

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

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**YEARS ENDED
DECEMBER 31, 2017 AND 2016**

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

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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, 2017 and 2016, 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 \$17,087,550 and \$16,995,840 at December 31, 2017 and 2016, respectively, and the equity in its net margins was \$1,069,065 and \$1,303,862 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 made by management, as well as evaluating the overall presentation of the consolidated financial statements.

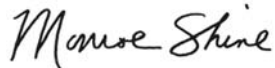
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 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 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 20 to 23 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 22, 2018

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL ELECTRIC
MEMBERSHIP CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016**

ASSETS

	<u>2017</u>	<u>2016</u>
ELECTRIC PLANT		
In service	\$ 94,981,872	\$ 91,268,593
Construction work in progress	994,401	1,866,515
	95,976,273	93,135,108
Less accumulated depreciation	25,161,060	25,170,736
	70,815,213	67,964,372
 NON-UTILITY EQUIPMENT		
Equipment	2,259,493	2,381,925
Less accumulated depreciation	1,125,280	858,401
	1,134,213	1,523,524
 OTHER ASSETS		
Investments in associated organizations	18,445,580	18,282,201
Notes receivable, less current installments	436,806	569,810
Restricted cash	98,500	44,000
	18,980,886	18,896,011
 CURRENT ASSETS		
Cash and cash equivalents	5,706,237	5,247,316
Accounts receivable (less allowance for doubtful accounts of \$68,241; 2016 - \$71,666)	6,135,919	5,892,015
Current installments of notes receivable	133,004	128,504
Materials and supplies	423,522	452,968
Prepaid power costs	12,253	1,993,280
Other current assets	275,337	283,143
	12,686,272	13,997,226
 DEFERRED CHARGES		
	786,093	936,218
	\$ 104,402,677	\$ 103,317,351

See notes to consolidated financial statements

LIABILITIES AND EQUITIES

	<u>2017</u>	<u>2016</u>
EQUITIES		
Memberships	\$ 394,171	\$ 398,157
Patronage capital	64,528,543	58,798,696
Rural Economic Development Grant	300,000	300,000
Donated capital	5,813	5,813
Accumulated other comprehensive loss	-	(1,144,700)
Retained earnings	1,364,280	1,554,485
	<u>66,592,807</u>	<u>59,912,451</u>
 LONG-TERM OBLIGATIONS		
Long-term debt, less current installments	32,619,135	34,088,958
Obligations under capital leases, less current installments	5,313	70,783
Accumulated post-retirement benefit obligation	1,325,000	4,442,000
	<u>33,949,448</u>	<u>38,601,741</u>
 CURRENT LIABILITIES		
Current installments of long-term debt	1,831,885	1,957,686
Current installments of obligations under capital leases	71,086	147,595
Accounts payable-other	266,625	890,822
Consumer deposits	688,598	655,478
Accrued taxes	586,520	614,072
Other current liabilities	415,708	537,270
	<u>3,860,422</u>	<u>4,802,923</u>
 DEFERRED CREDIT	 <u>-</u>	 <u>236</u>
	 <u>\$ 104,402,677</u>	 <u>\$ 103,317,351</u>

