

**UTILITIES DISTRICT OF WESTERN  
INDIANA RURAL ELECTRIC MEMBERSHIP  
CORPORATION AND SUBSIDIARY -  
BLOOMFIELD, INDIANA**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**YEARS ENDED  
DECEMBER 31, 2016 AND 2015**

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL ELECTRIC  
MEMBERSHIP CORPORATION AND SUBSIDIARY**

**CONTENTS**

	<b>Page</b>
Independent Auditor's Report .....	<b>3-4</b>
CONSOLIDATED BALANCE SHEETS .....	<b>5</b>
CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSES AND COMPREHENSIVE MARGINS .....	<b>6</b>
CONSOLIDATED STATEMENTS OF EQUITIES .....	<b>7</b>
CONSOLIDATED STATEMENTS OF CASH FLOWS .....	<b>8</b>
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS .....	<b>9-17</b>
CONSOLIDATING BALANCE SHEETS .....	<b>18-19</b>
CONSOLIDATING STATEMENTS OF REVENUE AND EXPENSES AND COMPREHENSIVE MARGINS .....	<b>20-21</b>



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## **Independent Auditor's Report**

Board of Directors  
**Utilities District of Western Indiana Rural  
Electric Membership Corporation and Subsidiary**  
Bloomfield, Indiana

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

We have audited the accompanying consolidated financial statements of **Utilities District of Western Indiana Rural Electric Membership Corporation and Subsidiary**, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of revenue and expenses and comprehensive margins, equities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Hoosier Energy Rural Electric Cooperative, Inc. As discussed in Note 3, these financial statements account for an investment in Hoosier Energy Rural Electric Cooperative, Inc. under the equity method. The investment was \$16,995,840 and \$15,691,978 at December 31, 2016 and 2015, respectively, and the equity in its net margins was \$1,303,862 and \$1,281,449 for the years then ended. The financial statements of Hoosier Energy Rural Electric Cooperative, Inc. were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to amounts included for Hoosier Energy Rural Electric Cooperative, Inc., is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Utilities District of Western Indiana Rural Electric Membership Corporation and Subsidiary** at December 31, 2016 and 2015, 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 on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included in pages 18 to 21 is presented for purposes of additional analysis and is not a required part of the basic 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 basic consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.



New Albany, Indiana  
March 27, 2017

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL ELECTRIC  
MEMBERSHIP CORPORATION AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2016 AND 2015**

**ASSETS**

	<u>2016</u>	<u>2015</u>
<b>ELECTRIC PLANT</b>		
In service	\$ 91,268,593	\$ 86,904,845
Construction work in progress	1,866,515	2,320,096
	93,135,108	89,224,941
Less accumulated depreciation	25,170,736	24,356,009
	67,964,372	64,868,932
 <b>NON-UTILITY EQUIPMENT</b>		
Equipment	2,381,925	2,100,814
Less accumulated depreciation	858,401	567,454
	1,523,524	1,533,360
 <b>OTHER ASSETS</b>		
Investments in associated organizations	18,282,201	16,868,795
Notes receivable, less current installments	569,810	644,314
Restricted cash	44,000	62,500
	18,896,011	17,575,609
 <b>CURRENT ASSETS</b>		
Cash and cash equivalents	5,247,316	6,664,188
Accounts receivable (less allowance for doubtful accounts of \$71,666; 2015 - \$80,034)	5,892,015	5,413,548
Current installments of notes receivable	128,504	109,504
Materials and supplies	452,968	470,593
Prepaid power costs	1,993,280	2,491,947
Other current assets	283,143	279,104
	13,997,226	15,428,884
 <b>DEFERRED CHARGES</b>		
	936,218	1,167,187
	\$ 103,317,351	\$ 100,573,972

See notes to consolidated financial statements.

## LIABILITIES AND EQUITIES

	<u>2016</u>	<u>2015</u>
<b>EQUITIES</b>		
Memberships	\$ 398,157	\$ 394,406
Patronage capital	58,798,696	54,320,381
Rural Economic Development Grant	300,000	300,000
Donated capital	5,813	5,813
Accumulated other comprehensive loss	(1,144,700)	(1,227,000)
Retained earnings	1,554,485	949,477
	<hr/> 59,912,451	<hr/> 54,743,077
<b>LONG-TERM OBLIGATIONS</b>		
Long-term debt, less current installments	34,088,958	35,910,388
Obligations under capital leases, less current installments	70,783	206,676
Accumulated post-retirement benefit obligation	4,442,000	4,139,000
	<hr/> 38,601,741	<hr/> 40,256,064
<b>CURRENT LIABILITIES</b>		
Line of credit	-	584,821
Current installments of long-term debt	1,957,686	2,439,949
Current installments of obligations under capital leases	147,595	187,830
Accounts payable-other	890,822	536,013
Consumer deposits	655,478	646,676
Accrued taxes	614,072	616,958
Other current liabilities	537,270	562,348
	<hr/> 4,802,923	<hr/> 5,574,595
<b>DEFERRED CREDIT</b>	<hr/> 236	<hr/> 236
	<hr/> <hr/>	<hr/> <hr/>
	\$ 103,317,351	\$ 100,573,972

