Holy Cross Electric Association, Inc. and Subsidiary

Independent Auditor's Report and Consolidated Financial Statements

April 30, 2021 and 2020

Holy Cross Electric Association, Inc. and Subsidiary
April 30, 2021 and 2020

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Holy Cross Electric Association, Inc. and Subsidiary
April 30, 2021 and 2020

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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 consolidated financial statements of Holy Cross Electric Association, Inc. and Subsidiary (the Association), which comprise the consolidated balance sheets as of April 30, 2021 and 2020, and the related consolidated statements of margins, changes in equity and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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.

BKD, LLP

Colorado Springs, Colorado
July 8, 2021

Holy Cross Electric Association, Inc. and Subsidiary
Consolidated Balance Sheets
April 30, 2021 and 2020

Assets

	2021	2020
Utility Plant		
Electric plant in service	$ 440,444,876	$ 427,806,057
Construction work-in-progress	27,350,342	14,681,085
	467,795,218	442,487,142
Less accumulated depreciation	174,220,295	162,150,824
Net utility plant	293,574,923	280,336,318
Other Assets and Investments		
Subordinated certificates	2,980,748	3,033,741
Investments in associated organizations	6,320,754	5,848,874
Nonutility property	504,493	668,172
Other investments	174,621	38,975
Total other assets and investments	9,980,616	9,589,762
Current Assets		
Cash and cash equivalents	7,836,990	26,899,464
Restricted cash	-	101,737
Accounts receivable, less allowance for doubtful accounts; 2021 - $297,000 and 2020 - $310,000	8,969,223	8,498,263
Unbilled revenue	3,881,184	3,390,775
Materials and supplies	4,087,565	4,209,640
Other current assets	5,147,068	5,901,261
Total current assets	29,922,030	49,001,140
Deferred Charges	159,275	392,113
Total assets	$ 333,636,844	$ 339,319,333

Holy Cross Electric Association, Inc. and Subsidiary

Consolidated Balance Sheets (continued)

April 30, 2021 and 2020

Liabilities and Members' Equity

	2021	2020
Equities		
Patronage capital	$ 73,568,059	$ 72,507,815
Other equities	64,102,646	60,501,062
Total equities	137,670,705	133,008,877
Long-term Liabilities		
Mortgage notes	157,420,398	156,118,246
Less current maturities	5,577,600	5,318,800
Line of credit	-	15,000,000
Total long-term liabilities	151,842,798	165,799,446
Other Long-term Liabilities	3,133,399	-
Current Liabilities		
Current maturities on long-term liabilities	5,577,600	5,318,800
Accounts payable	8,464,626	11,089,399
Accrued liabilities		
Taxes	2,024,568	1,669,760
Interest	124,235	160,818
Other current liabilities	6,837,088	5,747,471
Total current liabilities	23,028,117	23,986,248
Deferred Credits	17,961,825	16,524,762
Total liabilities	195,966,139	206,310,456
Total liabilities and members' equity	$ 333,636,844	$ 339,319,333

Holy Cross Electric Association, Inc. and Subsidiary
Consolidated Statements of Margins
Years Ended April 30, 2021 and 2020

	2021	2020
Operating Revenues		
Operating revenue	$ 133,545,573	$ 134,682,556
Other operating revenue	4,081,591	1,273,016
Total operating revenues	137,627,164	135,955,572
Operating Expenses		
Cost of power	62,614,807	58,225,729
Power production expense	6,209,717	8,811,813
Transmission expense	3,515,782	1,566,625
Distribution - operations	11,269,445	11,530,813
Distribution - maintenance	6,012,507	5,336,322
Consumer accounts	4,172,920	4,241,853
Customer service and information	2,700,840	3,698,452
Administrative and general	13,058,662	13,381,114
Depreciation and amortization	12,842,588	12,528,938
Interest on long-term debt	7,265,707	7,554,647
Other interest	65,756	9,828
Total operating expenses	129,728,731	126,886,134
Operating Margins	7,898,433	9,069,438
Capital Credits	924,596	907,095
Nonoperating Margins (Expense)		
Interest income	162,978	370,243
Other	282,420	(69,870)
Total nonoperating margins (expense)	445,398	300,373
Net Margins	$ 9,268,427	$ 10,276,906

