



**CHUGACH ELECTRIC ASSOCIATION, INC.  
ANCHORAGE, ALASKA**

**AUDIT AND FINANCE COMMITTEE MEETING**

**AGENDA**

Rachel Morse, Chair  
Harold Hollis, Vice Chair

Susan Reeves  
Jim Henderson  
Bettina Chastain

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**May 8, 2019**

**4:00 p.m.**

**Chugach Board Room**

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- I. CALL TO ORDER (4:00 p.m.)
  - A. Roll Call
- II. APPROVAL OF THE AGENDA\*
- III. APPROVAL OF THE MINUTES\*
  - A. March 25, 2019 (Quezon)
- IV. PERSONS TO BE HEARD
  - A. Member Comments
- V. CEO REPORTS AND CORRESPONDENCE (scheduled) (4:05 p.m.)
  - A. 1<sup>st</sup> Quarter 2019 Operating Budget Status Report (Curran) (4:05 p.m.)
  - B. 1<sup>st</sup> Quarter 2019 Capital Tracking Report (Curran) (4:10 p.m.)
  - C. 1<sup>st</sup> Quarter 2019 Contract Status Report (Vecera) (4:15 p.m.)
  - D. IRS Form 990 (Curran) (4:20 p.m.)
  - E. 1<sup>st</sup> Quarter 2019 Financial Statements and Variance Report (Harris/Curran) (4:25 p.m.)
- VI. NEW BUSINESS (scheduled) (4:30 p.m.)
  - A. 1<sup>st</sup> Quarter 2019 Financial Information (Harris)
- VII. EXECUTIVE SESSION\* (scheduled) (4:45 p.m.)
  - A. Strategic Planning
    - 1. KPMG 1<sup>st</sup> Quarter 2019 Review
    - 2. March 31, 2019, SEC Form 10Q Review
    - 3. FY2019 Tax Services
    - 4. Interest Rate Risk Mitigation
- VIII. NEW BUSINESS\* (continued) (6:00 p.m.)
  - A. March 31, 2019, SEC Form 10Q Filing\* (Curran) (6:00 p.m.)

- B. *Pre-Approval for FY2019 Tax Services\* (Highers) (6:05 p.m.)*
- C. *Annual Review of Board Policy 207 Audit and Finance Committee Discussion (Committee) (6:10 p.m.)*

IX. DIRECTOR COMMENTS (6:15 p.m.)

X. ADJOURNMENT\* (6:25 p.m.)

**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**Anchorage, Alaska**

**March 25, 2019**  
**Monday**  
**4:00 p.m.**

**AUDIT AND FINANCE COMMITTEE MEETING**

Recording Secretary: Arden Quezon

**I. CALL TO ORDER**

Chair Morse called the Audit and Finance Committee meeting to order at 4:02 p.m. in the boardroom of Chugach Electric Association, Inc., 5601 Electron Drive, Anchorage, Alaska.

*A. Roll Call*

*Committee Members Present:*

Rachel Morse, Chair  
Harold Hollis, Vice Chair  
Susan Reeves, Director (*via teleconference*)  
Jim Henderson, Director (*arrived at 4:09 p.m.*)  
Bettina Chastain, Director

*Other Board Member Present:*

Harry Crawford, Director  
Stuart Parks, Director

*Guests and Staff in Attendance:*

Lee Thibert	Arthur Miller	Debra Caldwell
Sherri Highers	Mark Fouts	Andrew Laughlin
Paul Risse	Julie Hasquet	Elizabeth Stuart, KPMG
Tyler Andrews	Jody Wolfe	Mike Hayhurst, KPMG
Mark Fouts	Kathy Harris	Melissa Beedle, KPMG
Matt Clarkson	Renee Curran	

**II. APPROVAL OF THE AGENDA**

Director Hollis moved and Director Chastain seconded the motion to approve the agenda. The motion passed unanimously.

*Director Henderson was not present at the time of the vote.*

**III. APPROVAL OF THE MINUTES**

Director Hollis moved and Director Chastain seconded the motion to approve the December 10, 2018, Audit and Finance Committee Meeting minutes. The motion passed unanimously.

*Director Henderson was not present at the time of the vote.*

**IV. PERSONS TO BE HEARD**

- A. *Member Comments*  
None

**V. CEO REPORTS AND CORRESPONDENCE**

- A. *4<sup>th</sup> Quarter 2018 Capital Tracking Report (Curran)*  
Chair Morse discussed the 4<sup>th</sup> Quarter 2018 Capital Tracking Report.
- B. *4<sup>th</sup> Quarter 2018 Operating Budget Status Report (Curran)*  
The 4<sup>th</sup> Quarter 2018 Operating Budget Status Report was provided in the meeting packet.
- C. *4<sup>th</sup> Quarter 2018 Contract Status Report (Vecera)*  
The 4<sup>th</sup> Quarter 2018 Contract Status Report was provided in the meeting packet and Ron Vecera, Sr. Manager Risk Management & Administrative Services and responded to questions from the Committee.
- D. *2018 Year-End Financial Statements and Variance Report (Harris/Curran)*  
The 2018 Year-End Financial Statements and the Variance Report were provided in the meeting packet.

**VI. NEW BUSINESS**

- A. *2018 Year-End Financial Information (Harris)*  
Kathy Harris, Sr. Manager, General Accounting discussed the 2018 Year-End Financial Information and responded to questions from the Committee.

*Director Henderson arrived at 4:09 p.m.*

**VII. EXECUTIVE SESSION**

- A. *Strategic Planning*  
i. *Review and Accept the 2017 Independent Audited Financial Statements*  
ii. *December 31, 2017, SEC Form 10K Review*

At 4:18 p.m., Director Hollis moved and Director Chastain seconded the motion that pursuant to Alaska Statute 10.25.175(c)(1) and (3) the Board of Directors' Audit and Finance Committee go into executive session to: 1) discuss and receive reports regarding financial matters, the immediate knowledge of which would clearly have an adverse effect on the finances of the cooperative; and, 2) discuss legal matters with its attorneys, the immediate knowledge of which could have an adverse effect on the legal position of the cooperative. The motion passed unanimously.

The meeting reconvened in open session at 6:44 p.m.

## VIII. NEW BUSINESS

A. *Accept the 2018 Independent Audited Financial Statements\* (KPMG)*

Director Hollis moved and Director Henderson seconded the motion that the Audit and Finance Committee recommend the Board of Directors approve the 2018 Independent Audited Financial Statements of Chugach Electric Association, Inc. and footnotes as presented by KPMG and management. The motion passed unanimously.

*Director Reeves was not present at the time of the vote.*

B. *December 31, 2018, SEC Form 10K Filing\* (Curran)*

Director Chastain moved and Director Henderson seconded the motion that the Audit and Finance Committee recommend to the Board of Directors that management file the Securities and Exchange Commission Form 10K by the due date incorporating any amendments to the document which will be reviewed and approved by KPMG. Ms. Stuart and Ms. Highers will immediately inform the Board, in writing, of any material or significant changes. The motion passed unanimously.

*Director Reeves was not present at the time of the vote.*

C. *Pre-Approval of KPMG for FY2019 Audit Services\* (Highers)*

Director Hollis moved and Director Chastain seconded the motion that the Audit and Finance Committee recommend the Board of Directors approve the retention of KPMG for audit services for FY2019 in accordance with the fees outlined in KPMG's contract, due to expire April 15, 2021. The motion passed unanimously.

*Director Reeves was not present at the time of the vote.*

D. *Capital Credit Retirement\* (Highers)*

Director Chastain moved and Director Henderson seconded the motion that the Audit and Finance Committee recommend the Board of Directors approve a capital credit retirement as discussed in executive session. The motion passed unanimously.

*Director Reeves was not present at the time of the vote.*

E. *Commercial Paper Backstop Facility\* (Highers)*

Director Hollis moved and Director Henderson seconded the motion that the Audit and Finance Committee recommend the Board of Directors' authorize the Chief Executive Officer (CEO) to negotiate fees and finalize the terms and conditions of the renewal of Chugach's Commercial Paper Backstop Facility as discussed in executive session. The agreement will remain confidential until finalized. The motion passed unanimously.

*Director Reeves was not present at the time of the vote.*

**IX. DIRECTOR COMMENTS**

Comments were made at this time.

**X. ADJOURNMENT**

At 6:51 p.m., Director Chastain moved and Director Hollis seconded the motion to adjourn. The motion passed unanimously.

*Director Reeves was not present at the time of the vote.*

**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**Anchorage, Alaska**

**April 29, 2019**

**TO:** Sherri L. Highers, CFO  
**FROM:** Debra Caldwell, Financial Analyst  
**SUBJECT:** 1<sup>st</sup> Quarter 2019 Operating Budget Status Report

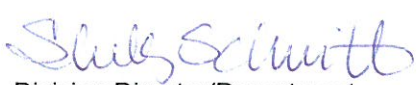

The Operating Budget Status Report on page 2 reflects a budget adjustment for the first quarter to add expense items associated with CAD/GIS support.

**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**OPERATING BUDGET STATUS REPORT**  
**1ST QUARTER 2019**

<b>CATEGORY</b>	<b>2019 APPROVED BUDGET</b>	<b>2019 BUDGET REVISIONS</b>	<b>2019 AMENDED BUDGET</b>
<b>REVENUES:</b>			
<b>TOTAL REVENUE</b>	<b>\$207,385,275</b>	<b>\$0</b>	<b>\$207,385,275</b>
<b>EXPENSES:</b>			
FUEL EXPENSE	57,772,723	0	57,772,723
POWER PRODUCTION EXPENSE	20,297,640	0	20,297,640
COST OF PURCHASED POWER	19,015,999	0	19,015,999
TRANSMISSION EXPENSE	7,442,254	0	7,442,254
DISTRIBUTION EXPENSE-OPERATIONS	6,766,249	118,350	6,884,599
DISTRIBUTION EXPENSE-MAINTENANCE	8,929,374	0	8,929,374
CONSUMER ACCOUNTS EXPENSE	6,711,863	0	6,711,863
CUSTOMER SERVICE/INFO EXPENSE	377,644	0	377,644
ADMINISTRATIVE/GENERAL EXPENSE	23,773,125	0	23,773,125
<b>TOTAL OPERATIONS/MAINTENANCE EXPENSE</b>	<b>\$151,086,871</b>	<b>\$118,350</b>	<b>\$151,205,221</b>
DEPRECIATION/AMORTIZATION EXPENSE	30,612,717	0	30,612,717
TAX EXPENSE-OTHER	225,100	0	225,100
INTEREST ON DEBT	20,646,473	0	20,646,473
INTEREST ON CONSTRUCTION-CREDIT	(534,461)	0	(534,461)
OTHER DEDUCTIONS	400,000	0	400,000
<b>TOTAL COST OF ELECTRIC SERVICE</b>	<b>\$202,436,700</b>	<b>\$118,350</b>	<b>\$202,555,050</b>
<b>PATRONAGE CAPITAL/OPERATING MARGINS</b>	<b>\$4,948,575</b>	<b>(\$118,350)</b>	<b>\$4,830,225</b>
NON-OPERATING MARGINS-INTEREST	629,772	0	629,772
ALLOWANCE FUNDS USED DURING CONST.	178,150	0	178,150
NON-OPERATING MARGINS-OTHER	0	0	0
GENER./TRANS. CAPITAL CREDITS	0	0	0
OTHER CAPITAL CREDITS/DIVIDENDS	0	0	0
EXTRAORDINARY ITEMS	0	0	0
<b>PATRONAGE CAPITAL OR MARGINS</b>	<b>\$5,756,497</b>	<b>(\$118,350)</b>	<b>\$5,638,147</b>
<b>MFI/I</b>			
	1.28		1.27



