HOLY CROSS ELECTRIC ASSOCIATION, INC.
A/K/A HOLY CROSS ENERGY

CONSOLIDATED FINANCIAL STATEMENTS

WITH

REPORT OF CERTIFIED PUBLIC ACCOUNTANT

FOR THE YEARS ENDED

APRIL 30, 2018 AND APRIL 30, 2017

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, 2018

Name	Office	Address
Megan M. Gilman	Chair	Avon, Colorado
David C. Munk	Vice-Chair	Carbondale, Colorado
Michael A. Glass	Secretary	Edwards, Colorado
Robert H. Gardner	Treasurer	Basalt, Colorado
Kristen N. Bertuglia	Director	Vail, Colorado
Clemons Kopf	Director	Glenwood Springs, Colorado
Adam L. Palmer	Director	Eagle, Colorado
Bryan Hannegan	President and Chief Executive Officer	Glenwood Springs, Colorado

KEVIN S. KELSO, CPA, P.C., P.A.

CERTIFIED PUBLIC ACCOUNTANT
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MISSION, KS 66202
913-831-1150 • FAX: 913-831-0538

INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

I have audited the accompanying consolidated financial statements of Holy Cross Electric Association, Inc. which comprise the consolidated balance sheets as of April 30, 2018 and 2017, 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

My responsibility is to express an opinion on these consolidated financial statements based on my audits. I conducted my 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. Those standards require that I 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.
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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Holy Cross Electric Association, Inc., and subsidiary, as of April 30, 2018 and 2017, 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.

Kevin S. Kelso, CPA, P.C., P.A.

Mission, Kansas
July 30, 2018

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

April 30, 2018 and 2017

ASSETS

	2018	2017
UTILITY PLANT		
Electric plant in service	$ 405,271,659	$ 396,687,583
Construction work in progress	12,450,064	10,344,950
	417,721,723	407,032,533
Less: accumulated depreciation	(137,552,279)	(127,654,646)
Net Utility Plant	280,169,444	279,377,887
INVESTMENTS		
Subordinated certificates	3,048,461	3,063,533
Investments in associated organizations	4,926,378	4,428,597
Other investments	26,911	67,134
Non-utility property	1,174,917	1,227,142
Total Investments	9,176,667	8,786,406
CURRENT ASSETS		
Cash and cash equivalents	7,440,844	9,510,420
Restricted cash	100,701	100,514
Temporary cash investments	1,500,000	2,500,000
Accounts receivable (less allowance for doubtful accounts of $308,000 at 4/30/18 and $284,000 at 4/30/17)	8,390,707	8,228,827
Materials and supplies	3,826,166	3,094,523
Other current assets	4,531,853	4,260,249
Total Current Assets	25,790,271	27,694,533
DEFERRED CHARGES	684,323	1,013,351
TOTAL ASSETS	$ 315,820,705	$ 316,872,177

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

MEMBERS' EQUITY AND LIABILITIES

	2018	2017
MEMBERS' EQUITY		
Patronage capital	$ 70,054,979	$ 67,815,217
Other equities	53,346,305	49,984,333
Total Members' Equity	123,401,284	117,799,550
LONG-TERM DEBT		
Mortgage notes	162,573,518	166,841,220
Less: current maturities	(5,510,000)	(4,750,000)
Total Long-Term Debt	157,063,518	162,091,220
CURRENT LIABILITIES		
Current maturities of long-term debt	5,510,000	4,750,000
Accounts payable	11,333,990	10,903,037
Accrued interest payable	173,435	284,558
Accrued taxes	2,233,256	2,126,023
Other current liabilities	4,778,589	5,806,329
Total Current Liabilities	24,029,270	23,869,947
DEFERRED CREDITS	11,326,633	13,111,460
TOTAL MEMBERS' EQUITY AND LIABILITIES	$ 315,820,705	$ 316,872,177

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF REVENUE AND PATRONAGE CAPITAL

