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Holy Cross Electric Association, Inc.
and Subsidiary
April 30, 2019

Consolidated Financial Statements

Holy Cross Electric Association, Inc. and Subsidiary

Index

Holy Cross Electric Association, Inc. and Subsidiary

Officers, Board of Directors, and Chief Executive Officer

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

JACKSON THORNTON

Independent Auditor's Report

The Board of Directors
Holy Cross Electric Association, Inc. and Subsidiary
Glenwood Springs, Colorado

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Holy Cross Electric Association, Inc. and Subsidiary (the Association), which comprise the consolidated balance sheet as of April 30, 2019, and the related consolidated statements of revenue, changes in equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Holy Cross Electric Association, Inc. and Subsidiary as of April 30, 2019, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adjustments to Prior Period Financial Statements

The financial statements of Holy Cross Electric Association, Inc. and Subsidiary as of April 30, 2018, were audited by other auditors whose report dated July 30, 2018, expressed an unmodified opinion on those financial statements. As discussed in Note 14 to the financial statements, the Association has adjusted its April 30, 2018 financial statements to retrospectively apply the change in accounting for revenue recognition and to correct an error in those financial statements. The other auditors reported on the financial statements before the adjustments.

As part of our audit of the April 30, 2019 financial statements, we also audited the adjustments to the April 30, 2018 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to Holy Cross Electric Association, Inc. and Subsidiary's financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the April 30, 2018 financial statements as a whole.

Jackson Thornton & Co. PC

Mission, Kansas
August 29, 2019

Holy Cross Electric Association, Inc. and Subsidiary
Consolidated Balance Sheets at April 30, 2019 and 2018 (As Restated)

Assets

	2019	2018
Utility Plant		
Electric plant in service	$ 414,024,331	$ 405,271,659
Construction work-in-progress	15,698,807	12,450,064
	429,723,138	417,721,723
Less accumulated depreciation	152,737,821	135,025,852
Net utility plant	276,985,317	282,695,871
Other Assets and Investments		
Subordinated certificates	3,039,018	3,048,461
Investments in associated organizations	5,417,113	4,926,378
Nonutility property	1,128,477	1,174,917
Other investments	29,328	26,911
Total other assets and investments	9,613,936	9,176,667
Current Assets		
Cash and cash equivalents	8,800,414	7,440,844
Restricted cash	101,250	100,701
Temporary cash investments	2,500,000	1,500,000
Accounts receivable	8,694,637	8,390,707
Unbilled revenue	3,635,156	3,581,740
Materials and supplies	3,461,435	3,826,167
Other current assets	5,084,514	4,531,853
Total current assets	32,277,406	29,372,012
Deferred Charges	334,612	684,322
Total assets	$ 319,211,271	$ 321,928,872

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

Equities and Liabilities

	2019	2018
Equities		
Patronage capital	$ 69,605,899	$ 76,163,146
Other equities	56,859,716	53,346,305
Total equities	126,465,615	129,509,451
Long-Term Liabilities		
Mortgage notes	161,543,460	162,573,518
Less current maturities	5,425,000	5,510,000
Total long-term liabilities	156,118,460	157,063,518
Current Liabilities		
Current maturities on long-term liabilities	5,425,000	5,510,000
Accounts payable	12,280,595	11,333,990
Accrued liabilities		
Taxes	2,164,995	2,233,256
Interest	167,726	173,435
Other current liabilities	4,875,952	4,778,589
Total current liabilities	24,914,268	24,029,270
Deferred Credits	11,712,928	11,326,633
Total liabilities	192,745,656	192,419,421
Total equities and liabilities	$ 319,211,271	$ 321,928,872

Holy Cross Electric Association, Inc. and Subsidiary
Consolidated Statements of Revenue
For the Years Ended April 30, 2019 and 2018