## BUDGET REVISION REQUEST

1. Division: CAD/GIS Services	Department: Distribution Engineering	
2 Add: <input checked="" type="checkbox"/>	Delete: <input type="checkbox"/> Transfer: <input type="checkbox"/>	
3. Full year amount (rounded to dollars): <span style="border: 1px solid blue; border-radius: 50%; padding: 2px;">\$118,350</span>		
4. Monthly amounts (rounded to dollars - should total to line 3 above)		
January    \$12,450	May        \$12,100	September    \$7,100
February    \$12,100	June        \$14,600	October       \$7,200
March        \$12,100	July         \$7,200	November     \$7,100
April         \$12,200	August       \$7,100	December      \$7,100
5. General Ledger Account Number (from):		
General Ledger Account Number (to):		
58800-000-00-7668		
58800-000-02-7668		
58800-000-03-7668		
58800-534-03-7668		
6. General Ledger Account Name (from):		
General Ledger Account Name (to):		
Dist Ops-General-Other-CAD/GIS Support		
Dist Ops-General-Prof Svc-CAD/GIS Support		
Dist Ops-General-Materials-CAD/GIS Support		
Dist Ops-Special Supplies-Materials-CAD/GIS		
7. Explanation: Expense items for professional services, plotter expenses and training were submitted for entry into the budget application, but were never entered. Detailed breakdown is attached.		
8. Requested by: David Snyder		Date: 1/22/19
9. <\$25,000 Approved by:		Date: 1/22/2019
 Division Director/Department Manager		
10. \$25,000 - \$250,000 Approved by:		Date: 1-24-2019
 Executive Manager		
11. \$250,000 - \$1,000,000 Approved by:		Date:
Chief Executive Officer		
12. >\$1,000,000 Approved by:		Date:
Board of Directors		
Obtain necessary approval signatures, forward to the Manager of Corporate Budgeting <span style="float: right;">(Cina)</span>		

**Expense Budget**

Budget Year	Account	Minor	Cost Element	Cost Center	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Description
2019	58800	000	02	7668	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	Professional Services for GIS Data and Systems
2019	58800	000	00	7668	100	0	0	100	0	0	100	0	0	100	0	0	Quarterly Staff meeting Lunch
2019	58800	000	02	7668	5000	5000	5000	5000	5000	5000	0	0	0	0	0	0	Land Services ROW Map Conversion to GIS
2019	58800	000	03	7668	0	0	0	0	0	2500	0	0	0	0	0	0	Plotter Paper, Foam Core, Misc Materials
2019	58800	534	03	7668	1100	1100	1100	1100	1100	1100	1100	1100	1100	1100	1100	1100	Oce Plotter Maintenance
2019	58800	000	03	7668	250	0	0	0	0	0	0	0	0	0	0	0	Vacuum Cleaner
<b>Total</b>																	<b>118350</b>

CHUGACH ELECTRIC ASSOCIATION  
CAPITAL PROJECT TRACKING REPORT  
As of March 31, 2019

CIP Ref #	Project Name <sup>1</sup>	Project Manager	BOD Project Approval Date	Estimate			Actuals			Variance		Project Completion	Comments
				Estimate	Revisions to Estimate	Revised Estimate	Spending to Date	Forecast to Completion	Total Estimated Completion Cost	Total Estimated Cost vs. Revised Estimate			
										Amount	%		

SYSTEM IMPROVEMENT PROJECTS

Reliability

20.0303	Beluga U3 Major P1700876	Highers/Love	5/23/2018	\$4,239,012	\$0	\$4,239,012	\$2,367,770	\$1,443,020	\$3,810,790	(\$428,222)	90%	99%	Project is complete and in closeout pending final vendor invoicing. Revised estimate reflects lower anticipated costs for exhaust components and hot gas path parts.
10.0240	Retire INSS 138kV Facilities E1720055	Laughlin	1/24/2018	\$2,700,000	\$0	\$2,700,000	\$448,938	\$2,251,062	\$2,700,000	\$0	100%	20%	This project will retire existing 138 kV facilities at the International Substation (INSS) and move two power transformers to new foundations with oil containment meeting fire protection and seismic requirements. 90% design has been completed. Construction of this project will be moved to 2020.
10.0364	115 kV Rebuild - Hope to Summit E1720053	Wendling	2/20/2018	\$9,500,000	\$0	\$9,500,000	\$6,367,522	\$3,132,478	\$9,500,000	\$0	100%	99%	This project rebuilt approximately 9 miles of the Quartz Creek 115 kV transmission line between Hope Substation and Summit Lake Substation. The rebuilt line is insulated to 230 kV standards. Additionally, this project installed fiber optic cable on the transmission structures and connected communication sites at Silvertip and Summit Lake and installed wire to the communication sites and back up generation at Girdwood. Construction is complete and close out is anticipated in the second quarter of 2019.

Operating Efficiency

05.0300	Debarr Substation Rebuild E1620052	Reid	1/26/2017	\$6,000,000	\$0	\$6,000,000	\$5,521,271	\$718,729	\$6,240,000	\$240,000	104%	95%	This project will upgrade the existing facilities at Debarr Substation. The scope includes replacement of the existing power transformer, 12.5kV switchgear, 34.5kV circuit switchers, and associated control and power cables. The contractor's, Electric Power Constructors (EPC), work is substantially complete. The power transformer and switchgear were delivered in the third quarter. Commissioning is expected to last through early May 2019. Landscaping will be completed in Spring 2019. Forecast to completion includes an additional \$240,000 for work to move the substation per the request of the Municipality.
05.0886	Hope Substation Upgrade Hope 25 kV Xfmr Fdn (HMGP) E1613628	Wendling	12/12/2017	\$1,900,000	\$0	\$1,900,000	\$429,673	\$320,327	\$750,000	(\$1,150,000)	39%	99%	This project upgraded several of the existing facilities at Hope Substation. The scope was changed to reuse the existing transformer and install a seismically rated foundation with a membrane type secondary containment, therefore reducing the total estimated cost. Construction is complete and energized. The project is complete and in closeout pending final vendor invoicing.

New Business Offering

20.0310	Community Solar Project P1731026	Highers	10/1/2017	\$2,000,000	\$0	\$2,000,000	\$0	\$2,000,000	\$2,000,000	\$0	100%	0%	Project to install a 500 kW community solar project. The community solar project was rejected by the RCA (as proposed). We will be starting over with a new project approach and do not anticipate any more capital expenses on this project in 2019.
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<b>Totals</b>				<b>\$26,339,012</b>	<b>\$0</b>	<b>\$26,339,012</b>	<b>\$15,135,174</b>	<b>\$9,865,616</b>	<b>\$25,000,790</b>	<b>(\$1,338,222)</b>	<b>95%</b>	<b>69%</b>	
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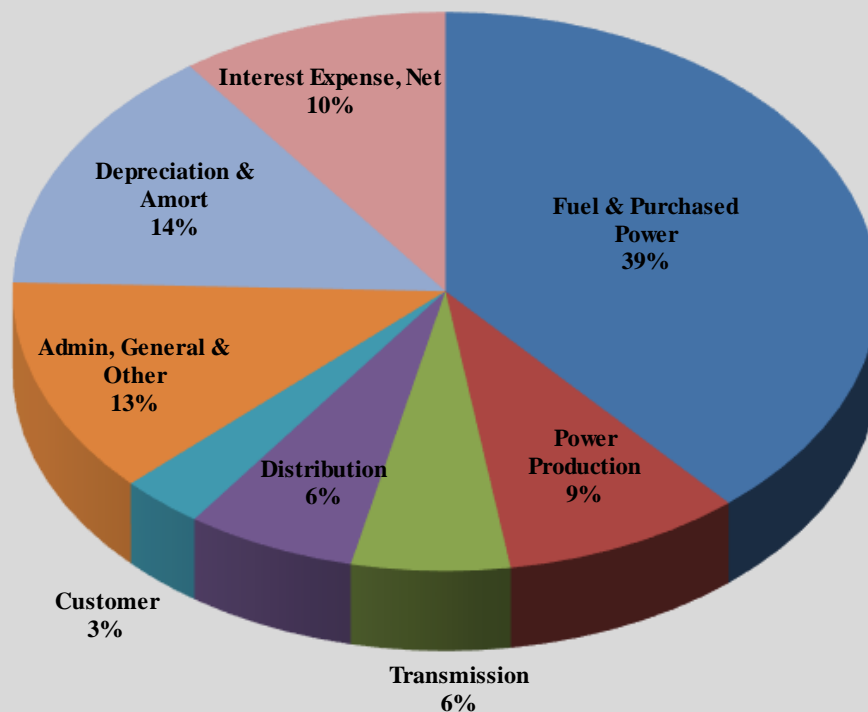
<sup>1</sup> Report tracks projects with costs exceeding \$1M.

<sup>2</sup> Represents Chugach costs only.