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL ELECTRIC
MEMBERSHIP CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSES AND
COMPREHENSIVE MARGINS
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	Amount		Percent To	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
OPERATING REVENUES	\$ 43,802,965	\$ 47,058,474	100.00	100.00
OPERATING EXPENSES				
Cost of power	25,838,122	27,250,287	58.99	57.91
Distribution-operations	1,963,600	2,310,406	4.48	4.91
Distribution-maintenance	2,202,815	2,602,434	5.03	5.53
Consumer accounts	1,460,118	1,715,642	3.33	3.65
Administrative and general	3,869,672	3,766,589	8.83	8.00
Depreciation	3,437,915	3,241,540	7.85	6.89
Taxes	614,315	655,737	1.40	1.39
Other deductions	6,129	106,830	0.01	0.23
	<u>39,392,686</u>	<u>41,649,465</u>	<u>89.92</u>	<u>88.51</u>
Operating Margins Before Interest Expense	4,410,279	5,409,009	10.08	11.49
INTEREST EXPENSE				
Interest on long-term obligations	1,757,863	1,803,777	4.01	3.83
Other interest expense	-	4,009	-	0.01
	<u>1,757,863</u>	<u>1,807,786</u>	<u>4.01</u>	<u>3.84</u>
Operating Margins After Interest Expense	2,652,416	3,601,223	6.07	7.65
NONOPERATING MARGINS (EXPENSE)				
Post-retirement benefit curtailment gain	2,276,901	-	5.20	-
Interest income	109,031	123,217	0.25	0.26
Other nonoperating expense	(62,750)	(9,242)	(0.14)	(0.02)
	<u>2,323,182</u>	<u>113,975</u>	<u>5.31</u>	<u>0.24</u>
GENERATING AND TRANSMISSION AND OTHER CAPITAL CREDITS	<u>1,217,488</u>	<u>1,498,378</u>	<u>2.78</u>	<u>3.18</u>
NET MARGINS	6,193,086	5,213,576	14.16	11.07
OTHER COMPREHENSIVE INCOME				
Actuarial gain (loss) not recognized as periodic post-retirement benefit plan costs	1,144,700	(26,000)	2.61	(0.06)
Amortization of items not recognized as periodic post-retirement benefit plan costs	-	108,300	-	0.23
TOTAL COMPREHENSIVE MARGINS	<u>\$ 7,337,786</u>	<u>\$ 5,295,876</u>	<u>16.77</u>	<u>11.24</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, 2017 AND 2016**

	Memberships	Patronage Capital	Rural Economic Development Grant	Donated Capital	Accumulated Other Comprehensive Loss	Hoosier Heritage Management, LLC Retained Earnings	Total
Balance at January 1, 2016	\$ 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	398,157	58,798,696	300,000	5,813	(1,144,700)	1,554,485	59,912,451
Net membership fees refunded	(3,986)	-	-	-	-	-	(3,986)
Net margins for the REMC	-	6,383,291	-	-	-	-	6,383,291
Forfeiture of unclaimed patronage capital retirement checks	-	112,548	-	-	-	-	112,548
Retirement of patronage capital	-	(765,992)	-	-	-	-	(765,992)
Hoosier Heritage Management, LLC net loss	-	-	-	-	-	(190,205)	(190,205)
Actuarial gain not recognized as periodic post-retirement benefit plan costs	-	-	-	-	1,144,700	-	1,144,700
Balance at December 31, 2017	\$ 394,171	\$ 64,528,543	\$ 300,000	\$ 5,813	\$ -	\$ 1,364,280	\$66,592,807

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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Net margins	\$ 6,193,086	\$ 5,213,576
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization	3,943,996	3,761,243
Increase (decrease) in accumulated post-retirement benefit obligation	(1,972,300)	385,300
Generating and transmission and other capital credits	(1,217,488)	(1,498,378)
(Increase) decrease in current assets:		
Accounts receivable	(243,904)	(478,467)
Materials and supplies	29,446	17,625
Prepaid power costs	1,981,027	498,667
Other current assets	7,806	(4,039)
Increase (decrease) in current liabilities:		
Accounts payable	(624,197)	354,809
Consumer deposits	33,120	8,802
Accrued taxes	(27,552)	(2,886)
Other current liabilities	(121,562)	(25,078)
Net Cash Provided By Operating Activities	<u>7,981,478</u>	<u>8,231,174</u>
INVESTING ACTIVITIES		
Extension and replacement of plant	(5,869,286)	(5,959,057)
Purchase of non-utility property	(24,028)	(281,111)
Loan to Bloomfield Processing, Inc.	-	(54,000)
Repayment of notes receivable	128,504	109,504
Cash received from associated organizations	1,054,109	84,972
(Increase) decrease in restricted cash	(54,500)	18,500
Net Cash Used In Investing Activities	<u>(4,765,201)</u>	<u>(6,081,192)</u>
FINANCING ACTIVITIES		
Membership fees	(3,986)	3,751
Decrease in member advances for construction	(236)	-
Decrease in line of credit	-	(584,821)
Long-term borrowings:		
BloomBank	-	253,338
Repayment of long-term debt:		
National Rural Utilities Cooperative Finance Corporation (CFC)	(1,849,607)	(2,018,644)
Rural Economic Development Loan Program	(74,004)	(74,004)
BloomBank	(34,100)	(840,093)
Repayment of obligations under capital lease	(141,979)	(176,128)
Retirement of patronage capital	(653,444)	(130,253)
Net Cash Used In Financing Activities	<u>(2,757,356)</u>	<u>(3,566,854)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	458,921	(1,416,872)
Cash and cash equivalents at beginning of year	5,247,316	6,664,188
Cash and Cash Equivalents at End of Year	<u>\$ 5,706,237</u>	<u>\$ 5,247,316</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	\$ 1,407,223	\$ 1,471,653

