

ARIZONA 14 COCHISE

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

WILLCOX, ARIZONA

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

**ARIZONA 14 COCHISE
SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.
WILLCOX, ARIZONA**

**FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

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CERTIFIED PUBLIC ACCOUNTANTS

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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, 2019 and 2018, and the related statements of income, patronage capital, and comprehensive income, 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, 2019 and 2018, 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, 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 2018 and 2017 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 9, 2019

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEETS
JUNE 30, 2019 AND 2018

ASSETS

| | June 30, | |
|--|-----------------------|-----------------------|
| | 2019 | 2018 |
| UTILITY PLANT AT COST | | |
| Electric Plant in Service | \$ 370,146,945 | \$ 360,374,906 |
| Construction Work in Progress | 11,635,518 | 9,931,359 |
| | <u>\$ 381,782,463</u> | <u>\$ 370,306,265</u> |
| Less: Accumulated Provision for Depreciation and Amortization | 165,839,055 | 156,080,245 |
| | <u>\$ 215,943,408</u> | <u>\$ 214,226,020</u> |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Non-Utility Property - Net | \$ 3,875,291 | \$ 4,289,714 |
| Investments in Associated Organizations | 57,414,432 | 55,036,210 |
| Other Investments | 1,514,701 | 1,753,260 |
| ACC Mandated Energy Conservation Programs - Restricted | 6,850,982 | 5,594,349 |
| | <u>\$ 69,655,406</u> | <u>\$ 66,673,533</u> |
| CURRENT ASSETS | | |
| Cash | \$ 2,351,335 | \$ 1,683,172 |
| Temporary Cash Investments | 6,384,335 | 1,920,552 |
| Accounts and Notes Receivable (Less allowance for uncollectibles of \$88,901 in 2019 and \$176,760 in 2018) | 8,014,886 | 7,007,789 |
| Underbilled Power Cost Adjustment | 1,103,352 | 4,127,980 |
| Unbilled Revenue | 2,675,327 | 2,720,341 |
| Materials and Supplies | 2,120,356 | 2,246,513 |
| Other Current and Accrued Assets | 1,603,499 | 1,595,273 |
| | <u>\$ 24,253,090</u> | <u>\$ 21,301,620</u> |
| DEFERRED CHARGES | \$ 958,885 | \$ 1,006,276 |
| TOTAL ASSETS | <u>\$ 310,810,789</u> | <u>\$ 303,207,449</u> |

EQUITIES AND LIABILITIES

| | | |
|---|-----------------------|-----------------------|
| EQUITIES | | |
| Memberships | \$ 200,675 | \$ 198,210 |
| Patronage Capital | 139,091,210 | 127,977,494 |
| Other Equities (Deficits) | (1,382,205) | (1,858,710) |
| Other Comprehensive Loss | (767,220) | (687,345) |
| | <u>\$ 137,142,460</u> | <u>\$ 125,629,649</u> |
| LONG-TERM DEBT | | |
| CFC Mortgage Notes Less Current Maturities | \$ 27,808,339 | \$ 29,758,868 |
| CoBank Mortgage Notes Less Current Maturities | 107,889,646 | 112,494,339 |
| Notes Payable - Fort Huachuca | | 117,343 |
| | <u>\$ 135,697,985</u> | <u>\$ 142,370,550</u> |
| OTHER LONG-TERM LIABILITIES | | |
| Deferred Compensation | \$ 1,456,384 | \$ 1,457,896 |
| ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS | | |
| Post-Retirement Benefits | \$ 1,734,118 | \$ 1,603,350 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | \$ 7,030,930 | \$ 6,827,110 |
| Current Maturities of APBO | 99,000 | 83,000 |
| Accounts Payable - Purchased Power | 5,047,980 | 5,787,931 |
| Accounts Payable - Other | 2,061,165 | 1,265,710 |
| Consumer Deposits | 2,293,014 | 2,257,439 |
| Accrued Taxes | 1,963,967 | 1,975,853 |
| Accrued Interest | 704,732 | 391,684 |
| Accrued Payroll | 295,599 | 286,036 |
| Accrued Employee Compensated Absences | 2,804,192 | 2,818,219 |
| Other Current and Accrued Liabilities | 159,245 | 190,670 |
| | <u>\$ 22,459,824</u> | <u>\$ 21,883,652</u> |
| DEFERRED CREDITS | \$ 12,320,018 | \$ 10,262,352 |
| TOTAL EQUITIES AND LIABILITIES | <u>\$ 310,810,789</u> | <u>\$ 303,207,449</u> |

See accompanying notes to the financial statements.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Exhibit B

STATEMENTS OF INCOME, PATRONAGE CAPITAL, AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