FOR THE YEARS ENDED APRIL 30

	2018	2017
OPERATING REVENUE		
Sale of electricity	$ 122,542,621	$ 116,152,451
Other operating revenue	2,939,486	2,753,277
Total Operating Revenue	**125,482,107**	**118,905,728**
OPERATING EXPENSE		
Production power expense	10,559,104	10,620,157
Cost of power	47,873,027	49,770,173
Transmission expense	2,395,487	2,019,840
Distribution - operations	11,497,930	10,162,785
Distribution - maintenance	5,304,278	4,641,750
Consumer accounts	3,693,672	3,630,913
Customer service and information	2,352,540	2,067,126
Administrative and general	11,478,136	10,143,407
Depreciation and amortization	12,568,781	12,317,314
Interest on long-term debt	8,232,822	8,436,078
Interest expense - other	4,013	19,488
Other deductions	143,628	-0-
Total Operating Expense	**116,103,418**	**113,829,031**
NET OPERATING MARGIN	**9,378,689**	**5,076,697**
NON-OPERATING MARGIN		
Interest income	235,251	211,727
Other non-operating income (expense)	(35,595)	(19,160)
Total Non-Operating Margin	**199,656**	**192,567**
CAPITAL CREDITS	**828,650**	**779,507**
NET MARGINS FOR PERIOD	**10,406,995**	**6,048,771**
PATRONAGE CAPITAL - BEGINNING OF YEAR	67,815,217	70,847,556
	78,222,212	76,896,327
Retirement of capital credits	(8,167,233)	(9,081,110)
PATRONAGE CAPITAL - END OF YEAR	**$ 70,054,979**	**$ 67,815,217**

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 COMPREHENSIVE INCOME

FOR THE YEARS ENDED APRIL 30

	2018	2017
NET MARGIN	**$10,406,995**	**$6,048,771**
TOTAL COMPREHENSIVE INCOME	**$10,406,995**	**$6,048,771**

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 123,499,805	$ 119,308,450
Interest and dividends received	235,251	211,727
Cash paid to suppliers and employees	(100,135,305)	(88,566,999)
Interest paid	(8,347,958)	(8,470,432)
Net Cash Provided (Used) By Operating Activities	15,251,793	22,482,746
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in plant	(13,360,338)	(10,509,938)
Materials and supplies	(731,643)	21,296
Temporary cash investments	1,000,000	(2,500,000)
Patronage capital recovery	375,985	504,247
Other investing activities	1,029,458	(1,002,748)
Non-utility property	52,225	52,224
Net Cash Provided (Used) By Investing Activities	**(11,634,313)**	**(13,434,919)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Loan funds received	35,815,320	5,000,000
Retirement of long-term debt	(38,915,792)	(5,016,019)
Retirement of capital credits	(8,167,233)	(9,081,110)
Other financing activities	5,580,649	3,168,850
Net Cash Provided (Used) By Financing Activities	**(5,687,056)**	**(5,928,279)**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(2,069,576)**	**3,119,548**
Cash and cash equivalents - Beginning of year	9,510,420	6,390,872
CASH AND CASH EQUIVALENTS - END OF YEAR	**$ 7,440,844**	**$ 9,510,420**

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

	2018	2017
RECONCILIATION OF NET MARGIN TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net margin	$ 10,406,995	$ 6,048,771
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation and amortization	12,568,781	12,317,314
Patronage capital credits from suppliers	(828,650)	(779,507)
(Increase) decrease in restricted cash	(187)	(150)
(Increase) decrease in accounts receivable	(161,880)	684,708
(Increase) decrease deferred charges	(4,076,158)	(350,550)
(Increase) decrease other assets	(271,604)	(931,738)
Increase (decrease) in accounts payable	430,953	6,222,676
Increase (decrease) in interest payable	(111,123)	(14,866)
Increase (decrease) in accrued taxes	107,233	8,411
Increase (decrease) in other liabilities	(1,027,740)	(459,497)
Increase (decrease) in deferred credits	(1,784,827)	(262,826)
Net Cash Provided (Used) Operating Activities	**$ 15,251,793**	**$ 22,482,746**

The accompanying notes to the 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, 2018 and 2017

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.

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2018 and 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Investments in associated organizations are carried at cost plus allocated equities. 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 the industry practice of recording revenue concurrently with its billings to customers and recording cost of power upon receipt of their billing from the supplier. The Association collects taxes from its members on behalf of taxing authorities and revenue is reported net of these taxes in the Statements of Revenue and Patronage Capital.