See notes to consolidated financial statements

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL ELECTRIC
MEMBERSHIP CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

(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, 2017 AND 2016**

(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 Companies are exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code. Accordingly, the financial statements do not provide for income taxes.

The Companies have adopted Accounting Standards Codification (ASC) 740-10 as it relates to uncertain tax positions. Currently, the Cooperative's Forms 990 for 2014, 2015 and 2016 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, 2017 and 2016.

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL ELECTRIC
MEMBERSHIP CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016**

(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, 2017, the Companies had \$4,625,572 in excess of the amount insured by the FDIC.

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

Listed below are the major classes of the electric plant as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Distribution plant	\$ 86,227,452	\$ 82,877,286
General plant	8,754,420	8,391,307
Electric plant in service	\$ 94,981,872	\$ 91,268,593

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:

	Annual Rates
Structures and improvements	1.99%
Office furniture and equipment	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, 2017 AND 2016**

(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>2017</u>	<u>2016</u>
Hoosier Energy Rural Electric Cooperative, Inc.	\$ 17,087,550	\$ 16,995,840
National Rural Utilities Cooperative Finance Corporation (CFC)	299,928	239,678
Capital Term Certificates of the National Rural Utilities Cooperative Finance Corporation (CFC)	618,922	620,492
Other	439,180	426,191
	<hr/>	<hr/>
Totals	<u>\$ 18,445,580</u>	<u>\$ 18,282,201</u>

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

	<u>2017</u>	<u>2016</u>
Hoosier Energy Rural Electric Cooperative, Inc.	\$ 1,069,065	\$ 1,303,862
National Rural Utilities Cooperative Finance Corporation (CFC)	120,501	131,706
Other investments in associated organizations	27,922	62,810
	<hr/>	<hr/>
Totals	<u>\$ 1,217,488</u>	<u>\$ 1,498,378</u>

Summarized financial information for Hoosier Energy Rural Electric Cooperative, Inc. as of and for the year ended December 31, 2017 and 2016 is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Total Assets	<u>\$ 1,873,757</u>	<u>\$ 1,926,892</u>
Equity	<u>\$ 370,604</u>	<u>\$ 349,314</u>
Total Margins	<u>\$ 28,173</u>	<u>\$ 33,138</u>

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL ELECTRIC
MEMBERSHIP CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016**

(4) DEFERRED CHARGES

Deferred charges were as follows at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Unamortized NRECA Retirement Security Plan prepayment	\$ 779,962	\$ 923,955
Unamortized work plan expense	6,131	12,263
	<hr/>	<hr/>
Total	<u>\$ 786,093</u>	<u>\$ 936,218</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>2017</u>	<u>2016</u>
Zero percent notes receivable from the Greene County Redevelopment Commission	\$ 445,810	\$ 549,814
Zero percent note receivable from Bloomfield Processing, Inc.	46,000	54,000
Zero percent note receivable from Battery Innovation Center, Inc.	78,000	94,500
Total	<hr/> 569,810	<hr/> 698,314
Less amounts due in one year	133,004	128,504
	<hr/>	<hr/>
	<u>\$ 436,806</u>	<u>\$ 569,810</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 Bloomfield Processing, Inc. note is secured with a mortgage and security agreement. The Battery Innovation Center, Inc. note is unsecured.

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL ELECTRIC
MEMBERSHIP CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016**

(5 - continued)

Principal maturities on the notes receivable are as follows:

Year ending December 31:	
2018	\$ 133,004
2019	136,004
2020	139,004
2021	118,004
2022	37,794
Later years	<u>6,000</u>
Total	<u><u>\$ 569,810</u></u>

(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>2017</u>	<u>2016</u>
Assigned	\$ 58,145,251	\$ 54,190,128
Assignable	<u>6,383,292</u>	<u>4,608,568</u>
Totals	<u><u>\$ 64,528,543</u></u>	<u><u>\$ 58,798,696</u></u>

(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.

