

Moon Lake Electric Association, Inc.

Financial Statements

For the years ending December 31, 2015 and 2014

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Aycock, Miles & Associates, CPAs, P.C.

Certified Public Accountants

58 East 100 North (83-13) • Roosevelt, Utah 84066 • Phone (435) 722-5153 • Fax (435) 722-5095

Independent Auditors' Report

To the Board of Directors
Moon Lake Electric Association, Inc.

We have audited the accompanying financial statements of Moon Lake Electric Association, Inc., which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of revenues and expenses, patronage capital, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association'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 Association'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 Moon Lake Electric Association, Inc. as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Aycock, Miles & Associates, CPAs

Roosevelt, Utah
May 3, 2016

Moon Lake Electric Association, Inc.
Balance Sheet
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Utility plant:		
Electric plant in service, at cost	\$ 134,003,721	\$ 131,495,804
Construction in progress	6,322,992	7,526,197
Customer payments in aid of construction in progress	(5,258,520)	(7,843,752)
Non-utility plant, at cost	-	-
Total utility plant, at cost	<u>135,068,193</u>	<u>131,178,249</u>
Less accumulated depreciation	<u>(63,258,025)</u>	<u>(60,943,857)</u>
Net utility plant	71,810,168	70,234,392
Investments in associated organizations, at cost	3,516,718	3,264,814
Current assets:		
Cash and cash equivalents	5,489,054	11,388,443
Investments	14,099,465	12,021,237
Accounts receivable less allowances for doubtful accounts of \$57,151 in 2015 and \$59,004 in 2014	5,841,657	5,772,661
Accounts receivable, other	3,133,472	2,610,386
Contracts receivable	20,093	52,907
Material and supplies, at average cost	4,299,008	3,884,882
Prepayments	<u>135,805</u>	<u>127,590</u>
Total current assets	<u>33,018,554</u>	<u>35,858,106</u>
Total assets and other debits	<u>\$ 108,345,440</u>	<u>\$ 109,357,312</u>
Liabilities and Equity		
Equities and margins:		
Patronage capital	\$ 83,754,370	\$ 82,934,682
Accumulated other comprehensive income	<u>(1,613,200)</u>	<u>(2,548,100)</u>
Total equity	82,141,170	80,386,582
Long-term liabilities:		
CFC mortgage notes	9,330,922	9,698,812
Capital lease obligations	123,695	189,279
Unamortized retirement benefit credit	927,670	-
Accumulated retirement benefit obligation	<u>1,613,200</u>	<u>2,548,100</u>
Total long-term liabilities	11,995,487	12,436,191
Current liabilities:		
Current portion of long-term debt	367,890	387,017
Current obligation of capital leases	65,584	62,119
Accounts payable, power	9,861,860	9,657,489
Accounts payable, other	556,908	1,489,655
Customer deposits	320,538	352,845
Accrued payroll & payroll liabilities	754,569	759,336
Accrued vacation, sick & holiday	1,657,186	1,599,488
Accrued interest	54,050	56,000
Other current liabilities	<u>278,438</u>	<u>204,375</u>
Total current liabilities	13,917,023	14,568,324
Deferred credits & grants	<u>291,760</u>	<u>1,966,215</u>
Total equity, liabilities and other credits	<u>\$ 108,345,440</u>	<u>\$ 109,357,312</u>

Moon Lake Electric Association, Inc.
Statement of Revenues and Patronage Capital
For the years ending December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenue	\$ 74,159,683	\$ 73,568,892
Cost of electric service:		
Power production expense	564,551	543,371
Purchased power	55,006,168	53,063,947
Transmission expense	745,309	513,736
Distribution--operation	4,656,797	4,725,365
Distribution--maintenance	2,767,840	2,180,921
Consumer accounts expense	1,301,442	1,331,973
Customer services and sales	85,023	74,839
Administrative and general	3,008,308	3,077,461
Depreciation and amortization	4,085,044	3,841,667
Taxes	634,524	571,204
Interest on long-term debt	660,524	684,527
Other deductions	64,945	54,956
Total cost of electric service	<u>73,580,475</u>	<u>70,663,967</u>
Operating margins	579,208	2,904,925
Non-operating margins:		
Interest income	201,406	172,051
Other income (expense)	37,551	(7,795)
Total non-operating margins	<u>238,957</u>	<u>164,256</u>
Other capital credits:		
Patronage allocations	929,192	911,780
Net margin for the year	<u>1,747,357</u>	<u>3,980,961</u>
Other comprehensive income:		
Post retirement health benefit plan gain (loss)	7,231	(106,200)
Net margin after comprehensive income	1,754,588	3,874,761
Patronage capital, beginning of year	80,386,582	76,511,821
Retirement of capital credits	-	-
Patronage capital, end of year	<u>\$ 82,141,170</u>	<u>\$ 80,386,582</u>

