# Holy Cross Electric Association, Inc.
# and Subsidiary

## Independent Auditor's Report and Consolidated Financial Statements

April 30, 2020 and 2019

# Holy Cross Electric Association, Inc. and Subsidiary
## April 30, 2020 and 2019

### Contents

# Holy Cross Electric Association, Inc. and Subsidiary
## April 30, 2020 and 2019

### Board of Directors, Officers, and Chief Executive Officer

| | | |
|---|---|---|
| David C. Munk | Chair | Carbondale, Colorado |
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# Independent Auditor's Report

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

We have audited the accompanying financial statements of Holy Cross Electric Association Inc, and Subsidiary (the Association), which comprise the consolidated balance sheets as of April 30, 2020 and 2019, and the related consolidated statements of margins, changes in equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

## *Management's Responsibility for the Consolidated Financial Statements*

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

## *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free from material misstatement.

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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Board of Directors
Holy Cross Electric Association, Inc. and Subsidiary

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Association and its subsidiary as of April 30, 2020 and 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules, listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the consolidated financial statement. 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

### *Prior Year Audited by Other Auditors*

The 2019 financial statements, before they were restated for the matter discussed in Note 16, were audited by other auditors, and their report thereon, dated August 29, 2019, expressed an unmodified opinion.

BKD, LLP

Colorado Springs, Colorado
July 31, 2020

# Holy Cross Electric Association, Inc. and Subsidiary
## Consolidated Balance Sheets
## April 30, 2020 and 2019

### Assets

| | 2020 | Restated 2019 |
|---|---|---|
| **Utility Plant** | | |
| Electric plant in service | $ 427,806,057 | $ 414,024,331 |
| Construction work-in-progress | 14,681,085 | 15,698,807 |
| | 442,487,142 | 429,723,138 |
| Less accumulated depreciation | 162,150,824 | 152,737,821 |
| Net utility plant | 280,336,318 | 276,985,317 |
| **Other Assets and Investments** | | |
| Subordinated certificates | 3,033,741 | 3,039,018 |
| Investments in associated organizations | 5,848,874 | 5,417,113 |
| Nonutility property | 668,172 | 1,128,477 |
| Other investments | 38,975 | 29,328 |
| Total other assets and investments | 9,589,762 | 9,613,936 |
| **Current Assets** | | |
| Cash and cash equivalents | 26,899,464 | 11,300,414 |
| Restricted cash | 101,737 | 101,250 |
| Accounts receivable, less allowance for doubtful accounts; 2020 - $310,000 and 2019 - $300,000 | 8,498,263 | 8,694,637 |
| Unbilled revenue | 3,390,775 | 3,635,156 |
| Materials and supplies | 4,209,640 | 3,461,435 |
| Other current assets | 5,901,261 | 5,084,514 |
| Total current assets | 49,001,140 | 32,277,406 |
| **Deferred Charges** | 392,113 | 334,612 |
| Total assets | $ 339,319,333 | $ 319,211,271 |

# Holy Cross Electric Association, Inc. and Subsidiary
## Consolidated Balance Sheets (continued)
## April 30, 2020 and 2019

### Liabilities and Members' Equity

| | 2020 | 2019 |
|---|---|---|
| **Equities** | | |
| Patronage capital | $ 72,507,815 | $ 69,605,899 |
| Other equities | 60,501,062 | 56,859,716 |
| Total equities | 133,008,877 | 126,465,615 |
| **Long-term Liabilities** | | |
| Mortgage notes | 156,118,246 | 161,543,460 |
| Less current maturities | 5,318,800 | 5,425,000 |
| Line of credit | 15,000,000 | - |
| Total long-term liabilities | 165,799,446 | 156,118,460 |
| **Current Liabilities** | | |
| Current maturities on long-term liabilities | 5,318,800 | 5,425,000 |
| Accounts payable | 11,089,399 | 12,280,595 |
| Accrued liabilities | | |
| Taxes | 1,669,760 | 2,164,995 |
| Interest | 160,818 | 167,726 |
| Other current liabilities | 5,747,471 | 4,875,952 |
| Total current liabilities | 23,986,248 | 24,914,268 |
| **Deferred Credits** | 16,524,762 | 11,712,928 |
| Total liabilities | 206,310,456 | 192,745,656 |
| Total liabilities and members' equity | $ 339,319,333 | $ 319,211,271 |

