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UNITED STATES DEPARTMENT OF AGRICULTURE  
RURAL UTILITIES SERVICE

**FINANCIAL AND OPERATING REPORT  
ELECTRIC DISTRIBUTION**

BORROWER DESIGNATION MI0020

PERIOD ENDED December, 2017 (Prepared with Audited Data)

BORROWER NAME Alger-Delta Co-Operative Electric Association

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.

Thomas Harrell

2/23/2018  
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	14,226,713	15,009,406	14,108,375	1,312,576
2. Power Production Expense				
3. Cost of Purchased Power	6,481,509	6,870,018	6,620,537	654,672
4. Transmission Expense				
5. Regional Market Expense				
6. Distribution Expense - Operation	509,027	645,857	622,477	92,930
7. Distribution Expense - Maintenance	1,783,249	2,217,717	1,689,641	175,526
8. Customer Accounts Expense	331,365	321,632	400,623	28,973
9. Customer Service and Informational Expense	9,275	9,512	8,556	694
10. Sales Expense				
11. Administrative and General Expense	1,066,548	1,113,893	1,216,995	79,241
12. Total Operation & Maintenance Expense (2 thru 11)	10,180,973	11,178,629	10,558,829	1,032,036
13. Depreciation and Amortization Expense	1,532,574	1,615,226	1,754,811	136,461
14. Tax Expense - Property & Gross Receipts	448,830	482,491	444,960	55,026
15. Tax Expense - Other				
16. Interest on Long-Term Debt	1,103,815	1,065,346	1,069,056	85,177
17. Interest Charged to Construction - Credit				
18. Interest Expense - Other				
19. Other Deductions	(91)	45	3,600	12
20. Total Cost of Electric Service (12 thru 19)	13,266,101	14,341,737	13,831,256	1,308,712
21. Patronage Capital & Operating Margins (1 minus 20)	960,612	667,669	277,119	3,864
22. Non Operating Margins - Interest	169,566	169,329	169,320	14,301
23. Allowance for Funds Used During Construction				
24. Income (Loss) from Equity Investments				
25. Non Operating Margins - Other	87,354	117,068	80,097	32,502
26. Generation and Transmission Capital Credits				
27. Other Capital Credits and Patronage Dividends	215,385	200,430	197,519	20,844
28. Extraordinary Items				
29. Patronage Capital or Margins (21 thru 28)	1,432,917	1,154,496	724,055	71,511

RUS Financial and Operating Report Electric Distribution

Revision Date 2014

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE  <b>FINANCIAL AND OPERATING REPORT</b> <b>ELECTRIC DISTRIBUTION</b>			BORROWER DESIGNATION  MI0020		
INSTRUCTIONS - See help in the online application.			PERIOD ENDED  December, 2017		
<b>PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT</b>					
ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	56	66	5. Miles Transmission		
2. Services Retired	95	142	6. Miles Distribution -- Overhead	997.93	998.03
3. Total Services in Place	11,217	11,237	7. Miles Distribution - Underground	300.12	301.98
4. Idle Services (Exclude Seasonals)	554	572	8. Total Miles Energized (5 + 6 + 7)	1,298.05	1,300.01
<b>PART C. BALANCE SHEET</b>					
<b>ASSETS AND OTHER DEBITS</b>			<b>LIABILITIES AND OTHER CREDITS</b>		
1. Total Utility Plant in Service	52,184,967		30. Memberships		80,923
2. Construction Work in Progress	1,595,066		31. Patronage Capital		487,775
3. Total Utility Plant (1 + 2)	53,780,033		32. Operating Margins - Prior Years		13,588,053
4. Accum. Provision for Depreciation and Amort.	17,267,538		33. Operating Margins - Current Year		667,669
5. Net Utility Plant (3 - 4)	36,512,495		34. Non-Operating Margins		486,827
6. Non-Utility Property (Net)	0		35. Other Margins and Equities		20,941
7. Investments in Subsidiary Companies	0		36. Total Margins & Equities (30 thru 35)		15,332,188
8. Invest. in Assoc. Org. - Patronage Capital	368,542		37. Long-Term Debt - RUS (Net)		0
9. Invest. in Assoc. Org. - Other - General Funds	0		38. Long-Term Debt - FFB - RUS Guaranteed		11,797,858
10. Invest. in Assoc. Org. - Other - Nongeneral Funds	461,333		39. Long-Term Debt - Other - RUS Guaranteed		0
11. Investments in Economic Development Projects	0		40. Long-Term Debt Other (Net)		15,444,823
12. Other Investments	1,275,804		41. Long-Term Debt - RUS - Econ. Devel. (Net)		0
13. Special Funds	0		42. Payments - Unapplied		3,100,000
14. Total Other Property & Investments (6 thru 13)	2,105,679		43. Total Long-Term Debt (37 thru 41 - 42)		24,142,681
15. Cash - General Funds	823,301		44. Obligations Under Capital Leases - Noncurrent		0
16. Cash - Construction Funds - Trustee	2,000,018		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		0
19. Notes Receivable (Net)	0		48. Accounts Payable		1,208,685
20. Accounts Receivable - Sales of Energy (Net)	746,607		49. Consumers Deposits		170,260
21. Accounts Receivable - Other (Net)	193,394		50. Current Maturities Long-Term Debt		1,314,325
22. Renewable Energy Credits	0		51. Current Maturities Long-Term Debt - Economic Development		0
23. Materials and Supplies - Electric & Other	320,500		52. Current Maturities Capital Leases		0
24. Prepayments	95,291		53. Other Current and Accrued Liabilities		675,139
25. Other Current and Accrued Assets	3,469		54. Total Current & Accrued Liabilities (47 thru 53)		3,368,409
26. Total Current and Accrued Assets (15 thru 25)	4,182,580		55. Regulatory Liabilities		0
27. Regulatory Assets	0		56. Other Deferred Credits		423,900
28. Other Deferred Debits	466,424		57. Total Liabilities and Other Credits (36 + 43 + 46 + 54 thru 56)		43,267,178
29. Total Assets and Other Debits (5+14+26 thru 28)	43,267,178				



UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE <b>FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION</b>	BORROWER DESIGNATION  MI0020
INSTRUCTIONS - See help in the online application.	PERIOD ENDED December, 2017
<b>PART D. NOTES TO FINANCIAL STATEMENTS</b>	
Part D: Notes to Financial Statements	
Part C Assets and Other Debits, Line 25 - \$3,469	
Accrued Interest on NRUCFC CTC Certificate = \$3,469	
Part C Assets and Other Debits, Line 28 - \$466,424	
2018-2021 Construction Work Plan Costs = \$130,460	
MI Energy Optimization Program = \$11,462	
Cooperative participated in 2013 NRECA R&S Prepayment option. This prepaid expense shall be amortized over a 10 year period which represents the coops average age of its workforce as provided by NRECA form the Cooperatives normal retirement age. = \$324,501	
Part C Liabilities and Other Credits, Line 50 - \$1,314,325	
NRUCFC = \$131,215	
FFB = \$287,638	
CoBank = \$895,472	
Part C Liabilities and Other Credits, Line 53 - \$675,139	

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<b>PART D. NOTES TO FINANCIAL STATEMENTS</b>	
Accrued Property Tax = \$294,957	
Accrued Sales Tax = \$41,933	
MI Low income Tax = \$9,201	
Renewable Energy Blocks = \$171	
Accrued LTD Interest CFC = \$5,556	
Accrued LTD Interest CoBank = \$54,659	
State Withholding Payable = \$4,719	
Accrued Payroll = \$49,461	
Accrued Vacation = \$137,910	
Accrued Sick Leave = \$57,873	
Aflac Payable = \$51	
Accrued cost of CPA = \$18,500	
Accrued Federal Unemployment Tax = \$33	
Accrued State Unemployment Tax = \$115	
Part C Liabilities and Other Credits, Line 56 - \$423,900	



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<b>PART D. NOTES TO FINANCIAL STATEMENTS</b>	
Deferred Installation Costs = \$151,592	
Consumer Energy Prepayments = \$71,421	
Consumer Advances for Construction = \$200,886	

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE <b>FINANCIAL AND OPERATING REPORT          ELECTRIC DISTRIBUTION</b>	BORROWER DESIGNATION MI0020
INSTRUCTIONS - See help in the online application.	PERIOD ENDED December, 2017
<b>PART D. CERTIFICATION LOAN DEFAULT NOTES</b>	

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE  <b>FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION</b>	BORROWER DESIGNATION MI0020
	PERIOD ENDED December, 2017

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	48,413,880	1,194,986	404,921		49,203,945
2. General Plant	2,247,372	300,802	512,016		2,036,158
3. Headquarters Plant	835,867	111,797	2,802		944,862
4. Intangibles	0				0
5. Transmission Plant	0				0
6. Regional Transmission and Market Operation Plant	0				0
7. All Other Utility Plant	0				0
<b>8. Total Utility Plant in Service (1 thru 7)</b>	51,497,119	1,607,585	919,739		52,184,965
9. Construction Work in Progress	718,551	876,515			1,595,066
<b>10. Total Utility Plant (8 + 9)</b>	52,215,670	2,484,100	919,739		53,780,031

**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	281,675	720,148	307	681,643		13	320,500
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	16.288	182.711	0.000	56.369		255.368
2. Five-Year Average	9.905	41.889	0.000	60.115		111.909

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

1. Number of Full Time Employees	15	4. Payroll - Expensed	884,631
2. Employee - Hours Worked - Regular Time	33,237	5. Payroll - Capitalized	155,438
3. Employee - Hours Worked - Overtime	4,951	6. Payroll - Other	478,371

**PART I. PATRONAGE CAPITAL**

ITEM	DESCRIPTION	THIS YEAR (a)	CUMULATIVE (b)
1. Capital Credits - Distributions	a. General Retirements	569,992	1,792,806
	b. Special Retirements	3,330	462,666
	<b>c. Total Retirements (a + b)</b>	573,322	2,255,472
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		
	<b>c. Total Cash Received (a + b)</b>		

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

1. Amount Due Over 60 Days	\$ 8,928	2. Amount Written Off During Year	\$ 18,135
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**ENERGY EFFICIENCY AND CONSERVATION LOAN PROGRAM**

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



UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE  <b>FINANCIAL AND OPERATING REPORT  ELECTRIC DISTRIBUTION</b>					BORROWER DESIGNATION  MI0020				
INSTRUCTIONS - See help in the online application					PERIOD ENDED December, 2017				
<b>PART K. kWh PURCHASED AND TOTAL COST</b>									
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 Power Inc	20858	MI EO	Wind	91,074,375	6,870,018	7.54		
	Total				91,074,375	6,870,018	7.54		

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE  <b>FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION</b>		BORROWER DESIGNATION  MI0020	
INSTRUCTIONS - See help in the online application		PERIOD ENDED December, 2017	
<b>PART K. kWh PURCHASED AND TOTAL COST</b>			
No	Comments		
1			

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE <b>FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION</b>		BORROWER DESIGNATION  MI0020	
INSTRUCTIONS - See help in the online application.		PERIOD ENDED December, 2017	
<b>PART L. LONG-TERM LEASES</b>			
<b>No</b>	<b>NAME OF LESSOR (a)</b>	<b>TYPE OF PROPERTY (b)</b>	<b>RENTAL THIS YEAR (c)</b>
	<b>TOTAL</b>		



UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE  <b>FINANCIAL AND OPERATING REPORT          ELECTRIC DISTRIBUTION</b>		BORROWER DESIGNATION      MI0020	
INSTRUCTIONS - See help in the online application.		PERIOD ENDED December, 2017	
<b>PART M. ANNUAL MEETING AND BOARD DATA</b>			
1. Date of Last Annual Meeting  6/10/2017	2. Total Number of Members  9,999	3. Number of Members Present at Meeting  486	4. Was Quorum Present?  Y
5. Number of Members Voting by Proxy or Mail  859	6. Total Number of Board Members  9	7. Total Amount of Fees and Expenses for Board Members  \$                      88,273	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  MI0020		
INSTRUCTIONS - See help in the online application.			PERIOD ENDED December, 2017		
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)				
2	National Rural Utilities Cooperative Finance Corporation	1,043,541	70,209	142,695	212,904
3	CoBank, ACB	14,401,281	656,384	891,821	1,548,205
4	Federal Financing Bank	11,797,858	335,282	228,442	563,724
5	RUS - Economic Development Loans				
6	Payments Unapplied	3,100,000			
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	24,142,680	1,061,875	1,262,958	2,324,833

