

Consolidated financial statements

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

March 31, 2019 and 2018

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

INDEPENDENT AUDITOR'S REPORT

and

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019 and 2018

Briscoe, Burke & Grigsby LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Tri-County Electric Cooperative, Inc. and Subsidiaries
Azle, 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, 2019 and 2018, 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, 2019 and 2018 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.

Briscoe, Burke & Grigsby LLP

Certified Public Accountants

August 6, 2019
Tulsa, Oklahoma

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TRI-COUNTY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2019 and 2018

LIABILITIES and EQUITIES	2019	2018
Equities and margins:		
Memberships	\$ 2,182,871	\$ 2,096,014
Patronage capital	436,873,113	427,716,666
Other deficit equities	(45,024,576)	(45,611,648)
Accumulated and other comprehensive loss	(5,133,943)	(6,790,800)
Total equities and margins	388,897,465	377,410,232
 Long-term liabilities:		
Long-term debt less current maturities	123,088,466	129,150,028
APBO other than pensions	22,921,396	23,705,000
Total long-term liabilities	146,009,862	152,855,028
 Current liabilities		
Current maturities of long-term debt	5,841,000	5,130,000
Accounts payable	19,755,558	16,745,480
Overbilled wholesale power cost adjustment	10,886,423	10,611,285
Accrued unbilled power cost	6,330,000	5,500,000
Accrued expenses	3,230,169	3,033,725
Accrued interest	436,958	452,022
Consumer deposits	5,352,809	5,575,774
Other accrued liabilities	547,361	519,953
Total current liabilities	52,380,278	47,568,239
Deferred credits	7,009,308	3,805,963
TOTAL LIABILITIES and EQUITIES	\$ 594,296,913	\$ 581,639,462

TRI-COUNTY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARIES

Consolidated Statements of Income and Patronage Capital

For the Years Ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues		
Residential	\$ 167,505,187	\$ 153,945,901
Irrigation	1,416,218	1,443,629
Small commercial	39,067,207	36,214,855
Large commercial	33,626,339	31,340,342
Public streets and authorities	7,358,533	6,930,896
Unbilled revenue	630,000	3,300,000
Power cost underbilled/(overbilled)	(275,138)	1,265,063
Other electric revenue	3,293,437	3,522,931
Telecommunications revenue	10,579,765	11,766,456
Total operating revenues	<u>263,201,548</u>	<u>249,730,073</u>
Operating expenses:		
Cost of power	185,472,621	171,464,102
Distribution expense - operations	6,164,022	4,036,740
Distribution expense - maintenance	10,497,002	8,564,154
Telecommunication operations	5,233,986	6,447,463
Consumer accounts	5,390,279	4,498,294
Customer service and information	841,730	1,013,002
Administrative and general	13,376,313	9,727,379
Depreciation	18,309,410	17,586,683
Taxes	442,332	398,127
Interest and other deductions	7,087,589	7,154,727
Impairment of fixed assets	8,551,065	-
Total operating expenses	<u>261,366,349</u>	<u>230,890,671</u>
Net operating margins	<u>1,835,199</u>	<u>18,839,402</u>
Nonoperating margins		
Interest and dividend income	2,116,243	1,830,981
Other nonoperating income	77,344	35,825
Total nonoperating margins	<u>\$ 2,193,587</u>	<u>\$ 1,866,806</u>

TRI-COUNTY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARIES

Consolidated Statements of Income and Patronage Capital

For the Years Ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
G & T and other capital credits	<u>\$ 11,672,986</u>	<u>\$ 8,765,255</u>
Net margins before income taxes	<u>15,701,772</u>	<u>29,471,463</u>
Income taxes benefit (expense)	<u>(26,690)</u>	<u>(1,799,459)</u>
Net margins for year	15,675,082	27,672,004
Patronage capital - beginning of year	427,716,666	403,128,672
Retirement of capital credits	(4,092,970)	(45,572)
Reclass to other equities	<u>(2,425,665)</u>	<u>(3,038,438)</u>
Patronage capital - end of year	<u><u>\$ 436,873,113</u></u>	<u><u>\$ 427,716,666</u></u>

TRI-COUNTY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the Years Ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net margins for the year	\$ 15,675,082	\$ 27,672,004
Other comprehensive income:		
Current gain (loss) on APBO	1,652,957	715,100
Amortization of loss on APBO	1,573,896	1,573,900
Amortization of prior service cost (credit)	<u>(1,569,996)</u>	<u>(1,570,000)</u>
Comprehensive income	<u><u>\$ 17,331,939</u></u>	<u><u>\$ 28,391,004</u></u>

TRI-COUNTY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years Ended March 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Net margins	\$ 15,675,082	\$ 27,672,004
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	19,085,852	18,182,921
Amortization	98,629	(108,562)
Deferred income taxes	26,690	1,799,459
Investment allocations from associated organizations	(11,672,986)	(8,765,934)
Fair value adjustment of fixed assets	8,551,065	-
Postretirement benefits accruals	1,494,804	1,558,300
Unbilled revenue accruals	(630,000)	(3,300,000)
Changes in:		
Investments in associated organizations	4,865,611	4,059,140
Accounts receivable	(566,966)	(4,070,194)
Materials and supplies	200,498	(371,929)
Other current and accrued assets	(439,009)	377,091
Deferred debits	134,233	3,764
Accounts payable	3,010,078	1,571,203
Payments on postretirement health benefits	(621,551)	(736,541)
Consumer deposits	(222,965)	(331,428)
Deferred credits	3,683,569	754,386
Other current and accrued liabilities	1,313,926	(959,147)
Net cash from operating activities	43,986,560	37,334,533
Cash flows from investing activities:		
Purchases of short-term investments	(2,009,261)	-
Extension and replacement of plant	(43,034,190)	(24,622,158)
Plant removal cost	(1,295,027)	(1,078,772)
Material returned to stock from retirements	128,981	153,553
Net cash used in investing activities	\$ (46,209,497)	\$ (25,547,377)

TRI-COUNTY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years Ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from financing activities:		
Memberships and other equities	\$ (1,751,735)	\$ (1,245,601)
Payments on long-term debt	(5,633,914)	(5,448,530)
Retirement of patronage capital	(4,092,970)	(45,572)
Net cash used in financing activities	<u>(11,478,619)</u>	<u>(6,739,703)</u>
Net change in cash and cash equivalents	(13,701,556)	5,047,453
Cash and cash equivalents at beginning of year	<u>52,928,320</u>	<u>47,880,867</u>
Cash and cash equivalents at end of year	<u><u>\$ 39,226,764</u></u>	<u><u>\$ 52,928,320</u></u>
 Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 5,489,564	\$ 5,558,175
Income taxes	-	35,163