Consolidated financial statements

TRI-COUNTY ELECTRIC COOPERATIVE, INC.
AND SUBSIDIARIES

March 31, 2019 and 2018

TRI-COUNTY ELECTRIC COOPERATIVE, INC.
AND SUBSIDIARIES

INDEPENDENT AUDITOR'S REPORT

and

CONSOLIDATED FINANCIAL STATEMENTS

and

SUPPLEMENTARY INFORMATION

March 31, 2019 and 2018

TRI-COUNTY ELECTRIC COOPERATIVE, INC.
AND SUBSIDIARIES

March 31, 2019 and 2018

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Briscoe, Burke & Grigsby LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Tri-County Electric Cooperative, Inc. and Subsidiaries which comprise the consolidated balance sheets as of March 31, 2019 and 2018, and the related consolidated statements of income and patronage capital, comprehensive income, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Tri-County Electric Cooperative, Inc. and Subsidiaries as of March 31, 2019 and 2018 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Briscoe, Burke & Grigsby LLP
Certified Public Accountants

August 6, 2019
Tulsa, Oklahoma

TRI-COUNTY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2019 and 2018

ASSETS	2019	2018
Utility plant, at cost (Note 3)		
Plant in-service	$ 481,131,696	$ 450,056,387
Construction work in progress	23,619,449	15,361,530
	504,751,145	**465,417,917**
Less: accumulated depreciation	165,596,383	153,333,250
Net utility plant	**339,154,762**	**312,084,667**
Telecommunications plant		
Telecommunications plant	100,035,483	107,423,329
Construction work in progress	323,885	18,216
Intangible assets	237,358	237,358
Less: accumulated depreciation	71,364,521	67,939,922
Net telecommunications plant	**29,232,205**	**39,738,981**
Other property and investments, at cost		
Investments in associated organizations (Note 4)	143,571,509	136,764,136
Current assets		
Cash and cash equivalents	39,226,764	52,928,320
Short-term investments	2,009,261	-
Accounts receivable (less allowance for uncollectibles of $1,096,112 in 2019 and $777,502 in 2018)	11,419,332	11,004,006
Accrued utility revenues (Note 1)	17,310,000	16,680,000
Other receivables, less allowance for doubtful accounts	1,446,688	1,295,048
Materials and supplies (Note 5)	4,406,596	4,607,094
Prepaid expenses and other	1,944,060	1,505,051
Total current assets	**77,762,701**	**88,019,519**
Deferred tax asset (Note 14)	3,288,272	3,314,962
Deferred debits (Note 6)	1,287,464	1,717,197
TOTAL ASSETS	**$ 594,296,913**	**$ 581,639,462**

The accompanying notes are an integral part of these statements.

TRI-COUNTY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2019 and 2018

LIABILITIES and EQUITIES	2019	2018
Equities and margins:		
Memberships	$ 2,182,871	$ 2,096,014
Patronage capital (Note 8)	436,873,113	427,716,666
Other deficit equities (Note 8)	(45,024,576)	(45,611,648)
Accumulated and other comprehensive loss (Note 13)	(5,133,943)	(6,790,800)
Total equities and margins	**388,897,465**	**377,410,232**
Long-term liabilities:		
Long-term debt less current maturities (Note 9)	123,088,466	129,150,028
APBO other than pensions (Note 13)	22,921,396	23,705,000
Total long-term liabilities	**146,009,862**	**152,855,028**
Current liabilities		
Current maturities of long-term debt (Note 9)	5,841,000	5,130,000
Accounts payable	19,755,558	16,745,480
Overbilled wholesale power cost adjustment (Note 1)	10,886,423	10,611,285
Accrued unbilled power cost	6,330,000	5,500,000
Accrued expenses	3,230,169	3,033,725
Accrued interest	436,958	452,022
Consumer deposits	5,352,809	5,575,774
Other accrued liabilities	547,361	519,953
Total current liabilities	**52,380,278**	**47,568,239**
Deferred credits (Note 11)	7,009,308	3,805,963
TOTAL LIABILITIES and EQUITIES	**$ 594,296,913**	**$ 581,639,462**

The accompanying notes are an integral part of these statements.

TRI-COUNTY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARIES

Consolidated Statements of Income and Patronage Capital

For the Years Ended March 31, 2019 and 2018

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

The accompanying notes are an integral part of these statements.

TRI-COUNTY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARIES

Consolidated Statements of Income and Patronage Capital

For the Years Ended March 31, 2019 and 2018

	2019	2018
G & T and other capital credits	$ 11,672,986	$ 8,765,255
Net margins before income taxes	**15,701,772**	**29,471,463**
Income taxes benefit (expense) (Note 14)	(26,690)	(1,799,459)
Net margins for year	**15,675,082**	**27,672,004**
Patronage capital - beginning of year	427,716,666	403,128,672
Retirement of capital credits (Note 7)	(4,092,970)	(45,572)
Reclass to other equities	(2,425,665)	(3,038,438)
Patronage capital - end of year (Note 8)	**$ 436,873,113**	**$ 427,716,666**

The accompanying notes are an integral part of these statements.

TRI-COUNTY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the Years Ended March 31, 2019 and 2018

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

The accompanying notes are an integral part of these statements.

TRI-COUNTY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years Ended March 31, 2019 and 2018

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

The accompanying notes are an integral part of these statements.

TRI-COUNTY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years Ended March 31, 2019 and 2018

	2019	2018
Cash flows from financing activities:		
Memberships and other equities	$ (1,751,735)	$ (1,245,601)
Payments on long-term debt	(5,633,914)	(5,448,530)
Retirement of patronage capital	(4,092,970)	(45,572)
Net cash used in financing activities	**(11,478,619)**	**(6,739,703)**
Net change in cash and cash equivalents	**(13,701,556)**	**5,047,453**
Cash and cash equivalents at beginning of year	52,928,320	47,880,867
Cash and cash equivalents at end of year	**$ 39,226,764**	**$ 52,928,320**

Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 5,489,564	$ 5,558,175
Income taxes	-	35,163

The accompanying notes are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities and Organization

Tri-County Electric Cooperative, Inc. and Subsidiaries (the Cooperative) is a non-profit corporation organized to provide electric service at the retail level to primarily residential and commercial accounts in a 16-county designated service area, headquartered in Azle, Texas. Power delivered at retail is purchased wholesale from Brazos Electric Power Cooperative, Inc., of which the Cooperative is a member. Any revenues earned in excess of costs incurred are allocated to members of the Cooperative and are reflected as patronage capital in the balance sheet.

The wholly-owned subsidiary, Value Choice, Inc. (Value Choice) is a for-profit corporation which was organized to own a partnership interest in Millennium Telcom, L.L.C.

Millennium Telcom, L.L.C. DBA One Source Communications (Millennium) is a limited liability company that provides various telecommunications, internet, security, and cable television services in the Northeast Tarrant County area. Upon formation, the company had two members, Value Choice and One Source, L.L.C, (One Source), that each owned a 50% interest. On June 12, 2003, Value Choice acquired One Source's interest in the company thereby giving Value Choice sole ownership.