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL ELECTRIC  
MEMBERSHIP CORPORATION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSES AND COMPREHENSIVE MARGINS  
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Amount		Percent To Operating Revenues	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUES</b>	\$ 47,058,474	\$ 48,182,457	100.00	100.00
<b>OPERATING EXPENSES</b>				
Cost of power	27,250,287	27,717,157	57.91	57.53
Distribution-operations	2,310,406	1,812,852	4.91	3.76
Distribution-maintenance	2,602,434	2,747,501	5.53	5.70
Consumer accounts	1,715,642	1,649,660	3.65	3.42
Administrative and general	3,766,589	3,853,604	8.00	8.00
Depreciation	3,241,540	3,043,490	6.89	6.32
Taxes	655,737	705,671	1.39	1.46
Other deductions	106,830	206,911	0.23	0.43
	<u>41,649,465</u>	<u>41,736,846</u>	<u>88.51</u>	<u>86.62</u>
Operating Margins Before Interest Expense	5,409,009	6,445,611	11.49	13.38
<b>INTEREST EXPENSE</b>				
Interest on long-term obligations	1,803,777	1,728,274	3.83	3.59
Other interest expense	4,009	50,409	0.01	0.10
	<u>1,807,786</u>	<u>1,778,683</u>	<u>3.84</u>	<u>3.69</u>
Operating Margins After Interest Expense	3,601,223	4,666,928	7.65	9.69
<b>NONOPERATING MARGINS (EXPENSE)</b>				
Interest income	123,217	120,131	0.26	0.25
Other nonoperating expense	(9,242)	(113,995)	(0.02)	(0.24)
	<u>113,975</u>	<u>6,136</u>	<u>0.24</u>	<u>0.01</u>
<b>GENERATING AND TRANSMISSION AND OTHER CAPITAL CREDITS</b>	<u>1,498,378</u>	<u>1,327,894</u>	<u>3.18</u>	<u>2.76</u>
<b>NET MARGINS</b>	5,213,576	6,000,958	11.07	12.46
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Actuarial gain (loss) not recognized as periodic post-retirement benefit plan costs	(26,000)	77,000	(0.06)	0.16
Amortization of items not recognized as periodic post-retirement benefit plan costs	108,300	83,100	0.23	0.17
<b>TOTAL COMPREHENSIVE MARGINS</b>	<u>\$ 5,295,876</u>	<u>\$ 6,161,058</u>	<u>11.24</u>	<u>12.79</u>

See notes to consolidated financial statements.

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL ELECTRIC  
MEMBERSHIP CORPORATION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF EQUITIES  
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Memberships	Patronage Capital	Rural Economic Development Grant	Donated Capital	Accumulated Other Comprehensive Loss	Hoosier Heritage Management, LLC Retained Earnings	Total
Balance at January 1, 2015	\$ 391,626	\$ 49,080,394	\$ 300,000	\$ -	\$ (1,387,100)	\$ 626,605	\$ 49,011,525
Net membership fees collected	2,780	-	-	-	-	-	2,780
Net margins for the REMC	-	5,678,086	-	-	-	-	5,678,086
Retirement of patronage capital	-	(438,099)	-	-	-	-	(438,099)
Hoosier Heritage Management, LLC net income	-	-	-	-	-	322,872	322,872
Increase in donated capital	-	-	-	5,813	-	-	5,813
Actuarial gain not recognized as periodic post-retirement benefit plan costs	-	-	-	-	77,000	-	77,000
Amortization of items not recognized as periodic post-retirement benefit plan costs	-	-	-	-	83,100	-	83,100
Balance at December 31, 2015	394,406	54,320,381	300,000	5,813	(1,227,000)	949,477	54,743,077
Net membership fees collected	3,751	-	-	-	-	-	3,751
Net margins for the REMC	-	4,608,568	-	-	-	-	4,608,568
Forfeiture of unclaimed patronage capital retirement checks	-	125,159	-	-	-	-	125,159
Retirement of patronage capital	-	(255,412)	-	-	-	-	(255,412)
Hoosier Heritage Management, LLC net income	-	-	-	-	-	605,008	605,008
Actuarial loss not recognized as periodic post-retirement benefit plan costs	-	-	-	-	(26,000)	-	(26,000)
Amortization of items not recognized as periodic post-retirement benefit plan costs	-	-	-	-	108,300	-	108,300
Balance at December 31, 2016	<u>\$ 398,157</u>	<u>\$ 58,798,696</u>	<u>\$ 300,000</u>	<u>\$ 5,813</u>	<u>\$ (1,144,700)</u>	<u>\$ 1,554,485</u>	<u>\$ 59,912,451</u>

See notes to consolidated financial statements.