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE		BORROWER DESIGNATION MI0020		
FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION		PERIOD ENDED December, 2017		
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	5,327	5,284	
	b. kWh Sold			38,906,302
	c. Revenue			7,284,370
2. Residential Sales - Seasonal	a. No. Consumers Served	4,155	4,155	
	b. kWh Sold			8,900,445
	c. Revenue			2,557,675
3. Irrigation Sales	a. No. Consumers Served			
	b. kWh Sold			
	c. Revenue			
4. Comm. and Ind. 1000 KVA or Less	a. No. Consumers Served	511	511	
	b. kWh Sold			13,256,573
	c. Revenue			2,060,155
5. Comm. and Ind. Over 1000 KVA	a. No. Consumers Served	1	1	
	b. kWh Sold			21,735,856
	c. Revenue			2,868,699
6. Public Street & Highway Lighting	a. No. Consumers Served	31	31	
	b. kWh Sold			341,370
	c. Revenue			65,459
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)		10,025	9,982	
11. Total kWh Sold (lines 1b thru 9b)				83,140,546
12. Total Revenue Received From Sales of Electric Energy (lines 1c thru 9c)				14,836,358
13. Transmission Revenue				
14. Other Electric Revenue				173,049
15. kWh - Own Use				
16. Total kWh Purchased				91,074,375
17. Total kWh Generated				
18. Cost of Purchases and Generation				6,870,018
19. Interchange - kWh - Net				
20. Peak - Sum All kW Input (Metered) Non-coincident <input checked="" type="checkbox"/> Coincident <input type="checkbox"/>				16,055



UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE				BORROWER DESIGNATION MI0020		
FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION				PERIOD ENDED December, 2017		
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)	1,039	103,483	944	3,964	323,492	8,009
2. Residential Sales - Seasonal	816	81,308	742	2,221	150,482	3,198
3. Irrigation Sales						
4. Comm. and Ind. 1000 KVA or Less	24	35,692	447	96	175,026	3,581
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	1,879	220,483	2,133	6,281	649,000	14,788

RUS Financial and Operating Report Electric Distribution

Revision Date 2014

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE		BORROWER DESIGNATION MI0020			
FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION INVESTMENTS, LOAN GUARANTEES AND LOANS		PERIOD ENDED December, 2017			
INSTRUCTIONS - Reporting of investments is required by 7 CFR 1717, Subpart N. Investment categories reported on this Part correspond to Balance Sheet items in Part C. Identify all investments in Rural Development with an 'X' in column (e). Both 'Included' and 'Excluded' Investments must be reported. See help in the online application.					
PART Q. SECTION I. INVESTMENTS (See Instructions for definitions of Income or Loss)					
No	DESCRIPTION (a)	INCLUDED (\$) (b)	EXCLUDED (\$) (c)	INCOME OR LOSS (\$) (d)	RURAL DEVELOPMENT (e)
<b>2</b>	<b>Investments in Associated Organizations</b>				
	NRUCFC		443,541	13,874	
	CUSHION OF CREDIT			155,457	X
	COBANK		187,342		
	NISC	49,792			
	RESCO	131,398			
	NRUCFC MEMBERSHIP		1,000		
	CRC MEMBERSHIP	2,501			
	NISC MEMBERSHIP	2,412			
	CRC	10,890			
	COBANK MEMBERSHIP		1,000		
	Totals	196,993	632,883	169,331	
<b>4</b>	<b>Other Investments</b>				
	FEDERATED	74,271			
	ATC COMMON STOCK	1,201,533			
	Totals	1,275,804			
<b>6</b>	<b>Cash - General</b>				
	CASH	573,301	250,000		
	Totals	573,301	250,000		
<b>9</b>	<b>Accounts and Notes Receivable - NET</b>				
	ACCOUNTS RECEIVABLE OTHER	193,394			
	Totals	193,394			
<b>11</b>	<b>TOTAL INVESTMENTS (1 thru 10)</b>	2,239,492	882,883	169,331	

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE  <b>FINANCIAL AND OPERATING REPORT</b> <b>ELECTRIC DISTRIBUTION</b> <b>INVESTMENTS, LOAN GUARANTEES AND LOANS</b>	BORROWER DESIGNATION MI0020
	PERIOD ENDED December, 2017

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

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



UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE		BORROWER DESIGNATION MI0020			
FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION INVESTMENTS, LOAN GUARANTEES AND LOANS		PERIOD ENDED December, 2017			
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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]					4.16 %
SECTION IV. LOANS					
No	ORGANIZATION (a)	MATURITY DATE (b)	ORIGINAL AMOUNT (\$) (c)	LOAN BALANCE (\$) (d)	RURAL DEVELOPMENT (e)
	TOTAL				



To the Board of Directors  
Alger Delta Cooperative Electric Association  
Gladstone, Michigan

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We have audited the financial statements of Alger Delta Cooperative Electric Association as of and for the year ended 2017, and have issued our report thereon dated March 19, 2018. 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 28, 2017, 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 Alger Delta Cooperative Electric Association 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 our network firms have complied with all relevant ethical requirements regarding independence.

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## **Qualitative Aspects of the Entity's Significant Accounting Practices<sup>1</sup>**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Alger Delta Cooperative Electric Association 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 2017. 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.

We evaluated the key factors and assumptions used to develop these estimates and determined that it is reasonable in relation to the basic financial statements taken as a whole.

### *Financial Statement Disclosures*

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

## **Significant 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 noted no such misstatements during our audit.

**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 Alger Delta Cooperative Electric Association's 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, which are included in the attached letter dated March 19, 2018.

**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 Alger Delta Cooperative Electric Association, 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 Alger Delta Cooperative Electric Association's auditors.

This report is intended solely for the information and use of the Board of Directors and management of Alger Delta Cooperative Electric Association 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 Sully LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota  
March 19, 2018





Financial Statements  
December 31, 2017 and 2016

## Alger Delta Cooperative Electric Association



# Alger Delta Cooperative Electric Association

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December 31, 2017 and 2016

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## **Independent Auditor's Report**

The Board of Directors  
Alger Delta Cooperative Electric Association  
Gladstone, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Alger Delta Cooperative Electric Association, which comprise the balance sheets as of December 31, 2017 and 2016, 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 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 Alger Delta Cooperative Electric Association as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report Issued in Accordance with *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2018 on our consideration of Alger Delta Cooperative Electric Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Alger Delta Cooperative Electric Association's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Alger Delta Cooperative Electric Association's internal control over financial reporting and compliance.