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.

USE OF ESTIMATES, 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.

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2018 and 2017

ASSETS PLEDGED

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

UTILITY PLANT

A summary of the utility plant and accumulated depreciation follows:

	April 30	
	2018	2017
Transmission plant	$ 33,533,205	$ 33,532,016
Production plant (generation)	120,105,814	119,922,479
Distribution plant	190,297,249	187,999,291
General plant	61,335,391	55,233,797
Total Electric Plant	**405,271,659**	**396,687,583**
Construction work in progress	12,450,064	10,344,950
	417,721,723	**407,032,533**
Accumulated depreciation:		
Transmission plant	20,168,062	19,293,544
Production plant (generation)	22,852,213	20,089,059
Distribution plant	70,625,546	66,114,590
General plant	23,860,277	22,179,247
	137,506,098	**127,676,440**
Retirement work in progress	46,181	(21,794)
	137,552,279	**127,654,646**
Net Utility Plant	**$ 280,169,444**	**$ 279,377,887**

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2018 and 2017

UTILITY PLANT (Continued)

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%.

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 a blended annual rate of 2.402%. Starting in January of 2016, with approval from RUS, Comanche 3 generation plant going forward is depreciated using the straight-line composite basis with the RUS prescribed rate for steam production plant of 3.10%

NON-UTILITY PROPERTY

	April 30		Depreciation
	2018	2017	Method & Years
Real estate	$ 1,719,560	$ 1,719,560	S/L 33-38 Years
Less: accumulated depreciation	(544,643)	(492,418)	
Net Book Value	**$ 1,174,917**	**$ 1,227,142**	

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, 2018 and 2017

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, 2018 and 2017, the Association had approximately $27,000 and $29,000, respectively, in electric accounts receivable that were over 90 days old and the balance in the allowance for bad debts approximated $308,000 and $284,000, respectively.

SUBORDINATED CERTIFICATES

	April 30	
	2018	2017
Capital term certificates	$1,091,977	$1,091,977
Zero term certificates	1,956,484	1,971,556
Total	**$3,048,461**	**$3,063,533**

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	
	2018	2017
Patronage capital - CFC	$3,329,815	$3,030,362
Patronage capital - Western United	800,622	689,343
Patronage capital - Federated	469,855	409,418
Other associated organizations	326,086	299,474
Total	**$4,926,378**	**$4,428,597**

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2018 and 2017

OTHER INVESTMENTS

	April 30	
	2018	2017
Subsidiary cash in bank	$ 8,648	$ 8,923
Deferred compensation	18,263	58,211
Total	**$26,911**	**$67,134**

OTHER CURRENT ASSETS

	April 30	
	2018	2017
Prepaid insurance	$ 262,903	$ 274,665
Comanche 3 O & M deposit	1,357,000	1,357,000
Carbon offsets	2,268,395	1,719,942
Undistributed stores charges	235,547	380,947
Other current assets	408,008	527,695
Total	**$4,531,853**	**$4,260,249**

DEFERRED CHARGES

	April 30	
	2018	2017
Past service pension costs	$ 414,027	$ 456,858
Prepaid pension plan contributions	201,225	270,494
Tools clearing account	(16,298)	179,169
Other deferred charges	85,369	106,830
Total	**$ 684,323**	**$1,013,351**

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, 2018 and 2017.

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2018 and 2017

MEMBERS' EQUITY

	Patronage Capital Credits	Patronage Capital Unallocated	Other Equities	Total
Balance April 30, 2016	$ 62,758,078	$ 8,089,478	$46,815,483	$ 117,663,039
Net margin, year ended April 30, 2017	-0-	6,048,771	-0-	6,048,771
Allocations	7,852,781	(7,852,781)	-0-	-0-
Retirement of capital credits	(9,077,262)	(3,848)	1,645,141	(7,435,969)
Other changes	-0-	-0-	1,523,709	1,523,709
Balance April 30, 2017	61,533,597	6,281,620	49,984,333	117,799,550
Net margin, year ended April 30, 2018	-0-	10,406,995	-0-	10,406,995
Allocations	5,909,174	(5,909,174)	-0-	-0-
Retirement of capital credits	(8,164,649)	(2,584)	1,698,655	(6,468,578)
Other changes	-0-	-0-	1,663,317	1,663,317
Balance April 30, 2018	**$ 59,278,122**	**$ 10,776,857**	**$53,346,305**	**$ 123,401,284**

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

The total equities of the Association are 39% and 37% of the total assets as of April 30, 2018 and 2017, respectively. Other equities consist of donated capital, retired capital credits gain, non-operating margins, appropriated margins and the discount applied to prior year capital credit retirements.