| | Years Ended June 30, | | | | Increase (Decrease) |
|--|-----------------------|--------------|-----------------------|--------------|------------------------|
| | 2019 | | 2018 | | |
| | Amount | % | Amount | % | |
| OPERATING REVENUES | | | | | |
| Residential | \$ 54,730,118 | 48.5 | \$ 49,911,884 | 45.0 | \$ 4,818,234 |
| Irrigation | 20,955,417 | 18.6 | 20,794,724 | 18.8 | 160,693 |
| Commercial and Industrial | 34,267,186 | 30.4 | 32,291,899 | 29.2 | 1,975,287 |
| Public Buildings and Other Authorities | 2,395,105 | 2.1 | 2,331,007 | 2.1 | 64,098 |
| Power Cost Adjustment | (3,024,628) | (2.7) | 3,191,806 | 2.9 | (6,216,434) |
| Unbilled Revenue | (45,015) | 0.0 | (57,663) | (0.1) | 12,648 |
| Rent from Electric Property | 712,549 | 0.6 | 814,352 | 0.7 | (101,803) |
| Other Operating Revenues | 2,860,945 | 2.5 | 1,354,894 | 1.2 | 1,506,051 |
| Total Operating Revenues | <u>\$ 112,851,677</u> | <u>100.0</u> | <u>\$ 110,632,903</u> | <u>100.0</u> | <u>\$ 2,218,774</u> |
| OPERATING EXPENSES | | | | | |
| Purchased Power | \$ 59,664,934 | 52.9 | \$ 57,940,798 | 52.4 | \$ 1,724,136 |
| Transmission | 522,771 | 0.5 | 466,118 | 0.4 | 56,653 |
| Distribution - Operation | 10,278,860 | 9.1 | 10,035,011 | 9.1 | 243,849 |
| Distribution - Maintenance | 3,307,193 | 2.9 | 3,369,969 | 3.0 | (62,776) |
| Consumer Accounts | 3,065,427 | 2.7 | 3,112,157 | 2.8 | (46,730) |
| Customer Service and Information | 935,561 | 0.8 | 939,366 | 0.8 | (3,805) |
| Sales Expenses | 462,254 | 0.4 | 489,481 | 0.4 | (27,227) |
| Administrative and General | 6,482,792 | 5.7 | 6,277,473 | 5.7 | 205,319 |
| Depreciation and Amortization | 12,292,046 | 10.9 | 17,577,004 | 15.9 | (5,284,958) |
| Taxes | (35,861) | 0.0 | 88,222 | 0.1 | (124,083) |
| Other Interest | 81 | 0.0 | 694 | 0.0 | (613) |
| Other Deductions | 280,655 | 0.2 | 353,882 | 0.3 | (73,227) |
| Total Operating Expenses | <u>\$ 97,256,713</u> | <u>86.1</u> | <u>\$ 100,650,175</u> | <u>90.9</u> | <u>\$ (3,393,462)</u> |
| OPERATING MARGINS - Before Fixed Charges | \$ 15,594,964 | 13.9 | \$ 9,982,728 | 9.1 | \$ 5,612,236 |
| FIXED CHARGES | | | | | |
| Interest on Long-Term Debt | 5,236,765 | 4.6 | 5,305,798 | 4.8 | (69,033) |
| OPERATING MARGINS - After Fixed Charges | \$ 10,358,199 | 9.3 | \$ 4,676,930 | 4.3 | \$ 5,681,269 |
| G&T and Other Capital Credits | 3,180,494 | 2.8 | 3,180,495 | 2.9 | (1) |
| NET OPERATING MARGINS | <u>\$ 13,538,693</u> | <u>12.1</u> | <u>\$ 7,857,425</u> | <u>7.2</u> | <u>\$ 5,681,268</u> |
| NON-OPERATING MARGINS | | | | | |
| Interest Income and Dividend Income | \$ 419,749 | 0.4 | \$ 233,891 | 0.2 | \$ 185,858 |
| Other Non-Operating Income | 47,053 | 0.0 | 17,742 | 0.0 | 29,311 |
| | <u>\$ 466,802</u> | <u>0.4</u> | <u>\$ 251,633</u> | <u>0.2</u> | <u>\$ 215,169</u> |
| NET MARGINS | \$ 14,005,495 | <u>12.5</u> | \$ 8,109,058 | <u>7.4</u> | <u>\$ 5,896,437</u> |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | | |
| Change in Assumptions | (122,886) | | 129,734 | | |
| Post-Retirement Benefit Amortization | 43,011 | | 53,588 | | |
| COMPREHENSIVE INCOME | \$ 13,925,620 | | \$ 8,292,380 | | |
| Post-Retirement Benefit Liability Adjustment | 79,875 | | (183,322) | | |
| PATRONAGE CAPITAL - Beginning of Year | 127,977,494 | | 120,733,535 | | |
| NON-OPERATING MARGINS TRANSFERRED TO PRIOR YEAR DEFICIT | (394,135) | | (197,774) | | |
| PATRONAGE CAPITAL RETIRED | <u>(2,497,644)</u> | | <u>(667,325)</u> | | |
| PATRONAGE CAPITAL - End of Year | <u>\$ 139,091,210</u> | | <u>\$ 127,977,494</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, 2019 AND 2018**

| | June 30, | |
|--|------------------------|------------------------|
| | <u>2019</u> | <u>2018</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins | \$ 14,005,495 | \$ 8,109,058 |
| Adjustments to Reconcile Net Margins to Net Cash From | | |
| Operating Activities | | |
| Depreciation and Amortization | 13,536,342 | 18,861,389 |
| Capital Credits - Non-Cash | (3,180,494) | (3,180,495) |
| Accrued Post-Retirement Benefits (Net of Other Comprehensive Loss) | 196,086 | 201,821 |
| Increase (Decrease) | | |
| Accounts Payable and Other Accrued Liabilities | 356,352 | (266,158) |
| Deferred Credits | 2,057,666 | 1,829,432 |
| (Increase) Decrease | | |
| Deferred Charges | 47,391 | 873,397 |
| Accounts Receivable | (1,007,097) | 1,454,523 |
| Underbilled Power Cost Adjustment | 3,024,628 | (3,191,807) |
| Unbilled Revenue | 45,014 | 57,663 |
| Inventories and Other Current Assets | 117,931 | 69,294 |
| Net Cash From Operating Activities | <u>\$ 29,199,314</u> | <u>\$ 24,818,117</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Utility Plant | \$ (14,084,105) | \$ (12,479,880) |
| Plant Removal Costs in Excess of Salvage | (1,169,625) | (1,263,666) |
| Other Property and Investments - Net of Noncash Capital Credits | 1,453,742 | 1,568,124 |
| Net Cash From Investing Activities | <u>\$ (13,799,988)</u> | <u>\$ (12,175,422)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net Advances (Repayments) on CoBank Short-Term Line of Credit | \$ | \$ (1,500,000) |
| Payments on Long-Term Debt to CFC | (1,679,975) | (2,055,578) |
| Payments on Long-Term Debt to CoBank | (4,572,105) | (4,469,041) |
| Payments on Notes Payable to Fort Huachuca | (216,665) | (194,675) |
| Payments on Post-Retirement Benefits | (129,193) | (34,848) |
| Retirement of Patronage Capital | (2,497,644) | (667,325) |
| Other Equities | 82,370 | 82,234 |
| Memberships - Net | 2,465 | 2,530 |
| Net Cash From Financing Activities | <u>\$ (9,010,747)</u> | <u>\$ (8,836,703)</u> |
| CHANGE IN CASH AND CASH EQUIVALENTS | \$ 6,388,579 | \$ 3,805,992 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>9,198,073</u> | <u>5,392,081</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 15,586,652</u> | <u>\$ 9,198,073</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash Paid During the Year for: | | |
| Interest | \$ 4,922,679 | \$ 5,315,642 |
| 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 Cooperatives, 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 \$2,675,327 and \$2,720,341 as of June 30, 2019 and 2018, 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 Cooperatives, 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 2019 and 2018, 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 2019 and 2018 are as follows:

| <u>FY 2019</u> | <u>FY 2018</u> |
|---------------------|---------------------|
| \$ <u>2,670,987</u> | \$ <u>2,690,485</u> |

