payment of any note or account.</p> |
|---|--|

* NOTE: "Associated companies" means companies or persons that, directly or indirectly, through one or more intermediaries, control, or are controlled by, or are under common control with, the account company. This includes related parties.

"Control" (including the terms "controlling," "controlled by," and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a company, whether such power is exercised through one or more intermediary companies, or alone, or in conjunction with, or pursuant to an agreement, and whether such power is established through a majority or minority ownership or voting of securities, common directors, officers or stockholders, voting trusts, holding trusts, associated companies, contract or any other direct or indirect means.

| Line No. | Particulars (a) | Balance Beginning of Year (b) | Totals for Year | | Balance End of Year (e) | Interest for Year (f) |
|----------|-----------------|-------------------------------|-----------------|-------------|-------------------------|-----------------------|
| | | | Debits (c) | Credits (d) | | |
| 1 | | | | | | |
| 2 | | | | | | |
| 3 | | | | | | |
| 4 | | | | | | |
| 5 | | | | | | |
| 6 | | | | | | |
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| 20 | | | | | | |
| 21 | | | | | | |
| 22 | | | | | | |
| 23 | | | | | | |
| 24 | | | | | | |
| 25 | TOTAL | | | | | |

| | | | |
|---|---|--|-----------------------------------|
| Name of Respondent <i>Thumb Electric</i> | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) <i>04-04-17</i> | Year of Report <i>12-31-16</i> |
|---|---|--|-----------------------------------|

ALLOWANCES

- | | |
|--|---|
| <p>1. Report below the details called for concerning allowances.</p> <p>2. Report all acquisitions of allowances at cost.</p> <p>3. Report allowances in accordance with a weighted average cost allocation method and other accounting as prescribed by General Instruction No. 21 in the Uniform System of Accounts.</p> <p>4. Report the allowances transactions by the period they are first</p> | <p>eligible for use; the current year's allowances in columns (b)-(c), allowances for the three succeeding years in column(d)-(i), starting with the following year, and allowances for the remaining succeeding years in columns (j)-(k).</p> <p>5. Report on line 4 the Environmental Protection Agency (EPA) issued allowances. Report withheld portions on lines 36-40.</p> |
|--|---|

| Line No. | Allowance Inventory (a) | Current Year | | 20 | |
|----------|--|--------------|----------|---------|----------|
| | | No. (b) | Amt. (c) | No. (d) | Amt. (e) |
| 1 | Balance - Beginning of Year | | | | |
| 2-4 | Acquired During Year: Issued (Less Withheld Allow.) | | | | |
| 5 | Returned by EPA | | | | |
| 6-8 | Purchases/Transfers: | | | | |
| 9 | | | | | |
| 10 | | | | | |
| 11 | <i>N/A</i> | | | | |
| 12 | | | | | |
| 13 | | | | | |
| 14 | | | | | |
| 15 | Total | | | | |
| 16-18 | Relinquished During Year: Charges to Acct. 509 | | | | |
| 19 | Other: | | | | |
| 20 | | | | | |
| 21-22 | Cost of Sales/Transfers: | | | | |
| 23 | | | | | |
| 24 | | | | | |
| 25 | | | | | |
| 26 | | | | | |
| 27 | | | | | |
| 28 | Total | | | | |
| 29 | Balance - End of Year | | | | |
| 30-32 | Sales: | | | | |
| | Net Sales Proceeds (Assoc Co.) | | | | |
| 33 | Net Sales Proceeds (Other) | | | | |
| 34 | Gains | | | | |
| 35 | Losses | | | | |
| | Allowances Withheld | | | | |
| 36 | Balance - Beginning of Year | | | | |
| 37 | Add: Withheld by EPA | | | | |
| 38 | Deduct: Returned by EPA | | | | |
| 39 | Cost of Sales | | | | |
| 40 | Balance - End of Year | | | | |
| 41-43 | Sales: | | | | |
| | Net Sales Proceeds (Assoc. Co.) | | | | |
| 44 | Net Sales Proceeds (Other) | | | | |
| 45 | Gains | | | | |
| 46 | Losses | | | | |

| | | | |
|---|---|--|-----------------------------------|
| Name of Respondent Thumb Electric | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04-04-17 | Year of Report 12-31-16 |
|---|---|--|-----------------------------------|

ALLOWANCES (Continued)

6. Report on line 5 allowances returned by the EPA. Report on line 39 the EPA's sales of the withheld allowances. Report on lines 43-46 the net sales or auction of the withheld allowances.

