

ARIZONA 14 COCHISE

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

WILLCOX, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

Independent Auditor's Report

Board of Directors
Sulphur Springs Valley Electric Cooperative, Inc.
Willcox, Arizona

We have audited the accompanying financial statements of Sulphur Springs Valley Electric Cooperative, Inc. (the Cooperative) which comprise the balance sheets as of June 30, 2018 and 2017, and the related statements of income, patronage capital, and other comprehensive loss, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Sulphur Springs Valley Electric Cooperative, Inc. as of June 30, 2018 and 2017, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of electric plant, accumulated provision for depreciation and amortization, other property and investments, patronage capital, CFC and CoBank mortgage notes, administrative and general expenses, and five year comparative data are presented for purposes of additional analysis and are not a required part of the 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 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. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Information

The other information presented on the statement of income and patronage capital for the calendar years 2017 and 2016 which is marked "Unaudited" is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we do not express an opinion or provide any assurance on it.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

September 7, 2018

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEETS
JUNE 30, 2018 AND 2017

ASSETS

	June 30,	
	2018	2017
UTILITY PLANT AT COST		
Electric Plant in Service	\$ 360,374,906	\$ 349,902,288
Construction Work in Progress	9,931,359	11,839,457
	\$ 370,306,265	\$ 361,741,745
Less: Accumulated Provision for Depreciation and Amortization	156,080,245	142,397,882
	\$ 214,226,020	\$ 219,343,863
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Non-Utility Property - Net	\$ 4,289,714	\$ 4,965,612
Investments in Associated Organizations	55,036,210	52,475,115
Other Investments	1,753,260	1,902,525
	\$ 61,079,184	\$ 59,343,252
CURRENT ASSETS		
Cash	\$ 1,683,172	\$ 3,865,195
Temporary Cash Investments	7,514,901	1,526,886
Accounts and Notes Receivable (Less allowance for uncollectibles of \$176,760 in 2018 and \$403,774 in 2017)	7,007,789	8,462,312
Underbilled Power Cost Adjustment	4,127,980	936,173
Unbilled Revenue	2,720,341	2,778,004
Materials and Supplies	2,246,513	2,456,529
Other Current and Accrued Assets	1,595,273	1,454,551
	\$ 26,895,969	\$ 21,479,650
DEFERRED CHARGES	\$ 1,006,276	\$ 1,879,673
TOTAL ASSETS	\$ 303,207,449	\$ 302,046,438

EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 198,210	\$ 195,680
Patronage Capital	127,977,494	120,733,535
Other Equities (Deficits)	(1,858,710)	(2,138,718)
Other Comprehensive Loss	(687,345)	(870,667)
	\$ 125,629,649	\$ 117,919,830
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 29,758,868	\$ 31,757,798
CoBank Mortgage Notes Less Current Maturities	112,494,339	117,066,444
Notes Payable - Fort Huachuca	117,343	334,008
	\$ 142,370,550	\$ 149,158,250
OTHER LONG-TERM LIABILITIES		
Deferred Compensation	\$ 1,457,896	\$ 1,334,334
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS		
Post-Retirement Benefits	\$ 1,603,350	\$ 1,623,699
CURRENT LIABILITIES		
Notes Payable - CoBank	\$	\$ 1,500,000
Current Maturities of Long-Term Debt	6,827,110	6,758,705
Current Maturities of APBO	83,000	79,000
Accounts Payable - Purchased Power	5,787,931	5,574,334
Accounts Payable - Other	1,265,710	1,862,377
Consumer Deposits	2,257,439	2,226,402
Accrued Taxes	1,975,853	1,908,002
Accrued Interest	391,684	400,905
Accrued Payroll	286,036	274,956
Accrued Employee Compensated Absences	2,818,219	2,874,640
Other Current and Accrued Liabilities	190,670	118,084
	\$ 21,883,652	\$ 23,577,405
DEFERRED CREDITS	\$ 10,262,352	\$ 8,432,920
TOTAL EQUITIES AND LIABILITIES	\$ 303,207,449	\$ 302,046,438

See accompanying notes to the financial statements.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Exhibit B

STATEMENTS OF INCOME, PATRONAGE CAPITAL, AND OTHER COMPREHENSIVE LOSS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	Years Ended June 30,				Increase (Decrease)
	2018		2017		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 49,911,884	45.2	\$ 47,305,119	45.0	\$ 2,606,765
Irrigation	20,794,724	18.8	18,514,832	17.6	2,279,892
Commercial and Industrial	32,291,899	29.2	31,672,724	30.2	619,175
Public Buildings and Other Authorities	2,331,007	2.1	2,515,190	2.4	(184,183)
Power Cost Adjustment	3,191,806	2.9	1,579,427	1.5	1,612,379
Unbilled Revenue	(57,663)	(0.1)	403,216	0.4	(460,879)
Rent from Electric Property	814,352	0.7	691,316	0.7	123,036
Other Operating Revenues	1,354,894	1.2	2,286,403	2.2	(931,509)
Total Operating Revenues	<u>\$ 110,632,903</u>	<u>100.0</u>	<u>\$ 104,968,227</u>	<u>100.0</u>	<u>\$ 5,664,676</u>
OPERATING EXPENSES					
Purchased Power	\$ 57,940,798	52.4	\$ 54,878,736	52.3	\$ 3,062,062
Transmission	466,118	0.4	433,461	0.4	32,657
Distribution - Operation	10,035,011	9.1	9,248,691	8.8	786,320
Distribution - Maintenance	3,369,969	3.0	3,505,355	3.3	(135,386)
Consumer Accounts	3,112,157	2.8	3,182,642	3.0	(70,485)
Customer Service and Information	939,366	0.8	791,034	0.8	148,332
Sales Expenses	489,481	0.4	370,000	0.4	119,481
Administrative and General	6,277,473	5.7	6,179,062	5.9	98,411
Depreciation and Amortization	17,577,004	15.9	11,481,524	10.9	6,095,480
Taxes	88,222	0.1	7,247	0.0	80,975
Other Interest	694	0.0	4,198	0.0	(3,504)
Other Deductions	353,882	0.3	266,801	0.3	87,081
Total Operating Expenses	<u>\$ 100,650,175</u>	<u>90.9</u>	<u>\$ 90,348,751</u>	<u>86.1</u>	<u>\$ 10,301,424</u>
OPERATING MARGINS - Before Fixed Charges	\$ 9,982,728	9.1	\$ 14,619,476	13.9	\$ (4,636,748)
FIXED CHARGES					
Interest on Long-Term Debt	5,305,798	4.8	5,389,237	5.1	(83,439)
OPERATING MARGINS - After Fixed Charges	\$ 4,676,930	4.3	\$ 9,230,239	8.8	\$ (4,553,309)
G&T and Other Capital Credits	3,180,495	2.9	3,189,405	3.0	(8,910)
NET OPERATING MARGINS	<u>\$ 7,857,425</u>	<u>7.2</u>	<u>\$ 12,419,644</u>	<u>11.8</u>	<u>\$ (4,562,219)</u>
NON-OPERATING MARGINS					
Interest Income and Dividend Income	\$ 233,891	0.2	\$ 131,070	0.1	\$ 102,821
Other Non-Operating Income	17,742	0.0	585,153	0.6	(567,411)
	<u>\$ 251,633</u>	<u>0.2</u>	<u>\$ 716,223</u>	<u>0.7</u>	<u>\$ (464,590)</u>
NET MARGINS	\$ 8,109,058	<u>7.4</u>	\$ 13,135,867	<u>12.5</u>	<u>\$ (5,026,809)</u>
OTHER COMPREHENSIVE INCOME (LOSS)					
Change in Assumptions	129,734		(663,518)		
Post-Retirement Benefit Amortization	53,588		54,276		
COMPREHENSIVE INCOME	\$ 8,292,380		\$ 12,526,625		
Post-Retirement Benefit Liability Adjustment	(183,322)		609,242		
PATRONAGE CAPITAL - Beginning of Year	120,733,535		109,552,657		
NON-OPERATING MARGINS TRANSFERRED TO PRIOR YEAR DEFICIT	(197,774)		(267,989)		
PATRONAGE CAPITAL RETIRED	<u>(667,325)</u>		<u>(1,687,000)</u>		
PATRONAGE CAPITAL - End of Year	<u>\$ 127,977,494</u>		<u>\$ 120,733,535</u>		

