



Barrow Utilities and Electric Cooperative, Inc.

Financial Statements Years Ended December 31, 2017 and 2016

Barrow Utilities and Electric Cooperative, Inc.

Financial Statements
Years Ended December 31, 2017 and 2016

Barrow Utilities and Electric Cooperative, Inc.

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Independent Auditor's Report

Board of Directors
Barrow Utilities and Electric Cooperative, Inc.
Barrow, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of Barrow Utilities and Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of revenues and changes in 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Barrow Utilities and Electric Cooperative, Inc. as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

Anchorage, Alaska
April 5, 2018

Financial Statements

Barrow Utilities and Electric Cooperative, Inc.

Balance Sheets

December 31,	2017	2016
Assets		
Utility Plant		
Electric utility plant	\$ 21,115,807	\$ 20,385,703
Gas utility plant	2,922,642	2,854,717
Water utility plant	20,340,325	14,555,453
Buildings and improvements	6,390,702	6,021,299
Vehicles and heavy equipment	2,485,825	2,409,869
Other general plant	1,045,519	829,894
<hr/>		
Total utility plant in service	54,300,820	47,056,935
Construction work in progress	2,165,051	3,284,720
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Total utility plant	56,465,871	50,341,655
Less accumulated depreciation	(22,427,794)	(21,629,935)
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Net Utility Plant	34,038,077	28,711,720
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Other Assets and Investments		
Restricted funds:		
Consumer deposits	112,411	167,613
Certificate of deposit	25,000	25,000
Emergency fund investments	487,000	487,000
Investments in associated organizations	2,552,293	2,378,774
<hr/>		
Total Other Assets and Investments	3,176,704	3,058,387
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Current Assets		
Cash - general	2,374,101	902,121
Investments	87,805	32,603
Consumer accounts receivable net of allowance for doubtful accounts of \$118,189 in 2017 and \$116,211 in 2016	1,840,750	1,696,324
Other accounts receivable, net	1,685,278	1,299,161
Materials, fuel and supplies inventories	1,415,998	1,333,171
Prepayments	26,324	27,628
<hr/>		
Total Current Assets	7,430,256	5,291,008
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Deferred Charges	4,193,034	4,677,756
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Total Assets	\$ 48,838,071	\$ 41,738,871

See accompanying notes to financial statements.

Barrow Utilities and Electric Cooperative, Inc.

Balance Sheets, continued

December 31,	2017	2016
Equities and Liabilities		
Equities		
Memberships	\$ 119,673	\$ 117,573
Patronage capital	15,867,227	14,644,808
Other equities	2,091,182	2,087,667
Total Equities	18,078,082	16,850,048
Liabilities		
Long-term Liabilities		
Long-term debt	26,740,507	20,783,617
Less current maturities	(1,705,052)	(1,539,161)
Total Long-term Liabilities	25,035,455	19,244,456
Current Liabilities		
Current maturities of long-term debt	1,705,052	1,539,161
Accounts payable	1,296,715	1,427,717
Consumer deposits	112,411	167,613
Accrued payroll and benefits	856,680	817,966
Accrued taxes	25,921	25,081
Accrued interest	8,813	22,633
Line of credit payable	858,000	858,000
Patronage capital credits payable	477	1,509
Total Current Liabilities	4,864,069	4,859,680
Deferred Credits		
Consumer advances	(2,142)	410
ARECA allocation due to North Slope Borough	862,607	784,277
Total Deferred Credits	860,465	784,687
Total Liabilities	30,759,989	24,888,823
Total Equities and Liabilities	\$ 48,838,071	\$ 41,738,871

See accompanying notes to financial statements.

