Holy Cross Electric Association, Inc.
and Subsidiary

Independent Auditor's Report and Consolidated Financial Statements

April 30, 2022 and 2021

Holy Cross Electric Association, Inc. and Subsidiary
April 30, 2022 and 2021

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Holy Cross Electric Association, Inc. and Subsidiary
April 30, 2022 and 2021

Board of Directors, Officers, and Chief Executive Officer

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Holy Cross Electric Association, Inc. and Subsidiary (the Association), which comprise the consolidated balance sheets as of April 30. 2022 and 2021, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Association as of April 30, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that these consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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.

FORVIS, LLP

Colorado Springs, Colorado
July 11, 2022

Holy Cross Electric Association, Inc. and Subsidiary
Consolidated Balance Sheets
April 30, 2022 and 2021

Assets

	2022	2021
Utility Plant		
Electric plant in service	$ 459,628,762	$ 440,444,876
Construction work-in-progress	28,280,205	27,350,342
	487,908,967	467,795,218
Less accumulated depreciation	186,678,538	174,220,295
Net utility plant	301,230,429	293,574,923
Other Assets and Investments		
Subordinated certificates	2,975,028	2,980,748
Investments in associated organizations	6,809,623	6,320,754
Nonutility property	476,650	504,493
Other investments	999,354	174,621
Total other assets and investments	11,260,655	9,980,616
Current Assets		
Cash and cash equivalents	9,413,635	7,836,990
Accounts receivable, less allowance for doubtful accounts; 2022 - $318,000 and 2021 - $297,000	11,588,552	8,969,223
Unbilled revenue	4,029,162	3,881,184
Materials and supplies	4,910,856	4,087,565
Other current assets	6,755,224	5,147,068
Total current assets	36,697,429	29,922,030
Deferred Charges and Regulatory Assets	281,350	159,275
Total assets	$ 349,469,863	$ 333,636,844

Holy Cross Electric Association, Inc. and Subsidiary
Consolidated Balance Sheets (continued)
April 30, 2022 and 2021

Liabilities and Members' Equity

	2022	2021
Equities		
Patronage capital	$ 77,527,749	$ 73,568,059
Other equities	67,803,846	64,102,646
Total equities	145,331,595	137,670,705
Long-term Liabilities		
Mortgage notes	159,109,884	157,420,398
Less current maturities	6,969,000	5,577,600
Total long-term liabilities	152,140,884	151,842,798
Other Long-term Liabilities	3,189,800	3,133,399
Current Liabilities		
Current maturities on long-term liabilities	6,969,000	5,577,600
Accounts payable	12,361,781	8,464,626
Accrued liabilities		
Taxes	2,378,704	2,024,568
Interest	119,918	124,235
Other current liabilities	7,194,631	6,837,088
Total current liabilities	29,024,034	23,028,117
Deferred Credits	19,783,550	17,961,825
Total liabilities	204,138,268	195,966,139
Total liabilities and members' equity	$ 349,469,863	$ 333,636,844

Holy Cross Electric Association, Inc. and Subsidiary
Consolidated Statements of Margins
Years Ended April 30, 2022 and 2021

	2022	2021
Operating Revenues		
Operating revenue	$ 143,102,084	$ 133,545,573
Other operating revenue	1,239,981	4,081,591
Total operating revenues	144,342,065	137,627,164
Operating Expenses		
Cost of power	61,552,841	62,614,807
Power production expense	7,896,823	6,209,717
Transmission expense	4,325,490	3,515,782
Distribution - operations	12,123,926	11,269,445
Distribution - maintenance	5,300,334	6,012,507
Consumer accounts	3,814,475	4,172,920
Customer service and information	3,254,155	2,700,840
Administrative and general	13,891,879	13,058,662
Depreciation and amortization	13,917,004	12,842,588
Interest on long-term debt	7,221,046	7,265,707
Other interest	30,047	65,756
Total operating expenses	133,328,020	129,728,731
Operating Margins	11,014,045	7,898,433
Capital Credits	926,204	924,596
Nonoperating Margins (Expense)		
Interest income	81,398	162,978
Other	(776)	282,420
Total nonoperating margins (expense)	80,622	445,398
Net Margins	$ 12,020,871	$ 9,268,427