See accompanying notes to the financial statements.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Exhibit C

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	June 30,	
	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 8,109,058	\$ 13,135,867
Adjustments to Reconcile Net Margins to Net Cash From		
Operating Activities		
Depreciation and Amortization	18,861,389	13,059,161
Capital Credits - Non-Cash	(3,180,495)	(3,189,405)
Accrued Post-Retirement Benefits (Net of Other Comprehensive Loss)	201,821	196,501
Increase (Decrease)		
Accounts Payable and Other Accrued Liabilities	(266,158)	(74,109)
Deferred Credits	1,829,432	3,080,319
(Increase) Decrease		
Deferred Charges	873,397	(384,543)
Accounts Receivable	1,454,523	(196,424)
Underbilled Power Cost Adjustment	(3,191,807)	(1,579,426)
Unbilled Revenue	57,663	(403,303)
Inventories and Other Current Assets	69,294	(439,294)
Net Cash From Operating Activities	<u>\$ 24,818,117</u>	<u>\$ 23,205,344</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant	\$ (12,479,880)	\$ (11,840,669)
Plant Removal Costs in Excess of Salvage	(1,263,666)	(1,008,468)
Other Property and Investments - Net of Noncash Capital Credits	1,568,124	868,814
Net Cash From Investing Activities	<u>\$ (12,175,422)</u>	<u>\$ (11,980,323)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Advances (Repayments) on CoBank Short-Term Line of Credit	\$ (1,500,000)	\$ (800,000)
Payments on Long-Term Debt to CFC	(2,055,578)	(2,121,462)
Payments on Long-Term Debt to CoBank	(4,469,041)	(4,434,325)
Payments on Notes Payable to Fort Huachuca	(194,675)	(174,916)
Payments on Post-Retirement Benefits	(34,848)	(47,766)
Retirement of Patronage Capital	(667,325)	(1,687,000)
Other Equities	82,234	66,186
Memberships - Net	2,530	1,365
Net Cash From Financing Activities	<u>\$ (8,836,703)</u>	<u>\$ (9,197,918)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 3,805,992	\$ 2,027,103
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>5,392,081</u>	<u>3,364,978</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 9,198,073</u>	<u>\$ 5,392,081</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	\$ 5,315,642	\$ 5,401,551
Income Taxes	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to the financial statements.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Sulphur Springs Valley Electric Cooperative, Inc. (the Cooperative) is a non-profit company organized to provide electric service at the retail level to primarily residential and commercial accounts in a designated service area. The majority of the power delivered at retail is purchased wholesale from Arizona G & T Cooperative, Inc. (AEPCO), of which the Cooperative is a member. The remainder of the power is purchased wholesale on the market. Any revenues earned in excess of costs incurred are allocated to members of the Cooperative and are reflected as patronage capital equity in the balance sheet.

System of Accounts

The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts (USOA) as prescribed by the Federal Energy Regulatory Commission for Class A and B electric utilities.

Electric Plant, Maintenance, and Depreciation

Electric plant is stated at the original cost of construction which includes the cost of contracted services, direct labor, materials, and overhead items. Contributions from others toward the construction of electric plant are credited to the applicable plant accounts.

When property which represents a retirement unit is replaced or removed, the average vintage cost of such property as determined from the continuing property records is credited to electric plant, and such cost, together with cost of removal less salvage, is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expense and other accounts.

Allowance for Uncollectible Accounts

The Cooperative uses the aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collectability. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

Inventories

Materials and supplies inventories are valued at average unit cost.

Electric Revenues

The Cooperative's operating revenues are under the jurisdiction of the Arizona Corporation Commission.

The Cooperative records electric revenues as billed to customers on a monthly basis and estimates the amount of revenue unbilled monthly. Unbilled revenue amounted to \$2,720,341 and \$2,778,004 as of June 30, 2018 and 2017, respectively.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative's tariffs for electric service include wholesale power cost adjustment clauses under which electric rates charged to customers are adjusted to reflect changes in the cost of power. Annual changes in these amounts appear as over and under billed revenue on the statement of income.

Patronage Capital Certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificate. At the end of each year the Cooperative receives an estimated allocation from its generation and transmission (G&T) purchased power provider (Arizona G & T Cooperative, Inc.). In accordance with the USOA, the Cooperative records this estimated amount as income. Any differences between the estimated amounts and actual final allocations are recorded in the following years. For the fiscal years ended 2018 and 2017, the actual final allocations from the prior calendar year were recorded and no estimate was recorded for the current year due to the timing of when the notice of the allocations were sent to the Cooperative.

The G&T patronage income recognized for the fiscal years 2018 and 2017 is as follows:

<u>FY 2018</u>	<u>FY 2017</u>
<u>\$ 2,690,485</u>	<u>\$ 2,718,044</u>

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Cooperative considers cash, and temporary cash investments to be cash equivalents.

Group Concentration of Credit Risk

The Cooperative's headquarters facility is located in Willcox, Arizona. The service area includes members located in a multi-county area of southeastern Arizona. The Cooperative records a receivable for electric revenues as billed on a monthly basis. The Cooperative requires a deposit from its members upon connection which is applied to unpaid bills in the event of default. The deposit accrues interest and is returned along with accrued interest after one year of prompt payments. As of June 30, 2018 and 2017, deposits on hand were \$2,257,439 and \$2,226,402 respectively.

Financial Instruments with Off-Balance-Sheet Risk

The Cooperative maintains checking accounts in financial institutions located in its service area. The balances are insured by the Federal Deposit Insurance Corporation at varying amounts. Deposits at times exceeded insured amounts.

Use of Estimates in Preparation of Financial Statements

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Comparative Financial Information

Certain amounts in the prior period financial statements have been reclassified in order to conform to current period presentation.

2. Assets Pledged

Substantially all assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC) and CoBank.

3. Electric Plant

The major classes of electric plant are as follows:

	June 30,	
	2018	2017
Production Plant	\$ 5,418,964	\$ 5,418,964
Transmission Plant	38,083,839	35,747,186
Distribution Plant	307,235,484	300,289,629
General Plant	44,172,499	42,980,984
Net Aid to Plant Investment - Ft. Huachuca	(34,535,880)	(34,534,475)
Total Electric Plant in Service	\$ 360,374,906	\$ 349,902,288
Construction Work in Progress	9,931,359	11,839,457
Total Electric Plant	\$ 370,306,265	\$ 361,741,745

Provision for depreciation of electric plant is computed using straight-line rates as follows:

Production Plant	4.55%
Transmission Plant	
Station Equipment	2.75%
Poles, Towers, and Fixtures	2.75%
Overhead Conductors and Devices	2.75%
Distribution Plant	
Station Equipment	3.20%
Poles, Towers, and Fixtures	4.00%
Overhead Conductors and Devices	2.80%
Underground Conduit	2.30%
Underground Conductors and Devices	5.90%
Line Transformers	3.10%
Services	3.60%
Meters	3.40%-5.00%
Installations on Consumers' Premises	4.40%
Street Lighting and Signal Systems	4.40%

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative computes depreciation on transmission and distribution plant by applying the above rates to the individual plant accounts. This is done to provide necessary detail information to the Arizona Corporation Commission.