Barrow Utilities and Electric Cooperative, Inc.
Statements of Revenues and Changes in Patronage Capital

<i>Years Ended December 31,</i>	2017	2016
Operating Revenues		
Electric service	\$ 6,084,057	\$ 5,933,860
Gas service	2,364,218	2,086,795
Water sales	3,560,712	3,568,011
Service revenue:		
Barrow Utilidor System water distribution	6,746,007	6,602,453
Barrow Utilidor System sewage collection	6,855,384	6,949,075
Total Operating Revenues	25,610,378	25,140,194
Operating Expenses		
Gas for generation	770,073	756,237
Gas for resale	744,021	677,914
Water for resale	2,772,609	2,699,360
Operations and maintenance:		
Electric production	996,366	874,014
Electric distribution	661,663	616,282
Gas distribution	547,232	506,108
Water production and distribution	1,065,987	1,001,799
Barrow Utilidor System water distribution	2,194,289	2,199,107
Barrow Utilidor System sewage collection	4,181,599	4,518,131
Consumer accounts	628,755	597,351
Administrative and general	5,836,546	5,435,105
Taxes	598,409	543,237
Depreciation	2,356,574	2,196,197
Total Operating Expenses	23,354,123	22,620,842
Operating margins before fixed charges	2,256,255	2,519,352
Fixed Charges - interest on long-term debt	970,031	934,555
Operating margins after fixed charges	1,286,224	1,584,797
Nonoperating Margins		
Interest income	9,928	6,502
Interest on consumer deposits	(4,208)	(4,908)
Income from investments in associated organizations	140,986	165,097
Donations	(106,885)	(84,494)
Other expenses	(103,626)	(38,924)
Net Nonoperating Margins	(63,805)	43,273
Net margins	1,222,419	1,628,070
Patronage Capital, beginning of year	14,644,808	13,016,738
Patronage Capital, end of year	\$ 15,867,227	\$ 14,644,808

See accompanying notes to financial statements.

Barrow Utilities and Electric Cooperative, Inc.

Statements of Cash Flows

Years Ended December 31,	2017	2016
Cash Flows from Operating Activities		
Cash received from consumers	\$ 25,079,835	\$ 24,613,508
Cash paid to employees and suppliers	(20,764,650)	(20,980,234)
Interest paid	(940,778)	(906,002)
Interest received	9,928	6,502
Net cash from operating activities	3,384,335	2,733,774
Cash Flows for Investing Activities		
Plant additions, including retirement cost	(7,864,423)	(4,496,607)
Funds received from associated organizations, net of payments to North Slope Borough	45,797	92,320
Increase in restricted funds	-	(654)
Net cash for investing activities	(7,818,626)	(4,404,941)
Cash Flows from Financing Activities		
Retirement of capital credits	(1,032)	1,294
Decrease in retired capital credit gains	3,515	(2,400)
Consumer deposits received (returned)	(55,202)	18,763
New memberships	2,100	1,723
Payments on line of credit, net	-	(542,000)
Proceeds from long-term debt	7,566,730	3,977,973
Repayment of long-term debt	(1,609,840)	(2,688,980)
Net cash from financing activities	5,906,271	766,373
Net increase (decrease) in cash and cash equivalents	1,471,980	(904,794)
Cash and Cash Equivalents, beginning of year	902,121	1,806,915
Cash and Cash Equivalents, end of year	\$ 2,374,101	\$ 902,121

See accompanying notes to financial statements.

Barrow Utilities and Electric Cooperative, Inc.

Statements of Cash Flows, continued

Years Ended December 31,	2017	2016
Reconciliation of Net Margins to Net Cash from		
Operating Activities		
Net margins	\$ 1,222,419	\$ 1,628,070
Adjustments to reconcile net margins to net cash from operating activities:		
Depreciation	2,538,066	2,370,854
Amortization of deferred charges	33,461	33,461
Deferred charges related to operations	451,261	405,970
Income allocation from investments in associated organizations	(140,986)	(165,097)
(Increase) decrease in assets:		
Consumer accounts receivable (net)	(144,426)	22,587
Other accounts receivable	(386,117)	(549,273)
Inventories	(82,827)	(48,087)
Prepayments	1,304	245
Increase (decrease) in liabilities:		
Accounts payable	(131,002)	(489,910)
Accrued payroll and benefits	38,714	(449,570)
Accrued taxes	840	25
Accrued interest	(13,820)	2,873
Consumer advances	(2,552)	(2,526)
Accumulated provision for pension and benefits	-	(25,848)
Net Cash From Operating Activities	\$ 3,384,335	\$ 2,733,774

See accompanying notes to financial statements.