	2019		2018	
Operating Revenue				
Operating revenue	$ 131,957,031	98.83%	$ 122,542,621	97.66%
Other operating revenue	1,568,419	1.17%	2,939,486	2.34%
Total operating revenue	$ 133,525,450	100.00%	$ 125,482,107	100.00%
Operating Expenses				
Cost of power	53,897,036	40.36%	47,873,027	38.16%
Power production expense	10,170,087	7.62%	10,559,104	8.42%
Transmission expense	2,936,573	2.20%	2,395,487	1.92%
Distribution - operations	10,892,698	8.16%	11,497,930	9.17%
Distribution - maintenance	5,130,031	3.84%	5,304,278	4.24%
Consumer accounts	4,045,850	3.03%	3,693,672	2.95%
Customer service and information	2,536,714	1.90%	2,352,540	1.88%
Administrative and general	13,383,097	10.02%	11,478,136	9.16%
Depreciation and amortization	12,662,941	9.48%	12,568,781	10.03%
Interest on long-term debt	7,802,601	5.84%	8,232,822	6.57%
Other interest	32,201	0.02%	4,013	0.01%
Other deductions	4,405,185	3.30%	143,628	0.12%
Total operating expenses	127,895,014	95.77%	116,103,418	92.63%
Operating Margins	5,630,436	4.23%	9,378,689	7.37%
Capital Credits	899,855	0.68%	828,650	0.66%
Nonoperating Margins (Expense)				
Interest income	236,313	0.17%	235,251	0.19%
Impairment of long-lived assts	(6,442,237)	(4.88%)		
Other	(85,040)	(0.06%)	(35,595)	(0.03%)
Total nonoperating margins (expense)	(6,290,964)	(4.77%)	199,656	0.16%
Net Margins for the Year	$ 239,327	0.14%	$ 10,406,995	8.19%

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

Holy Cross Electric Association, Inc. and Subsidiary
Consolidated Statements of Changes in Equity
For the Years Ended April 30, 2019 and 2018 (As Restated)

		Patronage Capital		Total
	Other Equities	Allocated	Unallocated	Equities
Balance, as originally stated, at April 30, 2017	$ 49,984,332	$ 61,533,597	$ 6,281,620	$ 117,799,549
Restatement			6,108,167	6,108,167
Balance, as restated at April 30, 2017	49,984,332	61,533,597	12,389,787	123,907,716
Net margin			10,406,995	10,406,995
Allocations		5,909,174	(5,909,174)	
Retirement of capital credits	1,698,655	(8,164,649)	(2,584)	(6,468,578)
Other equities	1,663,318			1,663,318
Balance at April 30, 2018	53,346,305	59,278,122	16,885,024	129,509,451
Net margin			239,327	239,327
Allocations		10,406,995	(10,406,995)	
Retirement of capital credits	1,901,014	(6,796,574)		(4,895,560)
Other equities	1,612,397			1,612,397
Balance at April 30, 2019	$ 56,859,716	$ 62,888,543	$ 6,717,356	$ 126,465,615

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

Holy Cross Electric Association, Inc. and Subsidiary
Consolidated Statements of Cash Flows
For the Years Ended April 30, 2019 and 2018
Increase (Decrease) in Cash and Cash Equivalents

	2019	2018
Cash Flows From (Used For) Operating Activities		
Net margins	$ 239,327	$ 10,406,995
Adjustments to reconcile net margins to net cash provided by operating activities		
Depreciation and amortization	12,662,941	12,568,781
Impairment loss	6,442,237	
Patronage capital credits from suppliers	(899,855)	(828,650)
Loss on write-off of loan costs	4,405,185	
Changes in operating assets and liabilities		
(Increase) decrease in current assets		
Accounts receivable	(303,930)	(161,880)
Materials and supplies	364,732	(731,643)
Other accrued assets	(606,077)	(271,604)
Deferred charges	349,710	(4,076,158)
Increase (decrease) in current assets		
Accounts payable	946,605	430,953
Accrued interest	(5,709)	(111,123)
Accrued taxes	(68,261)	107,233
Other liabilities	97,364	(1,027,740)
Deferred credits	386,295	(1,784,827)
Total adjustments	23,771,237	4,113,342
Net cash from used for operating activities	24,010,564	14,520,337
Cash Flows From (Used For) Investing Activities		
Purchase of property and equipment, net of salvage and cost of removal	(13,394,624)	(13,360,338)
Patronage capital recovery	418,563	375,985
Change in nonutility property	46,440	52,225
Other investing activities	567,121	1,029,458
Temporary cash investments	(1,000,000)	1,000,000
Net cash used for investing activities	(13,362,500)	(10,902,670)
Cash Flows From (Used For) Financing Activities		
Retirement of long-term debt	(5,435,244)	(38,915,792)
Loan funds received		35,815,320
Other financing activities	2,943,873	5,580,649
Retirement of capital credits	(6,796,574)	(8,167,233)
Net cash used for financing activities	(9,287,945)	(5,687,056)
Increase (Decrease) in Cash and Cash Equivalents	1,360,119	(2,069,389)
Cash and Cash Equivalents at Beginning of Year	7,541,545	9,610,934
Cash and Cash Equivalents at End of Year	$ 8,901,664	$ 7,541,545
Supplemental Information		
Cash paid for interest	$ 8,143,762	$ 8,347,958