General plant depreciation rates have been applied on a straight-line basis and are as follows:

Structures and Improvements	3.00%
Office Furniture and Fixtures	6.00%
Computer Equipment	12.50% and 16.00%
Transportation Equipment	20.00%
Store Equipment	6.00%
Power Operated Equipment	12.00%
Communication Equipment	6.00%
Miscellaneous Equipment	6.00%
Tools, Shop, and Garage Equipment	6.00%

Depreciation and amortization for the years ended June 30, 2018 and 2017, was \$18,861,389 and \$13,059,161, respectively, of which \$17,577,004 and \$11,481,524 was charged to depreciation and amortization expense, and \$1,284,385 and \$1,577,637 allocated to other accounts. The Cooperative accelerated depreciation on meters during the year for their meter change-out project. Total accelerated depreciation for the year ended June 30, 2018 was \$5,750,000.

4. Non-Utility Property

	June 30,	
	2018	2017
Solar Plant	\$ 11,344,840	\$ 11,344,840
Amortization of Solar Plant	(7,170,155)	(6,494,257)
Land Held for Future Substation Sites	115,029	115,029
	<u>\$ 4,289,714</u>	<u>\$ 4,965,612</u>

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

5. Investments in Associated Organizations

	June 30,	
	<u>2018</u>	<u>2017</u>
CFC		
Capital Term Certificates	\$ 2,880,087	\$ 3,191,622
Patronage Capital	2,744,258	2,670,127
Membership	<u>1,000</u>	<u>1,000</u>
	\$ <u>5,625,345</u>	\$ <u>5,862,749</u>
Arizona G & T Cooperative, Inc.		
Patronage Capital	\$ <u>46,915,993</u>	\$ <u>44,485,668</u>
CoBank		
Patronage Capital	\$ 1,529,483	\$ 1,236,117
Membership	<u>1,000</u>	<u>1,000</u>
	\$ <u>1,530,483</u>	\$ <u>1,237,117</u>
Other Affiliated Organizations	\$ <u>964,389</u>	\$ <u>889,581</u>
	<u>\$ 55,036,210</u>	<u>\$ 52,475,115</u>

6. Other Investments

	June 30,	
	<u>2018</u>	<u>2017</u>
Member Loans	\$ 50,489	\$ 56,482
Homestead Funds - At Fair Value	1,457,896	1,334,304
Non-Current Investments	<u>244,875</u>	<u>511,739</u>
	\$ <u>1,753,260</u>	\$ <u>1,902,525</u>

7. Temporary Cash Investments

	June 30,	
	<u>2018</u>	<u>2017</u>
Note Participation Program - Arizona G&T Cooperative, Inc.	\$ 5,711,163	\$ 1,526,886
Certificates of Deposit	1,799,597	1,526,886
Money Market	<u>4,141</u>	<u>1,526,886</u>
	\$ <u>7,514,901</u>	\$ <u>1,526,886</u>

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

8. Inventories – At Average Cost

	June 30,	
	2018	2017
Materials and Supplies	\$ 2,126,138	\$ 2,409,455
Resale Material	120,375	47,074
	<u>\$ 2,246,513</u>	<u>\$ 2,456,529</u>

9. Deferred Charges

	June 30,	
	2018	2017
Work Plan	\$	\$ 48,071
Unamortized Bond Expense	322,959	381,667
Clearing - Stores and Fleet Expense	111,501	494,200
Deferred Document Retention Expense	77,037	394,965
Prepaid Land Leases	436,361	324,845
Other Deferred Charges	58,418	235,925
	<u>\$ 1,006,276</u>	<u>\$ 1,879,673</u>

Unamortized bond expense represents a payment to CFC associated with the clean renewable energy bond program in the amount of \$939,444 so that the Cooperative can draw down low interest loan funds in order to pursue energy efficiency projects. The Cooperative is amortizing the initial bond purchase over 16 years. The amount recognized as expense for the years ended 2018 and 2017 is \$58,708 and \$58,713, respectively.

Deferred Document Retention Expense represents the accumulation of \$795,268 in costs associated with a project to become paperless and transfer over a million pages to electronic format. The Cooperative is amortizing these costs over a five year period beginning in 2015. The amount amortized for the years ended 2018 and 2017 is \$317,928 and \$142,845, respectively.

10. Return of Capital

Under the provisions of the mortgage agreements, until the equities and margins equal or exceed 20.00% of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited generally to 25.00% of the patronage capital or margins received by the Cooperative in the prior calendar year. The equities and margins of the Cooperative represent 41.49% of the total assets as of June 30, 2018. Patronage capital totaling \$667,325 and \$1,687,000 was retired during the years ended June 30, 2018 and 2017, respectively, and was within the guidelines set by CFC and CoBank for the return of capital.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

11. Patronage Capital

	June 30,	
	<u>2018</u>	<u>2017</u>
Assigned	\$ 129,385,564	\$ 120,509,852
Assignable	<u>14,489,828</u>	<u>15,703,800</u>
	\$ 143,875,392	\$ 136,213,652
Less: Retired	18,077,901	17,411,812
Plus: Unbilled Revenue	<u>2,180,003</u>	<u>1,931,695</u>
	<u>\$ 127,977,494</u>	<u>\$ 120,733,535</u>

12. Other Equities (Deficits)

	June 30,	
	<u>2018</u>	<u>2017</u>
Donated Capital	\$ 358,691	\$ 276,457
Prior Calendar Years Deficits	<u>(2,217,401)</u>	<u>(2,415,175)</u>
	<u>\$ (1,858,710)</u>	<u>\$ (2,138,718)</u>

Non-operating margins will be applied to the prior year's deficits until it is fully absorbed.

13. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC and maturing at various times from 2018 to 2051:

	June 30,	
	<u>2018</u>	<u>2017</u>
Fixed Rate Notes 3.70%-6.75%	\$ 27,850,959	\$ 29,189,037
Clean Renewable Energy Bonds (CREBS) 0.00% to 0.40%	<u>4,163,007</u>	<u>4,919,918</u>
	\$ 32,013,966	\$ 34,108,955
Less: Clean Renewable Energy Bond Deposit	216,758	256,168
Less: Current Maturities	<u>2,038,340</u>	<u>2,094,989</u>
	<u>\$ 29,758,868</u>	<u>\$ 31,757,798</u>

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Principal and interest installments on the above notes are due quarterly. As of June 30, 2018, annual maturities of long-term debt due CFC for the next five years is as follows:

2019	\$	2,038,340
2020		1,992,370
2021		1,955,601
2022		1,928,323
2023		1,922,742

In 2008, the Cooperative elected to participate in the Clean Renewable Energy Bond (CREBS) program with CFC. The CREBS program allows the Cooperative to finance funds over 16 years to pursue energy efficiency projects at low interest rates. Currently the Cooperative is using the loan funds to place solar panels on schools in the Cooperative's service area.

