HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

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HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

OFFICERS, BOARD OF DIRECTORS AND CHIEF EXECUTIVE OFFICER
AS OF APRIL 30, 2015

Name	Office	Address
Michael A. Glass	President	Edwards, Colorado
Megan M. Gilman	Vice-President	Avon, Colorado
Lynn E. Dwyer	Secretary	New Castle, Colorado
Robert H. Gardner	Treasurer	Basalt, Colorado
Adam L. Palmer	Director	Eagle, Colorado
David C. Munk	Director	Carbondale, Colorado
Kristen N. Bertuglia	Director	Vail, Colorado
Delvan D. Worley	Chief Executive Officer	Rifle, Colorado

Dreyer & Kelso, P.C., P.A.

Certified Public Accountants
5799 Broadmoor - Suite 712
Mission, Kansas 66202
913-831-1150 • Fax: 913-831-0538

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Holy Cross Electric Association, Inc.
Glenwood Springs, CO

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Holy Cross Electric Association, Inc. which comprise the consolidated balance sheets as of April 30, 2015 and 2014, and the related consolidated statements of revenue and patronage capital, comprehensive income, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Government Auditing Standards issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

The Board of Directors
Holy Cross Electric Association, Inc.
Page Two

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 auditors' 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 Holy Cross Electric Association, Inc. as of April 30, 2015 and 2014, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued a report dated August 7, 2015, on our consideration of Holy Cross Electric Association, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Dreyer & Kelso, P.C., P.A.

Mission, Kansas
August 7, 2015

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

April 30, 2015 and 2014

ASSETS

	2015	2014
UTILITY PLANT		
Electric plant in service	$ 379,056,898	$ 373,901,766
Construction work in progress	11,810,228	4,964,118
	390,867,126	378,865,884
Less: accumulated depreciation	(115,159,944)	(106,444,591)
Total Utility Plant	**275,707,182**	**272,421,293**
INVESTMENTS		
Subordinated certificates	3,097,980	3,118,286
Investments in associated organizations	3,765,855	3,385,908
Other investments	19,648	101,936
Note receivable	-0-	1,152
Non-utility property	1,331,591	886,291
Total Investments	**8,215,074**	**7,493,573**
CURRENT ASSETS		
Cash and cash equivalents	6,719,425	10,383,031
Restricted cash	100,213	100,063
Accounts receivable (less allowance for doubtful accounts of $177,000 in 2015 and $136,000 in 2014)	7,583,432	8,569,962
Materials and supplies	3,642,579	3,686,753
Other current assets	2,519,403	2,309,505
Total Current Assets	**20,565,052**	**25,049,314**
DEFERRED CHARGES	**877,179**	**892,067**
TOTAL ASSETS	**$ 305,364,487**	**$ 305,856,247**

The accompanying notes to consolidated financial statements are an integral part of this consolidated statement

MEMBERS' EQUITY AND LIABILITIES

	2015	2014
MEMBERS' EQUITY		
Patronage capital	$ 70,120,055	$ 69,607,403
Other equities	43,777,420	41,237,503
Total Members' Equity	**113,897,475**	**110,844,906**
LONG-TERM DEBT		
Mortgage notes	157,797,462	162,260,334
Less: current maturities	(4,385,000)	(4,255,000)
Total Long-Term Debt	**153,412,462**	**158,005,334**
CURRENT LIABILITIES		
Current maturities of long-term debt	4,385,000	4,255,000
Notes payable - line-of-credit	3,000,000	-0-
Accounts payable	6,728,244	6,571,707
Accrued interest payable	306,643	316,213
Accrued taxes	1,813,061	1,856,798
Other current liabilities	5,865,616	6,361,014
Total Current Liabilities	**22,098,564**	**19,360,732**
DEFERRED CREDITS	**15,955,986**	**17,645,275**
TOTAL MEMBERS' EQUITY AND LIABILITIES	**$ 305,364,487**	**$ 305,856,247**

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF REVENUE AND PATRONAGE CAPITAL

FOR THE YEARS ENDED APRIL 30

	2015	2014
OPERATING REVENUE		
Sale of electricity	$ 116,117,555	$ 116,303,371
Other operating revenue	2,489,033	4,713,178
Total Operating Revenue	**118,606,588**	**121,016,549**
OPERATING EXPENSE		
Production power expense	10,206,541	10,919,820
Cost of power	50,121,333	51,720,264
Transmission expense	1,795,658	2,619,993
Distribution - operations	10,407,836	10,176,760
Distribution - maintenance	3,452,276	3,290,549
Consumer accounts	4,144,027	4,265,041
Customer service and information	2,341,081	2,264,779
Administrative and general	9,518,572	9,356,411
Depreciation and amortization	10,216,000	10,104,121
Interest on long-term debt	8,287,267	8,418,231
Interest expense - other	21,489	8,675
Total Operating Expense	**110,512,080**	**113,144,644**
NET OPERATING MARGIN	**8,094,508**	**7,871,905**
NON-OPERATING MARGIN		
Interest income	128,898	123,457
Other non-operating income (expense)	7,302	(19,729)
Total Non-Operating Margin	**136,200**	**103,728**
CAPITAL CREDITS	**727,697**	**800,158**
NET MARGINS FOR PERIOD	**8,958,405**	**8,775,791**
PATRONAGE CAPITAL - BEGINNING OF YEAR	69,607,403	69,937,851
	78,565,808	78,713,642
Retirement of capital credits	(7,573,000)	(8,194,533)
Transfer non-operating margins to other equities	(872,753)	(911,706)
PATRONAGE CAPITAL - END OF YEAR	**$ 70,120,055**	**$ 69,607,403**

The accompanying notes to consolidated financial statements are an integral part of this consolidated statement

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED APRIL 30

	2015	2014
NET MARGIN	**$8,958,405**	**$8,775,791**
TOTAL COMPREHENSIVE INCOME	**$8,958,405**	**$8,775,791**

The accompanying notes to the consolidated financial statements
are an integral part of this consolidated statement