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

Note 1 - Summary of Significant Accounting Policies

Principles of consolidation - 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 references to the Association include both Holy Cross Electric Association, Inc. and Energy and Services Experts, Inc. All material intercompany balances and transactions have been eliminated in consolidation.

Nature of business - Holy Cross Electric Association, Inc. is a Rural Electric Cooperative whose principal business is the distribution of electrical power to residences and businesses located in central Colorado.

Energy and Services Experts, Inc. (EASE) was created to provide various nonelectric services in the same geographical region as the Association but was nonoperational during both of the fiscal years presented herein.

Basis of accounting - The accounting records of the Association are maintained in accordance with the Uniform System of Accounts prescribed for Utilities. As a result, the application of accounting principles generally accepted in the United States of America by the Association under professional accounting standards ASC 980, *Regulated Industries*, differs in certain respects from the application of those principles by nonregulated enterprises. Such differences primarily relate to recognition of revenue in accordance with rate action by the regulator.

Recognition of revenue - Electric revenue and the related cost of power purchased are recognized when electricity is used by the ultimate consumer.

Cash equivalents - The Association considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Restricted cash - 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.

Taxes - The Association collects taxes from its members on behalf of taxing authorities. Revenue is presented net of these taxes in the consolidated statements of revenue.

Accounts receivable - The Association extends credit to its customers who are primarily located in central Colorado. Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Trade receivables do not accrue interest. On a periodic basis, the Association evaluates their 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 the Association has not received payment by the due date of the respective bills. It is the Association's policy that electric accounts are generally written off if the service has been disconnected and the bills remain unpaid for more than 90 days. Payments received on accounts after they are written off are considered a recovery of the bad debt. As of April 30, 2019 and 2018, the Association had approximately $34,000 and $27,000, respectively, in accounts receivable that were over 90 days old and the balance in the allowance for doubtful accounts approximated $300,000 and $308,000, respectively.

Inventories - Materials and supplies are priced at average historical cost.

Note 1 - Summary of Significant Accounting Policies (continued)

Investments - Investments in associated organizations represent cooperative capital credits from the Association's suppliers and lenders. Investments in associated organizations are recorded at cost plus allocated equities. Other amounts included in investments are generally carried at cost.

Electric plant - Depreciation is recorded on the composite basis for transmission and distribution plant, and the straight-line specific identification basis for general plant, and is charged to capital and operating accounts at rates adopted by the Board of Directors. Depreciation provisions are computed on additions beginning the month after they are placed in service. When units of property are retired, their average cost (specific unit cost for substantially all of the general plant) 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 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.

Income tax status - The Association is exempt from income taxes under Internal Revenue Code Section 501(c)(12), and files IRS Form 990 annually, and Form 990-T annually, when applicable. For federal and Colorado state income tax purposes, the Subsidiary files Form 1120 for federal income tax purposes and Colorado Form 112 for state income tax purposes.

The Subsidiary accounts for income taxes in accordance with the Income Taxes Topic of the FASB Accounting Standards Codification. This topic requires companies to record deferred tax liabilities or assets for the deferred tax consequences of all temporary differences. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

An evaluation of whether or not it has any uncertain tax positions is determined on an annual basis by the Association. While both entities believe they have adequately provided for all tax positions, amounts asserted by taxing authorities could be different than the positions taken by either entity. Both entities recognize any interest and penalties assessed by taxing authorities in income tax expense and, with few exceptions, are no longer subject to federal, state, or local income tax examinations by tax authorities for years before 2015.

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

New accounting pronouncements - In 2019, the Association adopted the provisions of Accounting Standards Update 2016-01, *Financial Instruments,* which eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 was issued to provide a framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance in current accounting principles generally accepted in the United States of America. ASU 2014-09 is effective for reporting periods beginning after December 15, 2018. The Association is evaluating the impact of the implementation of this standard on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The most significant change in the new lease guidance requires lessees to recognize right-of-use assets and lease liabilities for all leases other than those that meet the definition of short-term leases. ASU 2016-02 is effective for reporting periods beginning after December 15, 2019. The Association is evaluating the impact of the implementation of this standard on its financial statements.