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL ELECTRIC  
MEMBERSHIP CORPORATION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>OPERATING ACTIVITIES</b>		
Net margins	\$ 5,213,576	\$ 6,000,958
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization	3,761,243	3,380,392
Increase in accumulated post-retirement benefit obligation	385,300	373,000
Generating and transmission and other capital credits	(1,498,378)	(1,327,894)
(Increase) decrease in current assets:		
Accounts receivable	(478,467)	1,274,254
Materials and supplies	17,625	120,017
Prepaid power costs	498,667	(2,491,947)
Other current assets	(4,039)	(14,860)
Increase (decrease) in current liabilities:		
Accounts payable	354,809	(2,255,286)
Consumer deposits	8,802	38,160
Accrued taxes	(2,886)	(39,226)
Other current liabilities	(25,078)	262,835
<b>Net Cash Provided By Operating Activities</b>	<u>8,231,174</u>	<u>5,320,403</u>
<b>INVESTING ACTIVITIES</b>		
Extension and replacement of plant	(5,959,057)	(5,830,434)
Purchase of non-utility property	(281,111)	(518,821)
Decrease in Rural Utilities Service (RUS) advance payment account	-	1,265,319
Loan to Green County Redevelopment Commission	(54,000)	-
Repayment of notes receivable	109,504	104,004
Cash received from associated organizations	84,972	999,530
(Increase) decrease in restricted cash	18,500	(30,000)
<b>Net Cash Used In Investing Activities</b>	<u>(6,081,192)</u>	<u>(4,010,402)</u>
<b>FINANCING ACTIVITIES</b>		
Membership fees	3,751	2,780
Donated capital	-	5,813
Decrease in member advances for construction	-	(380,200)
Increase (decrease) in line of credit	(584,821)	584,821
Long-term borrowings:		
National Rural Utilities Cooperative Finance Corporation (CFC)	-	33,925,205
BloomBank	253,338	499,000
Repayment of long-term debt:		
Rural Utilities Service (RUS)	-	(4,414,196)
Federal Financing Bank (FFB)	-	(20,249,542)
National Rural Utilities Cooperative Finance Corporation (CFC)	(2,018,644)	(1,468,507)
Rural Economic Development Loan Program	(74,004)	(74,004)
BloomBank	(840,093)	(524,647)
Payment of debt issuance costs	-	(4,394,274)
Repayment of obligations under capital lease	(176,128)	(194,593)
Retirement of patronage capital	(130,253)	(438,099)
<b>Net Cash Provided By (Used In) Financing Activities</b>	<u>(3,566,854)</u>	<u>2,879,557</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(1,416,872)	4,189,558
Cash and cash equivalents at beginning of year	6,664,188	2,474,630
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 5,247,316</u>	<u>\$ 6,664,188</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash payments for interest	\$ 1,471,653	\$ 1,351,352

See notes to consolidated financial statements.

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL  
ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

The Utilities District of Western Indiana Rural Electric Membership Corporation is a cooperative that distributes electricity in Greene and parts of Clay, Daviess, Lawrence, Martin, Monroe, Owen, Putnam, Knox, Sullivan and Vigo counties in Indiana. Hoosier Heritage Management, LLC provides tree trimming services for Utilities District of Western Indiana REMC.

**Basis of Presentation**

The consolidated financial statements include the accounts of Utilities District of Western Indiana Rural Electric Membership Corporation and its wholly owned subsidiary, Hoosier Heritage Management, LLC. All significant intercompany accounts have been eliminated in consolidation.

The Cooperative is no longer a Rural Utilities borrower; however, its accounting records are maintained in accordance with the *Uniform System of Accounts* prescribed by the Rural Utilities Service (RUS) which conforms in all material respects with accounting principles generally accepted in the United States of America.

For purposes of the statements of cash flows, the Companies consider time deposits with a maturity of three months or less to be cash equivalents. Those with a maturity of more than three months are considered temporary cash investments.

**Use of Estimates**

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

**Electric Plant**

Electric plant is stated at the original cost of construction which includes contracted services, direct labor, materials and overhead items. Contributions from members toward the construction of electric plant are credited to the applicable plant accounts.

When property is replaced or removed, the average cost of the property is credited to the electric plant. The average cost, together with the cost of removal, is charged to accumulated depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expense and other accounts.

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL  
ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2016 AND 2015**

(1 - continued)

**Non-utility Equipment**

Non-utility equipment consists of automated meter reading (AMR) devices for propane customers owned by the Cooperative and tree trimming equipment owned by Hoosier Heritage Management, LLC. This equipment is being depreciated using the straight line method of computing depreciation at rates adequate to amortize the equipment over its useful life.

**Trade Receivables and Credit Policies**

Trade receivables are uncollateralized customer obligations due under normal trade terms.

Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management reviews all receivable balances that are past due, and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. Management provides for probable uncollectible amounts through a charge to earnings 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 allowance.

**Inventories**

Materials and supplies inventories are valued at average unit cost.