The accompanying notes are an integral part of these financial statements. Page 3

Moon Lake Electric Association, Inc.
Statement of Cash Flows
For the years ending December 31, 2015 and 2014

	2015	2014
Cash from operating activities:		
Cash received from consumers	\$ 74,529,607	\$ 75,835,473
Cash paid for power	(54,801,797)	(52,797,683)
Cash paid to vendors and suppliers	(5,426,838)	(3,280,488)
Cash paid to employees for wages and benefits	(8,690,599)	(8,178,629)
Interest received	201,406	172,051
Interest paid	(662,474)	(688,127)
Net cash from operating activities	5,149,305	11,062,597
Cash from investing activities:		
Construction and acquisition of plant	(5,162,734)	(4,023,097)
Asset retirement & disposition gains	(528,876)	(92,663)
Plant removal costs	(511,617)	(340,338)
Materials salvaged from retirement	54,689	153,352
Change in investments	(2,078,228)	(8,021,237)
(Increase) or decrease in:		
Materials inventory	(414,126)	62,136
Investments in associated organizations	(251,904)	(152,525)
Change in deferred credits	(1,674,455)	1,724,551
Net cash from investing activities	(10,567,251)	(10,689,821)
Cash from financing activities:		
Patronage retirements	-	-
Long-term debt change	(387,017)	(463,393)
Capital lease principal paid	(62,119)	(58,837)
Customer deposits, net	(32,307)	(16,450)
Net cash from financing activities	(481,443)	(538,680)
Net cash increase (decrease)	(5,899,389)	(165,904)
Cash and cash equivalents, beginning of year	11,388,443	11,554,347
Cash and cash equivalents, end of year	\$ 5,489,054	\$ 11,388,443
Reconciliation of net cash provided by operating activities:		
Net margin for the year	\$ 1,754,588	\$ 3,874,761
Add items not requiring cash:		
Depreciation and amortization	4,085,044	3,841,667
Allocated depreciation for transportation assets	435,295	460,844
(Gain) or loss on retirement of plant	45,193	(6,769)
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(559,268)	1,354,801
(Increase) in prepaid expenses	(8,215)	2,187
Increase (decrease) in accounts payable, etc.	(603,332)	1,535,106
Net cash from operating activities	\$ 5,149,305	\$ 11,062,597

Moon Lake Electric Association, Inc.
Notes to Financial Statements
For the years ending December 31, 2015 and 2014

Note 1 Summary of Accounting Policies

This note describes various significant accounting policies related to the Moon Lake Electric Association, Inc. (the Association) financial statement presentation. Some accounting policies are presented with the applicable note disclosure item.

Nature of Operations—The Cooperative is a non-profit corporation (see additional discussion in Note 2) organized to provide retail electric service to residential and commercial accounts in a designated service area. The Association provides electric services to sections of northeastern Utah and northwestern Colorado. Power delivered at retail is purchased wholesale from Deseret Power (see additional discussion in Note 10).

System of Accounts—The Association's accounting records are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission.

Electric Plant, Maintenance and Depreciation—The electric plant is stated at the original cost of construction which includes the cost of contracted services, direct labor, materials and overhead items less contributions from others toward the construction of the electric plant. All additions and retirements of plant assets are recorded by means of job orders. Provision is made for depreciation on a straight-line basis. The Public Service Commission of the State wherein the property is located is informed of the depreciation rates used (see Note 6 for depreciation detail).

When property which represents a retirement unit is replaced or removed, the average cost of such property as determined from the continuing property records is credited to electric plant and such cost, together with costs of removal less salvage, is charged to the accumulated provision for 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 operation expenses and other accounts.

Electric Revenues—Operating revenues are generated through rates established by the Association's Board of Directors. Electric revenue is recorded as it is billed to customers on a cyclical monthly basis. Large power users are billed at month-end. Revenue related to power delivered to residential users which are on prior to month-end billing cycles but not billed at month-end is not material and is not accrued.

