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UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

BORROWER DESIGNATION MI0029

**FINANCIAL AND OPERATING REPORT
ELECTRIC DISTRIBUTION**

PERIOD ENDED December, 2016 (Prepared with Audited Data)

BORROWER NAME The Ontonagon County Rural Electrification Ass

INSTRUCTIONS - See help in the online application.

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

CERTIFICATION

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

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

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

(check one of the following)

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

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

Deborah Miles

3/31/2017

DATE

PART A. STATEMENT OF OPERATIONS

ITEM	YEAR-TO-DATE			THIS MONTH (d)
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	
1. Operating Revenue and Patronage Capital	6,313,543	6,057,861	6,422,092	545,372
2. Power Production Expense				
3. Cost of Purchased Power	2,663,214	2,405,587	2,699,487	217,651
4. Transmission Expense				
5. Regional Market Expense				
6. Distribution Expense - Operation	397,838	311,963	524,011	24,474
7. Distribution Expense - Maintenance	518,293	621,396	477,115	43,668
8. Customer Accounts Expense	223,489	180,047	237,904	(8,594)
9. Customer Service and Informational Expense	84,981	112,550	47,400	13,526
10. Sales Expense				
11. Administrative and General Expense	517,803	423,152	528,848	49,322
12. Total Operation & Maintenance Expense (2 thru 11)	4,405,618	4,054,695	4,514,765	340,047
13. Depreciation and Amortization Expense	704,777	742,452	772,000	63,152
14. Tax Expense - Property & Gross Receipts	218,088	246,178	228,000	28,089
15. Tax Expense - Other				
16. Interest on Long-Term Debt	660,518	679,319	709,960	55,331
17. Interest Charged to Construction - Credit				
18. Interest Expense - Other	13,236	18,453	24,000	4,963
19. Other Deductions		21,447		2,043
20. Total Cost of Electric Service (12 thru 19)	6,002,237	5,762,544	6,248,725	493,625
21. Patronage Capital & Operating Margins (1 minus 20)	311,306	295,317	173,367	51,747
22. Non Operating Margins - Interest	7,007	5,845	6,435	356
23. Allowance for Funds Used During Construction				
24. Income (Loss) from Equity Investments	35,760	42,931	30,600	19,861
25. Non Operating Margins - Other	94,263	89,598	60,000	31,988
26. Generation and Transmission Capital Credits				
27. Other Capital Credits and Patronage Dividends	123,668	112,774	114,000	4,343
28. Extraordinary Items				
29. Patronage Capital or Margins (21 thru 28)	572,004	546,465	384,402	108,295

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION	BORROWER DESIGNATION MI0029
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	34	34	5. Miles Transmission		
2. Services Retired	82	47	6. Miles Distribution – Overhead	799.48	817.20
3. Total Services in Place	5,777	5,812	7. Miles Distribution - Underground	161.90	142.25
4. Idle Services (Exclude Seasonals)	624	633	8. Total Miles Energized (5 + 6 + 7)	961.38	959.45

PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	26,404,303	30. Memberships	22,990
2. Construction Work in Progress	2,308,514	31. Patronage Capital	3,952,741
3. Total Utility Plant (1 + 2)	28,712,817	32. Operating Margins - Prior Years	0
4. Accum. Provision for Depreciation and Amort.	8,655,461	33. Operating Margins - Current Year	408,091
5. Net Utility Plant (3 - 4)	20,057,356	34. Non-Operating Margins	138,374
6. Non-Utility Property (Net)	0	35. Other Margins and Equities	32,498
7. Investments in Subsidiary Companies	0	36. Total Margins & Equities (30 thru 35)	4,554,694
8. Invest. in Assoc. Org. - Patronage Capital	186,381	37. Long-Term Debt - RUS (Net)	4,962,281
9. Invest. in Assoc. Org. - Other - General Funds	576,665	38. Long-Term Debt - FFB - RUS Guaranteed	0
10. Invest. in Assoc. Org. - Other - Nongeneral Funds	73,099	39. Long-Term Debt - Other - RUS Guaranteed	0
11. Investments in Economic Development Projects	0	40. Long-Term Debt Other (Net)	8,878,912
12. Other Investments	0	41. Long-Term Debt - RUS - Econ. Devel. (Net)	0
13. Special Funds	0	42. Payments – Unapplied	0
14. Total Other Property & Investments (6 thru 13)	836,145	43. Total Long-Term Debt (37 thru 41 - 42)	13,841,193
15. Cash - General Funds	133,377	44. Obligations Under Capital Leases - Noncurrent	0
16. Cash - Construction Funds - Trustee	11	45. Accumulated Operating Provisions and Asset Retirement Obligations	132,400
17. Special Deposits	0	46. Total Other Noncurrent Liabilities (44 + 45)	132,400
18. Temporary Investments	0	47. Notes Payable	1,750,000
19. Notes Receivable (Net)	0	48. Accounts Payable	724,781
20. Accounts Receivable - Sales of Energy (Net)	519,266	49. Consumers Deposits	14,350
21. Accounts Receivable - Other (Net)	65,717	50. Current Maturities Long-Term Debt	506,000
22. Renewable Energy Credits	0	51. Current Maturities Long-Term Debt - Economic Development	0
23. Materials and Supplies - Electric & Other	236,663	52. Current Maturities Capital Leases	0
24. Prepayments	18,982	53. Other Current and Accrued Liabilities	344,705
25. Other Current and Accrued Assets	0	54. Total Current & Accrued Liabilities (47 thru 53)	3,339,836
26. Total Current and Accrued Assets (15 thru 25)	974,016	55. Regulatory Liabilities	90,544
27. Regulatory Assets	0	56. Other Deferred Credits	144,302
28. Other Deferred Debits	235,452	57. Total Liabilities and Other Credits (36 + 43 + 46 + 54 thru 56)	22,102,969
29. Total Assets and Other Debits (5+14+26 thru 28)	22,102,969		

