# Holy Cross Electric Association, Inc.
# and Subsidiary

## April 30, 2023

Consolidated Financial Statements

Kelso Lynch, P.C., P.A.
Certified Public Accountants

**Holy Cross Electric Association, Inc. and Subsidary**

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**Holy Cross Electric Association, Inc. and Subsidary**

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# Independent Auditor's Report

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

**Opinion**
We have audited the accompanying consolidated financial statements of Holy Cross Electric Association, Inc. (the Association) and Subsidiary (a Colorado corporation), which comprise the consolidated balance sheets as of April 30, 2023 and the related consolidated statements of revenue and patronage capital, and consolidated cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Holy Cross Electric Association, Inc. and Subsidiary as of April 30, 2023, 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.

**Basis for Opinion**
We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Holy Cross Electric Association, Inc. and Subsidiary and to meet our 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.

**Prior Period Financial Statements**
The financial statements of the Association as of April 30, 2022, were audited by other auditors whose report dated July 11, 2022, expressed an unmodified opinion on those financial statements.

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

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

**Auditor's Responsibilities for the Audit of the Financial Statements**
Our objectives are to obtain reasonable assurance about whether the 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 generally accepted auditing standards will always detect a material misstatement when it exists.

Kelso Lynch, P.C., P.A.
6700 Squibb Road, Suite 215, Mission, Kansas 66202 P.O. Box 1085, Mission, Kansas 66222-0085
913 831 1150 www.kelsolynch.com

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 the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism through the audit.
- Identify and assess the risks of material misstatement of the 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 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 Holy Cross Electric Association, Inc. and Subsidiary'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Holy Cross Electric Association, Inc. and Subsidiary'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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2023 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

*Kelso Lynch, P.C., P.A.*

Mission, Kansas
October 26, 2023

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## Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Holy Cross Electric Association and Subsidiary (the Association), which comprise the consolidated balance sheet as of April 30, 2023, and the related consolidated statements of revenue and patronage capital, and consolidated cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2023.

**Internal Control over Financial Reporting**
In planning and performing our audits of the financial statements, we considered the Association's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**
As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Kelso Lynch, P.C., P.A.
6700 Squibb Road, Suite 215, Mission, Kansas 66202 P.O. Box 1085, Mission, Kansas 66222-0085
913 831 1150 www.kelsolynch.com

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kelso Lynch, P.C., P.A.

Mission, Kansas
October 26, 2023

**Holy Cross Electric Association, Inc. and Subsidiary**
**Consolidated Balance Sheets**
**At April 30, 2023 and 2022**

## Assets

| | 2023 | 2022 |
|---|---|---|
| **Utility Plant** | | |
| Electric plant in service - at cost | $ 480,246,563 | $ 459,628,762 |
| Construction work-in-progress | 28,628,933 | 28,280,205 |
| | 508,875,496 | 487,908,967 |
| Less accumulated provision for depreciation and amortization | (200,245,259) | (186,678,538) |
| Net utility plant | 308,630,237 | 301,230,429 |
| **Other Assets and Investments** | | |
| Subordinated certificates | 2,969,073 | 2,975,028 |
| Investments in associated organizations | 7,399,213 | 6,809,623 |
| Non-utility property | 448,807 | 476,650 |
| Other investments | 3,784,644 | 999,354 |
| Total other assets and investments | 14,601,737 | 11,260,655 |
| **Current Assets** | | |
| Cash and cash equivalents | 11,150,925 | 9,413,635 |
| Accounts receivable | | |
| Customers, net of allowance accounts of $379,000 and $318,000, respectively | 12,539,089 | 11,588,552 |
| Unbilled revenue | 4,489,109 | 4,029,162 |
| Materials and supplies | 7,860,719 | 4,910,856 |
| Other current assets | 5,262,645 | 6,755,224 |
| Total current assets | 41,302,487 | 36,697,429 |
| **Deferred Charges** | | |
| Deferred Charges | 295,493 | 281,350 |
| Total deferred charges | 295,493 | 281,350 |
| Total assets | $ 364,829,954 | $ 349,469,863 |