**Report on Other legal and Regulatory Requirements**

In accordance with the *Rural Utility Service's* requirements set forth in 7 CFR Part 1773, we have also issued a report dated DATE, on our consideration of Alger Delta Cooperative Electric Association's compliance with aspects of contractual agreements and regulatory requirements for electric borrowers. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of our procedures performed in accordance with *Rural Utility Service's* requirements In considering Alger Delta Cooperative Electric Association's compliance with certain regulatory requirements.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Fargo, North Dakota  
March 19, 2018

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	2017	2016
Assets		
Electric Plant		
In service	\$ 52,184,968	\$ 51,497,121
Under construction	1,595,066	718,551
Total electric plant	53,780,034	52,215,672
Less accumulated depreciation	17,267,539	16,568,324
Electric plant - net	36,512,495	35,647,348
Other Assets and Investments		
Investments in associated organizations	829,875	786,646
Other investments	1,275,804	1,188,009
Total other assets and investments	2,105,679	1,974,655
Current Assets		
Cash and cash equivalents	2,823,319	872,883
Accounts receivable, less allowance for doubtful accounts and power cost adjustment (2017 - \$835,055; 2016 - \$775,590)	746,607	715,563
Accounts receivable - other	193,394	191,517
Materials and supplies	320,500	281,675
Prepayments	95,291	98,653
Interest receivable	3,469	16,800
Total current assets	4,182,580	2,177,091
Deferred Debits	466,423	427,085
Total Assets	\$ 43,267,177	\$ 40,226,179

See Notes to Financial Statements



Alger Delta Cooperative Electric Association  
Balance Sheets  
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Equities and Liabilities		
Equities		
Memberships	\$ 80,923	\$ 80,923
Patronage capital	14,742,548	14,161,372
Other equities	<u>508,716</u>	<u>374,608</u>
Total equities	<u>15,332,187</u>	<u>14,616,903</u>
Long-Term Liabilities		
Long-term debt, less current maturities	<u>24,142,682</u>	<u>22,466,400</u>
Current Liabilities		
Current maturities of long-term debt	1,314,325	1,253,566
Accounts payable	1,208,685	869,599
Accrued property taxes	351,129	333,371
Accrued payroll and vacation	245,295	260,240
Customer deposits	170,260	137,415
Accrued interest	60,215	63,943
Other	<u>18,500</u>	<u>17,950</u>
Total current liabilities	<u>3,368,409</u>	<u>2,936,084</u>
Deferred Credits	<u>423,899</u>	<u>206,792</u>
Total equities and liabilities	<u><u>\$ 43,267,177</u></u>	<u><u>\$ 40,226,179</u></u>

# Alger Delta Cooperative Electric Association

## Statements of Operations

Years Ended December 31, 2017 and 2016

	2017	2016
Operating Revenues		
Electric sales	\$ 14,836,358	\$ 14,081,544
Other sales	173,049	145,170
	<u>15,009,407</u>	<u>14,226,714</u>
Operating Expenses		
Cost of power	6,870,018	6,481,509
Distribution - operation	683,344	509,027
Distribution - maintenance	2,180,235	1,783,251
Customer accounts	321,633	331,365
Customer service	9,512	9,275
Administrative and general	1,113,891	1,066,460
Depreciation and amortization	1,615,225	1,532,574
Taxes - property	482,491	448,830
Interest on long-term debt	1,065,346	1,103,815
Other	40	-
Total operating expenses	<u>14,341,735</u>	<u>13,266,106</u>
Operating Margins Before Capital Credits	667,672	960,608
Other Cooperative Capital Credits		
CoBank	157,072	166,458
Resco	8,475	11,436
CFC	6,960	7,436
Other associated companies and investments	27,923	30,055
Total other cooperative capital credits	<u>200,430</u>	<u>215,385</u>
Net Operating Margins	<u>868,102</u>	<u>1,175,993</u>
Non-Operating Margins		
Interest and investment income	277,699	262,239
Gain (loss) on disposal of assets	5,851	(8,174)
Other income, net	2,847	2,856
Total non-operating margins	<u>286,397</u>	<u>256,921</u>
Net Margins	<u>\$ 1,154,499</u>	<u>\$ 1,432,914</u>

# Alger Delta Cooperative Electric Association

Statements of Members' Equity  
Years Ended December 31, 2017 and 2016

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Other</u>	<u>Total</u>
Balance, December 31, 2015	\$ 80,923	\$ 13,146,159	\$ 266,829	\$ 13,493,911
Net margins	-	1,432,914	-	1,432,914
Retirement of capital credits	-	(417,701)	-	(417,701)
Unclaimed capital credits	<u>-</u>	<u>-</u>	<u>107,779</u>	<u>107,779</u>
Balance, December 31, 2016	80,923	14,161,372	374,608	14,616,903
Net margins	-	1,154,499	-	1,154,499
Retirement of capital credits	-	(573,323)	-	(573,323)
Unclaimed capital credits	<u>-</u>	<u>-</u>	<u>134,108</u>	<u>134,108</u>
Balance, December 31, 2017	<u>\$ 80,923</u>	<u>\$ 14,742,548</u>	<u>\$ 508,716</u>	<u>\$ 15,332,187</u>