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION	BORROWER DESIGNATION MI0029
INSTRUCTIONS - See help in the online application.	PERIOD ENDED December, 2016

PART D. NOTES TO FINANCIAL STATEMENTS

Deferred debits amortized for a period greater than 12 months

Engineering Fees	Four-year work plan	\$ 22,505.46
Engineering Fees	System Study & Load Forecast	\$ 68,088.31
Mapping System		135,509.27

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION	BORROWER DESIGNATION MI0029
INSTRUCTIONS - See help in the online application.	PERIOD ENDED December, 2016
PART D. CERTIFICATION LOAN DEFAULT NOTES	

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

BORROWER DESIGNATION
MI0029

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	20,971,391	3,183,369	340,226		23,814,534
2. General Plant	1,772,512	288,835			2,061,347
3. Headquarters Plant	527,073				527,073
4. Intangibles	1,349				1,349
5. Transmission Plant	0				0
6. Regional Transmission and Market Operation Plant					
7. All Other Utility Plant	0				0
8. Total Utility Plant in Service (1 thru 7)	23,272,325	3,472,204	340,226		26,404,303
9. Construction Work in Progress	2,078,742	229,772			2,308,514
10. Total Utility Plant (8 + 9)	25,351,067	3,701,976	340,226		28,712,817

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	219,974	155,637	2,251	147,662		6,463	236,663
2. Other	0						0

PART G. SERVICE INTERRUPTIONS

ITEM	AVERAGE MINUTES PER CONSUMER BY CAUSE					TOTAL (e)
	POWER SUPPLIER (a)	MAJOR EVENT (b)	PLANNED (c)	ALL OTHER (d)		
1. Present Year	86.860	1,181.760	1.680	137.960	1,408.260	
2. Five-Year Average	112.060	284.550	6.840	141.010	544.460	

PART H. EMPLOYEE-HOUR AND PAYROLL STATISTICS

1. Number of Full Time Employees	10	4. Payroll - Expensed	408,685
2. Employee - Hours Worked - Regular Time	21,077	5. Payroll - Capitalized	189,647
3. Employee - Hours Worked - Overtime	1,583	6. Payroll - Other	138,100

PART I. PATRONAGE CAPITAL

ITEM	DESCRIPTION	THIS YEAR (a)	CUMULATIVE (b)
1. Capital Credits - Distributions	a. General Retirements		
	b. Special Retirements		
	c. Total Retirements (a + b)		
2. Capital Credits - Received	a. Cash Received From Retirement of Patronage Capital by Suppliers of Electric Power		
	b. Cash Received From Retirement of Patronage Capital by Lenders for Credit Extended to the Electric System	74,203	
	c. Total Cash Received (a + b)	74,203	

PART J. DUE FROM CONSUMERS FOR ELECTRIC SERVICE

1. Amount Due Over 60 Days	\$ 28,674	2. Amount Written Off During Year	\$ 17,860
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ENERGY EFFICIENCY AND CONSERVATION LOAN PROGRAM

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

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION	BORROWER DESIGNATION MI0029
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INSTRUCTIONS - See help in the online application	PERIOD ENDED December, 2016
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PART K. kWh PURCHASED AND TOTAL COST

No	ITEM	SUPPLIER CODE	RENEWABLE ENERGY PROGRAM NAME	RENEWABLE FUEL TYPE	kWh PURCHASED	TOTAL COST	AVERAGE COST (Cents/kWh)	INCLUDED IN TOTAL COST - FUEL COST ADJUSTMENT	INCLUDED IN TOTAL COST - WHEELING AND OTHER CHARGES
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Wisconsin Public Service Corp	20860			25,049,292	1,816,557	7.25		
2	Wisconsin Electric Power Co	20847			3,031,057	267,046	8.81		
3	Upper Peninsula Power Company	19578				321,984	0.00		
	Total				28,080,349	2,405,587	8.57		

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION		BORROWER DESIGNATION MI0029
INSTRUCTIONS - See help in the online application		PERIOD ENDED December, 2016
PART K. kWh PURCHASED AND TOTAL COST		
No	Comments	
1		
2		
3		

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION		BORROWER DESIGNATION MI0029	
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 MI0029	
INSTRUCTIONS - See help in the online application.		PERIOD ENDED December, 2016	
PART M. ANNUAL MEETING AND BOARD DATA			
1. Date of Last Annual Meeting 6/18/2016	2. Total Number of Members 3,989	3. Number of Members Present at Meeting 48	4. Was Quorum Present? N
5. Number of Members Voting by Proxy or Mail 52	6. Total Number of Board Members 7	7. Total Amount of Fees and Expenses for Board Members \$ 37,824	8. Does Manager Have Written Contract? N

RUS Financial and Operating Report Electric Distribution

Revision Date 2014

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION		BORROWER DESIGNATION MI0029			
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)	4,962,281	253,138	135,447	388,585
2	National Rural Utilities Cooperative Finance Corporation	171,365	5,352	17,557	22,909
3	CoBank, ACB	8,707,547	426,478	330,623	757,101
4	Federal Financing Bank				
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	13,841,193	684,968	483,627	1,168,595