## STATEMENT OF OPERATIONS

CATEGORY	2019 MTD ACTUAL	2019 MTD BUDGET	2019 MTD VARIANCE
<b>Operating Revenue and Patronage Capital</b>	<b>\$ 18,138,645</b>	<b>\$ 18,385,185</b>	<b>\$ (246,540)</b>
Fuel and Purchased Power Expense	7,043,586	7,293,096	(249,510)
Power Production Expense	1,626,508	1,636,345	(9,837)
Transmission Expense	1,077,657	742,710	334,947
Distribution Expense	1,153,321	1,293,407	(140,086)
Customer Expense	563,958	500,428	63,530
Administrative, General and Other	2,289,917	2,052,605	237,312
Depreciation & Amortization Expense	2,627,466	2,558,606	68,860
Interest Expense, Net	1,834,845	1,684,743	150,102
<b>Total Cost of Electric Service</b>	<b>\$ 18,217,258</b>	<b>\$ 17,761,940</b>	<b>\$ 455,318</b>
<b>Patronage Capital &amp; Operating Margins</b>	<b>\$ (78,613)</b>	<b>\$ 623,245</b>	<b>\$ (701,858)</b>
Non-Operating Margins - Interest	62,120	52,481	9,639
Allowance for Funds Used During Construction	15,894	14,846	1,048
Non-Operating Margins - Other	25,900	-	25,900
<b>Patronage Capital or Margins</b>	<b>\$ 25,301</b>	<b>\$ 690,572</b>	<b>\$ (665,271)</b>

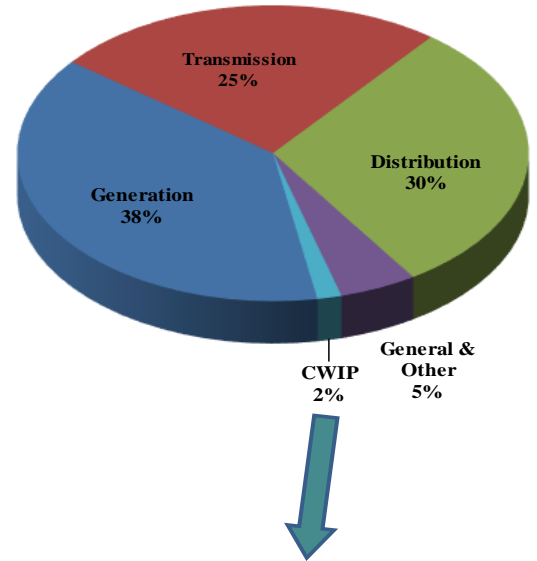
## Total Cost of Electric Service (MTD Actual)



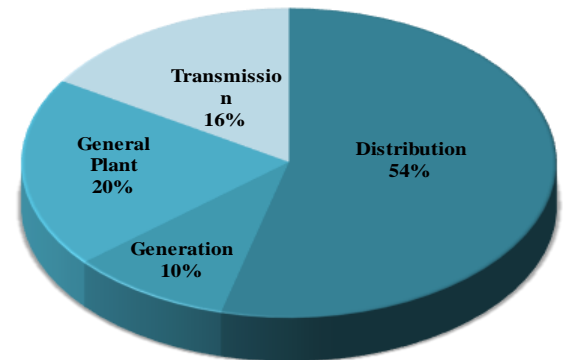
## BALANCE SHEET

ASSETS & OTHER DEBITS	3/31/2019	12/31/18
Electric Plant in Service	1,226,720,773	1,216,663,092
Construction Work in Progress	19,200,960	17,272,307
<b>Total Utility Plant</b>	<b>\$ 1,245,921,733</b>	<b>\$ 1,233,935,399</b>
Accum. Prov. for Depreciation/Amortization	(540,007,359)	(529,099,451)
<b>Net Utility Plant</b>	<b>\$ 705,914,374</b>	<b>\$ 704,835,948</b>
Nonutility Property - Net	76,889	76,889
Operating lease right-of-use assets	934,371	-
Investment in Assoc. Organizations	8,155,733	8,570,046
Special Funds	1,998,108	1,890,221
Restricted Cash & Other Investments	108,000	108,000
<b>Total Other Property &amp; Investments</b>	<b>\$ 11,273,101</b>	<b>\$ 10,645,156</b>
Cash, Marketable Securities & Other	9,787,755	12,423,578
Special Deposits/Restricted Cash	1,276,172	1,268,274
Accounts Receivable - Net	27,113,373	31,165,249
Materials and Supplies, Fuel Stock	26,048,765	28,175,563
Prepayments	3,935,723	2,227,117
Other Current & Accrued Assets	349,529	241,279
<b>Total Current &amp; Accrued Assets</b>	<b>\$ 68,511,317</b>	<b>\$ 75,501,060</b>
Deferred Debits	38,120,452	37,668,424
<b>Total Assets &amp; Other Debits</b>	<b>\$ 823,819,244</b>	<b>\$ 828,650,588</b>
LIABILITIES & OTHER CREDITS	3/31/2019	12/31/18
Memberships	1,753,742	1,748,172
Pat. Capital, Margins & Equities	190,233,875	192,776,522
<b>Total Margins &amp; Equities</b>	<b>\$ 191,987,617</b>	<b>\$ 194,524,694</b>
Long-Term Debt - Bonds	374,999,997	398,416,664
Long-Term Debt - Other	33,174,000	33,972,000
Unamortized Debt Issuance Costs	(2,397,413)	(2,425,247)
Operating lease liabilities	750,388	-
<b>Total Long-Term Debt</b>	<b>\$ 406,526,972</b>	<b>\$ 429,963,417</b>
Notes Payable	111,792,650	87,608,667
Accounts Payable	10,401,055	9,538,749
Consumer Deposits	4,498,910	4,845,611
Other Current & Accrued Liabilities	34,101,999	32,853,659
<b>Total Current &amp; Accrued Liabilities</b>	<b>\$ 160,794,614</b>	<b>\$ 134,846,686</b>
Deferred Compensation	1,451,796	1,359,878
Other Liabilities, Non-Current	630,342	580,841
Deferred Liabilities	801,643	764,834
Patronage Capital Payable	1,931,295	3,393,253
Cost of Removal Obligation	59,694,965	63,216,985
<b>Total Liabilities &amp; Other Credits</b>	<b>\$ 823,819,244</b>	<b>\$ 828,650,588</b>

**2019 Total Utility Plant (YTD)**  
**\$1,245,921,733**



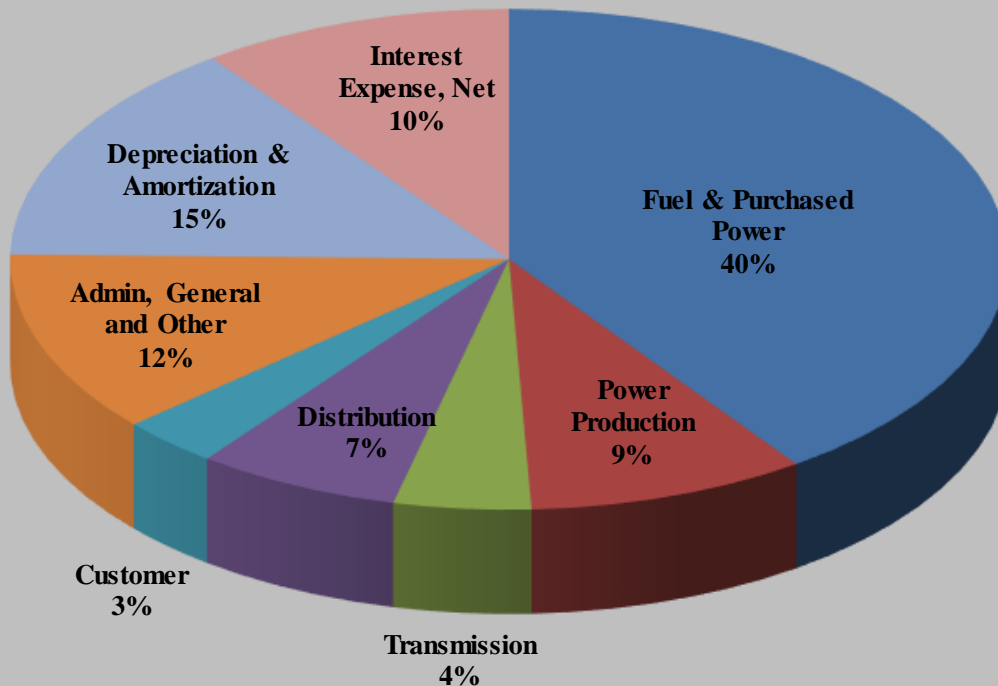
**2019 Construction Work in Progress (YTD)**  
**\$19,200,960**



**COMPARATIVE FINANCIAL REPORT  
STATEMENT OF OPERATIONS  
CURRENT YTD ACTUAL TO BUDGET VARIANCE**

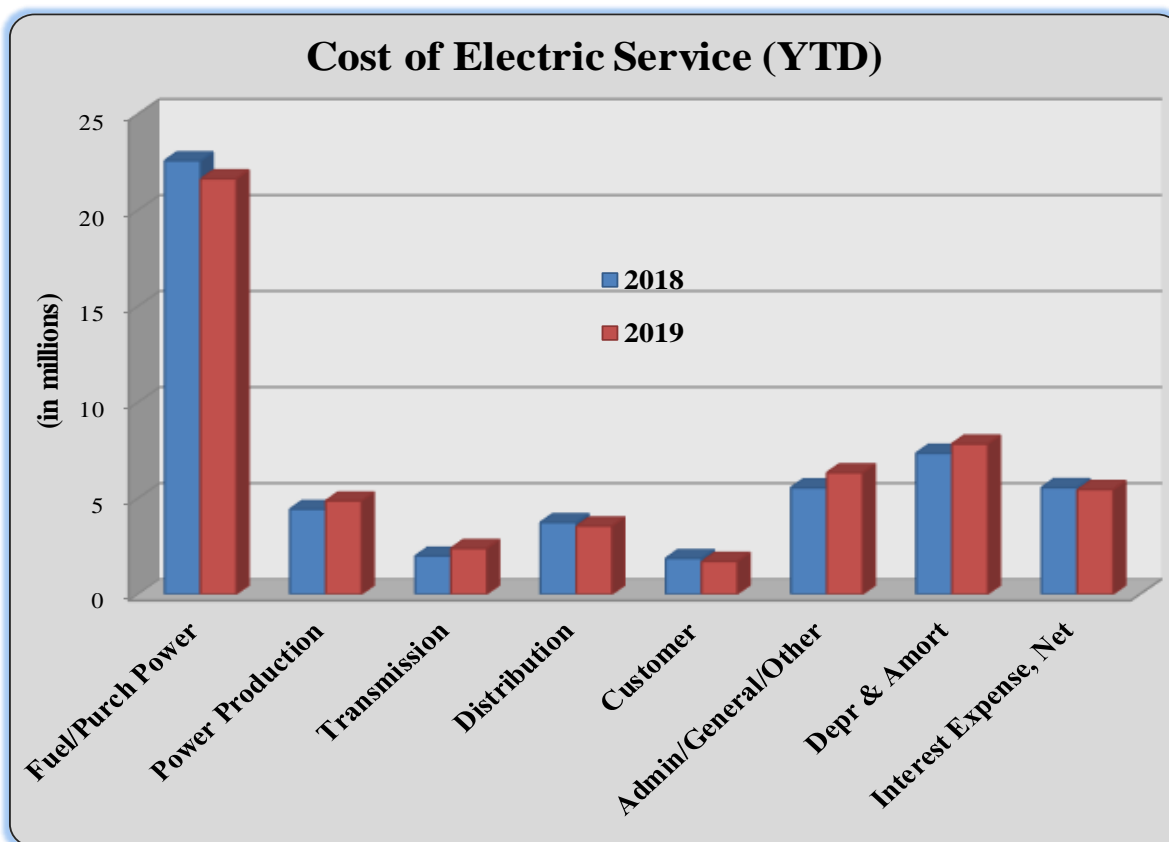
CATEGORY	2019 YTD ACTUAL	2019 YTD BUDGET	2019 YTD VARIANCE
<b>Operating Revenue and Patronage Capital</b>	<b>\$ 55,827,238</b>	<b>\$ 54,817,108</b>	<b>\$ 1,010,130</b>
Fuel and Purchased Power Expense	21,631,560	20,919,212	712,348
Power Production Expense	4,858,811	5,013,638	(154,827)
Transmission Expense	2,388,069	2,104,539	283,530
Distribution Expense	3,556,619	3,811,756	(255,137)
Customer Expense	1,713,559	1,575,333	138,226
Administrative, General and Other	6,325,858	6,344,382	(18,524)
Depreciation & Amortization Expense	7,826,369	7,655,918	170,451
Interest Expense, Net	5,455,656	5,141,145	314,511
<b>Total Cost of Electric Service</b>	<b>\$ 53,756,501</b>	<b>\$ 52,565,923</b>	<b>\$ 1,190,578</b>
<b>Patronage Capital &amp; Operating Margins</b>	<b>\$ 2,070,737</b>	<b>\$ 2,251,185</b>	<b>\$ (180,448)</b>
Non-Operating Margins - Interest	169,152	157,443	11,709
Allowance Funds Used During Const.	45,557	44,538	1,019
Non-Operating Margins - Other	100,131	-	100,131
<b>Patronage Capital or Margins</b>	<b>\$ 2,385,577</b>	<b>\$ 2,453,166</b>	<b>\$ (67,589)</b>
MFII	1.43	1.47	
TIER	1.47	1.49	

