

FINANCIAL STATEMENTS WITH
REPORT OF INDEPENDENT AUDITORS

TEX-LA ELECTRIC COOPERATIVE
OF TEXAS, INC.

December 31, 2015 and 2014

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Tex-La Electric Cooperative
of Texas, Inc.
Nacogdoches, Texas

We have audited the accompanying financial statements of Tex-La Electric Cooperative of Texas, 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 and the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 Tex-La Electric Cooperative of Texas, 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.

Other Matters

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2016, on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.


CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
April 12, 2016

TEX-LA ELECTRIC COOPERATIVE OF TEXAS, INC.
BALANCE SHEETS
December 31, 2015 and 2014

	2015	2014
ASSETS		
Utility plant, net	\$ 20 804 923	\$ 18 825 438
Investments and Other Assets:		
Investments in associated organizations	33 667 001	31 699 303
Other investments - RUS cushion of credit	2 189 157	1 412 797
Assumed long-term indebtedness - EFH less current portion	22 297 128	36 822 490
	58 153 286	69 934 590
Current Assets:		
Cash and cash equivalents	2 311 231	2 706 758
Accounts receivable from member cooperatives	17 642 126	22 268 772
Accounts receivable - Other	221 752	205 804
Certificates of deposit	280 000	250 000
Investment securities	262 511	282 236
Accrued interest receivable	95 099	150 862
Prepaid expenses	22 237	23 163
Assumed long-term indebtedness - EFH	14 525 362	13 180 566
	35 360 318	39 068 161
Deferred debits	7 762 279	10 922 259
	\$ 122 080 806	\$ 138 750 448
EQUITIES AND LIABILITIES		
Equity and Margin:		
Memberships	\$ 700	\$ 700
Patronage capital	59 306 551	56 352 571
	59 307 251	56 353 271
Long-term debt	35 238 843	50 075 570
Current Liabilities:		
Accounts payable - Purchased power	9 067 123	11 089 624
Accounts payable - Other	728 704	487 953
Accrued expenses	102 138	163 691
Line of credit - General	-	2 950 000
Current maturities of long-term debt	17 636 747	15 275 535
	27 534 712	29 966 803
Deferred credits	-	2 354 804
	\$ 122 080 806	\$ 138 750 448

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

TEX-LA ELECTRIC COOPERATIVE OF TEXAS, INC.
STATEMENTS OF REVENUE AND EXPENSES
For the Years Ended December 31, 2015 and 2014

	2015	2014
Operating Revenues:		
Power sales - Members	\$ 129 132 626	\$ 138 594 207
Other electric revenues	671 821	673 309
	129 804 447	139 267 516
Operating Expenses:		
Purchased power	123 907 622	134 009 477
Transmission - Operations	467 262	414 500
Transmission - Maintenance	718 185	370 080
Administrative and general	2 091 419	2 088 777
Depreciation	932 831	791 575
	128 117 319	137 674 409
OPERATING MARGINS BEFORE INTEREST EXPENSE	1 687 128	1 593 107
Interest expense	427 774	206 469
OPERATING MARGINS	1 259 354	1 386 638
Nonoperating Margins:		
Interest income	91 591	120 966
Generation and transmission capital credits	2 384 216	2 862 635
Capital credits - Associated organizations	331 089	406 140
NET MARGINS	\$ 4 066 250	\$ 4 776 379

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

TEX-LA ELECTRIC COOPERATIVE OF TEXAS, INC.
STATEMENTS OF PATRONAGE CAPITAL
For the Years Ended December 31, 2015 and 2014

	MEMBERSHIPS	PATRONAGE CAPITAL	TOTAL
Balance, December 31, 2013	\$ 700	\$ 52 576 192	\$ 52 576 892
Retired capital	-	(1 000 000)	(1 000 000)
Net margin	-	4 776 379	4 776 379
Balance, December 31, 2014	700	56 352 571	56 353 271
Retired capital	-	(1 112 270)	(1 112 270)
Net margin	-	4 066 250	4 066 250
Balance, December 31, 2015	\$ 700	\$ 59 306 551	\$ 59 307 251