Note 2 - Cash and Cash Equivalents

The Association maintains cash and cash equivalents in various banks located in Colorado, which at times may exceed federally insured limits. The Association has not experienced any losses in such accounts. The Association believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 3 - Utility Plant and Depreciation

Listed below are the major classes of utility plant as of April 30, 2019 and 2018:

	2019 Plant Balances	2018 Plant Balances	Annual Depreciation Rate
Production plant (generation)	$ 119,652,295	$ 120,105,814	3.10%
Transmission plant	33,777,834	33,533,205	2.75%
Distribution plant	197,471,078	190,297,249	2.70%
General plant	63,123,124	61,335,391	2.00% - 20.00%
Totals	$ 414,024,331	$ 405,271,659	

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 operations 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 using the straight-line composite method with the RUS prescribed rate for steam production plant of 3.10%.

During 2019, the Association determined that the fair value of the coal electric generating facility was less than the net book value due to the targeted shut down date of the facility. To determine fair value, the Association used the cost approach to determine the cost to replace the remaining service capacity of the facility. An impairment loss has been recorded in the amount of $6,442,237 during 2019.

Note 4 - Nonutility Property

At April 30, 2019 and 2018 nonutility property consisted of:

	2019	2018	Depreciation Method and Years
Real estate	$ 1,719,560	$ 1,719,560	S/L 33 - 38 Years
Less accumulated depreciation	(591,083)	(544,643)	
Net nonutility property	$ 1,128,477	$ 1,174,917	

This real estate is used primarily for employee housing.

Note 5 - Subordinated Certificates

	2019	2018
Capital term certificates	$ 1,091,977	$ 1,091,977
Zero term certificates	1,947,041	1,956,484
Totals	$ 3,039,018	$ 3,048,461

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

Note 6 - Investments in Associated Organizations

Investments in associated organizations consists mainly of patronage capital due from organizations of which the Association is a member.

	2019	2018
Patronage capital - CFC	$ 3,654,169	$ 3,329,815
Patronage capital - Western United	913,768	800,622
Patronage capital - Federated	500,086	469,855
Other investments in associated organizations	349,090	326,086
Totals	$ 5,417,113	$ 4,926,378

Note 7 - Other Current Assets

Other current assets consists of the following at April 30:

	2019	2018
Prepaid insurance	$ 211,710	$ 262,903
Comanche 3 O&M deposit	1,357,000	1,357,000
Carbon offsets	3,009,729	2,268,395
Undistributed stores charges	21,371	235,547
Other current assets	484,704	408,008
Totals	$ 5,084,514	$ 4,531,853

Note 8 - Equity Restrictions

Under the provisions of the CFC mortgage agreement, until the equities and margins equal or exceed 20% of the total assets of the Association, the retirement of capital credits is generally limited to 30% 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 approximately 40% of the total assets as of April 30, 2019 and 2018. Other equities consists of capital credit gains.

Note 9 - Long-Term Debt

Description	2019	2018
CFC Mortgage Notes - fixed interest rates ranging from 3.80% to 6.15%; maturing at various dates through December 2049.	$ 146,157,782	$ 150,892,868
Farmer Mac mortgage notes - fixed interest rates ranging from 2.75% to 5.04%; maturing in October 2040.	15,385,678	16,085,836
	161,543,460	166,978,704
Less unamortized loss on reacquired debt		(4,405,186)
	161,543,460	162,573,518
Less current maturities	(5,425,000)	(5,510,000)
Total long-term debt	$ 156,118,460	$ 157,063,518

The Association has covenants with its lenders relating to certain financial ratios.

As of April 30, 2019 and 2018, CFC was committed to advance loan funds to the Association in the amounts of $40,000,000 and $40,014,767, respectively, for which a loan agreement was executed.

As of April 30, 2019, CoBank was committed to advance loan funds to the Association in the amount of $3,000,000 for which a loan agreement has been executed.

Estimated maturities on long-term liabilities for the next five years are as follows:

April 30, 2020	$ 5,425,000
April 30, 2021	5,695,000
April 30, 2022	5,980,000
April 30, 2023	6,280,000
April 30, 2024	6,595,000

<u>Lines of credit</u> - The Association has $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, 2019 and 2018, no funds had been drawn and remained outstanding.