Holy Cross Electric Association, Inc. and Subsidiary
Consolidated Statements of Changes in Equity
Years Ended April 30, 2021 and 2020

	Other Equities	Patronage Capital Allocated	Patronage Capital Unallocated	Total Equities
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
Net margin	-	-	9,268,427	9,268,427
Allocations	-	8,135,981	(8,135,981)	-
Retirement of capital credits	2,015,419	(8,208,183)	-	(6,192,764)
Other equities	1,586,165	-	-	1,586,165
Balance at April 30, 2021	$ 64,102,646	$ 62,938,959	$ 10,629,100	$ 137,670,705

Holy Cross Electric Association, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended April 30, 2021 and 2020

	2021	2020
Operating Activities		
Net margins	$ 9,268,427	$ 10,276,906
Adjustments to reconcile net margins to net cash provided by operating activities		
Depreciation and amortization	12,842,588	12,528,938
Capital credits	(924,596)	(907,095)
Gain on sale of personal property and equipment	(307,703)	-
Depreciation charged to vehicle and equipment clearing	1,582,588	606,817
Changes in assets and liabilites:		
Accounts receivable	(961,369)	196,374
Materials and supplies	122,075	(748,205)
Prepaid and other	754,193	(816,747)
Deferred charges	232,838	(57,501)
Accounts payable	(2,978,853)	221,111
Accrued interest	(36,583)	(6,908)
Accrued taxes	354,808	(495,235)
Deferred credits	(2,387,639)	1,760,226
Deferred revenues	4,466,664	3,336,000
Other liabilites	1,089,617	1,115,900
Net cash provided by operating activities	23,117,055	27,010,581
Investing Activities		
Investment in utility plant (net)	(24,916,745)	(18,183,455)
Proceeds from sale of assets	406,184	-
Change in nonutility property	163,679	460,305
Patronage capital recovery	452,716	475,333
Change in other investments	(82,653)	(4,369)
Net cash used in investing activities	(23,976,819)	(17,252,186)

Holy Cross Electric Association, Inc. and Subsidiary
Consolidated Statements of Cash Flows (continued)
Years Ended April 30, 2021 and 2020

	2021	2020
Financing Activities		
Proceeds from debt	7,000,000	-
Payment of debt	(5,697,848)	(5,425,214)
Retirement of capital credits	(4,606,599)	(3,733,644)
Borrowings (payments) on line of credit	(15,000,000)	15,000,000
Net cash provided by (used in) financing actitvities	(18,304,447)	5,841,142
Increase (Decrease) in Cash and Cash Equivalents	(19,164,211)	15,599,537
Cash and Cash Equivalents, Beginning of Year	27,001,201	11,401,664
Cash and Cash Equivalents, End of Year	$ 7,836,990	$ 27,001,201
Supplemental Cash Flows Information		
Cash paid for interest	$ 7,302,290	$ 7,562,110
Noncash investing and financing transactions		
Acquisitions of property and equipment in accounts payable	$ 1,270,171	$ 916,091
Asset retirement obligation in plant and long term liabilities	$ 3,133,399	$ -

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, which does not differ materially from accounting principles generally accepted in the United States of America.

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, 2021 and 2020, cash equivalents consisted of investments in CFC commercial paper.

At April 30, 2021, the Association's cash accounts exceeded federally insured limits by approximately $7,350,000.

The Association also has invested $2,500,000, and $19,500,000 in the National Rural Utilities Cooperative Financing Corporation (NRUCFC) commercial paper as of April 30, 2021, and 2020, 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 2021 and 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 2021 or 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, 2021 and 2020, the Association had $3,881,184 and $3,390,775, respectively, of unbilled revenues. The Association provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, unbilled revenue, 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 $297,000 and $310,000.