# Holy Cross Electric Association, Inc. and Subsidiary

## Consolidated Statements of Margins

## Years Ended April 30, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| **Operating Revenues** | | |
| Operating revenue | $ 134,682,556 | $ 131,957,031 |
| Other operating revenue | 1,273,016 | 1,568,419 |
| Total operating revenues | 135,955,572 | 133,525,450 |
| **Operating Expenses** | | |
| Cost of power | 58,225,729 | 53,897,036 |
| Power production expense | 8,811,813 | 10,170,087 |
| Transmission expense | 1,566,625 | 2,936,573 |
| Distribution - operations | 11,530,813 | 10,892,698 |
| Distribution - maintenance | 5,336,322 | 5,130,031 |
| Consumer accounts | 4,241,853 | 4,045,850 |
| Customer service and information | 3,698,452 | 2,536,714 |
| Administrative and general | 13,381,114 | 13,383,097 |
| Depreciation and amortization | 12,528,938 | 12,662,941 |
| Interest on long-term debt | 7,554,647 | 7,802,601 |
| Other interest | 9,828 | 32,201 |
| Other deductions | - | 4,405,185 |
| Total operating expenses | 126,886,134 | 127,895,014 |
| **Operating Margins** | 9,069,438 | 5,630,436 |
| **Capital Credits** | 907,095 | 899,855 |
| **Nonoperating Margins (Expense)** | | |
| Interest income | 370,243 | 236,313 |
| Impairment of long-lived assets | - | (6,442,237) |
| Other | (69,870) | (85,040) |
| Total nonoperating margins (expense) | 300,373 | (6,290,964) |
| **Net Margins** | $ 10,276,906 | $ 239,327 |

# Holy Cross Electric Association, Inc. and Subsidiary

## Consolidated Statements of Changes in Equity

## Years Ended April 30, 2020 and 2019

| | Other Equities | Patronage Capital Allocated | Patronage Capital Unallocated | Total Equities |
|---|---|---|---|---|
| **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 |
| Net margin | - | - | 10,276,906 | 10,276,906 |
| Allocations | - | 7,497,608 | (7,497,608) | - |
| Retirement of capital credits | 2,096,938 | (7,374,990) | - | (5,278,052) |
| Other equities | 1,544,408 | - | - | 1,544,408 |
| **Balance at April 30, 2020** | $ 60,501,062 | $ 63,011,161 | $ 9,496,654 | $ 133,008,877 |

# Holy Cross Electric Association, Inc. and Subsidiary

## Consolidated Statements of Cash Flows

## Years Ended April 30, 2020 and 2019

| | 2020 | Restated 2019 |
|---|---|---|
| **Operating Activities** | | |
| Net margins | $ 10,276,906 | $ 239,327 |
| Adjustments to reconcile net margins to net cash provided by operating activities | | |
| Depreciation and amortization | 12,528,938 | 12,662,941 |
| Impairment loss | - | 6,442,237 |
| Capital credits | (907,095) | (899,855) |
| Loss on write-off of loan costs | - | 4,405,185 |
| Depreciation charged to vehicle and equipment clearing | 606,817 | - |
| Changes in assets and liabilites: | | |
| Accounts receivable | 196,374 | (303,930) |
| Materials and supplies | (748,205) | 364,732 |
| Prepaid and other | (816,747) | (606,077) |
| Deferred charges | (57,501) | 349,710 |
| Accounts payable | 221,111 | 946,605 |
| Accrued interest | (6,908) | (5,709) |
| Accrued taxes | (495,235) | (68,261) |
| Deferred credits | 1,760,226 | 386,295 |
| Deferred revenues | 3,336,000 | - |
| Other liabilites | 1,115,900 | 97,364 |
| Net cash provided by operating activities | 27,010,581 | 24,010,564 |
| **Investing Activities** | | |
| Investment in utility plant (net) | (18,183,455) | (13,394,624) |
| Change in nonutility property | 460,305 | 46,440 |
| Patronage capital recovery | 475,333 | 418,563 |
| Temporary cash investments | - | 1,500,000 |
| Change in other investments | (4,369) | 567,121 |
| Net cash used in investing activities | (17,252,186) | (10,862,500) |