Barrow Utilities and Electric Cooperative, Inc.

Notes to Financial Statements December 31, 2017 and 2016

1. Organization

Barrow Utilities Electric Cooperative, Inc., (Cooperative) operates electric, natural gas, water and sewer utilities in Barrow, Alaska. A substantial portion of the Cooperative's revenues is derived from services provided to and subsidies received from the North Slope Borough.

The Cooperative operates on a not-for-profit basis and, accordingly, seeks only to generate revenues sufficient to pay operating and maintenance costs, capital expenditures, depreciation, and principal and interest on indebtedness and to provide for the establishment of reasonable margins and reserves. The Cooperative is deregulated and is responsible for its own rates and tariffs.

The accounting records of the Cooperative conform to the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission as modified for electric borrowers of the Rural Utilities Service (RUS) and the National Association of Regulatory Utility Commissioners. However, the Cooperative has no outstanding debt or other contractual agreements with RUS.

Net operating margins in excess of current period costs in any year are considered assignable margins. Retained assignable margins are included on the Cooperative's balance sheet as patronage capital, which is assigned to each member on the basis of patronage. This patronage capital constitutes the principal equity of the Cooperative.

Net operating losses in any year are accumulated separately within patronage capital and are offset by future nonoperating margins.

2. Summary of Significant Accounting Policies

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Utility Plant in Service

Utility plant in service is recorded at cost including direct labor, materials, freight and indirect overhead charges. General plant is recorded at cost. Depreciation is computed using the straight-line method. For property replaced or retired, the average unit cost of the property unit replaced or retired plus removal cost less salvage is charged to accumulated provision for depreciation. The cost of related replacements and renewals is added to plant. Generally, no gain or loss on sale or retirement is recognized for property other than general plant.

A portion of the electric generation and water production plant is owned by the North Slope Borough and is not included in these financial statements. The Cooperative has agreed to operate and maintain the plant.

Barrow Utilities and Electric Cooperative, Inc.

Notes to Financial Statements

Contributions in Aid of Construction

Contributions in aid of construction are credited to the associated cost of construction of the related property units.

Deferred Plant and Equipment Maintenance Costs

Scheduled major overhauls and extraordinary maintenance costs incurred by the Cooperative are initially deferred and subsequently amortized to operating expenses over periods generally ranging from one to five years. Utility rates are stabilized at levels intended to fund these maintenance costs as they are amortized.

Materials, Fuel and Supplies

Inventories of materials, fuel and supplies are stated at average cost.

Cash and Cash Equivalents

The Cooperative considers cash and short-term investments that are readily convertible to known amounts of cash and that present an insignificant risk of change in value due to changes in interest rates or other factors to be cash equivalents.

Investments in Associated Organizations

Investments in associated organizations are accounted for at cost and adjusted for the Cooperative's proportionate share of earnings and distributions.

Revenue Recognition

Revenue is recognized based on usage of utility services on a monthly basis.

Accounts Receivable

Accounts receivable are carried at original billed amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts on a regular basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial contribution, credit history, and current economic conditions. Trade receivables are written off when deemed uncollectible.

Consumer accounts receivable are considered to be past due if any portion of the receivable balance is outstanding for more than 55 days. After the receivable becomes past due, the Cooperative implements procedures to disconnect utility access on past due accounts. In some cases, the Cooperative attempts to make alternative payment arrangements with the utility consumer. Other accounts receivable are considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. Interest is not accrued on past due accounts receivable.

Barrow Utilities and Electric Cooperative, Inc.

Notes to Financial Statements

Fair Value Measurements

The Cooperative applies the provision of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*. ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements.

Included in investment related line items in the financial statements are certain financial instruments carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, that is, other than in a forced liquidation or distress sale.

The Cooperative's financial assets carried at fair value have been classified based on a hierarchy defined by ASC 820. All of the Cooperative's assets are considered to be Level 1, as they are determined using unadjusted quoted prices in active markets for identical assets and liabilities.