**Revenue**

The Cooperative's rates are not regulated, however, the Indiana Utility Regulatory Commission does regulate its territorial matters.

**Income Taxes**

The Cooperative is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code. Accordingly, the REMC's financial statements do not provide for income taxes. Hoosier Heritage Management, LLC's taxable income (if any) is subject to the unrelated business income tax and is reported on the Cooperative's Form 990-T.

The Companies have adopted Accounting Standards Codification (ASC) 740-10 as it relates to uncertain tax positions. Currently, the Cooperative's Forms 990 for 2013, 2014 and 2015 are subject to examination by the Internal Revenue Service and the Indiana Department of Revenue. The Cooperative is not currently being examined by these jurisdictions and management believes its tax-exempt status would be upheld under examination. No provision for uncertain tax positions have been recorded at December 31, 2016 and 2015.

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL  
ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2016 AND 2015**

(1 - continued)

**Concentration of Credit Risk**

The Cooperative extends credit to residents and businesses in its eleven county service area in Western Indiana. A membership fee is required before service begins. In addition to the membership fee, customers with prior credit problems may be required to pay a deposit to have service begin. These fees and deposits are applied to any amounts owed to the Cooperative in the event of non-payment.

The Companies maintain cash and temporary cash investments in local financial institutions and the National Rural Utilities Cooperative Finance Corporation. At December 31, 2016, the Companies had \$5,150,121 in excess of the amount insured by the FDIC.

**Post-Retirement Benefits**

The Cooperative provides health and related benefits for retired employees and directors that meet certain eligibility requirements. The estimated costs that will be paid after retirement are generally accrued by charges to expense over the active service periods to the dates the employees are eligible for benefits.

(2) **ELECTRIC PLANT AND DEPRECIATION RATES AND PROCEDURES**

Listed below are the major classes of the electric plant as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Distribution plant	\$ 82,877,286	\$ 79,259,473
General plant	<u>8,391,307</u>	<u>7,645,372</u>
Electric plant in service	<u>\$ 91,268,593</u>	<u>\$ 86,904,845</u>

Provision has been made for depreciation of distribution plant at a straight line composite rate of 3.2 percent per annum.

General plant depreciation rates have been applied on a straight line basis and are as follows:

	<b>Annual Rates</b>
Structures and improvements	1.99%
Office furniture and fixtures	5.83% - 30%
Transportation equipment	15.00%
Shop equipment	5.83%
Laboratory equipment	5.83%
Miscellaneous equipment	5.83%
Power operated equipment	5.83%
Communications equipment	10.00%

The Cooperative calculates depreciation on general plant accounts using the individual asset (unit) method.

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL  
ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2016 AND 2015**

(3) **INVESTMENTS IN ASSOCIATED ORGANIZATIONS**

The Cooperative accounts for investments in associated organizations in accordance with the *Uniform Systems of Accounts* prescribed by the Rural Utilities Service (RUS). This accounting method results in the Cooperative recognizing as income its pro rata share of the associated organizations' net margins. Cash distributions from the associated organizations reduce the investment account.

Capital Term Certificates of the National Rural Utilities Cooperative Finance Corporation (CFC) are recorded at cost and earn interest at 3 and 5 percent annually.

A summary of investments in associated organizations is as follows:

	<u>2016</u>	<u>2015</u>
Hoosier Energy Rural Electric Cooperative, Inc.	\$ 16,995,840	\$ 15,691,978
National Rural Utilities Cooperative Finance Corporation (CFC)	239,678	173,825
Capital Term Certificates of the National Rural Utilities Cooperative Finance Corporation (CFC)	620,492	621,969
Other	<u>426,191</u>	<u>381,023</u>
Totals	<u>\$ 18,282,201</u>	<u>\$ 16,868,795</u>

The Cooperative recorded capital credit income from the following associated organizations:

	<u>2016</u>	<u>2015</u>
Hoosier Energy Rural Electric Cooperative, Inc.	\$ 1,303,862	\$ 1,281,449
National Rural Utilities Cooperative Finance Corporation (CFC)	131,706	33,544
Other investments in associated organizations	<u>62,810</u>	<u>12,901</u>
Totals	<u>\$ 1,498,378</u>	<u>\$ 1,327,894</u>

Summarized financial information for Hoosier Energy Rural Electric Cooperative, Inc. as of December 31, 2016 and 2015 is as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Total assets	\$ <u>1,926,892</u>	\$ <u>1,920,555</u>
Equity	\$ <u>349,314</u>	\$ <u>323,047</u>
Net margins	\$ <u>33,138</u>	\$ <u>29,285</u>

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL  
ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2016 AND 2015**

(4) **DEFERRED CHARGES**

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

	<u>2016</u>	<u>2015</u>
Unamortized NRECA Retirement Security Plan prepayment	\$ 923,955	\$ 1,067,948
Feasibility study - new headquarters	-	81,650
Unamortized work plan expense	<u>12,263</u>	<u>17,589</u>
Total	<u>\$ 936,218</u>	<u>\$ 1,167,187</u>

On April 30, 2013, the Cooperative made a voluntary prepayment to the NRECA Retirement Security Plan of \$1,439,930 which is expected to reduce annual contributions by approximately 25 percent for 10 to 15 years. RUS issued accounting guidance which instructs borrowers to record the prepayment as a deferred charge and amortize it over 10 years which is the average remaining service life of the multiemployer plan's participants.