## Members' Equity and Liabilities

| | 2023 | 2022 |
|---|---|---|
| **Members' Equity** | | |
| Patronage capital | $ 79,361,143 | $ 77,527,749 |
| Other equities | 72,879,466 | 67,803,846 |
| Total members' equity | 152,240,609 | 145,331,595 |
| **Long-Term Debt** | | |
| Mortgage notes payable | 152,389,417 | 159,109,884 |
| Other long-term debt | 2,453,757 | - |
| Less current maturities | (7,360,000) | (6,969,000) |
| Total long-term debt | 147,483,174 | 152,140,884 |
| **Current Liabilities** | | |
| Current maturities on long-term debt | 7,360,000 | 6,969,000 |
| Accounts payable | 13,320,417 | 12,361,781 |
| Notes payable - line of credit | 3,000,000 | - |
| Accrued liabilities | | |
| Taxes | 2,478,777 | 2,378,704 |
| Interest | 116,601 | 119,918 |
| Other | 6,510,325 | 7,194,631 |
| Total current liabilities | 32,786,120 | 29,024,034 |
| **Other Liabilities** | | |
| Asset retirement obligation | 3,247,217 | 3,189,800 |
| Deferred credits | 29,072,834 | 19,783,550 |
| Total other liabilities | 32,320,051 | 22,973,350 |
| Total members' equity and liabilities | $ 364,829,954 | $ 349,469,863 |

**Holy Cross Electric Association, Inc. and Subsidiary**
**Consolidated Statements of Revenue and Patronage Capital**
**For the Years Ended April 30, 2023 and 2022**

| | 2023 | | 2022 | |
|---|---|---|---|---|
| **Operating Revenue** | $ 155,237,132 | 100.00% | $ 144,342,065 | 100.00% |
| **Operating Expenses** | | | | |
| Cost of power | 70,824,042 | 45.62% | 61,552,841 | 42.64% |
| Power production | 10,699,778 | 6.89% | 7,896,823 | 5.47% |
| Transmission | 3,132,703 | 2.02% | 4,325,490 | 3.00% |
| Distribution - operations | 10,907,659 | 7.03% | 11,290,926 | 7.82% |
| Distribution - maintenance | 5,727,004 | 3.69% | 5,300,334 | 3.67% |
| Consumer accounts | 3,630,600 | 2.34% | 3,760,474 | 2.61% |
| Customer service and information | 2,771,016 | 1.79% | 3,308,156 | 2.29% |
| Administrative and general | 14,490,811 | 9.33% | 13,891,879 | 9.62% |
| Depreciation and amortization | 14,475,696 | 9.32% | 13,917,004 | 9.64% |
| Taxes | 2,196,198 | 1.41% | 833,000 | 0.58% |
| Total operating expenses | 138,855,507 | 89.45% | 126,076,927 | 87.35% |
| **Operating Margins Before Fixed Charges** | 16,381,625 | 10.55% | 18,265,138 | 12.65% |
| **Fixed Charges** | | | | |
| Interest expense | 7,158,298 | 4.61% | 7,251,093 | 5.02% |
| Total fixed charges | 7,158,298 | 4.61% | 7,251,093 | 5.02% |
| **Operating Margins After Fixed Charges** | 9,223,327 | 5.94% | 11,014,045 | 7.63% |
| **Other Capital Credits** | 1,083,320 | 0.70% | 926,204 | 0.64% |
| **Net Operating Margins** | 10,306,647 | 6.64% | 11,940,249 | 8.27% |
| **Nonoperating Income** | | | | |
| Interest income | 337,388 | 0.22% | 81,398 | 0.06% |
| Other nonoperating income | 350,543 | 0.23% | (776) | 0.00% |
| Total nonoperating income | 687,931 | 0.45% | 80,622 | 0.06% |
| **Net Margins for the Year** | 10,994,578 | 7.09% | 12,020,871 | 8.33% |
| **Patronage Capital at Beginning of Year** | 77,527,749 | | 73,568,059 | |
| **Other changes** | (1,693,376) | | - | |
| **Retirement of Capital Credits** | (7,467,808) | | (8,061,181) | |
| **Patronage Capital at End of Year** | $ 79,361,143 | | $ 77,527,749 | |

