FINANCIAL STATEMENTS WITH REPORT OF INDEPENDENT AUDITORS

SAM RAYBURN G & T ELECTRIC
COOPERATIVE, INC.

December 31, 2015 and 2014

AXLEY & RODE, LLP
CERTIFIED PUBLIC ACCOUNTANTS

C O N T E N T S

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Sam Rayburn G & T Electric
Cooperative, Inc.
Nacogdoches, Texas

We have audited the accompanying financial statements of Sam Rayburn G & T Electric Cooperative, Inc. (the "Cooperative") which comprise the balance sheets as of December 31, 2015 and 2014 and the related statements of revenue and expenses, 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain 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 Cooperative'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 Cooperative'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 Sam Rayburn G & T Electric Cooperative, Inc. as of December 31, 2015 and 2014, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Axley & Rode LLP
CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
April 12, 2016

SAM RAYBURN G & T ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
December 31, 2015 and 2014

	2015	2014
ASSETS		
Utility plant, net	$ 23 139 735	$ 22 938 142
Investments and Other Assets:		
Investments in associated organizations	39 857 548	35 734 500
Current Assets:		
Cash and cash equivalents - General funds	3 908 649	3 093 356
Accounts receivable - Member cooperatives	21 026 297	22 877 298
Certificates of deposit	1 101 000	1 070 000
Investment securities	473 726	476 856
Accrued interest receivable	6 250	6 250
Fuel stock	1 844 402	1 115 590
Materials and supplies	835 154	861 835
Prepaid expenses	13 348	50 585
	29 208 826	29 551 770
Deferred debits	1 567 024	3 524 976
	$ 93 773 133	$ 91 749 388
EQUITIES AND LIABILITIES		
Equity and Margin:		
Memberships	$ 3 000	$ 3 000
Patronage capital	68 601 823	65 189 838
	68 604 823	65 192 838
Long-term debt	12 872 250	12 018 001
Current Liabilities:		
Accounts payable - Purchased power	10 716 801	12 831 636
Accounts payable - Other	119 561	131 822
Accrued expenses	45 815	37 926
Current maturities of long-term debt	1 413 883	1 413 883
	12 296 060	14 415 267
Deferred credits	-	123 282
	$ 93 773 133	$ 91 749 388

The accompanying notes are an integral part of these financial statements.

SAM RAYBURN G & T ELECTRIC COOPERATIVE, INC.
STATEMENTS OF REVENUE AND EXPENSES
For the Years Ended December 31, 2015 and 2014

	2015	2014
Operating Revenue:		
Power sales	$ 142 369 612	$ 145 343 468
Operating Expenses:		
Purchased power	127 738 345	129 754 836
Power Generation:		
Fuel	6 577 473	7 773 221
Other production expenses	3 668 203	3 133 747
Load dispatching	32 732	40 591
Administrative and general	1 482 927	1 616 594
Depreciation	2 012 266	1 942 549
	141 511 946	144 261 538
OPERATING MARGIN BEFORE INTEREST EXPENSE	857 666	1 081 930
Interest expense	1 035 697	1 081 930
OPERATING MARGIN (DEFICIT)	(178 031)	-
Nonoperating Margins:		
Other income	-	2 037
Interest income	64 483	78 543
Generation and transmission capital credits	3 461 873	3 882 794
Capital credits - Associated organizations	63 660	9 751
NET MARGIN	$ 3 411 985	$ 3 973 125

The accompanying notes are an integral part of these financial statements.

SAM RAYBURN G & T ELECTRIC COOPERATIVE, INC.
STATEMENTS OF PATRONAGE CAPITAL
For the Years Ended December 31, 2015 and 2014

	MEMBERSHIPS	PATRONAGE CAPITAL	TOTAL
Balance, December 31, 2013	$ 3 000	$ 61 216 713	$ 61 219 713
Retired capital	-	-	-
Net margin	-	3 973 125	3 973 125
Balance, December 31, 2014	3 000	65 189 838	65 192 838
Retired capital	-	-	-
Net margin	-	3 411 985	3 411 985
Balance, December 31, 2015	$ 3 000	$ 68 601 823	$ 68 604 823

The accompanying notes are an integral part of these financial statements.

