





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

**CERTIFIED PUBLIC ACCOUNTANTS**

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**Independent Auditor's Report**

Board of Directors  
Nueces Electric Cooperative, Inc.  
Robstown, Texas

We have audited the accompanying financial statements of Nueces Electric Cooperative, Inc., which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income and patronage capital and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nueces Electric Cooperative, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

Lubbock, Texas

March 7, 2016

## NUECES ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEETS  
DECEMBER 31, 2015 AND 2014

## ASSETS

	December 31,	
	2015	2014
UTILITY PLANT AT COST		
Electric Plant in Service	\$ 130,850,232	\$ 128,498,759
Construction Work in Progress	3,482,056	1,789,937
	\$ 134,332,288	\$ 130,288,696
Less: Accumulated Provision for Depreciation	26,772,351	25,000,262
	\$ 107,559,937	\$ 105,288,434
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	\$ 27,687,475	\$ 24,914,425
Held-to-Maturity Securities - At Amortized Cost	16,830,695	15,028,463
Other Investments - Restricted	1,621,103	1,713,276
	\$ 46,139,273	\$ 41,656,164
CURRENT ASSETS		
Cash - General	\$ 232,253	\$ 89,277
Accounts Receivable (Less allowance for uncollectibles of \$321,684 in 2015 and \$356,843 in 2014)	1,871,682	2,565,096
Accrued Unbilled Revenue	4,184,474	3,270,910
Materials and Supplies (At average cost)	2,304,519	2,417,363
Other Current and Accrued Assets	299,104	244,688
Total Current Assets	\$ 8,892,032	\$ 8,587,334
DEFERRED CHARGES	\$ 1,792,944	\$ 2,058,354
TOTAL ASSETS	\$ 164,384,186	\$ 157,590,286

## EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 427,458	\$ 420,343
Patronage Capital	68,423,729	60,522,992
Other Equities	5,217,433	4,515,792
	\$ 74,068,620	\$ 65,459,127
LONG-TERM DEBT		
CoBank Mortgage Notes	\$ 53,778,153	\$ 56,869,175
CFC Mortgage Notes	8,317,122	9,308,061
Other Long-Term Debt	2,212,641	3,058,808
Less: Current Maturities	(5,171,587)	(4,971,345)
	\$ 59,136,329	\$ 64,264,699
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 5,171,587	\$ 4,971,345
CoBank Line of Credit	7,300,000	6,700,000
Accounts Payable - Purchased Power	4,485,561	3,299,651
Accounts Payable - Other	1,859,049	1,092,553
Accounts Payable - Bank Overdrafts		461,181
Consumer Deposits and Prepayments	1,993,593	1,885,660
Accrued Taxes	362,475	316,326
Accrued Interest	233,058	254,934
Accrued Employee Compensated Absences	1,145,484	562,868
Patronage Capital Payable	537,906	633,849
Other Current and Accrued Liabilities	649,334	668,494
Total Current Liabilities	\$ 23,738,047	\$ 20,846,861
DEFERRED CREDITS	\$ 7,441,190	\$ 7,019,599
TOTAL EQUITIES AND LIABILITIES	\$ 164,384,186	\$ 157,590,286

See accompanying notes to financial statements.