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Cooperative considers cash, temporary cash investments, and ACC Mandated Energy Conservation Programs - Restricted 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, 2019 and 2018, deposits on hand were \$2,293,014 and \$2,257,439, 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, | |
|--|-----------------------|-----------------------|
| | 2019 | 2018 |
| Production Plant | \$ 5,418,964 | \$ 5,418,964 |
| Transmission Plant | 38,931,677 | 38,083,839 |
| Distribution Plant | 314,874,103 | 307,235,484 |
| General Plant | 45,492,636 | 44,172,499 |
| Net Aid to Plant Investment - Ft. Huachuca | <u>(34,570,435)</u> | <u>(34,535,880)</u> |
| Total Electric Plant in Service | \$ 370,146,945 | \$ 360,374,906 |
| Construction Work in Progress | <u>11,635,518</u> | <u>9,931,359</u> |
| Total Electric Plant | <u>\$ 381,782,463</u> | <u>\$ 370,306,265</u> |

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%-12.50% |
| 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, 2019 and 2018, was \$13,536,342 and \$18,861,389, respectively, of which \$12,292,046 and \$17,577,004 was charged to depreciation and amortization expense, and \$1,244,296 and \$1,284,385 allocated to other accounts. The Cooperative accelerated depreciation on meters during the years ended June 30, 2019 and 2018 for their meter change-out project. Total accelerated depreciation for the years ended June 30, 2019 and 2018 is \$252,011 and \$5,750,000, respectively.

4. Non-Utility Property

| | June 30, | |
|---------------------------------------|---------------------|---------------------|
| | 2019 | 2018 |
| Solar Plant | \$ 11,344,840 | \$ 11,344,840 |
| Amortization of Solar Plant | (7,584,578) | (7,170,155) |
| Land Held for Future Substation Sites | 115,029 | 115,029 |
| | <u>\$ 3,875,291</u> | <u>\$ 4,289,714</u> |

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

5. Investments in Associated Organizations

| | June 30, | |
|--------------------------------|----------------------|----------------------|
| | <u>2019</u> | <u>2018</u> |
| CFC | | |
| Capital Term Certificates | \$ 2,527,474 | \$ 2,880,087 |
| Patronage Capital | 2,816,174 | 2,744,258 |
| Membership | <u>1,000</u> | <u>1,000</u> |
| | <u>\$ 5,344,648</u> | <u>\$ 5,625,345</u> |
| Arizona G&T Cooperatives, Inc. | | |
| Patronage Capital | <u>\$ 49,187,953</u> | <u>\$ 46,915,993</u> |
| CoBank | | |
| Patronage Capital | \$ 1,891,264 | \$ 1,529,483 |
| Membership | <u>1,000</u> | <u>1,000</u> |
| | <u>\$ 1,892,264</u> | <u>\$ 1,530,483</u> |
| Other Affiliated Organizations | <u>\$ 989,567</u> | <u>\$ 964,389</u> |
| | <u>\$ 57,414,432</u> | <u>\$ 55,036,210</u> |

6. Other Investments

| | June 30, | |
|---------------------------------|---------------------|---------------------|
| | <u>2019</u> | <u>2018</u> |
| Member Loans | \$ 58,317 | \$ 50,489 |
| Homestead Funds - At Fair Value | 1,456,384 | 1,457,896 |
| Non-Current Investments | | <u>244,875</u> |
| | <u>\$ 1,514,701</u> | <u>\$ 1,753,260</u> |

7. Temporary Cash Investments

| | June 30, | |
|---|---------------------|---------------------|
| | <u>2019</u> | <u>2018</u> |
| Note Participation Program - Arizona G&T Cooperatives, Inc. | \$ 11,144,728 | \$ 5,711,163 |
| Certificates of Deposit | 1,846,048 | 1,799,597 |
| Money Market | 244,541 | 4,141 |
| Less: Restricted ACC Mandated Energy Conservation Programs | <u>(6,850,982)</u> | <u>(5,594,349)</u> |
| | <u>\$ 6,384,335</u> | <u>\$ 1,920,552</u> |

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Funds collected from members for ACC mandated energy conservation programs are restricted for use on approved energy conservation programs. These funds are classified as other property and investments on the balance sheet.

8. Materials and Supplies – At Average Cost

| | June 30, | |
|------------------------|---------------------|---------------------|
| | 2019 | 2018 |
| Materials and Supplies | \$ 1,999,981 | \$ 2,126,138 |
| Resale Material | 120,375 | 120,375 |
| | <u>\$ 2,120,356</u> | <u>\$ 2,246,513</u> |

9. Deferred Charges

| | June 30, | |
|-------------------------------------|-------------------|---------------------|
| | 2019 | 2018 |
| Unamortized Bond Expense | \$ 264,251 | \$ 322,959 |
| Clearing - Stores and Fleet Expense | 26,269 | 111,501 |
| Deferred Document Retention Expense | | 77,037 |
| Prepaid Land Leases | 285,728 | 436,361 |
| Fleet Registration | 84,228 | |
| Software Maintenance | 235,687 | |
| Other Deferred Charges | 62,722 | 58,418 |
| | <u>\$ 958,885</u> | <u>\$ 1,006,276</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 2019 and 2018 is \$58,708 and \$58,708, 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 2019 and 2018 is \$77,037 and \$317,928, 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 44.12% of the total assets as of June 30, 2019. Patronage capital totaling \$2,497,644 and \$667,325 was retired during the years ended June 30, 2019 and 2018, 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>2019</u> | <u>2018</u> |
| Assigned | \$ 137,067,469 | \$ 129,385,564 |
| Assignable | <u>18,860,669</u> | <u>14,489,828</u> |
| | \$ 155,928,138 | \$ 143,875,392 |
| Less: Retired | 19,081,358 | 18,077,901 |
| Plus: Unbilled Revenue | <u>2,244,430</u> | <u>2,180,003</u> |
| | <u>\$ 139,091,210</u> | <u>\$ 127,977,494</u> |