# Holy Cross Electric Association, Inc. and Subsidiary

## Consolidated Statements of Cash Flows (continued)

## Years Ended April 30, 2020 and 2019

| | 2020 | Restated 2019 |
|---|---|---|
| **Financing Activities** | | |
| Payment of debt | (5,425,214) | (5,435,244) |
| Other financing activities | - | 2,943,873 |
| Retirement of capital credits | (7,374,990) | (6,796,574) |
| Borrowings on line of credit | 15,000,000 | - |
| Capital refunds to members | 3,641,346 | - |
| Net cash provided by (used in) financing actitvities | 5,841,142 | (9,287,945) |
| **Increase in Cash and Cash Equivalents** | 15,599,537 | 3,860,119 |
| **Cash and Cash Equivalents, Beginning of Year** | 11,401,664 | 7,541,545 |
| **Cash and Cash Equivalents, End of Year** | $ 27,001,201 | $ 11,401,664 |
| **Supplemental Cash Flows Information** | | |
| Cash paid for interest | $ 7,562,110 | $ 8,143,762 |

## Note 1: Nature of Operations and Summary of Significant Accounting Policies

### *Basis of Presentation*

Holy Cross Electric Association, Inc. and Subsidiary (the Association) is a rural electric cooperative headquartered in Glenwood Springs, Colorado. The primary purpose of the Association is the distribution of electrical power to residences and businesses located in central Colorado. The Association's wholly-owned subsidiary, 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.

The accounting policies of the Association conform to accounting principles generally accepted in the United States of America. The accounting records of the Association are maintained in accordance with the System of Accounts prescribed by the Federal Energy Regulatory Commission.

### *Principles of Consolidation*

The consolidated financial statements include the accounts of the Association, and its 100%-owned subsidiary, EASE. All material intercompany balances and transactions have been eliminated in consolidation.

### *Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *Cash Equivalents*

The Association considers all liquid investments with original maturities of three months or less to be cash equivalents. At April 30, 2020 and 2019, cash equivalents consisted of investments in CFC commercial paper.

At April 30, 2020, the Association's cash accounts exceeded federally insured limits by approximately $11,200,000.

The Association also has invested $19,500,000, and $2,500,000 in the National Rural Utilities Cooperative Financing Corporation (NRUCFC) commercial paper as of April 30, 2020, and 2019, which are exposed to credit risk and are not federally insured.

### *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.

### *Equities in Associated Organizations*

Investments in other cooperatives' equities are carried at cost, plus the Association's share of allocated equities, less patronage refunds and allocations. For 2020, the equity instruments were determined to not have readily determinable fair values since the securities are redeemable only by the issuing cooperation at an established contract value. No impartment of observable price changes were recorded during 2020.

### *Accounts Receivable*

Accounts receivable are stated at the amount of consideration from customers of which the Association has an unconditional right to receive. Unbilled revenues arise when electricity has been delivered but amounts have not yet been billed due to the timing of the various billing cycles. At April 30, 2020 and 2019, accounts receivable included approximately $3,390,775 and $3,635,156, respectively, of unbilled revenues. The Association provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due 15 days after the issuance of the invoice. Accounts past due more than 90 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer. The balance in the allowance for doubtful accounts approximated $310,000 and $300,000, respectively.

### *Materials and Supplies*

Materials and supplies are stated at historical cost. Usable material from plant retirements is returned to inventory at current average cost.

### *Utility and Nonutility Plant and Related Depreciation*

Utility and nonutility plant is stated at original cost less depreciation and amortization. The cost of additions to utility plant includes contractual work, direct labor, materials and allocable overhead minus any contribution in aid of construction.

The cost of units of property retired, replaced or renewed is removed from the utility plant; such costs, plus removal costs, less salvage, are charged to accumulated depreciation. Maintenance and repairs of property and replacement and renewal of items determined to be less than complete units of the utility plant are charged to operating expenses.

Provision has been made for depreciation of transmission plant and distribution plant on a straight-line composite rate of 2.87% and 3.09% to 2.70% and 2.75%, respectively. General plant and nonutility plant depreciation rates have been applied on a straight-line unit basis at rates which will depreciate the assets over the estimated useful lives.