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED APRIL 30

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 117,911,131	$ 118,587,156
Interest and dividends received	128,898	123,457
Cash paid to suppliers and employees	(92,565,081)	(93,960,877)
Interest paid	(8,318,326)	(8,524,470)
Net Cash Provided (Used) By Operating Activities	**17,156,622**	**16,225,266**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in plant	(13,501,889)	(6,681,349)
Materials and supplies	44,174	96,393
Patronage capital recovery	347,750	404,417
Note receivable	1,152	9,211
Other investing activities	102,594	136,692
Non-utility property	(445,300)	-0-
Net Cash Provided (Used) By Investing Activities	**(13,451,519)**	**(6,034,636)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Retirement of long-term debt	(4,462,872)	(4,373,169)
Advances on lines-of-credit	9,000,000	-0-
Repayments on lines-of-credit	(6,000,000)	-0-
Retirement of capital credits	(7,573,000)	(8,194,533)
Other financing activities	1,667,163	1,921,260
Net Cash Provided (Used) By Financing Activities	**(7,368,709)**	**(10,646,442)**
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	**(3,663,606)**	**(455,812)**
Cash and cash equivalents - Beginning of year	10,383,031	10,838,843
CASH AND CASH EQUIVALENTS - END OF YEAR	**$ 6,719,425**	**$ 10,383,031**

The accompanying notes to consolidated financial statements are an integral part of this consolidated statement

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED APRIL 30

	2015	2014
RECONCILIATION OF NET MARGIN TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net margin	$ 8,958,405	$ 8,775,791
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation and amortization	10,216,000	10,104,121
Patronage capital credits from suppliers	(727,697)	(800,158)
(Increase) decrease in restricted cash	(150)	(100,063)
(Increase) decrease in accounts receivable	986,530	93,054
(Increase) decrease deferred charges	14,888	381,215
(Increase) decrease other assets	(209,898)	(135,265)
Increase (decrease) in accounts payable	156,537	545,344
Increase (decrease) in interest payable	(9,570)	(97,564)
Increase (decrease) in accrued taxes	(43,737)	253,537
Increase (decrease) in other liabilities	(495,397)	(292,028)
Increase (decrease) in deferred credits	(1,689,289)	(2,502,718)
Net Cash Provided (Used) Operating Activities	**$ 17,156,622**	**$ 16,225,266**

The accompanying notes to consolidated financial statements are an integral part of this consolidated statement

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2015 and 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of Holy Cross Electric Association, Inc. (a Colorado not-for-profit corporation) and its wholly owned subsidiary Energy and Services Experts, Inc. (EASE) (a Colorado for-profit corporation). All significant intercompany transactions and balances have been eliminated.

The Association is a Rural Electric Cooperative whose principal business is the generation, acquisition and distribution of electric power to residences and businesses located in central Colorado. As a regulated enterprise with a member-elected board of directors, the Association accounts for such regulation under professional accounting standards FASB ASC 980, Regulated Industries. The accounting policies followed by the Association are in conformity with generally accepted accounting principles as they apply to a regulated electric utility.

EASE was created to provide various non-electric services in the same geographical region as the Association, but was non-operational during both of the fiscal years presented herein.

The Association employs the Uniform System of Accounts prescribed by the Rural Utilities Service (RUS). As a result, the application of generally accepted accounting principles by the Association differs in certain respects from such application by non-regulated enterprises. Such differences concern primarily the time at which various items enter into the determination of net margins in order to follow the principle of matching costs and revenue.

Depreciation is recorded on the composite basis for generation, transmission, distribution, and some general plant assets, and the unit basis for the remaining general plant items, and is charged to capital and operating accounts at rates adopted by the Board of Directors in conformity with guidelines provided by RUS. Depreciation provisions are computed on additions beginning the month after they are placed in service. When units of generation, distribution and transmission plant are retired, their average cost is removed from utility plant and the cost, less net salvage, is removed from allowances for depreciation. Expenditures for normal repairs and maintenance are charged to operations as incurred.

Continuing property records are maintained on a current basis. These provide the average installed cost of the distribution and transmission plant in service.

The Association has determined that it does not have any long-lived assets for which it has a contractual or legal obligation to remove in the future.

Restricted cash consists of funds deposited in a local financial institution as security against energy efficiency loans made by the financial institution to members of the Association.

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2015 and 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associated organizations are carried at the related book value of equity certificates. Other amounts included in investments are generally carried at cost.

Materials and supplies are stated at average cost.

For purposes of the Statement of Cash Flows, the Association considers all short-term deposits and highly liquid investments with an original maturity date of three months or less to be cash and cash equivalents.

The Association follows industry practice of recording revenue concurrently with its billings to customers, net of taxes collected for various taxing authorities, and recording cost of power upon receipt of their billing from the supplier.

In conformity with its bylaws, the Association conducts its operations on a cooperative nonprofit basis. Annual revenue, in excess of the cost of providing service, is allocated in the form of "capital credits" to the customers' capital accounts on the basis of patronage. The Board of Directors exercises an annual option of deciding whether to include non-operating margins in the allocation. Non-operating margins include interest income, capital credits from suppliers, and net amounts attributable to subsidiary operations.

CERTAIN SIGNIFICANT RISKS AND UNCERTAINTIES

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentrations of credit risk arise from the Association's granting of credit to its member customers, uninsured funds deposited in federally insured financial institutions which may be in excess of the insurance limits at various times during the year.

ASSETS PLEDGED

Substantially all assets are pledged as security for long-term debt to RUS, the Federal Financing Bank (FFB) and mortgage notes to the National Rural Utilities Cooperative Finance Corporation (CFC) and the Federal Agricultural Mortgage Corporation (Farmer Mac).

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2015 and 2014

UTILITY PLANT

A summary of the utility plant and accumulated depreciation follows:

	April 30	
	2015	2014
Transmission plant	$ 33,227,725	$ 33,363,828
Production plant (generation)	119,227,725	119,217,626
Distribution plant	170,769,983	167,148,592
General plant	55,831,465	54,171,720
Total Electric Plant	**379,056,898**	**373,901,766**
Construction work in progress	11,810,228	4,964,118
	390,867,126	**378,865,884**
Accumulated depreciation:		
Transmission plant	17,526,948	16,644,212
Production plant (generation)	13,316,636	10,515,826
Distribution plant	63,109,749	59,492,538
General plant	20,906,861	19,542,764
	114,860,194	**106,195,340**
Retirement work in progress	299,750	249,251
	115,159,944	**106,444,591**
Net Utility Plant	**$275,707,182**	**$272,421,293**

Transmission plant and distribution plant are depreciated, under the straight-line composite basis, at the annual rates of 2.75% and 2.70%, respectively, while general plant is depreciated over the estimated useful lives of the assets, under the straight-line method at various rates ranging from 2.5% to 25.0%.