14. Mortgage Notes – CoBank

Following is a summary of long-term debt due CoBank maturing at various times from 2021 to 2045:

	June 30,	
	2018	2017
Fixed Rate Notes 2.23% - 5.01% in 2018, 2.23% - 4.57% in 2017	\$ 112,652,209	\$ 116,861,589
Clean Renewable Energy Bonds (CREBS) 1.85%	4,414,235	4,673,896
	\$ 117,066,444	\$ 121,535,485
Less: Current Maturities	4,572,105	4,469,041
	<u>\$ 112,494,339</u>	<u>\$ 117,066,444</u>

Principal and interest installments on the above notes are due quarterly. As of June 30, 2018, annual maturities of long-term debt due CoBank for the next five years is as follows:

2019	\$	4,572,105
2020		4,617,759
2021		4,730,308
2022		4,703,841
2023		4,790,337

The Cooperative has a total of \$56,680,000 of unadvanced loan funds available for draw from CoBank or CFC. The Cooperative also has a total of \$13,437,618 in additional funds available from CoBank that are only available to use for refinancing debt from CFC and \$15,002,402 in additional funds from CFC to use for refinancing debt from CoBank.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative elected to participate in the Clean Renewable Energy Bond (CREBS) program with CoBank. The CREBS program allows the Cooperative to finance funds over 22 years to pursue energy efficiency projects at low interest rates. Currently the Cooperative is using the loan funds to finance the production of solar generation.

15. Notes Payable – Fort Huachuca

In conjunction with the contract to provide distribution maintenance and operation services for Fort Huachuca, the Cooperative agreed to purchase the existing facilities on the Fort. The agreed upon price of \$1,799,830 is being financed by the Fort over 15 years at a fixed interest rate of 10.75%. Monthly payments total \$20,175. As of June 30, 2018 the Cooperative owed \$334,008 for the Fort facilities purchased.

As of June 30, 2018, annual maturities of long-term debt due Fort Huachuca for the next three years are as follows:

2019	\$	216,665
2020		117,343

16. Short-Term Borrowing

The Cooperative has a \$9,500,000 line of credit for short-term financing with CoBank at an interest rate of 3.66% for the year ended June 30, 2018. The Cooperative had an outstanding amount of \$0 and \$1,500,000 under such agreements at June 30, 2018 and 2017, respectively.

The Cooperative has a \$9,500,000 line of credit for short-term financing with CFC at a variable interest rate for the year ended June 30, 2018. The Cooperative had an outstanding amount of \$0 under such agreement at June 30, 2018 and 2017.

17. Deferred Credits

	June 30,	
	2018	2017
Undelivered Patronage Capital Refunds	\$ 1,008,350	\$ 818,322
Fort Huachuca - Deferred Reimbursements	2,838,015	2,611,660
ACC Mandated Energy Conservation Programs	5,594,349	4,568,982
Other Deferred Credits	421,069	433,956
Customer Advances for Aid to Construction	400,569	
	<u>\$ 10,262,352</u>	<u>\$ 8,432,920</u>

Undeliverable Patronage Capital Refunds represents uncashed capital credit checks to members or retirements to inactive members in which no checks have been written. Periodically, the Cooperative will transfer unclaimed capital credits due to members to the Foundation.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Fort Huachuca – Deferred Reimbursements represents the amount billed per the contract with Fort Huachuca for renewals and replacements, and construction work in progress. These amounts will be recognized as qualifying renewals and replacements and construction work in progress costs as incurred.

ACC Mandated Energy Conservation Programs include Demand Side Management programs as well as other projects designed to use renewable energy such as solar energy. These projects are funded by an ACC approved surcharge on the member's bill and the balance represents the unused portion of the amounts collected.

18. Pension Benefits

Narrative Description

The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (the RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The RS Plan sponsor's Employer Identification Number is 53-0116145 and the RS Plan Number is 333.

A unique characteristic of a multiemployer 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.

Plan Information

The Cooperative's contributions to the RS Plan in 2018 and 2017 represented less than five percent of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of \$3,939,324 and \$3,468,092 in 2018 and in 2017, respectively. Pension expense for the years ended June 30, 2018 and 2017, including amortization of the RS prepayment was \$3,849,441 and \$3,528,454, respectively. There have been no significant changes that affect the comparability of 2018 and 2017 contributions.

In 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 at January 1, 2018 and January 1, 2017 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 RS Plan and may change as a result of plan experience.

The Cooperative is also a participant in the NRECA 401(k) savings plan, a defined contribution plan. The cost to the Cooperative under this plan for the years ended June 30, 2018 and 2017, was \$317,293 and \$305,328, respectively.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

19. Other Long-Term Liabilities

The Cooperative has provided a deferred compensation plan for certain employees under benefit programs. The liability resulting from these programs is as follows:

	June 30,	
	<u>2018</u>	<u>2017</u>
Employee Deferred Compensation Program	\$ <u>1,457,896</u>	\$ <u>1,334,334</u>

20. Post-Retirement Benefits

The Cooperative provides post-retirement benefits for eligible employees through a self-insurance plan.

For qualified employees that retire after December 31, 2001, the employee pays the entire premium for the self-insurance policy. For qualified employees that retired on or before December 31, 2001, the Cooperative pays up to \$1,250 per year of qualified premium expenses.

The weighted-average discount rate used to develop the accumulated post-retirement benefit obligation was 4.00%. The assumed health care cost trend rate is 6.50% in 2018, declining to an ultimate level of 5.00% in 2022.

Amounts recognized in the Cooperative's June 30, 2018 and 2017, financial statements and funded status of the plan is as follows:

	June 30,	
	<u>2018</u>	<u>2017</u>
I) Net Post-Retirement Benefit Cost		
Interest Cost	\$ 53,220	\$ 50,159
Service Cost	95,013	92,067
Amortization of Actuarial Loss	<u>53,588</u>	<u>54,275</u>
	<u>\$ 201,821</u>	<u>\$ 196,501</u>
II) Reconciliation of Funded Status		
APBO	\$ 1,686,350	\$ 1,702,699
Fair Value of Plan Assets		
Accumulated Post-Retirement Benefit Obligation in Excess of Plan Assets	<u>\$ 1,686,350</u>	<u>\$ 1,702,699</u>
III) Amounts Recognized in the Balance Sheet		
Current Liability	\$ 83,000	\$ 79,000
Non Current Liability	<u>1,603,350</u>	<u>1,623,699</u>
Provision for Post-Retirement Benefits	<u>\$ 1,686,350</u>	<u>\$ 1,702,699</u>
IV) Amounts Not Yet Recognized in Net Periodic Post-Retirement Benefit Cost		
Unrecognized Actuarial Loss	\$ <u>(687,345)</u>	\$ <u>(870,667)</u>
Other Comprehensive Loss	<u>\$ (687,345)</u>	<u>\$ (870,667)</u>

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative has not funded plan assets as of June 30, 2018. The amount of contributions made for the year ended June 30, 2018 were \$34,848 and \$100,315 by the Cooperative and pension participants respectively.

Estimated future employer funded benefit payments through 2028 are as follows:

2019	\$	83,000
2020		99,000
2021		111,000
2022		111,000
2023		131,000
2024-2028		650,000

21. Litigation and Commitments

Delinquent Accounts

The Cooperative is included in civil litigation cases instituted by the Cooperative for the purpose of collecting delinquent accounts receivable from certain members/owners.

