FINANCIAL STATEMENTS WITH
REPORT OF INDEPENDENT AUDITORS'

NORTHEAST TEXAS ELECTRIC
COOPERATIVE, INC.

December 31, 2017 and 2016

AXLEY & RODE LLP
CERTIFIED PUBLIC ACCOUNTANTS

C O N T E N T S

AXLEY & RODE LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT AUDITORS'

Board of Directors
Northeast Texas Electric
Cooperative, Inc.
Longview, Texas

We have audited the accompanying financial statements of Northeast Texas Electric Cooperative, Inc. (the "Cooperative") which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of revenue and patronage capital, comprehensive income, 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 opinions 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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Texas Electric Cooperative, Inc. as of December 31, 2017 and 2016, and the results of its operations and cash flows for the years then ended in accordance 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 27, 2018 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.

Axley & Rode LLP
CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
April 27, 2018

NORTHEAST TEXAS ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
December 31, 2017 and 2016

	2017	2016
ASSETS		
Utility Plant, at Cost:		
Electric plant	$ 334 144 097	$ 332 112 121
Other general plant	1 134 248	1 134 248
Furniture and equipment	142 628	142 628
TOTAL UTILITY PLANT	335 420 973	333 388 997
Accumulated depreciation	177 238 520	165 896 711
TOTAL UTILITY PLANT, NET OF DEPRECIATION	158 182 453	167 492 286
Other Assets and Investments:		
Special deposits - Restricted	1 751 135	1 751 135
Investments in associated organizations	35 956 053	33 141 348
TOTAL OTHER ASSETS	37 707 188	34 892 483
Current Assets:		
Cash and cash equivalents	28 714 437	28 830 258
Temporary cash investments, available for sale	4 678 777	2 983 897
Accounts receivable from member cooperatives	28 939 336	25 129 076
Fuel inventories	6 072 811	2 979 803
Material and supplies inventories	4 257 583	4 246 072
Accrued interest receivable	-	132 730
Prepaid expenses	496 160	425 642
TOTAL CURRENT ASSETS	73 159 104	64 727 478
Deferred charges	2 515 700	3 199 289
TOTAL ASSETS	$ 271 564 445	$ 270 311 536
EQUITIES AND LIABILITIES		
Equities and Margins:		
Memberships	$ 30 000	$ 30 000
Patronage capital	112 822 951	110 822 540
Accumulated other comprehensive income (loss)	(53 471)	(8 946)
TOTAL EQUITIES AND MARGINS	112 799 480	110 843 594
Long-term debt	116 404 876	124 537 681
Current Liabilities:		
Current portion of long-term debt	8 532 703	7 079 151
Accounts payable	28 757 205	22 278 259
Accrued interest	8 072	7 311
Accrued expenses	275	419
TOTAL CURRENT LIABILITIES	37 298 255	29 365 140
Deferred credits	5 061 834	5 565 121
TOTAL EQUITIES AND LIABILITIES	$ 271 564 445	$ 270 311 536

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

NORTHEAST TEXAS ELECTRIC COOPERATIVE, INC.
STATEMENTS OF REVENUE AND PATRONAGE CAPITAL
For the Years Ended December 31, 2017 and 2016

	2017	2016
Operating Revenue:		
Power sales	$ 217 519 638	$ 220 715 697
Operating Expenses:		
Power Generation:		
Fuel	40 592 093	46 027 125
Other production expenses	24 208 152	21 748 837
Purchased power and transmission	131 461 300	131 108 689
Administrative and general	3 958 225	3 808 251
Depreciation	11 095 176	11 292 471
Taxes, other than income taxes	9 858	5 936
	211 324 804	213 991 309
OPERATING MARGINS BEFORE INTEREST EXPENSE	6 194 834	6 724 388
Interest expense	6 194 834	6 724 388
NET OPERATING MARGIN	-	-
Nonoperating Margins:		
Interest and investment income	1 036 571	1 089 046
Other nonoperating income	16 035	13 344
NONOPERATING MARGINS	1 052 606	1 102 390
Capital credits and patronage capital allocations	2 947 805	2 342 811
NET MARGINS	4 000 411	3 445 201
Patronage capital, beginning of period	110 822 540	108 377 339
Patronage capital retired	(2 000 000)	(1 000 000)
PATRONAGE CAPITAL, END OF PERIOD	$ 112 822 951	$ 110 822 540

