

**NUECES ELECTRIC COOPERATIVE, INC.**

**ROBSTOWN, TEXAS**

**FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

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

**CERTIFIED PUBLIC ACCOUNTANTS**

**LUBBOCK, TEXAS**

**NUECES ELECTRIC COOPERATIVE, INC.**

**ROBSTOWN, TEXAS**

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

**CERTIFIED PUBLIC ACCOUNTANTS**

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**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**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, 2018 and 2017, 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, 2018 and 2017, 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.

## Other Matter

### *Supplementary Information*

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 LLP*

Certified Public Accountants

Lubbock, Texas

April 1, 2019

## NUECES ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEETS  
DECEMBER 31, 2018 AND 2017

## ASSETS

	December 31,	
	2018	2017
UTILITY PLANT AT COST		
Electric Plant in Service	\$ 139,929,582	\$ 138,663,294
Construction Work in Progress	113,793	1,066,900
	\$ 140,043,375	\$ 139,730,194
Less: Accumulated Provision for Depreciation	25,016,522	26,168,708
	\$ 115,026,853	\$ 113,561,486
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	\$ 37,825,493	\$ 33,856,972
Held-to-Maturity Securities - At Amortized Cost	24,586,492	22,257,152
Other Investments - Restricted	1,479,525	1,316,411
	\$ 63,891,510	\$ 57,430,535
CURRENT ASSETS		
Cash - General	\$ 2,798,737	\$ 1,950,333
Accounts Receivable (Less allowance for uncollectibles of \$312,644 in 2018 and \$342,766 in 2017)	2,211,736	4,390,705
Accrued Unbilled Revenue	5,214,275	5,605,833
Materials and Supplies (At average cost)	1,989,330	2,276,501
Other Current and Accrued Assets	380,852	282,434
Total Current Assets	\$ 12,594,930	\$ 14,505,806
DEFERRED CHARGES	\$ 1,007,448	\$ 1,339,459
TOTAL ASSETS	\$ 192,520,741	\$ 186,837,286

## EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 431,525	\$ 424,450
Patronage Capital	92,567,163	85,211,382
Other Equities	8,006,101	6,826,190
	\$ 101,004,789	\$ 92,462,022
LONG-TERM DEBT		
CoBank Mortgage Notes	\$ 62,922,236	\$ 62,314,019
CFC Mortgage Notes	7,927,539	6,285,181
Other Long-Term Debt		399,174
Less: Current Maturities	(3,924,000)	(4,415,000)
	\$ 66,925,775	\$ 64,583,374
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 3,924,000	\$ 4,415,000
Line of Credit	500,000	5,400,000
Accounts Payable - Purchased Power	6,203,726	5,805,592
Accounts Payable - Other	1,050,850	1,005,533
Consumer Deposits	2,058,621	2,134,338
Accrued Taxes	270,358	293,590
Accrued Interest	241,457	229,517
Unclaimed Patronage Capital Payable	630,395	1,167,404
Accrued Employee Compensated Absences	648,730	624,281
Other Current and Accrued Liabilities	595,134	600,713
Total Current Liabilities	\$ 16,123,271	\$ 21,675,968
DEFERRED CREDITS	\$ 8,466,906	\$ 8,115,922
TOTAL EQUITIES AND LIABILITIES	\$ 192,520,741	\$ 186,837,286

See accompanying notes to financial statements.