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

## Holy Cross Electric Association, Inc. and Subsidiary
## Consolidated Statements of Cash Flows
## For the Years Ended April 30, 2023 and 2022

| | 2023 | 2022 |
|---|---|---|
| **Cash Flows From (Used For) Operating Activities** | | |
| Net margins | $ 10,994,578 | $ 12,020,871 |
| Adjustments to reconcile net margins to net cash provided by operating activities | | |
| Depreciation and accretion on utility plant | 14,475,696 | 13,917,004 |
| Depreciation on non-utility property | 27,843 | 27,843 |
| Capital credits | (1,083,320) | (926,204) |
| Depreciation charged to vehicle and equipment clearing | 880,535 | 1,601,608 |
| Changes in operating assets and liabilities | | |
| (Increase) decrease in operating assets | | |
| Accounts receivable | (1,410,484) | (2,767,307) |
| Materials and supplies | (2,949,863) | (823,291) |
| Deferred charges | (14,143) | (122,075) |
| Other assets | 1,492,579 | (1,608,156) |
| Increase (decrease) in operating liabilities | | |
| Accounts payable | 958,636 | 4,465,511 |
| Accrued taxes | 100,073 | 354,136 |
| Accrued interest | (3,317) | (4,317) |
| Deferred credits | 9,289,284 | 2,463,687 |
| Accrued liabilities | (684,306) | 357,543 |
| Net cash from operating activities | 32,073,791 | 28,956,853 |
| **Cash Flows From (Used For) Investing Activities** | | |
| Net additions of property and equipment | (22,698,622) | (24,328,035) |
| Patronage capital recovery | 501,004 | 437,335 |
| Other investing activities | (2,786,609) | (819,013) |
| Net cash used for investing activities | (24,984,227) | (24,709,713) |
| **Cash Flows From (Used For) Financing Activities** | | |
| Proceeds from long-term debt | 2,474,552 | 8,000,000 |
| Principal payments on long-term debt | (6,741,262) | (6,310,514) |
| Proceeds from line of credit | 8,000,000 | - |
| Payments on line of credit | (5,000,000) | - |
| Retirement of capital credits | (7,467,808) | (8,061,181) |
| Other financing activities | 3,382,244 | 3,701,200 |
| Net cash used for financing activities | (5,352,274) | (2,670,495) |
| **Net Increase in Cash and Cash Equivalents** | 1,737,290 | 1,576,645 |
| **Cash and Cash Equivalents at Beginning of Year** | 9,413,635 | 7,836,990 |
| **Cash and Cash Equivalents at End of Year** | $ 11,150,925 | $ 9,413,635 |
| **Supplemental Cash Flows Information** | | |
| Cash paid for interest | $ 7,161,615 | $ 7,225,363 |
| Noncash investing and financing transactions | | |
| Acquisitions of property and equipment in accounts payable | $ 220,212 | $ 701,815 |
| Asset retirement obligation in plant and long term liabilities | $ 57,416 | $ 56,401 |

**Note 1 - Summary of Significant Accounting Policies**
The consolidated financial statements include the accounts of Holy Cross Electric Association, Inc. (a Colorado not-for-profit corporation), and its wholly owned subsidiary Energy and Services Experts, Inc. (a Colorado for-profit corporation). All significant intercompany transactions and balances have been eliminated among these entities.

Holy Cross Electric Association, Inc. (the Association) is an electric power distribution cooperative serving residences and businesses located in central Colorado. Energy and Services Experts, Inc. (EASE) was created to provide various non-electric services in the same geographical region as the Association but was non-operational during both fiscal years presented herein.

Accounting policies - As a regulated enterprise with a member-elected Board of Directors, the Association accounts for such regulation under professional accounting standards ASC 980, *Regulated Industries*. The accounting policies followed by the Association are in conformity with accounting principles generally accepted in the United States of America as they apply to a regulated electric utility. The Association has recorded certain deferred charges and credits using ASC 980.

The Association follows the Uniform System of Accounts prescribed by the Rural Utilities Service (RUS). As a result, the application of accounting principles generally accepted in the United States of America by the Association differs in certain respects from such application by nonregulated enterprises. These differences primarily concern the recognition of revenue and expense items. The more significant policies of the Association are described below.

Cash equivalents - The Association considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Restricted cash - Restricted cash consists of funds deposited in a local financial institution as security against energy efficiency loans made by the financial institution to members of the Association.

Accounts receivable - The Association extends credit to its customers who are primarily located in central Colorado. 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, 2023 and 2022, the Association had $4,489,189 and $4,029,162, respectively, of unbilled revenues. The Association carries its receivables at cost less an allowance for doubtful accounts based on a review of outstanding receivables, unbilled revenue, historical collection information and existing economic conditions. Electric receivables are considered past due if the Association has not received payment by the due date. It is the Association's policy that accounts are written off if they remain uncollected and all collection efforts have been exhausted. Recoveries of trade receivables previously written off are recorded when received and do not accrue interest. The collectability of sales is very high with less than 1% written off as bad debt expense annually.