(5) **NOTES RECEIVABLE**

	<u>2016</u>	<u>2015</u>
Zero percent notes receivable from the Greene County Redevelopment Commission	\$ 603,814	\$ 653,818
Zero percent note receivable from Battery Innovation Center	<u>94,500</u>	<u>100,000</u>
Total	698,314	753,818
Less amounts due in one year	<u>128,504</u>	<u>109,504</u>
	<u>\$ 569,810</u>	<u>\$ 644,314</u>

The Greene County Redevelopment Commission notes are secured by the assignment of a lease to buy contract between Greene County Redevelopment Commission and Eastern Heights Utilities, Inc. The notes are due in monthly payments of \$8,667 and mature in 2022. The Battery Innovation Center note is unsecured. Payments began in March of 2016 and the note is scheduled to be repaid by 2021.

(6) **PATRONAGE CAPITAL**

The Cooperative assigns the net margins to its members after the close of each calendar year. A summary of patronage capital is as follows:

	<u>2016</u>	<u>2015</u>
Assigned	\$ 54,190,128	\$ 41,146,041
Assignable	<u>4,608,568</u>	<u>13,174,340</u>
Totals	<u>\$ 58,798,696</u>	<u>\$ 54,230,381</u>

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL  
ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2016 AND 2015**

(7) **RURAL ECONOMIC DEVELOPMENT GRANT**

On January 24, 2012, the Cooperative received a Rural Economic Development Grant of \$300,000 to be used to create a revolving loan fund to finance rural economic development projects.

As the loans are repaid, the funds are recorded as restricted cash until they are loaned to another approved project.

(8) **LONG-TERM DEBT**

Long-term obligations at December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
0% notes payable to the Rural Economic Development Loan Program	\$ 388,481	\$ 462,485
2% and 3.25% notes payable to BloomBank secured by equipment of Hoosier Heritage Management, LLC	250,523	837,278
1.90% to 6.65% mortgage notes payable to the National Rural Utilities Cooperative Finance Corporation (CFC)	<u>39,233,295</u>	<u>41,251,939</u>
Total debt	39,872,299	42,551,702
Less unamortized debt issuance costs	<u>3,825,655</u>	<u>4,201,365</u>
Total debt less issuance costs	36,046,644	38,350,337
Less payments due within one year	<u>1,957,686</u>	<u>2,439,949</u>
Total long-term debt	<u>\$ 34,088,958</u>	<u>\$ 35,910,388</u>

The Rural Economic Development Loan Program notes are secured by a letter of credit issued by the National Rural Utilities Cooperative Finance Corporation (CFC) in the amount of \$500,000.

Substantially all the electric plant is pledged as security on the long-term debt to CFC. The above notes require maintenance of certain financial ratios as defined in the loan agreements.

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL  
ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2016 AND 2015**

(8 - continued)

In 2015 the Cooperative adopted FASB ASC 835-30 for the presentation of debt issuance costs and related amortization. Debt issuance costs are reported on the consolidated balance sheets as a direct deduction from the face amount of debt. The Cooperative includes amortization of debt issuance costs as interest expense.

The following is a schedule by years of maturity requirements on long-term obligations as of December 31, 2016:

Year ending December 31:

2017	\$ 1,957,686
2018	1,831,898
2019	1,904,789
2020	1,864,968
2021	1,942,520
Later years	<u>30,370,438</u>
Total debt	<u>\$ 39,872,299</u>

(9) **CAPITAL LEASES**

The Cooperative has four lease agreements for transportation equipment that were recorded as capital leases as follows:

	<u>2016</u>	<u>2015</u>
Cost included in electric plant	\$ 1,061,531	\$ 1,061,531
Accumulated depreciation	<u>831,707</u>	<u>647,925</u>
	<u>\$ 229,824</u>	<u>\$ 413,606</u>

The following is a schedule by years of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 2016:

Year ending December 31:

2017	\$ 147,595
2018	71,104
2019	<u>6,521</u>
Total minimum lease payments	225,220
Less amount representing interest	<u>6,842</u>
Present value of net minimum lease payments	<u>\$ 218,378</u>

These capital leases have been accounted for in accordance with Procedure #403 in RUS Bulletin 1767B-1.

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL  
ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2016 AND 2015**

**(10) POST-RETIREMENT BENEFIT PLAN**

The Cooperative provides post-retirement health and related benefits for eligible employees and directors. The Cooperative's share of the estimated cost of benefits that will be paid after retirement is generally being accrued by charges to expense over the employees' service period to the date they are eligible for benefits. The plan is not funded.