LONG-TERM DEBT

Long-term debt consists principally of mortgage notes payable to CFC, and Farmer Mac, with various maturities through the year 2044.

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2018 and 2017

LONG-TERM DEBT (Continued)

The following is a summary of these notes:

	April 30	
	2018	2017
CFC mortgage notes	$ 150,892,868	$ 119,485,703
RUS cushion of credit - 5.00%	-0-	(1,019,279)
FFB mortgage notes	-0-	31,624,892
Farmer Mac mortgage notes	16,085,836	16,749,904
	166,978,704	166,841,220
Less: unamortized loss on reacquired debt	(4,405,186)	-0-
	162,573,518	166,841,220
Less: current maturities	(5,510,000)	(4,750,000)
Total Long-Term Debt	$ 157,063,518	$ 162,091,220

The CFC notes have fixed rates that ranged from 3.80% to 6.15% as of April 30, 2018, and from 3.15% to 7.00% as of April 30, 2017. During the year ended April 30, 2018, the Association re-priced $7,741,041 of its fixed rate debt at a new fixed rate. During the year ended April 30, 2017, the Association re-priced $3,433,738 of its fixed rate debt at a new fixed rate.

The FFB notes have fixed rates that ranged from 2.274% to 5.259%, plus a 0.125% administrative fee as of April 30, 2017. During the year ended April 30, 2018, the Association refinanced all of its FFB debt with CFC at fixed rates in the amount of $35,775,320.

The Farmer Mac notes have fixed rates that ranged from 2.81% to 5.04% as of April 30, 2018, and from 2.75% to 6.44% as of April 30, 2017.

As of April 30, 2018 and 2017, CFC was committed to advance loan funds to the Association in the amounts of $40,014,767 and $10,000,000, respectively, for which a loan agreement was executed.

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2018 and 2017

LONG-TERM DEBT (Continued)

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

Year ending April 30	
2019	$5,510,000
2020	$5,425,000
2021	$5,695,000
2022	$5,980,000
2023	$6,280,000

OTHER CURRENT LIABILITIES

	April 30	
	2018	2017
Customers' deposits	$ 467,618	$ 581,977
Accrued vacation	2,227,539	2,086,630
Accrued payroll	629,936	507,820
Patronage capital payable	1,139,807	2,335,606
Other current liabilities	313,689	294,296
Total	**$4,778,589**	**$5,806,329**

SHORT-TERM LINES OF CREDIT

The Association has a $30,000,000 line of credit ($15,000,000 secured and $15,000,000 unsecured), perpetual in nature, established with CFC. As of April 30, 2018 and 2017, no funds had been drawn and remained outstanding.

The Association has a $15,000,000 line of credit, renewable annually on October 31st, established with CoBank. As of April 30, 2018 and 2017, no funds had been drawn and remained outstanding.

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2018 and 2017

DEFERRED CREDITS

	April 30	
	2018	2017
Customers' energy prepayments	$ 255,431	$ 267,995
Customers' advances for construction	1,733,546	2,113,196
Indeterminate services	6,873,601	8,532,703
Renewable energy reserve	2,284,939	2,020,767
Other deferred credits	179,116	176,799
Total	**$11,326,633**	**$13,111,460**

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, 2018 or 2017.

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.