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

NORTHEAST TEXAS ELECTRIC COOPERATIVE, INC.
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2017 and 2016

	2017	2016
Net margin	$ 4 000 411	$ 3 445 201
Other Comprehensive Income:		
Unrealized gain (loss) on investments	(44 525)	(8 946)
COMPREHENSIVE INCOME	$ 3 955 886	$ 3 436 255

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

NORTHEAST TEXAS ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities:		
Net margin	$ 4 000 411	$ 3 445 201
Adjustments to Reconcile Net Margin to Net Cash Provided by Operating Activities:		
Depreciation	11 095 176	11 292 471
Amortization of deferred charges	146 098	146 098
Capital credits - Non-cash	(2 947 805)	(2 338 086)
Cash Provided by (Used for) the Change in:		
Accounts receivable - Member cooperatives	(3 810 260)	1 914 516
Fuel inventories, net of depletion	(3 093 008)	1 170 081
Material and supplies inventories	(11 511)	(2 103 153)
Accrued interest receivable	132 730	305 995
Prepaid expenses	(70 518)	(50 745)
Deferred charges, net of amortization	537 491	6 754 107
Accounts payable	6 478 946	1 436 885
Accrued interest and other accrued expenses	617	(980)
Deferred credits	(503 287)	(4 739 132)
NET CASH PROVIDED BY OPERATING ACTIVITIES	11 955 080	17 233 258
Investing Activities:		
Utility plant additions	(1 785 343)	(2 019 800)
(Increase) decrease in special deposits - Restricted	-	(820 963)
Proceeds from redemption of investments in associated organizations	133 100	41 705
Proceeds from redemption of reserve funds	-	15 000 000
Proceeds from maturity of temporary investments	248 000	-
Purchase of temporary investments	(1 987 405)	(2 992 843)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(3 391 648)	9 208 099
Financing Activities:		
Advances on long-term debt, net of cushion of credit	-	(291 107)
Payments on long-term debt	(6 679 253)	(8 273 896)
Patronage capital retirement	(2 000 000)	(1 000 000)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(8 679 253)	(9 565 003)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(115 821)	16 876 354
Cash and cash equivalents, at beginning of year	28 830 258	11 953 904
CASH AND CASH EQUIVALENTS, AT END OF YEAR	$ 28 714 437	$ 28 830 258
Supplemental Disclosures of Cash Flow Information:		
Cash Paid During the Year for:		
Interest	$ 6 194 073	$ 6 725 809
Noncash Investing and Financing Activities:		
Increase in accumulated other comprehensive loss	$ 44 525	$ 8 946
Transfers of utility plant to material and supplies inventories	$ -	$ 2 142 919
Transfers of special deposits to investments in associated organizations	$ -	$ 1 632 865

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations:

Northeast Texas 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 the distribution cooperatives of Upshur-Rural Electric Cooperative, Bowie-Cass Electric Cooperative, Wood County Electric Cooperative, Panola-Harrison Electric Cooperative, Deep East Texas Electric Cooperative, and Rusk County Electric Cooperative ("Members").

The Cooperative was formed to obtain the financing required by the Members to acquire ownership interests in large electric generating facilities and to coordinate the power supply requirements of such Members.

Use of Estimates:

The preparation of the financial statements in accordance 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.

Chart of Accounts:

The accounting policies of the Cooperative are consistent with generally accepted utility accounting principles and conform to the Uniform System of Accounts prescribed for electric borrowers of the Rural Utilities Service ("RUS").

Revenue Recognition:

Revenues from the sale of electricity are recorded based on billings to Members and on contracts and scheduled power usages, as appropriate.

Accounts Receivable:

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. All receivables were current as of December 31, 2017 and 2016.

Cash Flows Statement:

Cash and cash equivalents, for purposes of the cash flows statement, consist of all cash and temporary cash investments with an original maturity of three months or less.