System of Accounts

The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission.

Principles of Consolidations

The consolidated financial statements include the accounts of the Cooperative, Value Choice, and Millennium. All material intercompany transactions have been eliminated.

Utility Plant

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

When property which represents a retirement unit is replaced or removed, the average 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 replacement of minor items of the plant not comprising of 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Telecommunication Plant

Telecommunication plant in service is stated at the fair market value.

Inventories

Materials and supplies inventories are valued at average unit cost.

Electric Revenues / Recognition of Income

The Cooperative records electric revenues as billed to customers on a monthly basis. The Cooperative's tariffs for electric service include a power cost calculation under which electric rates charged to customers are adjusted to reflect changes in power costs. In order to match power costs and related revenues, under collected power cost to be billed to consumers in subsequent periods is recognized as a current asset and as an increase of classified operating revenues on the statement of income and patronage capital. Also, to match power cost and related revenues, over collected power cost to be credited to consumers in subsequent periods is recognized as a current liability and as a reduction of classified operating revenues on the statement of income and patronage capital. The Cooperative had over collected power cost of $10,886,423 and $10,611,285 at March 31, 2019 and 2018, respectively. The Cooperative has calculated that its unbilled revenue for delivered power usage which has not been billed to consumers at March 31, 2019 and 2018 amounted to $17,310,000 and $16,680,000, respectively. This amount has been recorded as accrued utility revenues.

Local telephone, internet, and cable television service revenues are billed in advance and are recognized when earned. Unearned amounts are classified as advance billing and payments in Millennium's financial statements and other accrued liabilities in the consolidated financial statements. All other revenue is recognized at the time of the sale and at the time the service is performed.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense for the Cooperative for the years ending March 31, 2019 and 2018 was $411,910 and $116,183, respectively. Advertising expense for Millennium for the years ending March 31, 2019 and 2018 was $103,446 and $143,177, respectively.

Group Concentration of Credit Risk

The Cooperative's headquarters facility is located in Azle, Texas. The service area for the Cooperative includes members located in an area which extends through 16 counties in Texas. The Cooperative records a receivable for electric revenues as billed on a monthly basis. The Cooperative requires a deposit from some of its members, which is applied to unpaid bills and fees in the event of default. The deposit accrues interest and is returned periodically. As of March 31, 2019 and 2018, deposits on hand totaled $5,251,864 and $5,467,346, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Group Concentration of Credit Risk (continued)

Millennium's headquarters facilities are located in Fort Worth, Texas. The service is concentrated in Keller and other outlying areas of the Dallas/Fort Worth Metroplex. The Company records a receivable for services billed to customers on a monthly basis. In certain circumstances, the Company requires a deposit from its telecommunications customers upon connection which is applied to unpaid bills in the event of default. The deposit and accrued interest is returned after a prompt payment history is established. As of March 31, 2019 and 2018, deposits on hand totaled $100,945 and $108,428, respectively.

The Cooperative maintains its checking accounts in various financial institutions. The balances are insured by the Federal Deposit Insurance Corporation at varying amounts dependent on type of account. Deposits at times exceeded insured amounts.

Allowance for Uncollectible Accounts

The Cooperative uses the aging method to allow for uncollectible accounts receivable. The Cooperative makes an evaluation of past due accounts on a monthly basis to determine collectability. An account is deemed uncollectible if the customer has been inactive for a period of three years, but service is disconnected, based on Public Utility Commission regulations, after an average of two months of nonpayment. The uncollectible accounts list is provided to the Board of Directors for approval and uncollectible accounts are then written off annually.

Patronage Capital Certificates

Margins are allocated to members annually, based on billings and usage of electricity. Distributions to members are made at the discretion of the Board of Directors in accordance with the bylaws, subject to the restrictions contained in long-term debt agreements. Patronage capital from associated companies is recorded at the stated amount of the certificate.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash and temporary cash investments maturing in one year or less.

Use of Estimates in the 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications
Certain amounts in the prior periods presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported net margins.

2. ASSETS PLEDGED

All assets are pledged as security for the long-term debt due to National Rural Utilities Cooperative Finance Corporation (CFC).

3. PLANT AND RELATED DEPRECIATION

The major classes of utility plant are as follows:

	2019	2018
Distribution Plant	$447,483,556	$429,903,576
General Plant	33,648,140	20,152,811
Plant in-service	**481,131,696**	**450,056,387**
Construction Work in Progress	23,619,449	15,361,530
	$504,751,145	**$465,417,917**

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

Distribution Plant	3.08%
Structures and Improvements	2.86%
Office Furniture and Fixtures	6.66% - 33.34%
Transportation Equipment	16.67%
Stores Equipment	6.67%
Tools, Shop, and Garage Equipment	6.67%
Laboratory Equipment	6.67%
Power Operated Equipment	10.00%
Communication Equipment	8.00%
Miscellaneous Equipment	8.00%

Depreciation for the years ended March 31, 2019 and 2018, was $19,085,852 and $18,182,921, respectively, of which $18,309,410 and $17,586,683 was charged to depreciation expense, and $776,442 and $596,238 was allocated to other accounts.

3. PLANT AND RELATED DEPRECIATION (continued)

Impairment of Long-Lived Assets - In 2019, the Cooperative's subsidiary, Millennium, reviewed its various revenue streams which have been declining in recent years. Accordingly, the ongoing value of the telecommunications plant and equipment associated with its operation was evaluated. Based on this evaluation, it was determined that long-lived assets were no longer recoverable and were in fact impaired and written down to their estimated fair value of $29,232,205. Fair value was based on expected future cash flows using Level 2 inputs under ASC 820.

Long-lived assets held for use are recorded at fair value as of March 31, 2019. Listed below are the major classes of telecommunications plant in service as of March 31, 2019:

	Original Cost	Accumulated Depreciation	Carrying Value	Allocation of impairment loss	Adjusted carrying value
Vehicles	$ 476,717	$ 143,732	$ 332,985	$ (75,361)	$ 257,624
Other Work Equipment	359,361	331,604	27,757	(6,282)	21,475
Buildings	1,400,096	1,054,343	345,753	(78,250)	267,503
Office Equipment and Computers	1,074,700	954,206	120,494	(27,270)	93,224
Digital Switching and Circuit Equipment	19,379,645	17,410,848	1,968,797	(445,576)	1,523,221
Aerial / Buried Cable and Fiber	52,691,717	27,158,653	25,533,064	(5,778,613)	19,754,451
Miscellaneous	5,872,036	1,964,956	3,907,080	(884,246)	3,022,834
CATV Equipment	18,824,459	15,767,943	3,056,516	(691,747)	2,364,769
Internet Equipment	8,413,073	6,340,878	2,072,195	(468,977)	1,603,218
Plant under construction	418,629	-	418,629	(94,744)	323,885
Intangible assets	237,358	237,358	-	-	-
Total	$ 109,147,791	$ 71,364,521	$ 37,783,270	$ (8,551,065)	$ 29,232,205