Solar Power Procurement

SSVEC has entered into a 20 year purchase power agreement where the supplier will build a 20 MW solar plant and SSVEC will purchase the output of the facility. The supplier will own the facility but after six years SSVEC will have the option to buy the facility. The construction of the plant and related infrastructure was completed in December 2016, and the solar field was brought online and is generating power as outlined in the Purchase Power Agreement.

AEPCO Contract

During the 2008 fiscal year, the Cooperative negotiated with AEPCO to become a partial requirements customer. This agreement allows the Cooperative to purchase a portion of its power on the market from other power suppliers. The contract is effective through December 31, 2035.

22. Related Party Transactions

The Cooperative is represented on the Board of Directors of AEPCO and purchases part of its electric power from AEPCO. Effective March 1, 2016 AEPCO and SWTC merged and the remaining entity was AEPCO. Margins earned by AEPCO and SWTC have been allocated to the Cooperative and are reflected under investment in associated organizations on the balance sheet. During the years ended June 30, 2018 and 2017, the Cooperative purchased electric power and transmission services from AEPCO totaling \$55,386,239 and \$53,137,937, respectively. Amounts payable to AEPCO as of June 30, 2018 and 2017, from the Cooperative amounted to \$5,521,516 and \$5,336,815, respectively. AEPCO allocated capital credits of \$2,690,485 and \$2,718,044 to the Cooperative for the periods ended June 30, 2018 and 2017, respectively.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative, through common board oversight and management, provides various accounting and management support and services to two individual non-profit organizations: Sulphur Springs Valley Electric Cooperative, Inc. Charitable Trust (the Trust) and Sulphur Springs Valley Electric Cooperative Foundation (the Foundation).

The Trust is a non-profit organization, tax exempt under Internal Revenue Code 501(c)(3), and organized to provide necessary assistance to individuals, families, organizations and agencies in need, within the Cooperative's service area. Under the Cooperative's Operation Roundup Program, certain members of the Cooperative have elected to have their power bill rounded up to the next whole dollar. All proceeds from this program are transferred to the Trust and represent the main source of income to the Trust.

The Foundation is a non-profit organization, tax exempt under Internal Revenue Code section 501(c)(3), and organized primarily to fund the Washington Youth Tour, Youth Energy Science (YES) Fair, educational scholarships and other qualified programs. The Foundation is primarily funded through retired and unclaimed capital credits of the Cooperative as defined by the bylaws of the Cooperative.

23. Fair Value of Financial Instruments

Statement of Financial Accounting Standards requires disclosure of fair value information about financial instruments. Many of the Cooperative's financial instruments lack an available market as characterized by a normal exchange between a willing buyer and a willing seller. Accordingly, significant assumptions, estimations, and present value calculations were used for purposes of this disclosure.

The following assumptions were used to estimate fair value of each class of financial instrument for which estimation is practicable.

Patronage Capital from Associated Organizations – The right to receive cash is an inherent component of a financial instrument. The Cooperative holds no right to receive cash since any payments are at the discretion of the governing body for the associated organizations. As such, Patronage Capital from Associated Organizations is not considered a financial instrument.

CFC Capital Term Certificates – It is not practicable to estimate fair value for these financial instruments given the lack of a market and their long holding period.

Homestead Funds – Fair value is based on market value of the portfolio of investments as of the balance sheet date, and is considered Level 1 as defined below.

Cash and Temporary Cash Investments – Carrying value, given the short period to maturity.

Long-Term Debt Variable Rate – Carrying value, since these notes reprice frequently at market rates.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Long-Term Debt Fixed Rate – Estimated by computing the present value by individual note to maturity, using currently quoted or offered rates for similar issues of debt. The year-end CFC fixed interest rate for long-term debt available for notes with the same term remaining was used in the calculation for all fixed rate long-term debt. These are the only financial instruments of the Cooperative that have a difference in Fair Value and Carrying Value. The carrying value of the Cooperative's fixed rate debt is \$149,414,418. The estimated fair value was calculated to be \$129,721,157, and is Level 2 as defined below.

Fair Value Hierarchy – The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Cooperative has the ability to access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs are unobservable inputs for the asset or liability.

24. Subsequent Events

The Cooperative's management has evaluated subsequent events through September 7, 2018, the date which the financial statements were available for issue.

Subsequent to the year end, the Cooperative entered into a contract with Landis and Gyr to purchase metering equipment totaling approximately \$7,500,000.

25. Contingencies

As previously stated in footnote 22, the Cooperative funds the Sulphur Springs Valley Electric Cooperative Foundation with undeliverable retired capital credits. On March 23, 2018, Senate Bill 1412, which amended Arizona Revised Statutes related to unclaimed property, was passed. This enables Arizona Cooperatives to hold on to unclaimed capital credits instead of reporting or escheating to the Arizona Department of Revenue. The unclaimed capital credits can be used for any lawful purpose consistent with the cooperative's bylaws and is specified by the cooperative's board of directors. SSVEC's unclaimed capital credits are transferred to its Foundation to be used for scholarships for the local youth in its service territory.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

26. Income Taxes

The Cooperative has adopted the “uncertain tax positions” provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Cooperative is its filing status as a tax exempt entity. The Cooperative determined that it is more likely than not that its tax positions will be sustained upon examination by the Internal Revenue Service (IRS), or other State taxing authority and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Cooperative files income tax returns in the U.S. federal jurisdiction and Arizona. The Cooperative is no longer subject to income tax examinations by federal taxing authorities for years before 2015 and state taxing authorities for years before 2015.

The Cooperative recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended December 31, 2017 and 2016, the Cooperative’s taxable year end.

27. Self-Insurance Medical and Dental Benefits

Effective January 1, 2013, the Cooperative established a self-insurance program covering medical and dental benefits for substantially all of its employees. The Cooperative limits its losses through the use of stop-loss policies from re-insurers. Specific individual losses for claims are limited to \$125,000 a year. For the year ended June 30, 2018, the Cooperative incurred reinsurance and administrative fees of \$397,463. Retiree contributions amounted to \$93,181 for the year ended June 30, 2018.

Self-Insurance Liability consists of the following:

	June 30,	
	2018	2017
Liability Beginning of Year	\$ 277,316	\$ 343,088
Employee Contributions	417,868	393,003
Employer Contributions	1,132,776	868,574
Claims Paid	(1,573,613)	(1,327,349)
	<u>\$ 254,347</u>	<u>\$ 277,316</u>