Contract receivables from contracts with customers for the years ended April 30, 2023 and 2022 were as follows:

| | 2023 | 2022 | |
|---|---|---|---|
| **Receivables** | **End of Year** | **End of Year** | **Beginning of Year** |
| Customers | $ 12,539,089 | $ 11,588,552 | $ 8,969,223 |

Materials and supplies - Materials and supplies are priced at historical cost. Cost is determined using the average cost method applied on a first-in, first-out basis.

Investments - Investments in associated organizations are carried at cost plus allocated equities. Other investments are generally carried at cost.

Recognition of revenue - Electric revenue and the related cost of power (purchased and produced) is recognized when electricity is consumed by the ultimate customer under ASC 606. Customers are billed monthly and electric revenue is recognized over the period of time the services are provided to the consumer. Other revenue not accounted for under ASC 606 is out of scope revenue related to investments and amounts to less than 1% of total revenue. The Association collects taxes from its members on behalf of taxing authorities and revenue is reported net of these taxes in the statements of revenue and patronage capital.

The Association uses a single five-step model to identify and recognize revenue from contracts with members (member revenue) upon transfer of control of promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services.

The Association, when it adopted ASC 606, elected to use the portfolio approach to evaluate its contracts. As a practical expedient (shortcut), 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 standard on an individual contract basis. In conjunction, the Association also elected to use the right to invoice practical expedient. This shortcut allows the Association to recognize revenue in the amount of consideration to which the Association has the right to bill when the amount that the Association has the right to bill its customer corresponds directly to the value transferred to the customer.

The following table summarizes the Association's revenue by member class, including a reconciliation to the Association's reportable operating revenue on the Statements of Revenue and Patronage Capital.

| | 2023 | 2022 |
|---|---|---|
| **Electric** | | |
| Residential | $ 85,294,063 | $ 79,159,469 |
| Commercial and Industrial | 60,246,375 | 56,755,390 |
| Other | 9,696,694 | 8,427,206 |
| Total electric energy revenue | $ 155,237,132 | $ 144,342,065 |

Property, plant, and equipment - Costs associated with utility plant additions and improvements are capitalized. This results in the capitalization of direct costs such as labor and materials and also includes capitalization of indirect costs including labor, material charges, taxes, insurance, transportation, depreciation, pensions, contract work, and other related expenses. These costs are accumulated in work-in-process accounts and are capitalized to the proper plant accounts at the completion of the construction activity.

The cost of depreciable property, when retired, is computed at the average unit cost along with removal costs less salvage. The net retirement cost is charged to accumulated depreciation. Maintenance and repairs, including minor items of property, and removal of items determined to be less than complete units are charged to maintenance expense as incurred. Depreciation is recognized on the straight-line basis based on the useful life of the assets and is accounted for under the group depreciation method for production, transmission and distribution plant, and specific identification for general plant.

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 its fair value. No asset impairment was recognized during the years ended April 30, 2023 and 2022.

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, 2023 (see Note 13).

Income taxes - In conformity with its by-laws, the Association conducts its operations on a cooperative basis. Annual revenue, in excess of the cost of providing service, is allocated in the form of capital credits to the members' capital accounts on the basis of patronage.

The Association has a letter of exemption from federal income tax, issued by the Internal Revenue Service and files IRS Form 990 annually. 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 (ASC 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.

An evaluation of whether or not it has any uncertain tax positions is determined on an annual basis by the Association. While the Association believes it has adequately provided for all tax positions, amounts asserted by taxing authorities could be different than the positions taken by the Association. The Association recognizes any interest and penalties assessed by taxing authorities in income tax expense and, with few exceptions, is no longer subject to federal, state and local income tax examinations for years prior to 2019.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications - Certain items from the prior year have been reclassified to conform with the current year presentation.

**Note 2 - Cash and Temporary Cash**

The Association maintains its cash in bank deposit accounts, which at times exceed federally insured limits. The Association also has invested $0 and $2,000,000 in the National Rural Utilities Cooperative Financing Corporation (CFC) commercial paper as of April 30, 2023 and 2022, which are exposed to credit risk and are not federally insured. The Association has not experienced any losses in such accounts.

### Note 3 - Assets Pledged

Substantially all assets are pledged as security for long-term debt to Farmer Mac and the National Rural Utilities Cooperative Financing Corporation (CFC) without preference, priority or distinction. Assets constructed with the Rural Energy Savings Program loan funds are pledged as security for the corresponding long-term debt to RUS.