Holy Cross Electric Association, Inc. and Subsidiary

Consolidated Statements of Changes in Equity

Years Ended April 30, 2022 and 2021

	Other Equities	Patronage Capital Allocated	Patronage Capital Unallocated	Total Equities
Balance at May 1, 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
Net margin	-	-	12,020,871	12,020,871
Allocations	-	8,881,126	(8,881,126)	-
Retirement of capital credits	2,191,556	(8,061,181)	-	(5,869,625)
Other equities	1,509,644	-	-	1,509,644
Balance at April 30, 2022	$ 67,803,846	$ 63,758,904	$ 13,768,845	$ 145,331,595

Holy Cross Electric Association, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended April 30, 2022 and 2021

	2022	2021
Operating Activities		
Net margins	$ 12,020,871	$ 9,268,427
Adjustments to reconcile net margins to net cash provided by operating activities		
Depreciation	13,917,004	12,842,588
Depreciation on nonutility property	27,843	163,679
Capital credits	(926,204)	(924,596)
Gain on sale of personal property and equipment	-	(307,703)
Depreciation charged to vehicle and equipment clearing	1,601,608	1,582,588
Changes in assets and liabilites		
Accounts receivable	(2,767,307)	(961,369)
Materials and supplies	(823,291)	122,075
Prepaid and other	(1,608,156)	754,193
Deferred charges	(122,075)	232,838
Accounts payable	4,465,511	(2,978,853)
Accrued interest	(4,317)	(36,583)
Accrued taxes	354,136	354,808
Deferred credits	2,463,687	2,079,025
Other liabilites	357,543	1,089,617
Net cash provided by operating activities	28,956,853	23,280,734
Investing Activities		
Investment in utility plant (net)	(24,328,035)	(24,916,745)
Proceeds from sale of assets	-	406,184
Patronage capital recovery from associated organizations	437,335	452,716
Change in other investments	(819,013)	(82,653)
Net cash used in investing activities	(24,709,713)	(24,140,498)

Holy Cross Electric Association, Inc. and Subsidiary
Consolidated Statements of Cash Flows (continued)
Years Ended April 30, 2022 and 2021

	2022	2021
Financing Activities		
Proceeds from debt	8,000,000	7,000,000
Payment of debt	(6,310,514)	(5,697,848)
Retirement of capital credits	(4,359,981)	(4,606,599)
Borrowings (payments) on line of credit	-	(15,000,000)
Net cash used in financing activities	(2,670,495)	(18,304,447)
Increase (Decrease) in Cash and Cash Equivalents	1,576,645	(19,164,211)
Cash and Cash Equivalents, Beginning of Year	7,836,990	27,001,201
Cash and Cash Equivalents, End of Year	$ 9,413,635	$ 7,836,990
Supplemental Cash Flows Information		
Cash paid for interest	$ 7,225,363	$ 7,302,290
Noncash investing and financing transactions		
Acquisitions of property and equipment in accounts payable	$ 701,815	$ 1,270,171
Asset retirement obligation in plant and long term liabilities	$ 56,401	$ 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, 2022 and 2021, cash equivalents consisted of investments in CFC commercial paper.

At April 30, 2022, the Association's cash accounts exceeded federally insured limits by approximately $9,227,000.

The Association also has invested $2,000,000, and $2,500,000 in the National Rural Utilities Cooperative Financing Corporation (NRUCFC) commercial paper as of April 30, 2022 and 2021, 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 2022 and 2021, 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 2022 or 2021.

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, 2022 and 2021, the Association had $4,029,162 and $3,881,184, 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 $318,000 and $297,000 as of April 30, 2022 and 2021, 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 2.71% and 2.99% to 2.71% and 2.87%, 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, 2022 and 2021.

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, 2022 (see Note 10).

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 99% of the Association operating revenue during the years ended April 30, 2022 and 2021. 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.

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, 2022 and 2021:

	2022 Plant Balances	2021 Plant Balances	Annual Depreciation Rate
Production plant (generation)	$ 128,192,950	$ 122,785,694	3.45%
Transmission plant	41,907,161	41,907,161	2.71%
Distribution plant	220,563,352	208,460,909	2.99%
General plant	68,965,299	67,291,112	2.00% - 20.00%
	$ 459,628,762	$ 440,444,876	

Depreciation charges on depreciable fixed assets for the years ended April 30, 2022 and 2021, are as follows:

	2022	2021
Operating expenses	$ 13,917,004	$ 12,842,588
Total	$ 13,917,004	$ 12,842,588

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, 2022 and 2021, nonutility property consisted of:

	2022	2021	Depreciation Method and Years
Real estate	$ 907,493	$ 907,493	S/L 33-38 Years
Less accumulated depreciation	(430,843)	(403,000)	
Net nonutility property	$ 476,650	$ 504,493	

This real estate is used primarily for employee housing.