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2015 and 2014

UTILITY PLANT (Continued)

In a prior year, the Association entered into a Joint Ownership Agreement with Public Service Company of Colorado (PSCo) and a second Colorado electric cooperative for the purpose of the construction and operation of a pulverized coal electric generating facility. This facility produces approximately 750 megawatts (MW) of electric power, with the Association's share of that total at 8% or 60 MW. The facility went online during the year ended April 30, 2011. The Association capitalized its share of the accumulated cost at that point and is depreciating this production plant under the straight-line composite basis, at an annual rate of 2.402%.

NON-UTILITY PROPERTY

	April 30		Depreciation
	2015	2014	Method & Years
Real estate	$ 1,719,560	$ 1,221,148	S/L 33-38 Years
Less: accumulated depreciation	(387,969)	(334,857)	
Net Book Value	**$ 1,331,591**	**$ 886,291**	

This real estate is used primarily for employee housing.

ACCOUNTS RECEIVABLE

The Association carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Association evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on past history of bad debt write-offs, collections, and current credit conditions. Electric accounts receivable are generally considered past due if payment is not received by the due date of the bill. It is the Association's policy that electric accounts are generally turned over to the collecting agent after all collection efforts have been exhausted and the service has been disconnected.

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2015 and 2014

ACCOUNTS RECEIVABLE (Continued)

The Board of Directors approves the write off of electric bad debts twice a year for accounts that have been disconnected and turned over to the collecting agent. Payments received on accounts after they are written off are considered a recovery of the bad debt. As of April 30, 2015 and 2014, the Association had approximately $26,000 and $24,000, respectively, in electric accounts receivable that were over 90 days old and the balance in the allowance for bad debts approximated $177,000 and $136,000, respectively.

SUBORDINATED CERTIFICATES

	April 30	
	2015	2014
Capital term certificates	$1,091,977	$1,091,977
Zero term certificates	2,006,003	2,026,309
Total	**$3,097,980**	**$3,118,286**

The capital term certificates yield 5.00% and 3.00%, while the zero term certificates have no yield. All of the certificates have various maturity dates through the year 2080.

INVESTMENT IN ASSOCIATED ORGANIZATIONS

This category consists mainly of patronage capital due from organizations of which the Association is a member.

	April 30	
	2015	2014
Patronage capital - CFC	$2,477,411	$2,197,153
Patronage capital - Western United	726,754	701,580
Other associated organizations	561,690	487,175
Total	**$3,765,855**	**$3,385,908**

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2015 and 2014

OTHER INVESTMENTS

	April 30	
	2015	2014
Subsidiary cash in bank	$ 1,936	$ 1,936
Deferred compensation	17,712	-0-
Investment in Paradigm Services	-0-	100,000
Total	**$19,648**	**$101,936**

The Association has a one-third interest in Paradigm Services, LLC, (Paradigm) which was designed to provide value-added services to customers in the same geographical area as the Association and that of the other two Colorado electric cooperatives. The investment was accounted for on the equity method.

During the year ended April 30, 2011, the Association invested $200,000 in Paradigm (as did the other two Cooperatives) for the purpose of paying off Paradigm's outstanding line of credit while preserving the Association's one-third ownership interest. During each of the years ended April 30, 2014 and 2015, $100,000 of the investment was returned to the Association; and the investment has been recovered in full.

OTHER CURRENT ASSETS

	April 30	
	2015	2014
Prepaid insurance	$ 299,452	$ 239,819
Comanche 3 O & M deposit	1,357,000	1,357,000
Renewable energy certificates	326,144	134,005
Undistributed stores charges	224,091	211,204
Other current assets	312,716	367,477
Total	**$2,519,403**	**$2,309,505**

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2015 and 2014

DEFERRED CHARGES

	April 30	
	2015	2014
Past service pension costs	$542,520	$585,351
Prepaid pension plan contributions	169,507	185,799
Other deferred charges	165,152	120,917
Total	**$877,179**	**$892,067**

Past service pension cost is amortized on the straight line basis over future periods as allowed for under FASB ASC 980, Regulated Enterprises. Amortization amounted to $42,831 for both years ended April 30, 2015 and 2014.

MEMBERS' EQUITY

	Patronage Capital Credits	Patronage Capital Unallocated	Other Equities	Total
Balance April 30, 2013	$ 62,287,550	$ 7,650,301	$38,404,537	$ 108,342,388
Net margin, year ended April 30, 2014	-0-	8,775,791	-0-	8,775,791
Allocations	9,756,396	(9,756,396)	-0-	-0-
Retirement of capital credits	(8,189,579)	(4,951)	1,567,909	(6,626,621)
Other changes	-0-	(911,709)	1,265,057	353,348
Balance April 30, 2014	63,854,367	5,753,036	41,237,503	110,844,906
Net margin, year ended April 30, 2015	-0-	8,958,405	-0-	8,958,405
Allocations	6,547,311	(6,547,311)	-0-	-0-
Retirement of capital credits	(7,570,348)	(2,652)	1,667,164	(5,905,836)
Other changes	-0-	(872,753)	872,753	-0-
Balance April 30, 2015	**$ 62,831,330**	**$ 7,288,725**	**$43,777,420**	**$ 113,897,475**

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2015 and 2014

MEMBERS' EQUITY (Continued)

Under the provisions of the RUS mortgage agreement, until the equities and margins equal or exceed thirty percent of the total assets of the Association, the retirement of capital credits is generally limited to twenty-five percent of the patronage capital or margins from the prior calendar year. The CFC mortgage agreement provisions differ slightly. This limitation does not usually apply to capital credit retirements made exclusively to estates.