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE		BORROWER DESIGNATION MI0029		
FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION		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	3,211	3,203	
	b. kWh Sold			17,455,951
	c. Revenue			4,136,529
2. Residential Sales - Seasonal	a. No. Consumers Served	1,282	1,284	
	b. kWh Sold			1,632,749
	c. Revenue			777,102
3. Irrigation Sales	a. No. Consumers Served			
	b. kWh Sold			
	c. Revenue			
4. Comm. and Ind. 1000 KVA or Less	a. No. Consumers Served	214	212	
	b. kWh Sold			5,037,948
	c. Revenue			1,001,554
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	135	134	
	b. kWh Sold			104,171
	c. Revenue			17,039
7. Other Sales to Public Authorities	a. No. Consumers Served	25	25	
	b. kWh Sold			61,923
	c. Revenue			17,832
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)	4,867	4,858	
11.	Total kWh Sold (lines 1b thru 9b)			24,292,742
12.	Total Revenue Received From Sales of Electric Energy (lines 1c thru 9c)			5,950,056
13.	Transmission Revenue			
14.	Other Electric Revenue			107,806
15.	kWh - Own Use			
16.	Total kWh Purchased			28,080,349
17.	Total kWh Generated			
18.	Cost of Purchases and Generation			2,405,587
19.	Interchange - kWh - Net			
20.	Peak - Sum All kW Input (Metered) Non-coincident ___ Coincident ___			3,996

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

**FINANCIAL AND OPERATING REPORT
ELECTRIC DISTRIBUTION**

BORROWER DESIGNATION MI0029

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)	2,131	54,654	534	3,211	222,683	4,277
2. Residential Sales - Seasonal						
3. Irrigation Sales						
4. Comm. and Ind. 1000 KVA or Less	72	15,037	579	72	62,574	1,236
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	2,203	69,691	1,113	3,283	285,257	5,513

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 MI0029 PERIOD ENDED December, 2016
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INSTRUCTIONS - Reporting of investments is required by 7 CFR 1717, Subpart N. Investment categories reported on this Part correspond to Balance Sheet items in Part C. Identify all investments in Rural Development with an 'X' in column (e). Both 'Included' and 'Excluded' Investments must be reported. See help in the online application.

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

No	DESCRIPTION (a)	INCLUDED (\$) (b)	EXCLUDED (\$) (c)	INCOME OR LOSS (\$) (d)	RURAL DEVELOPMENT (e)
2	Investments in Associated Organizations				
	Federated Rural Electric Insurance Exchange	38,493			
	National Informational Solutions Cooperative	40,739			
	NRUCFC (Pat. Cap. member Cert & CTC's)	26,693	73,099		
	RESCO	65			
	Settler's Cooperative, Inxc.	510			
	American Transmission Company	524,608			
	CoBank	116,559			
	Cooperative Response Center	14,379			
	NRUCFC-membership	1,000			
	Totals	763,046	73,099		
6	Cash - General				
	Checking, Savings & Working Funds		133,377		
	Totals		133,377		
9	Accounts and Notes Receivable - NET				
	Various		65,717		
	Totals		65,717		
11	TOTAL INVESTMENTS (1 thru 10)	763,046	272,193		

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION INVESTMENTS, LOAN GUARANTEES AND LOANS	BORROWER DESIGNATION MI0029
	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 MI0029
	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]	2.66 %
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SECTION IV. LOANS

No	ORGANIZATION (a)	MATURITY DATE (b)	ORIGINAL AMOUNT (\$) (c)	LOAN BALANCE (\$) (d)	RURAL DEVELOPMENT (e)
1	Employees, Officers, Directors				
2	Energy Resources Conservation Loans				
	TOTAL				

**AUDITED FINANCIAL STATEMENTS
OTHER FINANCIAL INFORMATION
AND SUPPLEMENTAL REPORTS**

**THE ONTONAGON COUNTY RURAL
ELECTRIFICATION ASSOCIATION
ONTONAGON, MICHIGAN**

December 31, 2016

CONTENTS

Audited Financial Statements:	
Independent Auditor's Report	Page 3
Financial Statements:	
Balance Sheets	5
Statements of Revenues and Expenses	7
Statements of Changes in Net Assets	8
Statements of Cash Flows	9
Notes to Financial Statements	11
Other Financial Information:	
Schedule of Investments	23
Schedule of Deferred Debits and Credits	24
Supplemental Reports:	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	A-1
Schedule of Findings and Responses	B-1
Independent Auditor's Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers	C-1

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Ontonagon County Rural Electrification Association
Ontonagon, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of The Ontonagon County Rural Electrification Association, which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of revenues and expenses, changes in net assets and cash flows and the related notes to the financial statements for the years then ended.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Ontonagon County Rural Electrification Association as of December 31, 2016 and 2015, and the results of its operations, changes in net assets and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedules of Investments and Deferred Debits and Credits, as required by 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers* and clarified in the RUS policy memorandum dated February 7, 2014, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2017, on our consideration of The Ontonagon County Rural Electrification Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Ontonagon County Rural Electrification Association's internal control over financial reporting and compliance.