Unamortized Debt Refinance Charges

Unamortized debt refinance charges relate to the Cooperative's long-term debt, including current maturities, and are amortized over the life of the related debt. Annual amortization is computed using the straight-line method and is included in interest expense in the statements of revenues and changes in patronage capital.

Patronage Capital

Patronage capital consists of net margins accumulated since inception less the retirement of capital credits to members. The distribution of such patronage capital to members of the Cooperative is restricted under the covenants of the National Rural Utilities Cooperative Finance Corporation (NRUCFC) mortgage notes. Electric and gas capital credits are currently retired on a fifteen year rotation cycle and water capital credits are currently retired on a twelve year rotation cycle, as authorized by the Board of Directors. Unclaimed retired capital credits may be transferred to other equities one year after the date authorized for the distribution.

Nonoperating Margins

Nonoperating margins are an accumulation of all nonoperating margins reduced by nonoperating losses. If a positive balance exists at year-end, it is first used to offset any accumulated net operating losses from previous years. Any remaining margin amounts are transferred to patronage capital assignable.

Income Taxes

The Cooperative is exempt from federal and state income taxes under the provisions of Section 501(c)(12) of the Internal Revenue Code.

The Cooperative applies the provisions of Topic 740 of the FASB Accounting Standards Codification relating to accounting for uncertainty in income taxes. The Cooperative annually reviews its tax return and positions taken in accordance with the recognition standards. The Cooperative believes that it has no uncertain tax positions which would require disclosure or adjustment in these financial statements. Tax years 2014-2016 remain open to examination.

Barrow Utilities and Electric Cooperative, Inc.

Notes to Financial Statements

Reclassifications

Certain amounts have been reclassified from the prior period presentation to conform to the current year presentation.

Subsequent Events

The Cooperative has evaluated subsequent events through April 5, 2018, the date on which the financial statements were available to be issued.

3. Barrow Utilidor System

The Cooperative operates and maintains the Barrow Utilidor System (BUS) under a contract agreement with the North Slope Borough that expired on June 30, 2016 and continues on a month to month basis. The BUS is owned by the North Slope Borough and any additions to the system are the property of the North Slope Borough. The Cooperative is currently in negotiation to extend the contract.

Reimbursement to the Cooperative for maintenance of the BUS is on a not-for-profit basis. Therefore annual revenues cannot exceed related operating expenses. A portion of the reimbursement is derived from BUS metered water and sewer fees.

Any deficiencies, up to an annually predetermined limit, are paid by the North Slope Borough on a monthly basis and excesses, if any, are remitted to the North Slope Borough. Deficiencies reimbursed by the North Slope Borough totaling \$11,178,224 and \$10,964,497 for the years ended December 31, 2017 and 2016, respectively, are included in BUS revenues.

The BUS water and sewage rates were set by the North Slope Borough. The water rate for residential customers is \$55 per month and the rate for senior citizen residential customers is \$11 per month. There is an additional charge of 2 cents per gallon for usage exceeding 3,000 gallons of water per month for all residential customers. The monthly water rate for commercial customers is 8 cents per gallon. The sewer rate is \$14 per month for residential customers and \$3 per month for senior citizen residential customers. There is no sewer charge for commercial customers.

BUS revenues consisted of the following:

<i>Years Ended December 31,</i>	2017	2016
BUS water distribution revenue	\$ 2,256,381	\$ 2,417,116
BUS water distribution Borough subsidy	4,489,626	4,185,337
Total BUS water distribution revenue	6,746,007	6,602,453
BUS sewer collection revenue	166,786	169,915
BUS sewer collection Borough subsidy	6,688,598	6,779,160
Total BUS sewer collection revenue	6,855,384	6,949,075
Total BUS Revenue	\$ 13,601,391	\$ 13,551,528

Barrow Utilities and Electric Cooperative, Inc.