Electric Plant:

Utility plant, furniture and equipment, and mining property are stated at cost. The cost of additions to utility 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 electric plant is computed on a straight-line basis over the estimated service lives of the depreciable assets. The annual rates used to compute depreciation are as follows:

Utility plant - Pirkey and Dolet Hills Power Plants	3.22%
Utility plant - Harrison County Power Plant	3.60%
Furniture and equipment	6.70% and 12.50%
Other general plant	8.33%

Provisions for depletion of mining property are computed on the units of production method over its estimated useful life.

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, 2017, the Cooperative had not recognized any losses resulting from the impairment of long-lived assets.

Allowance for Cost of Funds Used During Construction:

The Cooperative has capitalized to electric plant the cost of borrowed funds used during construction of the Henry W. Pirkey Unit No. 1, Dolet Hills Unit No. 1, and Harrison County Power Plant. The Cooperative also capitalizes to electric plant any interest incurred on borrowings for construction of plant additions. No interest was capitalized during 2017. During 2016, the Cooperative capitalized $190,944 of interest on borrowed funds used for construction costs incurred at these locations.

Fuel Inventory:

Inventory consists of lignite fuel for operation of the Henry W. Pirkey Unit No. 1 and Dolet Hills Unit No. 1, and is valued at average cost.

Materials and Supplies Inventory:

Materials and supplies are stated at lower of cost or market. Cost is determined primarily by the average cost method of inventory valuation.

Other Assets and Investments:

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.

Fair Value Measurements:

Where applicable, 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

Income Taxes:

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

Uncertain Tax Positions:

Financial Accounting Standards Board 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.

Deferred Charges/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. Accordingly, certain obligations have been accrued as deferred liabilities that would otherwise be charged to income. Such deferred liabilities are recorded when it is probable that future expenses in an amount at least equal to the accrued liabilities will result from inclusion of those revenues in future rates.

Subsequent Events:

Management has evaluated subsequent events through April 27, 2018, the date the financial statements were available to be issued.

Derivative Instruments:

The accounting standards for derivative instruments and hedging activities require that all derivatives be recognized at fair value on the balance sheet, either as assets or liabilities, unless they meet the normal purchase, normal sales criteria. The changes in the fair value of recognized derivatives are recorded each period in current margins or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction.

There were no derivative instruments outstanding as of December 31, 2017 or 2016.

Regional Transmission Organizations:

On March 1, 2014 the Cooperative began participating in the Integrated Marketplace launched by Southwest Power Pool (SPP) Regional Transmission Organization (RTO). RTO's operate wholesale electric markets and are responsible for moving electricity over large interstate areas. They also coordinate, control and monitor the electric transmission grid within their areas. As a result of this, the Cooperative now sells all plant generation from the Harrison County Power Plant (HCPP) into the SPP integrated market and purchases power to serve a large portion of its load from markets. The Cooperative records RTO transactions on an hour-to-hour basis. Transactions within each individual hour are netted to a single purchase or sale based on actual load and net megawatt-hour generation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reclassifications:

Certain reclassifications have been made to the 2016 financial statement items in order for them to conform to the 2017 presentation.

NOTE 2 - JOINTLY-OWNED FACILITIES

On April 8, 1982, the Cooperative executed an Ownership, Construction and Operating Agreement to acquire an 11.72% undivided ownership interest in the Henry W. Pirkey Unit No. 1 ("Pirkey"), a lignite-fired steam electric generating unit with a net capability of 650 megawatts located south of Hallsville in Harrison County, Texas. The unit was constructed by Southwestern Electric Power Company ("SWEPCO") and began commercial operation in January 1985. In addition, the Cooperative also owns 11.72% of the lignite reserves necessary to fuel the unit over the next several years.

On August 15, 1985, the Cooperative executed an Assignment Agreement to acquire a 5.86% undivided ownership interest in the Dolet Hills Unit No. 1 ("Dolet Hills"), a lignite-fired steam electric generating unit with a net capability of 650 megawatts. This plant, which is located in the Parish of DeSoto, Louisiana, was also constructed by SWEPCO and began commercial operation in April 1986.