SAM RAYBURN G & T ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	2015	2014
Operating Activities:		
Net margin	$ 3 411 985	$ 3 973 125
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	2 012 266	1 942 549
Patronage capital credits - Non-cash	(3 489 436)	(3 885 666)
Reinvested dividend on investment securities	(9 735)	(16 031)
Cash Provided by (Used for) the Change in:		
Accounts receivable - Member cooperatives	1 851 002	146 101
Accrued interest receivable	-	3 125
Fuel and supplies inventories	(702 131)	613 387
Prepaid expense	37 237	4 654
Deferred debits	1 957 952	(1 464 781)
Accounts payable - Purchased power	(2 114 835)	783 948
Accounts payable - Other	(12 261)	41 095
Accrued expenses	7 889	35 282
Deferred credits	(123 282)	123 282
NET CASH PROVIDED BY OPERATING ACTIVITIES	2 826 651	2 300 070
Investing Activities:		
Capital expenditures	(2 213 860)	(2 474 324)
Certificates of deposit	(31 000)	(620 000)
Other investments	(653 865)	120 000
Proceeds from retirement of patronage capital credits	33 119	40 461
RUS cushion of credit	-	1 273 750
NET CASH USED BY INVESTING ACTIVITIES	(2 865 606)	(1 660 113)
Financing Activities:		
Proceeds from long-term debt	2 474 325	14 138 825
Principal payments on long-term debt	(1 620 077)	(12 560 583)
Retirement of patronage capital	-	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	854 248	1 578 242
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	815 293	2 218 199
Cash and cash equivalents - Beginning of year	3 093 356	875 157
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3 908 649	$ 3 093 356
Supplemental Disclosures of Cash Flow Information:		
Cash Paid During the Year for:		
Interest	$ 552 297	$ 606 624

The accompanying notes are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations:

Sam Rayburn G & T Electric Cooperative, Inc. (the "Cooperative") is an electric generating and transmission cooperative formed and operating pursuant to the Texas Electric Cooperative Corporation Act. The Cooperative provides wholesale electric service to its member distribution cooperatives, Houston County Electric Cooperative, Inc., Jasper-Newton Electric Cooperative, Inc. and Sam Houston Electric Cooperative, Inc. ("Members").

The Cooperative was formed principally to provide dependable power to its Members at the lowest cost possible. In doing so, the Cooperative works closely with its Members in determining their power requirements.

Use of Estimates:

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from the estimates and assumptions used in preparing the accompanying financial statements.

System of Accounts:

The Cooperative maintains its accounting records in accordance with the Federal Energy Regulatory Commission's Uniform System of Accounts as adopted by the USDA Rural Development's Rural Utilities Service ("RUS"), which conforms with U.S. generally accepted accounting principles in all material respects. The more significant accounting policies are described below.

Revenue Recognition:

Revenues from the sale of electricity are recorded based on billings to Members.

Cash Flow Statement:

Cash and cash equivalents, for purposes of the cash flows statement, consist of all cash accounts and short-term investments with original maturities of three months or less.

Accounts Receivable:

Accounts receivable from member cooperatives is recorded from the billings of the sale of electricity to the members. The Cooperative considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made. No accounts receivable from member cooperatives was past due more than 90 days at December 31, 2015 and 2014.

Utility Plant:

The utility plant is stated at original cost. The cost of additions to the electric plant includes contracted work, direct labor, materials, allocable overhead and interest on debt used for construction. The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of units replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Depreciation of the utility plant is provided on the composite straight-line method over the estimated useful lives of the various components. The method and rates are prescribed by RUS or as approved for rate-making purposes. The annual depreciation rates are:

Production plant	2.55%
Office building	2.00%
Load dispatching equipment	6.67%

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset. At December 31, 2015 the Cooperative had not recognized any losses resulting from the impairment of long-lived assets.

Investments in Associated Organizations:

Investments in patronage capital credits of associated organizations are accounted for under the equity method. Patronage capital is recorded at the stated amount of the certificate when allocated by the associated organization.

Investment Securities:

The Cooperative carries all investments in equity funds and fixed income funds with readily determinable fair values at their fair values based on quoted prices in active markets (all Level 1 or Level 2 measurements). Unrealized gains and losses are included as nonoperating margins in the accompanying Statement of Revenue and Expenses.

Fair Value Measurements:

The fair value of financial assets and liabilities is measured according to the *Fair Value Measurements and Disclosure* topic of FASB Accounting Standards Codification. Fair Value is required to be evaluated and adjusted according to the following valuation techniques.