## NUECES ELECTRIC COOPERATIVE, INC.

Exhibit B

STATEMENTS OF INCOME AND PATRONAGE CAPITAL  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	December 31,				Increase (Decrease)
	2015		2014		
	Amount	%	Amount	%	
<b>OPERATING REVENUES</b>					
Residential	\$ 53,377,235	64.8	\$ 58,457,256	75.0	\$ (5,080,021)
Small Commercial and Industrial	13,200,684	16.0	16,474,303	21.1	(3,273,619)
Large Commercial and Industrial	12,709,461	15.4	933,157	1.2	11,776,304
Public Street and Highway Lighting	1,174,195	1.4	1,231,892	1.6	(57,697)
Unbilled Revenue	913,563	1.1	571,232	0.7	342,331
Late Payment Penalties	705,310	0.9	677,687	0.9	27,623
Rent from Electric Property	115,362	0.1	97,519	0.1	17,843
Other Operating Revenues	259,502	0.3	(503,757)	(0.6)	763,259
Total Operating Revenues	<u>\$ 82,455,312</u>	<u>100.0</u>	<u>\$ 77,939,289</u>	<u>100.0</u>	<u>\$ 4,516,023</u>
<b>OPERATING EXPENSES</b>					
Purchased Power	\$ 54,692,208	66.3	\$ 50,525,276	64.8	\$ 4,166,932
Distribution - Operation	1,191,363	1.4	1,004,085	1.3	187,278
Distribution - Maintenance	3,579,190	4.3	2,981,395	3.8	597,795
Consumer Accounts	4,124,932	5.0	4,382,689	5.6	(257,757)
Customer Service and Information	111,596	0.1	117,388	0.2	(5,792)
Administrative and General	5,205,691	6.3	5,073,146	6.5	132,545
Depreciation and Amortization	3,377,155	4.1	3,170,559	4.1	206,596
Taxes	1,298,821	1.6	4,038,834	5.2	(2,740,013)
Other Interest	127,684	0.2	76,568	0.1	51,116
Other Deductions	594,369	0.7	43,575	0.1	550,794
Total Operating Expenses	<u>\$ 74,303,009</u>	<u>90.0</u>	<u>\$ 71,413,515</u>	<u>91.7</u>	<u>\$ 2,889,494</u>
<b>OPERATING MARGINS - Before Fixed Charges</b>	<u>\$ 8,152,303</u>	<u>10.0</u>	<u>\$ 6,525,774</u>	<u>8.3</u>	<u>\$ 1,626,529</u>
<b>FIXED CHARGES</b>					
Interest on Long-Term Debt	\$ 2,630,301	3.2	\$ 2,798,003	3.6	\$ (167,702)
Amortization of Premium on Reacquired Debt	80,988	0.1	80,988	0.1	
	<u>\$ 2,711,289</u>	<u>3.3</u>	<u>\$ 2,878,991</u>	<u>3.7</u>	<u>\$ (167,702)</u>
<b>OPERATING MARGINS - After Fixed Charges</b>	<u>\$ 5,441,014</u>	<u>6.7</u>	<u>\$ 3,646,783</u>	<u>4.6</u>	<u>\$ 1,794,231</u>
<b>G&amp;T Capital Credits</b>	<u>\$ 2,401,006</u>	<u>2.9</u>	<u>\$ 2,060,286</u>	<u>2.6</u>	<u>\$ 340,720</u>
<b>Other Capital Credits</b>	<u>1,028,985</u>	<u>1.2</u>	<u>883,153</u>	<u>1.1</u>	<u>145,832</u>
	<u>\$ 3,429,991</u>	<u>4.1</u>	<u>\$ 2,943,439</u>	<u>3.7</u>	<u>\$ 486,552</u>
<b>NET OPERATING MARGINS</b>	<u>\$ 8,871,005</u>	<u>10.8</u>	<u>\$ 6,590,222</u>	<u>8.3</u>	<u>\$ 2,280,783</u>
<b>NONOPERATING MARGINS</b>					
Interest Income	\$ 605,232	0.7	\$ 619,042	0.8	\$ (13,810)
Other Nonoperating Income	46,600	0.1	12,740	0.0	33,860
Base Operations	687,417	0.8	581,155	0.7	106,262
Gain on Disposition of Property	122,114	0.1	189,923	0.2	(67,809)
	<u>\$ 1,461,363</u>	<u>1.7</u>	<u>\$ 1,402,860</u>	<u>1.7</u>	<u>\$ 58,503</u>
<b>NET MARGINS</b>	<u>\$ 10,332,368</u>	<u>12.5</u>	<u>\$ 7,993,082</u>	<u>10.0</u>	<u>\$ 2,339,286</u>
<b>PATRONAGE CAPITAL - BEGINNING OF YEAR</b>	60,522,992		56,361,143		
Patronage Capital Retired	(1,860,399)		(3,685,719)		
Transferred to Other Equities	(571,232)		(145,514)		
<b>PATRONAGE CAPITAL - END OF YEAR</b>	<u>\$ 68,423,729</u>		<u>\$ 60,522,992</u>		

See accompanying notes to financial statements.

## NUECES ELECTRIC COOPERATIVE, INC.

Exhibit C

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	December 31,	
	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margins	\$ 10,332,367	\$ 7,993,082
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	3,997,911	3,761,792
Asset Impairment	590,540	
Amortized Loss on Retirement of RUS Debt	80,988	80,988
Capital Credits - Non-Cash	(2,901,753)	(2,479,117)
Accounts Receivable	693,414	1,751,490
Accrued Unbilled Revenue	(913,563)	(571,232)
Inventories and Other Current and Accrued Assets	58,428	(176,766)
Deferred Charges	265,410	128,748
Payables and Accrued Expenses	2,090,945	(3,120,377)
Deferred Credits	421,591	740,447
Net Cash Provided by Operating Activities	<u>\$ 14,716,278</u>	<u>\$ 8,109,055</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Utility Plant	\$ (6,338,233)	\$ (4,513,609)
Plant Removal Costs (in excess of) Salvage and Other Credits	(521,721)	(235,907)
Purchase of Held-to-Maturity Securities	(2,221,232)	(2,617,987)
Sale of Held-to-Maturity Securities	419,000	360,000
Other Property and Investments	220,876	264,781
Net Cash Used in Investing Activities	<u>\$ (8,441,310)</u>	<u>\$ (6,742,722)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Long-Term Debt to CoBank	\$ (3,091,022)	\$ (2,823,505)
Payments on Long-Term Debt to CFC	(990,939)	(1,309,675)
Payments on Other Long Term Debt	(927,155)	(889,184)
Capital Lease Principal Payments		(60,189)
Advances on CoBank Long-Term Debt		338,426
Advances on Line of Credit - Net	600,000	5,700,000
Other Equities	130,408	
Retirement of Patronage Capital	(1,860,399)	(3,685,719)
Increase in Memberships - Net	7,115	8,478
Net Cash Used in Financing Activities	<u>\$ (6,131,992)</u>	<u>\$ (2,721,368)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>\$ 142,976</b>	<b>\$ (1,355,035)</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>89,277</u>	<u>1,444,312</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 232,253</u>	<u>\$ 89,277</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 2,660,584	\$ 2,950,009
Income Taxes	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to financial statements.

