

Consolidated financial statements

**TRI-COUNTY ELECTRIC COOPERATIVE, INC.
AND SUBSIDIARIES**

March 31, 2020 and 2019

**TRI-COUNTY ELECTRIC COOPERATIVE, INC.
AND SUBSIDIARIES**

INDEPENDENT AUDITOR'S REPORT

and

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2020 and 2019

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Tri-County Electric Cooperative, Inc. and Subsidiaries
Aledo, Texas

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Tri-County Electric Cooperative, Inc. and Subsidiaries which comprise the consolidated balance sheets as of March 31, 2020 and 2019, and the related consolidated statements of income and patronage capital, comprehensive income, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Tri-County Electric Cooperative, Inc. and Subsidiaries as of March 31, 2020 and 2019 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Burton, Burke & Lindsey LLP
Certified Public Accountants

August 25, 2020
Tulsa, Oklahoma

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TRI-COUNTY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2020 and 2019

ASSETS	2020	2019
Utility plant, at cost		
Plant in-service	\$ 521,917,625	\$ 481,131,696
Construction work in progress	29,805,315	23,619,449
	551,722,940	504,751,145
Less: accumulated depreciation	177,437,864	165,596,383
Net utility plant	374,285,076	339,154,762
Other property and investments, at cost		
Investments in associated organizations	151,307,272	143,563,325
Current assets		
Cash and cash equivalents	35,007,599	37,037,705
Accounts receivable (less allowance for uncollectibles of \$1,377,004 in 2020 and \$1,096,112 in 2019)	8,700,760	10,958,632
Accrued utility revenues	12,880,000	17,310,000
Other receivables, less allowance for doubtful accounts	1,183,870	1,204,949
Materials and supplies	-	3,928,584
Prepaid expenses and other	908,846	1,734,388
Total current assets	58,681,075	72,174,258
Deferred tax asset	3,564,680	2,779,861
Deferred debits	12,849,104	1,107,945
<i>Assets of discontinued operations</i>	34,620,031	35,516,762
TOTAL ASSETS	\$ 635,307,238	\$ 594,296,913

TRI-COUNTY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2020 and 2019

LIABILITIES and EQUITIES	<u>2020</u>	<u>2019</u>
Equities and margins:		
Memberships	\$ 2,254,702	\$ 2,182,871
Patronage capital	451,575,521	436,873,113
Other deficit equities	(48,481,468)	(45,024,576)
Accumulated and other comprehensive loss	<u>(6,992,451)</u>	<u>(5,133,943)</u>
Total equities and margins	<u>398,356,304</u>	<u>388,897,465</u>
Long-term liabilities:		
Long-term debt less current maturities	141,919,936	123,088,466
APBO other than pensions	<u>25,673,796</u>	<u>22,921,396</u>
Total long-term liabilities	<u>167,593,732</u>	<u>146,009,862</u>
Current liabilities		
Current maturities of long-term debt	6,451,740	5,841,000
Accounts payable	17,655,968	19,253,837
Overbilled wholesale power cost adjustment	20,636,357	10,886,423
Accrued unbilled power cost	4,810,000	6,330,000
Accrued expenses	3,990,591	3,230,169
Accrued interest	423,323	436,958
Consumer deposits	<u>6,417,474</u>	<u>5,251,864</u>
Total current liabilities	<u>60,385,453</u>	<u>51,230,251</u>
Deferred credits	7,796,929	7,009,308
<i>Liabilities of discontinued operations</i>	<u>1,174,820</u>	<u>1,150,027</u>
TOTAL LIABILITIES and EQUITIES	<u>\$ 635,307,238</u>	<u>\$ 594,296,913</u>

TRI-COUNTY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARIES

Consolidated Statements of Income and Patronage Capital

For the Years Ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues		
Residential	\$ 172,018,502	\$ 167,505,187
Irrigation	1,263,754	1,416,218
Small commercial	42,120,184	39,173,705
Large commercial	36,247,856	33,626,339
Public streets and authorities	7,696,570	7,358,533
Unbilled revenue	(4,430,000)	630,000
Power cost underbilled/(overbilled)	(9,749,934)	(275,138)
Other electric revenue	3,702,688	3,293,437
Total operating revenues	<u>248,869,620</u>	<u>252,728,281</u>
Operating expenses:		
Cost of power	182,955,859	185,472,621
Distribution expense - operations	7,724,763	6,164,022
Distribution expense - maintenance	13,488,338	10,497,002
Consumer accounts	6,233,595	5,390,279
Administrative and general	11,572,274	12,702,583
Depreciation	15,998,745	14,849,478
Interest and other deductions	6,867,103	7,086,935
Total operating expenses	<u>244,840,677</u>	<u>242,162,920</u>
Net operating margins	<u>4,028,943</u>	<u>10,565,361</u>
Nonoperating margins		
Interest and dividend income	1,509,867	2,073,705
Loss from equity method investments	(4,229,140)	-
Other nonoperating income	99,007	66,536
Total nonoperating margins	<u>\$ (2,620,266)</u>	<u>\$ 2,140,241</u>