On August 10, 2000, the Cooperative and Entergy Power Ventures, L.P. ("EPV"), a subsidiary of Entergy Corporation, entered into an agreement, to jointly develop, construct, and own Harrison County Power Plant ("HCPP"), a 550Mw gas-fired, combined-cycle generating plant. HCPP was completed and placed into operation in June 2003. During 2010, the Cooperative's Board of Directors passed a resolution approving the acquisition by the Cooperative and East Texas Electric Cooperative, Inc. ("ETEC") of the remaining 385Mw of HCPP, which was owned by EPV. The Cooperative closed on this acquisition on December 31, 2010. The Cooperative acquired forty-one percent (41%) of the remaining 385Mw and ETEC acquired fifty-nine percent (59%). The Cooperative and ETEC now own 100% of HCPP with NTEC owning 55% (302Mw) and ETEC owning 45% (248Mw). The Cooperative financed the acquisition using interim financing from National Rural Utilities Cooperative Finance Corporation ("CFC") and during the year ended December 31, 2011 secured long-term financing from Federal Financing Bank ("FFB"). (See Note 8 for additional information.)

Electric plant at December 31, 2017 and 2016 consisted of the following:

	2017	2016
Henry W. Pirkey Unit No. 1:		
Generating plant	$ 86 208 023	$ 85 867 625
Mining property	11 925 723	11 925 723
Construction work in progress	1 105 519	775 427
Dolet Hills Unit No. 1:		
Generating plant	45 726 048	45 667 448
Construction work in progress	806 974	604 194
Harrison County Power Plant:		
Generating plant	187 956 326	186 743 442
Construction work in progress	415 484	528 262
	$ 334 144 097	$ 332 112 121

Depreciation expense for the years ended December 31, 2017 and 2016 was $11,095,176 and $11,292,471, respectively.

Depletion, which was charged to lignite coal inventory, for the years ended December 31, 2017 and 2016, was $246,632 and $287,389, respectively.

NOTE 3 - INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations at December 31, 2017 and 2016 consisted of the following:

	2017	2016
Patronage capital from the National Rural Utilities Cooperative Finance Corporation ("CFC")	$ 493 833	$ 489 148
Patronage capital from East Texas Electric Cooperative, Inc.	33 176 549	30 238 112
Capital Term Certificates ("ZTC") issued by CFC	155 878	225 695
Oxbow Lignite Mine Company	2 129 793	1 632 865
	$ 35 956 053	$ 33 141 348

The patronage capital from CFC and ETEC represent credits allocated to the Cooperative. Realization of cash from these investments is within the control of CFC and ETEC.

The purchase of a long-term, noninterest-bearing ZTC was required as a condition of the CFC loan obtained to finance a portion of the Cooperative's ownership of the Dolet Hills Unit No. 1. The balance of this investment was $155,878 and $225,695 at December 31, 2017 and 2016. This investment bears interest at 0%, and matures in December, 2021.

As part of the ownership agreement with SWEPCO, the Cooperative has a 5.86% equity interest in Oxbow Lignite Mine Company (Oxbow). The Cooperative's reported investment reflects its allocated portion of Oxbow's total equity as of year-end for each year presented. The Cooperative received dividends related to this investment of $58,600 and $70,230 for the years ended December 31, 2017 and 2016, respectively, which are included in nonoperating interest and investment income in the statements of revenue and patronage capital.

NOTE 4 - SPECIAL DEPOSITS - RESTRICTED CASH

The Cooperative reported cash deposits considered to be restricted totaling $1,751,135 as of December 31, 2017 and 2016, which were related to separate deposit agreements with Entergy and Southwest Power Pool (SPP). The deposit agreements require deposits to be held as collateral for recurring operation and maintenance expenses related to HCPP.

NOTE 5 - TEMPORARY CASH INVESTMENTS

The Cooperative's temporary investments are available for sale and reported at fair value in the accompanying balance sheets. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Cooperative believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature 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 Cooperative uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Cooperative measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value; Level 3 inputs are only used when Level 1 or Level 2 inputs were not available.