Makela, Pollock & Ahonen, PLLC

Certified Public Accountants

Ironwood, Michigan
April 25, 2017

BALANCE

THE ONTONAGON COUNTY

	December 31,	
	2016	2015
ASSETS		
ELECTRIC PLANT		
In service	\$ 26,404,303	\$ 23,272,325
Construction work in progress	<u>2,308,514</u>	<u>2,078,742</u>
	\$ 28,712,817	\$ 25,351,067
Accumulated depreciation	<u>(8,655,461)</u>	<u>(7,998,347)</u>
	\$ 20,057,356	\$ 17,352,720
NET ELECTRIC PLANT		
	\$ 20,057,356	\$ 17,352,720
INVESTMENTS		
Investments in associated and other organizations	836,145	758,720
CURRENT ASSETS		
Cash and cash equivalents	\$ 133,388	\$ 401,372
Accounts receivable - electric, less allowance for doubtful accounts: (2016 and 2015 - \$40,000)	519,266	765,588
Accounts receivable - other	65,717	75,953
Materials and supplies	236,663	219,974
Prepaid expenses	<u>18,982</u>	<u>53,044</u>
	\$ 974,016	\$ 1,515,931
TOTAL CURRENT ASSETS		
	\$ 974,016	\$ 1,515,931
DEFERRED DEBITS		
	235,452	662,035
	<u>235,452</u>	<u>662,035</u>
	<u>\$ 22,102,969</u>	<u>\$ 20,289,406</u>

SHEETS

RURAL ELECTRIFICATION ASSOCIATION

	December 31,	
	2016	2015
LIABILITIES AND NET ASSETS		
NET ASSETS		
Memberships	\$ 22,990	\$ 23,005
Patronage capital	4,499,207	3,952,742
Donated capital	<u>32,497</u>	<u>32,497</u>
TOTAL NET ASSETS	\$ 4,554,694	\$ 4,008,244
LONG-TERM LIABILITIES		
Rural Utilities Service (RUS) mortgage notes	\$ 5,101,091	\$ 5,241,609
National Rural Utilities Cooperative Finance Corporation (NRUCFC) supplemental mortgage notes	188,842	206,432
CoBank, ACB mortgage note	<u>9,057,260</u>	<u>9,387,566</u>
	\$ 14,347,193	\$ 14,835,607
Less current portion	<u>(506,000)</u>	<u>(488,000)</u>
	\$ 13,841,193	\$ 14,347,607
Post-retirement benefit obligation	<u>132,400</u>	<u>427,524</u>
TOTAL LONG-TERM LIABILITIES	\$ 13,973,593	\$ 14,775,131
CURRENT LIABILITIES		
Notes payable, current portion	\$ 506,000	\$ 488,000
Line-of-credit notes payable	1,750,000	
Accounts payable:		
Trade	276,416	281,175
Construction	448,296	283,272
Accrued property taxes	114,792	93,705
Accrued interest	39,518	37,587
Other current and accrued liabilities	190,464	180,239
Customer energy prepayments	<u>14,350</u>	<u>13,600</u>
TOTAL CURRENT LIABILITIES	\$ 3,339,836	\$ 1,377,578
DEFERRED CREDITS	<u>234,846</u>	<u>128,453</u>
	<u>\$ 22,102,969</u>	<u>\$ 20,289,406</u>

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF REVENUES AND EXPENSES
THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION

	<u>Year ended December 31,</u>	
	2016	2015
OPERATING REVENUES	\$ 6,057,861	\$ 6,313,543
OPERATING EXPENSES		
Cost of power	\$ 2,405,587	\$ 2,663,214
Distribution, operation	311,963	397,838
Distribution, maintenance	621,396	518,293
Consumer accounts	180,047	223,489
Sales and customer service	112,550	84,982
Depreciation	742,452	704,777
Taxes	246,178	218,088
General and administrative	423,152	517,803
Other deductions	<u>21,447</u>	<u> </u>
TOTAL OPERATING EXPENSES	<u>\$ 5,064,772</u>	<u>\$ 5,328,484</u>
OPERATING MARGINS BEFORE INTEREST EXPENSE	\$ 993,089	\$ 985,059
Interest expense	<u>697,772</u>	<u>673,754</u>
OPERATING MARGINS AFTER INTEREST EXPENSE	\$ 295,317	\$ 311,305
NONOPERATING MARGINS		
Interest and dividend income	\$ 48,776	\$ 42,767
Other capital credits and patronage dividends	112,774	123,668
Other income net of expense	<u>89,598</u>	<u>94,263</u>
TOTAL NONOPERATING MARGINS	<u>\$ 251,148</u>	<u>\$ 260,698</u>
NET MARGINS	<u>\$ 546,465</u>	<u>\$ 572,003</u>

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CHANGES IN NET ASSETS
THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION

Years ended December 31, 2016 and 2015

	Memberships	Patronage Capital			Donated Capital	Total
		Assigned	Assignable	Total		
Balance at January 1, 2015	\$ 23,040	\$ 2,080,223	\$ 1,300,516	\$ 3,380,739	\$ 32,497	\$ 3,436,276
Memberships: (Refunded)	(35)					(35)
Patronage Capital Assigned		1,300,516	(1,300,516)			
Net margins			572,003	572,003		572,003
BALANCE AT DECEMBER 31, 2015	\$ 23,005	\$ 3,380,739	\$ 572,003	\$ 3,952,742	\$ 32,497	\$ 4,008,244
Memberships: (Refunded)	(15)					(15)
Patronage Capital Assigned		572,003	(572,003)			
Net margins			546,465	546,465		546,465
BALANCE AT DECEMBER 31, 2016	<u>\$ 22,990</u>	<u>\$ 3,952,742</u>	<u>\$ 546,465</u>	<u>\$ 4,499,207</u>	<u>\$ 32,497</u>	<u>\$ 4,554,694</u>