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 2.71% and 2.87% to 3.06% and 2.70%, 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, 2021 and 2020.

Asset Retirement Obligation

Accounting principles generally accepted in the United States of America require that an asset retirement obligation associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event.

When the liability is initially recorded, the entity capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset.

The Association has determined it does have a material legal obligation to remove long-lived assets, and accordingly, a liability has been recorded for the year ended April 30, 2021.

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 approximately 98% of the Association operating revenue during the years ended April 30, 2021 and 2020. 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 revenue 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.

<u>*Practical Expedients*</u>

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, 2021 and 2020:

	2021 Plant Balances	2020 Plant Balances	Annual Depreciation Rate
Production plant (generation)	$ 122,785,694	$ 119,652,295	3.39%
Transmission plant	41,907,161	41,909,479	2.71%
Distribution plant	208,460,909	202,737,035	3.06%
General plant	67,291,112	63,507,248	2.00% - 20.00%
	$ 440,444,876	$ 427,806,057	

Depreciation charges on depreciable fixed assets for the years ended April 30, 2021 and 2020, are as follows:

	2021	2020
Operating expenses	$ 12,842,588	$ 12,528,938
Capitalized into utility plant	-	9,828
Total	$ 12,842,588	$ 12,538,766

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, known as Comanche 3, 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%.

Note 3: Nonutility Property

At April 30, 2021 and 2020, nonutility property consisted of:

	2021	2020	Depreciation Method and Years
Real estate	$ 907,493	$ 1,223,390	S/L 33-38 Years
Less accumulated depreciation	(403,000)	(555,218)	
Net nonutility property	$ 504,493	$ 668,172	

This real estate is used primarily for employee housing.

Note 4: Subordinated Certificates

	2021	2020
Capital term certificates	$ 1,044,477	$ 1,091,977
Zero term certificates	1,936,270	1,941,764
	$ 2,980,747	$ 3,033,741

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:

	2021	2020
Patronage capital - CFC	$ 4,244,654	$ 3,947,628
Patronage capital - Western United	1,136,487	998,848
Patronage capital - Federated	575,161	540,017
Other investments in associated organizations	364,452	362,381
	$ 6,320,754	$ 5,848,874

Note 6: Other Current Assets

Other current assets consists of the following at April 30:

	2021	2020
Prepaid insurance	$ 182,098	$ 189,643
Comanche 3 O&M deposit	1,357,000	1,357,000
Carbon offsets	2,857,876	3,864,077
Other current assets	750,094	490,541
	$ 5,147,068	$ 5,901,261

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, 2021 and 2020, respectively, the Association had $0 and $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, 2021, no funds have been drawn and no amounts are outstanding.

Note 8: Long-term Debt

Long-term debt consists of:

	2021	2020
CFC Mortgage notes - fixed interest rates ranging from 3.42% to 6.15%; maturing at various dates through December 2049	$ 142,952,422	$ 141,181,883
Farmer Mac Mortgage notes - fixed interest rates ranging from 2.75% to 5.04%; maturing in October 2040	14,467,976	14,936,361
	157,420,398	156,118,244
Less current maturities	(5,577,600)	(5,318,800)
Total long-term debt	$ 151,842,798	$ 150,799,444

The assets of the Cooperative are pledged as collateral for these notes without preference, priority, or distinction.

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

2022	$ 5,577,600
2023	5,842,000
2024	6,123,000
2025	6,213,100
2026	6,309,400
Thereafter	127,355,298
	$ 157,420,398

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 42% and 40% of the total assets as of April 30, 2021 and 2020, respectively. Other equities consist of capital credit gains.

At April 30, 2021, the Association has $33,000,000, of loan funds that were unadvanced.