Note 4: Subordinated Certificates

	2022	2021
Capital term certificates	$ 859,377	$ 859,377
Loan term certificates	185,100	185,100
Zero term certificates	1,930,551	1,936,270
	$ 2,975,028	$ 2,980,747

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:

	2022	2021
Patronage capital - CFC	$ 4,518,768	$ 4,244,654
Patronage capital - Western United	1,286,180	1,136,487
Patronage capital - Federated	623,235	575,161
Other investments in associated organizations	381,440	364,452
	$ 6,809,623	$ 6,320,754

Note 6: Other Current Assets

Other current assets consisted of the following at April 30:

	2022	2021
Prepaid insurance	$ 228,727	$ 182,098
Comanche 3 O&M deposit	1,357,000	1,357,000
Carbon offsets	2,996,600	2,857,876
Pitkin Solar deposit	1,520,000	-
Other current assets	652,897	750,094
	$ 6,755,224	$ 5,147,068

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, 2022 and 2021, the Association had $0 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, 2022, no funds have been drawn and no amounts are outstanding.

Note 8: Long-term Debt

Long-term debt consists of:

	2022	2021
CFC Mortgage notes - fixed interest rates ranging from 3.42% to 6.15%; maturing at various dates through December 2051	$ 145,175,426	$ 142,952,422
Farmer Mac Mortgage notes - fixed interest rates ranging from 2.45% to 5.04%; maturing in October 2040	13,934,458	14,467,976
	159,109,884	157,420,398
Less current maturities	(6,969,000)	(5,577,600)
Total long-term debt	$ 152,140,884	$ 151,842,798

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:

2023	$ 6,969,000
2024	7,385,100
2025	7,523,800
2026	7,670,600
2027	7,917,700
Thereafter	121,643,684
	159,109,884
Less current portion	(6,969,000)
	$ 152,140,884

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 43% and 42% of the total assets as of April 30, 2022 and 2021, respectively. Other equities consist of capital credit gains.

At April 30, 2022, the Association has $25,000,000, of loan funds that were unadvanced.

Note 9: Other Current Liabilities

	2022	2021
Customers' deposits	$ 496,677	$ 460,070
Accrued payroll	720,808	779,470
Accrued vacation	3,542,281	3,354,051
Patronage capital payable	2,061,442	1,860,751
Other current liabilities	373,423	382,746
	$ 7,194,631	$ 6,837,088

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 30 years. By 2040, the facility will be substantially deprecated. If the facility closes prior to 2040, any remaining balances are expected to be treated as a regulatory asset and amortized so that amounts would be fully amortized by 2040.

A summary of changes in asset retirement obligations for the years ended April 30, 2022 and 2021, is included in the table below.

	2022	2021
Liability, beginning of year	$ 3,133,399	$ -
Accretion expense	56,401	-
Liabilities incurred	-	3,133,399
Liability, end of year	$ 3,189,800	$ 3,133,399

The actual costs incurred related to the asset retirement obligation could differ materially from the current estimates.

Note 11: Deferred Credits

	2022	2021
Customers' advances for construction	$ 4,541,207	$ 2,880,161
Indeterminate services	8,230,646	8,494,382
Renewable energy reserve	163,605	506,828
Deferred revenues	3,416,667	4,466,664
Solar electric generation station	1,558,333	-
Other deferred credits	1,873,092	1,613,790
	$ 19,783,550	$ 17,961,825

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 10-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, 2022 or 2021.

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 March 2022, the Board of Directors of the Association moved to defer revenues of $4,100,000 from the calendar year 2021. The amount will be recognized in revenue over the 2022 and 2023 calendar years. The values at April 30, 2022 represent the unamortized portion of approved deferred revenues. In February 2021, the Board of Directors of the Association moved to defer revenues of $6,700,000, the amount was recognized in revenue over the 2021 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, 2022, 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 2022 and 2021 is for the plan's year-end at December 31, 2020 and 2019, 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
		12/31/2019	12/31/2018		4/30/2022	4/30/2021	
R&S	53-0116145/333	N/A	N/A	N/A	$ 1,708,949	$ 1,657,777	Yes

At the date the consolidated financial statements were issued, Form 5500 was not available for the plan year ended 2021.