The total equities of the Association are 37% and 36% of the total assets as of April 30, 2015 and 2014, respectively. Other equities consist of donated capital, retired capital credits gain, non-operating margins, and the discount applied to prior year capital credit retirements.

LONG-TERM DEBT

Long-term debt consists principally of mortgage notes payable to FFB, CFC, and Farmer Mac, and other long-term debt, with various maturities through the year 2045.

The following is a summary of these notes:

	April 30	
	2015	2014
CFC mortgage notes	$ 106,651,581	$ 109,818,434
FFB mortgage notes	33,167,781	33,896,661
Farmer Mac mortgage notes	17,978,100	18,545,239
	157,797,462	162,260,334
Less: current maturities	(4,385,000)	(4,255,000)
Total Long-Term Debt	**$ 153,412,462**	**$ 158,005,334**

The CFC notes have fixed rates that ranged from 2.55% to 7.20% as of both April 30, 2015 and 2014.

The FFB notes have fixed rates that ranged from 2.274% to 5.259%, plus a 0.125% administrative fee as of both April 30, 2015 and 2014.

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2015 and 2014

LONG-TERM DEBT (Continued)

The Farmer Mac notes have fixed rates for both years that ranged from 3.10% to 6.44%.

During the year ended April 30, 2014, the Association re-priced $2,570,766 of its fixed rate debt with CFC at shorter term fixed rates.

During the year ended April 30, 2015, the Association re-priced $3,221,185 of its fixed rate debt with CFC at shorter term fixed rates.

As of both April 30, 2015 and 2014, CFC was committed to advance loan funds to the Association in the amount of $30,000,000, for which a loan agreement was executed.

As of April 30, 2013, FFB was committed to advance loan funds to the Association in the amount of $320,906, for which a loan agreement has been executed. The commitment expired during the year ended April 30, 2014.

Based on current obligations, principal payments toward the above long-term debt for the next five years will require approximately:

Year ending April 30	
2016	$4,385,000
2017	$4,315,000
2018	$4,530,000
2019	$4,455,000
2020	$3,860,000

OTHER CURRENT LIABILITIES

	April 30	
	2015	2014
Customers' deposits	$ 679,111	$ 889,555
Accrued vacation	1,641,550	1,546,171
Accrued sick leave	570,366	673,250
Accrued payroll	546,236	456,633
Patronage capital payable	2,126,795	2,520,247
Other current liabilities	301,558	275,158
Total	**$5,865,616**	**$6,361,014**

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2015 and 2014

SHORT-TERM LINES OF CREDIT

The Association has a $30,000,000 line of credit, perpetual in nature, established with CFC. As of April 30, 2015 and 2014 no funds had been drawn. Certain pre-conditions may be required of the Association prior to draw down of funds, such as repayment of all advances once a year.

The Association has a $15,000,000 line of credit, renewable annually on October 31st, established with CoBank. $3,000,000 had been drawn and was outstanding as of April 30, 2015 at an interest rate of 2.29%, and nothing had been drawn as of April 30, 2014.

DEFERRED CREDITS

	April 30	
	2015	2014
Customers' energy prepayments	$ 258,586	$ 271,994
Customers' advances for construction	2,306,432	1,624,331
Indeterminate services	10,643,397	12,023,219
Renewable energy reserve	2,658,198	3,671,874
Other deferred credits	89,373	53,857
Total	**$15,955,986**	**$17,645,275**

Customer advances for construction represent deposits required of customers in accordance with the Association's line extension policy. These are applied against construction costs with any excess being either refunded or applied to indeterminate service, in accordance with Association policy.

Indeterminate Services are customer provided construction advances towards plant construction for which the customers are to receive an annual refund for ten years based on usage. Any portion of the unrefunded advance at the end of the ten year period may revert to the Association. In accordance with the Association's line extension policy, the unrefunded balance is used to offset plant construction costs. The status of potential forfeiture cannot be determined by management at either April 30, 2015 or 2014.

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2015 and 2014

DEFERRED CREDITS (Continued)

The renewable energy reserve is the unused portion of monies set aside for the purposes of renewable energy and conservation expenditures at the end of a calendar year. The reserve is funded with a 2.00% rate rider of member operating revenue.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fair Value Measurements Topic (FASB ASC 820) provides guidance for using fair value to measure assets and liabilities and establishes a hierarchy that gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). The three levels of the fair value hierarchy are as follows.

Level 1 inputs - Valuation is based on quoted prices in active markets for identical assets or liabilities that the Association has the ability to access.

Level 2 inputs - Valuation is determined from quoted prices in active markets for similar assets or liabilities not included in Level 1 and are observable either directly or indirectly; or quoted market prices for identical or similar assets or liabilities in markets that are not active.

Level 3 inputs - Valuation inputs are unobservable for the asset or liability and any valuation is based on an entity's own estimates about the assumptions that market participants would use to value an asset or liability.

Cash and cash equivalents - The carrying amount approximates the fair value.

	April 30, 2015	
	Carrying Amount	Estimated Fair Amount
Assets:		
Cash and cash equivalents	$ 6,719,425	$ 6,719,425
Restricted cash	100,213	100,213
Investments	19,648	(1)
Subordinated certificates	3,097,980	(1)
Other associations	3,765,855	(1)
Liabilities:		
Long-term debt (Level 2)	$157,797,462	$174,083,075

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2015 and 2014

FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	April 30, 2014	
	Carrying Amount	Estimated Fair Amount
Assets:		
Cash and cash equivalents	$ 10,383,031	$ 10,383,031
Restricted cash	100,063	100,063
Investments	101,936	(1)
Subordinated certificates	3,118,286	(1)
Other associations	3,385,908	(1)
Liabilities:		
Long-term debt (Level 2)	$162,260,334	$178,977,150

(1) Management was not able to estimate the fair value of these instruments, since they lack an active market or they do not meet the basic inherent component of a financial instrument. Thus, fair value approximates the carrying value.

CASH FLOWS INFORMATION

	April 30	
	2015	2014
Cash and cash equivalents:		
General funds	**$6,719,425**	**$10,383,031**

PENSION PLAN

The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multi-employer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2015 and 2014

PENSION PLAN (Continued)

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.