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION

	<u>Year ended December 31,</u>	
	2016	2015
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
Cash flows from operating activities:		
Net margins	\$ 546,465	\$ 572,003
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Expense	\$ 742,542	\$ 704,777
Clearing	104,794	107,120
Loss on sale of plant assets		548
Equity increase in investments	(158,090)	(161,645)
Provision for bad debts	17,860	16,922
(Increase) decrease in:		
Accounts receivable	238,698	(75,345)
Materials and supplies	(16,689)	18,599
Prepaid expenses	34,062	7,161
Deferred debits	426,583	(373,953)
Increase (decrease) in:		
Post-retirement benefit obligation	(295,124)	13,891
Trade accounts payable	(4,759)	(51,464)
Other current liabilities	33,243	(32,645)
Customer energy prepayments	750	1,350
Deferred credits	<u>106,393</u>	<u>28,342</u>
Total adjustments	<u>\$ 1,230,263</u>	<u>\$ 203,658</u>
	NET CASH PROVIDED BY OPERATING ACTIVITIES	
	\$ 1,776,728	\$ 775,661
Cash flows from investing activities:		
Investment in associated organizations	\$ (21,507)	\$ (6,144)
Proceeds from investments in associated organizations	102,172	114,217
Construction costs paid	(3,264,671)	(2,056,343)
Purchase of general plant assets	(288,835)	(349,829)
Proceeds from sale of plant assets		100
Proceeds from sale of salvage property	<u>4,172</u>	<u>2,016</u>
	NET CASH USED IN INVESTING ACTIVITIES	
	\$ (3,468,669)	\$ (2,295,983)

STATEMENTS OF CASH FLOWS (CONTINUED)

	<u>Year ended December 31,</u>	
	2016	2015
Cash flows from financing activities:		
Proceeds from line-of-credit notes payable	\$ 1,750,000	\$ 150,000
Payments on line-of-credit notes payable		(1,312,000)
Proceeds from long-term debt		3,100,000
Payments on long-term debt	(488,414)	(469,995)
Members' construction contributions received	162,386	135,327
Memberships issued (refunded)	<u>(15)</u>	<u>(35)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>\$ 1,423,957</u>	<u>\$ 1,603,297</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>\$ (267,984)</u>	<u>\$ 82,975</u>
Cash and cash equivalents at beginning of year	<u>401,372</u>	<u>318,397</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 133,388</u>	<u>\$ 401,372</u>
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest paid	<u>\$ 695,841</u>	<u>\$ 680,239</u>
Income taxes (refunded)	<u>\$ 0</u>	<u>\$ 0</u>
Supplemental disclosure of noncash investing and financing activities:		
Equity and patronage capital allocations by associated organizations are recorded as revenue and an increase in investments in associated organizations. The amounts recorded are as follows:		
Patronage capital allocations	\$ 112,774	\$ 123,668
Equity increase in investments	<u>45,316</u>	<u>37,977</u>
	<u>\$ 158,090</u>	<u>\$ 161,645</u>
Construction in progress financed by accounts payable at year-end	<u>\$ 448,296</u>	<u>\$ 283,272</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Ontonagon County Rural Electrification Association (Association), Ontonagon, Michigan, is a rural electric cooperative which provides electricity to customers located in outlying areas. The Association's service area covers a five county region in the Upper Peninsula of Michigan. The Association is member regulated and therefore is not under the jurisdiction of the Michigan Public Service Commission for rate structure, fees, charges, accounting standards and billing and service rules. The accounting policies that affect the more significant elements of the Association's financial statements are summarized below. They have been followed on a basis consistent with the preceding year.

General – the Association maintains its records in conformance with the Uniform System of Accounts prescribed by the Rural Development Utilities Program.

Use of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – for financial reporting purposes and for purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of less than three months at the date of purchase, to be cash equivalents.

Accounts Receivable:

The Association routinely grants unsecured credit to electrical customers. Accounts receivable are uncollateralized customer obligations, which generally require payment within thirty days from the invoice date. Accounts receivable are stated at the invoice amount plus penalty. Unpaid accounts incur a one-time 2% penalty after 30 days. Account balances greater than 30 days are considered delinquent.

Management provides for probable uncollectible amounts through a charge to margins and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowances and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

Inventories – are stated at the lower of average market or cost.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments – Investments in debt securities are classified as held-to-maturity securities. Held-to-maturity securities are carried at cost. Investments in associated organizations (generally other cooperatives) and non-marketable equity securities not constituting a 20 percent or more ownership interest are carried at cost including undistributed patronage capital allocations. Investments in limited liability companies are recorded on the equity method. Because of the lack of quoted market prices and the inability to estimate fair market value without incurring excessive cost, management has determined it is not practical to estimate the fair value of these investments. However, management believes that the carrying amounts of these investments at December 31, 2016 and 2015 included in investments are not impaired.

Electric Plant:

Electric plant is stated at cost.

Upon disposition of general plant assets, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss is credited or charged to current margins.

Upon disposition of distribution plant assets, the original cost is removed from the plant account. The accumulated depreciation account is charged for the cost of the assets, increased by retirement costs and reduced by salvage value. No gains or losses on the disposition of distribution plant assets are charged or credited to current margins.

Long-Lived Assets – Assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or their fair value less cost to sell.

Asset Retirement Obligations – Accounting standards require entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. When the liability is initially recorded, the entity capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accrued to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. The Association has determined it does not have a material legal obligation to remove the long-lived assets, and accordingly has not recognized any asset retirement obligation costs in its financial statements for the years ended December 31, 2016 and 2015.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events – have been evaluated through the date of the independent auditor’s report, the date the financial statements were available to be issued.

Revenue Recognition – operating revenues are generally recognized on the basis of monthly billings based on actual meter readings considering the related cost of power.

Income Taxes:

The Association is exempt from federal and Michigan income taxes under Section 501(c)(12) of the Internal Revenue Code, and accordingly, the financial statements do not reflect a provision for federal or Michigan income taxes.