### Note 4 - Electric Plant and Depreciation

Listed below are the major classes of the utility plant as of April 30, 2023 and 2022.

| | Plant Balances | | Annual |
|---|---|---|---|
| | 2023 | 2022 | Depreciation Rates |
| Production plant (generation) | $ 132,511,438 | $ 128,192,950 | 3.45% |
| Transmission plant | 42,453,395 | 41,907,161 | 2.71% |
| Distribution plant | 234,288,043 | 220,563,352 | 2.99% |
| General plant | 70,993,687 | 68,965,299 | 2.00% - 20.00% |
| Total | $ 480,246,563 | $ 459,628,762 | |

Provision has been made for depreciation on the items of utility plant as noted above. Depreciation charges on depreciable electric plant for the years ended April 30, 2023 and 2022 were $14,475,696 and $13,917,004, respectively.

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 following the Rural Utilities Service (RUS) prescribed rates for steam production plant that range from 3.1% - 6.7%. They approximate the useful lives of the assets.

### Note 5 - Nonutility Property

At April 30, 2023 and 2022, nonutility property consisted of:

| | 2023 | 2022 | Depreciation Method and Years |
|---|---|---|---|
| Real estate | $ 907,493 | $ 907,493 | S/L 33-38 Years |
| Less accumulated depreciation | (458,686) | (430,843) | |
| Net non-utility property | $ 448,807 | $ 476,650 | |

This real estate is primarily used for employee housing.

### Note 6 - Subordinated Certificates

| | 2023 | 2022 |
|---|---|---|
| Capital term certificates | $ 859,377 | $ 859,377 |
| Loan term certificates | 185,100 | 185,100 |
| Zero term certificates | 1,924,596 | 1,930,551 |
| Total | $ 2,969,073 | $ 2,975,028 |

The capital term certificates yield 5%, the loan term certificate yields 3%, and the zero term certificates have no yield. All the certificates have various maturity dates through 2080.

## Note 7 - Investments in Associated Organizations

Investments in associated organizations consisted of the following at April 30, 2023 and 2022:

| | 2023 | 2022 |
|---|---|---|
| Patronage capital - CFC | $ 4,785,538 | $ 4,518,768 |
| Patronage capital - Western United | 1,619,126 | 1,286,180 |
| Patronage capital - Federated Rural Insurance | 648,319 | 623,235 |
| Patronage capital - NISC | 302,652 | 297,062 |
| Other investments in associated organizations | 43,578 | 84,378 |
| Total | $ 7,399,213 | $ 6,809,623 |

## Note 8 - Other Investments

Other investments consisted of the following at April 30, 2023 and 2022:

| | 2023 | 2022 |
|---|---|---|
| Member loans receivable | $ 3,687,366 | $ 963,993 |
| Other investments | 97,278 | 35,361 |
| Total | $ 3,784,644 | $ 999,354 |

The member loans receivable consist of zero percent interest installment loans to members for energy efficiency equipment. The loans are current and management considers them to be fully collectible. They are secured by letters of credit or the energy efficiency equipment financed.

## Note 9 - Other Current Assets

Other current assets consisted of the following at April 30, 2023 and 2022:

| | 2023 | 2022 |
|---|---|---|
| Prepaid insurance | $ 264,557 | $ 228,727 |
| Comanche 3 O&M deposit | 1,357,000 | 1,357,000 |
| Carbon offsets | 1,614,976 | 2,996,600 |
| Pitkin Solar deposit | 1,360,000 | 1,520,000 |
| Other current assets | 666,112 | 652,897 |
| Total | $ 5,262,645 | $ 6,755,224 |

## Note 10 - Members' Equity

| | Patronage Capital | | Other | |
|---|---|---|---|---|
| | Allocated | Unallocated | Equities | Total |
| **Balance, April 30, 2021** | $ 62,938,959 | $ 10,629,100 | $ 64,102,646 | $ 137,670,705 |
| Net margin | | 12,020,871 | | 12,020,871 |
| Allocation, 2021 | 8,881,126 | (8,881,126) | | |
| Retirement of capital credits | (8,061,181) | | 2,191,556 | (5,869,625) |
| Other changes | | | 1,509,644 | 1,509,644 |
| **Balance, April 30, 2022** | 63,758,904 | 13,768,845 | 67,803,846 | 145,331,595 |
| Net margin | | 10,994,578 | | 10,994,578 |
| Allocation, 2022 | 9,577,641 | (11,271,859) | 1,694,218 | |
| Retirement of capital credits | (7,467,808) | | 2,667,527 | (4,800,281) |
| Other changes | | 842 | 713,875 | 714,717 |
| **Balance, April 30, 2023** | $ 65,868,737 | $ 13,492,406 | $ 72,879,466 | $ 152,240,609 |