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2018 and 2017

FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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, 2018	
	Carrying Amount	Estimated Fair Amount
Assets:		
Cash and cash equivalents (level 3)	$ 7,440,844	$ 7,440,844
Restricted cash (level 3)	100,701	100,701
Temporary cash investments (level 3)	1,500,000	1,500,000
Investments (level 3)	26,911	26,911
Subordinated certificates (level 3)	3,048,461	3,048,461
Other associations (level 3)	4,926,378	4,926,378
Liabilities:		
Long-term debt (Level 2)	$166,978,704	$188,125,965

	April 30, 2017	
	Carrying Amount	Estimated Fair Amount
Assets:		
Cash and cash equivalents (level 3)	$ 9,510,420	$ 9,510,420
Restricted cash (level 3)	100,514	100,514
Temporary cash investments (level 3)	2,500,000	2,500,000
Investments (level 3)	67,134	67,134
Subordinated certificates (level 3)	3,063,533	3,063,533
Other associations (level 3)	4,428,597	4,428,597
Liabilities:		
Long-term debt (Level 2)	$166,841,220	$198,358,119

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2018 and 2017

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.

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 2018 and 2017 represented less than 5 percent of the total contributions made to the plan by all participating employers.

Pension payments during the years ended April 30, 2018 and 2017 were as follows:

	April 30	
	2018	2017
Past service pension cost	$ 42,831	$ 42,831
Current payments to plan	1,384,900	1,288,538
Total	$1,427,731	$1,331,369

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 90 percent funded at both May 1, 2017 and May 1, 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.

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2018 and 2017

PENSION PLAN (Continued)

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 2018 and 2017 was $2,734,214 and $2,498,151 respectively.

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

Year ending April 30	
2019	$ 4,250,000
2020	$ 4,390,000
2021	$ 4,530,000
2022	$ 4,680,000
2023	$ 4,830,000
2024 to 2028	$33,690,000

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, 2018 and 2017. If not used within the statutory time frames, 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, 2018 and 2017.

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.

An evaluation of whether or not it has any uncertain tax positions is determined on an annual basis by the Association. While the Association believes it has adequately provided for all tax positions, amounts asserted by taxing authorities could be different than the positions taken by the Association. The Association 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 2014.

HOLY CROSS ELECTRIC ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2018 and 2017

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, 2018 through July 30, 2018, which is the date the report was available to be issued 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.

SUPPLEMENTAL INFORMATION

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**INDEPENDENT AUDITOR'S 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 my opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Kevin S. Kelso, CPA, P.C., P.A.

July 30, 2018

HOLY CROSS ELECTRIC ASSOCIATION, INC.

CONSOLIDATING BALANCE SHEET

April 30, 2018

ASSETS

	Holy Cross Electric Association	Energy and Services Experts	Eliminations	Consolidated 4/30/18
UTILITY PLANT				
Electric plant in service	$ 405,271,659	$ -0-	$ -0-	$ 405,271,659
Construction work in progress	12,450,064	-0-	-0-	12,450,064
	417,721,723	-0-	-0-	417,721,723
Less: accumulated deprn	(137,552,279)	-0-	-0-	(137,552,279)
Total Utility Plant	**280,169,444**	**-0-**	**-0-**	**280,169,444**
INVESTMENTS				
Subordinated certificate	3,048,461	-0-	-0-	3,048,461
Investments in associated organizations	4,926,378	-0-	-0-	4,926,378
Other investments	26,911	8,648	(8,648)	26,911
Non-utility property	1,174,917	-0-	-0-	1,174,917
Total Investments	**9,176,667**	**8,648**	**(8,648)**	**9,176,667**
CURRENT ASSETS				
Cash and cash equivalents	7,440,844	-0-	-0-	7,440,844
Restricted cash	100,701	-0-	-0-	100,701
Temporary cash investments	1,500,000	-0-	-0-	1,500,000
Accounts receivable (less allowance for doubtful accounts of $308,000)	8,390,707	-0-	-0-	8,390,707
Materials and supplies	3,826,166	-0-	-0-	3,826,166
Other current assets	4,531,853	-0-	-0-	4,531,853
Total Current Assets	**25,790,271**	**-0-**	**-0-**	**25,790,271**
DEFERRED CHARGES	**684,323**	**-0-**	**-0-**	**684,323**
TOTAL ASSETS	**$ 315,820,705**	**$8,648**	**$(8,648)**	**$ 315,820,705**