The Association follows current accounting standards for accounting for uncertainties in income taxes. Management has completed its evaluation of uncertainties in income taxes and the Association is unaware of any tax positions that would require disclosure. The following tax years, by jurisdiction, remain subject to examination:

Internal Revenue Service	December 31, 2013 - 2016
State of Michigan	December 31, 2011

Margins – as a cooperative, net margins are allocated to members in the form of capital credits based on patronage.

Patronage Capital – under the provisions of the bylaws, until the equities and margins equal or exceed forty percent of the total assets of the cooperative, return to patrons of contributed capital is prohibited. The equities and margins of the Association represent 20.61% and 19.76% of the total assets at December 31, 2016 and 2015, respectively.

NOTE B – ASSETS PLEDGED

Substantially all assets are pledged as security for long-term debt outstanding to the Rural Utilities Services (RUS), to National Rural Utilities Cooperative Finance Corporation (NRUCFC) and to CoBank, ACB.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C – CONCENTRATION OF CREDIT RISK

The Association maintains its cash and cash equivalents in local financial institutions, which at times, exceed the total amount insured under Federal Deposit Insurance Corporation Regulations. All balances on deposit as of December 31, 2016 were insured. Balances on deposit not insured as of December 31, 2015 totaled \$37,974.

NOTE D – ELECTRIC PLANT AND DEPRECIATION

Listed below are the major classes of the electric plant, at cost:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Intangible plant:		
Organization	\$ 1,349	\$ 1,349
Miscellaneous	694,564	
Distribution plant	23,119,970	20,971,392
General plant	2,588,420	2,299,584
Construction in progress	2,308,514	2,078,742
	\$ 28,712,817	\$ 25,351,067

Provision for depreciation of the distribution plant is made using a straight-line composite rate of 2.9% per annum with the exception of AMR devices, which use a 7% rate effective April 2007. General plant depreciation rates have been applied to specific assets on a straight-line basis and are as follows:

Structures and improvements	2.5 to 3.0%
Office furniture and fixtures	7 to 15%
Transportation equipment	7.9 to 17%
Power operated equipment	8.0%
Communication equipment	8.0%
Other general plant	5 to 6%

Total depreciation recorded on the electric plant for the years ended December 31, 2016 and 2015, was \$847,336 and \$811,897, respectively. Depreciation expensed directly to operating margin for these years was \$742,542 and \$704,777, respectively. Depreciation not expensed directly is capitalized in the cost of construction or expensed through operations, maintenance and administrative expenses.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E – INVESTMENTS

The Association is associated with the National Rural Utilities Cooperative Finance Corporation (NRUCFC). The subordinate capital term certificate subscriptions (SCTC's) bear interest at 3 to 5% and mature beginning in 2085. As part of the loan agreement with NRUCFC, the Association is obligated to purchase SCTC's in the amount of \$133,185. As of December 31, 2016, the Association has a remaining purchase commitment of \$72,472. The zero term certificate (ZTC) bears interest at 0% and matures in 2026. The CTC's and ZTC's are classified as held-to-maturity securities. The investment in American Transmission Company, LLC is carried on the equity method.

A schedule of investments is included on page 23 of the Other Financial Information of the financial statements.

NOTE F – ELECTRIC ACCOUNTS RECEIVABLE

The following summarizes the classifications of electric accounts receivable:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Billed accounts receivable, net of allowance for doubtful accounts	\$ 652,161	\$ 661,264
Power cost adjustment	<u>(132,895)</u>	<u>104,324</u>
	<u>\$ 519,266</u>	<u>\$ 765,588</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G – LONG-TERM LIABILITIES

Long-term liabilities are primarily represented by RUS mortgage notes, NRUCFC mortgage notes and CoBank, ACB mortgage notes. Total notes consisted of the following:

	December 31,	
	2016	2015
RUS Mortgage Notes - fixed interest rate 35 year notes to be repaid at various dates ranging from 2016 to 2045:		
2% notes	\$ 291,300	\$ 356,547
5% notes	4,809,791	4,885,062
	\$ 5,101,091	\$ 5,241,609
NRUCFC Mortgage Notes - fixed interest rate notes at 2.90% (3.75% at December 31, 2014) payable quarterly until maturity in 2026	188,842	206,432
CoBank, ACB Mortgage Notes :		
Fixed interest rate note at 4.82% payable monthly until maturity in 2026	\$ 626,978	\$ 713,920
Fixed interest rate note at 4.51% payable monthly until maturity in 2040	8,430,282	8,673,646
	\$ 9,057,260	\$ 9,387,566
	\$ 14,347,193	\$ 14,835,607
Less current maturities	(506,000)	(488,000)
	\$ 13,841,193	\$ 14,347,607

Aggregate maturities on long-term liabilities for the five years following December 31, 2016, are as follows:

2017	\$ 506,000
2018	528,000
2019	537,000
2020	557,000
2021	519,000

Loan and Debt Covenants

The Association has financial covenants with its lenders for certain financial ratios. Management is not aware of any violations of these covenants at December 31, 2016.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H – PENSION PLAN

Pension Plan

Narrative Description

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.

Plan Information

The Association contributions to the RS Plan in 2016 and in 2015 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Association made contributions to the plan of \$176,997 in 2016 and \$154,304 in 2015. There have been no significant changes that affect the comparability of 2016 and 2015 contributions.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded at January 1, 2017 and 2016 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.