Net periodic post-retirement benefit costs amounted to \$355,000 and \$326,000 for the years ended December 31, 2016 and 2015, respectively.

The accumulated post-retirement benefit obligation was \$4,442,000 and \$4,139,000 at December 31, 2016 and 2015, respectively; and is included under long-term obligations in the balance sheet.

For measurement purposes at December 31, 2016, an 8 percent annual rate of increase in per capita health care costs of covered benefits was assumed with the annual rate of increase gradually declining to 5 percent in 2023. The weighted average discount rate used in estimating the accumulated post-retirement benefit obligation was 4.25 percent.

Items not yet recognized as a component of net periodic cost were recognized in the balance sheet as accumulated other comprehensive loss as follows as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Actuarial loss	\$ 1,137,000	\$ 1,187,000
Prior service cost	<u>7,700</u>	<u>40,000</u>
	<u>\$ 1,144,700</u>	<u>\$ 1,227,000</u>

**(11) LINE OF CREDIT**

The Cooperative has an unsecured short-term line of credit of \$3,600,000 available with an interest rate of 2.5 percent from the National Rural Utilities Cooperative Finance Corporation (CFC). No funds were drawn against the line of credit at December 31, 2016 and \$584,821 was drawn at December 31, 2015.

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL  
ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2016 AND 2015**

**(12) COMMITMENT**

The Cooperative is committed to purchase power for resale exclusively from Hoosier Energy Rural Electric Cooperative, Inc. until 2050 at rates which are subject to periodic review.

**(13) PENSION PLANS**

The Cooperative has a qualified defined contribution pension plan covering substantially all employees. Contributions to the plan were \$112,000 and \$114,000 in 2016 and 2015, respectively.

The Cooperative is also a participant in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) which 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.

The Cooperative's contributions to the RS Plan in 2016 and 2015 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of \$457,304 in 2016 and \$441,894 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 percent funded at January 1, 2016 and 2015, based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

**(14) SUBSEQUENT EVENTS**

The Cooperative has evaluated whether any subsequent events that require recognition or disclosure in the accompanying financial statements and related notes thereto have taken place through March 27, 2017, the date these financial statements were issued. The Cooperative has determined that there are no such subsequent events.

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL ELECTRIC  
MEMBERSHIP CORPORATION AND SUBSIDIARY  
CONSOLIDATING BALANCE SHEETS  
DECEMBER 31, 2016**

**ASSETS**

	<b>Utilities District of Western Indiana REMC</b>	<b>Hoosier Heritage Management, LLC</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ELECTRIC PLANT</b>				
Electric plant in service	\$ 91,268,593	\$ -	\$ -	\$ 91,268,593
Construction work in progress	1,866,515	-	-	1,866,515
	93,135,108	-	-	93,135,108
Less accumulated depreciation and amortization	25,170,736	-	-	25,170,736
	67,964,372	-	-	67,964,372
<b>NON-UTILITY EQUIPMENT</b>				
Equipment	86,867	2,295,058	-	2,381,925
Less accumulated depreciation	57,555	800,846	-	858,401
	29,312	1,494,212	-	1,523,524
<b>OTHER ASSETS</b>				
Investments in associated organizations	18,282,701	-	(500)	18,282,201
Notes receivable, less current installments	569,810	-	-	569,810
Restricted cash	44,000	-	-	44,000
	18,896,511	-	(500)	18,896,011
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	4,856,183	391,133	-	5,247,316
Accounts receivable	5,892,015	176,974	(176,974)	5,892,015
Current installments of notes receivable	128,504	-	-	128,504
Materials and supplies	452,968	-	-	452,968
Prepaid power costs	1,993,280	-	-	1,993,280
Other current assets	237,565	45,578	-	283,143
	13,560,515	613,685	(176,974)	13,997,226
<b>DEFERRED CHARGES</b>				
	936,218	-	-	936,218
	<u>\$ 101,386,928</u>	<u>\$ 2,107,897</u>	<u>\$ (177,474)</u>	<u>\$ 103,317,351</u>