12. Other Equities (Deficits)

| | June 30, | |
|-------------------------------|-----------------------|-----------------------|
| | <u>2019</u> | <u>2018</u> |
| Donated Capital | \$ 441,061 | \$ 358,691 |
| Prior Calendar Years Deficits | <u>(1,823,266)</u> | <u>(2,217,401)</u> |
| | <u>\$ (1,382,205)</u> | <u>\$ (1,858,710)</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 2019 to 2051:

| | June 30, | |
|--|----------------------|----------------------|
| | <u>2019</u> | <u>2018</u> |
| Fixed Rate Notes 3.70% - 6.75% | \$ 26,888,484 | \$ 27,850,959 |
| Clean Renewable Energy Bonds (CREBS) 0.00% to 0.40% | <u>3,406,097</u> | <u>4,163,007</u> |
| | \$ 30,294,581 | \$ 32,013,966 |
| Less: Clean Renewable Energy Bond Deposit | 177,348 | 216,758 |
| Less: Current Maturities | <u>2,308,894</u> | <u>2,038,340</u> |
| | <u>\$ 27,808,339</u> | <u>\$ 29,758,868</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, 2019, annual maturities of long-term debt due CFC for the next five years is as follows:

| | | |
|------|----|-----------|
| 2020 | \$ | 2,308,894 |
| 2021 | | 1,951,255 |
| 2022 | | 1,923,043 |
| 2023 | | 1,918,618 |
| 2024 | | 1,542,531 |

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, | |
|--|-----------------------|-----------------------|
| | 2019 | 2018 |
| Fixed Rate Notes 2.23% - 5.01% | \$ 108,339,765 | \$ 112,652,209 |
| Clean Renewable Energy Bonds (CREBS) 1.85% | 4,154,574 | 4,414,235 |
| | \$ 112,494,339 | \$ 117,066,444 |
| Less: Current Maturities | 4,604,693 | 4,572,105 |
| | <u>\$ 107,889,646</u> | <u>\$ 112,494,339</u> |

Principal and interest installments on the above notes are due quarterly. As of June 30, 2019, annual maturities of long-term debt due CoBank for the next five years is as follows:

| | | |
|------|----|-----------|
| 2020 | \$ | 4,604,693 |
| 2021 | | 4,717,242 |
| 2022 | | 4,690,775 |
| 2023 | | 4,777,271 |
| 2024 | | 4,920,479 |

The Cooperative has a total of \$56,680,000 of unadvanced loan funds available for draw from CoBank or CFC.

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.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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, 2019 the Cooperative owed \$117,343 for the Fort facilities purchased.

As of June 30, 2019, annual maturities of long-term debt due Fort Huachuca for are as follows:

| | | |
|------|----|---------|
| 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 3.96% for the year ended June 30, 2019. The Cooperative had an outstanding amount of \$0 under such agreements at June 30, 2019 and 2018, 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, 2019. The Cooperative had an outstanding amount of \$0 under such agreement at June 30, 2019 and 2018, respectively.

17. Deferred Credits

| | June 30, | |
|---|----------------------|----------------------|
| | 2019 | 2018 |
| Undelivered Patronage Capital Refunds | \$ 1,038,962 | \$ 1,008,350 |
| Fort Huachuca - Deferred Reimbursements | 3,614,777 | 2,838,015 |
| ACC Mandated Energy Conservation Programs | 6,850,982 | 5,594,349 |
| Other Deferred Credits | 428,909 | 421,069 |
| Customer Advances for Aid to Construction | 386,388 | 400,569 |
| | <u>\$ 12,320,018</u> | <u>\$ 10,262,352</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.

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.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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 2019 and 2018 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 \$4,003,990 and \$3,939,324 in 2019 and in 2018, respectively. Pension expense for the years ended June 30, 2019 and 2018, including amortization of the RS prepayment was \$3,991,717 and \$3,849,441, respectively. There have been no significant changes that affect the comparability of 2019 and 2018 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, 2019 and 2018 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, 2019 and 2018, was \$330,729 and \$317,293, 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, | |
|--|---------------------|---------------------|
| | 2019 | 2018 |
| Employee Deferred Compensation Program | \$ <u>1,456,384</u> | \$ <u>1,457,896</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 3.20%. The assumed health care cost trend rate is 6.00% in 2019, declining to an ultimate level of 5.00% in 2022.

Amounts recognized in the Cooperative's June 30, 2019 and 2018, financial statements and funded status of the plan is as follows:

| | June 30, | |
|---|---------------------|---------------------|
| | 2019 | 2018 |
| I) Net Post-Retirement Benefit Cost | | |
| Interest Cost | \$ 65,784 | \$ 53,220 |
| Service Cost | 87,291 | 95,013 |
| Amortization of Actuarial Loss | <u>43,011</u> | <u>53,588</u> |
| | <u>\$ 196,086</u> | <u>\$ 201,821</u> |
| II) Reconciliation of Funded Status | | |
| APBO | \$ 1,833,118 | \$ 1,686,350 |
| Fair Value of Plan Assets | | |
| Accumulated Post-Retirement Benefit Obligation in Excess of Plan Assets | <u>\$ 1,833,118</u> | <u>\$ 1,686,350</u> |
| III) Amounts Recognized in the Balance Sheet | | |
| Current Liability | \$ 99,000 | \$ 83,000 |
| Non-Current Liability | <u>1,734,118</u> | <u>1,603,350</u> |
| | <u>\$ 1,833,118</u> | <u>\$ 1,686,350</u> |
| IV) Amounts Not Yet Recognized in Net Periodic Post-Retirement Benefit Cost | | |
| Unrecognized Actuarial Loss | \$ <u>(767,220)</u> | \$ <u>(687,345)</u> |
| Other Comprehensive Loss | <u>\$ (767,220)</u> | <u>\$ (687,345)</u> |

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative has not funded plan assets as of June 30, 2019. The amount of contributions made for the year ended June 30, 2019 were \$129,193 and \$112,623 by the Cooperative and pension participants, respectively.