At April 30, 2023 and 2022, patronage capital consisted of:

| | 2023 | 2022 |
|---|---|---|
| Assigned to date | $ 65,868,737 | $ 63,758,904 |
| Assignable | 13,492,406 | 13,768,845 |
| Total | $ 79,361,143 | $ 77,527,749 |

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 return to patrons of capital contributed by them is limited generally to 30% of the patronage capital or margins received by the Association in the prior calendar year. This limitation does not usually apply to capital credit retirements made exclusively to estates.

The total equities and margins of the Association are approximately 42% of the total assets at both April 30, 2023 and 2022. Other equities consist of donated capital, non-operating margins, and retired capital credits gain.

Allocation and retirement of members' equity - Recommendations are made to the board for allocation and retirement of members' equity. While the Association's bylaws govern the way that members' 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 members' 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 the 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 will increase other equities, as noted in the table above.

**Note 11 - Long-Term Debt and Lines of Credit**

Long-term debt - Long-term debt at April 30, 2023 and 2022 consisted of the following:

| Description | 2023 | 2022 |
|---|---|---|
| Mortgage notes payable - CFC; fixed interest rates from 3.42% to 6.15%; notes due at various times to October 2051. | $ 139,006,267 | $ 145,175,426 |
| Mortgage notes payable - Farmer Mac; fixed interest rates from 2.45 to 5.04%; notes due October 2040. | 13,383,150 | 13,934,458 |
| USDA Rural Development - Rural Energy Savings Program Loan (RESP) - 0% | 2,453,757 | - |
| Less current maturities | (7,360,000) | (6,969,000) |
| Total long-term debt | $ 147,483,174 | $ 152,140,884 |

The USDA RESP loan agreement and the CFC mortgage agreement in effect at April 30, 2023 contain restrictive covenants relating to certain financial ratios.

As of both April 30, 2023 and 2022, the Association had $25,000,000 in loan funds available from CFC for which a loan agreement has been executed.

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

| For The Year Ending | Amounts |
|---|---|
| April 30, 2024 | $ 7,360,000 |
| April 30, 2025 | $ 7,335,000 |
| April 30, 2026 | $ 7,580,000 |
| April 30, 2027 | $ 7,805,000 |
| April 30, 2028 | $ 7,875,000 |

Lines of credit - The Association has available a perpetual line of credit with CFC on which it may borrow up to $15,000,000. As of April 30, 2023 and 2022, nothing had been drawn and remained outstanding on this line of credit. The interest rate is 6.75% as of April 30, 2023.

The Association also has available an “as-offered uncommitted” line of credit with CFC on which it may borrow, conditional upon funds available from CFC, up to $15,000,000. As of April 30, 2023 and 2022, $3,000,000 and $0, respectively, had been drawn and remained outstanding on the line of credit, at an interest rate of 6.55% at April 30, 2023.

The Association has also 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 31st. As of both April 30, 2023 and 2022, no funds have been drawn and no amounts were outstanding.

## Note 12 - Other Current Liabilities

Other current liabilities consisted of the following at April 30, 2023 and 2022:

| | 2023 | 2022 |
|---|---|---|
| Customers' deposits | $ 495,302 | $ 496,677 |
| Accrued payroll | 840,744 | 720,808 |
| Accrued vacation | 3,688,212 | 3,542,281 |
| Patronage capital payable | 1,097,064 | 2,061,442 |
| Other current liabilities | 389,003 | 373,423 |
| Total | $ 6,510,325 | $ 7,194,631 |

## Note 13 - 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 depreciated. 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, 2023 and 2022, is included in the table below.

| | 2023 | 2022 |
|---|---|---|
| Liability, beginning of year | $ 3,189,800 | $ 3,133,399 |
| Accreation expense | 57,417 | 56,401 |
| Liability, end of year | $ 3,247,217 | $ 3,189,800 |

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

**Note 14 - Deferred Credits**

Deferred credits consisted of the following at April 30, 2023 and 2022:

| | 2023 | 2022 |
|---|---|---|
| Customers' advances for construction | $ 8,965,003 | $ 4,541,207 |
| Indeterminate services | 9,188,359 | 8,230,646 |
| Renewable energy reserve | 484,748 | 163,605 |
| Deferred revenue | 6,609,297 | 3,416,667 |
| Solar electric generation station | 1,457,500 | 1,558,333 |
| Renewable energy reserve - PuRE WeCare Fund | 1,663,516 | 1,302,728 |
| Other deferred credits | 704,411 | 570,364 |
| Total | $ 29,072,834 | $ 19,783,550 |

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, 2023 or 2022.