## NUECES ELECTRIC COOPERATIVE, INC.

Exhibit B

STATEMENTS OF INCOME AND PATRONAGE CAPITAL  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	December 31,				Increase (Decrease)
	2018		2017		
	Amount	%	Amount	%	
<b>OPERATING REVENUES</b>					
Residential	\$ 56,571,468	52.0	\$ 55,665,105	52.7	\$ 906,363
Small Commercial and Industrial	11,614,125	10.7	11,698,849	11.0	(84,724)
Large Commercial and Industrial	38,991,740	35.8	35,612,324	33.6	3,379,416
Public Street and Highway Lighting	998,101	0.9	1,078,987	1.0	(80,886)
Unbilled Revenue	(391,558)	(0.4)	934,741	0.9	(1,326,299)
Late Payment Penalties	639,334	0.6	434,771	0.4	204,563
Rent from Electric Property	92,014	0.1	106,224	0.1	(14,210)
Other Operating Revenues	354,300	0.3	344,767	0.3	9,533
Total Operating Revenues	<u>\$ 108,869,524</u>	<u>100.0</u>	<u>\$ 105,875,768</u>	<u>100.0</u>	<u>\$ 2,993,756</u>
<b>OPERATING EXPENSES</b>					
Purchased Power	\$ 78,647,383	72.2	\$ 74,267,927	70.1	\$ 4,379,456
Distribution - Operation	1,645,951	1.5	1,559,646	1.5	86,305
Distribution - Maintenance	3,532,627	3.2	4,115,374	3.9	(582,747)
Consumer Accounts	4,571,447	4.2	4,362,059	4.1	209,388
Customer Service and Information	276,461	0.3	290,140	0.3	(13,679)
Administrative and General	5,456,602	5.0	5,462,717	5.2	(6,115)
Depreciation	4,264,834	3.9	3,867,335	3.7	397,499
Taxes	1,309,962	1.2	1,270,196	1.2	39,766
Other Interest	104,447	0.1	370,811	0.4	(266,364)
Other Deductions	260,190	0.2	178,811	0.2	81,379
Total Operating Expenses	<u>\$ 100,069,904</u>	<u>91.8</u>	<u>\$ 95,745,016</u>	<u>90.6</u>	<u>\$ 4,324,888</u>
OPERATING MARGINS - Before Fixed Charges	<u>\$ 8,799,620</u>	<u>8.2</u>	<u>\$ 10,130,752</u>	<u>9.4</u>	<u>\$ (1,331,132)</u>
<b>FIXED CHARGES</b>					
Interest on Long-Term Debt	\$ 2,681,552	2.5	\$ 2,506,451	2.4	\$ 175,101
Amortization of Premium on Reacquired Debt	80,988	0.1	80,988	0.1	
	<u>\$ 2,762,540</u>	<u>2.6</u>	<u>\$ 2,587,439</u>	<u>2.5</u>	<u>\$ 175,101</u>
OPERATING MARGINS - After Fixed Charges	<u>\$ 6,037,080</u>	<u>5.6</u>	<u>\$ 7,543,313</u>	<u>6.9</u>	<u>\$ (1,506,233)</u>
G&T Capital Credits	\$ 3,651,447	3.4	\$ 2,848,570	2.7	\$ 802,877
Other Capital Credits	1,044,778	1.0	1,127,484	1.1	(82,706)
	<u>\$ 4,696,225</u>	<u>4.4</u>	<u>\$ 3,976,054</u>	<u>3.8</u>	<u>\$ 720,171</u>
NET OPERATING MARGINS	<u>\$ 10,733,305</u>	<u>10.0</u>	<u>\$ 11,519,367</u>	<u>10.7</u>	<u>\$ (786,062)</u>
<b>NONOPERATING MARGINS</b>					
Interest Income	\$ 844,075	0.8	\$ 863,495	0.8	\$ (19,420)
Other Nonoperating Income	3,140	0.0	69,517	0.1	(66,377)
Naval Base Net Margin	335,302	0.3	765,763	0.7	(430,461)
Gain on Disposition of Property	16,626	0.0	23,699	0.0	(7,073)
	<u>\$ 1,199,143</u>	<u>1.1</u>	<u>\$ 1,722,474</u>	<u>1.6</u>	<u>\$ (523,331)</u>
NET MARGINS	<u>\$ 11,932,448</u>	<u>11.1</u>	<u>\$ 13,241,841</u>	<u>12.3</u>	<u>\$ (1,309,393)</u>
PATRONAGE CAPITAL - BEGINNING OF YEAR	85,211,382		74,483,205		
Patronage Capital Retired	(3,641,926)		(2,027,042)		
Transferred to Other Equities	(934,741)		(486,622)		
PATRONAGE CAPITAL - END OF YEAR	<u>\$ 92,567,163</u>		<u>\$ 85,211,382</u>		

See accompanying notes to financial statements.