NOTE 5 - TEMPORARY CASH INVESTMENTS - CONTINUED

The fair values for the Cooperative's temporary cash investments for the years ended 2017 and 2016 are based on quoted market prices in active markets for identical assets which are considered Level 1 fair value measurements as defined by professional accounting standards. Fair values of assets and liabilities presented on the balance sheet measured on a recurring basis are as follows:

		FAIR VALUE MEASUREMENTS AT REPORTING DATE USING		
	FAIR VALUE	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS/ LIABILITIES (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
December 31, 2017				
U.S. government agencies	$ 2 017 353	$ 2 017 353	$ -	$ -
Certificates of deposit	1 425 019	1 425 019	-	-
Mutual fund bonds	1 236 405	1 236 405	-	-
TOTALS	$ 4 678 777	$ 4 678 777	$ -	$ -
December 31, 2016				
U.S. government agencies	$ 254 102	$ 254 102	$ -	$ -
Certificates of deposit	1 484 457	1 484 457	-	-
Mutual fund bonds	1 245 338	1 245 338	-	-
TOTALS	$ 2 983 897	$ 2 983 897	$ -	$ -

The amortized cost and fair values of investment securities available-for-sale at December 31, 2017 and 2016 were:

2017 AVAILABLE FOR SALE	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
U.S. government agencies	$ 2 025 509	$ 2 163	$ (10 319)	$ 2 017 353
Certificates of deposit	1 440 000	-	(14 981)	1 425 019
Mutual fund bonds	1 250 000	-	(13 595)	1 236 405
	$ 4 715 509	$ 2 163	$ (38 895)	$ 4 678 777

2016 AVAILABLE FOR SALE	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
U.S. government agencies	$ 255 000	$ -	$ (898)	$ 254 102
Certificates of deposit	1 487 843	2 119	(5 505)	1 484 457
Mutual fund bonds	1 250 000	-	(4 662)	1 245 338
	$ 2 992 843	$ 2 119	$ (11 065)	$ 2 983 897

The amortized cost and fair values of investment securities available for sale at December 31, 2017 and 2016 by expected maturity is shown below.

	2017		2016	
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE
Due in one year or less	$ 1 498 000	$ 1 482 862	$ 1 498 000	$ 1 493 231
Due after one year but less than five years	1 697 007	1 679 162	1 239 843	1 236 564
Due after five years but less than ten years	1 520 502	1 516 753	255 000	254 102
Due after ten years	-	-	-	-
	$ 4 715 509	$ 4 678 777	$ 2 992 843	$ 2 983 897

NOTE 5 - TEMPORARY CASH INVESTMENTS - CONTINUED

Approximate sales and call activity in securities available-for-sale securities is as follows:

	2017	2016
Proceeds	$ 248 000	$ -
Gross realized gains	$ -	$ -
Gross realized losses	$ -	$ -

Net unrealized losses related to these investments as of December 31, 2017 and 2016 amounted to $53,471 and $8,946, respectively, and are reported on the balance sheets as accumulated other comprehensive income (loss). No other than temporary impairments were identified in 2017 or 2016.

NOTE 6 - DEFERRED CHARGES AND DEFERRED CREDITS

Deferred charges and credits at December 31, 2017 and 2016 consisted of the following:

	2017	2016
Deferred Charges:		
Deferred expense - Fuel (over) under recovery	$ 91 788	$ 705 105
Deferred charge - Dolet Hills lignite mining costs	443 005	448 429
Deferred charges - Oxbow mine reserves	1 980 907	2 045 755
	$ 2 515 700	$ 3 199 289
Deferred Credits:		
Deferred credit - Pirkey mine closing	$ 3 908 309	$ 3 736 394
Deferred credit - Levelized billing	1 153 525	43 902
Deferred credit - AEP power cost refund	-	1 784 825
	$ 5 061 834	$ 5 565 121

Deferred fuel cost in excess of revenues 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. Periodically the Cooperative reconciles the deferred account and refunds or collects the difference from its Members.

The deferred charge - Dolet Hills lignite mining costs represents a payment to SWEPCO in 2003 for the Cooperative's pro-rata share of the fixed costs includable in the Cooperative's portion of monthly mining costs billed by the Dolet Hills Mining Company. These costs are being amortized on a straight-line method beginning in July, 2003.