## LIABILITIES AND EQUITIES

	Utilities District of Western Indiana REMC	Hoosier Heritage Management, LLC	Eliminations	Consolidated
<b>EQUITIES</b>				
Memberships	\$ 398,157	\$ -	\$ -	\$ 398,157
Patronage capital	58,798,696	-	-	58,798,696
Rural Economic Development Grant	300,000	-	-	300,000
Donated capital	5,813	-	-	5,813
Accumulated other comprehensive loss	(1,144,700)	-	-	(1,144,700)
Retained earnings	-	1,554,985	(500)	1,554,485
	<u>58,357,966</u>	<u>1,554,985</u>	<u>(500)</u>	<u>59,912,451</u>
<b>LONG-TERM OBLIGATIONS</b>				
Long-term debt, less current installments	33,872,522	216,436	-	34,088,958
Obligations under capital leases, less current installments	70,783	-	-	70,783
Accumulated post-retirement benefit obligation	4,442,000	-	-	4,442,000
	<u>38,385,305</u>	<u>216,436</u>	<u>-</u>	<u>38,601,741</u>
<b>CURRENT LIABILITIES</b>				
Current installments of long-term debt	1,923,599	34,087	-	1,957,686
Current installments of obligations under capital leases	147,595	-	-	147,595
Accounts payable-other	788,872	278,924	(176,974)	890,822
Consumer deposits	655,478	-	-	655,478
Accrued taxes	608,999	5,073	-	614,072
Other current liabilities	518,878	18,392	-	537,270
	<u>4,643,421</u>	<u>336,476</u>	<u>(176,974)</u>	<u>4,802,923</u>
<b>DEFERRED CREDIT</b>				
	<u>236</u>	<u>-</u>	<u>-</u>	<u>236</u>
	<u>\$ 101,386,928</u>	<u>\$ 2,107,897</u>	<u>\$ (177,474)</u>	<u>\$ 103,317,351</u>

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL ELECTRIC  
MEMBERSHIP CORPORATION AND SUBSIDIARY  
CONSOLIDATING BALANCE SHEETS  
DECEMBER 31, 2015**

**ASSETS**

	<b>Utilities District of Western Indiana REMC</b>	<b>Hoosier Heritage Management, LLC</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ELECTRIC PLANT</b>				
Electric plant in service	\$ 86,904,845	\$ -	\$ -	\$ 86,904,845
Construction work in progress	2,320,096	-	-	2,320,096
	89,224,941	-	-	89,224,941
Less accumulated depreciation and amortization	24,356,009	-	-	24,356,009
	64,868,932	-	-	64,868,932
<b>NON-UTILITY EQUIPMENT</b>				
Equipment	86,867	2,013,947	-	2,100,814
Less accumulated depreciation	51,763	515,691	-	567,454
	35,104	1,498,256	-	1,533,360
<b>OTHER ASSETS</b>				
Investments in associated organizations	16,869,295	-	(500)	16,868,795
Notes receivable, less current installments	644,314	-	-	644,314
Restricted cash	62,500	-	-	62,500
	17,576,109	-	(500)	17,575,609
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	6,423,678	240,510	-	6,664,188
Accounts receivable	5,413,548	158,948	(158,948)	5,413,548
Current installments of notes receivable	109,504	-	-	109,504
Materials and supplies	470,593	-	-	470,593
Prepaid power costs	2,491,947	-	-	2,491,947
Other current assets	247,800	31,304	-	279,104
	15,157,070	430,762	(158,948)	15,428,884
<b>DEFERRED CHARGES</b>	1,167,187	-	-	1,167,187
	\$ 98,804,402	\$ 1,929,018	\$ (159,448)	\$ 100,573,972

**LIABILITIES AND EQUITIES**

	<b>Utilities District of Western Indiana REMC</b>	<b>Hoosier Heritage Management, LLC</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>EQUITIES</b>				
Memberships	\$ 394,406	\$ -	\$ -	\$ 394,406
Patronage capital	54,320,381	-	-	54,320,381
Rural Economic Development Grant	300,000	-	-	300,000
Donated Capital	5,813	-	-	5,813
Accumulated other comprehensive loss	(1,227,000)	-	-	(1,227,000)
Retained earnings	-	949,977	(500)	949,477
	<u>53,793,600</u>	<u>949,977</u>	<u>(500)</u>	<u>54,743,077</u>
<b>LONG-TERM OBLIGATIONS</b>				
Long-term debt, less current installments	35,421,150	489,238	-	35,910,388
Obligations under capital leases, less current installments	206,676	-	-	206,676
Accumulated post-retirement benefit obligation	4,139,000	-	-	4,139,000
	<u>39,766,826</u>	<u>489,238</u>	<u>-</u>	<u>40,256,064</u>
<b>CURRENT LIABILITIES</b>				
Line of credit	584,821	-	-	584,821
Current installments of long-term debt	2,091,909	348,040	-	2,439,949
Current installments of obligations under capital leases	187,830	-	-	187,830
Accounts payable-other	607,837	87,124	(158,948)	536,013
Consumer deposits	646,676	-	-	646,676
Accrued taxes	594,612	22,346	-	616,958
Other current liabilities	530,055	32,293	-	562,348
	<u>5,243,740</u>	<u>489,803</u>	<u>(158,948)</u>	<u>5,574,595</u>
<b>DEFERRED CREDIT</b>	<u>236</u>	<u>-</u>	<u>-</u>	<u>236</u>
	<u>\$ 98,804,402</u>	<u>\$ 1,929,018</u>	<u>\$ (159,448)</u>	<u>\$ 100,573,972</u>

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL ELECTRIC  
MEMBERSHIP CORPORATION AND SUBSIDIARY  
CONSOLIDATING STATEMENTS OF REVENUE AND EXPENSES  
AND COMPREHENSIVE MARGINS  
YEAR ENDED DECEMBER 31, 2016**