The Association's contributions to the RS plan in 2015 and 2014 represented less than 5 percent of the total contributions made to the plan by all participating employers. The NRECA RS plan benefit level was changed effective January 1, 2014 from 1.7% to 0.5%.

Pension payments during the years ended April 30, 2015 and 2014 were as follows:

	April 30	
	2015	2014
Past service pension cost	$ 42,831	$ 42,831
Current payments to plan	1,326,591	2,370,465
Total	**$1,369,422**	**$2,413,296**

In the RS Plan, a "zone status" determination is not required, and therefore not determined under the Pension Protections 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 Retirement Security Plan was over 80 percent funded at both May 1, 2014 and May 1, 2013 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.

The Association supplements this plan with an NRECA sponsored 401(k). Effective January 1, 2014, the Association changed the plan to contribute 14% of the employees qualified salary and will additionally match up to 4% of the employees voluntary contributions. The Association's contribution for 2015 and 2014 was $2,435,894 and $672,910 respectively.

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2015 and 2014

PENSION PLAN (Continued)

Management expects benefit payments (employer) for both plans to approximate the following for the next ten years:

Year ending April 30	
2016	$ 3,730,000
2017	$ 3,880,000
2018	$ 4,040,000
2019	$ 4,200,000
2020	$ 4,370,000
2021 to 2025	$24,600,000

INCOME TAXES

The Association has a letter of exemption from Federal income tax, issued by the Internal Revenue Service, and files IRS Form 990 on a calendar year basis. The subsidiary is a taxable entity and files IRS Form 1120, on a calendar year basis.

Energy and Services Experts, Inc. has a net operating loss carryforward from prior years of approximately $8,250,000 as of both April 30, 2015 and 2014. If not used within the statutory time frame, the loss carryforward will expire due to Internal Revenue Code time limitations. Using an estimated effective tax rate of approximately 35%, the loss carryforward amount has an approximate $2,900,000 potential tax benefit as of both April 30, 2015 and 2014.

The Association placed a valuation allowance on the resulting net deferred tax benefit such that no tax benefit is reflected in the consolidated financial statements.

Financial Accounting Standards Board Interpretation No. 48 (FSP FIN 48), Accounting for Uncertainty in Income Taxes, which is codified at FASB ASC 740, Income Taxes, was issued in 2006. Hence, there have been three amendments to defer the effective date of implementation, including the most recent, FSP FIN 48-3 (ASC 740), which deferred the implementation date to fiscal years beginning on or after December 15, 2008. The Cooperative adopted FSP FIN 48 (ASC 740) on or effective May 1, 2009. An evaluation of whether or not it has any uncertain tax positions is determined on an annual basis by the Cooperative. While the Cooperative believes it has adequately provided for all tax positions, amounts asserted by taxing authorities could be different than the positions taken by the Cooperative. The Cooperative recognizes any interest and penalties assessed by taxing authorities in income tax expense and, with few exceptions, is no longer subject to federal, state, or local income tax examinations by tax authorities for years before 2011.

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2015 and 2014

RELATED PARTY TRANSACTIONS

Related party transactions consisted of normal routine business conducted through organizations of which the Association is a member and normal sales to its members.

COMMITMENTS

The Association obtains a substantial amount of its wholesale purchased power under a contract with Public Service Company of Colorado (PSCo). Although there are a limited number of electric power suppliers, management believes there would be no lapse in service if PSCo were to default on its contract. Such a change might result in higher cost of power to the Association and, in turn, higher billing rates to its members.

Under its wholesale power agreement, PSCo is committed to provide the Association's electric power and energy requirements until April 15, 2042 subject to an opt-out provision with a 5 year notice prerequisite after 2029.

LITIGATION

The Association is involved in various legal matters that management considers to be in the normal course of business. In addition, the Association has a pending damage claim against it that is being defended by legal counsel appointed by the Association's insurance carrier. The outcomes are unknown, therefore nothing is recorded in the consolidated financial statements.

SUBSEQUENT EVENTS

Management has made an evaluation of subsequent events and transactions for the period April 30, 2015 through the date of the audit report, which is the date it was available to be released, and determined that there were no material events that would require recognition or disclosure in the consolidated financial statements under FASB ASC 855-10, Subsequent Events.

Dreyer & Kelso, P.C., P.A.

Certified Public Accountants
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Mission, Kansas 66202
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Holy Cross Electric Association, Inc.
Glenwood Springs, CO

We have audited the consolidated financial statements of Holy Cross Electric Association, Inc. as of and for the years ended April 30, 2015 and 2014, and have issued our report thereon dated August 7, 2015. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Holy Cross Electric Association, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Holy Cross Electric Association, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Holy Cross Electric Association, Inc.'s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Association's consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

The Board of Directors
Holy Cross Electric Association, Inc.
Page Two

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

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

This communication is intended solely for the information and use of the Board of Directors, management, the Rural Utilities Service, and supplemental lenders, and is not intended to be, and should not be, used by anyone other than these specified parties.

Dreyer & Kelso, P.C., P.A.

August 7, 2015

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND UNRESOLVED PRIOR FINDINGS

FOR THE YEAR ENDED APRIL 30, 2015

SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued:	unqualified
Internal control over financial reporting:	
Material weaknesses identified:	none
Significant deficiencies identified that are not considered to be material weaknesses:	none

There are no unresolved findings from the previous audit.

SUPPLEMENTAL INFORMATION

Dreyer & Kelso, P.C., P.A.

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INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTAL INFORMATION

The Board of Directors
Holy Cross Electric Association, Inc.
Glenwood Springs, CO

This audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental information that follows is presented for purposes of additional analysis, and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and related 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.

Dreyer & Kelso, P.C., P.A.

August 7, 2015

HOLY CROSS ELECTRIC ASSOCIATION, INC.