### *Long-lived Asset Impairment*

The Association evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds it fair value. No asset impairment was recognized during the years ended April 30, 2020 and 2019.

### *Income Taxes*

The Association is exempt from federal income taxes under Internal Revenue Service (IRS) Section 501(c)(12). The state of Colorado recognizes this exemption for state income tax purposes.

EASE has been recognized as a C corporation for income tax purposes. EASE accounts for income taxes in accordance with income tax accounting guidance (Accounting Standards Codification 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. EASE determines deferred income taxes using the liability (or balance sheets) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term “more likely than not” means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management’s judgment.

### *Revenue Recognition*

The Association earns most of its revenue from implied contracts with customers, primarily through providing electrical power. Contracts are implied in the sense that the service is being rendered and the customer in turn makes a payment for that service. Revenue from contracts with customers is accounted for under ASU 2014-19, *Revenue from Contracts with Customers*, codified as Accounting Standards Codification Topic 606 (ASC 606).

Revenue is measured as the amount of consideration the Association expects to receive in exchange for providing electric services to customers. These revenues represent 98% of the Association operating revenue during the years ended April 30, 2020 and 2019. Electric revenue is recognized upon delivery of electricity, based on billing rates authorized by the Board of Directors, which are applied to customers' usage of electricity.

The Association policies require payments of invoices within 15 days of the invoice date. The collectability of sales is very high with less than 1% written off as bad debt expense annually.

All electric is recognized over a period of time. Other revenue not accounted for under ASC 606 includes out of scope revenue related to investments. The amount of revenue not accounted for over a period of time under ASC 606 is less than 1% of total revenue.

### *Significant Judgments*

For implied contracts where access is made available over time, the Association recognizes revenue over the contract period for which the customer has subscribed to service. The Association measures a contract's progress based on days expired over the total monthly contract period, a so-called output method.

### *Accounting Policies and Practical Expedients Elected*

*Electric Revenues*

The Association is also applying an accounting policy election that allows an entity to exclude from revenue any amounts collected from customers on behalf of third parties, such as sales taxes and other similar taxes the Association collects concurrent with revenue-producing activities. Therefore, revenue is presented net of sales taxes and similar revenue-based taxes.

*Practical Expedients*

The Association elected to use the portfolio approach to evaluate contracts. As a practical expedient, a portfolio approach is permitted if it is reasonably expected that the approach's impact on the consolidated financial statements will not be materially different from the impact of applying the revenue standard on an individual contract basis.

The Association has also elected to use the right to invoice practical expedient. This practical expedient allows an entity to recognize revenue in the amount of consideration to which the entity has the right to invoice when the amount that the entity has the right to invoice corresponds directly to the value transferred to the customer.

### *Taxes Collected from Customers and Remitted to Governmental Authorities*

Taxes collected from customers and remitted to governmental authorities are presented in the accompanying consolidated statements of margins on a net basis.

### *Regulatory Accounting*

Accounting Standards Codification section 980*, Regulated Operations,* permits some items to be deferred at the discretion of the Board of Directors, which has budgetary and rate-setting authority, if it is probable that these amounts will be refunded or recovered through future rates. As a result, the Association has recorded certain deferred credits and debits (regulatory assets).

## Note 2: Utility Plant and Depreciation

Listed below are the major classes of utility plant as of April 30, 2020 and 2019:

| | 2020 Plant Balances | 2019 Plant Balances | Annual Depreciation Rate |
|---|---|---|---|
| Production plant (generation) | $ 119,652,295 | $ 119,652,295 | 3.39% |
| Transmission plant | 41,909,479 | 33,777,834 | 2.87% |
| Distribution plant | 202,737,035 | 197,471,078 | 3.09% |
| General plant | 63,507,248 | 63,123,124 | 2.00% - 20.00% |
| | $ 427,806,057 | $ 414,024,331 | |

Depreciation charges on depreciable fixed assets for the years ended April 30, 2020 and 2019, are as follows:

| | 2020 | 2019 |
|---|---|---|
| Operating expenses | $ 12,528,938 | $ 12,662,941 |
| Capitalized into utility plant | 9,828 | 32,201 |
| Total | $ 12,538,766 | $ 12,695,142 |

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 during 2005. 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 rates for steam production plant that range from 3.1% – 6.7%.