## NUECES ELECTRIC COOPERATIVE, INC.

Exhibit C

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	December 31,	
	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margins	\$ 11,932,448	\$ 13,241,841
Adjustments to Reconcile Net Margins to Net Cash From Operating Activities		
Depreciation	5,049,154	4,654,715
Amortized Loss on Retirement of RUS Debt	80,988	80,988
Capital Credits - Non-Cash	(4,042,962)	(3,377,482)
(Increase) Decrease		
Accounts Receivable	2,178,969	(2,804,829)
Accrued Unbilled Revenue	391,558	(934,740)
Inventories and Other Current and Accrued Assets	188,753	(95,103)
Deferred Charges	251,023	107,086
Increase (Decrease)		
Payables and Accrued Expenses	(161,697)	(11,702)
Deferred Credits	350,984	(9,824)
Net Cash From Operating Activities	<u>\$ 16,219,218</u>	<u>\$ 10,850,950</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Utility Plant	\$ (6,283,486)	\$ (4,564,842)
Plant Removal Costs (in excess of) Salvage and Other Credits	(231,035)	(30,495)
Purchase of Held-to-Maturity Securities	(3,229,340)	(2,493,498)
Sale of Held-to-Maturity Securities	900,000	
Other Property and Investments	(88,673)	10,740
Net Cash From Investing Activities	<u>\$ (8,932,534)</u>	<u>\$ (7,078,095)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Long-Term Debt to CoBank	\$ (2,971,783)	\$ (3,141,171)
Payments on Long-Term Debt to CFC	(1,157,642)	(1,022,128)
Payments on Other Long Term Debt	(399,174)	(927,545)
Advances on CoBank Long-Term Debt	3,580,000	2,950,000
Advances on CFC Long-Term Debt	2,800,000	
Advances (Repayments) on Line of Credit - Net	(4,900,000)	1,600,000
Other Equities	245,170	59,347
Retirement of Patronage Capital	(3,641,926)	(2,027,042)
Increase (Decrease) in Memberships - Net	7,075	(5,860)
Net Cash From Financing Activities	<u>\$ (6,438,280)</u>	<u>\$ (2,514,399)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 848,404	\$ 1,258,456
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,950,333</u>	<u>691,877</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,798,737</u>	<u>\$ 1,950,333</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 2,661,443	\$ 2,531,897
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 NEC wires division charges 7% for delinquent accounts while the NEC retail division (DBA – NEC Co-op Energy) charges 5%. 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, 2018 and 2017, the Cooperative's accrued unbilled revenue recorded was \$5,214,275 and \$5,605,833, 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 2015.

The Cooperative recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended December 31, 2018 and 2017.

**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, 2018 and 2017, deposits on hand totaled \$2,058,621 and \$2,134,338, 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 2018 and 2017 years are as follows:

	December 31,	
	2018	2017
Estimated Allocation for 2018	\$ 3,682,303	\$
True Up to Actual for 2017	(30,856)	
Estimated Allocation for 2017		3,002,543
True Up to Actual for 2016		(153,973)
	\$ 3,651,447	\$ 2,848,570

**Advertising**

It is the Cooperative’s policy to expense advertising as incurred. Advertising expense was \$1,491,940 and \$1,492,815 for 2018 and 2017, 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,	
	2018	2017
Distribution Plant	\$ 107,425,886	\$ 105,009,892
General Plant	32,503,696	33,653,402
Total Electric Plant in Service	\$ 139,929,582	\$ 138,663,294
Construction Work in Progress	113,793	1,066,900
Total Electric Plant	\$ 140,043,375	\$ 139,730,194

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 for the years ended December 31, 2018 and 2017 was \$5,049,154 and \$4,654,715, respectively, of which \$4,264,834 and \$3,867,335, was charged to depreciation expense and \$784,320 and \$787,380, was allocated to other accounts.