TRI-COUNTY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARIES

Consolidated Statements of Income and Patronage Capital

For the Years Ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
G & T and other capital credits	\$ 12,699,931	\$ 11,672,986
Net margins from continuing operations before income taxes	<u>14,108,608</u>	<u>24,378,588</u>
Income taxes benefit (expense) from continuing operations	<u>784,819</u>	<u>36,861</u>
Net margins from continuing operations	14,893,427	24,415,449
Discontinued Operations		
Loss from discontinued operations	<u>(867,003)</u>	<u>(8,740,367)</u>
Net margins for year	14,026,424	15,675,082
Patronage capital - beginning of year	436,873,113	427,716,666
Retirement of capital credits	(3,711,989)	(4,092,970)
Reclass to other equities	<u>4,387,973</u>	<u>(2,425,665)</u>
Patronage capital - end of year	<u>\$ 451,575,521</u>	<u>\$ 436,873,113</u>

TRI-COUNTY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the Years Ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Net margins for the year	\$ 14,026,424	\$ 15,675,082
Other comprehensive income:		
Current gain (loss) on APBO	(1,862,408)	1,652,957
Amortization of loss on APBO	1,573,896	1,573,896
Amortization of prior service cost (credit)	<u>(1,569,996)</u>	<u>(1,569,996)</u>
Comprehensive income	<u><u>\$ 12,167,916</u></u>	<u><u>\$ 17,331,939</u></u>

TRI-COUNTY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years Ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Net margins	\$ 14,026,424	\$ 15,675,082
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	20,448,775	19,085,852
Amortization	145,019	98,629
Deferred income taxes	(721,268)	26,690
Investment allocations from associated organizations	(12,714,382)	(11,672,986)
Gain on disposal of fixed assets	(13,305)	-
Fair value adjustment of fixed assets	-	8,551,065
Postretirement benefits accruals	1,494,805	1,494,804
Unbilled revenue accruals	4,430,000	(630,000)
Loss on equity method investment	4,229,140	-
Changes in:		
Investments in associated organizations	4,956,656	4,865,611
Accounts receivable	2,364,905	(566,966)
Materials and supplies	3,935,790	200,498
Other current and accrued assets	840,129	(439,009)
Deferred debits	(12,004,560)	134,233
Accounts payable	(1,498,152)	3,010,078
Payments on postretirement health benefits	(600,912)	(621,551)
Consumer deposits	1,155,656	(222,965)
Deferred credits	1,221,455	3,683,569
Other current and accrued liabilities	8,911,754	1,313,926
Net cash from operating activities	<u>40,607,929</u>	<u>43,986,560</u>
Cash flows from investing activities:		
Purchases of short-term investments	2,009,261	(2,009,261)
Extension and replacement of plant	(52,120,096)	(43,034,190)
Plant removal cost	(1,808,051)	(1,295,027)
Material returned to stock from retirements	188,918	128,981
Net cash used in investing activities	<u>\$ (51,729,968)</u>	<u>\$ (46,209,497)</u>

TRI-COUNTY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years Ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from financing activities:		
Memberships and other equities	\$ (3,212,417)	\$ (1,751,735)
Borrowings on long-term debt	25,000,000	-
Payments on long-term debt	(5,841,143)	(5,633,914)
Retirement of patronage capital	(3,711,989)	(4,092,970)
	<u>12,234,451</u>	<u>(11,478,619)</u>
Net cash provided (used) from financing activities	12,234,451	(11,478,619)
Net change in cash and cash equivalents	1,112,412	(13,701,556)
Cash and cash equivalents at beginning of year	<u>39,226,764</u>	<u>52,928,320</u>
Cash and cash equivalents at end of year	<u>\$ 40,339,176</u>	<u>\$ 39,226,764</u>
Discontinued Operations:		
Cash balance of discontinued operations at end of year	<u>(5,331,577)</u>	<u>(2,189,059)</u>
Cash and cash equivalents on continuing operations	<u>\$ 35,007,599</u>	<u>\$ 37,037,705</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 5,335,656	\$ 5,489,564
Income taxes	-	-