**Total Cost of Electric Service (YTD Actual)**



## COMPARATIVE FINANCIAL REPORT STATEMENT OF OPERATIONS CURRENT TO PRIOR YTD ACTUAL

CATEGORY	2019 YTD ACTUAL	2018 YTD ACTUAL
<b>Operating Revenue and Patronage Capital</b>	<b>\$ 55,827,238</b>	<b>\$ 56,057,278</b>
Fuel and Purchased Power Expense	21,631,560	22,570,478
Power Production Expense	4,858,811	4,423,919
Transmission Expense	2,388,069	1,988,004
Distribution Expense	3,556,619	3,735,960
Customer Expense	1,713,559	1,865,709
Administrative, General and Other	6,325,858	5,544,969
Depreciation and Amortization Expense	7,826,369	7,343,077
Interest Expense, Net	5,455,656	5,557,372
<b>Total Cost of Electric Service</b>	<b>\$ 53,756,501</b>	<b>\$ 53,029,488</b>
<b>Patronage Capital &amp; Operating Margins</b>	<b>\$ 2,070,737</b>	<b>\$ 3,027,790</b>
Non-Operating Margins - Interest	169,152	159,583
Allowance for Funds Used During Construction	45,557	23,873
Non-Operating Margins - Other	100,131	(83,286)
<b>Patronage Capital or Margins</b>	<b>\$ 2,385,577</b>	<b>\$ 3,127,960</b>
MFI/I	1.43	1.56
TIER	1.47	1.59

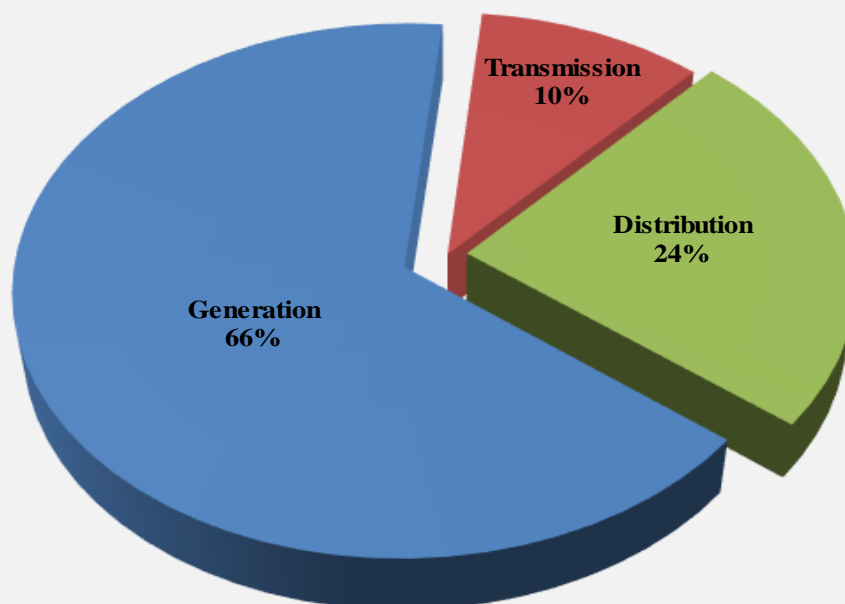




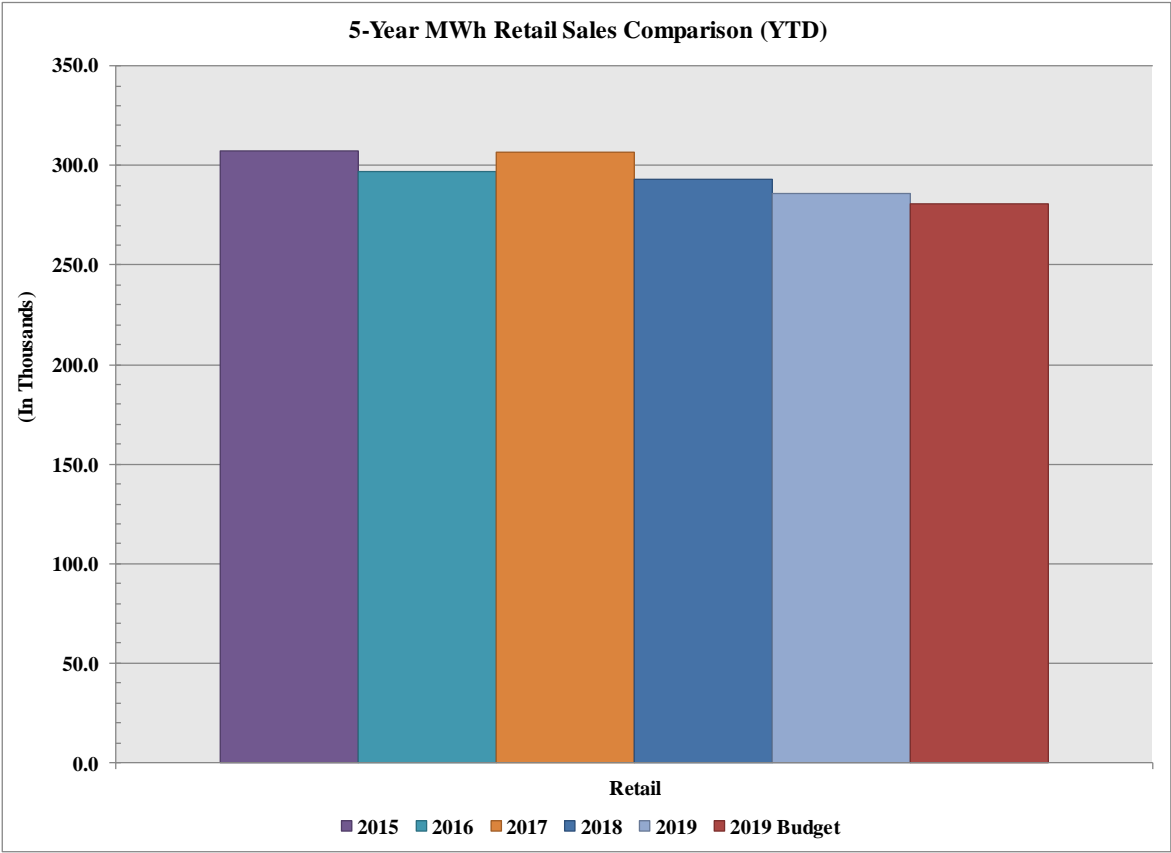
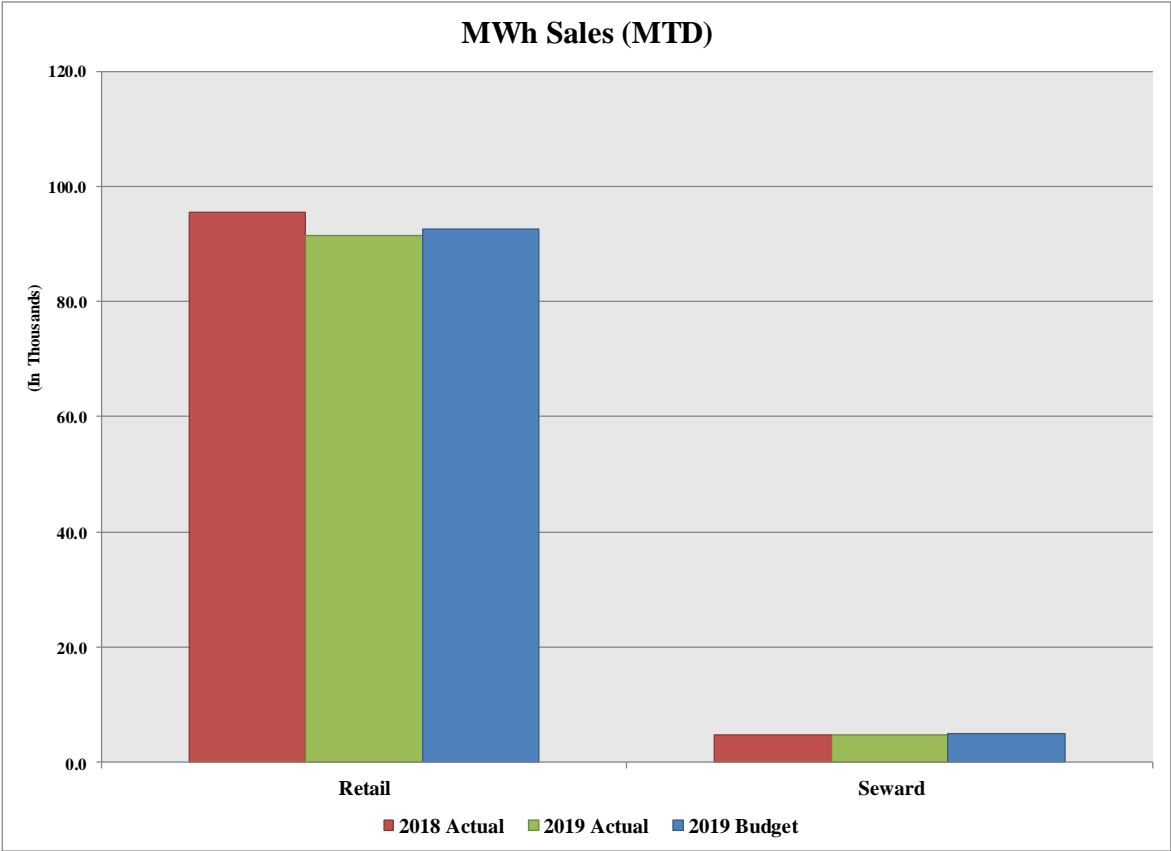
**FUNCTIONAL STATEMENT OF OPERATIONS**  
**MARCH 31, 2019**