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. The renewable energy reserve - PuRE WeCare Fund is the unused portion of monies from customers who have elected to purchase 100% renewable energy. The reserve is funded through an additional charge per kWh for wind, solar, and hyrdro energy.

In February 2023, the Board of Directors of the Association moved to defer electric revenues of $5,783,741 from the calendar year 2022. The amount will be recognized in revenue over the 2023 and 2024 calendar years per the plan. 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 per the plan. The values at April 30, 2023 and 2022 represent the unamortized portion of approved deferred revenues from both plans.

**Note 15 - Accounting for Pension Benefits**

Pension plan - The Retirement Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Company (NRECA), is a defined benefit pension plan qualified under Section 401 and tax exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer plan under the accounting standards. The Plan Sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multi-employer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Association's contributions to the RS Plan in 2023 and 2022 represented less than 5% of the total contributions made to the RS Plan by all participating employers. The Association made contributions to the RS Plan of $1,761,088 in 2023 and $1,708,949 in 2022. There have been no significant changes that affect the comparability of the 2023 and 2022 contributions.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded on January 1, 2023 and 2022 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

401(k) plan - The Association also has a defined contribution 401(k) plan, which covers substantially all of the employees of the Association. 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 total expenses related to this plan were $3,272,072 and $3,252,600 for 2023 and 2022, respectively.

**Note 16 - 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.

The Association has also entered in to several renewable energy Purchase Power Agreements (PPA) with various entities, contract terms and expiration dates, These are contacts entered into provide additional sources of green power to meet the Association's energy requirements and the Board's goals on the makeup of the purchased power portfolio.

**Note 17 - Contingencies**

The Association is a party to various claims and other routine legal matters arising in the ordinary course of business. The Association does not believe that the results of these plus any other claims and other legal matters, individually or in aggregate, will have a material adverse effect on its operations or financial positions.

**Note 18 - Subsequent Events**

The Association has evaluated subsequent events through October 26, 2023, which is the date these consolidated financial statements were available to be issued. Management concluded that no other subsequent events have occurred that would require recognition or disclosure in the consolidated financial statements.

# Supplemental Information

**Independent Auditor's Report on Supplemental Information**

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

We have audited the consolidated financial statements of Holy Cross Electric Association, Inc. and Subsidiary as of and for the year ended April 30, 2023, and our report thereon, dated October 26, 2023, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements (collectively, the financial statements) as a whole.

The accompanying consolidating balance sheet and consolidating statement of revenue shown on pages 20 through 22, is presented for purpose of additional analysis of the financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

*Kelso Lynch, P.C., P.A.*

Mission, Kansas
October 26, 2023

**Holy Cross Electric Association, Inc. and Subsidiary**
**Consolidating Balance Sheet**
**At April 30, 2023**

**Assets**

| | Holy Cross Electric, Inc. | Energy and Services Experts, Inc. | Elimination Entries | Consolidated Balances |
|---|---|---|---|---|
| **Utility Plant** | | | | |
| Electric plant in service - at cost | $ 480,246,563 | | | $ 480,246,563 |
| Construction work-in-progress | 28,628,933 | | | 28,628,933 |
| | 508,875,496 | | | 508,875,496 |
| Less accumulated provision for depreciation and amortization | (200,245,259) | | | (200,245,259) |
| Net utility plant | 308,630,237 | | | 308,630,237 |
| **Other Assets and Investments** | | | | |
| Subordinated certificates | 2,969,073 | | | 2,969,073 |
| Investments in associated organizations | 7,399,213 | | | 7,399,213 |
| Non-utility property | 448,807 | | | 448,807 |
| Other investments | 3,784,644 | $ 7,273 | $ (7,273) | 3,784,644 |
| Total other assets and investments | 14,601,737 | 7,273 | (7,273) | 14,601,737 |
| **Current Assets** | | | | |
| Cash and cash equivalents | 11,150,925 | | | 11,150,925 |
| Accounts receivable | | | | |
| Customers, less provision for doubtful accounts of $379,000 | 12,539,089 | | | 12,539,089 |
| Unbilled revenue | 4,489,109 | | | 4,489,109 |
| Materials and supplies | 7,860,719 | | | 7,860,719 |
| Other current assets | 5,262,645 | | | 5,262,645 |
| Total current assets | 41,302,487 | | | 41,302,487 |
| **Deferred Charges** | | | | |
| Deferred Charges | 295,493 | | | 295,493 |
| Total deferred charges | 295,493 | | | 295,493 |
| Total assets | $ 364,829,954 | $ 7,273 | $ (7,273) | $ 364,829,954 |