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**1. Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations**

Nueces Electric Cooperative, Inc. (the Cooperative) is a non-profit company organized to provide electric service at the retail level to primarily residential and commercial accounts in a historically defined service area. Power delivered at retail is purchased wholesale from South Texas Electric Cooperative. 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.

**System of Accounts**

Although the Cooperative is no longer an RUS borrower, its accounting records are maintained in accordance with the RUS Uniform System of Accounts (USOA) prescribed for RUS electric borrowers.

**Electric Plant, Maintenance, and Depreciation**

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

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

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

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash - general is considered cash and cash equivalents.

**Accounts Receivable**

In the normal course of business the Cooperative recognizes accounts receivable for energy delivered and billed. The Cooperative allows 16 days from the date of the bill for payment to be received or the service is considered delinquent. Delinquent notices are sent after the due date giving the member an additional ten days to pay, the delinquent account is assessed a five percent penalty. If no payment is received within 26 days or a deferred payment agreement is not in place, the account is subject to disconnect.

The Cooperative provides an allowance for doubtful accounts to recognize the portion of receivables considered uncollectible. The Cooperative accrues amounts monthly to the allowance. The allowance is estimated based on historical trends, aging of receivables and review of potential bad debts. The Board of Directors reviews delinquent accounts quarterly and charges off accounts over one year old.



**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**Inventories**

Materials and supplies inventories are valued at average unit cost.

**Electric Revenues**

Certain aspects of the Cooperative's operations are under the jurisdiction of the Public Utility Commission of Texas; however, the Cooperative is no longer regulated for ratemaking purposes. The Cooperative records electric revenues as billed to customers on a monthly basis. Revenue is also accrued for power delivered but not billed at the end of each month. Accrued unbilled revenue arises when revenue has been earned, but the amounts have not yet been billed due to the timing of the various cycle billing dates of customer accounts. As of December 31, 2015 and 2014, the Cooperative's accrued unbilled revenue recorded was \$4,184,474 and \$3,270,910, respectively.

**Income Tax Status**

The Cooperative is an exempt organization for federal income tax purposes under Section 501(c)(12) of the Internal Revenue Code.

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

The Cooperative files income tax returns in the U.S. federal jurisdiction. The Cooperative is no longer subject to U.S. federal and state income tax examinations by federal taxing authorities for years before 2012.

The Cooperative recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended December 31, 2015 and 2014.

**Group Concentration of Credit Risk**

The Cooperative's headquarters facility is located in Robstown, Texas. The service area includes members located in all or parts of an eight county area surrounding the City of Robstown. In addition, the Cooperative provides "energy only" services to members outside their traditional service territory. The Cooperative records a receivable for electric revenues as billed on a monthly basis. The Cooperative may require a deposit from new members upon connection which is applied to unpaid bills and fees in the event of default. The deposit accrues interest annually and is returned along with accrued interest after one year of prompt payments. The accrued interest on all retained deposits is returned annually. As of December 31, 2015 and 2014, deposits on hand totaled \$1,993,593 and \$1,885,660, respectively.

Although the financial institutions in which the Cooperative has deposits are insured by agencies of the federal government, deposits at times exceeded insured amounts.

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**Patronage Capital Certificates**

Patronage capital from associated organizations is recorded at the stated amount of the certificate. At the end of each year the Cooperative receives an estimated allocation from its G&T power supply cooperative. In accordance with the USOA, the Cooperative records this estimated amount as income. Any difference between the estimated amount and the actual final allocation is recorded in the following year.

The G&T patronage income recognized for the 2015 and 2014 years are as follows:

	December 31,	
	2015	2014
Estimated Allocation for 2015	\$ 2,395,139	\$
True Up to Actual for 2014	5,867	
Estimated Allocation for 2014		2,114,037
True Up to Actual for 2013		(53,751)
	<u>\$ 2,401,006</u>	<u>\$ 2,060,286</u>

**Advertising**

It is the Cooperative's policy to expense advertising as incurred. Advertising expense was \$1,356,467 and \$1,185,531 for 2015 and 2014, respectively.