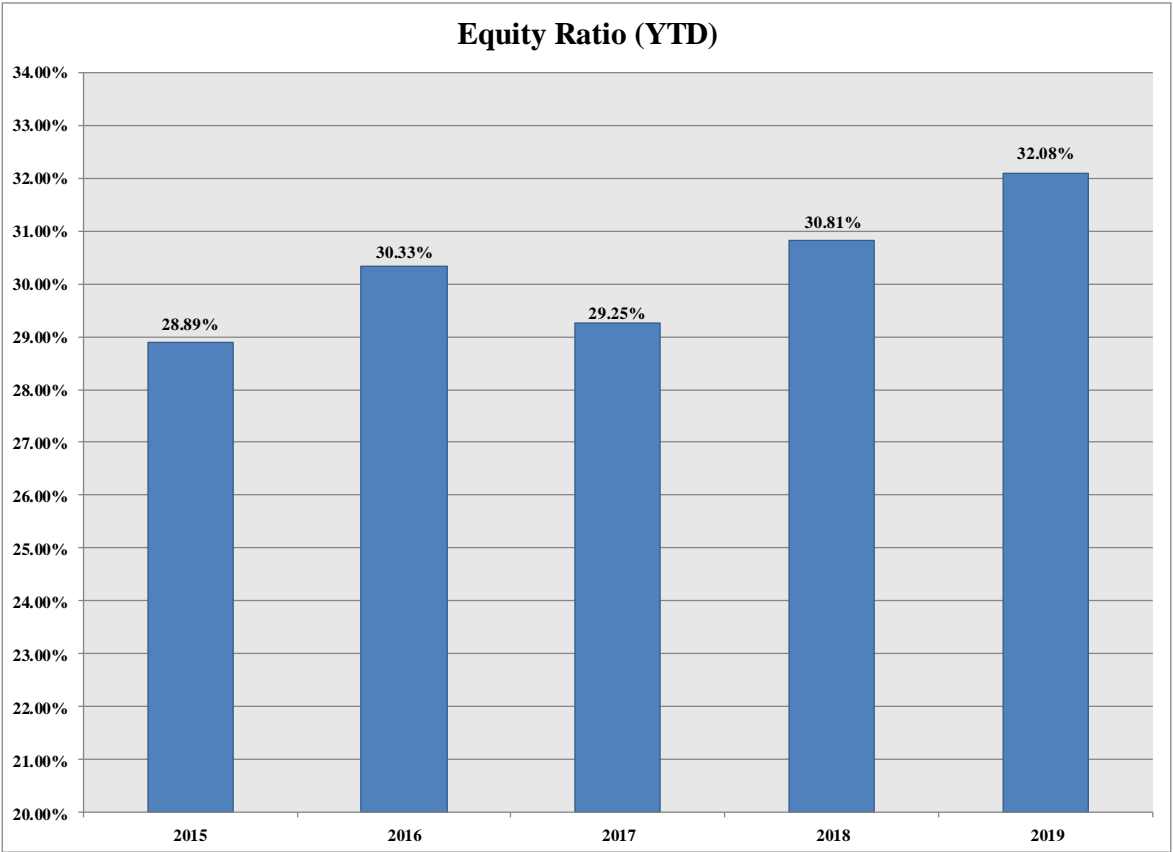
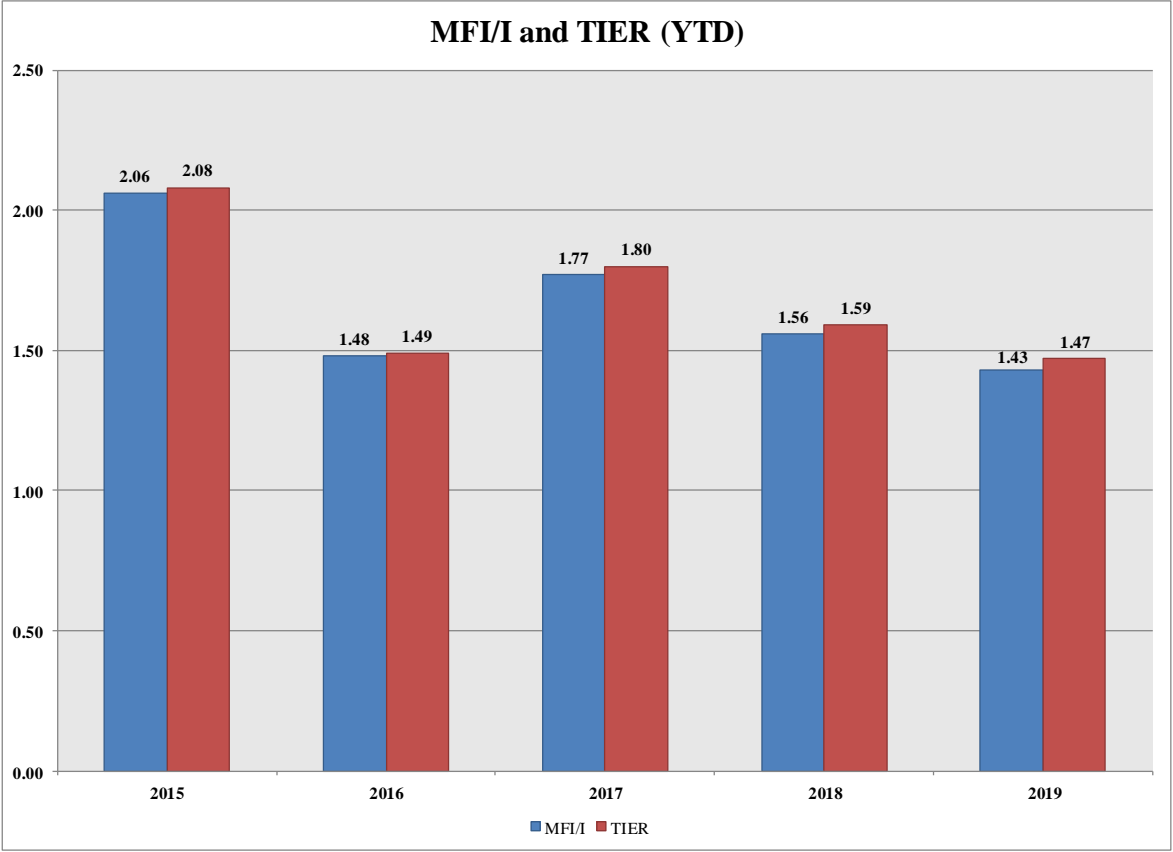
CATEGORY	2019 YTD TOTAL	2019 YTD GEN	2019 YTD TRANS	2019 YTD DIST
<b>Operating Revenue and Patronage Capital</b>	<b>\$ 55,827,238</b>	<b>\$ 35,841,087</b>	<b>\$ 5,582,724</b>	<b>\$ 14,403,427</b>
Fuel and Purchased Power Expense	21,631,560	21,631,560	0	0
Power Production Expense	4,858,811	4,858,811	0	0
Transmission Expense	2,388,069	0	2,388,069	0
Distribution Expense	3,556,619	0	0	\$3,556,619
Customer Expense	1,713,559	0	0	\$1,713,559
Administrative, General and Other	6,325,858	2,023,780	799,708	\$3,502,370
Depreciation & Amortization Expense	7,826,369	3,808,548	1,232,222	\$2,785,599
Interest Expense, Net	5,455,656	\$3,151,672	\$1,083,170	\$1,220,814
<b>Total Cost of Electric Service</b>	<b>\$ 53,756,501</b>	<b>\$ 35,474,371</b>	<b>\$ 5,503,169</b>	<b>\$ 12,778,961</b>
<b>Patronage Capital &amp; Operating Margins</b>	<b>\$ 2,070,737</b>	<b>\$ 366,716</b>	<b>\$ 79,555</b>	<b>\$ 1,624,466</b>
Non-Operating Margins - Interest	169,152	\$82,315	\$26,632	\$60,205
Allowance for Funds Used During Construction	45,557	\$2,615	\$2,755	\$40,187
Non-Operating Margins - Other	100,131	30,615	13,244	56,272
<b>Patronage Capital or Margins</b>	<b>\$ 2,385,577</b>	<b>\$ 482,261</b>	<b>\$ 122,186</b>	<b>\$ 1,781,130</b>

**Total Cost of Electric Service**









## ENERGY SALES (kWh)

	<u>YTD Actual</u>	<u>YTD Budget</u>
Retail Energy Sales	286,014,001	280,657,368
Wholesale Energy Sales	<u>14,140,576</u>	<u>14,243,931</u>
Total Firm Energy Sales	300,154,577	294,901,299
Economy Energy Sales	<u>0</u>	<u>0</u>
Total Energy Sales	300,154,577	294,901,299

Firm energy sales totaled 300,154,577 kWh, which was a 1.8% favorable variance compared to budget. Retail energy sales were over budget 1.9%, primarily due to colder than anticipated weather. Wholesale energy sales were under budget by 0.7%.

## ENERGY REVENUE (in millions)

	<u>YTD Actual</u>	<u>YTD Budget</u>
Retail Revenue	\$ 53.0	\$ 52.3
Wholesale Revenue	<u>1.4</u>	<u>1.4</u>
Total Firm Revenue	54.4	53.7
Economy/Other Energy Revenue	0.0	0.0
Other Operating Revenue	<u>1.4</u>	<u>1.1</u>
Total Revenue	\$ 55.8	\$ 54.8

Revenue from firm sales totaled \$54.4 million compared to \$53.7 million in the budget. Firm revenue was higher than expected primarily due to higher than anticipated kWh sales and more purchased power costs recovered in revenue through the fuel and purchased power adjustment process.

Other operating revenue includes late fees, pole rental, wheeling, microwave, BRU royalties, miscellaneous service and other electric revenue. Other operating revenue totaled \$1.4 million compared to \$1.1 million in the budget, primarily due to higher than anticipated wheeling revenue.

## FUEL AND PURCHASED POWER (in millions)

	<u>YTD Actual</u>	<u>YTD Budget</u>
Fuel	\$ 14.7	\$ 15.7
Purchased Power	<u>6.9</u>	<u>5.2</u>
Total	\$ 21.6	\$ 20.9

Fuel expense includes fuel, storage, transportation, and BRU operating costs. Fuel expense was \$14.7 million compared to \$15.7 million projected in the budget. This variance was primarily due to lower than anticipated storage expense and a lower average effective delivered price per MCF despite more fuel purchased.

Actual fuel purchased for production was 1,978,734 MCF at an average effective delivered price of \$6.99 per MCF, compared to 1,716,019 MCF in the budget at an average effective delivered price of \$8.17 per MCF.

Purchased power expense represents energy purchased from Bradley Lake, Fire Island, and other utilities as needed, as well as costs associated with dispatching. Purchased power expense was \$6.9 million compared to \$5.2 million in the budget, due to higher than anticipated purchases at a higher average effective delivered price.