Estimated future employer funded benefit payments through 2029 are as follows:

| | | |
|-----------|----|---------|
| 2020 | \$ | 99,000 |
| 2021 | | 111,000 |
| 2022 | | 111,000 |
| 2023 | | 131,000 |
| 2024 | | 142,000 |
| 2025-2029 | | 654,000 |

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 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

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. Margins earned by AEPCO have been allocated to the Cooperative and are reflected under investment in associated organizations on the balance sheet. During the years ended June 30, 2019 and 2018, the Cooperative purchased electric power and transmission services from AEPCO totaling \$56,976,905 and \$55,386,239, respectively. Amounts payable to AEPCO as of June 30, 2019 and 2018, from the Cooperative amounted to \$4,775,348 and \$5,521,516, respectively. AEPCO allocated capital credits of \$2,670,987 and \$2,690,485 to the Cooperative for the periods ended June 30, 2019 and 2018, 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 \$142,906,263. The estimated fair value was calculated to be \$144,107,212, and is considered 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 9, 2019, the date which the financial statements were available for issue.

25. Contingencies

Unclaimed Patronage

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.

Depreciation Study

In December 2017, the Cooperative completed a depreciation study. The depreciation study proposes a composite rate of 4.46% versus a current composite rate of 4.30% based on a December 31, 2016 test year. The Cooperative has filed an application on July 31, 2019 with the Arizona

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Corporation Commission. The application asks that the commission approve the new rates as proposed by SSVEC with minimal impact on expenses. Upon approval, SSVEC will implement the new rates.

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 2016 and state taxing authorities for years before 2016.

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, 2018 and 2017, the Cooperative’s taxable year end.

27. Self-Insurance Medical and Dental Benefits

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, 2019, the Cooperative incurred reinsurance and administrative fees of \$411,706. Retiree contributions amounted to \$105,216 for the year ended June 30, 2019.

Self-Insurance Liability consists of the following:

| | June 30, | |
|-----------------------------|-------------------|-------------------|
| | 2019 | 2018 |
| Liability Beginning of Year | \$ 254,347 | \$ 277,316 |
| Employee Contributions | 424,812 | 417,868 |
| Employer Contributions | 901,325 | 1,132,776 |
| Claims Paid | (1,423,293) | (1,573,613) |
| | <u>\$ 157,191</u> | <u>\$ 254,347</u> |

28. Rates

On November 21, 2016, the Arizona Corporation Commission approved the Cooperative’s most recent rate filing. In this rate filing, the Cooperative requested rate adjustments to occur in four phases. The Cooperative is currently operating under phase three of the rate filing effective November 1, 2018. Phase four of the new rate filing is expected to begin on November 1, 2019.

SUPPLEMENTARY INFORMATION

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 1

**ELECTRIC PLANT
FOR THE YEAR ENDED JUNE 30, 2019**

| | <u>Balance 7/1/2018</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance 6/30/2019</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 | \$ 116,653 | \$ | \$ 1,168,550 |
| Station Equipment | 1,538,887 | | | 1,538,887 |
| Poles, Towers, and Fixtures | 16,516,380 | 594,144 | 69,196 | 17,041,328 |
| Overhead Conductors and Devices | 18,976,675 | 743,854 | 537,617 | 19,182,912 |
| Total | <u>\$ 38,083,839</u> | <u>\$ 1,454,651</u> | <u>\$ 606,813</u> | <u>\$ 38,931,677</u> |
| Distribution Plant | | | | |
| Land and Land Rights | \$ 438,068 | \$ | \$ | \$ 438,068 |
| Structures and Improvements | 858,644 | 16,005 | | 874,649 |
| Station Equipment | 37,309,112 | 2,822,191 | | 40,131,303 |
| Poles, Towers, and Fixtures | 63,547,164 | 2,381,963 | 1,006,909 | 64,922,218 |
| Overhead Conductors and Devices | 41,883,054 | 1,729,977 | 399,544 | 43,213,487 |
| Underground Conduit | 25,838,842 | 247,434 | 1,778 | 26,084,498 |
| Underground Conductors and Devices | 42,680,358 | 457,392 | 131,188 | 43,006,562 |
| Line Transformers | 59,154,933 | 1,429,036 | 59,602 | 60,524,367 |
| Services | 9,599,438 | 7,327 | 35,445 | 9,571,320 |
| Meters | 19,783,328 | 185,895 | 2,424 | 19,966,799 |
| Installations on Consumers' Premises | 2,193,058 | 1,886 | 1,914 | 2,193,030 |
| Street Light and Signal Systems | 3,949,485 | 2,878 | 4,561 | 3,947,802 |
| Total | <u>\$ 307,235,484</u> | <u>\$ 9,281,984</u> | <u>\$ 1,643,365</u> | <u>\$ 314,874,103</u> |
| General Plant | | | | |
| Land and Land Rights | \$ 806,591 | \$ | \$ | \$ 806,591 |
| Structures and Improvements | 12,670,886 | 352,536 | | 13,023,422 |
| Office Furniture and Equipment | 5,483,871 | 290,566 | | 5,774,437 |
| Transportation Equipment | 6,283,971 | 483,787 | 67,761 | 6,699,997 |
| Store Equipment | 218,442 | | | 218,442 |
| Tools, Shop, and Garage Equipment | 2,909,650 | 263,354 | | 3,173,004 |
| Laboratory Equipment | 878,965 | | | 878,965 |
| Power Operated Equipment | 13,278,289 | 257,369 | 289,968 | 13,245,690 |
| Communication Equipment | 1,386,678 | | | 1,386,678 |
| Miscellaneous Equipment | 255,156 | 30,254 | | 285,410 |
| Total | <u>\$ 44,172,499</u> | <u>\$ 1,677,866</u> | <u>\$ 357,729</u> | <u>\$ 45,492,636</u> |
| Net Aid to Plant Investment - Ft. Huachuca | <u>\$ (34,535,880)</u> | <u>\$ (34,555)</u> | <u>\$ 0</u> | <u>\$ (34,570,435)</u> |
| Total Classified Electric Plant In Service | <u>\$ 360,374,906</u> | <u>\$ 12,379,946</u> | <u>\$ 2,607,907</u> | <u>\$ 370,146,945</u> |
| Construction Work in Progress | <u>9,931,359</u> | <u>1,704,159</u> | | <u>11,635,518</u> |
| Total Utility Plant | <u>\$ 370,306,265</u> | <u>\$ 14,084,105</u> | <u>\$ 2,607,907</u> | <u>\$ 381,782,463</u> |