7. Report on lines 8-14 the names of vendors/transfers of allowances acquired and identify associated companies (See "associated co." under "Definitions" in Uniform System of Accounts).

8. Report on lines 22-27 the names of purchasers/transfers of allowances disposed of and identify associated companies.

9. Report the net costs and benefits of hedging transactions on a separate line under purchases/transfers and sales/transfers.

10. Report on lines 32-35 & 43-46 the net sales proceeds and gains or losses from allowance sales.

| 20 | | 20 | | Future Years | | Totals | | Line No. |
|---------|----------|---------|----------|--------------|----------|---------|----------|----------|
| No. (f) | Amt. (g) | No. (h) | Amt. (i) | No. (j) | Amt. (k) | No. (l) | Amt. (m) | |
| | | | | | | | | 1 |
| | | | | | | | | 2-4 |
| | | | | | | | | 5 |
| | | | | | | | | 6-8 |
| | | | | | | | | 9 |
| | | | | | | | | 10 |
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| | | | | | | | | 12 |
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| | | | | | | | | 16-18 |
| | | | | | | | | 19 |
| | | | | | | | | 20 |
| | | | | | | | | 21-22 |
| | | | | | | | | 23 |
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| | | | | | | | | 29 |
| | | | | | | | | 30-32 |
| | | | | | | | | 33 |
| | | | | | | | | 34 |
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| | | | | | | | | 37 |
| | | | | | | | | 38 |
| | | | | | | | | 39 |
| | | | | | | | | 40 |
| | | | | | | | | 41-43 |
| | | | | | | | | 44 |
| | | | | | | | | 45 |
| | | | | | | | | 46 |

| | | | |
|---|---|---|-----------------------------------|
| Name of Respondent Thumb Electric | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04-04-17 | Year of Report 12-31-16 |
|---|---|---|-----------------------------------|

LONG-TERM DEBT (Accounts 221, 222, 223 and 224)

1. Report by balance sheet account the particulars (details) concerning long-term debt included in Accounts 221, Bonds, 222, Reacquired Bonds, 223, Advances from Associated Companies, and 224, Other Long-Term Debt.
2. In column (a), for new issues, give Commission authorization numbers and dates.
3. For bonds assumed by the respondent, include in column (a) the name of the issuing company as well as a description of the bonds.
4. For advances from Associated Companies, report separately advances on notes and advances on open accounts. Designate demand notes as such. Include in column (a) names of associated companies from which advances were received.
5. For receivers' certificates, show in column (a) the name of the court and date of court order under which such certificates were issued.
6. In column (b) show the principal amount of bonds or other long-term debt originally issued.
7. In column (c) show the expense, premium or discount with respect to the amount of bonds or other long-term debt originally issued.
8. For column (c) the total expenses should be listed first for each issuance, then the amount of premium (in parentheses) or discount. Indicate the premium or discount with a notation, such as (P) or (D). The expenses, premium or discount should not be netted.
9. Furnish in a footnote particulars (details) regarding the treatment of unamortized debt expense, premium or discount associated with issues redeemed during the year. Also, give in a footnote the date of the Commission's authorization of treatment other than as specified by the Uniform System of Accounts.

| Line No. | Class and Series of Obligation, Coupon Rate <i>(For new issue, give Commission Authorization numbers and dates)</i> | Principal Amount of Debt Issued | Total Expense, Premium or Discount |
|----------|--|---------------------------------|------------------------------------|
| | (a) | (b) | (c) |
| 1 | see ATTACHED | | |
| 2 | | | |
| 3 | | | |
| 4 | | | |
| 5 | | | |
| 6 | | | |
| 7 | | | |
| 8 | | | |
| 9 | | | |
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| 19 | | | |
| 20 | | | |
| 21 | | | |
| 22 | | | |
| 23 | | | |
| 24 | | | |
| 25 | TOTAL | | |

| UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION | | | BORROWER DESIGNATION MI0037 | | |
|--|---|-------------------------------|---------------------------------------|--|------------------------------------|
| 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) | 11,572,764 | 555,201 | 393,793 | 948,994 |
| 2 | National Rural Utilities Cooperative Finance Corporation | 2,638,119 | 116,842 | 536,268 | 653,110 |
| 3 | CoBank, ACB | 1,437,080 | 100,903 | 494,264 | 595,167 |
| 4 | Federal Financing Bank | 23,846,685 | 737,409 | 497,610 | 1,235,019 |
| 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 | | | | |
| | TOTAL | 39,494,648 | 1,510,355 | 1,921,935 | 3,432,290 |

| | | | |
|---|---|---|-----------------------------------|
| Name of Respondent Thumb Electric | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04-04-17 | Year of Report 12-31-16 |
|---|---|---|-----------------------------------|

LONG-TERM DEBT (Accounts 221, 222, 223 and 224) (Continued)

10. Identify separate undisposed amounts applicable to issues which were redeemed in prior years.
11. Explain any debits and credits other than amortization debited to Account 428, Amortization of Debt-Discout and Expense, or credited to Account 429, Amortization of Premium on Debt-Credit.
12. In a footnote, give explanatory particulars (details) for Accounts 223 and 224 of net changes during the year. With respect to long-term advances, show for each company: (a) principal advanced during year, (b) interest added to principal amount, and (c) principal repaid during year. Give Commission authorization numbers and dates.
13. If the respondent has pledged any of its long-term debt securities give particulars (details) in a footnote including name of pledgee and purpose of the pledge.
14. If the respondent has any long-term debt securities which have been nominally issued and are nominally outstanding at end of year, describe such securities in a footnote.
15. If interest expense was incurred during the year on any obligations retired or reacquired before end of year, include such interest expense in column (i). Explain in a footnote any difference between the total of column (i) and the total of Account 427, Interest on Long-Term Debt, and Account 430, Interest on Debt to Associated Companies.
16. Give particulars (details) concerning any long-term debt authorized by a regulatory commission but not yet issued.

| Nominal Date of Issue (d) | Date of Maturity (e) | AMORTIZATION PERIOD | | Outstanding (Total amount outstanding without reduction for amounts held by respondent) (h) | Interest for Year Amount (i) | Line No. |
|---------------------------|----------------------|---------------------|-------------|---|------------------------------|----------|
| | | Date From (f) | Date To (g) | | | |
| | | | | N/A | | 1 |
| | | | | | | 2 |
| | | | | | | 3 |
| | | | | | | 4 |
| | | | | | | 5 |
| | | | | | | 6 |
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|---|---|--|-----------------------------------|
| Name of Respondent Thumb Electric | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04-04-17 | Year of Report 12-31-16 |
|---|---|--|-----------------------------------|

PAYABLES TO ASSOCIATED COMPANIES* (Accounts 233, 234)

1. Report particulars of notes and accounts payable to associated companies at end of year.
2. Provide separate totals for Accounts 233, Notes Payable to Associated Companies, and 234, Accounts Payable to Associated Companies, in addition to total for the combined accounts.
3. List each note separately and state the purpose for which Issued. Show also in column (a) date of note, maturity and interest rate.
4. Include in column (f) the amount of any interest expense during the year on notes or accounts that were paid before the end of the year.
5. If collateral has been pledged as security to the payment of any note or account, describe such collateral.

**See definition on page 226B*

| Line No. | Particulars (a) | Balance Beginning of Year (b) | Totals for Year | | Balance End of Year (e) | Interest for Year (f) |
|----------|--------------------|----------------------------------|-----------------|----------------|----------------------------|--------------------------|
| | | | Debits (c) | Credits (d) | | |
| 1 | Line of credit | 2,151,680 | 6,101,680 | 7,254,609 | 3,304,609 | 52,266 |
| 2 | | | | | | |
| 3 | | | | | | |
| 4 | | | | | | |
| 5 | | | | | | |
| 6 | | | | | | |
| 7 | | | | | | |
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| 21 | | | | | | |
| 22 | | | | | | |
| 23 | | | | | | |

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|---|---|---|-----------------------------------|
| Name of Respondent Thumb Electric | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04-04-17 | Year of Report 12-31-16 |
|---|---|---|-----------------------------------|

RECONCILIATION OF REPORTED NET INCOME WITH TAXABLE INCOME FOR FEDERAL INCOME TAXES

1. Report the reconciliation of reported net income for the year with taxable income used in computing Federal income tax accruals and show computation of such tax accruals. Include in the reconciliation, as far as practicable, the same detail as furnished on Schedule M-1 of the tax return for the year. Submit a reconciliation even though there is no taxable income for the year. Indicate clearly the nature of each reconciling amount.