Actual energy purchased was 74,319 MWh at an average effective price of 8.12 cents per kWh compared to 52,924 MWh budgeted at an average effective price of 8.05 cents per kWh. Higher than anticipated purchases from ML&P and MEA resulted in a higher average effective price.

## POWER PRODUCTION (in millions)

	<u>YTD Actual</u>	<u>YTD Budget</u>
Total Power Production	\$ 4.9	\$ 5.0

Power production expense was \$4.9 million compared to \$5.0 million in the budget. This favorable variance is primarily due to lower than anticipated maintenance costs at the Beluga and SPP Power Plants, and the cancelled community solar project. These savings were somewhat offset by higher than anticipated expense labor related to earthquake assessment as well as higher amortization expense associated with the Cooper Lake dredging project.

## TRANSMISSION OPERATIONS AND MAINTENANCE (in millions)

	<u>YTD Actual</u>	<u>YTD Budget</u>
Total Transmission	\$ 2.4	\$ 2.1

Transmission operations and maintenance expense was \$2.4 million compared to \$2.1 million in the budget, primarily due to higher than anticipated maintenance and substation and line operations expense labor as a result of earthquake assessment and repairs. Vegetation clearing along Beluga lines 1,2, and 3 also contributed to this variance.

## DISTRIBUTION OPERATIONS AND MAINTENANCE (in millions)

	<u>YTD Actual</u>	<u>YTD Budget</u>
Total Distribution	\$ 3.6	\$ 3.8

Distribution operations and maintenance expense was \$3.6 million compared to \$3.8 million in the budget. This favorable variance is primarily due to a shift in substation expense labor to transmission, lower than anticipated lease costs, as well as lower materials and software expenses.

## CONSUMER ACCOUNTS / CUSTOMER INFORMATION (in millions)

	<u>YTD Actual</u>	<u>YTD Budget</u>
Total Consumer / Customer Information	\$ 1.7	\$ 1.6

Consumer accounts and customer information expense was \$1.7 million compared to \$1.6 million in the budget, with no significant variance. This unfavorable variance is primarily due to higher than anticipated credit card merchant fees, which were somewhat offset by lower than anticipated printing costs.

## ADMINISTRATIVE, GENERAL AND OTHER (in millions)

	<u>YTD Actual</u>	<u>YTD Budget</u>
Administrative, General and Other	\$ 6.3	\$ 6.3

Administrative, general and other expense includes tax, donations, other deductions associated with preliminary survey and investigation charges of projects, and obsolete inventory write-offs that are not attributable to operating or maintenance accounts, which was \$6.3 million compared to \$6.3 million in the budget, with no significant variance. Lower than anticipated consulting costs associated with fuel management, accounting, and safety were offset by project write-offs.

## SUMMARY

Depreciation, interest, and interest during construction expense totaled \$13.3 million compared to \$12.8 million in the budget. The unfavorable variance compared to budget was primarily due to higher than anticipated interest expense on short-term borrowings of commercial paper as well as increased depreciation expense.

All of the foregoing expenses resulted in total cost of electric service of \$53.8 million compared to \$52.5 million in the budget.

Non-operating margins include allowance for funds used during construction (AFUDC), capital credit and patronage capital allocations, extraordinary items, and interest income. Non-operating margins totaled \$314.8 thousand compared to \$202.0 thousand in the budget primarily due to the gain in value of marketable securities. At March 31, 2019, the market value of Chugach's marketable securities was \$5.2 million, and had an annualized rate of return of 7.10%.

The net result of revenue and expenses was margins of \$2.4 million compared to projected margins of \$2.5 million in the budget. The current forecast projects year-end margins of \$5.6 million, an MFI/I of 1.27, and TIER of 1.29.

## COMPARATIVE FINANCIAL REPORT STATEMENT OF OPERATIONS YEAR-END FORECAST

CATEGORY	2019 APPROVED BUDGET	2019 AMENDED BUDGET	2019 YTD ACTUALS	2019 REVISED FORECAST
<b>Operating Revenue and Patronage Capital</b>	<b>\$ 207,385,275</b>	<b>\$ 207,385,275</b>	<b>\$ 55,827,238</b>	<b>\$ 209,740,947</b> <sup>1 2</sup>
Fuel and Purchased Power Expense	76,788,722	76,788,722	21,631,560	77,501,070 <sup>1</sup>
Power Production Expense	20,297,640	20,297,640	4,858,811	20,297,640
Transmission Expense	7,442,254	7,442,254	2,388,069	7,442,254
Distribution Expense	15,695,623	15,813,973	3,556,619	15,813,973
Customer Expense	7,089,507	7,089,507	1,713,559	7,089,507
Administrative, General & Other	24,398,225	24,398,225	6,325,858	24,398,225
Depreciation and Amortization Expense	30,612,717	30,612,717	7,826,369	30,783,168 <sup>1</sup>
Interest Expense, Net	20,112,012	20,112,012	5,455,656	21,772,065 <sup>1 2</sup>
<b>Total Cost of Electric Service</b>	<b>\$ 202,436,700</b>	<b>\$ 202,555,050</b>	<b>\$ 53,756,501</b>	<b>\$ 205,097,902</b>
<b>Patronage Capital &amp; Operating Margins</b>	<b>\$ 4,948,575</b>	<b>\$ 4,830,225</b>	<b>\$ 2,070,737</b>	<b>\$ 4,643,045</b>
Non-Operating Margins - Interest	629,772	629,772	169,152	641,481 <sup>1</sup>
Allowance for Funds Used During Construction	178,150	178,150	45,557	179,169 <sup>1</sup>
Non-Operating Margins - Other	-	-	100,131	100,131 <sup>1</sup>
<b>Patronage Capital or Margins</b>	<b>\$ 5,756,497</b>	<b>\$ 5,638,147</b>	<b>\$ 2,385,577</b>	<b>\$ 5,563,826</b>
MFI/I	1.28	1.27	1.43	1.27
TIER	1.30	1.29	1.47	1.29

<sup>1</sup> Forecast based on 3 month actual and 9 month forecast

<sup>2</sup> Forecast has been adjusted to reflect anticipated changes

# CHUGACH ELECTRIC ASSOCIATION, INC.

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March 2019 Financial Information  
May 8, 2019