Loan and Trade Receivables and Allowance for Doubtful Accounts—Customer billing statements are mailed monthly. Customer bills are due 25 days following the billing date. Meter disconnection begins for customers two months overdue. Three months after disconnection and various collection efforts, accounts are written off on a case by case basis. Once an account is written off, the customer balance is forwarded to a collection agency. Although balances are written off, receivable balances are maintained indefinitely for possible payment if a customer attempts to reconnect in the future. Loan and trade receivables are recorded at lower of cost or fair market value. Interest income on loan receivables is recorded as loans mature.

Concentration of Revenue and Accounts Receivable Risk—The Association provides electric power service in northeastern Utah and northwestern Colorado and substantially all of its accounts receivable are due from individuals, businesses and industries in that geographic area. A service deposit is required as collateral when it is deemed necessary and a monthly review is made of all past due accounts. Accounts receivable are only written off about three to four months after disconnection and collection efforts. Credit losses consistently have been within management's expectation. The oil and gas industry is the major, prevalent industrial and large power user in the Association's boundaries. Approximately 80.0% of total revenues and receivables are derived from industrial and large power users for the most recent year compared to 79.2% for the previous year.

Moon Lake Electric Association, Inc.
Notes to Financial Statements
For the years ending December 31, 2015 and 2014

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions regarding the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash and Cash Equivalents—For purposes of the statement of cash flows, all highly liquid debt instruments purchased with a maturity of three months or less or which are subject to demand liquidation are considered to be cash equivalents.

Inventory—Materials held in inventory are accounted for using the average cost method. Obsolete inventory items are written off as considered necessary.

Income Tax—The Association is a regulated cooperative non-profit association that is exempt from federal and state income taxes. The Association pays property taxes as required by local laws. The Association’s filings with the Internal Revenue Service remain open for examination for the three most recent years.

Date of Subsequent Event Evaluation—Moon Lake Electric’s subsequent events have been evaluated through the date of financial issuance of May 3, 2016.

Note 2 Patronage Capital

The Association is a non-stock cooperative organized to provide electric energy to its patrons. All revenues from the sale of electric energy which exceed the costs of providing such energy are considered capital contributions and are credited to patrons capital accounts based upon their total patronage. Margins received from sale of goods or services other than electric energy are non-operating and are credited to patron accounts after losses are recovered. Operating losses are not allocated to patrons. These capital accounts are payable to patrons or their successors only at the discretion of the Board of Directors with permission of regulatory bodies, provided, however, that the financial condition of the Association is not impaired.

Patronage Capital Credit Summary	2015	2014
Patronage capital assignable for year	\$ 1,754,588	\$ 3,874,761
Patronage capital assigned previous years	116,388,559	112,513,798
Total patronage received	118,143,147	116,388,559
Less retirements of patronage for year	-	-
Less retirements of patronage previous years	(36,001,977)	(36,001,977)
Net patronage capital retained	\$ 82,141,170	\$ 80,386,582

Moon Lake Electric Association, Inc.
Notes to Financial Statements
For the years ending December 31, 2015 and 2014

Note 3 Cash and Investments, Concentrations

Cash Equivalents—Cash and temporary cash investments may be liquidated on demand. Cash and cash equivalents consist of cash on hand, demand deposits, sweep repurchase agreement accounts, and certificates of deposit. The carrying amounts for cash and cash equivalents, which amount to their approximate fair market value, were \$5,489,054 at December 31, 2015 and \$11,388,443 at December 31, 2014. Significant concentrations of deposits exceed federally insured deposit limits. FDIC insurance applicable to the Association is three banks at \$250,000 each. The repurchase agreements hold highly rated bonds, government securities, etc. for the collateral on those accounts.

Investments—The Association had investments at December 31, 2015 and 2014 of \$14,099,465 and \$12,021,237, respectively.

At December 31, 2015, the Association participated with two investment custodians.

First, \$4,000,000 medium-term notes receivable with the National Rural Utility Cooperative Finance Corporation. These notes are uninsured and mature within 12 months after the latest year-end. These note receivables are being held-to-maturity. Carrying value and fair market value are similar.