2. If the utility is a member of a group which files a consolidated Federal tax return, reconcile reported net income with taxable net income as if a separate return were to be filed, indicating, however, intercompany amounts to be eliminated in such a consolidated return. State names of group members, tax assigned to each group member, and basis of allocation, assignment, or sharing of the consolidated tax among the group members.

| Line No. | | TOTAL AMOUNT |
|----------|---|--------------|
| 1 | Utility net operating income (page 114 line 20) | |
| 2 | Allocations: Allowance for funds used during construction | |
| 3 | Interest expense | |
| 4 | Other (specify) | |
| 5 | Net income for the year (page 117 line 68) | |
| 6 | Allocation of Net income for the year | |
| 7 | Add: Federal income tax expenses N/A | |
| 8 | | |
| 9 | Total pre-tax income | |
| 10 | | |
| 11 | Add: Taxable income not reported on books: | |
| 12 | | |
| 13 | | |
| 14 | | |
| 15 | Add: Deductions recorded on books not deducted from return | |
| 16 | | |
| 17 | | |
| 18 | | |
| 19 | Subtract: Income recorded on books not included in return: | |
| 20 | | |
| 21 | | |
| 22 | | |
| 23 | Subtract: Deductions on return not charged against book income: | |
| 24 | | |
| 25 | | |
| 26 | Federal taxable income for the year | |

| | | | |
|--|---|---|-----------------------------------|
| Name of Respondent Thumb Elect | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A resubmission | Date of Report (Mo, Da, Yr) 04-04-17 | Year of Report 12-31-16 |
|--|---|---|-----------------------------------|

RECONCILIATION OF REPORTED NET INCOME WITH TAXABLE INCOME FOR FEDERAL INCOME TAXES (Continued)

3. Allocate taxable income between utility and other income as required to allocate tax expense between 409.1 and 409.2
4. A substitute page, designed to meet a particular need of a company, may be used as long as data is consistent and meets the requirements of the above instructions.

| Utility | Other | Line No. |
|---------|-------|----------|
| | | 1 |
| | | 2 |
| | | 3 |
| | | 4 |
| | | 5 |
| | | 6 |
| N/A | | 7 |
| | | 8 |
| | | 9 |
| | | 10 |
| | | 11 |
| | | 12 |
| | | 13 |
| | | 14 |
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| | | 16 |
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| | | | |
|---|---|---|-----------------------------------|
| Name of Respondent Thumb Electric | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04-04-17 | Year of Report 12-31-16 |
|---|---|---|-----------------------------------|

GAIN OR LOSS ON DISPOSITION OF PROPERTY (Account 421.1 and 421. 2)

1. Give a brief description of property creating the gain or loss. Include name of party acquiring the property (when acquired by another utility or associated company) and the date transaction was completed. Identify property by type: Leased, Held for Future Use, or Nonutility.
2. Individual gains or losses relating to property with an original cost of less than \$100,000 may be grouped with the number of such transactions disclosed in column (a).
3. Give the date of Commission approval of journal entries in column (b), when approval is required. Where approval is required but has not been received, give explanation following the item in column (a). (See account 102, Utility Plant Purchased or Sold.)

| Line No. | Description of Property (a) | Original Cost of Related Property (b) | Date Journal Entry Approved (When Required) (c) | Account 421.1 (d) | Account 421.2 (e) |
|----------|----------------------------------|--|--|----------------------|----------------------|
| 1 | Gain on disposition of property: | | | | |
| 2 | Sale of Truck # 32 | \$ 60,531 | | \$ 15,500 | |
| 3 | Sale of pickup # 61.08 | 28,327 | | 3,000 | |
| 4 | Sale of pickup # 63.07 | 31,935 | | 4,197 | |
| 5 | Sale of pickup # 25.07 | 25,320 | | 2,599 | |
| 6 | Sale of Riding | 4,128 | | 817 | |
| 7 | LAWN MOWEN | | | | |
| 8 | | | | | |
| 9 | | | | | |
| 10 | | | | | |
| 11 | | | | | |
| 12 | | | | | |
| 13 | | | | | |
| 14 | | | | | |
| 15 | | | | | |
| 16 | | | | | |
| 17 | Total Gain | | | 26,113 | |