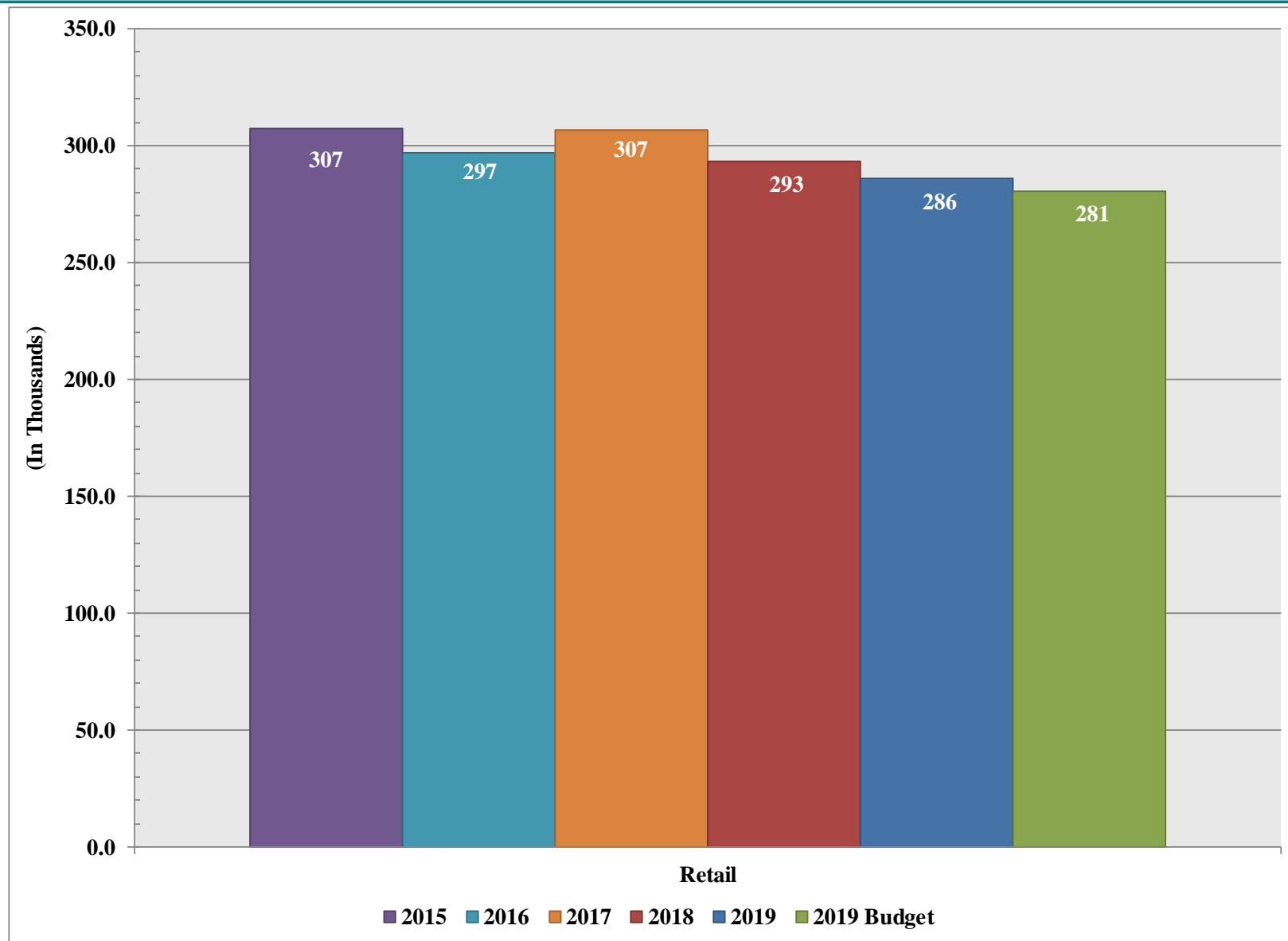
# March 2019 Financial Information

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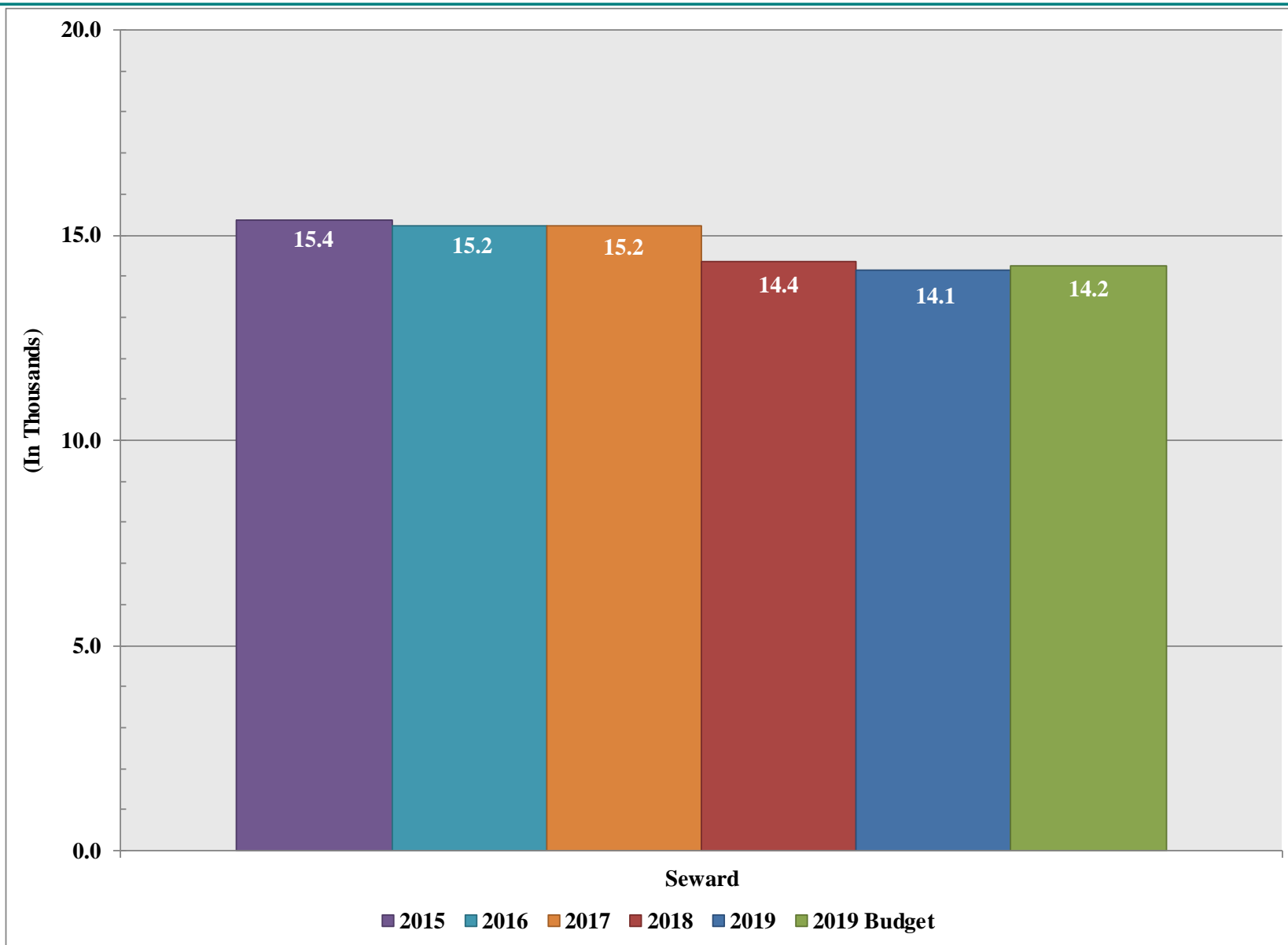
- ▶ MWH Sales
- ▶ Statement of Operations
- ▶ Balance Sheet
- ▶ Statements of Cash Flows



# 5 Year Retail MWh Sales Comparison (March YTD)



# 5 Year Seward MWh Sales Comparison (March YTD)



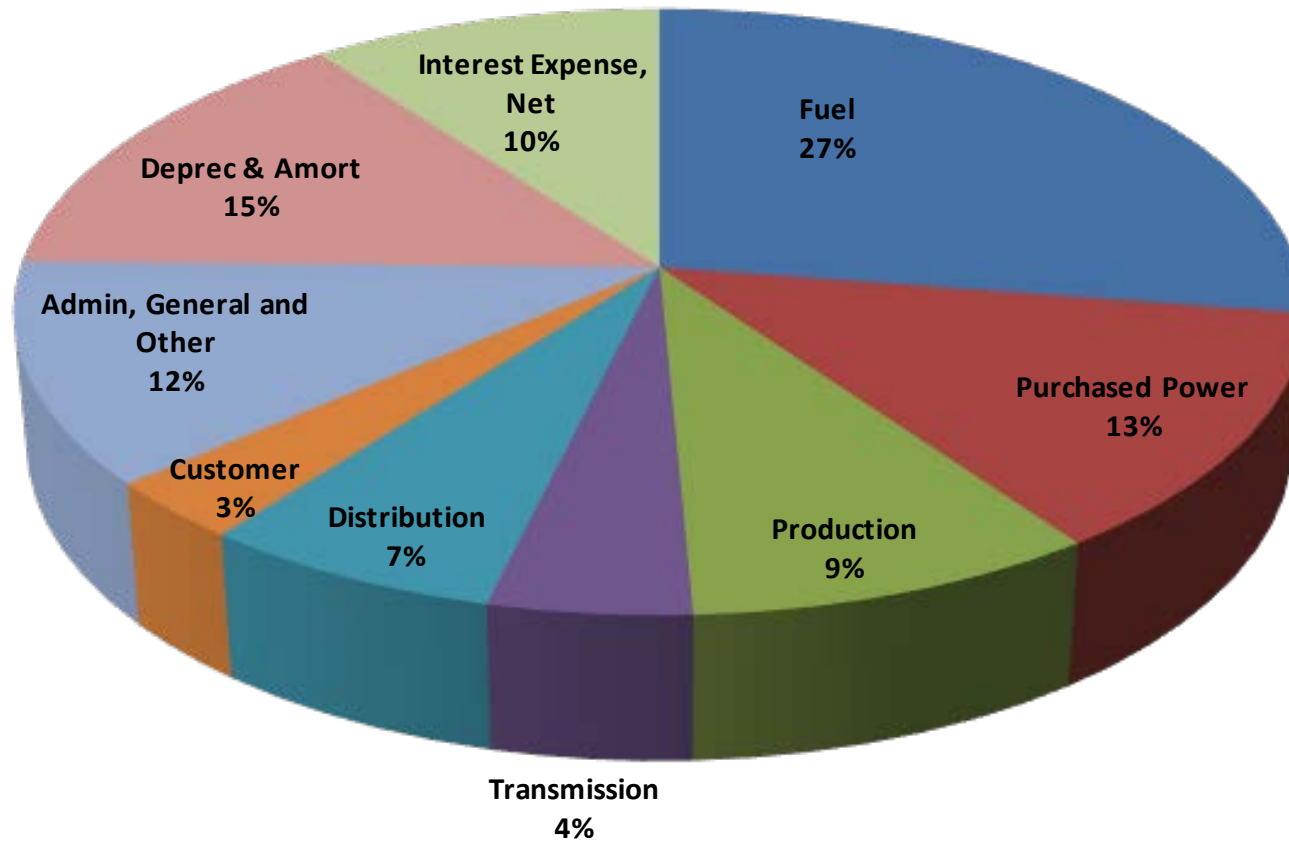
# Comparative Statement of Operations

## March YTD 2019



CATEGORY	ACTUAL	BUDGET	VARIANCE
<b>Operating Revenues</b>	<b>\$ 55,827,238</b>	<b>\$ 54,817,108</b>	<b>\$ 1,010,130</b>
Fuel	14,738,549	15,736,929	(998,380)
Production	4,858,811	5,013,638	(154,827)
Purchased Power	6,893,011	5,182,283	1,710,728
Transmission	2,388,069	2,104,539	283,530
Distribution	3,556,619	3,811,756	(255,137)
Consumer Accounts	1,713,559	1,575,333	138,226
Administrative, General and Other	6,325,858	6,344,382	(18,524)
Depreciation and Amortization	7,826,369	7,655,918	170,451
<b>Total Operating Expenses</b>	<b>\$ 48,300,845</b>	<b>\$ 47,424,778</b>	<b>\$ 876,067</b>
Interest Expense, Long-Term and Other	5,556,614	5,274,760	281,854
Interest Charged to Construction	(100,958)	(133,615)	32,657
<b>Net Interest Expense</b>	<b>\$ 5,455,656</b>	<b>\$ 5,141,145</b>	<b>\$ 314,511</b>
<b>Net Operating Margins</b>	<b>\$ 2,070,737</b>	<b>\$ 2,251,185</b>	<b>\$ (180,448)</b>
Interest Income	169,152	157,443	11,709
Allowance Funds Used During Const.	45,557	44,538	1,019
Capital Credits, Patronage Dividends, Other	100,131	0	100,131
<b>Patronage Capital or Margins</b>	<b>\$ 2,385,577</b>	<b>\$ 2,453,166</b>	<b>\$ (67,589)</b>
MFI/I	1.43	1.47	
TIER	1.47	1.49	

# Total Operating and Interest Expense March YTD 2019



# Comparative Balance Sheet, Assets & Other Debits

## March 2019 & December 2018



ASSETS & OTHER DEBITS	03/31/19	12/31/18	CHANGE
Electric Plant in Service	1,226,720,773	1,216,663,092	10,057,681
Construction Work in Progress	19,200,960	17,272,307	1,928,653
<b>Total Utility Plant</b>	<b>\$ 1,245,921,733</b>	<b>\$ 1,233,935,399</b>	<b>\$ 11,986,334</b>
Accumulated Depreciation	(540,007,359)	(529,099,451)	(10,907,908)
<b>Net Utility Plant</b>	<b>\$ 705,914,374</b>	<b>\$ 704,835,948</b>	<b>\$ 1,078,426</b>
Nonutility Property	76,889	76,889	0
Operating Lease Right-of-Use Assets	934,371	0	934,371
Investment in Assoc. Organizations	8,155,733	8,570,046	(414,313)
Special Funds	1,998,108	1,890,221	107,887
Restricted Cash Equivalents & Other	108,000	108,000	0
<b>Total Other Property &amp; Investments</b>	<b>\$ 11,273,101</b>	<b>\$ 10,645,156</b>	<b>\$ 627,945</b>
Cash, Marketable Securities & Other	9,787,755	12,423,578	(2,635,823)
Special Deposits & Restricted Cash	1,276,172	1,268,274	7,898
Accounts Receivable - Net	27,113,373	31,165,249	(4,051,876)
Materials and Supplies, Fuel Stock	26,048,765	28,175,563	(2,126,798)
Prepayments	3,935,723	2,227,117	1,708,606
Other Current Assets	349,529	241,279	108,250
<b>Total Current Assets</b>	<b>\$ 68,511,317</b>	<b>\$ 75,501,060</b>	<b>\$ (6,989,743)</b>
Deferred Charges, Net	38,120,452	37,668,424	452,028
<b>Total Assets</b>	<b>\$ 823,819,244</b>	<b>\$ 828,650,588</b>	<b>\$ (4,831,344)</b>