Second, \$10,099,465 of commercial paper, corporate and government bonds, minor cash equivalents and other fixed income securities are held by Wells Fargo Investments. The investments that are not cash equivalents have varying maturities and have risk ratings from AAA to BBB. These investments are considered held-to-maturity. Carrying values are determined by amortized cost and do not reflect unrealized gains or losses. Unrealized gains or losses are insignificant for the year.

At December 31, 2014, the Association participated with one investment custodian.

First, \$4,000,000 medium-term notes receivable with the National Rural Utility Cooperative Finance Corporation. These notes are uninsured and mature within 12 months after the latest year-end. These note receivables are being held-to-maturity. Carrying value and fair market value are similar.

Second, \$8,021,237 of commercial paper, corporate and government bonds, minor cash equivalents and other fixed income securities are held by Wells Fargo Investments. The investments that are not cash equivalents have varying maturities and have risk ratings from AAA to BBB. These investments are considered held-to-maturity. Carrying values are determined by amortized cost and do not reflect unrealized gains or losses. Unrealized gains or losses are insignificant for the year.

Fair Value of Measurement—Generally accepted accounting principles establish a hierarchy that prioritizes inputs to valuation methods. The three levels of the fair value hierarchy are as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association 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 asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Association's investments are valued at the net asset value (NAV) of shares. All investments of the Association are categorized as Level 1 fair value hierarchy. There have been no changes in valuation techniques or related inputs.

Moon Lake Electric Association, Inc.
Notes to Financial Statements
For the years ending December 31, 2015 and 2014

Note 4 Long-term Investments

At December 31, the Association has the following investments in associated organizations which are not marketable and are carried at cost.

Investment	2015	2014
Capital term certificates--NRUCFC:		
5% interest, maturities 2070-2080	\$ 1,153,182	\$ 1,153,182
3% interest, maturities 2020-30	261,850	261,850
0% interest, maturity 2019	21,012	24,925
Patronage capital credits:		
NRUCFC	583,358	553,618
WUESC	1,497,316	1,271,239
Total investments	<u>\$ 3,516,718</u>	<u>\$ 3,264,814</u>

Note 5 Capital Lease

The Association has a non-cancelable 35 year lease on a substation which expires September, 2018. Minimum rentals have been capitalized at present value at the inception of the lease and the obligation for such amount is recorded as a liability. Amortization is computed on a straight-line basis over the lease term and interest expense is recorded on the basis of the outstanding lease obligation. The historical cost of transmission plant property under capital lease is \$1,160,902 and accumulated depreciation on those assets for years 2015 and 2014 were \$1,024,580 and \$992,655. Schedule of future minimum lease payments and present value of the net minimum lease payments:

Year Due	Payments
2016	\$ 110,094
2017	110,094
2018	82,567
2019	-
2020	-
Total minimum lease payments	302,755
Less executory costs	(98,563)
Net minimum lease payments	204,192
Less amount representing interest (a)	(14,913)
Present value of net minimum lease payments (b)	<u>\$ 189,279</u>

- (a) Amount necessary to reduce net minimum lease payments to present value calculated at the Association's incremental borrowing rate at the inception of the lease.
- (b) Reflected in the balance sheet as current and non-current obligations under capital leases of \$65,584 and \$123,695, respectively.

Moon Lake Electric Association, Inc.
Notes to Financial Statements
For the years ending December 31, 2015 and 2014

Note 6 Electric Plant

Total depreciation expense for the years ending December 31, 2015 and 2014 was \$4,085,044 and \$3,841,667, respectively. For the same years, \$435,295 and \$460,844, was allocated to the transportation expense category. Depreciation is calculated on the straight-line basis using the rates disclosed below. Major classes of electric plant at December 31 are as follows:

Assets at Historical Cost	2015	2014
Generation plant--hydraulic	\$ 1,893,262	\$ 1,893,262
Transmission plant	22,990,562	22,802,436
Distribution plant	84,318,238	82,470,911
General plant	<u>24,801,659</u>	<u>24,329,195</u>
Total plant in service	134,003,721	131,495,804
Construction in progress	6,322,992	7,526,197
Customer payments in aid of construction in progress	(5,258,520)	(7,843,752)
Non-utility plant	<u>-</u>	<u>-</u>
Total plant	<u>\$ 135,068,193</u>	<u>\$ 131,178,249</u>
Accumulated depreciation	\$ (63,258,025)	\$ (60,943,857)