3. PLANT AND RELATED DEPRECIATION (continued)

Telecommunications plant in service as of March 31, 2018 is stated at the original cost of construction, which includes the cost of contracted services, direct labor, materials, and other overhead items. Listed below are the major classes of plant in service as of March 31, 2018:

	Original Cost	Accumulated Depreciation	Carrying Value
Vehicles	$ 366,755	$ 121,890	$ 244,865
Other Work Equipment	339,167	315,872	23,295
Buildings	1,316,848	986,714	330,134
Office Equipment and Computers	941,612	903,225	38,387
Digital Switching and Circuit Equipment	19,359,119	16,952,718	2,406,401
Aerial / Buried Cable and Fiber	52,691,717	25,799,475	26,892,242
Miscellaneous	5,367,788	1,561,590	3,806,198
CATV Equipment	18,812,959	15,268,783	3,544,176
Internet Equipment	8,227,364	5,792,297	2,435,067
Plant under construction	18,216	-	18,216
Intangible assets	237,358	237,358	-
Total	$ 107,678,903	$ 67,939,922	$ 39,738,981

4. INVESTMENTS IN ASSOCIATED ORGANIZATIONS

	2019	2018
NRUCFC		
Capital Term Certificates	$ 8,163,007	$ 8,433,645
Patronage Capital	5,667,722	5,447,075
Membership	1,000	1,000
Member Capital Securities	10,000,000	10,000,000
Brazos Electric Power Cooperative, Inc.		
Patronage Capital	118,583,613	111,753,718
Membership	5	5
Texas Electric Cooperative, Inc.		
Patronage Capital	1,095,412	1,069,536
Membership	50	50
Southeastern Data Cooperative, Inc.		
Patronage Capital	41,874	41,120
Other		
	18,826	17,987
	$143,571,509	**$136,764,136**

5. MATERIALS AND SUPPLIES

Materials and supplies consist of:

	2019	2018
Electric	$ 3,928,584	$ 4,033,826
Telecommunication	478,012	573,268
	$ 4,406,596	**$ 4,607,094**

6. DEFERRED DEBITS

Deferred debits include the following:

	2019	2018
NRECA R&S Contribution Prepayment	$ 1,108,125	$ 1,403,625
Other	179,339	313,572
	$ 1,287,464	**$ 1,717,197**

Deferred NRECA R&S Contribution Prepayment represents a lump sum contribution payment made by the Cooperative in 2013 to the NRECA's R&S multi-employer plan to receive a discount for future contribution requirements. The Cooperative is amortizing this prepayment over the expected benefit period of 10 years. Amortization for the years ended March 31, 2019 and 2018 was $295,500.

7. RETURN OF CAPITAL

The mortgage with CFC contains provisions that must be met for the Cooperative to make patronage capital retirements. These provisions include minimum equity, debt service, and earnings ratios. The equities and margins of the Cooperative represent 65.4% of the total assets at the balance sheet date. Patronage Capital totaling $4,092,970 and $45,572 was retired for the years ended March 31, 2019 and 2018, respectively.

8. PATRONAGE CAPITAL AND OTHER EQUITIES

	2019	2018
Patronage Capital		
Total Patronage Capital	$479,435,349	$466,185,932
Less: Retired	42,562,236	38,469,266
	$436,873,113	**$427,716,666**
Other Equities		
Retired Capital Credits - Gain	$ 905,212	$ 868,469
Other	61,326	61,326
Non-Operating Margins - (Deficit)	(45,991,114)	(46,541,443)
	$ (45,024,576)	**$ (45,611,648)**

9. CFC MORTGAGE NOTES AND NOTES UNDER CFC MANAGEMENT

Following is a summary of long-term debt due to CFC and those under CFC management but owned by Farmer Mac and maturing at various times through 2039:

	2019	2018
CFC - Fixed rate notes - 3.65% to 6.78%	$ 99,147,573	$103,601,729
Variable Rate Notes - 4.0%	16,165,651	16,841,501
Farmer MAC Fixed Rate Notes - 4.44%	18,197,143	18,701,051
	133,510,367	**139,144,281**
Less: Unamortized conversion fees	(4,580,901)	(4,864,253)
Less: Current Maturities	(5,841,000)	(5,130,000)
	$123,088,466	**$129,150,028**

The Cooperative had an initial loss of $5,242,057 on the conversion of long-term debt in December 2016 to reprice the interest rate. The loss is being recognized over the life of the original debt as an increase in interest expense. During 2019, the Cooperative recognized $283,352 of this conversion fee to interest expense.

9. CFC MORTGAGE NOTES AND NOTES UNDER CFC MANAGEMENT (continued)

Principal and interest installments are due quarterly. As of March 31, 2019, annual maturities of long-term debt for the next five years are as follows:

2020	$5,841,000
2021	$6,008,000
2022	$6,217,000
2023	$6,314,000
2024	$6,590,000

As of March 31, 2019, the Cooperative has total unadvanced loan funds available through CFC's Powervision program of $50,000,000. The Powervision draw period expires in August 2022.

10. SHORT-TERM BORROWING

The Cooperative has a $7,000,000 perpetual Line of Credit with CFC, which is an uncommitted facility and is based on the sole discretion of CFC pursuant to the terms of the loan agreement. The line of credit is at a variable interest rate and is subject to automatic renewal. At March 31, 2019 and 2018, $0 was outstanding on the line of credit with CFC.

11. DEFERRED CREDITS

Deferred credits include the following:

	2019	2018
Pole Contacts	$ 1,193,045	$ 1,626,879
Aid to Construction	4,057,678	1,117,600
Consumer Prepayments	1,098,319	781,082
Scholarship Funds	372,189	203,073
Other	288,077	77,329
	$ 7,009,308	**$ 3,805,963**

12. PENSION BENEFITS

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

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

Plan Information - The Cooperative's contributions to the RS Plan in 2019 and 2018 represented less than 5 percent of the total contributions made to the RS plan by all participating employers. The Cooperative made contributions to the RS Plan of $1,386,591 in 2019 and $1,115,282 in 2018.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded on January 1, 2018 and over 80 percent funded on January 1, 2019 based on the PPA funding target and PPA actuarial value of assets on those dates.

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

Pension Fund	EIN	PPA Zone Status	Funding Improvement Plans and Surcharges	Contributions		
				2019	2018	2017
Retirement Security Plan number 333	53-0116145	Not required	Not applicable	$1,386,591	$1,115,282	$884,788

The Cooperative also has a 401(k) plan whereby the Cooperative matches 100% of the employees' contributions up to 3% of the employees' annual base salary.. The total 401(k) plan expense for 2019 and 2018 was $252,562 and $222,765, respectively.

12. PENSION BENEFITS (continued)

Millennium Telcom offers a 401(k) plan to full time employees and matches 100% of the employees' contribution up to 2% of the employees' annual salary. The cost under the plan for the years ended March 31, 2019 and 2018 were $23,704 and $23,101, respectively.