The Association has a $2,000,000 unsecured line of credit, renewable annually on October 31, established with CoBank. As of April 30, 2019 and 2018, no funds had been drawn and remained outstanding.

Note 10 - Other Current Liabilities

	2019	2018
Customers' deposits	$ 497,318	$ 467,618
Accrued payroll	698,389	629,936
Accrued vacation	2,174,831	2,227,539
Patronage capital payable	1,180,581	1,139,807
Other current laiibilities	324,833	313,689
Totals	$ 4,875,952	$ 4,778,589

Note 11 - Deferred Credits

	2019	2018
Customers' energy prepayments	$ 275,203	$ 255,431
Customers' advances for construction	1,691,395	1,733,546
Indeterminate services	7,209,508	6,873,601
Renewable energy reserve	2,306,864	2,284,839
Other deferred credits	229,958	179,216
Totals	$ 11,712,928	$ 11,326,633

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 plan 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, 2019 or 2018.

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.

Note 12 - Accounting for Pensions

Defined benefit pension plan - The Association is a participating employer in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan), which is a defined benefit pension plan qualified under Section 401 and tax exempt under Section 501(a) of the Internal Revenue Code. It is a multi-employer plan under the accounting standards. The RS Plan Sponsor’s Employer Identification Number is 53-0116145 and the RS 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 2019 and 2018 represented less than 5% of the total contributions made to the RS Plan by all participating employers. The Association made contributions to the RS Plan of $1,460,814 in 2019 and $1,384,900 in 2018. There have been no significant changes that affect the comparability of the 2019 and 2018 contributions.

In the RS Plan, a zone status determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and RS Plan assets are not determined or allocated separately by an individual employer. In total, the Retirement Security Plan was over 80% funded at May 1, 2019 and May 1, 2018 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 RS Plan and may change as a result of RS Plan experience.

401(k) plan - The Association supplements this Plan with an NRECA sponsored 401(k) plan. 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 2019 and 2018 was $2,888,642 and $2,734,214, respectively.

Note 13 - 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.

Note 14 - Restatement
The 2018 financial statements have been restated for a change in accounting principle and a correction of an error as outlined below:

During the year ended April 30, 2019, the Association recorded unbilled revenue. This method was selected because it more accurately matches revenues and associated expenses. This resulted in a restatement of the 2018 financial statements to retrospectively apply this change in accounting principle. Net margins for the year ended April 30, 2018 were not affected by this restatement.

During the year ended April 30, 2019, the Association recorded a depreciation adjustment for general plant to correct accumulated depreciation. The overstatement of accumulated depreciation in years prior to 2017 was related to the RUS required method of recording fixed asset disposals at that time. This correction resulted in a restatement of the 2018 financial statements to correct accumulated depreciation and patronage capital. Net margins for the year ended April 30, 2018 were not affected by this restatement.

The following financial statement line items were affected by these changes:

		Unbilled Revenue
Balance as of April 30, 2018		
Additional unbilled revenue, previously unrecorded	$	3,581,740
Balance as restated, April 30, 2018	$	3,581,740

		Accumulated Depreciation
Balance as of April 30, 2018	$	(137,506,098)
Correction for over-depreciation in prior periods		2,526,427
Balance as restated, April 30, 2018	$	(134,979,671)

		Patronage Capital
Balance as of April 30, 2017	$	67,815,217
Additional unbilled revenue, previously unrecorded		3,581,740
Correction for over-depreciation in prior periods		2,526,427
Balance as restated, April 30, 2017	$	73,923,384

Note 15 - Subsequent Events

The Association has evaluated subsequent events through August 29, 2019, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of April 30, 2019, have been incorporated into these financial statements.

JACKSON THORNTON

Independent Auditor's Report on Supplemental Information

The Board of Directors
Holy Cross Electric Association, Inc. and Subsidiary
Glenwood Springs, Colorado

We have audited the consolidated financial statements of Holy Cross Electric Association, Inc. and Subsidiary as of and for the year ended April 30, 2019, and issued our report thereon, dated August 29, 2019, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements (collectively, the financial statements) as a whole.