Depreciation rates	Utah	Colorado
Transmission plant, annual composite rate	2.75%	2.75%
Distribution plant, annual composite rate	3.00%	3.00%
General plant rates:		
Structures and improvements	2.47%	2.46%
Office furniture	14.42%	6.05%
Transportation equipment	11.99%	11.35%
Stores equipment	9.69%	1.60%
Tools, shop and garage equipment	9.60%	7.34%
Laboratory equipment	14.44%	8.40%
Power operated equipment	7.70%	4.69%
Communication equipment	7.39%	9.28%
Miscellaneous equipment	8.77%	2.38%

Moon Lake Electric Association, Inc.
Notes to Financial Statements
For the years ending December 31, 2015 and 2014

Note 7 Deferred Credits

Unclaimed patronage is retained for the assistance of low-income consumers as provided by Utah Uniform Property Act. The amounts retained at year-end December 31, 2015 and 2014 are \$289,330 and \$314,864, respectively. In year 2014, the Association received a grant and other consumer proceeds to be used for energy efficiency improvements to their plant and system. At December 31, 2015 and 2014, the amount of unexpended grant was \$0 and \$1,649,476, respectively. Other small amounts are also included in deferred credits.

Note 8 Long-term Debts

Mortgage notes are payable to National Rural Utilities Cooperative Finance Corporation (CFC) and are secured by substantially all of the Association's assets. There is an unadvanced revolving line of credit with CFC in the amount of \$6,500,000.

CFC Notes Payable	2015	2014	Repayment Schedule	
			Year	Amount
Interest rate at 3.65%, matures Sep. 2019	\$ 337,693	\$ 420,240		
Interest rate at 6.20%, matures Sep. 2016	86,206	195,131	2016	\$ 367,890
Interest rate at 6.20%, matures Sep. 2016	39,007	88,294	2017	257,463
Interest rate at 7.20%, matures May 2039	9,235,906	9,382,164	2018	273,225
Total long-term debt	9,698,812	10,085,829	2019	265,841
Current maturities	(367,890)	(387,017)	2020	208,964
Long-term debt due after one year	<u>\$ 9,330,922</u>	<u>\$ 9,698,812</u>	Later	8,325,429
				<u>\$ 9,698,812</u>

Note 9 Pension and Postretirement Benefits

Retirement and post-retirement insurance benefits are provided through National Rural Electric Cooperative Association's Retirement Program for all full-time employees 21 years of age or older with at least one year of employment with the Association. The Association has the following plans.

Defined Benefit Plan—Pension benefits are provided through the NRECA multi-employer defined benefit pension plan, designed to provide employees a certain benefit level upon retirement. In this multi-employer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. In the Plan, a "zone status" determination is not required and not determined under the Pension Protection Act (PPA) of 2006. In order to determine a measure called the *funding target attainment* percentage, the plan divides its actuarial value of plan assets by the plan liabilities to get this percentage. In general, the higher percentage, the better funded the plan. The Plan was 105.5% and 115.9% funded based on actuarial ratios and market value of assets at January 1, 2015 and 2014.

The Association is exempt from costly and volatile provisions, funding improvements and applicable surcharges of the 2006 PPA. The benefit level is 1.2% multiplied by the highest five years' salary average multiplied by the years of service. The Association recognized expense related to the plan in 2015 and 2014 of \$1,369,318 and \$1,252,379, respectively, representing full service costs. Under the Plan's funding policy, participating employers contribute amounts that are determined actuarially to be sufficient to fund the benefits of the Plan as a level percentage of covered payroll over the average expected remaining working lifetime of the participants. All past service costs have been fully funded or accrued. 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.

Moon Lake Electric Association, Inc.
Notes to Financial Statements
For the years ending December 31, 2015 and 2014

Defined Contribution Plan—A contributory savings plan is provided wherein participating employees contribute a minimum of 3.0% of compensation with the Association contributing 7.0% of compensation. This is a defined contribution plan. Expense related to this plan for 2015 and 2014 was \$470,436 and \$431,651, respectively. The expected contribution for the year 2016 is about \$475,000.

Defined Benefit Postretirement Plan—The Association also sponsors a defined benefit postretirement plan covering both salaried and non-salaried employees. The plan provides health care benefits for employees until Medicare coverage starts or when the employee is eligible for another employer’s group plan. To be eligible, 1) employees hired before May 2, 2007 must have at least 10 years of service and be over age 62 when they retire or 2) employees hired after May 1, 2007 must have at least 20 years of service and be over age 62 when they retire. In 2015, the Association adopted a change in eligibility age from 55 to 62. No policy has been formulated for funding the plan. A 10.0% trend for health care benefits costs is assumed. The following table explains the benefits obligation projected.