CONSOLIDATING BALANCE SHEET

April 30, 2015

ASSETS

	Holy Cross Electric Association	Energy and Services Experts	Eliminations	Consolidated 4/30/15
UTILITY PLANT				
Electric plant in service	$ 379,056,898	$-0-	$ -0-	$ 379,056,898
Construction work in progress	11,810,228	-0-	-0-	11,810,228
	390,867,126	-0-	-0-	390,867,126
Less: accumulated deprn	(115,159,944)	-0-	-0-	(115,159,944)
Total Utility Plant	**275,707,182**	**-0-**	**-0-**	**275,707,182**
INVESTMENTS				
Subordinated certificates	3,097,980	-0-	-0-	3,097,980
Investments in associated organizations	3,765,855	-0-	-0-	3,765,855
Other investments	19,648	856	(856)	19,648
Non-utility property	1,331,591	-0-	-0-	1,331,591
Total Investments	**8,215,074**	**856**	**(856)**	**8,215,074**
CURRENT ASSETS				
Cash and cash equivalents	6,719,425	-0-	-0-	6,719,425
Restricted cash	100,213	-0-	-0-	100,213
Accounts receivable (less allowance for doubtful accounts of $177,000)	7,583,432	-0-	-0-	7,583,432
Materials and supplies	3,642,579	-0-	-0-	3,642,579
Other current assets	2,519,403	-0-	-0-	2,519,403
Total Current Assets	**20,565,052**	**-0-**	**-0-**	**20,565,052**
DEFERRED CHARGES	**877,179**	**-0-**	**-0-**	**877,179**
TOTAL ASSETS	**$ 305,364,487**	**$856**	**$(856)**	**$ 305,364,487**

MEMBERS' EQUITY AND LIABILITIES

	Holy Cross Electric Association	Energy and Services Experts	Eliminations	Consolidated 4/30/15
EQUITIES AND MARGINS				
Patronage capital	$ 70,120,055	$-0-	$ -0-	$ 70,120,055
Other equities	43,777,420	856	(856)	43,777,420
Total Equities and Margins	**113,897,475**	**856**	**(856)**	**113,897,475**
LONG-TERM DEBT				
Mortgage notes	157,797,462	-0-	-0-	157,797,462
Less: current maturities	(4,385,000)	-0-	-0-	(4,385,000)
Total Long-Term Debt	**153,412,462**	**-0-**	**-0-**	**153,412,462**
CURRENT LIABILITIES				
Current maturities on long-term debt	4,385,000	-0-	-0-	4,385,000
Accounts payable	6,728,244	-0-	-0-	6,728,244
Notes payable - line-of-credit	3,000,000	-0-	-0-	3,000,000
Accrued interest payable	306,643	-0-	-0-	306,643
Accrued taxes	1,813,061	-0-	-0-	1,813,061
Other current liabilities	5,865,616	-0-	-0-	5,865,616
Total Current Liabilities	**22,098,564**	**-0-**	**-0-**	**22,098,564**
DEFERRED CREDITS	**15,955,986**	**-0-**	**-0-**	**15,955,986**
TOTAL MEMBERS' EQUITY AND LIABILITIES	**$ 305,364,487**	**$856**	**$(856)**	**$ 305,364,487**

HOLY CROSS ELECTRIC ASSOCIATION, INC.

CONSOLIDATING STATEMENT OF REVENUE

April 30, 2015

	Holy Cross Electric Association	Energy and Services Experts	Eliminations	Consolidated 4/30/15
OPERATING REVENUE				
Operating revenue	$116,117,555	$-0-	$-0-	$116,117,555
Other operating revenue	2,489,033	-0-	-0-	2,489,033
Total Operating Revenue	**118,606,588**	**-0-**	**-0-**	**118,606,588**
OPERATING EXPENSE				
Production power expense	10,206,541	-0-	-0-	10,206,541
Cost of power	50,121,333	-0-	-0-	50,121,333
Transmission expense	1,795,658	-0-	-0-	1,795,658
Distribution - operations	10,407,836	-0-	-0-	10,407,836
Distribution - maintenance	3,452,276	-0-	-0-	3,452,276
Consumer accounts	4,144,027	-0-	-0-	4,144,027
Customer service and information	2,341,081	-0-	-0-	2,341,081
Administrative and general	9,518,572	-0-	-0-	9,518,572
Depreciation & amortization	10,216,000	-0-	-0-	10,216,000
Interest on long-term debt	8,287,267	-0-	-0-	8,287,267
Other interest	21,489	-0-	-0-	21,489
Total Operating Expense	**110,512,080**	**-0-**	**-0-**	**110,512,080**
NON-OPERATING MARGIN				
Interest income	128,898	-0-	-0-	128,898
Other non-operating revenue	7,302	-0-	-0-	7,302
Total Non Operating Margin	**136,200**	**-0-**	**-0-**	**136,200**
CAPITAL CREDITS	**727,697**	**-0-**	**-0-**	**727,697**
NET MARGIN	**$ 8,958,405**	**$-0-**	**$-0-**	**$ 8,958,405**

HOLY CROSS ELECTRIC ASSOCIATION, INC.

CONSOLIDATING BALANCE SHEET

April 30, 2014

ASSETS

	Holy Cross Electric Association	Energy and Services Experts	Eliminations	Consolidated 4/30/14
UTILITY PLANT				
Electric plant in service	$ 373,901,766	$ -0-	$ -0-	$ 373,901,766
Construction work in progress	4,964,118	-0-	-0-	4,964,118
	378,865,884	-0-	-0-	378,865,884
Less: accumulated deprn	(106,444,591)	-0-	-0-	(106,444,591)
Total Utility Plant	**272,421,293**	**-0-**	**-0-**	**272,421,293**
INVESTMENTS				
Subordinated certificate	3,118,286	-0-	-0-	3,118,286
Investments in associated organizations	3,385,908	-0-	-0-	3,385,908
Other investments	101,936	1,936	(1,936)	101,936
Notes receivable	1,152	-0-	-0-	1,152
Non-utility property	886,291	-0-	-0-	886,291
Total Investments	**7,493,573**	**1,936**	**(1,936)**	**7,493,573**
CURRENT ASSETS				
Cash and cash equivalents	10,383,031	-0-	-0-	10,383,031
Restricted cash	100,063	-0-	-0-	100,063
Accounts receivable (less allowance for doubtful accounts of $136,000)	8,569,962	-0-	-0-	8,569,962
Materials and supplies	3,686,753	-0-	-0-	3,686,753
Other current assets	2,309,505	-0-	-0-	2,309,505
Total Current Assets	**25,049,314**	**-0-**	**-0-**	**25,049,314**
DEFERRED CHARGES	**892,067**	**-0-**	**-0-**	**892,067**
TOTAL ASSETS	**$ 305,856,247**	**$1,936**	**$(1,936)**	**$ 305,856,247**