SUPPLEMENTARY INFORMATION

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 1

**ELECTRIC PLANT
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Balance 7/1/2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2018</u>
CLASSIFIED ELECTRIC PLANT IN SERVICE				
Production Plant				
Solar Production Panels and Equipment	\$ 5,418,964	\$ 0	\$ 0	\$ 5,418,964
Transmission Plant				
Land and Land Rights	\$ 1,051,897	\$	\$	\$ 1,051,897
Station Equipment	1,538,887			1,538,887
Poles, Towers, and Fixtures	15,158,017	1,374,293	15,930	16,516,380
Overhead Conductors and Devices	17,998,385	1,023,659	45,369	18,976,675
Total	<u>\$ 35,747,186</u>	<u>\$ 2,397,952</u>	<u>\$ 61,299</u>	<u>\$ 38,083,839</u>
Distribution Plant				
Land and Land Rights	\$ 438,068	\$	\$	\$ 438,068
Structures and Improvements	858,644			858,644
Station Equipment	36,601,499	707,613		37,309,112
Poles, Towers, and Fixtures	61,256,345	3,178,902	888,083	63,547,164
Overhead Conductors and Devices	39,435,881	3,152,385	705,212	41,883,054
Underground Conduit	25,473,081	372,348	6,587	25,838,842
Underground Conductors and Devices	41,829,685	1,049,560	198,887	42,680,358
Line Transformers	57,788,723	1,462,448	96,238	59,154,933
Services	9,623,346	11,617	35,525	9,599,438
Meters	20,787,844	461,213	1,465,729	19,783,328
Installations on Consumers' Premises	2,197,806		4,748	2,193,058
Street Light and Signal Systems	3,998,707	2,028	51,250	3,949,485
Total	<u>\$ 300,289,629</u>	<u>\$ 10,398,114</u>	<u>\$ 3,452,259</u>	<u>\$ 307,235,484</u>
General Plant				
Land and Land Rights	\$ 806,591	\$	\$	\$ 806,591
Structures and Improvements	12,198,041	472,845		12,670,886
Office Furniture and Equipment	5,344,767	139,104		5,483,871
Transportation Equipment	5,991,299	300,336	7,664	6,283,971
Store Equipment	211,969	6,473		218,442
Tools, Shop, and Garage Equipment	2,699,293	210,357		2,909,650
Laboratory Equipment	878,965			878,965
Power Operated Equipment	13,208,225	442,202	372,138	13,278,289
Communication Equipment	1,386,678			1,386,678
Miscellaneous Equipment	255,156			255,156
Total	<u>\$ 42,980,984</u>	<u>\$ 1,571,317</u>	<u>\$ 379,802</u>	<u>\$ 44,172,499</u>
Net Aid to Plant Investment - Ft. Huachuca	<u>\$ (34,534,475)</u>	<u>\$ (1,405)</u>	<u>\$ 0</u>	<u>\$ (34,535,880)</u>
Total Classified Electric Plant In Service	<u>\$ 349,902,288</u>	<u>\$ 14,365,978</u>	<u>\$ 3,893,360</u>	<u>\$ 360,374,906</u>
Construction Work in Progress	<u>11,839,457</u>	<u>(1,886,098)</u>	<u>22,000</u>	<u>9,931,359</u>
Total Utility Plant	<u>\$ 361,741,745</u>	<u>\$ 12,479,880</u>	<u>\$ 3,915,360</u>	<u>\$ 370,306,265</u>

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 2

**ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION
FOR THE YEAR ENDED JUNE 30, 2018**

	Balance <u>7/1/2017</u>	Depreciation Accruals	Retirements	Balance <u>6/30/2018</u>
Production Plant	\$ 1,128,987	\$ 246,324	\$	\$ 1,375,311
Transmission Plant	\$ 7,842,155	\$ 1,004,946	\$ 96,437	\$ 8,750,664
Distribution Plant	\$ 103,740,044	\$ 15,951,526	\$ 4,640,180	\$ 115,051,390
General Plant				
Structures and Improvements	\$ 6,392,932	\$ 433,370	\$ 22,000	\$ 6,804,302
Office Furniture and Equipment	4,313,214	191,863	(555)	4,505,632
Transportation Equipment	5,326,988	281,565	7,664	5,600,889
Store Equipment	187,378	3,698		191,076
Tools, Shop, and Garage Equipment	1,484,872	89,988		1,574,860
Laboratory Equipment	733,701	24,354		758,055
Power Operated Equipment	10,173,246	587,309	369,130	10,391,425
Communications Equipment	986,219	35,867		1,022,086
Miscellaneous Equipment	120,031	10,579		130,610
Total General Plant	\$ 29,718,581	\$ 1,658,593	\$ 398,239	\$ 30,978,935
Total Accumulated Depreciation	\$ 142,429,767	\$ 18,861,389	\$ 5,134,856	\$ 156,156,300
Retirement Work in Progress	(31,885)		44,170	(76,055)
Total	\$ 142,397,882	\$ 18,861,389	\$ 5,179,026	\$ 156,080,245

(1)

(2)

(1) Charged to Depreciation and Amortization Expense	\$ 17,577,004
Charged to Clearing and Other Accounts	<u>1,284,385</u>
	\$ <u>18,861,389</u>

(2) Cost of Units Retired and Sold	\$ 3,915,360
Add: Cost of Removal	1,335,673
Less: Salvage and Other Credits	<u>72,007</u>
Loss Due to Retirement	\$ <u>5,179,026</u>

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 3

OTHER PROPERTY AND INVESTMENTS
JUNE 30, 2018 AND 2017

	June 30,	
	<u>2018</u>	<u>2017</u>
NON-UTILITY PROPERTY		
Solar Plant (Net of Amortization of \$7,170,155 in 2018 and \$6,494,257 in 2017)	\$ 4,174,685	\$ 4,850,583
Land Held for Future Substation Sites	115,029	115,029
Total Non-Utility Property	<u>\$ 4,289,714</u>	<u>\$ 4,965,612</u>
INVESTMENTS IN ASSOCIATED ORGANIZATIONS		
Memberships		
National Rural Utilities Cooperative Finance Corporation	\$ 1,000	\$ 1,000
CoBank	1,000	1,000
Other	10	10
Patronage Capital		
National Rural Utilities Cooperative Finance Corporation	2,744,258	2,670,127
Arizona G & T Cooperative, Inc.	46,915,993	44,485,668
National Rural Telecommunications Cooperative	34,207	36,261
Federated Rural Electric Insurance Exchange	652,276	587,153
National Information Solutions Cooperative	84,713	71,425
CoBank	1,529,483	1,236,117
Cooperative Response Center	25,658	21,883
Other Investments		
Grand Canyon Statewide Building Equity	167,525	172,849
Capital Term Certificates		
National Rural Utilities Cooperative Finance Corporation	2,880,087	3,191,622
Total Investments in Associated Organizations	<u>\$ 55,036,210</u>	<u>\$ 52,475,115</u>
OTHER INVESTMENTS		
Member Loans Receivable	\$ 50,489	\$ 56,482
Homestead Funds	1,457,896	1,334,304
Non-Current Investments	244,875	511,739
Total Other Investments	<u>\$ 1,753,260</u>	<u>\$ 1,902,525</u>
Total Other Property and Investments	<u>\$ 61,079,184</u>	<u>\$ 59,343,252</u>