Level 1 - Fair value is determined using quoted market prices in active markets for identical assets and liabilities.

Level 2 - Fair value is determined using quoted market prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant inputs are observable in the market for substantially the full term of the assets or liabilities.

Level 3 - Fair value is determined using inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The market for assets and liabilities using Level 3 measures is typically inactive.

Inventories:

Inventory consists of fuel stock (primarily coal) for operation of the electric plant. Fuel inventory is carried at weighted average cost. Material and supplies inventory used for the operation of the electric plant is valued at average cost and is stated at the lower of average cost or market.

Income Taxes:

The Cooperative is exempt from Federal income taxes under the provisions of Section 501(c)(12) of the Internal Revenue Code of 1986.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Uncertain Tax Positions:

The Financial Accounting Standards Board FASB Codification Section 740 requires recognition, measurement and disclosure of uncertain tax positions. The Cooperative currently accounts for uncertain tax positions based on the estimated likelihood of assessment and has not determined that any tax positions require an accrual based on current standards of accounting. For federal income tax purposes the tax returns essentially remain open for possible examination for a period of three years after the date on which those returns are filed.

Comprehensive Income:

Professional standards have been established for the reporting and display of comprehensive income and its components in the financial statements. There were no items of other comprehensive income in 2015 and 2014, and thus, net income is equal to comprehensive income for each of those years.

Deferred Debits/Credits:

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 980: *Regulated Operations* (formerly FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*), certain costs have been capitalized as deferred assets that would otherwise be charged to expense. Such deferred assets are recorded when it is probable that future revenue in an amount at least equal to the capitalized costs will result from inclusion of those costs in future rates.

Subsequent Events:

Management has evaluated subsequent events through April 12, 2016, the date the financial statements were available to be issued, and there have been no material subsequent events that would require recognition or disclosure in the 2015 financial statements.

NOTE 2 - UTILITY PLANT

The following summarizes utility plant at December 31, 2015 and 2014:

	2015	2014
Utility Plant, at Cost:		
Production plant	$ 79 597 333	$ 77 383 473
Furniture and fixtures	1 192	1 192
Office building	208 818	208 818
Load dispatching equipment	105 410	105 410
	79 912 753	77 698 893
Less accumulated depreciation	(56 773 018)	(54 760 751)
	$ 23 139 735	$ 22 938 142

The Cooperative has a Joint Ownership Participation and Operating Agreement with Entergy. The Cooperative owns a 10% undivided ownership interest in Nelson Unit No. 6, a 550 MW coal-fired steam electric generating unit located near Westlake, Louisiana.

In connection with the Cooperative's ownership interest in Nelson Unit No. 6, the Cooperative receives its proportionate share of sulfur dioxide ("SO2") allowances. Each allowance represents the right to emit one ton of SO2 pollution in a specified calendar year. The allowances may be used to permit current emissions, sold on the open market, or held in reserve to cover emissions in future years. The Cooperative intends to hold these allowances for future use.

NOTE 3 - INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations at December 31, 2015 and 2014 consisted of the following:

	2015	2014
Capital term certificate of the National Rural Utilities Cooperative Finance Corporation ("CFC")	$ 183 480	$ 183 480
Patronage capital - CFC	72 772	49 477
CFC Member Capital Securities	500 000	500 000
Memberships	6 110	6 110
Sam Rayburn Dam Electric Cooperative, Inc.	716 731	50 000
Patronage capital - National Bank for Cooperatives ("CoBank")	236 346	265 198
Patronage capital - East Texas Electric Cooperative, Inc.	38 142 109	34 680 235
	$ 39 857 548	$ 35 734 500

Patronage capital allocations reported in the Statements of Revenue and Expenses in the total amount of $3,461,873 and $3,892,545 for the fiscal years ended December 31, 2015 and 2014, respectively, represent patronage capital allocations from CoBank, CFC, and a wholesale power supplier of the Cooperative, East Texas Electric Cooperative, Inc. ("ETEC").

NOTE 4 - INVESTMENT SECURITIES AND FAIR VALUE MEASUREMENTS

Investment securities consisted of investments in fixed income mutual funds with an estimated fair value of $473,726 and $476,856, which approximates cost, at December 31, 2015 and 2014, respectively. The amount of unrealized gain or (loss) included in nonoperating margins amount to zero for the years ended December 31, 2015 and 2014.

Mutual funds are valued at the net asset value (NAV) of shares held which is considered a Level 1 valuation technique.