The deferred charge - Oxbow mine reserves represents the unamortized acquisition costs for 5.86% of the mine reserves and related mining equipment of SWEPCO's Oxbow mine reserves located in Red River Parish, Louisiana. The Oxbow mine provides fuel for the Dolet Hills Power Plant. The Cooperative will amortize these reserves by the ton as they are used. The total cost of the reserves was $2,425,815.

The deferred credit for Pirkey mine closing represents the amount of estimated future final mining area closing costs that the Cooperative has been charging to fuel costs starting in May 1996.

The deferred credit - levelized billing represents the over (under) recovery of power costs from Members under the Cooperative's levelized billing rate plan. Under the plan, each Member has an option to pay a monthly levelized bill computed using a levelized billing rate. This rate is revised monthly and calculated using actual data for the year-to-date wholesale power cost and projected cost for the remainder of the year. The accumulated billings that are above or below the actual costs are accumulated in a deferred account and refunded to the respective member over the following year as a charge or credit on member power billings.

NOTE 6 - DEFERRED CHARGES AND DEFERRED CREDITS - CONTINUED

Deferred credit - AEP power cost refund reported in 2015 was received from SWEPCO as a result of a November 25, 2008 order of the Federal Energy Regulatory Commission, Corporation Commission of the State of Oklahoma v. American Electric Company, 125 FERC 61,237 (the "FERC Order") which was subject to rehearing and adjustment or return. The request for rehearing was denied and the appeals process was final in 2010. During 2016, the Cooperative decided to return the refund to the Cooperative members as a reduction of power cost over an eight month period beginning in August 2016. The amount reported at December 31, 2016 represents the unreturned balance. The refund had been entirely returned to the Cooperative members as of December 31, 2017.

NOTE 7 - PATRONAGE CAPITAL

The details of Patronage Capital at December 31, 2017 and 2016 are as follows:

	2017	2016
Assignable	$ 4 000 411	$ 3 445 201
Assigned	126 983 065	123 537 864
	130 983 476	126 983 065
Less: Retired	18 160 525	16 160 525
	$ 112 822 951	$ 110 822 540

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 30% of total assets.

NOTE 8 - LONG-TERM DEBT

Long-term debt at December 31, 2017 and 2016 consisted of the following:

	2017	2016
Mortgage note payable to FFB, interest payable quarterly at 4.772% and 4.498%, maturing on December 31, 2027	$ 48 740 124	$ 52 495 611
Mortgage note payable to FFB, interest payable quarterly at 3.96%, maturing on December 31, 2040	80 045 143	82 150 402
Mortgage note payable to CFC, interest at 4.35%, payable quarterly, maturing in 2021	2 226 837	2 729 376
Mortgage note payable to FFB, advanced under the $30,000,000 commitment, interest payable quarterly at 2.61%, maturing on January 3, 2039	8 925 475	9 241 443
RUS cushion of credit	(15 000 000)	(15 000 000)
TOTAL	124 937 579	131 616 832
Less current maturities	8 532 703	7 079 151
	$ 116 404 876	$ 124 537 681

The first mortgage note payable to FFB represents funds borrowed from the FFB and guaranteed by RUS, which were used for long-term financing of the Henry W. Pirkey and Dolet Hills Power Plants.

The second mortgage note payable to FFB represents funds borrowed from the FFB and guaranteed by RUS, which were used for long-term financing of the HCPP. The note, dated July 24, 2003, was in the amount of $86,264,000. The note provides for level debt service payments over the maturity period payable in quarterly installments.

NOTE 8 - LONG-TERM DEBT - CONTINUED

On December 19, 1986, the Cooperative obtained a $9,646,000 secured promissory note from CFC for approximately 28% of the amount required for permanent financing of its purchase of a 5.86% undivided ownership interest in the Dolet Hills Unit No. 1. The remaining 72% of financing in the amount of $24,804,000 was provided by the FFB mortgage notes as described above.

In 2010, the Cooperative secured long-term financing from FFB, guaranteed by RUS, in the amount of $90,171,402 for its acquisition of 41% of the remaining 335Mw interest in HCPP (Note 2).