RS Plan Prepayment Option - At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating corporations in the RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a corporation's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a corporation's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, for most corporations the billing rate is reduced by approximately 25%, retroactive to January 1st of the year in which the amount is paid to the RS Plan. The 25% differential in billing rates is expected to continue for approximately 15 years from January 1, 2013. However changes in interest rates, asset returns and other plan experience different from expected, plan assumption changes and other factors may have an impact on the differential in billing rates and the 15 year period.

13. POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

The Cooperative sponsors a defined benefit medical insurance plan that covers substantially all eligible employees and directors. The plan calls for benefits to be paid for eligible participants upon retirement. Eligible employees are those hired prior to January 1, 2016 and retire from active employment on or after age fifty-five with ten or more years of service at the Cooperative. Effective January 1, 2017, the Cooperative's contribution has been capped at $1,500 monthly for a retiree and spouse, or $750 monthly for a retiree without a spouse or a surviving spouse. For the years ended March 31, 2019 and 2018, the coverage was being provided though the NRECA.

As of March 31, 2019 and 2018, the Cooperative has not funded any of the estimated APBO related to the defined benefit medical insurance plan.

13. POST-RETIREMENT BENEFITS OTHER THAN PENSIONS (continued)

Amounts recognized in the Cooperative's March 31, 2019 financial statements and funded status of the plan is as follows:

	2019	2018
(I) Net Post-retirement Benefit Cost		
Interest Cost	$ 921,300	$ 626,400
Service Cost	569,604	928,000
Amortization of Actuarial Loss/(Gain)	1,573,896	1,573,900
Amortization of Prior Service Cost/(Credit)	(1,569,996)	(1,570,000)
	$ 1,494,804	**$ 1,558,300**
(II) Accumulated Post-retirement Benefit Obligation (APBO) Reconciliation:		
APBO Beginning of Year	$ 23,705,000	$ 23,602,241
Service and Interest Cost	1,490,904	1,554,400
Benefits Paid	(621,551)	(736,541)
Actuarial (Gain)/Loss Adjustment	(1,652,957)	(715,100)
Net Post-retirement Benefit Liability at Year End	**$ 22,921,396**	**$ 23,705,000**
(III) Reconciliation of Funded Status		
APBO at Year End	$ 22,921,396	$ 23,705,000
Fair Value of Plan Assets	-	-
Net APBO at Year End	**$ 22,921,396**	**$ 23,705,000**
(IV) Accumulated Other Comprehensive Loss		
Actuarial Loss - Beginning of Year	$ (6,790,800)	$ (7,509,800)
Amortization of Actuarial Loss/(Gain)	1,573,896	1,573,900
Amortization of Prior Service Cost/(Credit)	(1,569,996)	(1,570,000)
Current Actuarial Gain/(Loss)	1,652,957	715,100
Total	**$ (5,133,943)**	**$ (6,790,800)**

13. POST-RETIREMENT BENEFITS OTHER THAN PENSIONS (continued)

The estimated actuarial loss for the post-retirement medical benefit plan that will be amortized from accumulated other comprehensive income into net post-retirement benefit cost in fiscal year 2020 is expected to be $(1,105,490) and $1,570,000 will also be amortized in the fiscal year 2020 as a result of the prior service credit. The total recognized in other comprehensive income will be $464,510.

Estimated future benefit payments for the next five years and the subsequent five years thereafter are as follows:

2020	$ 759,000
2021	$ 873,000
2022	$ 983,000
2023	$1,092,000
2024	$1,192,000
2025-2029	$7,238,000

The following assumption was used in the measurement of the net periodic cost:

Weighted Average Discount Rate	4.35%

14. INCOME TAXES

During the 2018 calendar year, the Cooperative was exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code with at least 85% of its revenue coming from members for the sole purpose of meeting losses and expenses. Additionally, the Cooperative pays income tax on net unrelated business income. The Cooperative's unrelated business activities primarily include the rental of radio tower facilities.

Value Choice and its subsidiary, Millennium, are taxable entities. Value Choice is a for-profit taxable corporation and is required to file Form 1120 – "U.S. Corporation Income Tax Return". Millennium is a single member limited liability company and considered a disregarded entity (i.e. division) of its sole owner, Value Choice. As such, all items of revenue, income, expense, gain or loss of Millennium are included in the federal income tax return filed by Value Choice. Therefore, current and deferred federal income taxes associated with the net income or net operating losses of Millennium are recorded on the books of Value Choice.

14. INCOME TAXES (continued)

In general, each corporation, limited liability company and limited partnership registered to do business in the state of Texas is subject to the state franchise tax on gross income, less applicable deductions, apportioned to the state. The Cooperative is exempt from the state franchise tax; however, both Value Choice and Millennium are recognized as taxable companies by the State of Texas. Therefore, current taxes are allocated to each company on the basis of taxable gross revenue and deferred taxes are calculated on a stand-alone basis.

The Cooperative and Subsidiaries follow the asset and liability method for recording income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of the Cooperative and Subsidiaries' assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Deferred income taxes result from transactions which enter into the determination of taxable income in different periods than recorded for financial reporting purposes. Deferred tax assets represent the future tax benefit that will result when the asset is realized. Deferred tax liabilities represent the future tax return consequences of those differences, which will result in a tax expense when the liability is recognized. The principal sources of deferred federal income taxes are due to (1) accelerated depreciation used for tax purposes (2) differences in the depreciable basis of telecommunications plant and (3) net operating loss carryovers. Net operating losses (NOLs) may be carried forward indefinitely to offset up to 80% of the future taxable income of a corporation. At March 31, 2019, the total NOL carryover available to Value Choice was $72,276,065, which does not expire. Management believes it is more likely than not that a portion of the NOL carryover will not be fully utilized before expiring. Therefore, a valuation allowance of the related deferred tax asset has been recorded at March 31, 2019 and 2018. This valuation allowance was based on management's estimate of future taxable income when compared to NOL carryover expiration dates.

The only source of deferred state income taxes is a temporary tax credit, which approximates 4.5% of unused business loss carryovers recognized by the companies prior to the effective date of the revised Texas Franchise Tax.

Due to changes in the Texas franchise tax reporting thresholds, which impacts the timing and amount of the temporary tax credit that may be utilized, management believes it is more likely than not that a portion of the tax credit will not be fully utilized before expiring. Therefore, a valuation allowance for the anticipated underutilization of the available tax credit had been recorded.