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 4

PATRONAGE CAPITAL
JUNE 30, 2018

Year	Assignable		Assigned		Retired	Balance	
	SSVEC	AEPCO	SSVEC	AEPCO			
1962	\$	\$	\$ 1,962,967	\$	\$ 1,962,967	\$	
1963				20,147	20,147		
1964			38,601	38,390	76,991		
1965			164,927		164,927		
1970			6,888	107,978	114,866		
1971				110,214	110,214		
1972			316,026	131,655	447,681		
1973			552,047	228,668	780,715		
1974			351,822		351,822		
1975			187,983		187,983		
1976			43,754		43,754		
1977			373,156		373,156		
1978			427,875		427,875		
1979			557,380		557,380		
1980			1,901,203		1,901,203		
1981			1,180,395		1,180,395		
1982			631,366		631,366		
1983			396,749		396,749		
1984			534,630		534,630		
1985			542,499		542,499		
1986			912,901		912,901		
1987			717,330		717,330		
1988			429,716		429,716		
1989			2,097,639		2,097,639		
1990			1,536,891		533,100	1,003,791	
1991			1,056,601		25,647	1,030,954	
1992			636,830		13,634	623,196	
1993			1,747,920		37,739	1,710,181	
1994			2,297,104		327,432	1,969,672	
1995			1,559,057		220,684	1,338,373	
1996			1,514,534		211,902	1,302,632	
1997			1,561,900		217,723	1,344,177	
1999			2,557,142		33,030	2,524,112	
2000			3,262,510		39,022	3,223,488	
2001			2,772,943	1,916,729	52,337	4,637,335	
2002			2,585,107	2,931,416	595,374	4,921,149	
2003			2,383,110	1,303,017	37,956	3,648,171	
2004			3,591,169		281,899	3,309,270	
2005			4,571,695		40,313	4,531,382	
2006			3,384,356		22,773	3,361,583	
2007			1,556,559	2,592,402	17,350	4,131,611	
2008			2,448,788	10,617,749	45,283	13,021,254	
2009			1,330,143	5,974,971	25,146	7,279,968	
2010			3,593,028	3,253,500	22,204	6,824,324	
2011			4,395,601	2,662,099	128,701	6,928,999	
2012			2,797,781	1,897,575	138,039	4,557,317	
2013			609,311	3,018,230	9,816	3,617,725	
2014			4,005,747	4,026,167	18,659	8,013,255	
2015			4,986,334	2,608,930	12,296	7,582,968	
2016			6,214,071	2,661,641	4,936	8,870,776	
2017		6,801,781				9,492,266	
2018 (6 months)		4,997,562				4,997,562	
		<u>\$ 11,799,343</u>	<u>\$ 2,690,485</u>	<u>\$ 83,284,086</u>	<u>\$ 46,101,478</u>	<u>\$ 18,077,901</u>	<u>\$ 125,797,491</u>

Unbilled Revenue as of December 31, 2017

2,180,003

\$ 127,977,494

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 5

CFC AND CoBANK MORTGAGE NOTES
JUNE 30, 2018

Note Number	Date of Note	Interest Rate		Principal Amount	Amount Unadvanced	Loans Expired	Principal Repayments	Net Obligations
CFC Mortgage Notes								
9026	03-31-02	Various	(1)	\$ 18,281,000	\$	\$	\$ 4,911,157	\$ 13,369,843
9027	03-31-02	4.90%		2,878,000			837,939	2,040,061
9028	03-19-04	6.75%		9,270,000			1,686,622	7,583,378
9029	12-31-03	Various	(2)	28,304,131			26,288,577	2,015,554
9031	03-03-08	Various	(3)	840,000			533,979	306,021
9034	03-03-08	Various	(3)	560,000			359,372	200,628
9035	03-03-08	Various	(3)	840,000			533,979	306,021
9036	03-03-08	Various	(3)	280,000			180,899	99,101
9037	03-03-08	Various	(3)	280,000			180,899	99,101
9038	03-03-08	Various	(3)	280,000			180,899	99,101
9039	03-03-08	Various	(3)	280,000			180,899	99,101
9040	03-03-08	Various	(3)	840,000			534,844	305,156
9041	03-03-08	Various	(3)	280,000			180,899	99,101
9042	03-03-08	Various	(3)	560,000			359,372	200,628
9043	03-03-08	Various	(3)	840,000			533,979	306,021
9044	03-03-08	Various	(3)	560,000			357,292	202,708
9045	03-03-08	Various	(3)	280,000			180,899	99,101
9046	03-03-08	Various	(3)	2,520,000			1,582,732	937,268
9047	03-03-08	Various	(3)	280,000			180,899	99,101
9048	03-03-08	Various	(3)	560,000			359,372	200,628
9049	03-03-08	Various	(3)	280,000			180,899	99,101
9050	03-03-08	Various	(3)	280,000			180,899	99,101
9051	03-03-08	Various	(3)	840,000			533,979	306,021
* 9052		3.70%		72,680,000	56,680,000	13,000,000	157,879	2,842,121
*** 9053				<u>30,000,000</u>	<u>15,002,402</u>			
Total CFC				\$ <u>172,893,131</u>	\$ <u>71,682,402</u>	\$ <u>13,000,000</u>	\$ <u>41,199,165</u>	\$ <u>32,013,966</u>

- (1) - Interest rates range from 4.60% to 5.30%.
- (2) - Interest rates range from 5.60% to 5.65%.
- (3) - Interest rates range from 0.00% to 0.40%

CoBANK Mortgage Notes

192743	08-22-14	4.121%		\$ 17,000,000	\$		\$ 2,392,841	\$ 14,607,159
192752	05-10-11	4.360%		3,827,249			3,675,767	151,482
192768	05-12-11	3.580%		16,867,300			2,807,084	14,060,216
192775	05-12-11	4.150%		5,750,952			1,085,903	4,665,049
192781	05-12-11	5.010%		5,263,250			1,017,125	4,246,125
200038	10-13-11	4.390%		667,560			116,742	550,818
209122	02-24-12	3.970%		5,441,383			1,152,755	4,288,628
218634	08-28-12	1.850%		6,000,000			1,585,765	4,414,235
219737	08-22-14	3.399%		5,000,000			1,875,755	3,124,245
219781	08-22-14	4.398%		14,573,201			1,389,867	13,183,334
219799	09-17-12	4.570%		5,480,000			5,328,336	151,664
230504	08-22-14	4.241%		15,500,000			1,810,999	13,689,001
230527	04-02-13	4.570%		1,379,879			959,440	420,439
230565	04-02-13	4.570%		2,404,747			2,137,029	267,718
231073	08-22-14	4.406%		7,000,000			700,708	6,299,292
260199	04-22-15	4.060%		16,268,683			1,090,528	15,178,155
262564	04-22-15	2.230%		1,327,227			628,176	699,051
262577	04-22-15	3.490%		2,856,748			391,764	2,464,984
266845	04-22-15	3.810%		7,348,992			700,117	6,648,875
2972148	05-20-16	3.380%		2,562,382			195,930	2,366,452
* 192662	05-10-11	4.380%		65,680,000	56,680,000	3,000,000	410,478	5,589,522
** 192678	05-10-11			<u>13,437,618</u>	<u>13,437,618</u>			
Total CoBank				\$ <u>221,637,171</u>	\$ <u>70,117,618</u>	\$ <u>3,000,000</u>	\$ <u>31,453,109</u>	\$ <u>117,066,444</u>
Total Long-Term Debt				\$ <u>394,530,302</u>	\$ <u>141,800,020</u>	\$ <u>16,000,000</u>	\$ <u>72,652,274</u>	\$ <u>149,080,410</u>

Net obligation includes \$2,038,340 due CFC and \$4,572,105 due CoBank payable within one year, and classified as current liabilities on the balance sheet.

* \$56,680,000 is available to draw from CFC or Cobank for the facility workplan.