Note 9: Other Current Liabilities

	2021	2020
Customers' deposits	$ 521,322	$ 521,322
Accrued payroll	779,470	746,500
Accrued vacation	3,354,051	2,662,288
Patronage capital payable	1,860,751	1,455,090
Other current liabilities	321,494	362,271
	$ 6,837,088	$ 5,747,471

Note 10: Asset Retirement Obligation

Accounting principles generally accepted in the United States of America require that an asset retirement obligation associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event.

The Association's conditional asset retirement obligation primarily relates to the dismantling and removal of the Comanche 3 generating facility. The facility's construction was completed in 2010. The useful life of the facility is estimated to be thirty years. By 2040, the facility will be substantially deprecated.

A summary of changes in asset retirement obligations for the years ended April 30, 2021 and 2020, is included in the table below.

	2021	2020
Liability, beginning of year	$ -	$ -
Liabilities incurred	3,133,399	-
Liability, end of year	$ 3,133,399	$ -

Note 11: Deferred Credits

	2021	2020
Customers' advances for construction	$ 2,880,161	$ 2,932,148
Indeterminate services	8,494,382	7,852,420
Renewable energy reserve	506,828	1,348,495
Deferred revenues	4,466,664	3,336,000
Other deferred credits	1,613,790	1,055,699
	$ 17,961,825	$ 16,524,762

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 10 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, 2021 or 2020.

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 2021, the Board of Directors of the Association moved to defer revenues of $6,700,000 from the calendar year 2020. The amount will be recognized in revenue over the 2021 calendar year. The values at April 30, 2021 represent the unamortized portion of approved deferred revenues. In February 2020, the Board of Directors of the Association moved to defer revenues of $5,000,000, the amount was recognized in revenue over the 2020 calendar year.

Note 12: 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, 2021, 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 2021 and 2020 is for the plan’s year-end at December 31, 2019 and 2018, 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 12/31/2019	Pension Protection Act Zone Status 12/31/2018	FIP/RP Status Pending/ Implemented	Contributions 4/30/2021	Contributions 4/30/2020	Surcharge Imposed
R&S	53-0116145/333	N/A	N/A	N/A	$ 1,657,777	$ 1,476,007	Yes

At the date the consolidated financial statements were issued, Form 5500 was not available for the plan year ended 2020.

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 2021 and 2020 was $3,196,603 and $2,876,782, 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 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 14: Allocation and Retirement of Member Equity

Recommendations are made to the board for allocation and retirement of member equity. While the Association's bylaws govern the way that member equity is allocated and retired, in the end it is a board decision.

Current practice is to allocate margins around the first quarter of the following year. The margins that have been allocated to members are calendar year operating margins. Once the allocation has been approved, the board will vote on the amounts that will be refunded. Current practice has included a refund of 50% of the current member equity allocation on a discounted net present value basis to be paid in the second quarter of the current year. In addition, the board has discretion to include an additional refund for amounts that remain unpaid from all prior years. These amounts are refunded on a first-in first-out basis.

The discounted portion and unallocated nonoperating margins appear as an increase in other equities on the consolidated statements of changes in equity.

Note 15: 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 consolidated balance sheets 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, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. 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 16: Subsequent Events

Subsequent events have been evaluated through July 8, 2021, which is the date the consolidated financial statements were issued.

Supplementary Information

Holy Cross Electric Association, Inc. and Subsidiary
Consolidating Schedule – Balance Sheets
April 30, 2021