**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.

**Fair Value Hierarchy**

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

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

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

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

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**2. Assets Pledged**

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

**3. Electric Plant**

The major classes of electric plant are as follows:

	December 31,	
	2015	2014
Distribution Plant	\$ 97,317,481	\$ 94,737,202
General Plant	33,532,751	33,761,557
Total Electric Plant in Service	\$ 130,850,232	\$ 128,498,759
Construction Work in Progress	3,482,056	1,789,937
Total Electric Plant	\$ 134,332,288	\$ 130,288,696

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

Distribution Plant	3.00%
General Plant	
Structures and Improvements	2.00%
Office Furniture and Fixtures	14.29% - 33.33%
Transportation Equipment	14.29% - 21.62%
Power Operated Equipment	20.00%
Communications Equipment	26.67% - 33.33%
Miscellaneous Equipment	3.96% - 10.00%
Tools, Shop, and Garage Equipment	6.00%
Laboratory Equipment	16.67%

Depreciation and amortization for the years ended December 31, 2015 and 2014 was \$3,997,911 and \$3,761,792, respectively, of which \$3,351,155 and \$3,170,559, was charged to depreciation expense and \$646,756 and \$591,233, was allocated to other accounts.

For the year ended December 31, 2015, the Cooperative recognized an impairment totaling \$590,540 associated with the previous Robstown headquarters building. The provision for impairment represents the difference between the net carrying cost and the appraisal amount from Nueces County Appraisal District, and the related cost to dispose of the asset.

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**4. Investments in Associated Organizations**

Investments in associated organizations consisted of:

	December 31,	
	2015	2014
CFC		
Capital Term Certificates	\$ 738,569	\$ 738,569
Patronage Capital	196,067	179,166
Membership	1,000	1,000
South Texas Electric Cooperative		
Patronage Capital	24,532,771	22,131,766
Texas Electric Cooperatives, Inc.		
Patronage Capital	589,733	476,944
CoBank		
Patronage Capital	1,235,959	1,083,949
Other	393,376	303,031
Total	<u>\$ 27,687,475</u>	<u>\$ 24,914,425</u>

**5. Other Investments – Held-to-Maturity Securities**

In connection with the retirement of capital credits in future years the Cooperative has purchased U.S. Treasury Strips. These investments are designed to mature at the time the retirements are made. These investments were purchased at significant discounts. Securities classified as held-to-maturity with maturity dates between 2016 and 2035 consist of the following:

	December 31,	
	2015	2014
U.S. Treasury Strips		
Maturity Amount	\$ 26,973,000	\$ 24,905,000
Less: Unaccreted Discount	<u>(10,142,305)</u>	<u>(10,072,537)</u>
Net	\$ 16,830,695	\$ 14,832,463
Certificate of Deposits		196,000
Total	<u>\$ 16,830,695</u>	<u>\$ 15,028,463</u>

The market value of the held-to-maturity securities was \$18,703,913 and \$17,356,240 as of December 31, 2015 and 2014, respectively.

Held-to-maturity valuations are considered Level 1.

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**6. Other Investments – Restricted**

Restricted investments consisted of the following:

	December 31,	
	2015	2014
Special Deposit	\$ 1,304,288	\$ 1,406,588
Scholarship Fund	316,815	306,688
Total	<u>\$ 1,621,103</u>	<u>\$ 1,713,276</u>

As part of the retail competitive market, the retail division of the Cooperative ensures the energy delivery provider's payment of their energy delivery charges through a special deposit held by an indenture trustee.

**7. Materials and Supplies**

Materials and supplies inventories consisted of:

	December 31,	
	2015	2014
Construction Materials and Supplies	\$ 2,304,519	\$ 2,417,363
Total	<u>\$ 2,304,519</u>	<u>\$ 2,417,363</u>

**8. Deferred Charges**

Deferred charges included the following:

	December 31,	
	2015	2014
Premium - Refinancing RUS Debt	\$ 620,908	\$ 701,896
NRECA Pension Prepayment	1,086,496	1,241,709
Loss on Retirement of Base Meters	77,890	107,099
Other	7,650	7,650
Total	<u>\$ 1,792,944</u>	<u>\$ 2,058,354</u>

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

At the December 2012 meeting of the I&FS Committee of the National Rural Electric Cooperative Association (NRECA) Board of Directors, the Committee approved an option to allow participating cooperatives in the Retirement and Security Plan (the RS Plan) to make a contribution prepayment and reduce future required contributions. The prepayment amount is a cooperative'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 the RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual the RS Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25.00%, retroactive to January 1, 2013. The 25.00% differential in billing rates is expected to continue for approximately 15 years. 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.

In 2010, the Cooperative bought out RUS with loan draws from CFC. In the process the Cooperative had to pay a premium to RUS which is being amortized over the life of the new debt. The premium is being amortized over a period of 13 years starting November 2010.