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL ELECTRIC
MEMBERSHIP CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016**

(8) LONG-TERM DEBT

Long-term debt at December 31, 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
0% notes payable to the Rural Economic Development Loan Program	\$ 314,477	\$ 388,481
2% note payable to BloomBank secured by a hold on the Company's bank account	216,422	250,523
2.69% to 5.45% mortgage notes payable to the National Rural Utilities Cooperative Finance Corporation (CFC)	<u>37,383,688</u>	<u>39,233,295</u>
Total debt	37,914,587	39,872,299
Less unamortized debt issuance costs	<u>3,463,567</u>	<u>3,825,655</u>
Total debt less issuance costs	34,451,020	36,046,644
Less payments due within one year	<u>1,831,885</u>	<u>1,957,686</u>
Total long-term debt	<u><u>\$32,619,135</u></u>	<u><u>\$34,088,958</u></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.

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, 2017:

Year ending December 31:	
2018	\$ 1,831,885
2019	1,904,722
2020	1,866,968
2021	1,942,520
2022	1,965,631
Later years	<u>28,402,861</u>
Total	<u><u>\$37,914,587</u></u>

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL ELECTRIC
MEMBERSHIP CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016**

(9) **CAPITAL LEASES**

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

	<u>2017</u>	<u>2016</u>
Cost included in electric plant	\$ 1,061,531	\$ 1,061,531
Accumulated depreciation	981,341	831,707
	\$ 80,190	\$ 229,824
	\$ 80,190	\$ 229,824

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, 2017:

Year ending December 31:	
2018	\$ 71,086
2019	6,511
	77,597
Total minimum lease payments	77,597
Less amount representing interest	1,198
	\$ 76,399
Present value of net minimum lease payments	\$ 76,399

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, 2017 AND 2016**

(10) POST-RETIREMENT BENEFIT PLAN

The Cooperative provided post-retirement medical insurance benefits to current and retired employees and directors. During 2017 management repealed the benefits for current employees and directors. The cooperative will continue the benefits for retired employees and directors. The plan is not funded.

Net periodic post-retirement benefit costs amounted to \$375,500 (prior to repeal) and \$355,000 for the years ended December 31, 2017 and 2016, respectively. As a result of the reduction in benefits, the Cooperative recognized a curtailment gain of \$2,276,901 which is net of the accumulated other comprehensive loss account.

The accumulated post-retirement benefit obligation was \$1,325,000 and \$4,442,000 at December 31, 2017 and 2016, respectively; and is included under long-term obligations in the balance sheet.

For measurement purposes at December 31, 2017, 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 2025. The weighted average discount rate used in estimating the accumulated post-retirement benefit obligation was 3.60 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Actuarial loss	\$ -	\$ 1,137,000
Prior service cost	-	7,700
	\$ -	\$ 1,144,700
	\$ -	\$ 1,144,700

(11) LINE OF CREDIT

The Cooperative has an unsecured short-term line of credit of \$3,600,000 available with an interest rate of 2.75 percent from the National Rural Utilities Cooperative Finance Corporation (CFC). No funds were drawn against the line of credit at December 31, 2017 and 2016.

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL ELECTRIC
MEMBERSHIP CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016**

(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 \$108,000 and \$112,000 in 2017 and 2016, respectively. This plan was discontinued in 2018.

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 2017 and 2016 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 \$523,723 in 2017 and \$457,304 in 2016. There have been no significant changes that affect the comparability of 2017 and 2016 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, 2017 and 2016, based on the PPA funding target and PPA actuarial value of assets on those dates.

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

(14) LOSS CONTINGENCY

On December 17, 2017 the REMC's former CEO filed a claim against the REMC seeking unpaid wages of \$189,420, liquidated damages of \$378,840 and attorney's fees. The REMC believes there is no merit to the claims since the plaintiff was terminated for cause. The REMC's defense costs are likely covered by its employment practices liability insurance but it is uncertain if it is covered for damages if the REMC is held liable.

The REMC filed a counterclaim in this matter on February 14, 2018. This claim seeks damages for breach of employment contract and fiduciary duties. The precise amount of the damages have not been determined, but management estimates it will exceed \$100,000.