Assets

	Holy Cross Electric, Inc.	Energy and Services Experts, Inc.	Intercompany Eliminations	Consolidated
Utility Plant				
Electric plant in service	$ 440,444,876	$ -	$ -	$ 440,444,876
Construction work-in-progress	27,350,342	-	-	27,350,342
	467,795,218	-	-	467,795,218
Less accumulated depreciation	174,220,295	-	-	174,220,295
Net utility plant	293,574,923	-	-	293,574,923
Other Assets and Investments				
Subordinated certificates	2,980,748	-	-	2,980,748
Investments in associated organizations	6,320,754	-	-	6,320,754
Nonutility property	504,493	-	-	504,493
Other investments	174,621	7,823	(7,823)	174,621
Total other assets and investments	9,980,616	7,823	(7,823)	9,980,616
Current Assets				
Cash and cash equivalents	7,836,990	-	-	7,836,990
Accounts receivable, less allowance for doubtful accounts of $297,000	8,969,223	-	-	8,969,223
Unbilled revenue	3,881,184	-	-	3,881,184
Materials and supplies	4,087,565	-	-	4,087,565
Other current assets	5,147,068	-	-	5,147,068
Total current assets	29,922,030	-	-	29,922,030
Deferred Charges	159,275	-	-	159,275
Total assets	$ 333,636,844	$ 7,823	$ (7,823)	$ 333,636,844

Holy Cross Electric Association, Inc. and Subsidiary
Consolidating Schedule – Balance Sheets (continued)
April 30, 2021

Liabilities and Members' Equity

	Holy Cross Electric, Inc.	Energy and Services Experts, Inc.	Intercompany Eliminations	Consolidated
Equities				
Patronage capital	$ 73,568,059	$ -	$ -	$ 73,568,059
Other equities	64,102,646	7,823	(7,823)	64,102,646
Total equities	137,670,705	7,823	(7,823)	137,670,705
Long-term Liabilities				
Mortgage notes	157,420,398	-	-	157,420,398
Less current maturities	5,577,600	-	-	5,577,600
Total long-term liabilities	151,842,798	-	-	151,842,798
Other Long-term Liabilities	3,133,399	-	-	3,133,399
Current Liabilities				
Current maturities on long-term liabilities	5,577,600	-	-	5,577,600
Accounts payable	8,464,626	-	-	8,464,626
Accrued liabilities				
Taxes	2,024,568	-	-	2,024,568
Interest	124,235	-	-	124,235
Other current liabilities	6,837,088	-	-	6,837,088
Total current liabilities	23,028,117	-	-	23,028,117
Deferred Credits	17,961,825	-	-	17,961,825
Total liabilities	195,966,139	-	-	195,966,139
Total liabilities and members' equity	$ 333,636,844	$ 7,823	$ (7,823)	$ 333,636,844

Holy Cross Electric Association, Inc. and Subsidiary
Consolidating Schedule – Statement of Margins
Year Ended April 30, 2021

	Holy Cross Electric, Inc.	Energy and Services Experts, Inc.	Intercompany Eliminations	Consolidated
Operating Revenues				
Operating revenue	$ 133,545,573	$ -	$ -	$ 133,545,573
Other operating revenue	4,081,591	-	-	4,081,591
Total operating revenues	137,627,164	-	-	137,627,164
Operating Expenses				
Cost of power	62,614,807	-	-	62,614,807
Power production expense	6,209,717	-	-	6,209,717
Transmission expense	3,515,782	-	-	3,515,782
Distribution - operations	11,269,445	-	-	11,269,445
Distribution - maintenance	6,012,507	-	-	6,012,507
Consumer accounts	4,172,920	-	-	4,172,920
Customer service and information	2,700,840	-	-	2,700,840
Administrative and general	13,058,662	-	-	13,058,662
Depreciation and amortization	12,842,588	-	-	12,842,588
Interest on long-term debt	7,265,707	-	-	7,265,707
Other interest	65,756	-	-	65,756
Total operating expenses	129,728,731	-	-	129,728,731
Operating Margins	7,898,433	-	-	7,898,433
Capital Credits	924,596	-	-	924,596
Nonoperating Margins (Expense)				
Interest income	162,978	-	-	162,978
Other	282,420	(550)	550	282,420
Total nonoperating margins (expense)	445,398	(550)	550	445,398
Net Margins	$ 9,268,427	$ (550)	$ 550	$ 9,268,427

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	-	-	
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