# Alger Delta Cooperative Electric Association

## Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Net margins	\$ 1,154,499	\$ 1,432,914
Adjustments to reconcile net margins to net cash from operating activities		
Depreciation and amortization	1,854,083	1,607,406
Gain (loss) on sale of assets	(5,851)	(8,174)
Noncash patronage capital allocations	(343,923)	(285,339)
Changes in assets and liabilities		
Accounts receivable	(32,921)	(138,685)
Interest receivable	13,331	9
Prepaid expenses	3,362	41,128
Deferred debits	(39,338)	102,585
Accounts payable	339,086	(15,174)
Accrued taxes	17,758	21,195
Accrued interest	(3,728)	(4,057)
Other current liabilities	18,450	36,224
Deferred credits	217,107	(23,473)
Net Cash from Operating Activities	3,191,915	2,766,559
Investing Activities		
Construction and retirement costs	(2,554,340)	(2,146,095)
Purchase of general plant assets	(412,599)	(511,377)
Cash received from investments in associated organizations	212,899	155,174
Proceeds from sale of salvage property	13,023	26,349
Change in materials and supplies	(38,825)	17,713
Net Cash used for Investing Activities	(2,779,842)	(2,458,236)
Financing Activities		
Principal payments on long-term debt	(1,262,959)	(1,234,910)
Proceeds from issuance of long-term debt	3,000,000	1,000,000
Member construction contributions received	240,537	129,805
Patronage capital retired	(439,215)	(309,922)
Net Cash from (used for) Financing Activities	1,538,363	(415,027)
Net Change in Cash and Cash Equivalents	1,950,436	(106,704)
Cash and Cash Equivalents at Beginning of Year	872,883	979,587
Cash and Cash Equivalents at End of Year	\$ 2,823,319	\$ 872,883

Alger Delta Cooperative Electric Association  
Statements of Cash Flows  
Years Ended December 31, 2017 and 2016

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	<u>2017</u>	<u>2016</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 1,069,074</u>	<u>\$ 1,107,872</u>
Increase in other equities due to unclaimed capital credits	<u>\$ 134,108</u>	<u>\$ 107,689</u>



## **Note 1 - Summary of Significant Accounting Policies**

### **General**

Alger Delta Cooperative Electric Association (Alger Delta or the Association), Gladstone, Michigan, a Michigan corporation, provides for the electric energy needs of its member-owners. Alger Delta's service area covers a six county region in the Upper Peninsula of Michigan.

### **Financial Statement Presentation**

The Association is subject to the accounting and reporting rules and regulations of Rural Utility Service (RUS). The Association follows the Federal Energy Regulatory Commission's Uniform System of Accounts prescribed for Class A and B Electric Utilities as modified by RUS.

Rates charged to consumers are established by the Board of Directors and are subject to approval by RUS and other regulatory and /or lending agencies.

As a result of the ratemaking process, the Association applies Accounting Standards Codification (ASC) 980, *Regulated Operations*. The application of generally accepted accounting principles by the Association 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.

### **Regulation**

Under the authority of PA 167 of 2008, the Association is member-regulated for rate changes, billing practices, accounting standards, and terminations and connection of service. All other aspects of electric service continue to be regulated by the Michigan Public Service Commission. The Association's accounting policies and the accompanying financial statements, except as noted above, conform to generally accepted accounting principles applicable to rate-regulated enterprises and reflect the effects of the ratemaking process.

### **Electric Plant and Retirements**

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 general plant 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, primarily distribution plant, 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 method based upon the estimated useful lives of the various classes of property.

### **Cash and Cash Equivalents**

For purposes of reporting cash flows, the Association considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

### **Investments**

Investments in other cooperatives and associated organizations and other investments are stated at cost, including undistributed patronage capital allocations. The investments are increased by allocations and decreased by retirements. Management believes the carrying amounts of these investments at December 31, 2017 and 2016, included in investments in associated companies and other investments are not impaired.

### **Fair Value Measurements**

The Association has determined the fair value of certain assets and liabilities in accordance with generally accepted accounting principles, which provides a framework for measuring fair value.

Fair value is defined 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. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

A fair value hierarchy has been established, 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 Association does not have any assets or liabilities subject to the level 1, 2, or 3 valuation as of December 31, 2017 and 2016 and does not anticipate participating in transactions of this type in the future.

### **Receivables and Credit Policies**

Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

A trade receivable is considered to be past due if any portion of the receivable is outstanding for more than 30 days.

### **Materials and Supplies**

Materials and supplies are stated at 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 ten year period.

### **Patronage Capital**

The Association 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 Association from its operations in excess of costs and expenses, to the extent they are not needed to offset current or prior losses, are assigned to patrons on a patronage basis.

### **Revenue Recognition**

Revenue is recorded in the accounting period during which the usage occurs.

### **Power Costs**

Monthly billings from the wholesale power supplier for power costs are reflected in the financials statement to the end of the month.

### **Deferred Credits**

Deferred credits consist primarily of customer advance payments made by consumers in connection with electric services, deferred installation costs on special equipment, and energy optimization grant funds.

### **Pension Costs**

It is the policy of the Association to fund normal pension cost accrued.

### **Business and Credit Risk**

Financial instruments which potentially subject the Association to concentrations of credit risk consist primarily of temporary cash instruments and trade receivables. The Association provides electrical service on account to its members whom are located in the Upper Peninsula of Michigan. The Association 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 from mining companies comprising approximately 17% and 16% of the balance as of December 31, 2017 and 2016, respectively.

The Association maintains its cash balances in two financial institutions located in the Upper Peninsula of Michigan. Such balances are insured by the Federal Deposit Insurance Corporation up to a maximum of \$250,000. The balances of those deposits may exceed the insurance coverage at various times during the year, therefore, the Association has received a pledge of collateral from the financial institution where the Association maintains its primary depository accounts.



## Alger Delta Cooperative Electric Association

Notes to Financial Statements

December 31, 2017 and 2016

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### **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**

The Association expenses the costs of advertising as incurred.

### **Income Taxes**

The Association is exempt from income taxes under Section 501(c)(12). The Association is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. The Association files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income.

The Association evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. As of December 31, 2017 and 2016, the unrecognized tax benefit accrual was zero. The Association will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

### **Sales Taxes**

The Association has customers in a state which imposes a sales tax on certain sales. The Association collects those sales taxes from its customers and remits the entire amount to the state of Michigan. The Association's accounting policy is to exclude the tax collected and remitted from revenue and cost of revenue.

### **Subsequent Events**

The Association has evaluated subsequent events through March 19, 2018, the date which the financial statements were available to be issued.