NOTE 5 - DEFERRED DEBITS/CREDITS

The following is a summary of the amounts recorded as deferred debits/credits as of December 31, 2015 and 2014:

	2015	2014
DEFERRED DEBITS		
Unamortized premium on CFC debt (Note 7)	$ 1 141 964	$ 1 619 300
Deferred fuel cost	27 519	-
Due from Members - Flat rate billing	397 541	1 905 676
	$ 1 567 024	$ 3 524 976
DEFERRED CREDITS		
Deferred fuel cost	$ -	$ 31 991
Deferred TIER credit	-	91 291
	$ -	$ 123 282

Deferred fuel cost represents the difference between the actual monthly fuel costs and the fuel factor computed by the Cooperative. The deferred amount is recorded monthly by the Cooperative and is accumulated in a designated deferred account. On a monthly basis, the Cooperative reconciles the deferred account and refunds or collects the difference from its Members.

NOTE 5 - DEFERRED DEBITS/CREDITS - CONTINUED

Two of the Cooperative's members have elected to be billed under a flat rate plan. Under the flat rate plan, the Members have the option to pay a monthly bill computed using the actual kilowatt-hours and a flat rate. The difference between the actual monthly power cost computed under the Cooperative's Board approved wholesale rate and the amount paid to the Cooperative under the flat rate plan is recorded on monthly billing statements to the Members and accumulated by the Cooperative in a designated deferred account.

During the year ended December 31, 2014, the Cooperatives Board of Directors approved a revision to its currently approved tariffs to provide for base rate credits that, when applied to member power billings, will result in revenues that ensure that the Cooperative earns no more than a 1.00 operating TIER (-0- operating margin). This resulted in a TIER credit of $91,291 for 2014, which was refunded to the Members in 2015. During the year ended December 31, 2015, Management elected to absorb a net operating loss of $178,031 and not recover the loss from the Members.

NOTE 6 - PATRONAGE CAPITAL

The details of Patronage Capital at December 31, 2015 and 2014 are as follows:

	2015	2014
Patronage Capital:		
Assignable	$ 3 411 985	$ 3 973 125
Assigned	83 125 500	79 152 375
	86 537 485	83 125 500
Retired	(17 935 662)	(17 935 662)
	$ 68 601 823	$ 65 189 838

The by-laws of the Cooperative provide that all amounts received and receivable from the furnishing of electric energy in excess of the sum of operating costs and expenses are to be assigned to Members' patronage capital credit accounts on a patronage basis. The by-laws permit the Cooperative to allocate losses to Members, offset losses with margins from future years, or offset losses with certain nonoperating margins from current or future years.

Under provision of the agreements relating to mortgage notes and by-laws, until the total of equities and margins equal or exceed 30% of total assets, the distribution of capital contributed by members in each year is limited generally to 25% of patronage capital and margins of the preceding year provided that, after giving effect to such distribution, the total equity will equal or exceed 20% of total assets. The equities and margins of the Cooperative represent 73% of the total assets at the balance sheet date. Net patronage capital totaling $-0- was retired during the years ended December 31, 2015 and 2014, respectively.

NOTE 7 - LONG-TERM DEBT

Long-term debt at December 31, 2015 and 2014 consisted of the following:

	2015	2014
CFC Fixed Rate Notes - 2.55% - 5.05%, maturing, at various times from 2016 - 2024	$ 14 286 133	$ 13 431 884
	14 286 133	13 431 884
Less current maturities	1 413 883	1 413 883
	$ 12 872 250	$ 12 018 001

NOTE 7 - LONG-TERM DEBT - CONTINUED

During the year ended December 31, 2014, the Cooperative entered into a senior credit facility with CFC that is a term loan with a borrowing commitment of $21,000,000. The Cooperative utilized the proceeds to fully pay off the remaining portion of the first mortgage note payable to FFB in the amount of $10,757,297. The remaining funds were utilized to finance construction projects for the Cooperative's undivided ownership interest in Nelson Unit No. 6. As a result of this refinancing, a prepayment penalty in the amount of $936,207 was incurred. The prepayment penalty is being systematically amortized as an adjustment to interest expense over the life of the related new long-term debt. The remaining unamortized FFB premium with a balance of $990,491 was adjusted to unamortized premium on CFC debt at the date of the refinancing and is being amortized over the remaining life of the old debt. The balance of the unamortized premium on CFC debt amounted to $1,141,964 and $1,619,300 as of December 31, 2015 and December 31, 2014, respectively.