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

TEX-LA ELECTRIC COOPERATIVE OF TEXAS, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	2015	2014
Operating Activities:		
Net margin	\$ 4 066 250	\$ 4 776 379
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	932 830	791 575
Patronage capital credits - Non-cash	(2 466 980)	(2 964 162)
Reinvested dividends on investment securities	(5 979)	(10 982)
Cash Provided by (Used for) the Change in:		
Accounts receivable - Members	4 626 646	170 467
Accounts receivable - Other	(15 948)	245 487
Accrued interest receivable	55 763	50 338
Prepaid expense	927	2 028
Deferred debits	3 159 980	(4 190 982)
Accounts payable - Purchased power	(2 022 501)	288 412
Accounts payable - Other	240 751	(186 977)
Accrued expenses	(61 553)	(31 553)
Deferred credits	(2 354 804)	(2 354 803)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	6 155 382	(3 414 773)
Investing Activities:		
Capital expenditures	(2 912 316)	(4 591 791)
Certificates of deposit	(30 000)	-
CFC Member Capital Securities	-	1 000 000
Other investments	(251 374)	769 071
NET CASH USED BY INVESTING ACTIVITIES	(3 193 690)	(2 822 720)
Financing Activities:		
Principal payments on long-term debt	(2 495 544)	(1 905 297)
Loan advances - Regions	3 200 595	-
Net activity - Lines of credit	(2 950 000)	9 114 762
Retirement of patronage capital	(1 112 270)	(1 000 000)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(3 357 219)	6 209 465
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(395 527)	(28 028)
Cash and cash equivalents - Beginning of year	2 706 758	2 734 786
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2 311 231	\$ 2 706 758
Supplemental Disclosures of Cash Flow Information:		
Cash Paid During the Year For:		
Interest	\$ 488 395	\$ 238 775

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

TEX-LA ELECTRIC COOPERATIVE OF TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations:

Tex-La Electric Cooperative of Texas, 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, Cherokee County Electric Cooperative Association, Deep East Texas Electric Cooperative, Inc., Houston County Electric Cooperative, Inc., Jasper-Newton Electric Cooperative, Inc., Rusk County Electric Cooperative, Inc., Sam Houston Electric Cooperative, Inc. and Wood County 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 flow statement, consist of all cash and temporary 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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

Transmission	2.75%
Office building	2.00%
Distribution	3.00%
Telemetry	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.

TEX-LA ELECTRIC COOPERATIVE OF TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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:

	<u>2015</u>	<u>2014</u>
Utility Plant, at Cost:		
Transmission	\$ 32 389 074	\$ 28 422 305
Office building	208 818	208 818
Distribution and telemetering	480 565	480 565
	<u>33 078 457</u>	<u>29 111 688</u>
Less accumulated depreciation	<u>(15 932 641)</u>	<u>(14 999 809)</u>
	17 145 816	14 111 879
Construction work in progress	3 659 107	4 713 559
	<u>\$ 20 804 923</u>	<u>\$ 18 825 438</u>

TEX-LA ELECTRIC COOPERATIVE OF TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 3 - INVESTMENTS

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

	2015	2014
Patronage capital - National Rural Utilities Cooperative Finance Corporation ("CFC")	\$ 25 362	\$ 25 362
Memberships	6 000	6 000
Patronage capital - National Bank for Cooperatives ("CoBank")	4 855 060	5 271 578
Patronage capital - East Texas Electric Cooperative, Inc. ("ETEC")	28 780 579	26 396 363
	\$ 33 667 001	\$ 31 699 303

Patronage capital allocations reported in the Statements of Revenue and Expenses in the amount of \$2,715,305 and \$3,268,775 for the fiscal years ended December 31, 2015 and 2014, respectively, represent patronage capital allocations from CoBank and a wholesale power supplier of the Cooperative, East Texas Electric Cooperative, Inc.

NOTE 4 - OTHER INVESTMENTS - RUS CUSHION OF CREDIT

The Cooperative maintains a Cushion of Credit Account with RUS. The account represents voluntary payments to RUS in excess of amounts due and is intended to enable the Cooperative to have funds available to make scheduled payments on RUS debt. By law, the account earns five percent interest annually and can only be used to make installments on RUS mortgage notes.