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL ELECTRIC
MEMBERSHIP CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016**

(14 - continued)

This matter is in the preliminary stages of discovery. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the financial statements.

(15) **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 22, 2018, 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, 2017**

ASSETS

	Utilities District of Western Indiana REMC	Hoosier Heritage Management, LLC	Eliminations	Consolidated
ELECTRIC PLANT				
Electric plant in service	\$ 94,981,872	\$ -	\$ -	\$ 94,981,872
Construction work in progress	994,401	-	-	994,401
	<u>95,976,273</u>	<u>-</u>	<u>-</u>	<u>95,976,273</u>
Less accumulated depreciation and amortization	25,161,060	-	-	25,161,060
	<u>70,815,213</u>	<u>-</u>	<u>-</u>	<u>70,815,213</u>
NON-UTILITY EQUIPMENT				
Equipment	84,520	2,174,973	-	2,259,493
Less accumulated depreciation	61,638	1,063,642	-	1,125,280
	<u>22,882</u>	<u>1,111,331</u>	<u>-</u>	<u>1,134,213</u>
OTHER ASSETS				
Investments in associated organizations	18,446,080	-	(500)	18,445,580
Notes receivable, less current installments	436,806	-	-	436,806
Restricted cash	98,500	-	-	98,500
	<u>18,981,386</u>	<u>-</u>	<u>(500)</u>	<u>18,980,886</u>
CURRENT ASSETS				
Cash and cash equivalents	5,366,537	339,700	-	5,706,237
Accounts receivable	6,134,396	159,164	(157,641)	6,135,919
Current installments of notes receivable	133,004	-	-	133,004
Materials and supplies	423,522	-	-	423,522
Prepaid power costs	12,253	-	-	12,253
Other current assets	228,438	46,899	-	275,337
	<u>12,298,150</u>	<u>545,763</u>	<u>(157,641)</u>	<u>12,686,272</u>
DEFERRED CHARGES				
	<u>786,093</u>	<u>-</u>	<u>-</u>	<u>786,093</u>
	<u>\$ 102,903,724</u>	<u>\$ 1,657,094</u>	<u>\$ (158,141)</u>	<u>\$ 104,402,677</u>

LIABILITIES AND EQUITIES

	Utilities District of Western Indiana REMC	Hoosier Heritage Management, LLC	Eliminations	Consolidated
EQUITIES				
Memberships	\$ 394,171	\$ -	\$ -	\$ 394,171
Patronage capital	64,528,543	-	-	64,528,543
Rural Economic Development Grant	300,000	-	-	300,000
Donated capital	5,813	-	-	5,813
Retained earnings	-	1,364,780	(500)	1,364,280
	<u>65,228,527</u>	<u>1,364,780</u>	<u>(500)</u>	<u>66,592,807</u>
 LONG-TERM OBLIGATIONS				
Long-term debt, less current installments	32,437,497	181,638	-	32,619,135
Obligations under capital leases, less current installments	5,313	-	-	5,313
Accumulated post-retirement benefit obligation	1,325,000	-	-	1,325,000
	<u>33,767,810</u>	<u>181,638</u>	<u>-</u>	<u>33,949,448</u>
 CURRENT LIABILITIES				
Current installments of long-term debt	1,797,101	34,784	-	1,831,885
Current installments of obligations under capital leases	71,086	-	-	71,086
Accounts payable-other	371,893	52,373	(157,641)	266,625
Consumer deposits	688,598	-	-	688,598
Accrued taxes	580,552	5,968	-	586,520
Other current liabilities	398,157	17,551	-	415,708
	<u>3,907,387</u>	<u>110,676</u>	<u>(157,641)</u>	<u>3,860,422</u>
	 <u>\$ 102,903,724</u>	 <u>\$ 1,657,094</u>	 <u>\$ (158,141)</u>	 <u>\$ 104,402,677</u>

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

ASSETS

	Utilities District of Western Indiana REMC	Hoosier Heritage Management, LLC	Eliminations	Consolidated
ELECTRIC PLANT				
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
NON-UTILITY EQUIPMENT				
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
OTHER ASSETS				
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
CURRENT ASSETS				
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
DEFERRED CHARGES				
	936,218	-	-	936,218
	\$ 101,386,928	\$ 2,107,897	\$ (177,474)	\$ 103,317,351