Notes to Financial Statements

4. Utility Plant

Listed below are the major classes of the Cooperative's utility plant:

<i>December 31,</i>	2017	2016
General plant	\$ 9,922,046	\$ 9,261,062
Electric utility plant	21,115,807	20,385,703
Gas utility plant	2,922,642	2,854,717
Water utility plant	20,340,325	14,555,453
Total plant in service	54,300,820	47,056,935
Construction work in progress	2,165,051	3,284,720
Total Utility Plant	\$ 56,465,871	\$ 50,341,655

5. Deferred Charges

Deferred charges, net of accumulated amortization, at December 31, 2017 and 2016 consisted of the following:

	2017	2016
Employee benefits	\$ 4,059,823	\$ 4,534,986
NARL preliminary work	85,534	102,352
Cost of service study	47,677	30,600
Tariff revision 2017	-	9,818
Total Deferred Charges	\$ 4,193,034	\$ 4,677,756

Included in deferred charges are preliminary study and engineering of future alternative construction methods. Such costs are originally deferred and subsequently capitalized to resultant construction or amortized over three to five years if construction does not materialize. During 2015, the Cooperative joined the NRECA Retirement Security Plan (see Note 14) and incurred other employee benefit costs. Employee benefit deferred charges are amortized over approximately 15.9 years, based on estimated remaining years of employee service.

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Barrow Utilities and Electric Cooperative, Inc.

Notes to Financial Statements

6. Depreciation and Amortization

In 2010, the Cooperative performed a depreciation study, which resulted in adjusted depreciation rates beginning in 2011. Depreciation is computed using the straight-line method based on composite annual rates as follows:

	Rates		
Water utility plant	5.00%	to	10.00%
Electric utility plant	4.47%	to	11.89%
Street lighting	-	to	15.81%
Gas utility plant	3.15%	to	13.24%
Buildings and improvements	3.00%	to	20.00%
Vehicles and heavy equipment	7.00%	to	20.00%
Other general plant	5.00%	to	20.00%
Generators	3.20%	to	20.00%

The following is a summary of depreciation expense:

<i>Years Ended December 31,</i>	2017	2016
Depreciation	\$ 2,356,574	\$ 2,196,197
Depreciation charged to clearing accounts	181,492	174,657
Total Depreciation	\$ 2,538,056	\$ 2,370,854

7. Cash and Cash Equivalents

The Cooperative maintains its cash and cash equivalents with Wells Fargo Bank Alaska, N.A. Amounts held by the bank (bank balances) totaled \$2,631,316 and \$1,202,528 as of December 31, 2017 and 2016, respectively. The balances insured by the Federal Deposit Insurance Corporation (FDIC) at December 31, 2017 and 2016 were limited to \$250,000.

8. Investments

The Cooperative's investment policy allows for a variety of investments with maturities of five years or less, including investments in obligations of U.S. Government agencies, certificates of deposit, repurchase agreements, commercial paper, money market funds, and certain U.S. corporate obligations. In accordance with Accounting Standards Codification 820, the Cooperative's investments are held at fair value as determined through Level 1 inputs as described in Note 1 under "Fair Value Measurements." All investments were fully insured at December 31, 2017 and 2016.

Consumer deposits and certificate of deposit included in restricted funds have restrictions placed on them by third parties. The emergency fund investments are restricted by choice of the Board of Directors of Barrow Utilities and Electric Cooperative, Inc.

Barrow Utilities and Electric Cooperative, Inc.

Notes to Financial Statements

Investments consisted of the following:

<i>December 31,</i>	2017	2016
Certificates of deposit	\$ 712,139	\$ 585,133
Cash sweep accounts	77	127,083
Total Investments	\$ 712,216	\$ 712,216

In the financial statements, investments are presented as follows:

<i>December 31,</i>	2017	2016
Consumer deposits	\$ 112,411	\$ 167,613
Certificate of deposit	25,000	25,000
Emergency fund investments	487,000	487,000
Total restricted investments	624,411	679,613
Current investments	87,805	32,603
Total Investments	\$ 712,216	\$ 712,216

9. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

<i>December 31,</i>	2017	2016
National Rural Utilities Cooperative Finance Corporation (NRUCFC):		
Capital term certificates	\$ 389,341	\$ 347,472
Patronage capital credits	184,398	186,072
Statutory income allocations from Alaska Rural Electric Cooperative Association (ARECA) Insurance Exchange	1,856,861	1,757,090
National Information Solutions Cooperative	102,907	75,674
Arctic Slope Telephone Association Cooperative	18,786	12,466
Total Investments in Associated Organizations	\$ 2,552,293	\$ 2,378,774

Barrow Utilities and Electric Cooperative, Inc.