In 2013, the Cooperative received an approved commitment from RUS in the amount of $30,000,000 for the permanent financing of certain capital expenditures at the Henry W. Pirkey and Dolet Hills power plants. Total funds drawn on this commitment were $8,925,475 and $9,241,443 at December 31, 2017 and 2016, respectively.

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 5% interest annually and can only be used to make installments on RUS mortgage notes. The Cooperative accounts for these unapplied payments in accordance with RUS guidelines and nets the amount against long-term debt for reporting purposes.

In addition, the Cooperative has a $12,000,000 perpetual line of credit with the CFC and a $12,000,000 revolving line of credit with CoBank. There was no balance outstanding as of December 31, 2017 and 2016, on either line of credit.

During 2015, the Cooperative entered into a $2,250,000 letter of credit agreement with CFC for the benefit of one its service suppliers - Westar Energy, Inc. In 2017, the line of credit was increased to $5,000,000. There were no draws against the letter during 2017 or 2016.

The approximate maturities of all long-term debt for the five years subsequent to December 31, 2017, are presented below:

YEAR ENDING DECEMBER 31,		ANNUAL MATURITIES
2018	$	8 533 000
2019	$	7 255 000
2020	$	7 573 000
2021	$	6 058 000
2022	$	7 005 000
Thereafter	$	88 514 000

Substantially all assets are pledged as collateral for the above-mentioned debt to the RUS, FFB, and CFC. In addition, the debt covenants require the Cooperative to maintain certain minimum financial ratios. Management believes the Corporation is in compliance with all its debt covenants.

NOTE 9 - POWER CONTRACTS

The Cooperative has a rider 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). The TIER adjustments resulted in a charge to members of $7,180,462 for 2017 and $4,508,011 for 2016.

NOTE 9 - POWER CONTRACTS - CONTINUED

Power sales contracts exist with each of the Cooperative's Members for the sale of all electric power, which the Members require for the operation of their respective systems. The contracts extend to December 31, 2044, and thereafter, until terminated by either the Cooperative or the Members after giving 60 days notice. The power sales to the Members for the years ended December 31, 2017 and 2016 were $217,519,638 and $220,715,697, respectively.

The Cooperative has entered into agreements with Southwestern Power Administration ("SPA") for the delivery of power and energy which amounted to $10,630,663 and $11,025,243 in 2017 and 2016, respectively.

The Cooperative has a supplemental power supply agreement with SWEPCO. SWEPCO furnishes the power, which is over and above the Cooperative's other sources. The SWEPCO agreement provides for the formulary rates and charges for service to the Cooperative to be redetermined annually. In 2017 and 2016, $22,755,544 and $22,515,037, respectively, of supplemental energy had been received. The initial rates are based on estimated costs for the year and are subsequently redetermined based on SWEPCO's actual costs.

The Cooperative is a member of ETEC. ETEC was formed by the Cooperative, Sam Rayburn G & T Electric Cooperative, Inc. and Tex-La Electric Cooperative of Texas, Inc. for the purpose of developing power supply alternatives and coordinating these alternatives with the power supply requirements of its members. The Cooperative has wholesale power contracts (the "Contracts") with ETEC, which provide NTEC a portion of the Cooperative's entitlements to power and energy from the Cooperative's respective outstanding agreements. In addition, the Contracts provide for the additional sale of power to the Cooperative based on its power requirements. During 2017 and 2016, the Cooperative paid $73,988,924 and $74,553,134 respectively, to ETEC for the purchase of wholesale power. At December 31, 2017 and 2016, $7,299,803 and $7,355,962, respectively, was due to ETEC for wholesale power purchased.

In October 2015, the Cooperative entered into a renewable energy purchase agreement with Grant Wind, LLC to purchase fifty megawatts (50 MW) of wind power for a period of twenty years. Under this agreement, the Cooperative purchases energy and sells directly into the SPP (Southwest Power Pool) marketplace. Net of market revenues and administrative fees, the Cooperative incurred a gain of $1,147,170 for wind power during 2017 and a loss of $301,158 for wind power during 2016.

In November 2016, the Cooperative entered into a renewable energy purchase agreement with Redbed Plains Wind Farm, LLC to purchase fifty megawatts (50 MW) of wind power for a period of 20 years. No purchases were made under the contract during 2017 or 2016.