# Alger Delta Cooperative Electric Association

Notes to Financial Statements  
December 31, 2017 and 2016

## Note 2 - Electric Plant

	2017		2016	
	Plant	Depreciation Rates	Plant	Depreciation Rates
Distribution plant	\$ 49,203,946	2.56% - 4.00%	\$ 48,413,881	2.56% - 4.00%
General plant	2,981,022	2% - 33%	3,083,240	2% - 33%
Electric plant in service	52,184,968		51,497,121	
Construction work-in-progress	1,595,066		718,551	
Total electric plant	<u>\$ 53,780,034</u>		<u>\$ 52,215,672</u>	

## Note 3 - Accounts Receivable - Electric

	2017	2016
Billed electric accounts receivable	\$ 1,580,675	\$ 1,446,722
Unbilled electric usage	987	44,431
Allowance for doubtful accounts	(82,549)	(63,809)
Power cost adjustment allowance	(752,506)	(711,781)
Total	<u>\$ 746,607</u>	<u>\$ 715,563</u>

Alger Delta has set up a power cost adjustment allowance to cover any potential uncollectible accounts and allow the Association to keep rates stable should a large customer member cease or substantially decrease operations. The unbilled electric usage is power that has been delivered to members but not yet billed by the Association.



# Alger Delta Cooperative Electric Association

Notes to Financial Statements

December 31, 2017 and 2016

## Note 4 - Investments in Associated Organizations

	2017	2016
National Rural Utilities Cooperative Finance Corporation		
Capital term certificates	\$ 312,133	\$ 315,210
Patronage capital credits	131,408	127,928
National Information Services Cooperative		
Patronage capital credits	2,623	44,663
Rural Electric Supply Cooperative		
Patronage capital credits	131,398	134,695
Memberships	6,912	6,912
Other	245,401	157,238
	<u>\$ 829,875</u>	<u>\$ 786,646</u>

## Note 5 - Other Investments

	2017	2016
American Transmission Company, LLC	\$ 1,201,443	\$ 1,114,055
ATC Management, Inc.	90	90
Federated Insurance	74,271	73,864
	<u>\$ 1,275,804</u>	<u>\$ 1,188,009</u>

## Note 6 - Deferred Debits

	2017	2016
Deferred Debits		
Retirement security prepayment	\$ 324,501	\$ 386,311
Energy optimization	11,462	-
Deferred work plan	130,460	40,774
	<u>\$ 466,423</u>	<u>\$ 427,085</u>

# Alger Delta Cooperative Electric Association

Notes to Financial Statements

December 31, 2017 and 2016

## Note 7 - Patronage Capital

	2017	2016
Assignable	\$ 1,154,499	\$ 1,432,914
Assigned to date	15,843,612	14,410,698
Total	<u>16,998,111</u>	<u>15,843,612</u>
Retired to date	2,255,563	1,682,240
Total	<u>\$ 14,742,548</u>	<u>\$ 14,161,372</u>

Under the provisions of the Mortgage Agreements, until the equities and margins equal or exceed 30 percent of the total assets of the Association, the return to patrons of capital contributed by them is limited generally to 25 percent of the patronage capital or margins received by the Association in the preceding year. The equities and margins of the Association represent 35.45% and 36.34% percent of the total assets at December 31, 2017 and 2016, respectively.

## Note 8 - Memberships and Other Equities

	2017	2016
Retired capital credits	\$ 487,775	\$ 355,621
Donated capital	20,941	18,987
Total	<u>\$ 508,716</u>	<u>\$ 374,608</u>

Membership balances were \$80,923 at December 31, 2017 and 2016. Memberships, donated capital and capital gains and losses are considered permanent equity of the Association. The retired unclaimed capital credits will be refunded to members upon notice from the respective member.

# Alger Delta Cooperative Electric Association

Notes to Financial Statements

December 31, 2017 and 2016

## Note 9 - Mortgage Notes

Long-term debt consists of the following:

	2017	2016
FFB mortgage notes payable in quarterly installments including interest at 2.28%-4.49% maturing to the year 2048, secured by utility plant assets	\$ 12,085,496	\$ 9,313,939
RUS cushion of credit (prepayment) at 5.0%	(3,100,000)	(3,100,000)
NRUCFC mortgage notes payable in quarterly installments including interest at 3.30%-7.20%, maturing in the year 2034, secured by utility plant assets	1,174,757	1,317,452
CoBank mortgage notes payable in monthly installments including interest at 3.02%-4.33%, maturing in the year 2036, secured by utility plant assets	15,296,754	16,188,575
	25,457,007	23,719,966
Less current maturities	1,314,325	1,253,566
	<u>\$ 24,142,682</u>	<u>\$ 22,466,400</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), the National Rural Utilities Cooperative Finance Corporation (CFC) and CoBank. Additionally, the Association has \$1,000,000 in loan funds available from FFB. The Association has no unadvanced loan funds from RUS, CoBank or CFC as of December 31, 2017.

It is estimated that the minimum principal requirements for the next five years are as follows:

	FFB	NRUCFC	CoBank	Total
2018	\$ 287,638	\$ 131,215	\$ 895,472	\$ 1,314,325
2019	295,559	121,466	897,164	1,314,189
2020	303,990	110,405	904,644	1,319,039
2021	314,800	110,137	919,879	1,344,816
2022	331,069	94,966	932,253	1,358,288
Thereafter	7,452,440	606,568	10,747,342	18,806,350
	<u>\$ 8,985,496</u>	<u>\$ 1,174,757</u>	<u>\$ 15,296,754</u>	<u>\$ 25,457,007</u>

All loan funds advanced by RUS, FFB, and CFC are deposited in a special trust bank account, the disbursements from which are restricted by the provisions of the loan agreement to purposes approved by RUS, FFB, and CFC.

The security agreement (mortgage) restricts the Association's debt limit to \$50,000,000.

#### **Note 10 - Line of Credit**

The Association has executed a perpetual line of credit with CFC, providing the Association with short-term loans in the total amount of \$500,000 on a revolving basis. Interest on unpaid principal is payable monthly at rates established by CFC. Interest rates as of December 31, 2017 and 2016 were 2.75% and 2.50% respectively. There were no outstanding balances on the line at December 31, 2017 and 2016.

The Association has executed a perpetual line of credit with CoBank, providing the Association with short-term loans in the total amount of \$1,000,000 on a revolving basis. Interest on unpaid principal is payable monthly at rates established by CoBank. Interest rates as of December 31, 2017 and 2016 were 3.67% and 2.87% respectively. There were no outstanding balances on the line at December 31, 2017 and 2016.