14. INCOME TAXES (continued)

The components of the deferred taxes recognized in the financial statements are as follows:

	2019	2018
Federal:		
Deferred tax assets	$ 15,595,250	$ 15,192,825
Deferred tax liabilities	(3,534,826)	(3,169,819)
	12,060,424	**12,023,006**
Valuation allowance	(9,285,010)	(9,285,010)
	2,775,414	**2,737,996**
State:		
Deferred tax assets	824,458	927,516
Valuation allowance	(311,600)	(350,550)
	512,858	**576,966**
Total deferred income tax asset	**$ 3,288,272**	**$ 3,314,962**

The components of income taxes are as follows:

	2019	2018
Federal:		
Deferred tax benefit/(expense)	$ (365,007)	$ (275,960)
Deferred tax benefit - NOL carryforward	402,425	227,675
Increase in valuation allowance	-	(1,687,065)
	37,418	**(1,735,350)**
State:		
Current income tax expense	-	-
Deferred tax expense	(64,108)	(64,109)
	(64,108)	**(64,109)**
Total Federal and State income tax benefit/ (expense)	**$ (26,690)**	**$ (1,799,459)**

14. INCOME TAXES (continued)

The Cooperative and Subsidiaries have 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 that its filing status is as a tax exempt entity. The Cooperative and Subsidiaries determined that it is more likely than not that their tax positions will be sustained upon examination by the Internal Revenue Service or other state taxing authority and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Cooperative files its income tax return in the U.S. federal jurisdiction. The Subsidiaries file income tax returns in the U.S. federal jurisdiction and in the State of Texas.

The Cooperative and Subsidiaries recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no material amounts of penalties or interest recognized during the years ended March 31, 2019 and 2018.

15. RELATED PARTY TRANSACTIONS

The Cooperative is required to purchase all of its electric power from Brazos Electric Power Cooperative, Inc., a cooperative of which it's a member and is represented on its Board.

During the years ended March 31, 2019 and 2018, the Cooperative purchased $184,642,621 and $170,539,102, respectively, from Brazos. At March 31, 2019 and 2018, amounts due to Brazos included in accounts payable were $16,115,151 and $14,005,032, respectively. At March 31, 2019 and 2018 amounts paid into the Brazos power prepayment program were $6,948,111 and $48,452,965, respectively.

During the years ended March 31, 2019 and 2018, the Cooperative received non-cash capital credit allocations from Brazos of $11,155,908 and $8,140,287, respectively.

16. LITIGATION, COMMITMENTS, AND SUBSEQUENT EVENTS

The Cooperative is involved in several instances of litigation or potential unasserted claims. The ultimate outcome, if any, of these items cannot presently be determined. However, in management's opinion, the likelihood of any material adverse outcome is remote or in its infancy and no likelihood of outcome is attainable. Accordingly, adjustments if any, which might result from the resolution of these matters, have not been reflected in these financial statements.

The Cooperative has evaluated subsequent events through August 6, 2019, the date which the financial statements were available to be issued.

17. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount that would be received in an asset sale or paid to transfer a liability in an orderly transaction between unaffiliated market participants. Assets and liabilities measured at fair value are categorized based on whether the inputs are observable in the market and the degree that the inputs are observable. The categorization of financial instruments within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The hierarchy is prioritized into three levels (with Level 3 being the lowest) defined as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2: Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

The Cooperative and the Company used the following methods and significant assumptions to estimate fair value:

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 are not considered financial instruments.

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.

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

Impaired Property, Plant and Equipment – The fair value of impaired property, plant and equipment is based on the estimated future cash flows of the business for the next 5 years.

17. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value of assets are as follows:

	Fair Value	Level 1	Level 2	Level 3
Long lived assets held and used (a)	$ 29,232,205	$ -	$ 29,232,205	$ -

(a) In accordance with Subtopic 360-10, long-lived assets held and used with a carrying amount of $37,783,270 were written down to their fair value of $29,232,205, resulting in an impairment charge of $8,551,065 which was included in earnings for the period.

Consolidating and Accompanying Information

Briscoe, Burke & Grigsby LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report on Consolidating and Accompanying Information

Our audit of the consolidated financial statements presented in the preceding section of this report was made for the purpose of forming an opinion on the financial statements taken as a whole. The consolidating information shown on pages 28 through 32 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying information on pages 33 through 34 also is presented for purposes of additional analysis and is 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 consolidating and other accompanying and other records used to prepare the financial statements. The consolidating and other accompanying 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 taken as a whole.

Briscoe, Burke & Grigsby LLP

Certified Public Accountants

August 6, 2019
Tulsa, Oklahoma

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Consolidating Information

Tri-County Electric Cooperative, Inc.

Consolidating Balance Sheet
March 31, 2019

ASSETS	Tri-County Electric Cooperative, Inc.	Value Choice, Inc.	OneSource Communications, Inc.	Consolidation/ Elimination Entries	Consolidated
Utility plant, at cost					
Plant in-service	$ 481,131,696	$ -	$ -	$ -	$ 481,131,696
Construction work in progress	23,619,449	-	-	-	23,619,449
	504,751,145	-	-	-	**504,751,145**
Less: accumulated depreciation	165,596,383	-	-	-	165,596,383
Net utility plant	**339,154,762**	-	-	-	**339,154,762**
Telecommunications plant					
Telecommunications plant	-	-	100,035,483	-	100,035,483
Construction work in progress	-	-	323,885	-	323,885
Intangible assets	-	-	237,358	-	237,358
Less: accumulated depreciation	-	-	71,364,521	-	71,364,521
Total non-utility plant	-	-	**29,232,205**	-	**29,232,205**
Other property and investments, at cost					
Investments in associated enterprises	143,563,325	-	225,240	(217,056)	143,571,509
Other investments	-	-	-	-	-
Investment in subsidiary	37,363,652	34,583,791	-	(71,947,443)	-
Total other property and investments	**180,926,977**	**34,583,791**	**225,240**	**(72,164,499)**	**143,571,509**
Current assets					
Cash and cash equivalents	37,037,705	-	2,189,059	-	39,226,764
Short-term investments	-	-	2,009,261	-	2,009,261
Accounts receivable, less allowance for doubtful accounts of $1,579,474	10,958,632	-	460,700	-	11,419,332
Unbilled revenue	17,310,000	-	-	-	17,310,000
Other receivables, less allowance for doubtful accounts	1,204,949	-	241,739	-	1,446,688
Materials and supplies	3,928,584	-	478,012	-	4,406,596
Prepaid expenses and other	1,734,388	-	209,672	-	1,944,060
Total current assets	**72,174,258**	-	**5,588,443**	-	**77,762,701**
Deferred tax asset	-	2,779,861	508,411	-	3,288,272
Deferred debits	1,107,945	-	179,519	-	1,287,464
TOTAL ASSETS	**$ 593,363,942**	**$ 37,363,652**	**$ 35,733,818**	**$ (72,164,499)**	**$ 594,296,913**