Notes to Financial Statements

10. Patronage Capital

Patronage capital consisted of the following:

<i>December 31,</i>	2017	2016
Assigned	\$ 14,644,808	\$ 13,016,738
Assignable	1,222,419	1,628,070
Total Patronage Capital	\$ 15,867,227	\$ 14,644,808

Under provisions of its long-term debt agreements (Note 13), unless the total of equities and margins is equal to or greater than 40 percent of the total assets of the Cooperative, returns to patrons are limited to 30 percent of the patronage capital and margins in the prior year. In addition, no returns to patrons are permitted if the Cooperative is in default under the agreement or accrued liabilities are in excess of current assets. Also, annual distributions of capital credits cannot reduce total equity below 21 percent of total assets.

11. Other Equities

Other equities consisted of the following:

<i>December 31,</i>	2017	2016
Donated capital	\$ 126,114	\$ 126,114
Cancellation of debt by the Bureau of Indian Affairs	981,505	981,505
Excess fire insurance proceeds, net of administration building accumulated amortization of \$338,482 in 2017 and \$337,022 in 2016	417,108	413,593
Retired capital credit gains	561,455	561,455
Deceased membership capital transferred to equity	5,000	5,000
Total Other Equities	\$ 2,091,182	\$ 2,087,667

12. Line of Credit

At December 31, 2017, the Cooperative had a \$3,000,000 unsecured line of credit available with NRUCFC. It is a perpetual line of credit that is renewed automatically each year. Interest is based on the prevailing bank prime rate plus one percent per annum or a lesser rate as may be established by NRUCFC. In addition, the agreement requires the outstanding balance to be reduced to zero for at least five consecutive days in each year. There was \$858,000 outstanding under the line of credit at December 31, 2017 and 2016, respectively.

Barrow Utilities and Electric Cooperative, Inc.

Notes to Financial Statements

13. Long-term Debt

The Cooperative has loan agreements with NRUCFC. Loan payments are due quarterly with interest until final maturities, which vary through 2045. The interest rates are fixed on each loan and vary from 3.10% to 7.05%. The loans are collateralized by all of the Cooperative's assets except for vehicles. The loan agreements require the Cooperative to maintain an average debt service coverage ratio of not less than 1.35. Additional debt covenants are discussed in Note 10.

The Cooperative participates in NRUCFC's Powervision loan program. This program allows a qualifying utility to be pre-approved for general-purpose loans that are secured by the assets and revenues of the utility. The Cooperative was approved for an aggregate commitment of \$51,000,000 accessible upon Board approval and by maintaining certain debt covenants. The Cooperative has taken \$46,536,762 in loan advances under this program, and refinanced \$6,004,464 under the Powervision loan program, leaving an unadvanced loan balance of \$4,463,238.

The following are the outstanding balances on the loans:

<i>December 31,</i>	<i>2017</i>	<i>2016</i>
NRUCFC notes, quarterly installments of \$27,138, including interest at varying rates from 8.25% to 8.55%; matures in 2017	\$ -	\$ 78,070
NRUCFC Powervision notes, quarterly installments currently at \$628,157 including interest at varying rates from 3.10% to 7.05% through 2045	26,740,507	20,705,547
Total long-term debt	26,740,507	20,783,617
Less current maturities	(1,705,052)	(1,539,161)
Long-term Debt, net of current maturities	\$ 25,035,455	\$ 19,244,456

Future principal payments are due as follows:

<i>Year Ending December 31,</i>	<i>Amount</i>
2018	\$ 1,705,052
2019	1,674,043
2020	1,573,627
2021	1,646,784
2022	1,465,270
Thereafter	18,675,731
	\$ 26,740,507

Barrow Utilities and Electric Cooperative, Inc.

Notes to Financial Statements

14. Employee Benefit Plans

Defined Benefit Pension Plans

Pension benefits for substantially all employees are provided through participation in the National Rural Electric Cooperative Association (NRECA) and Alaska Electrical Trust Fund retirement programs. Both plans are master multi-employer defined benefit plans qualified under Section 401 and tax exempt under Section 501(a) of the Internal Revenue Code.