LIABILITIES AND EQUITIES

	Utilities District of Western Indiana REMC	Hoosier Heritage Management, LLC	Eliminations	Consolidated
EQUITIES				
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
	58,357,966	1,554,985	(500)	59,912,451
 LONG-TERM OBLIGATIONS				
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
	38,385,305	216,436	-	38,601,741
 CURRENT LIABILITIES				
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
	4,643,421	336,476	(176,974)	4,802,923
 DEFERRED CREDIT				
	236	-	-	236
	\$ 101,386,928	\$ 2,107,897	\$ (177,474)	\$ 103,317,351

**UTILITIES DISTRICT OF WESTERN INDIANA RURAL ELECTRIC
MEMBERSHIP CORPORATION AND SUBSIDIARY
CONSOLIDATING STATEMENTS OF REVENUE AND EXPENSES
AND COMPREHENSIVE MARGINS
YEAR ENDED DECEMBER 31, 2017**

	Utilities District of Western Indiana REMC	Hoosier Heritage Management, LLC	Eliminations	Consolidated
OPERATING REVENUES	\$ 43,744,951	\$ 2,249,270	\$(2,191,256)	\$43,802,965
OPERATING EXPENSES				
Cost of power	24,418,010	1,420,112	-	25,838,122
Distribution-operations	1,963,600	-	-	1,963,600
Distribution-maintenance	4,394,071	-	(2,191,256)	2,202,815
Consumer accounts	1,460,118	-	-	1,460,118
Administrative and general	3,277,991	591,681	-	3,869,672
Depreciation	3,129,802	308,113	-	3,437,915
Taxes	613,170	1,145	-	614,315
Other deductions	6,129	-	-	6,129
	<u>39,262,891</u>	<u>2,321,051</u>	<u>(2,191,256)</u>	<u>39,392,686</u>
Operating Margins (Loss) Before Interest Expense	4,482,060	(71,781)	-	4,410,279
INTEREST EXPENSE				
Interest on long-term obligations	1,753,113	4,750	-	1,757,863
Operating Margins (Loss) After Interest Expense	2,728,947	(76,531)	-	2,652,416
NONOPERATING INCOME (EXPENSE)				
Post-retirement benefit curtailment gain	2,276,901	-	-	2,276,901
Interest income	108,909	122	-	109,031
Other nonoperating (expense) income	51,046	(113,796)	-	(62,750)
	<u>2,436,856</u>	<u>(113,674)</u>	<u>-</u>	<u>2,323,182</u>
GENERATING AND TRANSMISSION AND OTHER CAPITAL CREDITS	<u>1,217,488</u>	<u>-</u>	<u>-</u>	<u>1,217,488</u>
NET MARGINS (LOSS)	6,383,291	(190,205)	-	6,193,086
OTHER COMPREHENSIVE INCOME				
Actuarial income not recognized as periodic post-retirement benefit plan costs	1,144,700	-	-	1,144,700
TOTAL COMPREHENSIVE MARGINS (LOSS)	<u>\$ 7,527,991</u>	<u>\$ (190,205)</u>	<u>\$ -</u>	<u>\$ 7,337,786</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**

	Utilities District of Western Indiana REMC	Hoosier Heritage Management, LLC	Eliminations	Consolidated
OPERATING REVENUES	\$ 47,058,474	\$ 2,601,664	\$(2,601,664)	\$47,058,474
OPERATING EXPENSES				
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
INTEREST EXPENSE				
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
NONOPERATING INCOME (EXPENSE)				
Interest income	123,142	75	-	123,217
Other nonoperating expense	(9,242)	-	-	(9,242)
	<u>113,900</u>	<u>75</u>	<u>-</u>	<u>113,975</u>
GENERATING AND TRANSMISSION AND OTHER CAPITAL CREDITS	<u>1,498,378</u>	<u>-</u>	<u>-</u>	<u>1,498,378</u>
NET MARGINS	4,608,568	605,008	-	5,213,576
OTHER COMPREHENSIVE INCOME				
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
TOTAL COMPREHENSIVE MARGINS	<u>\$ 4,690,868</u>	<u>\$ 605,008</u>	<u>\$ -</u>	<u>\$ 5,295,876</u>