The Association also maintains a 401(k) plan for all eligible employees, which is funded entirely by employee contributions. To be eligible, the employee must complete six months of full-time service. There is no cost to the Association with respect to the plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE I – POSTRETIREMENT BENEFIT OBLIGATION

Postretirement Benefit Plan

Effective January 1, 1992, the union contract contains a provision requiring the Association to pay for the premiums on health care benefits for one year after retirement on behalf of the eligible retirees. In addition, the Association will also contribute 50% toward the cost of the health insurance premiums for the second and third year following retirement. To be eligible for these benefits, the employee must have worked for the Association for ten years at the time of normal retirement.

The postretirement health care plans include a limit on the Company's share of costs for recent and future retirees.

The Association contracted with National Rural Electric Cooperative Association for an actuarial study of the postretirement health care plan. The information obtained from the actuarial valuation report as of January 1, 2016 follows.

Obligations and Funded Status – Postretirement Benefits

	<u>December 31, 2016</u>
Change in benefit obligation:	
Benefit obligation at beginning of year	\$ (427,500)
Actuarial gain	292,300
Service cost	(4,800)
Interest cost	(5,300)
Estimated insurance premiums paid to current retirees	12,900
Benefit Obligation at End of Year	\$ (132,400)
Change in plan assets:	
Fair value of plan assets at beginning of year	\$ 0
Employer contributions	12,900
Plan participants' contributions	0
Benefits paid	(12,900)
Fair Value of Plan Assets at End of Year	\$ 0
Funded Status at End of Year	\$ (132,400)
Amounts recognized in the statement of financial position consist of:	
Deferred credits	\$ 88,584
Long-term liabilities - post-retirement benefit obligation	\$ 132,400

The deferred credit is being amortized over a period of 12 months for financial reporting purposes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE I – POSTRETIREMENT BENEFIT PLAN (CONTINUED)

December 31, 2016

Amounts recognized in accumulated other comprehensive income of the Plan consist of:

Net loss (gain)	\$	(292,300)
Amortization of actuarial gain		<u>19,400</u>
		<u>\$ (272,900)</u>

Assumptions

Weighted-average assumptions used to determine benefit obligation at December 31, 2016 -

Discount Rate		4%
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Weighted-average assumptions used to determine net periodic benefit cost for year ended December 31, 2016 -

Discount rate		4%
Expected long-term return on plan assets		N/A

Assumed health care cost trend rates at December 31:

Health care cost trend rate assumed for next year		8%
Rate to which the cost trend is assumed to decline (the terminal rate)		5%
Year that the rate reaches the terminal rate		2023

One-Percentage-Point Increase in Health-Care Cost Trend Rates (Base Assumptions)

Impact on obligations (as of December 31, 2016) and expense, based on a 4% discount rate:

	<u>Current Plan & Assumptions</u>	<u>1% Increase in Trend Rates</u>	<u>Change</u>	<u>% Change</u>
Accumulated Postretirement Benefit Obligation	\$ 132,400	\$ 146,200	\$ 13,800	10.4%
Expected Postretirement Benefit Obligation	187,100	208,100	21,000	11.2%
Service Cost plus Interest Cost	10,300	11,600	1,300	12.6%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE I – POSTRETIREMENT BENEFIT PLAN (CONTINUED)

Plan Assets

The Association has no assets contributed to the Plan at December 31, 2016 or 2015.

Participant Data

The Association participant data as of December 31, 2016 follows:

Actives fully eligible for benefits		1	
Actives no yet fully eligible for benefits		9	
	Total active participants	10	
Retirees		2	
Dependents		2	
Surviving spouses		0	
	Total participants in payment status	4	
Disabled participants		0	
	Total participants	14	
Average age of active participants (in years)		49.9	
Average service of active participants (in years)		18.5	

Cash Flows

The Association paid \$12,900 in retiree health benefits during the year ended December 31, 2016.

Contributions

The Association expects to contribute \$10,900 to its postretirement plan during the year ending December 31, 2017.

Estimated Future Benefit Payments

The following postretirement benefit payments, which reflect expected future service, are expected to be paid:

2017	\$	10,900
2018		9,900
2019		11,300
2020		0
2021		0
2022-2026		0

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE J – LINE-OF-CREDIT AGREEMENTS

As of December 31, 2016, the Association had line-of-credit agreements with NRUCFC and CoBank, ACB in the amounts of \$1,000,000 each. Amounts borrowed under the agreements are as follows:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
NRUCFC - Variable interest rate note payable 2.50% at December 31, 2016 and 2015 with a maturity date of December 31, 2049	\$ 1,000,000	\$ 0
CoBank, ACB - Variable interest rate note payable 2.83% to 3.07% at December 31, 2016 and 2015 with a maturity date of October 21, 2017.	<u>750,000</u>	<u>0</u>
	<u>\$ 1,750,000</u>	<u>\$ 0</u>

NOTE K – COMMITMENTS

Under its wholesale power agreements, the Association is committed to purchase its electric power and energy requirements from Wisconsin Public Service Commission (WPSC) until December 31, 2020. This agreement contains specific renewal, termination and rate change clauses but does not include any requirements for minimum purchases to be made by the Association.

NOTE L – COLLECTIVE BARGAINING AGREEMENT

The Association and the Local 510 International Brotherhood of Electrical Workers AFL-CIO have a current collective bargaining agreement that expires December 31, 2017.

NOTE M – SUBSEQUENT EVENT

On March 16, 2017, the Association Board of Directors adopted a resolution to refinance existing long-term debt in the amount of \$4,796,176 through the National Rural Utilities Cooperative Finance Corporation.