| | | | |
|---|---|---|-----------------------------------|
| Name of Respondent <i>Thumb Electric</i> | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) <i>04-04-17</i> | Year of Report <i>12-31-16</i> |
|---|---|---|-----------------------------------|

GAIN OR LOSS ON DISPOSITION OF PROPERTY (Account 421.1 and 421.2) (Continued)

| Line No. | Description of Property (a) | Original Cost of Related Property (b) | Date Journal Entry Approved (When Required) (c) | Account 421.1 (d) | Account 421.2 (e) |
|----------|----------------------------------|--|--|----------------------|----------------------|
| 18 | Loss on disposition of property: | | | | |
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| 22 | <i>N/A</i> | | | | |
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| 32 | | | | | |
| 33 | | | | | |
| 34 | Total Loss | | | | |

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|---|---|--|-----------------------------------|
| Name of Respondent Thumb Electric | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04-04-17 | Year of Report 12-31-16 |
|---|---|--|-----------------------------------|

CHARGES FOR OUTSIDE PROFESSIONAL AND OTHER CONSULTATIVE SERVICES

1. Report the information specified below for all charges made during the year included in any account (including plant accounts) for outside consultative and other professional services. (These services include rate, management, construction, engineering research, financial, valuation, legal, accounting, purchasing, advertising, labor relations, and public relations, rendered the respondent under written or oral arrangement, for which aggregate payments were made during the year to any corporation, partnership, organization of any kind, or individual (other than for services as an employee or for payments made for medical and related services) amounting to more than \$25,000, including payments for legislative services, except those which should be reported in Account

426.4, Expenditures for Certain civic, Political and Related Activities.)
 (a) Name and address of person or organization rendering services,
 (b) description of services received during year and project or case to which services relate,
 (c) basis of charges,
 (d) total charges for the year, detailing utility department and account charged.
 2. For any services which are of a continuing nature, give the date and term of contract and date of Commission authorization, if contract received Commission approval.
 3. Designate with an asterisk associated companies.

| Line No. | Name / Address | Service | Basis of Charges | Acct # | Amount |
|----------|----------------|----------|------------------|--------|--------|
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Dec 2015

Thumb Electric Cooperative
Attachment to page 357

Outside Services & Consulting

| | Service | Basis of Charge | G/L A/C | Amount |
|---|------------|-----------------|------------------|------------------|
| Jason Bitzer 4431 Seeger St. Cass City, MI 48723 | Attorney | Retainer | 923.01 923.02 | \$4,152 \$264 |
| Power Systems Engineering 1532 W. Broadway, Ste 100 Madison, WI 53713 | Consulting | Bid | 923.02 | \$540 |
| Business Soil P.O. Box 93 Harbor Beach, MI 48441 | Consulting | Bid | 923.02 | \$174 |
| Eide Bailly 4310 17th Avenue South Fargo, ND 58108-2545 | Auditing | Bid | 923.03 | \$22,000 |
| Total | | | | \$27,130 |

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|---|---|---|-----------------------------------|
| Name of Respondent <i>Thumb Electric</i> | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) <i>04-04-16</i> | Year of Report <i>12-31-16</i> |
|---|---|---|-----------------------------------|

SUMMARY OF COSTS BILLED TO ASSOCIATED COMPANIES

- | | |
|--|---|
| <p>1. In column (a) report the name of the associated company.</p> <p>2. In column (b) describe the affiliation (percentage ownership, etc.).</p> <p>3. In column (c) describe the nature of the goods and</p> | <p>services provided (administrative and general expenses, dividends declared, etc.).</p> <p>4. In columns (d) and (e) report the amount classified to operating income and the account(s) in which reported.</p> |
|--|---|

| Line No. | Company (a) | Affiliation (b) | Description: Nature of Goods and Services (c) | Account Number (d) | Amount Classified to Operating Income (e) |
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See Attached