MEMBERS' EQUITY AND LIABILITIES

	Holy Cross Electric Association	Energy and Services Experts	Eliminations	Consolidated 4/30/18
EQUITIES AND MARGINS				
Patronage capital	$ 70,054,979	$ -0-	$ -0-	$ 70,054,979
Other equities	53,346,305	8,648	(8,648)	53,346,305
Total Equities and Margins	123,401,284	8,648	(8,648)	123,401,284
LONG-TERM DEBT				
Mortgage notes	162,573,518	-0-	-0-	162,573,518
Less: current maturities	(5,510,000)	-0-	-0-	(5,510,000)
Total Long-Term Debt	157,063,518	-0-	-0-	157,063,518
CURRENT LIABILITIES				
Current maturities on long-term debt	5,510,000	-0-	-0-	5,510,000
Accounts payable	11,333,990	-0-	-0-	11,333,990
Accrued interest payable	173,435	-0-	-0-	173,435
Accrued taxes	2,233,256	-0-	-0-	2,233,256
Other current liabilities	4,778,589	-0-	-0-	4,778,589
Total Current Liabilities	24,029,270	-0-	-0-	24,029,270
DEFERRED CREDITS	11,326,633	-0-	-0-	11,326,633
TOTAL MEMBERS' EQUITY AND LIABILITIES	$ 315,820,705	$8,648	$(8,648)	$ 315,820,705

HOLY CROSS ELECTRIC ASSOCIATION, INC.

CONSOLIDATING STATEMENT OF REVENUE

April 30, 2018

	Holy Cross Electric Association	Energy and Services Experts	Eliminations	Consolidated 4/30/18
OPERATING REVENUE				
Operating revenue	$ 122,542,621	$-0-	$-0-	$ 122,542,621
Other operating revenue	2,939,486	-0-	-0-	2,939,486
Total Operating Revenue	125,482,107	-0-	-0-	125,482,107
OPERATING EXPENSE				
Production power expense	10,559,104	-0-	-0-	10,559,104
Cost of power	47,873,027	-0-	-0-	47,873,027
Transmission expense	2,395,487	-0-	-0-	2,395,487
Distribution - operations	11,497,930	-0-	-0-	11,497,930
Distribution - maintenance	5,304,278	-0-	-0-	5,304,278
Consumer accounts	3,693,672	-0-	-0-	3,693,672
Customer service and information	2,352,540	-0-	-0-	2,352,540
Administrative and general	11,478,136	-0-	-0-	11,478,136
Depreciation & amortization	12,568,781	-0-	-0-	12,568,781
Interest on long-term debt	8,232,822	-0-	-0-	8,232,822
Other interest	4,013	-0-	-0-	4,013
Other deductions	143,628	-0-	-0-	143,628
Total Operating Expense	116,103,418	-0-	-0-	116,103,418
NON-OPERATING MARGIN				
Interest income	235,251	-0-	-0-	235,251
Other non-operating revenue (expense)	(35,595)	-0-	-0-	(35,595)
Total Non Operating Margin	199,656	-0-	-0-	199,656
CAPITAL CREDITS	828,650	-0-	-0-	828,650
NET MARGIN	$ 10,406,995	$-0-	$-0-	$ 10,406,995

HOLY CROSS ELECTRIC ASSOCIATION, INC.

CONSOLIDATING BALANCE SHEET

April 30, 2017

ASSETS

	Holy Cross Electric Association	Energy and Services Experts	Eliminations	Consolidated 4/30/17
UTILITY PLANT				
Electric plant in service	$ 396,687,583	$ -0-	$ -0-	$ 396,687,583
Construction work in progress	10,344,950	-0-	-0-	10,344,950
	407,032,533	-0-	-0-	407,032,533
Less: accumulated deprn	(127,654,646)	-0-	-0-	(127,654,646)
Total Utility Plant	**279,377,887**	**-0-**	**-0-**	**279,377,887**
INVESTMENTS				
Subordinated certificates	3,063,533	-0-	-0-	3,063,533
Investments in associated organizations	4,428,597	-0-	-0-	4,428,597
Other investments	67,134	8,923	(8,923)	67,134
Non-utility property	1,227,142	-0-	-0-	1,227,142
Total Investments	**8,786,406**	**8,923**	**(8,923)**	**8,786,406**
CURRENT ASSETS				
Cash and cash equivalents	9,510,420	-0-	-0-	9,510,420
Restricted cash	100,514	-0-	-0-	100,514
Temporary cash investments	2,500,000	-0-	-0-	2,500,000
Accounts receivable (less allowance for doubtful accounts of $284,000)	8,228,827	-0-	-0-	8,228,827
Materials and supplies	3,094,523	-0-	-0-	3,094,523
Other current assets	4,260,249	-0-	-0-	4,260,249
Total Current Assets	**27,694,533**	**-0-**	**-0-**	**27,694,533**
DEFERRED CHARGES	**1,013,351**	**-0-**	**-0-**	**1,013,351**
TOTAL ASSETS	**$ 316,872,177**	**$8,923**	**$(8,923)**	**$ 316,872,177**