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 was recorded in the amount of $6,442,237 during 2019.

### Note 3: Nonutility Property

At April 30, 2020 and 2019 nonutility property consisted of:

| | 2020 | 2019 | Depreciation Method and Years |
|---|---|---|---|
| Real estate | $ 1,223,390 | $ 1,719,560 | S/L 33-38 Years |
| Less accumulated depreciation | (555,218) | (591,083) | |
| Net nonutility property | $ 668,172 | $ 1,128,477 | |

This real estate is used primarily for employee housing.

### Note 4: Subordinated Certificates

| | 2020 | 2019 |
|---|---|---|
| Capital term certificates | $ 1,091,977 | $ 1,091,977 |
| Zero term certificates | 1,941,764 | 1,947,041 |
| Totals | $ 3,033,741 | $ 3,039,018 |

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 5: Investments in Associated Organizations

Equities in associated organizations consisted of the following at April 30:

| | 2020 | 2019 |
|---|---|---|
| Patronage capital - CFC | $ 3,947,628 | $ 3,654,169 |
| Patronage capital - Western United | 998,848 | 913,768 |
| Patronage capital - Federated | 540,017 | 500,086 |
| Other investments in associated organizations | 362,381 | 349,090 |
| | $ 5,848,874 | $ 5,417,113 |

## Note 6: Other Current Assets

Other current assets consists of the following at April 30:

| | 2020 | 2019 |
|---|---|---|
| Prepaid insurance | $ 189,643 | $ 211,710 |
| Comanche 3 O&M deposit | 1,357,000 | 1,357,000 |
| Carbon offsets | 3,864,077 | 3,009,729 |
| Undistributed stores charges | - | 21,371 |
| Other current assets | 490,541 | 484,704 |
| | $ 5,901,261 | $ 5,084,514 |

## Note 7: Line of Credit

The Association has entered into agreements with NRUCFC for one line of credit up to $15,000,000 and another line of credit up to $15,000,000. These perpetual lines of credit expire on December 31, 2049. At April 30, 2020, the Association has $15,000,000 borrowed on these lines of credit.

The Association has entered into agreements with CoBank for one line of credit up to $1,000,000 and another line of credit up to $3,000,000. These perpetual lines of credit are renewable annually on October 31. As of April 30, 2020, no funds have been drawn and no amounts are outstanding.

## Note 8: Long-term Debt

Long-term debt consists of:

| | 2020 | 2019 |
|---|---|---|
| CFC Mortgage notes - fixed interest rates ranging from 3.42% to 6.15%; maturing at various dates through December 2049. | $ 141,181,883 | $ 146,157,782 |
| Farmer Mac Mortgage notes - fixed interest rates ranging from 2.75% to 5.04%; maturing in October 2040. | 14,936,361 | 15,385,678 |
| | 156,118,244 | 161,543,460 |
| Less current maturities | (5,318,800) | (5,425,000) |
| Total long-term debt | $ 150,799,444 | $ 156,118,460 |

The annual requirements for principal payments on long-term debt for the next five years are as follows:

| | |
|---|---|
| 2021 | $ 5,318,800 |
| 2022 | 5,651,300 |
| 2023 | 5,914,600 |
| 2024 | 6,387,400 |
| 2025 | 6,079,000 |
| Thereafter | 126,767,144 |
| | $ 156,118,244 |

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, 2020 and 2019. Other equities consist of capital credit gains.

At April 30, 2020, the Association has $40,000,000, of loan funds that were unadvanced.

During 2019, the Association wrote-off loan cost from an RUS debt prepayment penalty in the amount of $4,405,185.

## Note 9: Other Current Liabilities

| | 2020 | 2019 |
|---|---|---|
| Customers' deposits | $ 521,322 | $ 497,318 |
| Accrued payroll | 746,500 | 698,389 |
| Accrued vacation | 2,662,288 | 2,174,831 |
| Patronage capital payable | 1,455,090 | 1,180,581 |
| Other current liabilities | 362,271 | 324,833 |
| | $ 5,747,471 | $ 4,875,952 |

## Note 10: Deferred Credits

| | 2020 | 2019 |
|---|---|---|
| Customers' energy prepayments | $ - | $ 275,203 |
| Customers' advances for construction | 2,932,148 | 1,691,395 |
| Indeterminate services | 7,852,420 | 7,209,508 |
| Renewable energy reserve | 1,348,495 | 2,306,864 |
| Deferred revenues | 3,336,000 | - |
| Other deferred credits | 1,055,699 | 229,958 |
| | $ 16,524,762 | $ 11,712,928 |

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, 2020 or 2019.