	<b>Utilities District of Western Indiana REMC</b>	<b>Hoosier Heritage Management, LLC</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>OPERATING REVENUES</b>	\$ 47,058,474	\$ 2,601,664	\$ (2,601,664)	\$ 47,058,474
<b>OPERATING EXPENSES</b>				
Cost of power	25,991,555	1,258,732	-	27,250,287
Distribution-operations	2,310,406	-	-	2,310,406
Distribution-maintenance	5,204,098	-	(2,601,664)	2,602,434
Consumer accounts	1,715,642	-	-	1,715,642
Administrative and general	3,326,662	439,927	-	3,766,589
Depreciation	2,956,385	285,155	-	3,241,540
Taxes	654,646	1,091	-	655,737
Other deductions	106,830	-	-	106,830
	<u>42,266,224</u>	<u>1,984,905</u>	<u>(2,601,664)</u>	<u>41,649,465</u>
Operating Margins Before Interest Expense	4,792,250	616,759	-	5,409,009
<b>INTEREST EXPENSE</b>				
Interest on long-term obligations	1,791,951	11,826	-	1,803,777
Other interest expense	4,009	-	-	4,009
	<u>1,795,960</u>	<u>11,826</u>	<u>-</u>	<u>1,807,786</u>
Operating Margins After Interest Expense	2,996,290	604,933	-	3,601,223
<b>NONOPERATING INCOME (EXPENSE)</b>				
Interest income	123,142	75	-	123,217
Other nonoperating (expense) income	(9,242)	-	-	(9,242)
	<u>113,900</u>	<u>75</u>	<u>-</u>	<u>113,975</u>
<b>GENERATING AND TRANSMISSION AND OTHER CAPITAL CREDITS</b>	<u>1,498,378</u>	<u>-</u>	<u>-</u>	<u>1,498,378</u>
<b>NET MARGINS</b>	4,608,568	605,008	-	5,213,576
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Actuarial loss not recognized as periodic post-retirement benefit plan costs	(26,000)	-	-	(26,000)
Amortization of items not recognized as periodic post-retirement benefit plan costs	108,300	-	-	108,300
<b>TOTAL COMPREHENSIVE MARGINS</b>	<u>\$ 4,690,868</u>	<u>\$ 605,008</u>	<u>\$ -</u>	<u>\$ 5,295,876</u>

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL ELECTRIC  
MEMBERSHIP CORPORATION AND SUBSIDIARY  
CONSOLIDATING STATEMENTS OF REVENUE AND EXPENSES  
AND COMPREHENSIVE MARGINS  
YEAR ENDED DECEMBER 31, 2015**

	<b>Utilities District of Western Indiana REMC</b>	<b>Hoosier Heritage Management, LLC</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>OPERATING REVENUES</b>	\$ 48,182,457	\$ 2,035,363	\$ (2,035,363)	\$ 48,182,457
<b>OPERATING EXPENSES</b>				
Cost of power	26,643,967	1,073,190	-	27,717,157
Distribution-operations	1,812,852	-	-	1,812,852
Distribution-maintenance	4,782,864	-	(2,035,363)	2,747,501
Consumer accounts	1,649,660	-	-	1,649,660
Administrative and general	3,463,283	390,321	-	3,853,604
Depreciation	2,823,057	220,433	-	3,043,490
Taxes	704,177	1,494	-	705,671
Other deductions	206,911	-	-	206,911
	<u>42,086,771</u>	<u>1,685,438</u>	<u>(2,035,363)</u>	<u>41,736,846</u>
Operating Margins Before Interest Expense	6,095,686	349,925	-	6,445,611
<b>INTEREST EXPENSE</b>				
Interest on long-term obligations	1,701,119	27,155	-	1,728,274
Other interest expense	50,409	-	-	50,409
	<u>1,751,528</u>	<u>27,155</u>	<u>-</u>	<u>1,778,683</u>
Operating Margins After Interest Expense	4,344,158	322,770	-	4,666,928
<b>NONOPERATING INCOME (EXPENSE)</b>				
Interest income	120,029	102	-	120,131
Other nonoperating expense	(113,995)	-	-	(113,995)
	<u>6,034</u>	<u>102</u>	<u>-</u>	<u>6,136</u>
<b>GENERATING AND TRANSMISSION AND OTHER CAPITAL CREDITS</b>	<u>1,327,894</u>	<u>-</u>	<u>-</u>	<u>1,327,894</u>
<b>NET MARGINS</b>	5,678,086	322,872	-	6,000,958
<b>OTHER COMPREHENSIVE INCOME</b>				
Actuarial gain not recognized as periodic post-retirement benefit plan costs	77,000	-	-	77,000
Amortization of items not recognized as periodic post-retirement benefit plan costs	83,100	-	-	83,100
<b>TOTAL COMPREHENSIVE MARGINS</b>	<u>\$ 5,838,186</u>	<u>\$ 322,872</u>	<u>\$ -</u>	<u>\$ 6,161,058</u>