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 3

**OTHER PROPERTY AND INVESTMENTS
JUNE 30, 2019 AND 2018**

| | June 30, | |
|--|----------------------|----------------------|
| | <u>2019</u> | <u>2018</u> |
| NON-UTILITY PROPERTY | | |
| Solar Plant (Net of Amortization of \$7,584,578 in 2019 and \$7,170,155 in 2018) | \$ 3,760,262 | \$ 4,174,685 |
| Land Held for Future Substation Sites | 115,029 | 115,029 |
| Total Non-Utility Property | <u>\$ 3,875,291</u> | <u>\$ 4,289,714</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 | 2,816,174 | 2,744,258 |
| Arizona G & T Cooperative, Inc. | 49,187,953 | 46,915,993 |
| National Rural Telecommunications Cooperative | 31,876 | 34,207 |
| Federated Rural Electric Insurance Exchange | 670,571 | 652,276 |
| National Information Solutions Cooperative | 97,616 | 84,713 |
| CoBank | 1,891,264 | 1,529,483 |
| Cooperative Response Center | 27,496 | 25,658 |
| Other Investments | | |
| Grand Canyon Statewide Building Equity | 161,998 | 167,525 |
| Capital Term Certificates | | |
| National Rural Utilities Cooperative Finance Corporation | 2,527,474 | 2,880,087 |
| Total Investments in Associated Organizations | <u>\$ 57,414,432</u> | <u>\$ 55,036,210</u> |
| OTHER INVESTMENTS | | |
| Member Loans Receivable | \$ 58,317 | \$ 50,489 |
| Homestead Funds | 1,456,384 | 1,457,896 |
| Non-Current Investments | | 244,875 |
| Total Other Investments | <u>\$ 1,514,701</u> | <u>\$ 1,753,260</u> |
| ACC MANDATED ENERGY CONSERVATION PROGRAMS - RESTRICTED | | |
| | <u>\$ 6,850,982</u> | <u>\$ 5,594,349</u> |
| Total Other Property and Investments | <u>\$ 69,655,406</u> | <u>\$ 66,673,533</u> |

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 4

PATRONAGE CAPITAL
JUNE 30, 2019

| 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 | | 1,536,891 | | |
| 1991 | | | 1,056,601 | | 1,056,601 | | |
| 1992 | | | 636,830 | | 302,919 | 333,911 | |
| 1993 | | | 1,747,920 | | 43,480 | 1,704,440 | |
| 1994 | | | 2,297,104 | | 333,837 | 1,963,267 | |
| 1995 | | | 1,559,057 | | 224,932 | 1,334,125 | |
| 1996 | | | 1,514,534 | | 215,834 | 1,298,700 | |
| 1997 | | | 1,561,900 | | 221,656 | 1,340,244 | |
| 1999 | | | 2,557,142 | | 39,217 | 2,517,925 | |
| 2000 | | | 3,262,510 | | 46,533 | 3,215,977 | |
| 2001 | | | 2,772,943 | 1,916,729 | 63,592 | 4,626,080 | |
| 2002 | | | 2,585,107 | 2,931,416 | 607,153 | 4,909,370 | |
| 2003 | | | 2,383,110 | 1,303,017 | 46,491 | 3,639,636 | |
| 2004 | | | 3,591,169 | | 288,786 | 3,302,383 | |
| 2005 | | | 4,571,695 | | 47,920 | 4,523,775 | |
| 2006 | | | 3,384,356 | | 28,526 | 3,355,830 | |
| 2007 | | | 1,556,559 | 2,592,402 | 22,478 | 4,126,483 | |
| 2008 | | | 2,448,788 | 10,617,749 | 58,870 | 13,007,667 | |
| 2009 | | | 1,330,143 | 5,974,971 | 33,231 | 7,271,883 | |
| 2010 | | | 3,593,028 | 3,253,500 | 29,641 | 6,816,887 | |
| 2011 | | | 4,395,601 | 2,662,099 | 136,741 | 6,920,959 | |
| 2012 | | | 2,797,781 | 1,897,575 | 142,765 | 4,552,591 | |
| 2013 | | | 609,311 | 3,018,230 | 13,670 | 3,613,871 | |
| 2014 | | | 4,005,747 | 4,026,167 | 28,615 | 8,003,299 | |
| 2015 | | | 4,986,334 | 2,608,930 | 22,067 | 7,573,197 | |
| 2016 | | | 6,214,071 | 2,661,641 | 13,752 | 8,861,960 | |
| 2017 | | | 4,935,011 | 2,746,894 | (1,489,746) | 9,171,651 | |
| 2018 | | 10,729,749 | | | | 13,400,736 | |
| 2019 | (6 months) | 5,459,933 | | | | 5,459,933 | |
| | | \$ 16,189,682 | \$ 2,670,987 | \$ 88,219,097 | \$ 48,848,372 | \$ 19,081,358 | \$ 136,846,780 |
| Unbilled Revenue as of December 31, 2018 | | | | | | 2,244,430 | |
| | | | | | | \$ 139,091,210 | |