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 and is adjusted accordingly each month.

In February 2020, the Board of Directors of the Association moved to defer revenue of $5,000,000 from the calendar year 2019. The amount will be recognized in revenue over the 2020 calendar year. The value at April 30, 2020 represents the unamortized portion of approved deferred revenue.

## Note 11: Accounting for Pensions

### *Defined Benefit Pension Plan*

The Association contributes to the "Retirement and Security Program (R&S) for employees of the National Rural Electric Cooperative (NRECA) and Its Member Systems." The multiemployer program is a defined benefit pension plan covering most employees. The risk of participating in this multiemployer plan is different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers

- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers
- If the Association chooses to stop participating in the multiemployer plan, they may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability

The Association's participation in this plan for the annual period ended April 30, 2020, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2020 and 2019 is for the plan's year-end at December 31, 2018 and 2017, respectively. The zone status is based on information that the Association received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or rehabilitation plan (RP) is either pending or has been implemented.

The Program does not have a certified zone status as currently defined by the PPA because the Program is considered a multiple employer plan pursuant to the Internal Revenue Code and ERISA.

| Pension Fund | EIN/Pension Plan Number | Pension Protection Act Zone Status | | FIP/RP Status Pending/ Implemented | Contributions | | Surcharge Imposed |
|---|---|---|---|---|---|---|---|
| | | 12/31/2018 | 12/31/2017 | | 4/30/2020 | 4/30/2019 | |
| R&S | 53-0116145/333 | N/A | N/A | N/A | $ 1,476,007 | $ 1,460,814 | Yes |

At the date the consolidated financial statements were issued, Forms 5500 were not available for the plan year ended 2019.

### 401(k) Plan

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 2020 and 2019 was $2,876,782 and $2,888,642, respectively.

## Note 12: 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 five-year notice prerequisite after 2029.

The Association has entered into an energy purchase agreement with an independent energy company. The purpose of the agreement is to increase the renewable energy component of the Association's electrical generation mix by purchasing energy generated from renewable sources from the independent energy company. In return, the Association will sell fossil fueled energy to the independent energy company.

## Note 13: Changes in Accounting Principles

### ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*

In January 2016, FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 amends guidance related to certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. This update is effective for fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption not permitted with certain exceptions. The Association began application of ASU 2016-01 on May 1, 2019. Adoption of ASU 2016-01 did not have a material effect on the results of the Association's operations, financial position and cash flows.

### ASU 2017-07, *Compensation – Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*

In 2019, the Association changed its method of accounting for defined benefit pension plans, other postretirement plans and other retirement benefits accounted for under Topic 715, *Compensation – Retirement Benefits*, by adopting ASU 2017-07. The new accounting guidance in ASU 2017-07 improves the presentation of net periodic postretirement benefit costs by requiring employers to report the service cost component of net periodic postretirement benefit cost in the same consolidated financial statement line as other employee compensation costs arising from the pertinent employees during the period. ASU 2017-07 also allows for capitalization of only the service cost component of net periodic postretirement benefit costs, if applicable. Other components of benefit costs are prohibited from capitalization as part of an asset. The Association began application of ASU 2017-07 on May 1, 2019. Adoption of ASU 2017-07 did not have a material effect on the results of the Association's operations, financial position and cash flows.

## Note 14: Future Change in Accounting Principle

### *Accounting for Leases*

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and non-lease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2020, and any interim periods within annual reporting periods that begin after December 15, 2021. The Association is evaluating the impact the standard will have on the consolidated financial statements; however, the standard is expected to have a material impact on the consolidated financial statements due to the recognition of additional assets and liabilities for operating leases.

## Note 15: Subsequent Events

Subsequent events have been evaluated through July 31, 2020, which is the date the consolidated financial statements were issued.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the consolidated financial position, results of operations and cash flows of the Association. The duration of these uncertainties and the ultimate consolidated financial effects cannot be reasonably estimated at this time.