Tri-County Electric Cooperative, Inc.
Consolidating Balance Sheet
March 31, 2019

LIABILITIES and NET ASSETS	Tri-County Electric Cooperative, Inc.	Value Choice, Inc.	OneSource Communications, Inc.	Consolidation/ Elimination Entries	Consolidated
Equities and margins:					
Membership fees and common stock	$ 2,182,871	$ -	$ -	$ -	$ 2,182,871
Patronage capital and retained deficit	437,090,169	-	-	(217,056)	436,873,113
Other equities	(45,024,576)	37,363,652	34,583,791	(71,947,443)	(45,024,576)
Additional paid in capital	-	-	-	-	-
Accumulated other comprehensive income	(5,133,943)	-	-	-	(5,133,943)
Total equities and margins	**389,114,521**	**37,363,652**	**34,583,791**	**(72,164,499)**	**388,897,465**
Long-term liabilities:					
Long-term debt less current maturities	123,088,466	-	-	-	123,088,466
APBO other than pensions	22,921,396	-	-	-	22,921,396
Due to (from) affiliate	-	-	-	-	-
Total other property and investments	**146,009,862**	**-**	**-**	**-**	**146,009,862**
Current liabilities:					
Current maturities of long-term debt	5,841,000	-	-	-	5,841,000
Accounts payable	19,253,837	-	501,721	-	19,755,558
Overbilled wholesale power cost adjustment	10,886,423	-	-	-	10,886,423
Accrued unbilled power cost	6,330,000	-	-	-	6,330,000
Accrued interest	436,958	-	-	-	436,958
Accrued expenses	3,230,169	-	-	-	3,230,169
Advance billing and payments	-	-	229,708	-	229,708
Accrued payroll	-	-	28,257	-	28,257
Accrued taxes	-	-	162,776	-	162,776
Accrued compensated absences	-	-	41,713	-	41,713
Customer deposits	5,251,864	-	100,945	-	5,352,809
Other current and accrued liabilities	-	-	84,907	-	84,907
Total current liabilities	**51,230,251**	**-**	**1,150,027**	**-**	**52,380,278**
Deferred credits	7,009,308	-	-	-	7,009,308
Deferred income taxes	-	-	-	-	-
TOTAL LIABILITIES and EQUITIES	**$ 593,363,942**	**$ 37,363,652**	**$ 35,733,818**	**$ (72,164,499)**	**$ 594,296,913**

Tri-County Electric Cooperative, Inc.
Consolidating Statement of Margins
Year Ended March 31, 2019

	Tri-County Electric Cooperative, Inc.	Value Choice, Inc.	OneSource Communications, Inc.	Consolidation/ Elimination Entries	Consolidated
Operating revenue	$ 252,728,281	$ -	$ 10,791,668	$ (318,401)	$ 263,201,548
Operating expenses:					
Cost of power	185,472,621	-	-	-	185,472,621
Distribution expense - operations	6,164,022	-	-	-	6,164,022
Distribution expense - maintenance	10,497,002	-	-	-	10,497,002
Telecommunication operations	-	-	5,340,484	(106,498)	5,233,986
Consumer accounts	5,390,279	-	-	-	5,390,279
Customer service and information	-	-	841,730	-	841,730
Sales	-	-	-	-	-
Administrative and general	12,702,583	-	885,633	(211,903)	13,376,313
Depreciation and amortization	14,849,478	-	3,459,932	-	18,309,410
Taxes	-	-	442,332	-	442,332
Interest	5,701,507	-	654	-	5,702,161
Other interest and deductions	1,385,428	-	-	-	1,385,428
Impairment of fixed assets	-	-	8,551,065	-	8,551,065
Total operating expenses	**242,162,920**	**-**	**19,521,830**	**(318,401)**	**261,366,349**
Net operating margins	**10,565,361**	**-**	**(8,730,162)**	**-**	**1,835,199**
Nonoperating margins					
Interest and dividend income	2,073,705	-	42,538	-	2,116,243
Net margin from subsidiary	(8,703,506)	(8,740,367)	-	17,443,873	-
Gain on sale of assets	64,136	-	-	-	64,136
Other nonoperating income	2,400	-	10,808	-	13,208
Total nonoperating margins	**(6,563,265)**	**(8,740,367)**	**53,346**	**17,443,873**	**2,193,587**
G & T and other capital credits	11,672,986	-	-	-	11,672,986
Net margins before income taxes	**15,675,082**	**(8,740,367)**	**(8,676,816)**	**17,443,873**	**15,701,772**
Provision for income taxes	-	36,861	(63,551)	-	(26,690)
Net margins	**15,675,082**	**(8,703,506)**	**(8,740,367)**	**17,443,873**	**15,675,082**
Patronage capital - beginning of year	427,935,984	46,056,750	43,313,750	(89,589,819)	427,716,665
Reclass to other equities	(2,425,665)	-	-	-	(2,425,665)
Capital contributions	-	10,408	10,408	(20,816)	-
Retirement of capital credits	(4,095,233)	-	-	2,263	(4,092,970)
Patronage capital - end of year	**$ 437,090,168**	**$ 37,363,652**	**$ 34,583,791**	**$ (72,164,499)**	**$ 436,873,112**

Tri-County Electric Cooperative, Inc.

Consolidating Statement of Comprehensive Income

Year Ended March 31, 2019

	Tri-County Electric Cooperative, Inc.	Value Choice, Inc.	OneSource Communications, Inc.	Consolidation/ Elimination Entries	Consolidated
Net margins for year	**$ 15,675,082**	**$ (8,703,506)**	**$ (8,740,367)**	**$ 17,443,873**	**$ 15,675,082**
Other comprehensive income:					
Current gain on APBO	1,652,957	-	-	-	1,652,957
Amortization of loss on APBO	1,573,896	-	-	-	1,573,896
Amortization of prior year service cost (gain) loss	(1,569,996)	-	-	-	(1,569,996)
Comprehensive income	**$ 17,331,939**	**$ (8,703,506)**	**$ (8,740,367)**	**$ 17,443,873**	**$ 17,331,939**

Tri-County Electric Cooperative, Inc.