Subsequent to the year ended December 31, 2015, the Cooperative drew down an additional $2,213,860 on the CFC credit facility to finance construction projects completed at Nelson Unit No. 6 during 2015.

The CFC debt agreement contains certain restrictive covenants and restrictions on payment of patronage capital. The covenants require the Cooperative to maintain certain annual minimum financial ratios and places limitations on loans, investments and other obligations as defined in the agreement. The restrictions on payment of patronage capital are related in general to the Cooperative's equity and assets as defined in the agreements (see Note 6). For the year ended December 31, 2015, the Cooperative was in compliance with all restrictive covenants.

Substantially all assets are pledged as collateral for the above-mentioned debt to CFC.

The approximate annual maturities of long-term debt are as follows:

2016	$	1 413 883
2017		1 413 883
2018		1 413 883
2019		1 413 883
2020		1 413 883
Thereafter		7 216 718
	$	14 286 133

The Cooperative has a $12,000,000 line of credit with CFC that carries a variable interest rate and matures in July 2017. At December 31, 2015 and 2014, no funds were advanced or owed under this line of credit.

The Cooperative also has an additional line of credit of $10,000,000 with CoBank that carries a variable interest rate and matures on October 31, 2016. At December 31, 2015 and 2014, no funds were advanced or owed under this line of credit.

NOTE 8 - POWER CONTRACTS

The Cooperative has wholesale power contracts with each of its Members which require the Members to buy and receive from the Cooperative all their power and energy requirements at specified delivery points and require the Cooperative to sell and deliver power in satisfaction of such requirements. The contracts extend to December 31, 2044, and thereafter, until the expiration of six months after notice of cancellation by either the Cooperative or the Members. The power sales by the Cooperative to the Members for the years ended December 31, 2015 and 2014 were $142,369,612 and $145,343,468, respectively.

NOTE 8 - POWER CONTRACTS - CONTINUED

The Cooperative also purchases power from the Southwestern Power Administration ("SWPA"), an agency of the Department of Energy, through Sam Rayburn Dam Electric Cooperative, Inc. ("SRDEC"). SRDEC has entered into a contract whereby the Cooperative acquired an entitlement to the hydroelectric output of the Sam Rayburn Hydroelectric Plant with the term of the agreement expiring December 2027. In the event that SRDEC is not able to receive enough power (primarily as a result of inadequate rainfall) to cover operating costs (primarily entitlement to SWPA), the Cooperative is obligated to absorb 66-2/3 percent of the deficiency. The Members of the Cooperative are also members of SRDEC. In accordance with the arrangement, the Cooperative paid SRDEC $2,820,351 and $3,100,351 in 2015 and 2014, respectively. At December 31, 2015 and 2014, $120,222 and $142,057, respectively, was due to SRDEC for wholesale power purchased.

Sam Rayburn Municipal Power Agency ("Agency") and the Cooperative have an agreement for the Agency to sell to the Cooperative a 24.89% share (1.49 MW) of the output of the Robert Douglas Willis Hydropower Project (the "Project") with the term of the agreement expiring December 2039. Under the assignment arrangement, the Cooperative will pay 24.89% of all the Project costs and expenses, including debt service. The assignment arrangement provides that the Cooperative is to receive 24.89% of any power made available to the Agency from the Project each month. In accordance with the arrangement, the Cooperative paid the Agency $646,500 and $630,000 in 2015 and 2014, respectively, for its share of the Project's costs and expenses. At December 31, 2015 and 2014, $271,300 and $472,500, respectively, was due to the Agency for wholesale power purchased.

The Cooperative is a member of ETEC. ETEC was formed by the Cooperative, Tex-La Electric Cooperative of Texas, Inc. ("Tex-La"), and Northeast Texas Electric Cooperative, Inc. for the purpose of developing power supply alternatives and coordinating these alternatives with the power supply requirements of its members. The Cooperative has a wholesale power contract (the "Contract") with ETEC whereby ETEC supplies wholesale power to the Cooperative over and above the power the Cooperative receives from Nelson Unit No. 6 and SWPA. Unless extended by the parties, the Contract will expire on December 31, 2044. During 2015 and 2014, the Cooperative paid $104,115,569 and $115,624,634, respectively to ETEC for the purchase of wholesale power. At December 31, 2015 and 2014, $9,277,641 and $11,347,712, respectively, was due to ETEC for wholesale power purchased.