# Comparative Balance Sheet, Liabilities & Other Credits

## March 2019 & December 2018



LIABILITIES & OTHER CREDITS	03/31/19	12/31/18	CHANGE
Memberships	1,753,742	1,748,172	5,570
Patronage Capital	175,198,092	177,823,597	(2,625,505)
Other	15,035,783	14,952,925	82,858
<b>Total Equities and Margins</b>	<b>\$ 191,987,617</b>	<b>\$ 194,524,694</b>	<b>\$ (2,537,077)</b>
Bonds Payable	374,999,997	398,416,664	(23,416,667)
National Bank for Cooperatives	33,174,000	33,972,000	(798,000)
Unamortized Debt Issuance Costs	(2,397,413)	(2,425,247)	27,834
Operating Lease Liabilities	750,388	0	750,388
<b>Total Long-Term Obligations</b>	<b>\$ 406,526,972</b>	<b>\$ 429,963,417</b>	<b>\$ (23,436,445)</b>
Current Installments of Long-Term Obligations	26,792,650	26,608,667	183,983
Commercial Paper	85,000,000	61,000,000	24,000,000
Accounts Payable	10,401,055	9,538,749	862,306
Consumer Deposits	4,498,910	4,845,611	(346,701)
Other Current & Accrued Liabilities	34,101,999	32,853,659	1,248,340
<b>Total Current Liabilities</b>	<b>\$ 160,794,614</b>	<b>\$ 134,846,686</b>	<b>\$ 25,947,928</b>
Deferred Compensation	1,451,796	1,359,878	91,918
Other Liabilities, Non-Current	630,342	580,841	49,501
Deferred Liabilities	801,643	764,834	36,809
Patronage Capital Payable	1,931,295	3,393,253	(1,461,958)
Cost of Removal Obligation / ARO	59,694,965	63,216,985	(3,522,020)
<b>Total Liabilities, Equities and Margins</b>	<b>\$ 823,819,244</b>	<b>\$ 828,650,588</b>	<b>\$ (4,831,344)</b>

# Statements of Cash Flows

## March 2019 and March 2018

	03/31/19	03/31/18
<b>1. Cash flows from operating activities:</b>		
Assignable margins	\$ 2,385,577	\$ 3,127,960
Adjustments to reconcile assignable margins to net cash provided (used) by operating activities:		
Depreciation and amortization	9,633,008	8,605,321
Allowance for funds used during construction	(45,557)	(23,873)
Other	299,180	109,153
Decrease in assets	618,819	5,123,390
Decrease in liabilities	(5,961,719)	(5,944,990)
<b>Net cash provided by operating activities:</b>	<b>\$ 6,929,308</b>	<b>\$ 10,996,961</b>
<b>2. Cash flows from investing activities:</b>		
Return of capital from investment in associated organizations	414,313	413,897
Investment in special funds	(7,377)	(3,139)
Investment in marketable securities and investments-other	(14,004)	0
Proceeds from the sale of marketable securities	1,200,000	250,556
Extension and replacement of plant	(10,891,794)	(3,963,731)
<b>Net cash used in investing activities:</b>	<b>\$ (9,298,862)</b>	<b>\$ (3,302,417)</b>
<b>3. Cash flows from financing activities:</b>		
Payments for debt issue costs	(31,609)	0
Increase in short-term obligations	24,000,000	12,000,000
Decrease in long-term obligations	(24,214,667)	(24,214,667)
Increase in consumer advances for construction/other	1,085,949	1,081,361
<b>Net cash provided by (used in) financing activities:</b>	<b>\$ 839,673</b>	<b>\$ (11,133,306)</b>
Net change in cash, cash equivalents & restricted cash	(1,529,881)	(3,438,762)
<b>4. Cash, cash equivalents &amp; restricted cash at beginning of period</b>	<b>\$ 7,428,969</b>	<b>\$ 7,201,759</b>
<b>5. Cash, cash equivalents and restricted cash at end of period</b>	<b>\$ 5,899,088</b>	<b>\$ 3,762,997</b>

Questions?



**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**Anchorage, Alaska**

**AUDIT AND FINANCE COMMITTEE MEETING**  
**AGENDA ITEM SUMMARY**

**May 8, 2019**

**ACTION REQUIRED**

**AGENDA ITEM NO. VIII.A.**

<u>      </u>	<b>Information Only</b>
<u>  <b>X</b>  </u>	<b>Motion</b>
<u>      </u>	<b>Resolution</b>
<u>      </u>	<b>Executive Session</b>
<u>      </u>	<b>Other</b>

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**TOPIC**

March 31, 2019, SEC Form 10Q Filing

**DISCUSSION**

The Form 10Q as reviewed in executive session.

**MOTION**

Move that the Audit and Finance Committee recommend management file the Securities and Exchange Commission Form 10Q by the due date incorporating any amendments to the document which will be reviewed and approved by KPMG. Mr. Hayhurst and Ms. Highers will immediately inform the Board, in writing, of any material or significant changes.

**CHUGACH ELECTRIC ASSOCIATION, INC.**  
**Anchorage, Alaska**

**AUDIT AND FINANCE COMMITTEE MEETING**  
**AGENDA ITEM SUMMARY**

**May 8, 2019**

**ACTION REQUIRED**

**AGENDA ITEM NO. VIII.B.**

<u>      </u>	<b>Information Only</b>
<u>  <b>X</b>  </u>	<b>Motion</b>
<u>      </u>	<b>Resolution</b>
<u>      </u>	<b>Executive Session</b>
<u>      </u>	<b>Other</b>

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**TOPIC**

Pre-Approval of FY2019 Tax Services

**DISCUSSION**

KPMG provides tax services which includes the preparation and filing of the Form 990 and assistance with various tax related matters.

In accordance with Public Company Accounting Oversight Board Rule 3525 (Audit Committee Pre-approval of Non-audit Services Related to Internal Control Over Financial Reporting) we are seeking Audit and Finance Committee pre-approval of the 2019 Tax Services.

**MOTION**

Move that the Audit and Finance Committee recommend to the Board of Directors to approve the tax services for FY2019.

## **CHUGACH ELECTRIC ASSOCIATION, INC.**

### **BOARD POLICY: 207**

#### **AUDIT AND FINANCE COMMITTEE**

##### **I. PURPOSE**

The purpose of the Audit and Finance Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing the Association's systems of internal controls regarding finance, accounting, and legal compliance and the Association's auditing, accounting and financial reporting processes, results and reports. The Audit and Finance Committee's responsibilities are to:

- A. Act consistent with the Association's Board Policy 100, *Code of Ethics*, in particular, to create, promote and maintain a culture of honesty and high ethical standards.
- B. Review and oversee the Association's financial reporting process, results and reports as they apply to internal controls to prevent, deter and detect fraud.
- C. Review the performance of the Association's independent registered public accounting firm ("independent auditor" or "auditor").
- D. Ensure open communication between the Association's independent auditor, management and the Board of Directors.

The Audit and Finance Committee shall also:

- A. Make recommendations to the Board regarding Section II. B. of Board Policy 103.
- B. Review annually, objectives and goals in areas assigned to this Committee and makes appropriate recommendations to the Board.
- C. Review and complete such other matters as may be specifically assigned to it by the Board.

The Audit and Finance Committee will fulfill these responsibilities as enumerated in Section III of this Policy.

**II. COMPOSITION**

The Audit and Finance Committee shall be comprised of three or more directors as determined by the Board. Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Association or an outside consultant or other programs. The Committee may also retain the services of a qualified accounting professional with auditing expertise to assist it in the performance of its responsibilities.

The Board Chair shall appoint the Board Treasurer as Audit and Finance Committee chairperson. The Audit and Finance Committee shall elect from its membership a vice chair, and appoint a recording secretary as needed.

**III. RESPONSIBILITIES**

The responsibilities of the Committee are to:

1. Recommend to the Board of Directors the selection of the independent auditor, it being understood that the Board of Directors has the ultimate authority and responsibility to select, evaluate and, where appropriate, replace the independent auditor.
2. Receive annually a report of, and review and discuss with the independent auditor, all significant relationships they have with the Association, including the fees and other compensation paid to them, to verify their independence.
3. Ensure the receipt of, and evaluate the written disclosures and the letter that the independent auditor submits to the Audit and Finance Committee regarding the auditor's independence in accordance with Independence Standards Board Standard No. 1, discuss such reports with the auditor and, if so determined by the Audit and Finance Committee in response to such reports, recommend that the Board of Directors take appropriate action to address issues raised by such evaluation.
4. Discuss with the independent auditor the matters required to be discussed by SAS 61, as it may be modified or supplemented.
5. Instruct the independent auditor that the Committee expects to be advised if there are any areas that require special attention.
6. Meet with management and the independent auditor to discuss the annual financial statements and the report of the independent auditor thereon, and to discuss significant issues encountered in the course of the audit work, including

restrictions on the scope of activities, access to required information and the adequacy of internal financial controls.

7. Review the management letter delivered by the independent auditor in connection with the audit.
8. Following such reviews and discussions, if so determined by the Audit and Finance Committee, recommend to the Board of Directors that the annual financial statements be included in the Association's annual report.
9. Meet quarterly with management and the independent auditor to review and discuss the quarterly financial statements prior to the filing of the Form 10Q, if applicable, and meet annually with management and the independent auditor to review and discuss the annual financial statements and, if applicable, prior to filing of the Form 10K.
10. At least annually, meet with the independent auditor out of the presence of management to discuss internal controls and to review the fullness and accuracy of the Association's financial statements.
11. When necessary, meet in separate executive sessions with management and the independent auditor to discuss matters the immediate knowledge of which would clearly have an adverse effect on the finances of the cooperative, or when such an executive session would otherwise be necessary to comply with the open meeting requirements of the Association.
12. Have such meetings with management, the independent auditor and the internal auditor, if applicable, as the Audit and Finance Committee deems appropriate, to discuss significant financial risk exposures facing the Association, and steps management has taken or should be taken to monitor and control such exposures.
13. Review the scope and results of internal audits, if applicable.
14. Evaluate the performance of the independent auditor and, if so determined by the Audit and Finance Committee, recommend to the Board of Directors replacement of the independent auditor.
15. At the request of Association counsel, review with Association counsel legal and regulatory procedures that may have a significant impact on the Association's financial statements, compliance policies or programs.
16. Conduct or authorize such inquiries into matters within the Committee's scope of responsibility as the Committee deems appropriate.

17. Provide minutes of Audit and Finance Committee meetings to the Board of Directors, and report to the Board of Directors on any significant matters arising from the Committee's work.
18. Review with the independent auditors and management the extent to which any changes or improvements in financial or accounting practices, as recommended by the independent auditors and approved by the Board, have been implemented.
19. At least annually, review and reassess this Policy and, if appropriate, recommend proposed changes to the Board of Directors.

Date Approved: May 25, 2016

Attested:

  
Bruce M. Dougherty  
Secretary of the Board

*In the performance of its responsibilities, the Audit and Finance Committee is a representative of the members. However, it is not the responsibility of the Audit and Finance Committee to plan or conduct audits, or to determine whether the Association's financial statements are complete and accurate or in accordance with generally accepted accounting principles. It is not the responsibility of the Audit and Finance Committee to conduct inquiries, to resolve disagreements, if any, between management and the independent auditor, or to assure compliance with laws, regulations or any company compliance policies or programs.*