Consolidating Statement of Cash Flows
Year Ended March 31, 2019

	Tri-County Electric Cooperative, Inc.	Value Choice, Inc.	OneSource Communications, Inc.	Consolidation/ Elimination Entries	Consolidated
Operating activities:					
Net margins	$ 15,675,082	$ (8,703,506)	$ (8,740,367)	$ 17,443,873	$ 15,675,082
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation	15,625,920	-	3,459,932	-	19,085,852
Amortization	98,629	-	-	-	98,629
Loss from subsidiary	8,703,506	8,740,367	-	(17,443,873)	-
Investment allocations from associated	(11,672,986)	-	-	-	(11,672,986)
Fair value adjustment of fixed assets	-	-	8,551,065	-	8,551,065
Postretirement benefits accruals	1,494,804	-	-	-	1,494,804
Unbilled revenue accruals	(630,000)	-	-	-	(630,000)
Deferred income taxes	-	(36,861)	63,551	-	26,690
Changes in:					
Investments in associated organizations	4,866,452	-	1,422	(2,263)	4,865,611
Accounts receivable	(476,465)	-	(90,501)	-	(566,966)
Materials and supplies	105,242	-	95,256	-	200,498
Other current and accrued assets	(438,882)	-	(128)	-	(439,010)
Deferred debits	71,451	-	62,782	-	134,233
Accounts payable	3,106,030	-	(95,951)	-	3,010,079
Payments on postretirement health benefits	(621,551)	-	-	-	(621,551)
Consumer deposits	(215,482)	-	(7,483)	-	(222,965)
Deferred credits	3,683,569	-	-	-	3,683,569
Other current and accrued liabilities	1,286,518	-	27,408	-	1,313,926
Net cash provided by operating activities	**40,661,837**	**-**	**3,326,986**	**(2,263)**	**43,986,560**
Cash flows from investing activities:					
Capital contributions	(10,408)	-	-	10,408	-
Purchases of short-term investments	-	-	(2,009,261)	-	(2,009,261)
Extension and replacement of plant	(41,529,969)	-	(1,504,221)	-	(43,034,190)
Plant removal cost	(1,295,027)	-	-	-	(1,295,027)
Material returned to stock from retirements	128,981	-	-	-	128,981
Net cash (used) for investing activities	**(42,706,423)**	**-**	**(3,513,482)**	**10,408**	**(46,209,497)**
Cash flows from financing activities:					
Capital contributions	-	-	10,408	(10,408)	-
Memberships and other equities	(1,751,735)	-	-	-	(1,751,735)
Payments on long-term debt	(5,633,914)	-	-	-	(5,633,914)
Retirement of patronage capital	(4,095,233)	-	-	2,263	(4,092,970)
Net cash provided (used) by financing activities	**(11,480,882)**	**-**	**10,408**	**(8,145)**	**(11,478,619)**
Net increase (decrease) in cash and cash equivalents	**(13,525,468)**	**-**	**(176,088)**	**-**	**(13,701,556)**
Cash and cash equivalents at beginning of year	50,563,173	-	2,365,147	-	52,928,320
Cash and cash equivalents at end of year	**$ 37,037,705**	**$ -**	**$ 2,189,059**	**$ -**	**$ 39,226,764**

Accompanying Information

TRI-COUNTY ELECTRIC COOPERATIVE, INC.

Electric Plant in Service

For the year Ended March 31, 2019

	Balance 4/1/2018	Additions	Retirements	Balance 3/31/2019
Distribution plant				
Land and land rights	$ 10,260	$ -	$ -	$ 10,260
Structures and improvements	1,666	-	-	1,666
Station equipment	763,806	-	-	763,806
Poles, towers, and fixtures	64,368,466	3,609,697	914,745	67,063,418
Overhead conductors and devices	67,199,553	2,272,007	347,262	69,124,298
Underground conduit	64,785,281	1,766,810	35,554	66,516,537
Underground conductors and devices	66,138,431	3,807,762	298,924	69,647,269
Line transformers	87,675,704	4,109,789	155,261	91,630,232
Services	43,001,537	2,444,236	119,537	45,326,236
Meters	23,217,785	1,008,763	10,000	24,216,548
Street lights and signals	12,741,087	593,639	151,440	13,183,286
Total	**429,903,576**	**19,612,703**	**2,032,723**	**447,483,556**
General Plant				
Land and land rights	629,891	1,109,375	-	1,739,266
Structures and improvements	5,072,621	9,825,469	-	14,898,090
Office furniture and equipment	5,485,552	732,855	-	6,218,407
Transportation equipment	2,464,109	518,026	172,203	2,809,932
Store equipment	9,725	-	-	9,725
Tools, shop and garage equipment	577,679	5,742	-	583,421
Laboratory equipment	108,470	-	-	108,470
Power operated equipment	4,478,084	1,688,450	217,218	5,949,316
Communications equipment	1,297,638	4,833	-	1,302,471
Miscellaneous equipment	29,042	-	-	29,042
Total	**20,152,811**	**13,884,750**	**389,421**	**33,648,140**
Total classified electric plant in service	**450,056,387**	**33,497,453**	**2,422,144**	**481,131,696**
Construction work in progress	15,361,530	-	-	23,619,449
Total utility plant	**$ 465,417,917**	**$ 33,497,453**	**$ 2,422,144**	**$ 504,751,145**

TRI-COUNTY ELECTRIC COOPERATIVE, INC.

Accumulated Provision for Depreciation

For the year Ended March 31, 2019

	Balance 4/1/2018	Depreciation Accruals	Retirements	Transfers	Balance 3/31/2019
Distribution plant	**$ 142,121,133**	**$ 13,894,886**	**$ 3,192,093**	**$ -**	**$ 152,823,926**
General plant					
Structures and improvements	2,595,306	261,141	-	-	2,856,447
Office furniture and equipment	4,240,651	579,767	-	-	4,820,418
Transportation equipment	1,588,866	314,102	169,737	-	1,733,231
Stores equipment	3,471	651	-	-	4,122
Tools, shop and garage equipment	423,755	20,901	-	-	444,656
Laboratory equipment	68,909	6,046	-	-	74,955
Power operated equipment	2,823,698	440,787	217,218	-	3,047,267
Communications equipment	570,694	107,175	-	-	677,869
Miscellaneous equipment	24,169	464	-	-	24,633
Total general plant	**12,339,519**	**1,731,034**	**386,955**	**-**	**13,683,598**
Total classified electric plant in service	**154,460,652**	**15,625,920**	**3,579,048**	**-**	**166,507,524**
Retirement work in progress	(1,127,402)	216,261	-	-	(911,141)
Total electric plant	**$ 153,333,250**	**$ 15,842,181**	**$ 3,579,048**	**$ -**	**$ 165,596,383**

(1) Charged to depreciation expense	$ 14,849,478	
Charged to clearing and other accounts	776,442	
	$ 15,625,920	
(2) Original cost of units retired		$ 2,155,040
Add: cost of removal		1,295,027
Less: salvage and other credits		128,981
Net Loss due to retirement		**$ 3,579,048**

Briscoe, Burke & Grigsby LLP
CERTIFIED PUBLIC ACCOUNTANTS

Letter to Board of Directors Regarding
Policies Concerning Audits of CFC Borrowers

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

We have audited the balance sheets of Tri-County Electric Cooperative, Inc. and Subsidiaries as of March 31, 2019 and 2018, and the related statements of income and patronage capital, comprehensive income, and cash flows for the years then ended, and have issued our report dated.

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 of material misstatement.

In connection with our audits, 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 audit was not directed primarily toward obtaining knowledge of such noncompliance.

During our audits for the years ending March 31, 2019 and 2018 you requested us to review your construction work order and general plant expenditures. Based on our review of construction work orders and other plant accounting records it is our opinion that CFC loan funds were expended for the purposes contemplated in the Loan Agreement with CFC.

This report is intended solely for the information and use of the Boards of Directors and management of Tri-County Electric Cooperative, Inc. and Subsidiaries 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.

Briscoe, Burke & Grigsby LLP
Certified Public Accountants

August 6, 2019
Tulsa, Oklahoma

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www.bbgcpa.com

Briscoe, Burke & Grigsby LLP
CERTIFIED PUBLIC ACCOUNTANTS

August 6, 2019

To the Board of Directors
Tri-County Electric Cooperative, Inc. and Subsidiaries
Azle, Texas

We have audited the financial statements of Tri-County Electric Cooperative, Inc. and Subsidiaries as of and for the year ended March 31, 2019, and have issued our report thereon dated August 6, 2019. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated September 11, 2018, our responsibility as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of Tri-County Electric Cooperative, Inc. and Subsidiaries solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team and others in our firm have complied with all relevant ethical requirements regarding independence.