## Note 16: Restatement of Prior Year Temporary Investments

In 2019 an error existed related to the classification of temporary investments. The following line items on the 2019 balance sheets, and cash flow were affected by the correction:

| | As Previously Reported | As Adjusted | Effect of Change |
|---|---|---|---|
| **Consolidated Balance Sheets, April 30, 2019** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | $ 8,800,414 | $ 11,300,414 | $ (2,500,000) |
| Temporary investments | $ 2,500,000 | $ - | $ 2,500,000 |
| **Consolidated Statements of Cash Flows** | | | |
| Temporary investments | $ (1,000,000) | $ 1,500,000 | $ (2,500,000) |
| Cash and cash equivalents, end of year | $ 8,901,664 | $ 11,401,664 | $ 2,500,000 |

# Supplementary Information

# Holy Cross Electric Association, Inc. and Subsidiary

## Consolidating Schedule – Balance Sheets

## April 30, 2020

### Assets

| | Holy Cross Electric, Inc. | Energy and Services Experts, Inc. | Intercompany Eliminations | Consolidated |
|---|---|---|---|---|
| **Utility Plant** | | | | |
| Electric plant in service | $ 427,806,057 | $ - | $ - | $ 427,806,057 |
| Construction work-in-progress | 14,681,085 | - | - | 14,681,085 |
| | 442,487,142 | - | - | 442,487,142 |
| Less accumulated depreciation | 162,150,824 | - | - | 162,150,824 |
| Net utility plant | 280,336,318 | - | - | 280,336,318 |
| **Other Assets and Investments** | | | | |
| Subordinated certificates | 3,033,741 | - | - | 3,033,741 |
| Investments in associated organizations | 5,848,874 | - | - | 5,848,874 |
| Nonutility property | 668,172 | - | - | 668,172 |
| Other investments | 38,975 | 8,373 | (8,373) | 38,975 |
| Total other assets and investments | 9,589,762 | 8,373 | (8,373) | 9,589,762 |
| **Current Assets** | | | | |
| Cash and cash equivalents | 26,899,464 | - | - | 26,899,464 |
| Restricted cash | 101,737 | - | - | 101,737 |
| Accounts receivable, less allowance for doubtful accounts of $310,000 | 8,498,263 | - | - | 8,498,263 |
| Unbilled revenue | 3,390,775 | - | - | 3,390,775 |
| Materials and supplies | 4,209,640 | - | - | 4,209,640 |
| Other current assets | 5,901,261 | - | - | 5,901,261 |
| Total current assets | 49,001,140 | - | - | 49,001,140 |
| **Deferred Charges** | 392,113 | - | - | 392,113 |
| Total assets | $ 339,319,333 | $ 8,373 | $ (8,373) | $ 339,319,333 |

# Holy Cross Electric Association, Inc. and Subsidiary
## Consolidating Schedule – Balance Sheets (continued)
## April 30, 2020

### Liabilities and Members' Equity

| | Holy Cross Electric, Inc. | Energy and Services Experts, Inc. | Intercompany Eliminations | Consolidated |
|---|---|---|---|---|
| **Equities** | | | | |
| Patronage capital | $ 72,507,815 | $ - | $ - | $ 72,507,815 |
| Other equities | 60,501,062 | 8,373 | (8,373) | 60,501,062 |
| Total equities | 133,008,877 | 8,373 | (8,373) | 133,008,877 |
| **Long-term Liabilities** | | | | |
| Mortgage notes | 156,118,246 | - | - | 156,118,246 |
| Less current maturities | 5,318,800 | - | - | 5,318,800 |
| Line of credit | 15,000,000 | - | - | 15,000,000 |
| Total long-term liabilities | 165,799,446 | - | - | 165,799,446 |
| **Current Liabilities** | | | | |
| Current maturities on long-term liabilities | 5,318,800 | - | - | 5,318,800 |
| Accounts payable | 11,089,399 | - | - | 11,089,399 |
| Accrued liabilities | | - | - | - |
| Taxes | 1,669,760 | - | - | 1,669,760 |
| Interest | 160,818 | - | - | 160,818 |
| Other current liabilities | 5,747,471 | - | - | 5,747,471 |
| Total current liabilities | 23,986,248 | - | - | 23,986,248 |
| **Deferred Credits** | 16,524,762 | - | - | 16,524,762 |
| Total liabilities | 206,310,456 | - | - | 206,310,456 |
| Total liabilities and members' equity | $ 339,319,333 | $ 8,373 | $ (8,373) | $ 339,319,333 |