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 2022 and 2021 was $3,252,600 and $3,196,603, 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), a subsidiary of Xcel Energy. 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 in 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 11, 2022, 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, 2022

Assets

	Holy Cross Electric, Inc.	Energy and Services Experts, Inc.	Intercompany Eliminations	Consolidated
Utility Plant				
Electric plant in service	$ 459,628,762	$ -	$ -	$ 459,628,762
Construction work-in-progress	28,280,205	-	-	28,280,205
	487,908,967	-	-	487,908,967
Less accumulated depreciation	186,678,538	-	-	186,678,538
Net utility plant	301,230,429	-	-	301,230,429
Other Assets and Investments				
Subordinated certificates	2,975,028	-	-	2,975,028
Investments in associated organizations	6,809,623	-	-	6,809,623
Nonutility property	476,650	-	-	476,650
Other investments	999,354	7,548	(7,548)	999,354
Total other assets and investments	11,260,655	7,548	(7,548)	11,260,655
Current Assets				
Cash and cash equivalents	9,413,635	-	-	9,413,635
Accounts receivable, less allowance for doubtful accounts of $318,000	11,588,552	-	-	11,588,552
Unbilled revenue	4,029,162	-	-	4,029,162
Materials and supplies	4,910,856	-	-	4,910,856
Other current assets	6,755,224	-	-	6,755,224
Total current assets	36,697,429	-	-	36,697,429
Deferred Charges and Regulatory Assets	281,350	-	-	281,350
Total assets	$ 349,469,863	$ 7,548	$ (7,548)	$ 349,469,863

Holy Cross Electric Association, Inc. and Subsidiary
Consolidating Schedule – Balance Sheets (continued)
April 30, 2022

Liabilities and Members' Equity

	Holy Cross Electric, Inc.	Energy and Services Experts, Inc.	Intercompany Eliminations	Consolidated
Equities				
Patronage capital	$ 77,527,749	$ -	$ -	$ 77,527,749
Other equities	67,803,846	7,548	(7,548)	67,803,846
Total equities	145,331,595	7,548	(7,548)	145,331,595
Long-term Liabilities				
Mortgage notes	159,109,884	-	-	159,109,884
Less current maturities	6,969,000	-	-	6,969,000
Total long-term liabilities	152,140,884	-	-	152,140,884
Other Long-term Liabilities	3,189,800	-	-	3,189,800
Current Liabilities				
Current maturities on long-term liabilities	6,969,000	-	-	6,969,000
Accounts payable	12,361,781	-	-	12,361,781
Accrued liabilities				
Taxes	2,378,704	-	-	2,378,704
Interest	119,918	-	-	119,918
Other current liabilities	7,194,631	-	-	7,194,631
Total current liabilities	29,024,034	-	-	29,024,034
Deferred Credits	19,783,550	-	-	19,783,550
Total liabilities	204,138,268	-	-	204,138,268
Total liabilities and members' equity	$ 349,469,863	$ 7,548	$ (7,548)	$ 349,469,863

Holy Cross Electric Association, Inc. and Subsidiary
Consolidating Schedule – Statement of Margins
Year Ended April 30, 2022

	Holy Cross Electric, Inc.	Energy and Services Experts, Inc.	Intercompany Eliminations	Consolidated
Operating Revenues				
Operating revenue	$ 143,102,084	$ -	$ -	$ 143,102,084
Other operating revenue	1,239,981	-	-	1,239,981
Total operating revenues	144,342,065	-	-	144,342,065
Operating Expenses				
Cost of power	61,552,841	-	-	61,552,841
Power production expense	7,896,823	-	-	7,896,823
Transmission expense	4,325,490	-	-	4,325,490
Distribution - operations	12,123,926	-	-	12,123,926
Distribution - maintenance	5,300,334	-	-	5,300,334
Consumer accounts	3,814,475	-	-	3,814,475
Customer service and information	3,254,155	-	-	3,254,155
Administrative and general	13,891,879	-	-	13,891,879
Depreciation and amortization	13,917,004	-	-	13,917,004
Interest on long-term debt	7,221,046	-	-	7,221,046
Other interest	30,047	-	-	30,047
Total operating expenses	133,328,020	-	-	133,328,020
Operating Margins	11,014,045	-	-	11,014,045
Capital Credits	926,204	-	-	926,204
Nonoperating Margins (Expense)				
Interest income	81,398	-	-	81,398
Other	(776)	(275)	275	(776)
Total nonoperating margins (expense)	80,622	(275)	275	80,622
Net Margins	$ 12,020,871	$ (275)	$ 275	$ 12,020,871

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 and Regulatory Assets	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