NOTE 5 - INVESTMENT SECURITIES AND FAIR VALUE MEASUREMENTS

Investment securities consisted of investments in fixed income mutual funds with an estimated fair value of \$262,511 and \$282,236 which approximated cost at December 31, 2015 and 2014, respectively. The amount of unrealized gain or (loss) included in nonoperating margins amounted 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 6 - 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		
Due from Members - Levelized billing	\$ 2 431 701	\$ 4 902 495
NRECA R&S Prepayment	243 936	277 583
Due from Member - Billing correction	5 086 642	5 742 181
	\$ 7 762 279	\$ 10 922 259
DEFERRED CREDITS		
Due to Members - Billing correction	\$ -	\$ 2 354 804
	\$ -	\$ 2 354 804

The Cooperative's tariff includes a levelized billing rate plan. Under the levelized billing rate plan, each of the Cooperative's Members has the option to pay a monthly levelized bill computed using the actual kilowatt-hours and a levelized billing 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 levelized billing rate plan is recorded on monthly billing statements to the Members and accumulated by the Cooperative in a designated deferred account.

TEX-LA ELECTRIC COOPERATIVE OF TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 6 - DEFERRED DEBITS/CREDITS - CONTINUED

Under the levelized billing plan, a Member's levelized billing factor is recalculated each month. The levelized billing rate is calculated using actual data for the year to date and projected figures for the remainder of the year. At the end of each twelve-month period, the Cooperative computes a new projected cost of power. The new projected cost of power and the accumulated deferred billing for the previous twelve-month period are combined to determine the levelized billing rate for the next twelve-month period. The Board of Directors of the Cooperative may revise the levelized billing rate due to unforeseen fluctuations in the cost of purchased power.

In December 2012, the NRECA Board of Directors approved an option to allow participating cooperatives to make a prepayment and reduce future required contributions to the NRECA Retirement Security Plan ("RS Plan"). The prepayment amount is the 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 Plan actuarial valuation assumptions. On March 15, 2013, the Cooperative made a prepayment of \$336,464 to the NRECA RS Plan. The Cooperative recorded the prepayment as a miscellaneous deferred debit and is amortizing the prepayment over ten years as stipulated by RUS.

During the year ended December 31, 2013, the Cooperative discovered a billing correction related to previous years' power billings. For several years, there was a misallocation of power costs between the Cooperative's Members. Several of the Cooperative's Members were over-allocated purchased power costs while one Cooperative Member was under-allocated power costs. The total correction approximated \$7,064,410. The Cooperative has implemented an adder to collect the billing correction from the Member that was under-allocated power costs. The Cooperative refunded the \$7,064,410 to the other Members in three annual installments of \$2,354,803. The final installment was paid in February 2015.

NOTE 7 - PATRONAGE CAPITAL

The details of patronage capital at December 31, 2015 and 2014 are as follows:

	2015	2014
Patronage Capital:		
Assignable	\$ 4 066 250	\$ 4 776 379
Assigned	61 839 874	57 063 495
	65 906 124	61 839 874
Less: Retired	6 599 573	5 487 303
	\$ 59 306 551	\$ 56 352 571

The bylaws 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 bylaws 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 the RUS mortgage notes, 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 49% of the total assets at the balance sheet date. Net patronage capital totaling \$1,112,270 and \$1,000,000 was retired during the years ended December 31, 2015 and December 31, 2014, respectively, and was within guidelines in the mortgage and related RUS regulations for the return of capital.

TEX-LA ELECTRIC COOPERATIVE OF TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 8 - LONG-TERM DEBT

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

	2015	2014
Mortgage notes payable to FFB, interest at 7.294% to 9.392% due in quarterly installments through December 2021	\$ 25 500 590	\$ 31 526 700
Note payable to RUS Grantor Trust, interest at 6.806%, due December 2019	15 775 000	25 025 000
Regions Term Note – variable interest, due 2020	11 600 000	-
Line of credit to be refinanced	-	8 799 405
	52 875 590	65 351 105
Less current maturities	17 636 747	15 275 535
	\$ 35 238 843	\$ 50 075 570

In 1981, the Cooperative entered into a loan agreement (guaranteed by RUS) payable to the Federal Financing Bank ("FFB") to finance its ownership in the Comanche Peak Steam Electric Station ("Comanche Peak"). In 1988, pursuant to a loan agreement with CFC, the Cooperative refinanced \$102,203,000 of long-term debt. The terms of the agreement provided for the formation of grantor trusts with each being formed under a separate trust agreement among CFC, RUS, the Cooperative, and the Bank of New York ("Trustee"). The Cooperative issued notes in an aggregate amount of \$102,203,000, each guaranteed by RUS, to the separate trusts.