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**4. Investments in Associated Organizations**

Investments in associated organizations consisted of:

	December 31,	
	<u>2018</u>	<u>2017</u>
CFC		
Capital Term Certificates	\$ 738,569	\$ 738,569
Patronage Capital	241,089	226,375
Membership	1,000	1,000
South Texas Electric Cooperative		
Patronage Capital	33,657,883	30,006,435
Texas Electric Cooperatives, Inc.		
Patronage Capital	752,495	697,186
CoBank		
Patronage Capital	1,708,581	1,538,803
Other	<u>725,876</u>	<u>648,604</u>
Total	<u>\$ 37,825,493</u>	<u>\$ 33,856,972</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 2020 and 2038 consist of the following:

	December 31,	
	<u>2018</u>	<u>2017</u>
U.S. Treasury Strips		
Maturity Amount	\$ 37,233,000	\$ 34,533,000
Less: Unaccreted Discount	<u>(12,646,508)</u>	<u>(12,275,848)</u>
Total	<u>\$ 24,586,492</u>	<u>\$ 22,257,152</u>

The market value of the held-to-maturity securities was \$25,829,695 and \$24,336,796 as of December 31, 2018 and 2017, 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,	
	2018	2017
Transitional Charges Special Deposit	\$ 1,122,733	\$ 998,678
Scholarship Fund	356,792	317,733
Total	<u>\$ 1,479,525</u>	<u>\$ 1,316,411</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,	
	2018	2017
Construction Materials and Supplies	<u>\$ 1,989,330</u>	<u>\$ 2,276,501</u>

**8. Deferred Charges**

Deferred charges included the following:

	December 31,	
	2018	2017
Premium - Refinancing RUS Debt	\$ 377,944	\$ 458,932
NRECA Pension Prepayment	620,855	776,068
Loss on Retirement of Base Meters		19,473
Other	8,649	84,986
Total	<u>\$ 1,007,448</u>	<u>\$ 1,339,459</u>

In 2013, the Cooperative elected to participate in the NRECA RS Plan Prepayment Program. The Cooperative's original contribution was \$1,552,137 and is being amortized over 10 years. Amortization expense for the years ended December 31, 2018 and 2017 was \$155,213.

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

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>661,402</u>
Balance	\$	<u><u>377,944</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, 2018 and 2017. The equities and margins of the Cooperative represent 52.46% and 49.49% of the total assets at December 31, 2018 and 2017, respectively. Patronage capital totaling \$3,641,926 and \$2,027,042 was retired during 2018 and 2017, respectively.

**10. Patronage Capital**

	December 31,	
	<u>2018</u>	<u>2017</u>
Beginning Patronage Capital	\$ 85,211,382	\$ 74,483,205
Transferred to Other Equities	(934,741)	(486,622)
Assignable	<u>11,932,448</u>	<u>13,241,841</u>
	\$ 96,209,089	\$ 87,238,424
Less: Current Year Retirements	<u>3,641,926</u>	<u>2,027,042</u>
Total	<u><u>\$ 92,567,163</u></u>	<u><u>\$ 85,211,382</u></u>

**11. Other Equities**

	December 31,	
	<u>2018</u>	<u>2017</u>
Retired Capital Credits - Gains	\$ 2,983,358	\$ 2,738,082
Unassignable Margins - Unbilled Revenue	<u>5,022,743</u>	<u>4,088,108</u>
	<u><u>\$ 8,006,101</u></u>	<u><u>\$ 6,826,190</u></u>

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**12. Mortgage Notes – CoBank**

Following is a summary of long-term debt due CoBank and maturing at various times from 2019 to 2050:

	December 31,	
	<u>2018</u>	<u>2017</u>
Fixed Rate Notes - 2.40% - 4.99%	\$ 57,342,478	\$ 57,564,019
Variable Rate Note - 4.96%	5,579,758	4,750,000
Less: Current Maturities	<u>2,474,600</u>	<u>2,946,126</u>
Total	<u>\$ 60,447,636</u>	<u>\$ 59,367,893</u>

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:

2019	\$ 2,474,600
2020	2,349,000
2021	2,414,800
2022	2,429,700
2023	2,517,200

The Cooperative has \$3,670,000 available from unadvanced funds.

**13. Mortgage Notes – CFC**

Following is a summary of long-term debt due CFC and maturing at various times from 2019 to 2025:

	December 31,	
	<u>2018</u>	<u>2017</u>
Fixed Rate Notes - 4.15% - 4.55%	\$ 7,927,539	\$ 6,285,181
Less: Current Maturities	<u>1,449,400</u>	<u>1,069,700</u>
Total	<u>\$ 6,478,139</u>	<u>\$ 5,215,481</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:

2019	\$ 1,449,400
2020	1,476,400
2021	1,527,300
2022	1,418,000
2023	1,051,600

The Cooperative has \$200,000 available from unadvanced funds. Subsequent to the Cooperative's year-end CFC approved a loan in the amount of \$4,850,000.