NOTE 10 - RATE MATTERS

In 1999, the Texas Legislature approved Senate Bill 7 which provided for the restructuring of the Texas electric industry for the purpose of creating a competitive electric power market. The legislation provided that the pricing and supply of the generation of electricity would be unregulated beginning in January 2002. However, under special provisions for cooperatives, the Cooperative's rates for the sale of wholesale power are no longer regulated by the Public Utility Commission of Texas ("PUCT") as of September 1, 1999. Similarly, the rates of the Members for the sale of electricity are no longer regulated by the PUCT. The new law permits cooperative's boards of directors to set rates.

NOTE 10 - RATE MATTERS - CONTINUED

Investor-owned utilities in ERCOT (the Electric Reliability Council of Texas) were required to allow their retail customers to select generation suppliers of electricity as of January 2002. The law permits cooperatives' boards of directors to set rates, and gives them 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 will closely monitor whether any of its Members will decide to opt in and thus evaluate the potential effects of a loss of 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.

NOTE 11 - PENSION AND POSTRETIREMENT BENEFIT PLANS

Pension benefits for substantially all employees of the Cooperative are provided through participation in the NRECA Retirement Security Plan (RS Plan), a defined benefit pension plan qualified under Section 401 and tax-exempt under 501(a) of the Internal Revenue Code. It is considered a multiemployer plan under the accounting standards. The plan sponsor's employer identification number is 53-0116145 and the 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.

The Cooperative's annual contributions to the RS Plan in 2017 and in 2016 represented less than 5 percent of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of $153,920 and $154,893 for the years ended December 31, 2017 and 2016, respectively.

For 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 at January 1, 2017 and January 1, 2016 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 plan and may change as a result of plan experience.

The Cooperative also provides additional employee benefits to substantially all employees through the NRECA sponsored defined contribution Savings Plan (401k). The Cooperative's costs related to the plan for the years ended December 31, 2017 and 2016 totaled $20,552 and $19,573, amounts which were charged to operations as incurred.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

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 with respect to the Cooperative's electric plants.

NOTE 12 - COMMITMENTS AND CONTINGENCIES - CONTINUED

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.

NOTE 13 - CONCENTRATION OF CREDIT RISK

The Cooperative's financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents, investments, 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 per depositor per institution. At various times during the year, cash balances may exceed insured limits. The Cooperative believes there is no significant risk with respect to these assets.

The Cooperative's accounts receivable and revenues are subject to a 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 six Members, and a significant portion of revenues is earned from the Cooperative's six Members. The Cooperative believes the risk of loss related to this credit risk is remote.

NOTE 14 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of the Cooperative's cash, trade receivables, and payables approximate their fair value because of the short maturities of these financial instruments.

Temporary cash investments available for sale are recorded at fair value and further explained in Note 5.

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

NOTE 15 - OTHER RELATED PARTY TRANSACTIONS

The Cooperative has an agreement with one of its members, Upshur Rural Electric Cooperative (URECC), regarding station power at the Harrison County Power Plant (HCPP), of which the Cooperative is a 55% owner. Under this agreement, the Cooperative purchases station power from Southwest Power Pool (SPP) and sells this power directly to URECC to meet the load requirements of the HCPP, since the plant is located within URECC's service territory. The Cooperative reported power sales related to this agreement of $378,294 and $305,160 for the years ended December 31, 2017 and 2016, respectively. The Cooperative reported purchased power expenses related to this agreement of $348,054 and $274,920 for the years ended December 31, 2017 and 2016, respectively.

AXLEY & RODE LLP
CERTIFIED PUBLIC ACCOUNTANTS

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
Northeast Texas Electric
Cooperative, Inc.
Longview, 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 Northeast Texas Electric Cooperative, Inc. (the "Cooperative"), which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of revenue and patronage capital, comprehensive income, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated April 27, 2018.

Internal Control Over Financial Reporting

In planning and performing our audits 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 opinions 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 a 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 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 and Other Matters

As part of obtaining reasonable assurance about whether Northeast Texas Electric Cooperative, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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.

Axley & Rode LLP
CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
April 27, 2018