# Holy Cross Electric Association, Inc. and Subsidiary
## Consolidating Schedule – Statement of Margins
## Year Ended April 30, 2020

| | Holy Cross Electric, Inc. | Energy and Services Experts, Inc. | Intercompany Eliminations | Consolidated |
|---|---|---|---|---|
| **Operating Revenues** | | | | |
| Operating revenue | $ 134,682,556 | $ - | $ - | $ 134,682,556 |
| Other operating revenue | 1,273,016 | - | - | 1,273,016 |
| Total operating revenues | 135,955,572 | - | - | 135,955,572 |
| **Operating Expenses** | | | | |
| Cost of power | 58,225,729 | - | - | 58,225,729 |
| Power production expense | 8,811,813 | - | - | 8,811,813 |
| Transmission expense | 1,566,625 | - | - | 1,566,625 |
| Distribution - operations | 11,530,813 | - | - | 11,530,813 |
| Distribution - maintenance | 5,336,322 | - | - | 5,336,322 |
| Consumer accounts | 4,241,853 | - | - | 4,241,853 |
| Customer service and information | 3,698,452 | - | - | 3,698,452 |
| Administrative and general | 13,381,114 | - | - | 13,381,114 |
| Depreciation and amortization | 12,528,938 | - | - | 12,528,938 |
| Interest on long-term debt | 7,554,647 | - | - | 7,554,647 |
| Other interest | 9,828 | - | - | 9,828 |
| Total operating expenses | 126,886,134 | - | - | 126,886,134 |
| **Operating Margins** | 9,069,438 | - | - | 9,069,438 |
| **Capital Credits** | 907,095 | - | - | 907,095 |
| **Nonoperating Margins (Expense)** | | | | |
| Interest income | 370,243 | - | - | 370,243 |
| Other | (69,870) | - | - | (69,870) |
| Total nonoperating margins (expense) | 300,373 | - | - | 300,373 |
| **Net Margins** | $ 10,276,906 | $ - | $ - | $ 10,276,906 |

# Holy Cross Electric Association, Inc. and Subsidiary
## Consolidating Schedule – Balance Sheets
## April 30, 2019 (Restated)

### Assets

| | Holy Cross Electric, Inc. | Energy and Services Experts, Inc. | Intercompany Eliminations | Consolidated |
|---|---|---|---|---|
| **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 | 11,300,414 | - | - | 11,300,414 |
| Restricted cash | 101,250 | - | - | 101,250 |
| Accounts receivable, less allowance 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 Charges** | 334,612 | - | - | 334,612 |
| Total assets | $ 319,211,271 | $ 8,373 | $ (8,373) | $ 319,211,271 |

# Holy Cross Electric Association, Inc. and Subsidiary
## Consolidating Schedule – Balance Sheets (continued)
## April 30, 2019

### Liabilities and Members' Equity

| | Holy Cross Electric, Inc. | Energy and Services Experts, Inc. | Intercompany Eliminations | Consolidated |
|---|---|---|---|---|
| **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 liabilities | 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 liabilities and members' equity | $ 319,211,271 | $ 8,373 | $ (8,373) | $ 319,211,271 |

# Holy Cross Electric Association, Inc. and Subsidiary

## Consolidating Schedule – Statement of Margins

## Year Ended April 30, 2019

| | Holy Cross Electric, Inc. | Energy and Services Experts, Inc. | Intercompany Eliminations | Consolidated |
|---|---|---|---|---|
| **Operating Revenues** | | | | |
| Operating revenue | $ 131,957,031 | $ - | $ - | $ 131,957,031 |
| Other operating revenues | 1,568,419 | - | - | 1,568,419 |
| Total operating revenues | 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 | 7,802,601 | - | - | 7,802,601 |
| Other 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 | 236313 | - | - | 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** | $ 239,327 | $ - | $ - | $ 239,327 |