**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

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

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

	December 31,	
	2018	2017
Fixed Rate Notes - 4.60%	\$ 0	\$ 399,174
Less: Current Maturities	0	399,174
Total	<u>\$ 0</u>	<u>\$ 0</u>

**15. Short-Term Borrowing**

As of December 31, 2018 and 2017 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 3.75% and 2.75% as of December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017 the Cooperative had drawn \$500,000 and \$2,400,000, respectively against this line of credit.

As of December 31, 2018 and 2017 the Cooperative had a \$10,000,000 line of credit, with CoBank to be drawn upon as needed. The interest rate on this line of credit was 4.06% and 3.67% as of December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017 the Cooperative had drawn \$0 and \$3,000,000, respectively against this line of credit.

**16. Operating Leases**

The Cooperative leases certain vehicles with various base monthly rental amounts. These leases expire at various times through 2018. Lease expense under all operating leases totaled \$33,990 in 2018 and \$65,226 in 2017.

Minimum lease payments on operating leases by year for the next year as of December 31, 2018, is as follows:

2019	\$ 1,171
------	----------

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**17. Deferred Credits**

Deferred credits include the following:

	December 31,	
	2018	2017
Consumer Advances for Construction	\$ 2,139,423	\$ 1,975,123
Corpus Christi Naval Base - Deferred Revenue	4,685,114	4,530,689
Kingsville Naval Base - Deferred Revenue	1,284,176	1,200,982
Scholarship Fund	356,792	317,733
Other	1,401	91,395
Total	<u>\$ 8,466,906</u>	<u>\$ 8,115,922</u>

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. Currently, there is one pending case against the Cooperative that is in the discovery stage and ongoing. It is the opinion of management and legal counsel that the resolution of such litigation will not have a material adverse effect on the financial position of the Cooperative, its results of operations, or cash flows.

**19. Pension Benefits**

Narrative Description

The Retirement and Security Plan (the RS Plan), sponsored by the NRECA is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is 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.

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Plan Information

The Cooperative's contributions to the RS Plan in 2018 and in 2017 represented less than five percent of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of \$632,193 in 2018 and \$592,901 in 2017. Pension expense for the years ended December 31, 2018 and 2017, including amortization of the RS Plan prepayment, was \$787,406 and \$761,449, respectively. There have been no significant changes that affect the comparability of 2018 and 2017 contributions.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded on January 1, 2018 and January 1, 2017 based on the PPA funding target and PPA actuarial value of assets on those dates.

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

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 3.20% of an employee's salary. The cost of this plan for 2018 and 2017 was \$152,194 and \$142,762, 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, 2018 and 2017 the Cooperative purchased \$78,647,383 and \$74,267,927, respectively, from STEC. At December 31, 2018 and 2017 amounts due to STEC included in accounts payable – purchased power were \$6,478,828 and \$5,805,592, respectively.

During the years ended December 31, 2018 and 2017 the Cooperative held a patronage capital investment with STEC in the amount of \$33,657,883 and \$30,006,435, respectively. The Cooperative was allocated patronage capital from STEC for the years ended December 31, 2018 and 2017 in the amount of \$3,651,447 and \$2,848,570, respectively.

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**21. Major Consumer**

The Cooperative has one consumer who accounted for the following:

	December 31,	
	2018	2017
Electric Energy Revenue	\$ 35,070,437	\$ 32,057,649
kWh Sales	612,653,440	585,792,262
Purchase Power Expense	\$ 33,409,628	\$ 30,465,139

**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 is 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>		

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 as described in Note 1.

**NUECES ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

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.

	<u>Carrying Value</u>	<u>Fair Value</u>
As of December 31, 2018	\$ <u>65,270,017</u>	\$ <u>62,534,825</u>

**23. Subsequent Events**

Subsequent to December 31, 2018, the Cooperative implemented new rates. The rates were designed to increase wires revenues by 10.88% based on a 2017 test year.