A unique characteristic of a multi-employer 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.

NRECA Retirement Security Plan Information

The National Rural Electric Cooperative Association (NRECA), Retirement Security Plan (RS Plan) sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333. The Cooperative joined the Plan in 2015.

The Cooperative contributions to the RS Plan in 2017 and 2016 represented less than 5 percent of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of \$526,502 in 2017 and \$511,765 in 2016. This plan is 100% paid by employer (ER) contributions. There have been no significant changes that affect the comparability of 2017 and 2016 contributions.

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

Alaska Electrical Pension Plan Information

The Alaska Electrical Pension Plan sponsor's Employer Identification Number is 92-6005171 and the Plan Number is 001. The Cooperative's contributions to the Plan in 2017 and in 2016 represented less than 5% of the total contributions made to the Plan by all participating employers. The Association made contributions to the Plan of \$104,509 in 2017 and \$741,965 in 2016. There have been no significant changes that affect the comparability of 2017 and 2016 contributions.

In total, the Alaska Electrical Pension Plan was more than 80% funded at December 31, 2017 and 2016 as certified by the Plan actuary. The Plan is not subject to funding improvement plans or rehabilitation plans and as a result, the Cooperative is not subject to contribution surcharges. There are no minimum funding commitments as negotiated contributions currently satisfy the Association's commitment towards meeting the annual minimum funding requirement for the Alaska Electrical Pension Plan. 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.

Barrow Utilities and Electric Cooperative, Inc.

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401(k) Plan

The Cooperative participates in a defined contribution employee savings plan created in accordance with Section 401(k) of the Internal Revenue Code and sponsored by the National Rural Electric Cooperative Association. The Plan is a master multiple-employer plan in which all non-union and other eligible employees who have completed three months of employment are participants. The Cooperative contributes 6.0 percent of the eligible non-union salaries. Contributions to the Plan by the Cooperative totaled \$127,119 and \$149,650 during the years ended December 31, 2017 and 2016, respectively. Eligible non-union and union employees may also contribute to the Plan from their annual compensation.

Health and Welfare Benefit Plans

The Cooperative participates in multi-employer plans that provide all employees with health care, life insurance, and other welfare benefits during their working lives and certain benefits after retirement. Amounts charged to benefit cost and contributed to the health and welfare plans for those benefits totaled \$3,576,985 and \$1,697,468 for the years ended December 31, 2017 and 2016, respectively.

15. Operating Leases

The Cooperative has two land lease agreements with the State of Alaska. The first lease, for which the Cooperative pays \$6,901 annually, expires April 1, 2023 and is renewable upon expiration. The second lease requires future annual payments of \$32,010 and expires April 1, 2047.

The following is a schedule of future minimum lease payments for the operating leases:

<i>Year Ending December 31,</i>	<i>Amount</i>
2018	\$ 38,911
2019	38,911
2020	38,911
2021	38,911
2022	38,911
Thereafter	855,790

16. Concentrations

The Cooperative sells utility services and grants credit to customers in Barrow, Alaska including operations of the BUS under the contract with the North Slope Borough. Accordingly, the risk exists that the ability to collect amounts due from customers could be affected by economic fluctuations and operations could be affected by the geography and climate in this area. Historically credit losses have not been significant.

Barrow Utilities and Electric Cooperative, Inc.

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17. Commitments and Contingencies

The Cooperative purchases all of the natural gas used for generation and resale from the North Slope Borough under an agreement which was to terminate on December 31, 2000. Under this agreement, if a new agreement was not negotiated by December 31, 2000, then the terms of the original agreement will stay in effect until such time that the parties renegotiate and renew the agreement. As of December 31, 2017, no new agreement has been negotiated. The Cooperative is not required to take any gas in excess of its use requirements at any given time.

The Cooperative, in the normal course of its activities, is involved in various claims and litigation. In the opinion of management and legal counsel for the Cooperative, the disposition of these matters is not expected to have a material positive or adverse effect on the Cooperative's financial statements.