#### **Note 11 - Benefit 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.

Alger Delta Cooperative Electric Association's contributions to the RS Plan in 2017 and 2016 represented less than five percent of the total contributions made to the plan by all participating employers. The Association made contributions to the plan of \$230,574 and \$227,079 for the years ended December 31, 2017 and 2016, respectively. In 2013, the Association made a \$618,098 prepayment to the National Rural Electric Cooperative Association for the Retirement Security Plan to enhance the Plan's funded status. With this prepayment, the Association will pay 25% lower premiums than cooperatives in the Retirement Security Plan that did not make a prepayment. The prepayment will be amortized over ten years. The amortization expense was \$61,810 for both of the years ended December 31, 2017 and 2016.

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, 2017 and over 80 percent funded on January 1, 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.

##### **401(k) Plan**

The Association offers a 401(k) plan through NRECA that covers all employees. Under the provision of the plan, eligible employees may contribute discretionary amounts up to the 401(k) contribution limits with no employer matching requirements. The plan has thirteen participating employees contributing with pre-tax dollars.



## Alger Delta Cooperative Electric Association

Notes to Financial Statements  
December 31, 2017 and 2016

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### Note 12 - Deferred Credits

	2017	2016
Energy optimization	\$ -	\$ 22,491
Deferred installation costs of special equipment	151,592	119,373
Customer prepayments	272,307	64,928
Total	<u>\$ 423,899</u>	<u>\$ 206,792</u>

### Note 13 - Major Member

The Association derived 10% or more of its revenue from one member totaling \$2,866,895 and \$2,077,225 during the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the Association has accounts receivable totaling \$255,418 and \$214,524 respectively, from this member.

### Note 14 - Commitments and Contingencies

#### Wholesale Power Agreement

Under its wholesale power agreement, the Association is committed to purchase its electric power and energy requirements from Wisconsin Public Power Incorporated (WPPI), until January 25, 2055. The rates paid therefore are subject to review by the seller at such intervals as deemed appropriate.

#### Concentration of Sources of Labor

At December 31, 2017, the Association has approximately 69% of its employees covered by a collective bargaining agreement. The collective bargaining agreement for employees will expire on November 30, 2018.





Supplementary Information  
December 31, 2017 and 2016

## Alger Delta Cooperative Electric Association



### **Independent Auditor's Report on Supplementary Information**

The Board of Directors  
Alger Delta Cooperative Electric Association  
Gladstone, Michigan

We have audited the financial statements of Alger Delta Cooperative Electric Association as of and for the years ended December 31, 2017 and 2016, and our report thereon dated March 19, 2018 which expressed an unmodified opinion on those financial statements, begins on page 1. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information presented on pages 19 through 22 is presented for the 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. With the exception of the listing of directors, officers, and manager, and the statistical profile, the information has been subjected to the auditing procedures applied in the audits 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. The listing of directors, officers, and manager, and the statistical profile have 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 any assurance on them.

Fargo, North Dakota  
March 19, 2018

Alger Delta Cooperative Electric Association  
Directors, Officers and Manager (Unaudited)  
December 31, 2017

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**Directors**

<u>Name</u>	<u>Address</u>	<u>Principal Business</u>
Karen Alholm	Marquette, Michigan	Retired
David Prestin	Stephenson, Michigan	Retired
David Anthony	Bark River, Michigan	Economic Development Manager
Michael Lawless	Grand Marais, Michigan	Business Owner
Paul Sederquist	Daggett, Michigan	Retired
Kirk Bruno	Rapid River, Michigan	Consultant
Raymond Young	Cooks, Michigan	Retired
Darryl Small	Big Bay, Michigan	Retired
Doug Bovin	Gladstone, Michigan	Retired

**Officers and Manager**

David Anthony	Chairperson
Paul Sederquist	Vice Chairperson
Darryl Small	Secretary/Treasurer
Tom Harrell	CEO

# Alger Delta Cooperative Electric Association

Schedule of Long-Term Debt  
Years Ended December 31, 2017 and 2016

Note	Maturity Date	Interest Rate	Principal Amount	Principal Repayment	Net Obligation	
					2017	2016
RUS						
Cusion of Credit			\$ -	\$ 3,100,000	\$ (3,100,000)	\$ (3,100,000)
Total RUS			-	3,100,000	(3,100,000)	(3,100,000)
FFB						
H0010	2042	4.392	500,000	67,442	432,558	441,861
H0015	2042	4.095	500,000	63,015	436,985	446,895
H0020	2042	4.181	370,000	46,005	323,995	331,250
H0025	2042	4.486	700,000	82,927	617,073	630,279
H0030	2042	3.915	750,000	97,218	652,782	667,982
H0035	2042	3.512	1,000,000	139,983	860,017	881,256
H0040	2042	3.486	2,580,000	232,399	2,347,601	2,405,796
H0045	2042	3.490	600,000	53,969	546,031	560,238
F0050	2048	2.695	1,000,000	33,951	966,049	985,823
F0055	2048	2.563	1,000,000	34,767	965,233	985,460
F0060	2048	2.284	1,000,000	53,435	946,565	977,099
H0065	2048	2.750	500,000	7,254	492,746	-
H0070	2048	2.571	500,000	2,139	497,861	-
F0075	2048	2.684	2,000,000	-	2,000,000	-
Total FFB			13,000,000	914,504	\$12,085,496	9,313,939
CFC						
5001	2017	4.68	495,000	495,000	-	17,728
6001	2017	3.18	29,000	29,000	-	1,508
7001	2019	6.63	488,000	437,427	50,573	81,574
8001	2021	6.88	366,667	274,396	92,271	113,084
9001	2023	7.08	658,333	420,737	237,596	268,215
10001	2027	3.28	608,333	311,428	296,905	321,435
11001	2034	5.83	675,000	177,588	497,412	513,908
Total CFC			3,320,333	2,145,576	1,174,757	1,317,452
CoBank						
2434606	2027	4.33	2,697,222	1,629,626	1,067,596	1,296,596
2590375	2032	4.22	7,302,681	1,521,744	5,780,937	6,069,859
2693474	2023	3.02	618,607	270,962	347,645	407,846
2932594	2033	3.98	1,047,186	88,956	958,230	1,001,861
2932586	2034	4.05	2,502,222	194,084	2,308,138	2,403,368
2932577	2036	4.15	5,190,346	356,138	4,834,208	5,009,045
Total CoBank			19,358,264	4,061,510	15,296,754	16,188,575
Total Long-Term Debt			\$ 35,678,597	\$ 10,221,590	\$ 25,457,007	\$ 23,719,966