Subsequent to December 31, 2018, the Cooperative entered into a lease agreement for office space. The monthly lease payment is fixed for the first 36 months at 4,680 per month then increasing to 4,968 per month for the remaining 24 months.

The Cooperative has evaluated subsequent events through April 1, 2019, the date which the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

## NUECES ELECTRIC COOPERATIVE, INC.

Schedule 1

**ELECTRIC PLANT  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Balance 1/1/2018	Additions	Retirements	Balance 12/31/2018
<b>CLASSIFIED ELECTRIC PLANT IN SERVICE</b>				
<b>Distribution Plant</b>				
Land and Land Rights	\$ 2,745	\$	\$ 2,745	\$ 0
Station Equipment	1,053,218			1,053,218
Poles, Towers, and Fixtures	31,060,131	1,939,272	703,391	32,296,012
Overhead Conductors and Devices	24,709,497	1,362,754	661,623	25,410,628
Underground Conductors and Devices	6,525,394	50,305	26,855	6,548,844
Line Transformers	18,776,319	1,967,695	885,063	19,858,951
Services	7,966,353	233,860	39,363	8,160,850
Meters	5,818,762	735,881	1,631,351	4,923,292
Installations on Consumer Premises	1,852,296	201,921	118,263	1,935,954
Corpus Christi Naval Base Plant	5,539,884	28,736	35,242	5,533,378
Kingsville Naval Base Plant	1,705,293	7	541	1,704,759
Total	<u>\$ 105,009,892</u>	<u>\$ 6,520,431</u>	<u>\$ 4,104,437</u>	<u>\$ 107,425,886</u>
<b>General Plant</b>				
Land and Land Rights	\$ 1,301,144	\$ 2,269	\$ 39,235	\$ 1,264,178
Structures and Improvements	27,927,654	148,685	1,509,853	26,566,486
Office Furniture and Computer Equipment	472,090	239,150	70,582	640,658
Transportation Equipment	3,023,124	85,454	74,917	3,033,661
Tools, Shop, and Garage Equipment	62,839		62,839	0
Laboratory Equipment	164,422			164,422
Power Operated Equipment	529,311	217,714	108,442	638,583
Communications Equipment	41,558			41,558
Miscellaneous Equipment	131,260	22,890		154,150
Total	<u>\$ 33,653,402</u>	<u>\$ 716,162</u>	<u>\$ 1,865,868</u>	<u>\$ 32,503,696</u>
Total Classified Electric Plant in Service	\$ 138,663,294	\$ 7,236,593	\$ 5,970,305	\$ 139,929,582
Construction Work in Progress	<u>1,066,900</u>	<u>(953,107)</u>		<u>113,793</u>
Total Utility Plant	<u>\$ 139,730,194</u>	<u>\$ 6,283,486</u>	<u>\$ 5,970,305</u>	<u>\$ 140,043,375</u>

**NUECES ELECTRIC COOPERATIVE, INC.**

**Schedule 2**

**ACCUMULATED PROVISION FOR DEPRECIATION  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Balance 1/1/2018</u>	<u>Accruals</u>	<u>Retirements</u>	<u>Balance 12/31/2018</u>
Distribution Plant				
NEC Distribution Plant	\$ 16,324,156	\$ 3,463,009	\$ 4,850,064	\$ 14,937,101
Corpus Christi Naval Base	2,505,666	270,843	39,906	2,736,603
Kingsville Naval Base	730,717	83,541	543	813,715
Total Distribution Plant	<u>\$ 19,560,539</u>	<u>\$ 3,817,393</u>	<u>\$ 4,890,513</u>	<u>\$ 18,487,419</u>
General Plant				
Structures and Improvements	\$ 3,800,278	\$ 749,704	\$ 966,864	\$ 3,583,118
Office Furniture and Computer Equipment	465,196	37,263	70,582	431,877
Transportation Equipment	1,962,756	429,938	183,359	2,209,335
Tools, Shop, and Garage Equipment	62,838		62,838	0
Laboratory Equipment	162,220	2,205		164,425
Power Operated Equipment	29,850			29,850
Communication Equipment	41,557			41,557
Miscellaneous Equipment	119,287	12,651		131,938
Total General Plant	<u>\$ 6,643,982</u>	<u>\$ 1,231,761</u>	<u>\$ 1,283,643</u>	<u>\$ 6,592,100</u>
Total Classified Electric Plant in Service	\$ 26,204,521	\$ 5,049,154	\$ 6,174,156	\$ 25,079,519
Retirement Work in Progress	<u>(35,813)</u>		<u>27,184</u>	<u>(62,997)</u>
Total	<u>\$ 26,168,708</u>	<u>\$ 5,049,154</u>	<u>\$ 6,201,340</u>	<u>\$ 25,016,522</u>