	2015	2014
Medical benefit obligation--beginning of year	\$ 2,548,100	\$ 2,441,900
Service cost	123,500	127,400
Interest cost	89,200	85,000
Plan adjustments	(1,152,000)	-
Actuarial (gain) loss	93,500	-
Benefits paid	(89,100)	(106,200)
Medical benefit obligation--end of year	1,613,200	2,548,100
Fair value of plan assets to fund obligation	-	-
Unfunded plan assets (accrued as liability)	(1,613,200)	(2,548,100)
Change in plan assets:		
Employer contributions	89,100	106,200
Benefits paid	(89,100)	(106,200)
Fair value of plan assets at end of year	\$ -	\$ -
Estimated future benefit payments	Year	Amount
	2016	\$ 63,700
	2017	91,700
	2018	82,000
	2019	100,000
	2020	175,400
	2021-2025	914,900

Moon Lake Electric Association, Inc.
Notes to Financial Statements
For the years ending December 31, 2015 and 2014

Note 10 Contingencies and Commitments

Deseret Power Contract—The Association is a member of Deseret Power, an electric generation and transmission cooperative (for additional information see Note 1). In 1996, as part of Deseret Power's financial restructuring, the Association entered into a Wholesale Power Contract with Deseret whereby all of the Association's owned power resources have been pooled with Deseret and all of the Association's power requirements are purchased from these pooled resources. During 2015 and 2014, the Association paid Deseret \$55,006,168 and \$53,063,947, respectively.

Intermountain Power Agency Agreement—Under the terms of a power sales contract with the Intermountain Power Agency, the Association has contracted to receive up to a 2.0% share of the total power output from the I.P.P. project and has joined with other Utah municipal and cooperative electric suppliers and entered into a joint contract with various California cities (Burbank, Glendale, Pasadena, and Los Angeles) to purchase the excess power not used by the Utah suppliers. The Excess Power Sales Agreement is to remain in force for the duration of the original Power Sales Agreement, providing that there is, in fact, excess power availability beyond the needs of the Utah suppliers. The Association would be responsible, in the event of a shutdown of the I.P.P. plant, for 2% of the debt service associated with the plant as well as 2% of the maintenance of the facility. This responsibility would be effective two years after such a shutdown.

Contingencies—Regulatory agency assessments and litigation occasionally occur against the Association for certain damages. At year-end, all material items are anticipated to be covered by insurance. The Association's legal representation seeks to mitigate all material amounts. The amounts and results of litigation have not been determined and are not estimable.

Aycock, Miles & Associates, CPAs, P.C.

Certified Public Accountants

58 East 100 North (83-13) • Roosevelt, Utah 84066 • Phone (435) 722-5153 • Fax (435) 722-5095

Independent Auditors' Supplemental Letter

Board of Directors
Moon Lake Electric Association, Inc.

We have audited the financial statements of Moon Lake Electric Association, Inc. (the Association) for the year ended December 31, 2015 and have issued our report thereon dated May 3, 2016. We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. In planning and performing our audit of the financial statements of the Association for the year ended December 31, 2015, we considered its internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Association's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Association's financial statements that is more than inconsequential will not be prevented or detected by the Association's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Association's internal control. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. Also, we noted no matters regarding the Association's internal control structure and its operation that we consider to be a material weakness as previously defined with respect to the following.

- The accounting procedures and records,
- The process for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts, and the procedures for materials control,
- The reconciliation of subsidiary plant records to the controlling general ledger plant accounts,
- The clearing of the construction accounts and the accrual of depreciation on completed construction, and
- The retirement of plant, and the sales of plant, material, or scrap.

Auditors' Certification Regarding Loan Fund Expenditures

During the period of this review, the Association received no advances of long-term loan funds from CFC on loans controlled by the CFC's Mortgage and Loan Agreement.

This report is intended solely for the information and use of the board of directors, management, and long-term lenders. However, this report is a matter of public record and its distribution is not limited.

Aycock, Miles & Associates, CPAs

Roosevelt, Utah
May 3, 2016