TOTAL

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| Name of Respondent Thumb Electric | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04-04-06 | Year of Report 12-30 |
|---|---|---|--------------------------------|

SUMMARY OF COSTS BILLED TO ASSOCIATED COMPANIES (Continued)

5. In columns (f) and (g) report the amount classified to non-operating income and the account(s) in which reported.
 6. In columns (h) and (i) report the amount classified to the balance sheet and the account(s) in which reported.
 7. In column (j) report the total.
 8. In column (k) indicate the pricing method (cost, per contract terms, etc.)

| Account Number (f) | Amount Classified to Non-Operating Income (g) | Account Number (h) | Amount Classified to Balance Sheet (i) | Total (j) | Pricing Method (k) | Line No. |
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see ATTACHED

Thumb Electric Cooperative
Attachment to sheets 358 & 359

Costs billed to associated companies

| Affiliation | Description | A/C No. | Amt. To Operating Income | A/C No. | Amt. To Balance Sheet | Total | Pricing Method |
|-----------------------|--|----------------------------|--------------------------|---------|-----------------------|------------------|----------------|
| Thumb Energy Services | Subsidiary Payroll & 100% Overhead | | \$0 | 143.02 | \$133,364 | \$133,364 | Cost |
| Thumb Energy Services | 100% Facility Lease | 921.00 549.00 549.10 | \$1,500 | | \$0 | \$1,500 | Contract |
| Thumb Energy Services | 100% Share of heat, lights, supplies & bldg depr | | \$4,709 | | \$0 | \$4,709 | Cost |
| Total | | | \$6,209 | | \$133,364 | \$139,573 | |

| | | | |
|---|---|---|-----------------------------------|
| Name of Respondent <i>Thumb Electric</i> | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) <i>04-04-17</i> | Year of Report <i>12-31-16</i> |
|---|---|---|-----------------------------------|

SUMMARY OF COSTS BILLED FROM ASSOCIATED COMPANIES

- | | |
|--|---|
| <p>1. In column (a) report the name of the associated company.</p> <p>2. In column (b) describe the affiliation (percentage ownership, etc.).</p> <p>3. In column (c) describe the nature of the goods and</p> | <p>services provided (administrative and general expenses, dividends declared, etc.).</p> <p>4. In columns (d) and (e) report the amount classified to operating income and the account(s) in which reported.</p> |
|--|---|

| Line No. | Company (a) | Affiliation (b) | Description: Nature of Goods and Services (c) | Account Number (d) | Amount Classified to Operating Income (e) |
|---------------------|----------------|--------------------|---|-----------------------|--|
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| <i>see ATTACHED</i> | | | | | |
| TOTAL | | | | | |

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|---|---|---|-----------------------------------|
| Name of Respondent <i>Thumb Electric</i> | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) <i>04-04-17</i> | Year of Report <i>12-31-16</i> |
|---|---|---|-----------------------------------|

SUMMARY OF COSTS BILLED TO ASSOCIATED COMPANIES (Continued)

5. In columns (f) and (g) report the amount classified to non-operating income and the account(s) in which reported.

6. In columns (h) and (i) report the amount classified to the balance sheet and the account(s) in which reported.

7. In column (j) report the total.

8. In column (k) indicate the pricing method (cost, per contract terms, etc.)

| Account Number (f) | Amount Classified to Non-Operating Income (g) | Account Number (h) | Amount Classified to Balance Sheet (i) | Total (j) | Pricing Method (k) | Line No. |
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see Attached

Dec 2016

Thumb Electric Cooperative
Attachment to sheets 360 & 361

Costs billed from associated companies

| Affiliation | Description | Amt. To Operating Income | A/C No. | Amt. To Balance Sheet | Total | Pricing Method |
|-----------------------|------------------------|--------------------------|---------|-----------------------|-----------|----------------|
| Thumb Energy Services | Subsidiary LP Customer | \$0 | 232.17 | \$927,879 | \$927,879 | Cost |
| 100% | Bill Payments | | | | | |

Subsidiary billing is a separate process and does not impact Thumb Electric general ledger.

Subsidiary bill payments are processed together with parent bill payments. Software sets a liability entry to general ledger a/c 232.17 each day for amount of subsidiary payments.