Original RUS Refinancing Premium	\$	1,039,346
Less: Accumulated Amortization		<u>418,438</u>
Balance	\$	<u><u>620,908</u></u>

**9. Return of Capital**

The mortgage agreements contain provisions that must be met for the Cooperative to make patronage capital retirements. These provisions include minimum equity, debt service, and earnings ratios. The Cooperative is in compliance with these provisions at December 31, 2015 and 2014. The equities and margins of the Cooperative represent 45.06% and 41.54% of the total assets at December 31, 2015 and 2014, respectively. Patronage capital totaling \$1,860,399 and \$3,685,719 was retired during 2015 and 2014, respectively.

**10. Patronage Capital**

	December 31,	
	<u>2015</u>	<u>2014</u>
Beginning Patronage Capital	\$ 60,522,992	\$ 56,361,143
Transferred to Other Equities	(571,232)	(145,514)
Assignable	<u>10,332,368</u>	<u>7,993,082</u>
	\$ 70,284,128	\$ 64,208,711
Less: Current Year Retirements	<u>1,860,399</u>	<u>3,685,719</u>
Total	<u><u>\$ 68,423,729</u></u>	<u><u>\$ 60,522,992</u></u>

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**11. Other Equities**

	December 31,	
	<u>2015</u>	<u>2014</u>
Retired Capital Credits - Gains	\$ 2,529,522	\$ 2,398,711
Margins - Other	<u>2,687,911</u>	<u>2,117,081</u>
	<u>\$ 5,217,433</u>	<u>\$ 4,515,792</u>

**12. Mortgage Notes – CFC**

Following is a summary of long-term debt due CFC and maturing at various times from 2016 to 2023:

	December 31,	
	<u>2015</u>	<u>2014</u>
Fixed Rate Notes - 3.60% - 4.50%	\$ 8,317,122	\$ 9,308,061
Less: Current Maturities	<u>1,010,190</u>	<u>990,900</u>
Total	<u>\$ 7,306,932</u>	<u>\$ 8,317,161</u>

Principal and interest installments on the above notes are due quarterly. Annual maturities of long-term debt due CFC for the next five years are as follows:

2016	\$ 1,010,190
2017	1,022,878
2018	1,072,844
2019	1,110,104
2020	1,135,513

The Cooperative has \$0 available from unadvanced funds.

**13. Mortgage Notes – CoBank**

Following is a summary of long-term debt due CoBank and maturing at various times from 2016 to 2036:

	December 31,	
	<u>2015</u>	<u>2014</u>
Fixed Rate Notes - 2.44%-6.85%	\$ 53,778,153	\$ 56,869,175
Less: Current Maturities	<u>3,275,481</u>	<u>3,134,000</u>
Total	<u>\$ 50,502,672</u>	<u>\$ 53,735,175</u>

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Principal and interest installments on the above notes are due on a monthly and quarterly basis. Annual maturities of long-term debt due CoBank for the next five years are as follows:

2016	\$ 3,275,481
2017	3,213,506
2018	3,070,264
2019	2,293,457
2020	2,151,142

The Cooperative has \$20,000,000 available from unadvanced funds.

**14. Mortgage Notes – Other Long-Term Debt**

Following is a summary of long-term debt due Corpus Christi and Kingsville Naval Bases due and maturing in 2018:

	December 31,	
	2015	2014
Fixed Rate Notes - 4.60%	\$ 2,212,641	\$ 3,058,808
Less: Current Maturities	885,916	846,445
Total	<u>\$ 1,326,725</u>	<u>\$ 2,212,363</u>

Principal and interest installments on the above notes are due monthly. Annual maturities of long-term debt due Corpus Christi and Kingsville Naval Bases for the next three years are as follows:

2016	\$ 885,916
2017	927,539
2018	399,186

**15. Short-Term Borrowing**

As of December 31, 2015 and 2014 the Cooperative had a \$4,000,000 line of credit with CFC to be drawn upon as needed. The interest rate on this line of credit was 2.90% as of December 31, 2015 and 2014. As of December 31, 2015 and 2014 the Cooperative had drawn \$0 against this line of credit.

As of December 31, 2015 and 2014 the Cooperative had a \$15,000,000 line of credit, with CoBank to be drawn upon as needed. The interest rate on this line of credit was 2.92% as of December 31, 2015 and 2014. As of December 31, 2015 and 2014 the Cooperative had drawn \$7,300,000 and \$6,700,000, respectively against this line of credit.



**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**16. Operating Leases**

The Cooperative leases certain vehicles with various base monthly rental amounts. These leases expire at various times through 2017. Lease expense under all operating leases totaled \$120,533 in 2015 and \$190,817 in 2014.