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 5

CFC AND CoBANK MORTGAGE NOTES
JUNE 30, 2019

| 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 | \$ | \$ | \$ 5,270,710 | \$ 13,010,290 |
| 9027 | 03-31-02 | 4.90% | 2,878,000 | | | 893,186 | 1,984,814 |
| 9028 | 03-19-04 | 6.75% | 9,270,000 | | | 1,819,237 | 7,450,763 |
| 9029 | 12-31-03 | Various (2) | 28,304,131 | | | 26,661,364 | 1,642,767 |
| 9031 | 03-03-08 | Various (3) | 840,000 | | | 589,619 | 250,381 |
| 9034 | 03-03-08 | Various (3) | 560,000 | | | 395,850 | 164,150 |
| 9035 | 03-03-08 | Various (3) | 840,000 | | | 589,619 | 250,381 |
| 9036 | 03-03-08 | Various (3) | 280,000 | | | 198,918 | 81,082 |
| 9037 | 03-03-08 | Various (3) | 280,000 | | | 198,918 | 81,082 |
| 9038 | 03-03-08 | Various (3) | 280,000 | | | 198,917 | 81,083 |
| 9039 | 03-03-08 | Various (3) | 280,000 | | | 198,918 | 81,082 |
| 9040 | 03-03-08 | Various (3) | 840,000 | | | 590,327 | 249,673 |
| 9041 | 03-03-08 | Various (3) | 280,000 | | | 198,917 | 81,083 |
| 9042 | 03-03-08 | Various (3) | 560,000 | | | 395,850 | 164,150 |
| 9043 | 03-03-08 | Various (3) | 840,000 | | | 589,619 | 250,381 |
| 9044 | 03-03-08 | Various (3) | 560,000 | | | 394,148 | 165,852 |
| 9045 | 03-03-08 | Various (3) | 280,000 | | | 198,917 | 81,083 |
| 9046 | 03-03-08 | Various (3) | 2,520,000 | | | 1,753,144 | 766,856 |
| 9047 | 03-03-08 | Various (3) | 280,000 | | | 198,917 | 81,083 |
| 9048 | 03-03-08 | Various (3) | 560,000 | | | 395,850 | 164,150 |
| 9049 | 03-03-08 | Various (3) | 280,000 | | | 198,918 | 81,082 |
| 9050 | 03-03-08 | Various (3) | 280,000 | | | 198,918 | 81,082 |
| 9051 | 03-03-08 | Various (3) | 840,000 | | | 589,619 | 250,381 |
| * 9052 | | 3.70% | 72,680,000 | 56,680,000 | 13,000,000 | 200,150 | 2,799,850 |
| Total CFC | | | \$ 142,893,131 | \$ 56,680,000 | \$ 13,000,000 | \$ 42,918,550 | \$ 30,294,581 |

(1) - Interest rates range from 4.90% to 5.30%.

(2) - Interest rates range from 4.65% 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 | \$ | \$ | \$ 3,039,406 | \$ 13,960,594 |
| 192752 | 05-10-11 | 4.360% | 3,827,249 | | | 3,682,472 | 144,777 |
| 192768 | 05-12-11 | 3.580% | 16,867,300 | | | 3,244,457 | 13,622,843 |
| 192775 | 05-12-11 | 4.150% | 5,750,952 | | | 1,257,702 | 4,493,250 |
| 192781 | 05-12-11 | 5.010% | 5,263,250 | | | 1,180,045 | 4,083,205 |
| 200038 | 10-13-11 | 4.390% | 667,560 | | | 136,310 | 531,250 |
| 209122 | 02-24-12 | 3.970% | 5,441,383 | | | 1,352,630 | 4,088,753 |
| 218634 | 08-28-12 | 1.850% | 6,000,000 | | | 1,845,426 | 4,154,574 |
| 219737 | 08-22-14 | 3.399% | 5,000,000 | | | 2,285,893 | 2,714,107 |
| 219781 | 08-22-14 | 4.398% | 14,573,201 | | | 1,766,373 | 12,806,828 |
| 219799 | 09-17-12 | 4.570% | 5,480,000 | | | 5,332,668 | 147,332 |
| 230504 | 08-22-14 | 4.241% | 15,500,000 | | | 2,302,472 | 13,197,528 |
| 230527 | 04-02-13 | 4.570% | 1,379,879 | | | 1,014,634 | 365,245 |
| 230565 | 04-02-13 | 4.570% | 2,404,747 | | | 2,146,640 | 258,107 |
| 231073 | 08-22-14 | 4.406% | 7,000,000 | | | 871,038 | 6,128,962 |
| 260199 | 04-22-15 | 4.060% | 16,268,683 | | | 1,450,977 | 14,817,706 |
| 262564 | 04-22-15 | 2.230% | 1,327,227 | | | 835,395 | 491,832 |
| 262577 | 04-22-15 | 3.490% | 2,856,748 | | | 521,099 | 2,335,649 |
| 266845 | 04-22-15 | 3.810% | 7,348,992 | | | 931,367 | 6,417,625 |
| 286946 | 05-20-16 | 3.380% | 2,562,382 | | | 288,221 | 2,274,161 |
| * 192662 | 05-10-11 | 4.380% | 65,680,000 | 56,680,000 | 3,000,000 | 539,989 | 5,460,011 |
| ** 192678 | 05-10-11 | | 13,437,618 | 13,437,618 | | | |
| Total CoBank | | | \$ 221,637,171 | \$ 70,117,618 | \$ 3,000,000 | \$ 36,025,214 | \$ 112,494,339 |
| Total Long-Term Debt | | | \$ 364,530,302 | \$ 126,797,618 | \$ 16,000,000 | \$ 78,943,764 | \$ 142,788,920 |

Net obligation includes \$2,308,894 due CFC and \$4,604,693 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.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 6