MEMBERS' EQUITY AND LIABILITIES

	Holy Cross Electric Association	Energy and Services Experts	Eliminations	Consolidated 4/30/17
EQUITIES AND MARGINS				
Patronage capital	$ 67,815,217	$ -0-	$ -0-	$ 67,815,217
Other equities	49,984,333	8,923	(8,923)	49,984,333
Total Equities and Margins	117,799,550	8,923	(8,923)	117,799,550
LONG-TERM DEBT				
Mortgage notes	166,841,220	-0-	-0-	166,841,220
Less: current maturities	(4,750,000)	-0-	-0-	(4,750,000)
Total Long-Term Debt	162,091,220	-0-	-0-	162,091,220
CURRENT LIABILITIES				
Current maturities on long-term debt	4,750,000	-0-	-0-	4,750,000
Accounts payable	10,903,037	-0-	-0-	10,903,037
Accrued interest payable	284,558	-0-	-0-	284,558
Accrued taxes	2,126,023	-0-	-0-	2,126,023
Other current liabilities	5,806,329	-0-	-0-	5,806,329
Total Current Liabilities	23,869,947	-0-	-0-	23,869,947
DEFERRED CREDITS	13,111,460	-0-	-0-	13,111,460
TOTAL MEMBERS' EQUITY AND LIABILITIES	$ 316,872,177	$8,923	$(8,923)	$ 316,872,177

HOLY CROSS ELECTRIC ASSOCIATION, INC.

CONSOLIDATING STATEMENT OF REVENUE

April 30, 2017

	Holy Cross Electric Association	Energy and Services Experts	Eliminations	Consolidated 4/30/17
OPERATING REVENUE				
Operating revenue	$ 116,152,451	$-0-	$-0-	$ 116,152,451
Other operating revenue	2,753,277	-0-	-0-	2,753,277
Total Operating Revenue	118,905,728	-0-	-0-	118,905,728
OPERATING EXPENSE				
Production power expense	10,620,157	-0-	-0-	10,620,157
Cost of power	49,770,173	-0-	-0-	49,770,173
Transmission expense	2,019,840	-0-	-0-	2,019,840
Distribution - operations	10,162,785	-0-	-0-	10,162,785
Distribution - maintenance	4,641,750	-0-	-0-	4,641,750
Consumer accounts	3,630,913	-0-	-0-	3,630,913
Customer service and information	2,067,126	-0-	-0-	2,067,126
Administrative and general	10,143,407	-0-	-0-	10,143,407
Depreciation & amortization	12,317,314	-0-	-0-	12,317,314
Interest on long-term debt	8,436,078	-0-	-0-	8,436,078
Other interest	19,488	-0-	-0-	19,488
Total Operating Expense	113,829,031	-0-	-0-	113,829,031
NON-OPERATING MARGIN				
Interest income	211,727	-0-	-0-	211,727
Other non-operating revenue (expense)	(19,160)	-0-	-0-	(19,160)
Total Non Operating Margin	192,567	-0-	-0-	192,567
CAPITAL CREDITS	779,507	-0-	-0-	779,507
NET MARGIN	$ 6,048,771	$-0-	$-0-	$ 6,048,771

HOLY CROSS ELECTRIC ASSOCIATION, INC.

DETAILED SCHEDULE OF INVESTMENTS

FOR THE YEAR ENDED APRIL 30, 2018

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
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

HOLY CROSS ELECTRIC ASSOCIATION, INC.