Minimum lease payments on operating leases by year for the next two years as of December 31, 2015, are as follows:

2016	\$	86,172
2017		10,839

**17. Deferred Credits**

Deferred credits include the following:

	December 31,	
	2015	2014
Consumer Advances for Construction	\$ 1,798,050	\$ 1,590,465
Corpus Christi Naval Base - Deferred Revenue	3,921,236	3,831,389
Kingsville Naval Base - Deferred Revenue	1,404,441	1,288,945
Scholarship Fund	316,815	306,688
Other	648	2,112
Total	\$ 7,441,190	\$ 7,019,599

Consumer Advances for Construction represents refundable aid to construction on line extensions and subdivision construction contracts. Any amounts remaining anywhere from five to ten years, depending on the agreement, are forfeited to the Cooperative and charged against construction work in progress.

Corpus Christi Naval Base and Kingsville Naval Base – Deferred Revenue represents the amount billed per the contract with Corpus Christi Naval Base and Kingsville Naval Base for renewals and replacements, and construction work in progress. These amounts will be recognized as qualifying renewals and replacements and construction work in progress costs as incurred.

**18. Litigation and Commitments**

The Cooperative is involved in various legal actions arising in the normal course of business. It is the opinion of management and that the resolution of such actions will not have a material adverse effect on the financial position of the Cooperative, its results of operations, or cash flows.

The Cooperative is committed to purchase approximately \$2,950,000 in metering equipment from a vendor as of December 31, 2015.

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**19. Pension Benefits**

Narrative Description

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

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

Plan Information

The Cooperative's contributions to the RS Plan in 2015 and in 2014 represented less than five percent of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of \$509,227 in 2015 and \$538,344 in 2014. Pension expense for the years ended December 31, 2015 and 2014, including amortization of the RS Plan prepayment, was \$664,441 and \$693,557, respectively.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded on January 1, 2015 and January 1, 2014 based on the PPA funding target and PPA actuarial value of assets on those dates.

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

In addition, the Cooperative provides retirement benefits through a 401(k) plan that is administered by NRECA SelectRe Pension plan. The Cooperative provides matching funds up to three percent of an employee's salary. The cost of this plan for 2015 and 2014 was \$134,994 and \$140,504, respectively.

**20. Related Party Transactions**

Nueces Electric Cooperative, Inc. is committed to purchase its electric power from South Texas Electric Cooperative, Inc. (STEC), a cooperative of which it is a member and is represented on its Board of Directors.

During the years ended December 31, 2015 and 2014 the Cooperative purchased \$54,692,208 and \$50,525,276, respectively, from STEC. At December 31, 2015 and 2014 amounts due to STEC included in accounts payable – purchased power were \$4,485,561 and \$3,299,651, respectively.

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

During the years ended December 31, 2015 and 2014 the Cooperative held a patronage capital investment with STEC in the amount of \$24,532,771 and \$22,131,766, respectively. The Cooperative was allocated patronage capital from STEC for the years ended December 31, 2015 and 2014 in the amount of \$2,401,006 and \$2,060,286, respectively.

**21. Major Consumer**

The Cooperative has one consumer who accounted for the following:

	December 31,	
	2015	2014
Electric Energy Revenue	\$ 11,186,243	\$ 483,847
kWh Sales	229,751,749	9,481,856
Purchase Power Expense	\$ 10,456,694	\$ 460,015

**22. Disclosures About Fair Value of Financial Statements**

Many of the Cooperative's financial instruments lack an available market with similar terms, conditions, and maturities as those reflected in the carrying amount recorded. Accordingly, significant assumptions, estimations, and present value calculations were used for purposes of this disclosure.

Estimated Fair Value has been determined by calculating the present value of financial instruments using the best data available.

Fair Value for some amounts carried on the financial statements has not been calculated for the following reasons:

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. Relevant information with respect to these are as follows:

	Amount	Interest Rate	Maturity
\$	131,408	5.00%	2070
	137,474	5.00%	2075
	267,287	5.00%	2080
	42,750	3.00%	2025
	159,650	3.00%	2030
\$	<u>738,569</u>		

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Cash and Temporary Cash Investments – The recorded book value approximates fair value given the short period to maturity.

Long-Term Debt valuations are considered Level 2.

The estimated fair value of the Cooperative’s financial instruments is as follows:

CoBank, CFC, and Other Fixed Rate Long-Term Debt – The fair value of the Cooperative’s CFC, CoBank, and other long term fixed rate long-term debt is calculated by computing the present value of the individual notes to maturity. The discount rate used is the currently available CFC fixed interest rate available for long-term debt repricing at the same maturity as the current debt.

	Carrying Value	Fair Value
As of December 31, 2015	\$ <u>64,307,916</u>	\$ <u>63,714,601</u>

**23. Subsequent Events**

The Cooperative has evaluated subsequent events through March 7, 2016, the date which the financial statements were available to be issued.