FIVE YEAR COMPARATIVE DATA

| | Years Ended June 30, | | | | |
|--|-----------------------|-----------------------|-----------------------|----------------------|----------------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| OPERATING REVENUES | | | | | |
| Residential | \$ 54,730,118 | \$ 49,911,884 | \$ 47,305,119 | \$ 46,275,221 | \$ 44,941,784 |
| Irrigation | 20,955,417 | 20,794,724 | 18,514,832 | 17,311,527 | 15,584,411 |
| Commercial and Industrial | 34,267,186 | 32,291,899 | 31,672,724 | 31,100,638 | 30,935,441 |
| Public Buildings and Other Authorities | 2,395,105 | 2,331,007 | 2,515,190 | 1,373,918 | 1,567,249 |
| Unbilled Revenue | (45,015) | (57,663) | 403,216 | (39,045) | (109,723) |
| Power Adjustment (Over) Underbilled | (3,024,628) | 3,191,806 | 1,579,427 | (351,557) | (571,908) |
| Rent from Electric Property | 712,549 | 814,352 | 691,316 | 699,824 | 702,994 |
| Other Operating Revenues | 2,860,945 | 1,354,894 | 2,286,403 | 1,638,905 | 4,933,839 |
| Total Operating Revenues | \$ <u>112,851,677</u> | \$ <u>110,632,903</u> | \$ <u>104,968,227</u> | \$ <u>98,009,431</u> | \$ <u>97,984,087</u> |
| OPERATING EXPENSES | | | | | |
| Purchased Power | \$ 59,664,934 | \$ 57,940,798 | \$ 54,878,736 | \$ 52,374,891 | \$ 52,391,693 |
| Transmission | 522,771 | 466,118 | 433,461 | 471,155 | 758,298 |
| Distribution - Operation | 10,278,860 | 10,035,011 | 9,248,691 | 8,897,612 | 10,875,743 |
| Distribution - Maintenance | 3,307,193 | 3,369,969 | 3,505,355 | 3,480,110 | 4,025,672 |
| Customer Accounts | 3,065,427 | 3,112,157 | 3,182,642 | 3,192,333 | 3,119,297 |
| Customer Service and Information | 935,561 | 939,366 | 791,034 | 787,180 | 791,574 |
| Sales Expense | 462,254 | 489,481 | 370,000 | 290,557 | 342,221 |
| Administrative and General | 6,482,792 | 6,277,473 | 6,179,062 | 6,146,059 | 6,027,864 |
| Depreciation and Amortization | 12,292,046 | 17,577,004 | 11,481,524 | 11,253,536 | 10,887,270 |
| Taxes | (35,861) | 88,222 | 7,247 | 8,207 | 1,889 |
| Other Interest | 81 | 694 | 4,198 | 1,944 | 1,236 |
| Other Deductions | 280,655 | 353,882 | 266,801 | 266,756 | 222,888 |
| Total Operating Expenses | \$ <u>97,256,713</u> | \$ <u>100,650,175</u> | \$ <u>90,348,751</u> | \$ <u>87,170,340</u> | \$ <u>89,445,645</u> |
| OPERATING MARGINS - Before Fixed Charges | \$ 15,594,964 | \$ 9,982,728 | \$ 14,619,476 | \$ 10,839,091 | \$ 8,538,442 |
| FIXED CHARGES | | | | | |
| Interest on Long-Term Debt | 5,236,765 | 5,305,798 | 5,389,237 | 5,521,227 | 5,599,149 |
| OPERATING MARGINS - After Fixed Charges | \$ 10,358,199 | \$ 4,676,930 | \$ 9,230,239 | \$ 5,317,864 | \$ 2,939,293 |
| G&T and Other Capital Credits | 3,180,494 | 3,180,495 | 3,189,405 | 3,151,508 | 4,562,512 |
| NET OPERATING MARGINS | \$ <u>13,538,693</u> | \$ <u>7,857,425</u> | \$ <u>12,419,644</u> | \$ <u>8,469,372</u> | \$ <u>7,501,805</u> |
| NON-OPERATING MARGINS | | | | | |
| Interest Income | \$ 419,749 | \$ 233,891 | \$ 131,070 | \$ 125,559 | \$ 122,788 |
| Other Non-Operating Income | 47,053 | 17,742 | 585,153 | 7,572 | 77,245 |
| | \$ <u>466,802</u> | \$ <u>251,633</u> | \$ <u>716,223</u> | \$ <u>133,131</u> | \$ <u>200,033</u> |
| NET MARGINS | \$ <u>14,005,495</u> | \$ <u>8,109,058</u> | \$ <u>13,135,867</u> | \$ <u>8,602,503</u> | \$ <u>7,701,838</u> |
| Miscellaneous Statistics | | | | | |
| MWH Sales | 854,432 | 838,274 | 832,634 | 822,141 | 871,479 |
| Times Interest Earned Ratio | 3.67 | 2.53 | 3.44 | 2.56 | 2.38 |
| Debt Service Coverage | 2.58 | 2.38 | 2.28 | 1.92 | 1.96 |
| Equity to Total Assets | 44.12 | 41.43 | 39.04 | 36.23 | 34.07 |
| Equity to Total Capitalization | 49.00 | 45.71 | 43.06 | 39.68 | 36.80 |

OTHER INFORMATION

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 7

**STATEMENT OF INCOME AND PATRONAGE CAPITAL
FOR THE CALENDAR YEARS 2018 AND 2017
(UNAUDITED)**

| | December 31, | |
|--|-----------------------------|----------------------------|
| | <u>2018</u> | <u>2017</u> |
| OPERATING REVENUES | \$ <u>115,279,492</u> | \$ <u>108,463,833</u> |
| OPERATING EXPENSES | | |
| Cost of Power | \$ 62,005,765 | \$ 56,238,584 |
| Transmission Expense | 481,158 | 465,497 |
| Distribution - Operation | 10,193,205 | 9,623,646 |
| Distribution - Maintenance | 3,548,211 | 3,402,582 |
| Consumer Accounts | 3,075,840 | 3,160,118 |
| Customer Service, Information, and Sales | 1,513,610 | 1,247,215 |
| Administrative and General | 6,278,615 | 6,204,750 |
| Depreciation and Amortization | 12,810,438 | 16,677,771 |
| Taxes | 43,860 | 25,685 |
| Other Deductions | 245,002 | 416,278 |
| Total Operating Expenses | \$ <u>100,195,704</u> | \$ <u>97,462,126</u> |
| OPERATING MARGINS - Before Fixed Charges | \$ 15,083,788 | \$ 11,001,707 |
| FIXED CHARGES | | |
| Interest on Long-Term Debt | <u>5,024,879</u> | <u>5,369,436</u> |
| OPERATING MARGINS - After Fixed Charges | \$ 10,058,909 | \$ 5,632,271 |
| Capital Credits | <u>3,156,220</u> | <u>3,233,094</u> |
| Net Operating Margins | \$ <u>13,215,129</u> | \$ <u>8,865,365</u> |
| NON-OPERATING MARGINS | | |
| Interest Income | \$ 313,910 | \$ 179,849 |
| Other Non-Operating Income | 14,084 | 695,363 |
| Total | \$ <u>327,994</u> | \$ <u>875,212</u> |
| NET MARGINS | \$ <u><u>13,543,123</u></u> | \$ <u><u>9,740,577</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, 2019 and 2018, 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 9, 2019.

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 9, 2019