The accompanying consolidating balance sheets and statements of revenue, shown on pages 17 through 19, are presented for purpose of additional analysis of the financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the financial statements as a whole.

Jackson Thornton & Co. PC

Mission, Kansas
August 29, 2019

Holy Cross Electric Association, Inc. and Subsidiary
Consolidating Balance Sheet
At April 30, 2019

Assets

	Holy Cross Electric Association, Inc.	Energy and Services Experts, Inc.	Elimination Entries	Consolidated Balances
Utility Plant				
Electric plant in service	$ 414,024,331			$ 414,024,331
Construction work-in-progress	15,698,807			15,698,807
	429,723,138			429,723,138
Less accumulated depreciation	152,737,821			152,737,821
Net utility plant	276,985,317			276,985,317
Other Assets and Investments				
Subordinated certificates	3,039,018			3,039,018
Investments in associated organizations	5,417,113			5,417,113
Nonutility property	1,128,477			1,128,477
Other investments	29,328	$ 8,373	$ (8,373)	29,328
Total other assets and investments	9,613,936	8,373	(8,373)	9,613,936
Current Assets				
Cash and cash equivalents	8,800,414			8,800,414
Restricted cash	101,250			101,250
Temporary cash investments	2,500,000			2,500,000
Accounts receivable, less provision for doubtful accounts of $300,000	8,694,637			8,694,637
Unbilled revenue	3,635,156			3,635,156
Materials and supplies	3,461,435			3,461,435
Other current assets	5,084,514			5,084,514
Total current assets	32,277,406			32,277,406
Deferred Assets	334,612			334,612
Total assets	$ 319,211,271	$ 8,373	$ (8,373)	$ 319,211,271

See Independent Auditor's Report on Supplementary Information.

Equities and Liabilities

	Holy Cross Electric Association, Inc.	Energy and Services Experts, Inc.	Elimination Entries	Consolidated Balances
Equities				
Patronage capital	$ 69,605,899			$ 69,605,899
Other equities	56,859,716	$ 8,373	$ (8,373)	56,859,716
Total equities	126,465,615	8,373	(8,373)	126,465,615
Long-Term Liabilities				
Mortgage notes	161,543,460			161,543,460
Less current maturities	5,425,000			5,425,000
Total long-term liabilities	156,118,460			156,118,460
Current Liabilities				
Current maturities on long-term liabilties	5,425,000			5,425,000
Accounts payable	12,280,595			12,280,595
Accrued liabilities				
Taxes	2,164,995			2,164,995
Interest	167,726			167,726
Other current liabilities	4,875,952			4,875,952
Total current liabilities	24,914,268			24,914,268
Deferred Credits	11,712,928			11,712,928
Total liabilities	192,745,656			192,745,656
Total equities and liabilities	$ 319,211,271	$ 8,373	$ (8,373)	$ 319,211,271

Holy Cross Electric Association, Inc. and Subsidiary
Consolidating Statement of Revenue
For the Year Ended April 30, 2019

	Holy Cross Electric Association, Inc.	Energy and Services Experts, Inc.	Elimination Entries	Consolidated Balances
Operating Revenue				
Operating revenue	$ 131,957,031			$ 131,957,031
Other operating revenue	1,568,419			1,568,419
Total operating revenue	133,525,450			133,525,450
Operating Expenses				
Cost of power	53,897,036			53,897,036
Power production expense	10,170,087			10,170,087
Transmission expense	2,936,573			2,936,573
Distribution - operations	10,892,698			10,892,698
Distribution - maintenance	5,130,031			5,130,031
Consumer accounts	4,045,850			4,045,850
Customer service and information	2,536,714			2,536,714
Administrative and general	13,383,097			13,383,097
Depreciation and amortization	12,662,941			12,662,941
Interest on long-term debt Other	7,802,601			7,802,601
interest	32,201			32,201
Other deductions	4,405,185			4,405,185
Total operating expenses	127,895,014			127,895,014
Operating Margins	5,630,436			5,630,436
Capital Credits	899,855			899,855
Nonoperating Margins (Expense)				
Interest income	236,313			236,313
Impairment of long-lived assets	(6,442,237)			(6,442,237)
Other	(85,040)			(85,040)
Total nonoperating margins (Expense)	(6,290,964)			(6,290,964)
Net Margins for the Year	$ 239,327	$ -	$ -	$ 239,327

See Independent Auditor's Report on Supplementary Information.