**24. Other Matters**

Since the Cooperative sells electricity in the retail market, the Cooperative is subject to the Public Utility Gross Receipts Assessment, and the miscellaneous Gross Receipts Tax on gross receipts from the sale of electricity. In 2014, the Cooperative paid back taxes owed for 2010 through 2013 of \$2,704,200. For the period ended December 31, 2015 and 2014, the Cooperative incurred miscellaneous Gross Receipts Tax expense of \$776,804 and \$820,965, respectively. Beginning May 2015, the Cooperative began to bill for the Public Utility Gross Receipts Assessment and the Miscellaneous Gross Receipts Tax.

**ACCOMPANYING INFORMATION**

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

**CERTIFIED PUBLIC ACCOUNTANTS**

**PHONE: (806) 747-3806**

**FAX: (806) 747-3815**

**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**INDEPENDENT AUDITOR'S REPORT ON ACCOMPANYING INFORMATION**

We have audited the financial statements of Nueces Electric Cooperative, Inc., as of and for the years ended December 31, 2015 and 2014, and our report thereon dated March 7, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of electric plant, accumulated provision for depreciation, other property and investments, and administrative and general expenses is presented for the 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 information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Bolinger, Segars, Gilbert & Moss L.L.P.*

Certified Public Accountants

Lubbock, Texas

March 7, 2016

## NUECES ELECTRIC COOPERATIVE, INC.

Schedule 1

**ELECTRIC PLANT  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Balance 1/1/2015	Additions	Retirements	Transfers	Balance 12/31/2015
<b>CLASSIFIED ELECTRIC PLANT IN SERVICE</b>					
<b>Distribution Plant</b>					
Land and Land Rights	\$ 2,745	\$	\$	\$	\$ 2,745
Station Equipment	1,053,218				1,053,218
Poles, Towers, and Fixtures	27,841,431	1,086,771	272,454		28,655,748
Overhead Conductors and Devices	22,871,620	624,420	332,317	(170,757)	22,992,966
Underground Conductors and Devices	5,678,413	245,157	51,256	170,757	6,043,071
Line Transformers	15,874,086	1,498,168	492,245		16,880,009
Services	7,308,747	305,749	42,044		7,572,452
Meters	4,954,662	8,968	24,074		4,939,556
Installations on Consumer Premises	1,758,663	156,132	114,083		1,800,712
Corpus Christi Naval Base Plant	5,646,990		10,223		5,636,767
Kingsville Naval Base Plant	1,746,627		6,390		1,740,237
Total	<u>\$ 94,737,202</u>	<u>\$ 3,925,365</u>	<u>\$ 1,345,086</u>	<u>\$ 0</u>	<u>\$ 97,317,481</u>
<b>General Plant</b>					
Land and Land Rights	\$ 1,336,588	\$	\$	\$	\$ 1,336,588
Structures and Improvements	28,986,984	104,870	590,541		28,501,313
Office Furniture and Computer Equipment	494,474				494,474
Transportation Equipment	2,439,097	615,879	309,769		2,745,207
Tools, Shop, and Garage Equipment	62,839				62,839
Laboratory Equipment	164,422				164,422
Power Operated Equipment	29,850				29,850
Communications Equipment	90,803		49,245		41,558
Miscellaneous Equipment	156,500				156,500
Total	<u>\$ 33,761,557</u>	<u>\$ 720,749</u>	<u>\$ 949,555</u>	<u>\$ 0</u>	<u>\$ 33,532,751</u>
Total Classified Electric Plant in Service	\$ 128,498,759	\$ 4,646,114	\$ 2,294,641	\$ 0	\$ 130,850,232
Construction Work in Progress	<u>1,789,937</u>	<u>1,692,119</u>			<u>3,482,056</u>
Total Utility Plant	<u>\$ 130,288,696</u>	<u>\$ 6,338,233</u>	<u>\$ 2,294,641</u>	<u>\$ 0</u>	<u>\$ 134,332,288</u>

NUECES ELECTRIC COOPERATIVE, INC.