Alger Delta Cooperative Electric Association  
Statistical Profiles (Unaudited)  
December 31, 2017, 2016 and 2015

	2016 CFC Key Ratio Trend Analysis			Alger Delta Cooperative Electric Association December 31		
	U. S.	M.I.	Major Current Power Supplier	2017	2016	2015
1. Times Interest Earned Ratio (TIER)	2.62	2.21	2.30	2.08	2.30	2.30
2. Average Times Interest Earned Ratio (TIER)	2.79	2.30	2.30	2.30	2.30	2.29
3. Operating TIER (OTIER)	1.94	1.87	1.87	1.63	1.87	2.03
4. Average OTIER	2.10	1.95	1.95	1.95	1.95	1.95
5. Debt Service Coverage (DSC)	2.06	1.74	1.74	1.65	1.74	1.80
6. Average DSC	2.18	1.88	1.77	1.77	1.77	1.84
7. Operating DSC (ODSC)	1.75	1.61	1.54	1.51	1.61	1.70
8. Average ODSC	1.84	1.61	1.61	1.66	1.65	1.73
9. MDSC	1.83	1.68	1.68	1.63	1.72	1.70
10. Blended interest rate	4.06	3.82	4.63	4.33	4.63	4.85
11. Plant revenue ratio	6.95	6.74	6.74	6.61	6.74	6.71
12. Equity ratio %	44.83	36.34	36.34	35.44	36.34	34.32
13. Debt ratio %	43.16	52.36	55.85	58.84	58.97	57.84
14. General funds/total plant	3.95	1.88	3.95	7.62	3.95	4.13
15. Current ratio	1.22	0.74	0.74	1.24	0.74	0.77
16. Rate of return	5.17	4.76	6.84	7.09	8.54	7.21



# Alger Delta Cooperative Electric Association

Statistical Profiles (Unaudited)  
December 31, 2017, 2016 and 2015

	2016 CFC Key Ratio Trend Analysis			Alger Delta Cooperative Electric Association December 31		
	U. S.	M.I.	Major Current Power Supplier	2017	2016	2015
17. Total customers (average number receiving service)	14,310	33,197	9,966	9,982	9,966	9,949
18. Customers/mile	6.03	7.68	7.68	7.68	7.68	7.69
19. Total margins/customer	\$ 153.57	\$ 88.94	\$ 143.78	\$ 115.66	\$ 143.78	\$ 148.24
20. Customer accounting expense/customer	\$ 58.88	\$ 41.16	\$ 33.25	\$ 32.22	\$ 33.25	\$ 30.62
21. Administrative and general expense/customer	\$ 140.41	\$ 87.10	\$ 107.02	\$111.59	\$107.01	\$108.29
22. Operations and maintenance/\$1,000 plant	\$ 42.14	\$ 40.64	\$ 43.90	\$ 53.25	\$ 43.90	\$ 40.75
25. Revenue/KWH sold (mills)	112.77	130.99	185.45	180.53	185.45	187.77
26. Power cost/KWH sold (mills)	40.43	84.49	84.49	82.63	84.49	87.41
27. Power cost/revenue	61.48	60.71	45.56	45.77	45.54	46.55
28. System loss	5.53%	5.81%	9.11%	8.71%	9.11%	10.77%



CPAs & BUSINESS ADVISORS

**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***

The Board of Directors  
Alger Delta Cooperative Electric Association  
Gladstone, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Alger Delta Cooperative Electric Association, which comprise the balance sheet as of December 31, 2017, and the related statement of operations, members' equity and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 19, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

**Compliance and Other Matters**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control or on compliance. This communication 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.

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

Fargo, North Dakota  
March 19, 2018



CPAs & BUSINESS ADVISORS

**Independent Auditor's Report on Compliance with Aspects of  
Contractual Agreements and Regulatory Requirements for Electric Borrowers**

The Board of Directors  
Alger Delta Cooperative Electric Association  
Gladstone, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Alger Delta Cooperative Electric Association which comprise the balance sheet as of December 31, 2017, and the related statements of operations, members' equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 19, 2018. In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2018 on our consideration of Alger Delta Cooperative Electric Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Alger Delta Cooperative Electric Association failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding of Alger Delta Cooperative Electric 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 Alger Delta Cooperative Electric Association's accounting and records to indicate that Alger Delta Cooperative Electric Association did not:

Maintain adequate and effective accounting procedures;

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

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

Clear construction accounts and accrue depreciation on completed construction;



Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer 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;

During the period of this audit, the Association did not receive any long-term loan fund advances from CFC on loans controlled by the CFC Mortgage and Loan Agreement;

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.

#### **Detailed Schedule of Deferred Debits and Deferred Credits**

	<u>2017</u>	<u>2016</u>
Deferred Debits		
Retirement security prepayment	\$ 324,501	\$ 386,311
Energy optimization	11,462	-
Deferred work plan	<u>130,460</u>	<u>40,774</u>
Total	<u><u>\$ 466,423</u></u>	<u><u>\$ 427,085</u></u>
	<u>2017</u>	<u>2016</u>
Deferred Credits		
Energy optimization	\$ -	\$ 22,491
Deferred installation costs of special equipment	151,592	119,373
Customer prepayments	<u>272,307</u>	<u>64,928</u>
Total	<u><u>\$ 423,899</u></u>	<u><u>\$ 206,792</u></u>



### Detailed Schedule of Equity Investments

	<u>2017</u>	<u>2016</u>
American Transmission Company, LLC		
Member units: 2017 - 65,074; 2016 - 58,844	\$ 1,201,443	\$ 1,114,055
ATC Management, Inc.		
9 Shares class A common, \$0.01 par value	90	90
Federated Insurance		
175 shares preferred class E stock	<u>74,271</u>	<u>73,864</u>
	<u>\$ 1,275,804</u>	<u>\$ 1,188,009</u>

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

*Eide Bailly LLP*

Fargo, North Dakota  
March 19, 2018