** \$13,437,618 is available to draw from CoBank to refinance CFC debt. Availability ends 04-30-2019.

*** \$15,002,402 is available to draw from CFC to refinance CoBank debt. Availability ends 11-01-2018.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 6

**ADMINISTRATIVE AND GENERAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	June 30,		Increase (Decrease)
	<u>2018</u>	<u>2017</u>	<u></u>
Administrative and General Salaries	\$ 4,390,379	\$ 3,667,540	\$ 722,839
Office Supplies and Expense	195,206	141,955	53,251
Outside Services Employed	468,872	546,106	(77,234)
Injuries and Damages	237,051	250,219	(13,168)
Directors' Fees and Mileage	305,089	346,358	(41,269)
Dues Paid Associated Organizations	150,484	149,635	849
Fort Huachuca Administrative and General	92,032	582,012	(489,980)
Miscellaneous General Expenses	329,942	345,254	(15,312)
Capital Credits	65,818	30,218	35,600
Maintenance of General Property	<u>42,600</u>	<u>119,765</u>	<u>(77,165)</u>
Total	<u>\$ 6,277,473</u>	<u>\$ 6,179,062</u>	<u>\$ 98,411</u>

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 7

FIVE YEAR COMPARATIVE DATA

	Years Ended June 30,				
	2018	2017	2016	2015	2014
OPERATING REVENUES					
Residential	\$ 49,911,884	\$ 47,305,119	\$ 46,275,221	\$ 44,941,784	\$ 45,600,158
Irrigation	20,794,724	18,514,832	17,311,527	15,584,411	17,240,939
Commercial and Industrial	32,291,899	31,672,724	31,100,638	30,935,441	32,211,426
Public Buildings and Other Authorities	2,331,007	2,515,190	1,373,918	1,567,249	1,814,227
Unbilled Revenue	(57,663)	403,216	(39,045)	(109,723)	296,469
Power Adjustment (Over) Underbilled	3,191,806	1,579,427	(351,557)	(571,908)	(742,575)
Rent from Electric Property	814,352	691,316	699,824	702,994	697,489
Other Operating Revenues	1,354,894	2,286,403	1,638,905	4,933,839	5,903,379
Total Operating Revenues	\$ <u>110,632,903</u>	\$ <u>104,968,227</u>	\$ <u>98,009,431</u>	\$ <u>97,984,087</u>	\$ <u>103,021,512</u>
OPERATING EXPENSES					
Purchased Power	\$ 57,940,798	\$ 54,878,736	\$ 52,374,891	\$ 52,391,693	\$ 59,482,147
Transmission	466,118	433,461	471,155	758,298	681,839
Distribution - Operation	10,035,011	9,248,691	8,897,612	10,875,743	10,116,528
Distribution - Maintenance	3,369,969	3,505,355	3,480,110	4,025,672	3,597,314
Customer Accounts	3,112,157	3,182,642	3,192,333	3,119,297	3,111,390
Customer Service and Information	939,366	791,034	787,180	791,574	875,504
Sales Expense	489,481	370,000	290,557	342,221	386,270
Administrative and General	6,277,473	6,179,062	6,146,059	6,027,864	5,588,567
Depreciation and Amortization	17,577,004	11,481,524	11,253,536	10,887,270	10,509,568
Taxes	88,222	7,247	8,207	1,889	886,854
Other Interest	694	4,198	1,944	1,236	13,593
Other Deductions	353,882	266,801	266,756	222,888	278,000
Total Operating Expenses	\$ <u>100,650,175</u>	\$ <u>90,348,751</u>	\$ <u>87,170,340</u>	\$ <u>89,445,645</u>	\$ <u>95,527,574</u>
OPERATING MARGINS - Before Fixed Charges	\$ 9,982,728	\$ 14,619,476	\$ 10,839,091	\$ 8,538,442	\$ 7,493,938
FIXED CHARGES					
Interest on Long-Term Debt	<u>5,305,798</u>	<u>5,389,237</u>	<u>5,521,227</u>	<u>5,599,149</u>	<u>4,986,423</u>
OPERATING MARGINS - After Fixed Charges	\$ 4,676,930	\$ 9,230,239	\$ 5,317,864	\$ 2,939,293	\$ 2,507,515
G&T and Other Capital Credits	<u>3,180,495</u>	<u>3,189,405</u>	<u>3,151,508</u>	<u>4,562,512</u>	<u>3,530,680</u>
NET OPERATING MARGINS	\$ <u>7,857,425</u>	\$ <u>12,419,644</u>	\$ <u>8,469,372</u>	\$ <u>7,501,805</u>	\$ <u>6,038,195</u>
NON-OPERATING MARGINS					
Interest Income	\$ 233,891	\$ 131,070	\$ 125,559	\$ 122,788	\$ 233,757
Other Non-Operating Income	<u>17,742</u>	<u>585,153</u>	<u>7,572</u>	<u>77,245</u>	<u>120,109</u>
	\$ <u>251,633</u>	\$ <u>716,223</u>	\$ <u>133,131</u>	\$ <u>200,033</u>	\$ <u>353,866</u>
NET MARGINS	\$ <u>8,109,058</u>	\$ <u>13,135,867</u>	\$ <u>8,602,503</u>	\$ <u>7,701,838</u>	\$ <u>6,392,061</u>
Miscellaneous Statistics					
MWH Sales	838,274	832,634	822,141	871,479	908,266
Times Interest Earned Ratio	2.53	3.44	2.56	2.38	2.27
Debt Service Coverage	2.38	2.28	1.92	1.96	1.60
Equity to Total Assets	41.43	39.04	36.23	34.07	31.79
Equity to Total Capitalization	45.71	43.06	39.68	36.80	34.50

OTHER INFORMATION

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 8

**STATEMENT OF INCOME AND PATRONAGE CAPITAL
FOR THE CALENDAR YEARS 2017 AND 2016
(UNAUDITED)**

	December 31,	
	<u>2017</u>	<u>2016</u>
OPERATING REVENUES	\$ <u>108,463,833</u>	\$ <u>100,579,101</u>
OPERATING EXPENSES		
Cost of Power	\$ 56,238,584	\$ 53,754,744
Transmission Expense	465,497	408,897
Distribution - Operation	9,623,646	9,538,526
Distribution - Maintenance	3,402,582	3,430,136
Consumer Accounts	3,160,118	3,181,865
Customer Service, Information, and Sales	1,247,215	1,102,705
Administrative and General	6,204,750	6,321,339
Depreciation and Amortization	16,677,771	11,368,983
Taxes	25,685	6,190
Other Deductions	416,278	333,369
Total Operating Expenses	\$ <u>97,462,126</u>	\$ <u>89,446,754</u>
OPERATING MARGINS - Before Fixed Charges	\$ 11,001,707	\$ 11,132,347
FIXED CHARGES		
Interest on Long-Term Debt	<u>5,369,436</u>	<u>5,469,123</u>
OPERATING MARGINS - After Fixed Charges	\$ 5,632,271	\$ 5,663,224
Capital Credits	<u>3,233,094</u>	<u>3,144,890</u>
Net Operating Margins	\$ <u>8,865,365</u>	\$ <u>8,808,114</u>
NON-OPERATING MARGINS		
Interest Income	\$ 179,849	\$ 126,049
Other Non-Operating Income	<u>695,363</u>	<u>71,938</u>
Total	\$ <u>875,212</u>	\$ <u>197,987</u>
NET MARGINS	\$ <u><u>9,740,577</u></u>	\$ <u><u>9,006,101</u></u>

COMPLIANCE AND INTERNAL CONTROL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

**LETTER TO BOARD OF DIRECTORS REGARDING POLICIES
CONCERNING AUDITS OF CFC BORROWERS**

Board of Directors
Sulphur Springs Valley Electric Cooperative, Inc.
Willcox, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheets of Sulphur Springs Valley Electric Cooperative, Inc. as of June 30, 2018 and 2017, and the related statements of income and patronage capital and cash flows for the years then ended, and have issued our report thereon dated September 7, 2018.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Sulphur Springs Valley Electric Cooperative, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

September 7, 2018