DETAILED SCHEDULE OF INVESTMENTS

FOR THE YEAR ENDED APRIL 30, 2018

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
Investment advances	8,607
Undistributed share of loss, 4/30/16	(540)
Book value of investment 4/30/16	8,923
Investment advances	-0-
Undistributed share of loss, 4/30/17	-0-
Book value of investment 4/30/17	8,923
Undistributed share of loss, 4/30/18	(275)
Book value of investment 4/30/18	$ 8,648

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.

KEVIN S. KELSO, CPA, P.C., P.A.

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INDEPENDENT AUDITOR'S REPORT ON LOAN FUND EXPENDITURES

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

I have audited, in accordance with generally accepted auditing standards, the balance sheet of Holy Cross Electric Association, Inc. as of April 30, 2018 and the related statements of operations and patronage capital and cash flows for the year then ended, and have issued my report thereon dated July 30, 2018.

During the period of this review, Holy Cross Electric Association, Inc. received advances of $12,844,176 on CFC loan 9027001, $6,933,550 on CFC loan 9027002, $8,862,274 on CFC loan 9027003, $4,150,000 on CFC loan 9027004 and $2,985,320 on CFC loan 9028001, as controlled by CFC's Loan Agreements and Mortgage. In conducting my audit, nothing came to my attention that caused me to believe that the Association was in noncompliance with the intended purpose of the loan funds as contemplated in the Loan Agreement for CFC loan 9027001, CFC loan 9027002, CFC loan 9027003, CFC loan 9027004 and CFC loan 9028001. However, my audit was not primarily directed toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Board of Directors and management of Holy Cross Electric Association, Inc. and National Rural Utilities Cooperative Finance Corporation and should not be used by anyone other than these specified parties.

Kevin S. Kelso, CPA, P.C., P.A.

July 30, 2018

KEVIN S. KELSO, CPA, P.C., P.A.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

In planning and performing my audit of the consolidated financial statements of Holy Cross Electric Association, Inc. as of and for the year ended April 30, 2018, in accordance with auditing standards generally accepted in the United States of America, I considered the Association's internal control over financial reporting (internal control) as a basis for designing my audit procedures for the purpose of expressing my opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Association's internal control. Accordingly, I do not express an opinion on the effectiveness of Holy Cross Electric Association, Inc.'s internal control.

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 Holy Cross Electric Association, Inc.'s consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. In addition, because of inherent limitations in internal control, including the possibility of management's override of controls, misstatements due to error or fraud may occur and not be detected by such controls. I did not identify any deficiencies in internal control that I consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management and the Board of Directors, others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Kevin S. Kelso, CPA, P.C., P.A.

July 30, 2018

KEVIN S. KELSO, CPA, P.C., P.A.

CERTIFIED PUBLIC ACCOUNTANT

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

I have audited the consolidated financial statements of Holy Cross Electric Association, Inc. for the year ended April 30, 2018, and have issued my report thereon dated July 30, 2018. Professional standards require that I provide you with the following information related to my audit.

The Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in my engagement letter dated July 28, 2017, my responsibility, as described by professional standards, is to plan and perform my 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 I 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 me.

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

Planned Scope and Timing of Audit

I performed the audit according to the planned scope and timing previously communicated to you in my 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 my engagement letter, I 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 me that no new accounting policies were adopted and the application of existing policies was not changed during the year ended April 30, 2018. I 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. I 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 me 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. I noted no such misstatements as a result of my audit.

Management Representations

I have requested certain representations from management that are included in the management representation letter, dated July 30, 2018.

Disagreements with Management

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

Difficulties Encountered in Performing The Audit

I encountered no significant difficulties in dealing with management in performing and completing my 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, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Other Findings or Issues

I 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 auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Other Matters

With respect to the supplementary information accompanying the consolidated financial statements, I made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to my audit of the consolidated financial statements. I compared and reconciled the supplementary information to the underlying accounting records used to prepare the consolidated financial statements or to the consolidated financial statements themselves.

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 me to be of assistance.

I would like to express my thanks for the courtesy and assistance once again extended to me during the course of my audit.

Kevin S. Kelso, CPA, P.C., P.A.

July 30, 2018