(1)

(2)

(1) Depreciation  
    Charged to Expense  
    Charged to Clearing

\$ 4,264,834  
784,320  
\$ 5,049,154

(2) Net Loss on Retirement  
    Original Cost  
    Cost of Removal  
    Less: Salvage and Other Credits

\$ 5,970,305  
1,040,651  
809,616  
\$ 6,201,340



**NUECES ELECTRIC COOPERATIVE, INC.**

**Schedule 3**

**OTHER PROPERTY AND INVESTMENTS  
AS OF DECEMBER 31, 2018 AND 2017**

	December 31,	
	<u>2018</u>	<u>2017</u>
<b>INVESTMENTS IN ASSOCIATED ORGANIZATIONS</b>		
Memberships	\$ 2,135	\$ 2,135
Patronage Capital		
South Texas Electric Cooperative	33,657,883	30,006,435
Texas Electric Cooperatives, Inc.	752,495	697,186
National Information Solutions Cooperative	158,366	146,132
National Rural Utilities Cooperative Finance Corporation	241,089	226,375
CoBank	1,708,581	1,538,803
Federated Insurance	431,645	367,974
Cooperative Response Center	26,283	24,916
National Rural Telecommunications Cooperative	108,447	108,447
Capital Term Certificates		
National Rural Utilities Cooperative Finance Corporation	<u>738,569</u>	<u>738,569</u>
Total	<u>\$ 37,825,493</u>	<u>\$ 33,856,972</u>
<b>HELD-TO-MATURITY SECURITIES</b>		
Treasury Strips	<u>\$ 24,586,492</u>	<u>\$ 22,257,152</u>
<b>OTHER INVESTMENTS - RESTRICTED</b>		
Scholarship Funds	\$ 356,792	\$ 317,733
Transitional Charges Special Deposit	<u>1,122,733</u>	<u>998,678</u>
Total	<u>\$ 1,479,525</u>	<u>\$ 1,316,411</u>

**NUECES ELECTRIC COOPERATIVE, INC.**

**Schedule 4**

**ADMINISTRATIVE AND GENERAL EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	December 31,		Increase (Decrease)
	<u>2018</u>	<u>2017</u>	
Administrative and General Salaries	\$ 1,166,391	\$ 1,240,947	\$ (74,556)
Office Supplies and Expenses	667,484	653,955	13,529
Outside Services Employed	189,535	188,764	771
Workmen's Compensation, General Liability, and Other Insurance	381,952	397,956	(16,004)
Regulatory Commission Expense	353,142	342,422	10,720
Directors' Fees and Expenses	226,664	233,344	(6,680)
Dues to Associated Organizations	117,373	74,037	43,336
Annual Meeting Expense	169,209	173,957	(4,748)
Advertising Expenses	1,491,940	1,492,815	(875)
Miscellaneous General Expenses	320,556	316,971	3,585
Maintenance of General Plant	<u>372,356</u>	<u>347,549</u>	<u>24,807</u>
Total	<u>\$ 5,456,602</u>	<u>\$ 5,462,717</u>	<u>\$ (6,115)</u>

**COMPLIANCE AND INTERNAL CONTROL SECTION**

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

**CERTIFIED PUBLIC ACCOUNTANTS**

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

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

**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

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

Board of Directors  
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, 2018, and the related statements of income and patronage capital, and cash flows for the year then ended, and have issued our report thereon dated April 1, 2019.

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

This report is intended solely for the information and use of the Board 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

April 1, 2019