MEMBERS' EQUITY AND LIABILITIES

	Holy Cross Electric Association	Energy and Services Experts	Eliminations	Consolidated 4/30/14
EQUITIES AND MARGINS				
Patronage capital	$ 69,607,403	$ -0-	$ -0-	$ 69,607,403
Other equities	41,237,503	1,936	(1,936)	41,237,503
Total Equities and Margins	**110,844,906**	**1,936**	**(1,936)**	**110,844,906**
LONG-TERM DEBT				
Mortgage notes	162,260,334	-0-	-0-	162,260,334
Less: current maturities	(4,255,000)	-0-	-0-	(4,255,000)
Total Long-Term Debt	**158,005,334**	**-0-**	**-0-**	**158,005,334**
CURRENT LIABILITIES				
Current maturities on long-term debt	4,255,000	-0-	-0-	4,255,000
Accounts payable	6,571,707	-0-	-0-	6,571,707
Accrued interest payable	316,213	-0-	-0-	316,213
Accrued taxes	1,856,798	-0-	-0-	1,856,798
Other current liabilities	6,361,014	-0-	-0-	6,361,014
Total Current Liabilities	**19,360,732**	**-0-**	**-0-**	**19,360,732**
DEFERRED CREDITS	**17,645,275**	**-0-**	**-0-**	**17,645,275**
TOTAL MEMBERS' EQUITY AND LIABILITIES	**$ 305,856,247**	**$1,936**	**$(1,936)**	**$ 305,856,247**

HOLY CROSS ELECTRIC ASSOCIATION, INC.

CONSOLIDATING STATEMENT OF REVENUE

April 30, 2014

	Holy Cross Electric Association	Energy and Services Experts	Eliminations	Consolidated 4/30/14
OPERATING REVENUE				
Operating revenue	$ 116,303,371	$-0-	$-0-	$ 116,303,371
Other operating revenue	4,713,178	-0-	-0-	4,713,178
Total Operating Revenue	**121,016,549**	**-0-**	**-0-**	**121,016,549**
OPERATING EXPENSE				
Production power expense	10,919,820	-0-	-0-	10,919,820
Cost of power	51,720,264	-0-	-0-	51,720,264
Transmission expense	2,619,993	-0-	-0-	2,619,993
Distribution - operations	10,176,760	-0-	-0-	10,176,760
Distribution - maintenance	3,290,549	-0-	-0-	3,290,549
Consumer accounts	4,265,041	-0-	-0-	4,265,041
Customer service and information	2,264,779	-0-	-0-	2,264,779
Administrative and general	9,356,411	-0-	-0-	9,356,411
Depreciation & amortization	10,104,121	-0-	-0-	10,104,121
Interest on long-term debt	8,418,231	-0-	-0-	8,418,231
Other interest	8,675	-0-	-0-	8,675
Total Operating Expense	**113,144,644**	**-0-**	**-0-**	**113,144,644**
NON-OPERATING MARGIN				
Interest income	123,457	-0-	-0-	123,457
Other non-operating revenue (expense)	(19,729)	-0-	-0-	(19,729)
Total Non Operating Margin	**103,728**	**-0-**	**-0-**	**103,728**
CAPITAL CREDITS	**158**	**-0-**	**-0-**	**158**
NET MARGIN	**$ 7,975,791**	**$-0-**	**$-0-**	**$ 7,975,791**

HOLY CROSS ELECTRIC ASSOCIATION, INC.

DETAILED SCHEDULE OF INVESTMENTS

FOR THE YEAR ENDED APRIL 30, 2015

Energy and Services Experts, Inc.:

Original investment	$ 1,166,667
Book value of investment 4/30/98	1,166,667
Investment advances	4,533,306
Undistributed share of loss, 4/30/99	(4,721)
Book value of investment 4/30/99	5,695,252
Investment advances	7,500
Book value of investment 4/30/00	5,702,752
Investment advances	2,989,897
Undistributed share of loss, 4/30/01	(255,904)
Book value of investment 4/30/01	8,436,745
Investment advances	20,090
Undistributed share of loss, 4/30/02	(2,094,599)
Book value of investment 4/30/02	6,362,236
Investment advances	2,331
Undistributed share of loss, 4/30/03	(364,863)
Book value of investment 4/30/03	5,999,704
Investment advances	7,398
Undistributed share of loss, 4/30/04	(663,055)
Book value of investment 4/30/04	5,344,047
Investment advances	2,000
Undistributed share of loss, 4/30/05	(213,182)
Book value of investment 4/30/05	5,132,865
Write down of investment	(5,131,359)
Undistributed share of loss, 4/30/06	(1,025)
Book value of investment 4/30/06	481

HOLY CROSS ELECTRIC ASSOCIATION, INC.

DETAILED SCHEDULE OF INVESTMENTS

FOR THE YEAR ENDED APRIL 30, 2015

Investment advances	$ 425,000
Undistributed share of loss, 4/30/07	(45,089)
Write down of investment	(379,911)
Book value of investment 4/30/07	481
Investment advances	5,000
Undistributed share of loss, 4/30/08	(825)
Book value of investment 4/30/08	4,656
Undistributed share of loss, 4/30/09	(575)
Book value of investment 4/30/09	4,081
Undistributed share of loss, 4/30/10	(525)
Book value of investment 4/30/10	3,556
Undistributed share of loss, 4/30/11	(540)
Book value of investment 4/30/11	3,016
Undistributed share of loss, 4/30/12	(540)
Book value of investment 4/30/12	2,476
Undistributed share of loss, 4/30/13	(540)
Book value of investment 4/30/13	1,936
Undistributed share of loss, 4/30/14	(540)
Book value of investment 4/30/14	1,396
Undistributed share of loss, 4/30/15	(540)
Book value of investment 4/30/15	**$ 856**

Energy and Services Experts, Inc. is a wholly owned subsidiary providing various non-electric services. The Association accounts for the investment on the equity basis.