## Members' Equity and Liabilities

| | Holy Cross Electric, Inc. | Energy and Services Experts, Inc. | Elimination Entries | Consolidated Balances |
|---|---|---|---|---|
| **Equities** | | | | |
| Patronage capital | $ 79,361,143 | | | $ 79,361,143 |
| Other equities | 72,879,466 | $ 7,273 | $ (7,273) | 72,879,466 |
| Total equities | 152,240,609 | 7,273 | (7,273) | 152,240,609 |
| **Long-Term Debt** | | | | |
| Mortgage notes | 152,389,417 | | | 152,389,417 |
| Other long-term debt | 2,453,757 | | | 2,453,757 |
| Less current maturities | (7,360,000) | | | (7,360,000) |
| Total long-term debt | 147,483,174 | | | 147,483,174 |
| **Current Liabilities** | | | | |
| Current maturities on long-term debt | 7,360,000 | | | 7,360,000 |
| Accounts payable | 13,320,417 | | | 13,320,417 |
| Notes payable - line of credit | 3,000,000 | | | 3,000,000 |
| Accrued liabilities | | | | |
| Taxes | 2,478,777 | | | 2,478,777 |
| Interest | 116,601 | | | 116,601 |
| Other current liabilities | 6,510,325 | | | 6,510,325 |
| Total current liabilities | 32,786,120 | | | 32,786,120 |
| **Other Liabilities** | | | | |
| Asset retirement obligation | 3,247,217 | | | 3,247,217 |
| Deferred credits | 29,072,834 | | | 29,072,834 |
| Total other liabilities | 32,320,051 | | | 32,320,051 |
| Total members' equity and liabilities | $ 364,829,954 | $ 7,273 | $ (7,273) | $ 364,829,954 |

**Holy Cross Electric Association, Inc. and Subsidiary**
**Consolidating Statement of Revenue**
**For the Year Ended April 30, 2023**

| | Holy Cross Electric, Inc. | Energy and Services Experts, Inc. | Elimination Entries | Consolidated Balances |
|---|---|---|---|---|
| **Operating Revenue** | $ 155,237,132 | | | $ 155,237,132 |
| **Operating Expenses** | | | | |
| Cost of power | 70,824,042 | | | 70,824,042 |
| Power production | 10,699,778 | | | 10,699,778 |
| Transmission | 3,132,703 | | | 3,132,703 |
| Distribution - operations | 10,907,659 | | | 10,907,659 |
| Distribution - maintenance | 5,727,004 | | | 5,727,004 |
| Consumer accounts | 3,630,600 | | | 3,630,600 |
| Customer service and information | 2,771,016 | | | 2,771,016 |
| Administrative and general | 14,490,811 | | | 14,490,811 |
| Depreciation and amortization | 14,475,696 | | | 14,475,696 |
| Taxes | 2,196,198 | | | 2,196,198 |
| Total operating expenses | 138,855,507 | | | 138,855,507 |
| **Operating Margins (Loss) Before Fixed Charges** | 16,381,625 | | | 16,381,625 |
| **Fixed Charges** | | | | |
| Interest expense | 7,158,298 | | | 7,158,298 |
| Total fixed charges | 7,158,298 | | | 7,158,298 |
| **Operating margins After Fixed Charges** | 9,223,327 | | | 9,223,327 |
| **Other Capital Credits** | 1,083,320 | | | 1,083,320 |
| **Net Operating Margins** | 10,306,647 | | | 10,306,647 |
| **Nonoperating Income** | | | | |
| Interest income | 337,388 | | | 337,388 |
| Other nonoperating income (expense) | 350,543 | $ (275) | $ 275 | 350,543 |
| Total nonoperating income (expense) | 687,931 | (275) | 275 | 687,931 |
| **Net Margins (Loss) for the Year** | $ 10,994,578 | $ (275) | $ 275 | $ 10,994,578 |