The Cooperative had a 2.17% undivided ownership interest in Comanche Peak pursuant to a joint ownership agreement with TXU Corp. (now Energy Future Holdings "EFH") dated December 9, 1980. Delays in construction and project cost overruns resulted in litigation between TXU Corp., the Cooperative and other minority owners. In 1990, the Cooperative signed agreements that, among other matters, settled the litigation. Pursuant to the agreement, TXU Corp. purchased all of the Cooperative's interest in Comanche Peak. The Cooperative has a security interest in the 2.17% interest in Comanche Peak that is pledged as collateral on the note receivable with EFH.

In connection with the settlement of the Comanche Peak litigation, TXU Corp. assumed \$174,721,065 of the Cooperative's indebtedness to the Federal Financing Bank and the Rural Electric Cooperative Grantor Trust. The debt assumption by TXU Corp. did not release the Cooperative as a primary obligor in connection with the Comanche Peak indebtedness. As required by generally accepted accounting principles, the assumption of a portion of the Cooperative's Comanche Peak indebtedness by TXU Corp. is not an extinguishment of debt. Under the terms of the agreement, EFH (as successor to TXU Corp.) makes payments directly to the FFB and the Trustee for its portion of the Comanche Peak debt assumed. The remaining balance of the debt assumed by EFH was \$36,822,490 and \$50,003,056 at December 31, 2015 and 2014, respectively. As a result of this transaction not meeting the requirements for a debt extinguishment, the Cooperative has recorded the gross amount of the indebtedness on their balance sheet and has recorded a note receivable from EFH for EFH's related portion of the debt. However, to reflect the substance of this transaction, the Cooperative's Statement of Revenues and Expenses reflects interest expense net of any payments made by EFH.

Substantially all owned assets of the Cooperative are pledged as collateral for the above-mentioned secured debt.

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

2016	\$	17 637 000
2017		8 972 000
2018		7 131 000
2019		5 840 000
2020		3 857 000

TEX-LA ELECTRIC COOPERATIVE OF TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 8 - LONG-TERM DEBT - CONTINUED

On March 31, 2015, the Cooperative entered into a \$12,000,000 Unsecured Term Loan Credit Agreement with Regions Bank that converted a line of credit to a term loan. The term loan proceeds were used solely for the purpose of refinancing all existing indebtedness of the Cooperative with Regions Bank and financing the transmission projects described in the agreement. The interest rate of the term loan is equal to LIBOR plus 2.00% and is payable monthly. Beginning on July 20, 2015, the loan is payable in equal monthly installments of \$66,667 with the balance due at maturity on March 31, 2020 (five year term on a fifteen year amortization).

The Cooperative has a \$12,000,000 line of credit with National Rural Utilities Cooperative Finance Corporation that matures in July 2017. The line has a variable rate of interest, and at December 31, 2015 and 2014, no funds were advanced or owed under this line of credit.

The Cooperative has a \$12,000,000 line of credit with CoBank that matures in August 2016. The line of credit carries a variable interest rate, and at December 31, 2015 and 2014, no funds were advanced or owed under this line of credit.

The Cooperative has a \$6,000,000 line of credit with First Bank & Trust East Texas that matures December 31, 2016. The line of credit carries a variable interest rate. At December 31, 2015 and 2014, there were \$-0- and \$2,950,000 owed under this line of credit.

NOTE 9 - 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 requirements at specified delivery points and require the Cooperative to sell and deliver power and energy in satisfaction of such requirements. The contracts extend to December 31, 2044, and thereafter, until terminated by either party giving not less than six months written notice. The power sales by the Cooperative to the Members for the years ended December 31, 2015 and 2014 were \$129,132,626 and \$138,594,207, respectively.

The Cooperative is a party to power supply agreements to acquire power from Southwestern Power Administration ("SWPA") and American Electric Power ("AEP"). These power supply agreements terminate at various dates from 2016 to 2018.