HOLY CROSS ELECTRIC ASSOCIATION, INC.

DETAILED SCHEDULE OF INVESTMENTS

FOR THE YEAR ENDED APRIL 30, 2015

Paradigm Services, LLC:

Original investment	$ 10,000
Book value of investment 4/30/98	10,000
Investment advances	350,000
Undistributed share of earnings, 4/30/99	52,781
Book value of investment 4/30/99	412,781
Undistributed share of earnings, 4/30/00	33,091
Book value of investment 4/30/00	445,872
Undistributed share of earnings, 4/30/01	90,954
Book value of investment 4/30/01	536,826
Investment advances	476,131
Undistributed share of loss, 4/30/02	(4,597)
Book value of investment 4/30/02	1,008,360
Undistributed share of loss, 4/30/03	(74,988)
Book value of investment 4/30/03	933,372
Undistributed share of earnings, 4/30/04	53,178
Book value of investment 4/30/04	986,550
Undistributed share of loss, 4/30/05	(70,832)
Book value of investment 4/30/05	915,718
Undistributed share of earnings, 4/30/06	43,591
Book value of investment 4/30/06	959,309
Undistributed share of loss, 4/30/07	(33,802)
Book value of investment 4/30/07	925,507
Undistributed share of loss, 4/30/08	(157,979)
Book value of investment 4/30/08	767,528

HOLY CROSS ELECTRIC ASSOCIATION, INC.

DETAILED SCHEDULE OF INVESTMENTS

FOR THE YEAR ENDED APRIL 30, 2015

Undistributed share of loss, 4/30/09	$(366,802)
Book value of investment 4/30/09	400,726
Undistributed share of loss, and write down of investment 4/30/10	(400,726)
Book value of investment 4/30/10	-0-
Investment advances	200,000
Book value of investment 4/30/11	200,000
Activity	-0-
Book value of investment 4/30/12	200,000
Activity	-0-
Book value of investment 4/30/13	200,000
Return of investment	(100,000)
Book value of investment 4/30/14	100,000
Return of investment	(100,000)
Book value of investment 4/30/15	$ -0-

Paradigm Services, LLC is a limited liability company providing shared services to its members. The Association has a one-third interest in the Company and accounts for the investment on the equity basis.

Dreyer & Kelso, P.C., P.A.

Certified Public Accountants
5799 Broadmoor - Suite 712
Mission, Kansas 66202
913-831-1150 • Fax: 913-831-0538

INDEPENDENT AUDITORS' REPORT on COMPLIANCE with ASPECTS OF CONTRACTUAL AGREEMENTS and REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS

The Board of Directors
Holy Cross Electric Association, Inc.
Glenwood Springs, CO

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Holy Cross Electric Association, Inc. (Holy Cross), which comprise the consolidated balance sheet as of April 30, 2015, and the related consolidated statements of revenue and patronage capital, comprehensive income, changes in cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated August 7, 2015. In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2015, on our consideration Holy Cross's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Holy Cross failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Holy Cross's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Holy Cross's accounting and records to indicate that Holy Cross did not:

Maintain adequate and effective accounting procedures;

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

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

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

Disclose material related party transactions in the consolidated financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

Comply with the requirements for the detailed schedule of investments.

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

Dreyer & Kelso, P.C., P.A.

Certified Public Accountants
Mission, KS

August 7, 2015

Dreyer & Kelso, P.C., P.A.

Certified Public Accountants
5799 Broadmoor - Suite 712
Mission, Kansas 66202
913-831-1150 • Fax: 913-831-0538

The Board of Directors
Holy Cross Electric Association, Inc.
Glenwood Springs, CO

We have audited the consolidated financial statements of Holy Cross Electric Association, Inc. for the year ended April 30, 2015, and have issued our report thereon dated August 7, 2015. Professional standards require that we provide you with the following information related to our audit.

The Auditors' Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated August 14, 2013, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the consolidated financial statements are free of material misstatement and to express an opinion about whether the consolidated financial statements prepared by management with your oversight are fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control of Holy Cross Electric Association, Inc. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters.

Significant Audit Findings

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Association are described in the notes to the consolidated financial statements. Management has informed us that no new accounting policies were adopted and the application of existing policies was not changed during the year ended April 30, 2015. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the consolidated financial statements in a different period than when the transaction occurred.

Accounting Estimates

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

One of the significant accounting estimates affecting the Association's consolidated financial statements is the estimated useful lives of the Utility Plant for purposes of computing depreciation. We evaluated the estimated useful lives used by management for the transmission, distribution and general plant in determining that they are reasonable in relation to the consolidated financial statements taken as a whole.

There are no other accounting estimates that are significant to the consolidated financial statements taken as a whole.

Financial Statement Disclosures

The disclosures in the consolidated financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There are no financial statement disclosures that are sensitive and significant to the consolidated financial statements taken as a whole.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

During the audit certain adjustments were identified and evaluated that management has determined their effects to be immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole. A copy of these uncorrected misstatements is attached for your review.

Management Representations

We have requested certain representations from management that are included in the management representation letter, dated August 7, 2015.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the consolidated financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Difficulties Encountered in Performing The Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's consolidated financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This report is intended for the use of the Board of Directors and management of Holy Cross Electric Association, Inc. and should not be used for any other purpose.

If you have any questions or comments regarding the items discussed in this letter, or any others, please allow us to be of assistance.

We would like to express our thanks for the courtesy and assistance once again extended to us during the course of our audit.

Dreyer & Kelso, P.C., P.A.

August 7, 2015

HOLY CROSS ELECTRIC ASSOCIATION, INC.

UNCORRECTED MISSTATEMENTS

April 30, 2015

Account #	Account Name/Description	Debits	Credits
	#1		
107.7900	AMI REPLACEMENT L & G	$64,775.67	
232.1000	ACCOUNTS PAYABLE - GENERAL		$64,775.67
	TO RECORD ADDITIONAL PAYABLE.		
		$64,775.67	**$64,775.67**