As a safeguard to our independence being impaired due to our firm preparing the financial statements and footnotes, an auditor who did not work on the audit will review the financial statements.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Tri-County Electric Cooperative, Inc. and Subsidiaries is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2019. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

- Unbilled revenue is a particularly sensitive accounting estimate. Management accrues for the estimation of this revenue and is based on management's calculation of revenue used by the members since their last meter reading date to the end of the reporting period. We evaluated the key factors and assumptions used to develop the estimate for unbilled revenue in determining that it is reasonable in relation to the financial statements taken as a whole.

- We believe the estimate for postretirement health care benefits is an extremely sensitive accounting estimate. Management has consulted an actuary to assist in computing the estimate of the Accumulated Postretirement Benefit Obligation (APBO) as of the Cooperative's fiscal year end. Management bases this estimate on figures provided by the actuary. Management provides the actuary with the demography and other parameters which are used by the actuary to derive the estimates of the APBO and the current period costs for postretirement health care benefits. We evaluated the key parameters and assumptions used by management to assist the actuary in developing the estimate of the Cooperative's APBO and current period costs in determining that it is reasonable in relation to the consolidated financial statements taken as a whole.

- The estimate of the costs of distribution plant which include material, labor, employee benefits, transportation and other overhead costs is a particularly sensitive accounting estimate. This estimate is made by management and is based on a work order system to accumulate these costs and to record them in the appropriate plant accounts. Management also estimates the depreciation of plant and equipment and is based on guidelines generally accepted for rural electric cooperatives. We evaluated the key factors and assumptions used to develop the estimated costs for distribution plant and the depreciation of plant and equipment in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Tri-County Electric Cooperative, Inc. and Subsidiaries' financial statements relate to:

- ***Patronage Capital*** – The Cooperative is subject to various debt covenant requirements administered by the Cooperative's lenders. Failure to meet minimum capital requirements could initiate certain mandatory and/or discretionary actions by the lenders that, if undertaken, could have a direct material effect on the Cooperative's financial statements.

- ***Mortgage Notes*** – Due to the capital intensive nature of utilities, the Cooperative must incur substantial amounts of working capital to fund plant extensions and replacements in order to extend and maintain service to its members while keeping electric rates at the best possible minimum. The use of leverage is significant to the operations as is its inclusion in the notes to the financial statements.

The disclosures in the consolidated financial statements are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the consolidated financial statements as a whole. There were no uncorrected misstatements detected during our audit

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The attached schedule summarizes the material misstatements that we identified as a result of our audit procedures and were brought to the attention of, and corrected by, management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Tri-County Electric Cooperative, Inc. and Subsidiaries' financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter dated August 6, 2019.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

In the normal course of our professional association with Tri-County Electric Cooperative, Inc. and Subsidiaries, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Tri-County Electric Cooperative, Inc. and Subsidiaries' auditors.

This report is intended solely for the information and use of the Board of Directors and management of Tri-County Electric Cooperative, Inc. and Subsidiaries and is not intended to be and should not be used by anyone other than these specified parties.

Briscoe, Burke & Grigsby LLP

Certified Public Accountants

August 6, 2019
Tulsa, Oklahoma

Client: *8836 - Tri-County Electric Cooperative, Inc.* **Attachment A**
Engagement: *2019 - Tri-County Electric Cooperative, Inc.*
Period Ending: *3/31/2019*
Trial Balance: *103 TB - Annual Trial Balance - 2 Year*
Workpaper: *103 AJE - Coop AJE Report*

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 101		**228**		
<To record current fiscal year actuarial gain on APBO>				
2283000	Accumulated Prov For Pens/Ben		1,652,957.00	
2090000	Accumulated Oci Actuarial G/L			1,652,957.00
Total			**1,652,957.00**	**1,652,957.00**
Adjusting Journal Entries JE # 102				
<To move scholarships and other escheat funds from accrued liabilities to deferred credits.>				
2425100	Other Current Liability-Scholarship		169,879.63	
2425200	Other Current Liability - Economic Development		56,622.19	
2425300	Other Current Liability - Energy Efficiency		56,626.40	
2533100	Scholarship Funds			169,879.63
2533200	Economic Development Funds At Frost Bank			56,622.19
2533300	Energy Efficiency Funds At Frost Bank			56,626.40
Total			**283,128.22**	**283,128.22**
Adjusting Journal Entries JE # 103		**142.10**		
<To reconcile accounts receivable as of 3/31/19.>				
1421000	Customer Accounts Receivable		149,832.43	
4400000	Residential Sales			149,832.43
Total			**149,832.43**	**149,832.43**
Adjusting Journal Entries JE # 104				
<To record March 2019 expenses and prepaid expenses that were recorded in April 2019.>				
1653000	Prepayments - Employee Benefits		266,400.30	
9260000	Employee Pensions & Benefits		77,636.22	
1311800	General Funds - Frost Lockbox			344,036.52
Total			**344,036.52**	**344,036.52**
Adjusting Journal Entries JE # 105				
<To adjust federal withholding account for entry that was not booked correctly.>				
1653000	Prepayments - Employee Benefits		46,800.13	
2410000	Taxes Payable - Fed Withholding			46,800.13
Total			**46,800.13**	**46,800.13**
Adjusting Journal Entries JE # 106				
<To clear out accrued liability account for former general manager and record pension expense.>				
9260000	Employee Pensions & Benefits		70,380.04	
2425000	Other Current And Accrued Liab			70,380.04
Total			**70,380.04**	**70,380.04**
Adjusting Journal Entries JE # 107				
<To increase accreud vacation in balance with the system generated report.>				
9260000	Employee Pensions & Benefits		368,735.30	
2423000	Accrued Employee Vac/Hol			368,735.30
Total			**368,735.30**	**368,735.30**

Client: ***8836 - Tri-County Electric Cooperative, Inc.*** **Attachment A**
Engagement: ***2019 - Tri-County Electric Cooperative, Inc.***
Period Ending: ***3/31/2019***
Trial Balance: ***103 TB - Annual Trial Balance - 2 Year***
Workpaper: ***103 AJE - Coop AJE Report***

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 108				
<To adjust the investment in Value Choice to reflect the audited financial statements after the deferred tax adjustment and impairment				
4180100	Equity In Earnings(Losses)-Vc		8,511,692.28	
1230100	Investment In Value Choice, Inc,			8,511,692.28
Total			**8,511,692.28**	**8,511,692.28**
Adjusting Journal Entries JE # 109				
<To record capital contributions in investment in subsidiary account.>				
1230100	Investment In Value Choice, Inc,		42,541.00	
1431600	Other A/R - Misc			42,541.00
Total			**42,541.00**	**42,541.00**