The Cooperative is a member of ETEC. ETEC was formed by the Cooperative, Northeast Texas Electric Cooperative, Inc. ("NTEC") and Sam Rayburn G & T Electric Cooperative, Inc. ("SRG&T") 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 SWPA and AEP. Unless extended by the parties, the Contract will expire on December 31, 2044. During 2015 and 2014, the Cooperative paid approximately \$78,597,000 and \$84,531,000, respectively, to ETEC for the purchase of wholesale power. At December 31, 2015 and 2014, approximately \$5,654,916 and \$7,662,026, respectively, was due to ETEC for wholesale power purchased.

NOTE 10 - RETIREMENT PLANS

All employees of the Cooperative participate in the NRECA RS Plan, 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 plan sponsor's Employer identification Number is 53-0116145 and the Plan Number is 333.

NOTE 10 - RETIREMENT PLANS - CONTINUED

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. The Cooperative's contributions to the RS Plan in 2015 and in 2014 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of \$137,120 and \$133,512 in 2015 and 2014, respectively. There have been no significant changes that affect the comparability of 2015 and 2014 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 percent funded on January 1, 2015 and over 80 percent funded at January 1, 2014 based on the PPA actuarial value of assets on those dates.

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

The Cooperative also participates in a 401(k) plan offered to similar cooperatives by the NRECA. The Cooperative matches certain employee contributions. Such matching contributions amounted to \$21,143 and \$19,075 in 2015 and 2014, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

The Cooperative, ETEC and SRG&T share office facilities and personnel. ETEC and SRG&T reimburse the Cooperative for their proportionate share of the related expenses and equipment purchases. ETEC's share of costs for the years ended December 31, 2015 and 2014 was \$856,211 and \$786,087, respectively. SRG&T's share of costs for the years ended December 31, 2015 and 2014 was \$155,864 and \$141,988, respectively. At December 31, 2015 and 2014, \$163,337 and \$141,310, respectively, was due from ETEC and SRG&T for administrative expenses and equipment purchases. Certain members of the Cooperative are also members of SRG&T.

The Cooperative pays maintenance expenses associated with certain transmission facilities owned by Deep East Texas Electric Cooperative ("DETEC"), a member cooperative. In 2015 and 2014, \$210,435 and \$148,626, respectively, was paid to DETEC for maintenance of transmission facilities.

NOTE 12 - 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 were 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.

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 decided 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 13 - COMMITMENTS AND CONTINGENCIES

General

In 2007, Kohlberg, Kravis, Roberts & Co. ("KKR") and Texas Pacific Group ("TPG"), two of the nation's leading private equity firms, reached a definitive merger agreement with TXU Corp. under which KKR and TPG acquired TXU Corp. A new entity was formed under the name Energy Future Holdings ("EFH"). Since the merger, the financial condition of EFH deteriorated and in April 2014, EFH filed for Chapter 11 bankruptcy protection. Legal counsel has advised the Cooperative that the debt assumed (see Note 8) by TXU Corp. has been assigned to EFH and the Cooperative is a secured creditor. EFH has continued to make all scheduled principal and interest payments to the Cooperative.

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 material pending or threatened litigation against the Cooperative.

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 14 - 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.

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. A significant portion of the accounts receivable balance is due from the Cooperative's seven Members. The Cooperative believes the risk of loss related to this credit risk is remote.

NOTE 15 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of the Cooperative's cash investments, investment securities, trade receivables and payables approximates their fair value because of the short maturities of these financial instruments.

Due to restrictions on repricing of the Cooperative's long-term debt and related assumptions, the fair value of these financial instruments is estimated by management to approximate the carrying value.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Tex-La Electric Cooperative of Texas, Inc.
Nacogdoches, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Tex-La Electric Cooperative of Texas, Inc. 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 and have issued our report thereon dated April 12, 2016.

Internal Control

In planning and performing our audit of the financial statements, we considered the Cooperative's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance

As part of obtaining reasonable assurance about whether Tex-La Electric Cooperative of Texas, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
April 12, 2016

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH ASPECTS
OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS
FOR RUS ELECTRIC BORROWERS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Tex-La Electric Cooperative
of Texas, Inc.
Nacogdoches, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Tex-La Electric Cooperative of Texas, Inc. (the Cooperative), which comprise the balance sheet as of December 31, 2015 and the related statements of revenue and expenses, patronage capital and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 12, 2016. In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2016, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendation related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms, covenants, provisions or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, section 1773.33 and clarified in RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods of accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expenses accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Lufkin, Texas
April 12, 2016


CERTIFIED PUBLIC ACCOUNTANTS