NOTE 9 - RELATED PARTY TRANSACTIONS

The Cooperative, Tex-La, and ETEC share facilities and personnel. The Cooperative reimburses Tex-La for its proportionate share of the related expenses and equipment purchases. The total amount paid or payable for the years ended December 31, 2015 and 2014 was $155,864 and $141,988, respectively, for shared expenses. The Members of the Cooperative are also Members of Tex-La.

The Cooperative has various electrical facilities operating agreements with its member distribution cooperatives for the operation and maintenance of certain telemetering equipment.

NOTE 10 - RATE MATTERS

In 1999, the Texas Legislature approved Senate Bill 7, which provided, among other things, that the Cooperative's rates for the sale of wholesale power are no longer regulated by the Public Utility Commission of Texas ("PUCT"). Similarly, the rates of the Members for the sale of electricity are no longer regulated by the PUCT. The law permits cooperatives' boards of directors to set rates.

NOTE 10 - RATE MATTERS - CONTINUED

Investor-owned utilities in the Electric Reliability Council of Texas ("ERCOT") were required to allow their retail customers to select generation suppliers of electricity as of January 2002. The law gives cooperatives' boards of directors sole authority to allow, or not allow, generating suppliers to attempt to sell electricity to retail customers of a cooperative. Allowing retail customer choice is called "opting in". Even if a cooperative's board decides to opt in, retail customers will continue to use the transmission and distribution facilities of the Cooperative's Members. The Cooperative monitors whether any of its Members will decide to opt in and thus evaluate the potential effects of a change in generation sales. The law allows the Cooperative to recover stranded costs if it experiences a loss of load which would impair payment of debt service and payment of purchased power fixed charges. As of December 31, 2015, none of the Cooperative's Members have elected to opt in.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

General

The electric utility industry is subject to standards and procedures under government laws and regulations related to environmental and other matters. These standards and procedures are subject to change and uncertainties and as a result, outcomes are not predictable with assurance. The Cooperative is unaware of any noncompliance with current governmental laws and regulations related to environmental matters.

In the normal course of business, the Cooperative may be involved in various claims and litigation. In the opinion of management and the Cooperative's legal counsel, there is no pending or threatened litigation against the Cooperative.

In April 2014, the Unit#2 step-up transformer on the Sam Rayburn Dam Hydroelectric Plant failed. In an effort to accelerate the replacement of the step-up transformer and to upgrade certain other ancillary equipment, SRDEC's Board of Directors approved the purchase and replacement of step-up transformers and certain other equipment on both Unit#1 and Unit #2 and to provide these installed transformers and equipment as a gift to the Corps of Engineers. The gift and the associated cost of the replacement transformers and other equipment will offset the cost that would have otherwise been included in the SWPA rates for power. The project is estimated to cost approximately $5,157,000. As part of the Cooperative's membership in SRDEC, the Cooperative is responsible for 66-2/3 percent of commitments or obligations of SRDEC. As of December 31, 2015, the Cooperative had paid $666,731 to SRDEC for this project. In April 2016, the Cooperative paid an additional $1,666,827 leaving the Cooperative's remaining estimated commitment for this project at approximately $1,104,773.

Environmental Regulation

There are efforts underway in the United States to regulate greenhouse gas emissions through regulatory changes. These efforts culminated in the issuance by the Environmental Protection Agency of a final rule for both new and existing power plants in August 2015, and published in the Federal Register in October 2015. That rule has been appealed to the US Court of Appeals for the District of Columbia and the Supreme Court has issued a stay on implementation of the rule. The Cooperative is currently unable to predict with any degree of certainty when (or if) a comprehensive regulatory scheme for greenhouse gases will be in place.

NOTE 12 - CONCENTRATION OF CREDIT RISK

The Cooperative's financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents and accounts receivable.

NOTE 12 - CONCENTRATION OF CREDIT RISK - CONTINUED

The Cooperative places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) provides coverage to $250,000 for substantially all depository accounts. At various times during the year, cash balances may exceed insured limits. The Cooperative has not experienced any losses in such accounts.

The Cooperative's accounts receivable are subject to concentration of credit risk due to the Cooperative's customer base. Substantially all of the accounts receivable balance is due from the Cooperative's three Members. The Cooperative believes the risk of loss related to this credit risk is remote.