Schedule 2

ACCUMULATED PROVISION FOR DEPRECIATION  
FOR THE YEAR ENDED DECEMBER 31, 2015

	Balance 1/1/2015	Accruals	Retirements	Transfers	Balance 12/31/2015
Distribution Plant					
NEC Distribution Plant	\$ 18,801,439	\$ 2,512,373	\$ 1,674,277	\$	\$ 19,639,535
Corpus Christi Naval Base	1,790,357	276,408	11,223		2,055,542
Kingsville Naval Base	517,051	85,493	6,390		596,154
Total Distribution Plant	<u>\$ 21,108,847</u>	<u>\$ 2,874,274</u>	<u>\$ 1,691,890</u>	<u>\$ 0</u>	<u>\$ 22,291,231</u>
General Plant					
Structures and Improvements	\$ 1,557,147	\$ 772,986	\$	\$	\$ 2,330,133
Office Furniture and Computer Equipment	422,743	30,899			453,642
Transportation Equipment	1,614,162	282,169	303,353		1,592,978
Tools, Shop, and Garage Equipment	60,983	801			61,784
Laboratory Equipment	146,344	5,292			151,636
Power Operated Equipment	27,165	2,685			29,850
Communication Equipment	77,513	10,722	49,245		38,990
Miscellaneous Equipment	76,833	18,083			94,916
Total General Plant	<u>\$ 3,982,890</u>	<u>\$ 1,123,637</u>	<u>\$ 352,598</u>	<u>\$ 0</u>	<u>\$ 4,753,929</u>
Total Classified Electric Plant in Service	\$ 25,091,737	\$ 3,997,911	\$ 2,044,488	\$ 0	\$ 27,045,160
Retirement Work in Progress	<u>(91,475)</u>		<u>181,334</u>		<u>(272,809)</u>
Total	<u>\$ 25,000,262</u>	<u>\$ 3,997,911</u>	<u>\$ 2,225,822</u>	<u>\$ 0</u>	<u>\$ 26,772,351</u>

(1)

(2)

(1) Depreciation

    Charged to Expense

\$ 3,351,155

    Charged to Clearing

646,756

\$ 3,997,911

(2) Net Loss on Retirement

    Original Cost

\$ 2,294,641

    Cost of Removal

754,905

    Less: Asset Impairment Charged to Other Deductions

590,540

    Less: Salvage and Other Credits

233,184

\$ 2,225,822



**NUECES ELECTRIC COOPERATIVE, INC.**

**Schedule 3**

**OTHER PROPERTY AND INVESTMENTS  
AS OF DECEMBER 31, 2015 AND 2014**

	December 31,	
	<u>2015</u>	<u>2014</u>
<b>INVESTMENTS IN ASSOCIATED ORGANIZATIONS</b>		
Memberships	\$ 2,135	\$ 1,135
Patronage Capital		
South Texas Electric Cooperative	24,532,771	22,131,766
Texas Electric Cooperatives, Inc.	589,733	476,944
National Information Solutions Cooperative	111,813	102,152
National Rural Utilities Cooperative Finance Corporation	196,067	179,166
CoBank	1,235,959	1,083,949
Federated Insurance	260,595	183,868
Cooperative Response Center	19,833	16,876
Capital Term Certificates		
National Rural Utilities Cooperative Finance Corporation	<u>738,569</u>	<u>738,569</u>
Total	<u>\$ 27,687,475</u>	<u>\$ 24,914,425</u>
<b>HELD-TO-MATURITY SECURITIES</b>		
Certificates of Deposit - Maturity greater than one year	\$	\$ 196,000
Treasury Strips	<u>16,830,695</u>	<u>14,832,463</u>
Total	<u>\$ 16,830,695</u>	<u>\$ 15,028,463</u>
<b>OTHER INVESTMENTS - RESTRICTED</b>		
Scholarship Funds	\$ 316,815	\$ 306,688
Transitional Charges Special Deposit	<u>1,304,288</u>	<u>1,406,588</u>
Total	<u>\$ 1,621,103</u>	<u>\$ 1,713,276</u>

**NUECES ELECTRIC COOPERATIVE, INC.**

**Schedule 4**

**ADMINISTRATIVE AND GENERAL EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	December 31,		Increase (Decrease)
	<u>2015</u>	<u>2014</u>	<u></u>
Administrative and General Salaries	\$ 1,176,406	\$ 1,168,767	\$ 7,639
Office Supplies and Expenses	518,772	619,326	(100,554)
Outside Services Employed	246,387	184,855	61,532
Workmen's Compensation, General Liability, and Other Insurance	377,078	382,912	(5,834)
Regulatory Commission Expense	322,287	348,671	(26,384)
Directors' Fees and Expenses	332,518	226,548	105,970
Dues to Associated Organizations	53,839	89,344	(35,505)
Annual Meeting Expense	192,538	193,469	(931)
Advertising Expenses	1,356,467	1,185,531	170,936
Miscellaneous General Expenses	314,802	368,784	(53,982)
Maintenance of General Plant	<u>314,597</u>	<u>304,939</u>	<u>9,658</u>
Total	<u>\$ 5,205,691</u>	<u>\$ 5,073,146</u>	<u>\$ 132,545</u>

**COMPLIANCE AND INTERNAL CONTROL SECTION**

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

**CERTIFIED PUBLIC ACCOUNTANTS**

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**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

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

Board of Directors  
Nueces Electric Cooperative, Inc.  
Robstown, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of Nueces Electric Cooperative, Inc. as of December 31, 2015, and the related statements of income and patronage capital and cash flows for the year then ended, and have issued our report thereon dated March 7, 2016.

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

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

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

Lubbock, Texas

March 7, 2016