OTHER
FINANCIAL
INFORMATION

SCHEDULE OF INVESTMENTS

THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION

	December 31,	
	2016	2015
American Transmission Company, LLC	\$ 524,608	\$ 483,240
NRUCFC - subordinate capital term certificate subscriptions	60,713	58,329
NRUCFC - zero term certificate	12,386	13,360
Investments in associated organizations:		
NRUCFC - membership	1,000	1,000
CoBank, ACB	116,559	91,962
NRUCFC - patronage capital	26,693	26,282
Cooperative Response Center, Inc.	14,379	13,919
Settlers' Cooperative, Inc.	510	510
National Information Solutions Cooperative	40,739	37,651
Federated Rural Electric Insurance Exchange	38,493	32,403
Other	<u>65</u>	<u>64</u>
	<u>\$ 836,145</u>	<u>\$ 758,720</u>

SCHEDULE OF DEFERRED DEBITS AND CREDITS

THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION

	Deferred Debits		Deferred Credits	
	December 31,		December 31,	
	2016	2015	2016	2015
Long-range load forecast	\$ 22,506	\$ 77,589		
Deferred mapping costs	135,509	163,070		
Four-year system study	68,088	43,280		
Energy conservation receipts			\$ 90,544	\$ 98,243
Vehicle and equipment expenses	9,349	19,050		
Transmission tap - ATC		359,046		
Deferred installation costs of special equipment			55,718	30,210
Post-retirement adjustment			88,584	
	<u>\$ 235,452</u>	<u>\$ 662,035</u>	<u>\$ 234,846</u>	<u>\$ 128,453</u>

SUPPLEMENTAL
REPORTS

MAKELA, POLLACK & AHONEN, P.L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS
301 N. SUFFOLK STREET
IRONWOOD, MICHIGAN 49938-2027

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

To the Board of Directors
The Ontonagon County Rural Electrification Association
Ontonagon, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Ontonagon County Rural Electrification Association (a nonprofit organization), which comprise the balance sheet as of December 31, 2016, and the related statements of revenues and expenses, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 25, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Ontonagon County Rural Electrification Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Ontonagon County Rural Electrification Association's internal control. Accordingly, we do not express an opinion on the effectiveness of The Ontonagon County Rural Electrification Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items (2016-001) and (2016-002) that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Ontonagon County Rural Electrification Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Ontonagon County Rural Electrification Association's Response to Findings

The Ontonagon County Rural Electrification Association's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Ontonagon County Rural Electrification Association's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Makela, Pollock & Ahonen, PLLC

Certified Public Accountants

Ironwood, Michigan
April 25, 2017

SCHEDULE OF FINDINGS AND RESPONSES

THE ONTONAGON COUNTY RURAL ELECTRIFICATION ASSOCIATION

December 31, 2016

SIGNIFICANT DEFICIENCIES

(2016-001) Ability to Prepare Financial Statements and Related Note Disclosures

Criteria – Electric cooperatives are required to possess the ability to prepare their financial statements and related disclosures in accordance with generally accepted accounting principles.

Condition – Like other electric cooperatives of similar size, monthly financial statements are prepared and made available to management and the Board of Directors. The Association relies on its auditors to assist in drafting its financial statements and related disclosures in accordance with generally accepted accounting principles. Management and the Board of Directors review and accept the financial statements on behalf of the Association.

Cause – The Association does not have staff familiar enough with all financial reporting standards to draft the financial statements and related disclosures.

Effect – We consider this condition to be a significant deficiency.

Recommendation – The Association should continue using their auditors to assist in drafting of the financial statements and related disclosures. Members of management and the Board of Directors should remain involved in the financial reporting process to provide oversight and independent review functions.

Management's Response – The Association agrees and will continue to use the auditor's assistance in drafting its financial statements and will remain involved in the financial reporting process.

A similar item was reported for the December 31, 2015 audit.

(2016-002) Segregation of Duties

Criteria – Electric cooperatives normally have the ability to have a separation of duties in its accounting function.

Condition and Cause – Due to the size of the Association, complete segregation of duties in various accounting functions is not possible.

Effect – We consider this condition to be a significant deficiency.

Recommendation – Members of the Board should remain involved in reviewing financial transactions of the Association.

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

SIGNIFICANT DEFICIENCIES (CONTINUED)

(2016-002) Segregation of Duties (Continued)

Management's Response – The Association agrees and Members of the Board will continue to remain involved in reviewing financial transactions of the Association, especially in areas where lack of segregation of duties is apparent.

A similar item was reported for the December 31, 2015 audit.

MAKELA, POLLACK & AHONEN, P.L.L.C.
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INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND
REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS

To the Board of Directors
The Ontonagon County Rural Electrification Association
Ontonagon, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Ontonagon County Rural Electrification Association, which comprise the balance sheet as of December 31, 2016, and the related statements of revenues and expenses, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 25, 2017. In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2017, on our consideration of The Ontonagon County Rural Electrification Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters where we identified certain deficiencies in internal control, described as items (2016-001) and (2016-002) in the Schedule of Findings and Responses that we consider to be significant deficiencies. No reports other than the reports referred to above have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that The Ontonagon County Rural Electrification Association failed to comply with the terms, covenants, provisions or conditions of their loan, grant and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below, except as noted in the Schedule of Findings and Responses as noted in the first paragraph. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding The Ontonagon County Rural Electrification Association's noncompliance with the above-referenced terms, covenants, provisions or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding The Ontonagon County Rural Electrification Association's accounting and records to indicate that The Ontonagon County Rural Electrification Association did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material and overhead costs, and the distribution of these costs to construction, retirement and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Account for all costs associated with retirements of plant in the accumulated depreciation accounts and no unusual charges or credits were noted;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the Board of Directors, management and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.

Makela, Pollock & Ahonen, PLLC

Certified Public Accountants

Ironwood, Michigan
April 25, 2017